



Periodic Report for 2020

The Phoenix Holdings Ltd.

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Members of the Board



Benjamin Gabbay - Chairman

Roger Abravanel

Ben Langworthy

Marilyn Victoria Hirsch

Zhak Cohen

Rachel Levine (External Director)

Zohar Tal (External Director)

Dr. Ehud Shapira (Independent Director)

Eliezer Yones

March 24 2021



A Word from the Chairman of the Board

The Phoenix ends 2020 as Israel's leading, most powerful group in the insurance, investment and finance industry. The Group's strength was all the more evident in an extraordinary, challenging year, across the entire organization. This strength enables The Phoenix Group to be active in a wide range of areas and to provide services to a wide range of customers in the fields of insurance, savings, finance and investments.

Along with the controlling shareholders - the Centerbridge and Gallatin Point funds, a high-quality board of directors was formed, including members from Israel and around the world who are top-level professionals specializing in insurance, finance and management. Furthermore, in collaboration with the Group's CEO, Eyal Ben Simon, and with the full backing of the Board of Directors, we boosted the backbone of our executive management team.

In 2020, the coronavirus brought new challenges to the world, to Israel, as well as to the business sector. During the year, the Group's Board of Directors and management joined forces in addressing the changing reality. The close cooperation between its Board of Directors and management enabled the Group to navigate a dynamic environment, take care of employees' health and customers' well-being, adapt its activities to uncertainty, manage risks, as well as identify opportunities.

We have worked to ensure business continuity and continue to provide a high level of service to the Group's customers and agents while operating and upgrading vital processes. As Chairman of the Group, one of the things I am proud of is the employees' complete dedication during a period that has been complex for each and every one of them personally.

To push the Group forward in the coming years, at full throttle, the Group's CEO, Eyal Ben Simon, and the Group's management led the development of a focused strategic plan, with the assistance of an international consulting firm. The program was created out of a deep commitment to the policyholders, savers, investors, and agents. The plan was approved, and the Group's management is fully backed by the Board of Directors in respect of the plan.

As part of the plan, we refocused the Group's activities under four key value levers: yield-focused growth, technological and efficiency improvement, maximizing the value of our portfolio companies, and capital management.

It was decided to zero in on yield-oriented areas, set an annual return target of 12%, and to establish a growth target for assets under management to reach NIS 300 billion as well as additional targets. It was decided to lead digital and technological transformation processes as well as to actively manage the Group's assets in order to generate and maximize their economic value. It was also decided to adopt capital management and interest rate exposure strategies that will enable to mitigate exposure to interest rate changes and improve the solvency ratio. These were attributed challenging targets, towards which the Group's management began to strive as early as 2020.

The early fruits of the strategic plan are already visible in the excellent results of the fourth quarter and of 2020 as a whole. Thus, despite the challenges of the coronavirus - and as a result of hard, excellent joint work on the part of the Group's employees, management and Board of Directors - we end 2020 with a comprehensive income of more than NIS 1.35 billion, which reflects a return on equity of approximately 18.5%. Moreover, in accordance with the dividend distribution policy established several months ago, the Company will distribute to its shareholders a cash dividend of NIS 380 million.

I believe that these achievements indicate that the Group's chosen path is the right one.

On the one hand, 2020 will undoubtedly be remembered as an extraordinary and challenging year; on the other hand, it is difficult to estimate what 2021 has in store. But today, more than ever, I am fully convinced that the Group has proven its ability to withstand challenges and move forward.

In conclusion, I would like to emphasize the importance that the Group's Board of Directors and management attach to transparency towards the users of the periodic report, which reflects this approach through clear and extensive disclosure.

On behalf of all the members of the Board of Directors, I thank the employees of the Group and its management for their dedicated work during this challenging year.

I also thank - on behalf of all members of the Board of Directors, management and employees of the Group - the Group's customers and investing public for their trust in our doing and chosen path.

Benjamin Gabbay

Chairman of the Board of Directors

Part 1

Description of the Corporation's Business



This English translation from the Hebrew version of the report has been made for convenience and information purposes only. In case of any conflict or discrepancy between the terms of this English translation and the original version prepared in Hebrew, the Hebrew version shall prevail. The Company makes no representations as to the accuracy and reliability of the financial information in this English translation.

Description of the Corporation's Business - Consolidated

This chapter of the Periodic Report contains a description of the Company's operations and business development in 2020 (the “**reporting year**” or the “**reporting period**”). Pursuant to Regulation 8C of the Securities Regulations, the provisions of Regulation 8(B), 8a and 8b of the Securities Regulations do not apply to information in the periodic report of a corporation that consolidated or proportionately consolidated an insurer or where the insurer is its associate, insofar as this information pertains to the insurer.

The principal holding of The Phoenix Holdings Ltd. is The Phoenix Insurance Company Ltd., which is an insurer, as defined in the Financial Services Regulation (Insurance) Law, 1981. The Phoenix Insurance wholly-owns a subsidiary engaged in management of pension and provident funds.¹ Furthermore, the Group holds all ownership interests in Excellence, an investment house engaged in the provision of financial services, various insurance agencies, and holdings in additional companies operating in various industries, such as: senior housing; real estate; financing, factoring, clearing and administration of credit card vouchers; initiation and establishment of investment funds.

The report was prepared in accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970, and with respect to the Group's insurance, pension and provident fund operations - in accordance with circulars and guidance issued by the Commissioner of Capital Market, Insurance and Savings Authority.

The materiality of the information contained in this Periodic Report, including the description of material transactions during the reporting year, is examined from the Company's perspective, and in some cases, the description is extended beyond the reporting year to provide a more comprehensive view of the subject matter.

¹ As to the transfer of The Phoenix Excellence Pension and Provident Fund Ltd. from The Phoenix Insurance to the Company, please see Section 1.3.10 below.

Chapter A to the Report - "Description of the Corporation's Business" - should be read in conjunction with the other parts of the Periodic Report, including the Report of the Board of Directors and the notes to the Financial Statements.

Forward-looking information

This report contains forward-looking information, as defined in the Securities Law, 1968. Among other things, this information contains forecasts, goals, estimates and assessments relating to future events or matters, including reference to risk factors and developments other than those described in the report, the materialization of which is uncertain and may be affected by various factors that are beyond the Company's control.

Forward-looking information is not a proven fact and is based, in part, on the Company's estimations, which are based on various, diverse data and entities that have not been verified or confirmed by the Company.

It is clarified that actual future results may differ than those described in this report. Forward-looking information in this report refers exclusively to the date on which the report was written, and the Company is under no obligation to revise and/or change any information pertaining to forward-looking information as it appears in the report, insofar as it becomes aware of any additional information in connection with such information.

Reference to forward-looking information in this report generally includes terms such as "assessment," "expectation," "intention" etc.

Monetary values in this chapter and in the Report of the Board of Directors are generally in millions of NIS (unless otherwise stated). Monetary values stated in the financial statements are generally in thousands of NIS (unless otherwise stated).

Insurance business and insurance-industry terms

The Company's operations are in sectors that require considerable professional knowledge and contain numerous professional terms. To clarify the information presented in this report wherever possible, the description of the Group's operations makes use of these professional terms, accompanied by the clearest possible explanations and notes.

The description presented in this report is for the purpose of the report alone, and does not constitute advice or a recommendation in relation to the insurance policies, provident funds, pension funds and other areas of activity detailed in this report, nor should it be used to interpret the insurance plans or rules and regulations.

The binding terms and conditions of the Company's policies, provident funds, pension funds and other products are those terms and conditions specified in the policies, pension fund and provident fund articles, and in the various agreements made in the Company's other areas of activity.

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Glossary of Terms

The insurance industry has a specific jargon. The following terms, among others, will be used in this report:

Designated bonds	- CPI-linked government bonds issued by the Israeli government to insurance companies and pension funds at a pre-determined interest rate and for pre-determined terms. In life insurance - Life insurance linked ("Hetz") bonds are issued, and in pension - "Miron" and "Arad" bonds.
"Institutional entity"	- an insurer and management company, as defined in the Supervision Law.
"Financial Statements" and/or "Financial Report"	- the Company's financial statements as of December 31 2020.
"Insurance premiums"	- the amounts paid by a policyholder to an insurer under an insurance contract (policy), which is not an investment contract.
"Contributions towards benefits"	- the amount deposited by (or for) a planholder with a pension fund or provident fund.
"Fees"	- a common term for registration fees, policy fees, levy fees and credit fees. These amounts are included in the insurance premiums and are intended to cover the insurer's expenses.
"The Commissioner"	- the Commissioner of the Capital Market, Insurance and Savings Authority.
"Voluntary investments"	- that portion of the assets that is not invested in designated bonds.
"Management company"	- a company engaged in the management of provident funds or pension funds and which has received a license to do so from the Commissioner of Capital Market, Insurance and Savings in the Ministry of Finance, in accordance with Section 4 of the Provident Funds Law as defined below.
"Insurance contracts"	- as defined in Note 1 to the Financial Statements in the "Definitions" section.
"Investment contracts"	- as defined in Note 1 to the Financial Statements in the "Definitions" section.
"Yield-dependent contracts"	- as defined in Note 1 to the Financial Statements in the "Definitions" section.

"Prohibition on Money Laundering Law"	- Prohibition on Money Laundering Law, 2000.
"Reduction of Concentration Law"	- Law for the Promotion of Competition and Reduction of Concentration, 2013.
"Companies Law"	- the Companies Law, 1999.
"Advice Law"	- the Law Regulating the Practice of Investment Advice, Investment Marketing and Investment Portfolio Management, 1995.
"Advice and Marketing Law"	- the Financial Services Supervision Law (Pension Advice and Marketing), 2005.
The "Supervision Law"	- the Financial Services Supervision (Insurance) Law, 1981.
"Joint Investments in Trust Law"	- Joint Investments in Trust Law, 1994.
"Insurance Contract Law"	- the Insurance Contract Law, 1981.
"Securities Law"	- the Securities Law, 1968.
"CRAV Law" or "Road Accident Victims Compensation Law"	- Compensation for Road Accident Victims Law, 1975.
"Provident Funds Law"	- the Financial Services Supervision Law (Provident Funds), 2005.
"Underwriting"	- the process of approving an insurance offer and setting the premium, in accordance with actuarial assumptions, for the data specified in the insurance offer and additional information available to the insurer.
"International Financial Reporting Standards" or "IFRS"	- International Financial Reporting Standards that include International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), and interpretations of International Financial Reporting Standards (IFRICs) and International Accounting Standards (SICs).
"Policyholder" and/or "planholder"	- the policyholder in life insurance and the planholder in pension funds and provident funds.
"Pension product"	- a provident fund, pension fund, advanced education fund, or insurance policy that is an equity provident fund or an annuity provident fund, a

life insurance plan or permanent health insurance plan included in the above plans or sold along with one of them, according to the definitions set out in the Advice and Marketing Law.

"Financial asset"	- as defined in the Advice Law (Securities, Structured Products and Participation Units in Mutual Funds).
"Long-term savings assets"	- assets that include the assets of provident funds and pension funds, excluding old funds, assets held by insurers to cover yield-dependent life insurance liabilities, assets held by insurers to cover their liabilities under life insurance plans that provide the policyholder with a guaranteed return, and in respect of which the policyholder is not entitled to designated bonds.
"Motor Insurance Ordinance"	- Motor Insurance Ordinance [New Version], 1970.
"Income Tax Ordinance"	- Income Tax Ordinance [New Version], 1961.
"Private individual"	- policyholders who are private individuals or small business customers, with whom the insurance company contracts on an individual basis.
"Premium"	- the insurance premiums and other payments that the policyholder must pay the insurer in accordance with the terms and conditions of the policy, including fees.
"Accrual"	- in long-term savings - the amounts accrued for planholders in a provident fund or pension fund or in a life insurance policy with a savings component.
"Collective"	- a group of people (usually from a single workplace, or members of an organization or having supplier-customer relationship with a corporation or organization), with whom the insurance company enters into a single agreement that insures all group members (rather than into individual contracts with each member of the group).
"Insurance fund"	- an insurance plan approved as a provident fund for pension, severance pay or annuity, both under the Provident Funds Law and Provident Funds Regulations.
"Provident fund"	- a provident fund (as defined in the Provident Funds Law), which is not a pension fund, but rather constituting a "pure" savings instrument in which the saved funds and the return payable in respect thereof are paid to the saver upon reaching retirement age, or at another time. For this purpose, the definition does not include "pension fund" or "insurance fund", as defined above and below.
"General fund"	- an annuity provident fund that is not eligible for investment in designated bonds.

"Mutual fund"	- a joint investment trust fund, as defined in Section 3 of the Joint Investments in Trust Law.
"Pension fund"	- an annuity provident fund as defined in the Provident Funds Law, which is not an insurance fund and constitutes a savings instrument intended to pay the saver a monthly annuity after his/her retirement and for the rest of his/her life; a pension fund usually provides life insurance and permanent health insurance.
"Old pension fund"	- a pension fund established prior to January 1 1995.
"New pension fund"	- a pension fund established as from January 1 1995.
"Supplementary Healthcare Services" or "SHABAN"	- additional health services that supplement the basic health services basket. The programs operated by the health maintenance organizations, including Shaban, are regulated by the Ministry of Health.
"Retention"	- the maximum amount of risk retained by an insurer after transferring some of the risk to a reinsurer.
"Insurance benefits"	- amounts to be paid upon the occurrence of an insurance event according to the terms and conditions of the policy.
"Minimum Capital Regulations"	- Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required for Insurer License), 2018;
"Investment Regulations" and/or	
"Investment Rules"	- Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012 and/or the Supervision of Insurance Business Regulations (Mode of Investment of the Capital and Reserves of an Insurer and Management of its Liabilities), 2001.
"Provident Funds Regulations"	- Income Tax Regulations (Rules for the Approval and Management of Provident Funds), 1964.
"Securities Regulations"	- Securities Regulations (Periodic and Immediate Reports), 1970.

For the sake of convenience, in this report, the following abbreviations shall have the meaning assigned to them, as follows:

The " Company " and/or the " Corporation " and/or " The Phoenix Holdings "	- The Phoenix Holdings Ltd.
The " Group " and/or the " Phoenix Group "	- The Phoenix Holdings and its investees.
" The Phoenix Insurance Group "	- The Phoenix Insurance Company Ltd. and its subsidiaries.
" Agam Holdings "	- Agam Liderim Holdings (2001) Ltd.
" Agam Liderim "	- Agam Liderim Insurance Agency (2003) Ltd.
" Excellence " or " Excellence Group "	- Excellence Investments Ltd. and the companies under its control.
" Excellence Investments "	- Excellence Investments Ltd.
" Phoenix Excellence "	- Excellence Gemel & Hishtalmut Ltd. (and in its current name: The Phoenix Excellence Pension and Provident Fund Ltd.)
" Gama Management and Clearing "	- Gama
" David Shield "	- David Shield Insurance Agency (2000) Ltd.
The " TASE "	- the Tel Aviv Stock Exchange Ltd.
" The Phoenix Insurance "	- The Phoenix Insurance Company Ltd.
The " Phoenix Capital Raising "	- The Phoenix Capital Raising (2009) Ltd.
" The Phoenix Investments "	- The Phoenix Investments and Finances Ltd.
" The Phoenix Agencies "	- The Phoenix Insurance Agencies 1989 Ltd.
" Ad 120 "	- Ad 120 Residence for Senior Citizens Ltd.
" Phoeniclass "	- Phoeniclass Ltd.
" Oren Mizrach "	- Oren Mizrach Insurance Agency Ltd.



Part A

Description of the General
Development of the
Corporation's Business



1.1. The Company's Activity and Description of the Development of its Business

The Phoenix Holdings Ltd. was incorporated in 1949 as a privately-held company and became a publicly-traded company in 1978, when the Company's shares were listed on the Tel Aviv Stock Exchange. As of the report publication date, the Company's shares are traded on a number of indices, mainly Tel Aviv 35, Tel Aviv 125, Tel Aviv Financial Index, Tel Aviv Insurance Plus Index, Tel Aviv Ma'ala Corporate Social Responsibility Index and Tel Aviv All Shares Index. The Company's bonds are listed in the Tel Bond Linked Yeter, Tel Bond Linked, and Tel Bond Maagar indices. As of November 2019, the controlling shareholder of the Company is Belenus Lux S.a.r.l. (hereinafter: "**Belenus**") which is indirectly held by Centerbridge Partners LP and Gallatin Point Capital LLC (hereinafter: the "**Funds**"); as of the report date, the Funds hold 33.02% of the Company's issued and paid up share capital and voting rights. Out of the said holding stake, Leolin Lux S.à.r.l., a sister company of Belenus, acquired a total of 0.33% of the Company's issued and paid up share capital in July 2020.

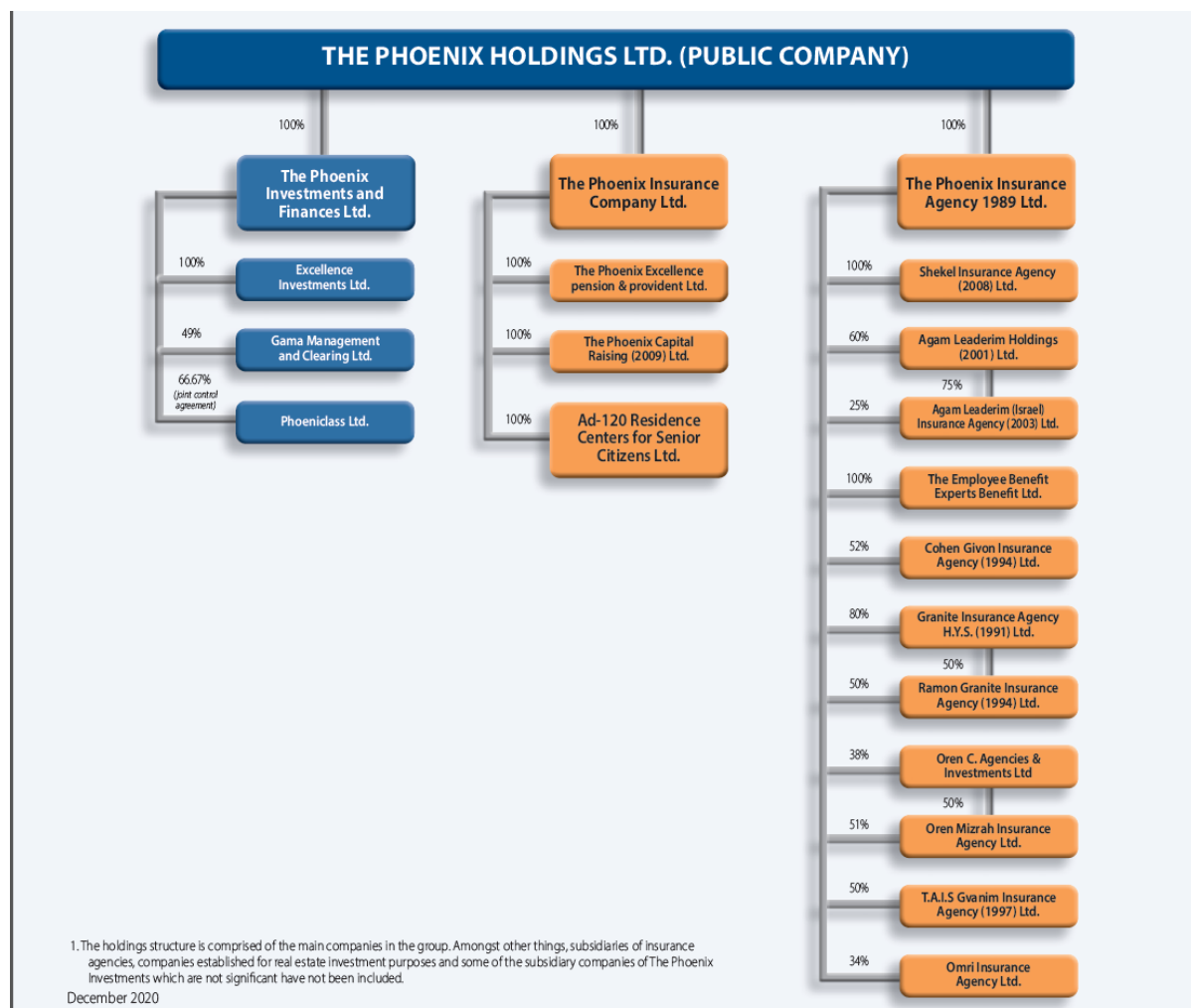
The Group has been operating in the insurance industry for more than 70 years and is currently one of Israel's five leading insurance groups. As of the report date, The Phoenix Group focuses principally on insurance, pension and provident funds activity, as well as in the financial services industry through its subsidiary Excellence.

1.2. The Group's Structure

The following charts illustrate the principal holdings of the Company and Excellence, shortly before the report date. A full list of the Company's investees at the report date is included in Part 4 of the Periodic Report, under Regulation 11 of the Securities Regulations.

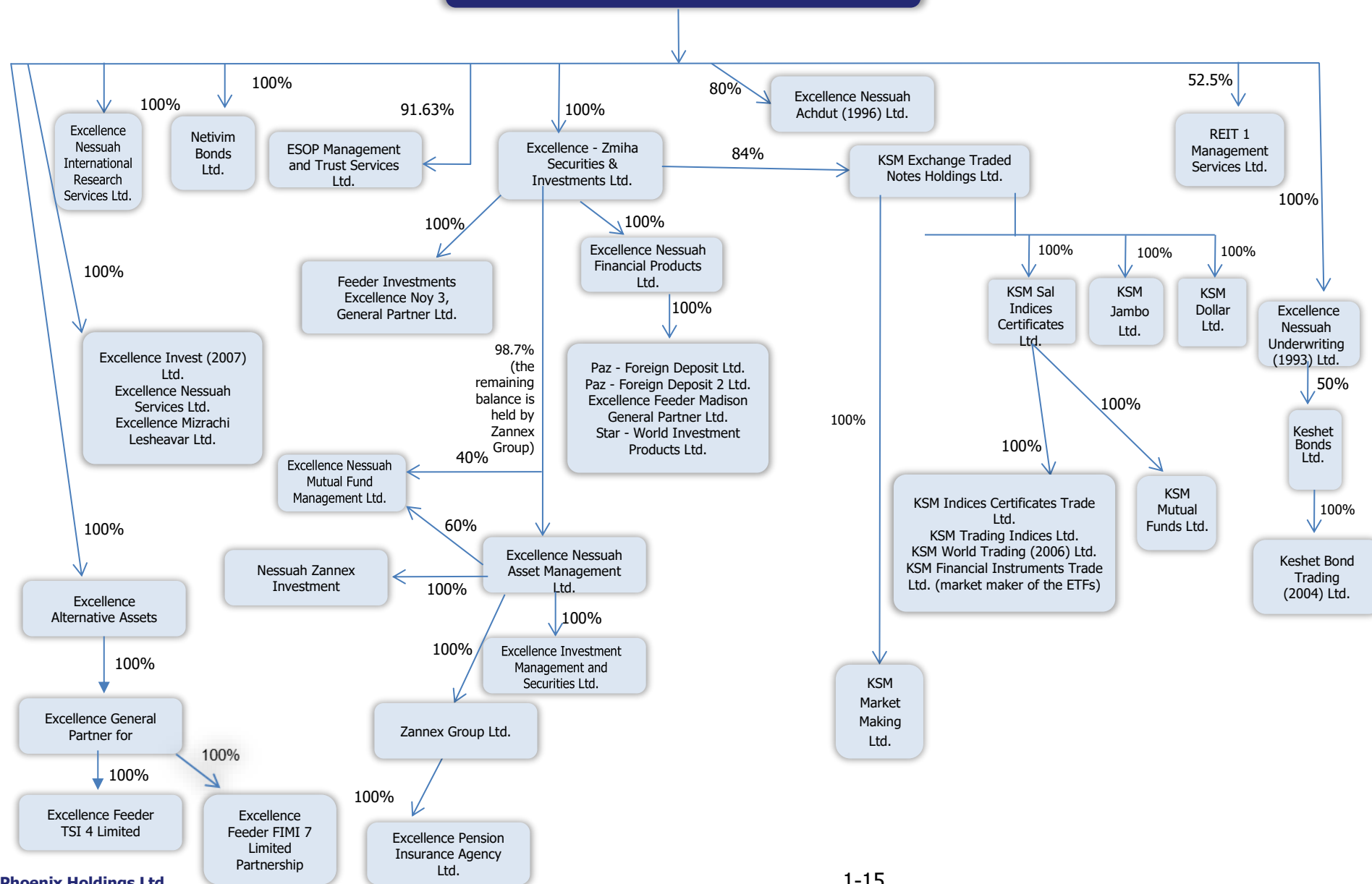
The holding structure includes the Group's principal companies. Some subsidiaries of the insurance agencies, companies that were established for the purpose of investing in real estate properties, and some of the immaterial subsidiaries of The Phoenix Investments, among others, were not included.

For the holding structure of The Phoenix Holdings, please see Section 1.1 in the report on the Company's Business above.



In January 2021, the Board of The Phoenix Insurance approved the distribution of the shares of The Phoenix Excellence Pension and Provident Fund Ltd. (hereinafter: **"Phoenix Excellence"**) to the Company by way of a dividend in kind. Approval for the dividend distribution has been given by the Capital Market, Insurance and Savings Authority but the approval of the Israel Tax Authority has yet to be given. After the Israel Tax Authority will give its approval, the dividend distribution will go forward.

Excellence Investments Ltd.



The Group's activity as described above is carried out through its key arms, as follows:

- (a) The Group's insurance activity is carried out through The Phoenix Insurance Group, which provides insurance services and products in the various insurance subsegments, and through Phoenix Excellence, which manages the pension and provident funds activity.
- (b) The activity of the Company's agencies is run by The Phoenix Agencies
- (c) The Group's financial services activity is conducted mainly through Excellence,² which coordinates the Group's activity in the field of financial services.
- (d) The Phoenix Insurance Group's non-insurance investment activity and investment management activity are carried out mainly through the subsidiary, The Phoenix Investments.

1.3. Key Milestones in the Development of the Group's Business during the Reporting Year and until the Report Publication Date

1.3.1. The multi-year strategic plan - The Phoenix with a Look Ahead

In December 2020, the Company's Board of Directors decided to adopt a multi-year strategic plan for the Company and its Group subsidiaries - The Phoenix: Looking Ahead - based on joint work with the Company's management and work teams, in collaboration with an international consulting firm specializing in strategy and restructuring. The strategic plan was formulated in view of current and future changes in the Company's core activities, in order to improve business performance, increase profitability over time, diversify revenue sources, develop new capabilities in areas which are relevant to the Group's activity, utilize existing capabilities and infrastructures to expand activity, identify new growth drivers and more. For further details, please see Chapter 4 of the Report of the Board of Directors.

1.3.2. Dividend distribution policy

In October 2020, the Company's Board of Directors approved a new dividend distribution policy. For further details, please see Section 1.7 below.

1.3.3. Share buyback plan

In September 2020, the Company's Board of Directors approved a share buyback plan. For further details, please see Section 1.7.4 below.

² Held through The Phoenix Investments.

1.3.4. **Publication of The Phoenix Insurance's economic solvency ratio report and setting capital adequacy ratio targets**

In October 2020, The Phoenix Insurance published its economic solvency ratio report as of December 31 2019, whereby The Phoenix Insurance's economic solvency ratio, after taking into account the transitional measures, is 165%, and 105% if the transitional period is not taken into account.

In addition, The Phoenix Insurance's Board of Directors has set a minimum economic solvency ratio target of 135% (taking into account the transitional measures) while the minimum solvency ratio target without taking into account the transitional measures in the transitional period is 105%.

Furthermore, The Phoenix Insurance's Board of Directors approved an economic solvency ratio target range of 150%-170%, within which it 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. For further details, please see the Company's immediate report dated October 28 2020 (Ref. No. 2020-01-107803).

1.3.5. **Acquisition of the Halman Aldubi Investment House**

The Halman-Aldubi transaction

As part of the implementation of its business strategy and its wish to expand its asset management activities in general and its pension and provident funds activities in particular, on February 28 2021, the merger transaction - under which the Company acquired Halman-Aldubi Investment House Ltd. (hereinafter - "**Halman-Aldubi**"), by way of a reverse triple merger transaction - was completed. Upon completion of the transaction, Halman Aldubi became a privately held company wholly owned by the Company. The proceeds of the transaction for Halman Aldubi was NIS 275 million.

Loan extended to Halman Aldubi Provident and Pension Funds

On February 18 2021, the Company entered into an agreement with Halman Aldubi Provident and Pension Funds Ltd., a company wholly owned by Halman-Aldubi (hereinafter: "**Halman Provident**"), according to which the Company will extend Halman Provident a loan to finance full early redemption of all bonds (Series A) issued by Halman Provident, in the amount of NIS 73.6 million (hereinafter, respectively: the "**Bonds**" and "**Early Redemption**"), as well as to finance the full early repayment of a loan totaling NIS 15 million (hereinafter: the "**Bank Loan Amount**"), taken by Halman Provident from a local banking corporation. On March 8 2021, the early redemption of the bonds was executed and the Bank Loan Amount was transferred to the local banking corporation.

Sale of default pension fund - the Meitav-Dash transaction

On February 22 2021, the Company entered into an agreement with Meitav Dash Provident Funds and Pension Ltd. (hereinafter: "**Meitav Dash Provident**"), according to which following the completion of the agreement with Halman Aldubi, as aforesaid, the Company will exercise its influence as Halman Aldubi's sole shareholder, such that Halman Provident will sign an agreement for the sale to Meitav Dash Provident of the new pension funds managed by Halman Provident for NIS 45 million, to be paid in one lump sum on completion date. On March 10 2021, Halman Provident signed the said agreement. The completion of the sale is subject to meeting accepted conditions precedent, and the last date for the completion of the funds sale agreement is scheduled for May 31 2021, unless the parties agree to extend the date.

For further details, please see Section 2.1.1.3.3 below and immediate reports from the following dates: December 8 2020, January 28 2021, February 3 2021, February 18 2021, February 23 2021, February 24 2021 and February 28 2021 Ref. No.: 2020-01-133119, 2021-01-011467, 2021-01-013942, 2021-01-020860, 2021-01-022078, 2021-01-021813 and 2021-01-023697, respectively.

Key agreements in the Group during the reporting period:

1.3.6. Option award agreement - KSM Sal Certificates Holdings

In November 2020, the Company entered into an agreement with Boaz Nagar and S.L.H Tal Services and Investments Ltd., which he owns and controls (hereinafter, jointly - "**Boaz**"), which hold 3% of the shares of KSM Sal Certificates Holdings Ltd. (hereinafter - "**KSM**"), and with Avner Hadad (hereinafter - "**Avner**"), who holds 6.55% of KSM shares, in an agreement to grant put options to Boaz and Avner and call options to the Company, as specified below:

The agreement grants Boaz and Avner put options that oblige the Company to purchase their KSM shares on the dates and maximum rates as follows: 1) in the 6-month period beginning on September 1 2025 - 40% of their shares; 2) in the 6-month period beginning on September 1 2027 - additional 40% of their shares; 3) In a one-year period beginning on September 1 2030 – the remaining balance of the shares that they will hold at that time.

The agreement grants the Company a call option to purchase all of Boaz and Avner's KSM shares for a period of one year beginning 10 years after the date of signing the agreement. Such a call option will be available to the Company even if Boaz or Avner (or both) cease to serve as officers in KSM, for 6 months after the termination date.

The purpose of the agreement is to strengthen the partnership with Boaz and Avner and continue to position KSM as a leader in the mutual funds industry.

For further details, please see the Company's immediate report dated November 2 2020 (Ref. No.: 2020-01-118371).

1.3.7. Agreement for the purchase of fees and commissions between The Phoenix Insurance and The Phoenix Agencies - effect on the solvency ratio of The Phoenix Insurance

In July 2020, The Phoenix Insurance's Board of Directors decided to approve engagements with agencies constituting related parties of The Phoenix Insurance for the purchase of future inflows of fees and commissions. It is expected that the completion of the aforesaid transactions (to the extent that they are, indeed, completed) shall improve The Phoenix Insurance's solvency ratio. As of the report date, transactions totaling NIS 92 million before VAT were executed. For further details, please see Note 7 to the Financial Statements.

1.3.8. Reinsurance transaction - effect on the solvency ratio of The Phoenix Insurance

In December 2020, The Phoenix insurance and a reinsurer rated AA by an international rating agency, entered into a mass lapse reinsurance agreement, the objective of which is to provide The Phoenix Insurance with partial protection against a mass lapse scenario in its life and health insurance operations. According to The Phoenix Insurance's estimate, this transaction is expected to improve its economic solvency ratio by approximately 3%-5% (without taking into account the transitional measures), all subject to market conditions, the structure of the insurance portfolio, actuarial assumptions and capital requirements as of the date on which the transaction will enter into force. The transaction does not have a material effect on the Company's financial results. For further details, please see the immediate report dated December 27 2020 (Ref. No.: 2020-01-132958).

1.3.9. Acquisition of control of the Oren Mizrach Insurance Agency Ltd.

In December 2020, an agreement was signed under which The Phoenix Agencies, which held a 50% stake in Oren Mizrach Agency, acquired, directly and indirectly, an additional 19.62% stake and became the controlling shareholder of the agency. For further details, please see Section 2.5.8 below and the Company's immediate report dated December 6 2020 (Ref. No. 2020-01-132153).

Changes in the Company's structure and equity:

1.3.10. Transfer of the shares of the management company from The Phoenix Insurance to the Company

In January 2021, The Phoenix Insurance's Board of Directors discussed, for the second time,³ the transfer of The Phoenix Excellence's shares and ratified the decision made in December 2019 to transfer, by way of a dividend in kind distribution, to the Company, in preparation for receiving the Israel Tax Authority's approval for the transfer. It should be noted that the approval of the Capital Market, Insurance and Savings Authority has already been received. For further details - including the Board of Directors' original explanations for the distribution – please see the Company's immediate report dated December 31 2019 (Ref. No.: 2019-01-126166).

It should be noted that as part of the distribution of the dividend in kind and prior to its execution, in August 2020, the Company's Board of Directors approved the Company's commitment to supplement The Phoenix Excellence's equity to the amount stipulated in the Supervision of Financial Services Regulations (Provident Funds) (Minimum Equity Required from a Management Company of a Provident Fund or a Pension Fund), 2012, in lieu of The Phoenix Insurance's commitment.

1.3.11. Examining the possibility of selling Ad 120

In January 2021, The Phoenix Insurance's Board of Directors decided to examine the possibility of selling its control stake (and up to 100% of The Phoenix Insurance's holdings) in Ad 120 - Residence for Senior Citizens Ltd. (hereinafter - "Ad 120") as part of its execution of the multi-year strategic plan as described in Section 1.3.1, whereby the Group will focus, among other things, on its core business and unlocking the value of the Group's asset portfolio. As of the report date, the Company is acting to implement the aforesaid with the assistance of an investment bank with which the Company has entered into an agreement in this matter. For further details, please see the Bank's immediate report dated January 28 2021 (Ref. No.: 2021-01-011200).

³ The decision on the transfer of the shares of The Phoenix Excellence was initially made in December 2019. Due to the long time which past from the decision date, and since the Israel Tax Authority's regulatory approval is due soon, the Board of Directors discussed the topic again and approved the distribution.

Additional topics:**1.3.12. Option plans for employees and officers**

In December 2018, the Company adopted an option plan for employees and officers. Pursuant to the option plan, the Company grants, from time to time and free of charge, option warrants (hereinafter, in this section: "**Options**") to employees and officers of the Company and companies under its control. In September 2020, the Company's Board of Directors approved an additional allotment of up to 5,578,000 options to employees and officers of the Company and its subsidiaries. For further details regarding the plan and the allotments made thereunder, please see the immediate reports dated December 27 2018 (Ref. No.: 2018-01-119905) and February 3 2019 (Ref. No.: 2019-01-009838) from May 1 2019 (Ref. No.: 2019-01- 037938), dated May 6 2019 (Ref. No.: 2019-01-039360) dated October 31 2019 (Ref. No.: 2019-01-107011), dated November 28 2019 (Ref. No.: 2019-01-116347) dated October 11 2020 (Ref. No.: 2020-01-11061) and dated October 27 2020 (Ref. No. 2020-01-107788).

1.3.13. Compensation policy for 2021-2023

In October 2020, an extraordinary general meeting of the Company's shareholders approved the compensation policy applicable to new officers in respect of 2021-2023. The new compensation policy is adapted to the Company and its work plans, and reflects changes in its management and the challenges it faces in this period. The policy was formulated in accordance with the provisions and restrictions set by law. The changes made to the policy were designed, among other things, to enhance the link between the scope of the annual bonus and the fulfillment of the Company's targets and the personal performance of its officers. For further details, please see the Company's immediate report dated September 16 2020. (Ref. No. 2020-01-102009).

1.3.14. Establishment of an internal auditing unit in The Phoenix

For further details regarding the establishment of an internal auditing unit and appointment of a new chief internal auditor for the Company, please see the Report of the Board of Directors as of June 30 2020, which was published on August 30 2020 (Ref. No. 2020-01-095214).

1.3.15. Establishment of a strategy committee

In April 2020, the Company's Board of Directors and The Phoenix Insurance's Board of Directors approved the establishment of Strategy Committees, which will advise the Boards on strategy and corporate development.

1.3.16. **Voluntary policy of reporting in English**

In February 2021, the Company's Board of Directors approved the adoption of a voluntary reporting policy in English, beginning on the date of publication of the Company's annual financial statements for 2020. The adoption of the said policy is based, inter alia, on a notice published by the Israel Securities Authority in June 2020 - "Notice to Companies: Voluntary Publication of Translations of Reports into English." For further details, please see the Company's immediate report dated February 25 2021. (Ref. No. 2021-01-023287).

1.3.17. **The Company's preparation for the application of IFRS 17**

In February 2021, as part of The Phoenix's preparations for the implementation of IFRS 17 (hereinafter: the "**Standard**") in the financial statements of the Company and The Phoenix Insurance as of the quarterly and annual periods beginning on January 1 2023, The Phoenix Insurance signed agreements with providers for the purpose of applying the Standard. The purpose of the agreements is to implement and assimilate of a system aimed at enabling the Company to meet the regulatory requirements regarding the application of the Standard, including the requirements detailed in "Roadmap for the Adoption of International Financial Reporting Standard (IFRS) 17, Insurance Contracts", published in June 2020 by the Capital Market, Insurance and Savings Authority. In addition, The Phoenix Insurance entered into an agreement with EY Canada in partnership with EY Israel, which includes expanding their auditing and consulting services. The contract was preapproved by The Phoenix Insurance's Audit Committee, which determined - after being presented with satisfactory references - that the said consultancy project meets the independence rules according to the Commissioner's position titled "Impairment of the Independence of an Independent Auditor due to the Provision of an Ancillary Service" published in January 2021. For further details, please see Note 2 to the Financial Statements.

1.3.18. **Permit to own institutional entities**

In March 2021, the Capital Market, Insurance and Savings Authority granted entities in The Phoenix Group managing investments (including insurers, provident funds, ETFs, and mutual funds) for customers a permit to own institutional entities at a rate of up to 7.5%. The permit to own is valid for a period of three years from the date of its issue.

It should be noted that the Group already has a holding permit in Clal Insurance Enterprises Holdings Ltd. as of January 7 2020. For further details regarding the permit, please see the report published on January 7 2020 (Ref. No. 2020-01-003265).

Debt raising:

1.3.19. Issuance of Series 4 and 5 Bonds by the Company

Issuance of Bonds (Series 5)

On February 2020, the Company issued NIS 220 million in NIS 1 par value each registered Bonds (Series 5), which were issued pursuant to a shelf offering report of the Company dated February 20 2020 (Ref. No. 2020-01-014890). For further details – please see the Company's immediate report dated February 23 2020 (Ref. No. 2020-01-015433). The Company used the proceeds of the issuance to reinforce the Tier 1 capital of The Phoenix Insurance under the Solvency II regime.

Expansion of bonds (Series 5) and early redemption of bonds (Series 2)

In August 2020, the Company's Board of Directors decided on full conditional early redemption of Bonds (Series 2) in the total amount of NIS 368,375,636, which was implemented on September 29 2020. For further details, please see Note 26 to the Financial Statements and the Company's immediate reports dated August 30 2020 and September 7 2020 (Ref. Nos.: 2020-01-095238 2020-01-098754).

In order to implement the aforesaid early redemption, in September 2020, the Company expanded its Series 5 bonds by issuing 380 million registered CPI-linked Series 5 bonds of NIS 1 par value each; the bonds were issued according to the Company's shelf offering report dated August 15 2019 (Ref. No.: 2019-01-070590) in consideration for NIS 372,780 thousand. The discount rate of the issuance is 2.13748%, and the uniform weighted discount rate that applies to all Series 5 bonds is 1.31953%. The terms of the bonds (Series 5) are identical to the terms of the existing bonds (Series 5), which were rated by Ma'alot at -ilAA with a stable outlook.

Expansion of bonds (Series 4 and 5)

In February 2021, the Company issued - by way of expanding the bonds series - NIS 127,384 thousand in NIS 1 par value each registered bonds (Series 4) and NIS 222,616 thousand in NIS 1 par value each registered bonds (Series 5), which were issued pursuant to the Company's shelf offering report dated February 3 2021 (Ref. No. 2021-01-013684). The proceeds of the offering were used by the Company for its ongoing needs and those of its subsidiaries, including the acquisition of Halman Aldubi's entire share capital.

1.3.20. The coronavirus and its impact

The reporting year will be remembered as the year of the coronavirus. During January 2020, the coronavirus - which was first detected in China - started spreading, causing morbidity and death among populations all over the world. The effect of the spread led various countries, including Israel, to take steps to stop the spread of the virus and the implications thereof. The

spread of the coronavirus (hereinafter - the "**Event**") has had a material impact on the Group's operations and results during the reporting period.

The spread of the coronavirus led to a series of restrictions, including, inter alia, temporary closure of many businesses as well as movement restrictions, travel restrictions imposed on visitors from various countries, restrictions on attendance at work places and temporary closure of schools. The restrictions - the intensity of which varied throughout the reporting year - resulted in lower economic activity in Israel and around the world, as well as in substantial volatility in financial markets. The restrictions were approved by the government and the Knesset, with the necessary changes,, under the Emergency Laws and Regulations, which were revised from time to time in accordance with status assessments.

Due to the nature of its activities, the Group is exposed to volatility in financial markets and to economic slowdown, as well as to insurance risks arising from the Event. For further details on sensitivity and exposure to the risk factors, please see also Note 40 to the Financial Statements (hereinafter – the "**Annual Report**").

It should be noted that since the coronavirus began to spread, the activity in various sectors of the Israeli economy has been unstable and dictated by government decisions. As of the report date, there is an immunization program in place for the entire Israeli population, most of which has already been vaccinated. Notwithstanding the aforesaid, the Israeli economy is yet to return to normal activity; even sectors that have resumed activity are subject to various social distancing restrictions. Therefore, at this stage, there is uncertainty as to the rate of recovery of the Israeli economy. Generally speaking, the above is also true of the state of global markets (except for the vaccination, in which Israel is one of the world leaders in terms of the rate of having inoculated its population), which has had an impact on the Group's activity.

The Event affects The Phoenix Group on a number of levels:

1. Business continuity

The effect of employees' absences from work, and the Group's ability to continue providing a high level of service to its agents, policyholders and businesses and customers, and to continue conducting processes which are essential to the Company's activities. The Company has a business continuity management (BCM) function. The Group operates in accordance with a business continuity plan, under which, among other things, employees can work remotely. Throughout the entire period, the Company continued to provide a fast, efficient and service-oriented response in all operating segments. In order to continue operating from all remote locations, hundreds of computers and technological devices were allocated to employees and managers in order to enable the Company to continue working in an orderly fashion. As of the report date,

most of the Company's employees - who have recovered from the virus or have been vaccinated - have resumed their pre-pandemic work patterns.

2. Financial performance of the insurance area of activity

As a result of the Event, The Phoenix Insurance is exposed to an insurance risk that may affect its insurance liabilities and the scope of its activities in the following fields:

a. Life insurance and long-term savings -

The principal exposure stems from life insurance policies, and may materialize in a substantial manner. Notwithstanding the aforesaid, and despite the mortality rates of coronavirus patients in Israel, the effect on the Company - as of the report date - is immaterial. It should be noted that in any case, The Phoenix Insurance has a non-proportional reinsurance contract, to cover death and disabilities resulting from a catastrophe event. The contract acquired is an excess-of-loss contract, covering any accumulated self-retention by The Phoenix Insurance and covering epidemics at the rate of 86.5%. The subsegments covered are life insurance, permanent health insurance, personal accidents, medical expenses, and travel.

In the first quarter of the reporting period, the collected premiums declined as a result of the Event. The decrease in collection of current contributions towards benefits paid into pension funds and managers insurance policies is attributed mainly to the decrease in employment rates and to the sharp increase in the number of employees on unpaid leave. It should be noted that this decline has become more moderate since the beginning of the second quarter through the report publication date.

Furthermore, at the beginning of the Event, there was an increase in withdrawals from, and redemption of, savings and financial products (mainly advanced education funds and savings products). It should be noted that, as of the report date, this trend has significantly moderated.

b. Health insurance (including long-term care) -

As a result of flights abroad coming to an almost complete halt during most of the reporting period, The Phoenix's travel insurance activity was impaired in terms of premium proceeds, which resulted in a loss for the subsegment, in the twelve-month and three-month periods ended December 31 2020, in the amount of approximately NIS 28 million and NIS 3 million, respectively before tax. This trend continued through the financial statements' publication date. It should also be noted that, from time to time, The Phoenix Insurance adjusted its policy regarding the sale of travel insurance in accordance with the risk assessment for various destinations.

As to payment of claims and contingent claims, The Phoenix Insurance is covered by reinsurance, which covers most of the exposure arising from claims with respect to travel insurance policies.

It should also be noted that, during the reporting period (mainly in the second quarter), the number of health insurance claims decreased, presumably as a result of activity restrictions imposed due to the coronavirus pandemic.

The Phoenix Insurance estimates that the scope of exposure in travel insurance and health insurance is immaterial. As to flight cancellation insurance, please see Section c below.

c. Property and casualty insurance

The Phoenix Insurance is active in the field of flight cancellation insurance, where it is exposed to claims arising from cancellations resulting from the restriction of flights due to the spread of the coronavirus. During the reporting period, The Phoenix recorded a loss of approximately NIS 13 million with respect to the said exposure; the entire aforesaid loss was recorded in the first half of the reporting year.

The Phoenix Insurance is active in the field of professional liability insurance and insurance of directors and officers. In the opinion of The Phoenix Insurance, the number of claims against directors and officers is expected to increase in the near future; however, at this stage, it is impossible to assess the scope of this exposure. Nevertheless, the Company has reinsurance agreements in place in respect of a considerable portion of the exposure.

In the field of insurance for businesses, the Company may face difficulties in collecting premiums due to the insolvency of the businesses it has insured, which is expected to have an adverse effect on its revenues. At this stage, it is impossible to assess the scope of such an effect.

During the reporting period (mainly in the second quarter), the number of claims decreased (mainly in the motor insurance subsegments) as a result of the restrictions imposed due to the coronavirus pandemic.

The Phoenix Insurance is exposed to increases in the cost of claims in other property and casualty insurance subsegments, such as motor, property, home insurance, etc., as a result of shortages of raw materials and/or spare parts which will lead to an increase in their price. At this stage, The Phoenix Insurance cannot estimate the scope of the exposure.

A number of motions to approve class action lawsuits were filed against The Phoenix Insurance (and other insurance companies) in connection with motor, home and

employers' liability insurance, claiming that the insurance companies in general and The Phoenix in particular should repay policyholders some of the premiums paid to them during the period in which activity was subject to restrictions due to the Event; the applicants claim that, during the relevant period, the insurance risk has ostensibly declined in these insurance segments. For further details, please see Note 42 to the Financial Statements regarding petitions to approve lawsuits as class actions in Sections 47-50.

d. Exposure to reinsurers

Reinsurers worldwide are expected to suffer heavy losses as a result of the Event. The Board of Directors of The Phoenix Insurance has set maximum exposure limits for the reinsurers whom The Phoenix Insurance has contracted, based on their international ratings. For further details concerning the Company's exposure to reinsurers, please see Section 6.6 in Note 40 to the Financial Statements.

As of the report publication date, and despite the fact that the majority of Israel's population has been vaccinated, there is still uncertainty as to the Event and the scope of impact to sales of insurance products, the scope of contributions in the various pension savings policies, as well as the impact to estimates made by the Company, such as studies on morbidity, cancellations, and mortality. In view of the above, at this stage, it is impossible to assess the full extent of the Event's impact.

3. Measurement of assets and liabilities

Financial assets -

The operations of the Group expose it to declines in the financial markets and changes in interest rate curves, which affect both the Group's own (nostro) investments and the management fees collected from the management of the assets of planholders of participating policies and planholders of pension funds and provident funds.

The income from investments that offsets insurance reserves and share capital has a material effect on the financial performance. As a result of the decline in financial markets in Israel and globally during the first quarter of the reporting year, the value of the Group's nostro assets decreased by NIS 835 million. However, later in the year, financial markets in Israel and around the world rallied, resulting in a NIS 2,240 million increase in the Group's nostro assets. Therefore, the Company recorded a pre-tax profit of approximately NIS 1,405 million in the reporting period.

In addition, the Company examined the impairment non-marketable equity assets and real estate properties for which there were clear indications of material impairment due

to the Event; as part of the impairment testing, the Company exercised professional judgment as required.

The impairment testing included, among other things, specific testing of real estate properties, including reliance on an opinion issued in connection with the applicable discount rate and enquiries with asset managers to assess the indications for impairment. As a result of the impairment testing in the reporting period as aforesaid, during the first quarter, the Company recorded impairment of approximately NIS 100 million (before tax) in respect of non-marketable assets in its nostro portfolio, and impairment of approximately NIS 283 million (before tax) in respect of participating policies. It should also be noted that the said impairment in participating policies as aforesaid did not affect the financial performance as presented in the financial statements.

Furthermore, during the first quarter of the reporting year, total assets under management by the Group under yield-dependent insurance policies, provident funds and pension funds decreased by approximately 10.1%. As of the report date, there is an 8.5% increase in total assets under management compared to December 31 2019. This increase is mainly from an increase in yields.

As of the report date, due to the rally in capital markets, the Company recovered the full amount of accumulated real investment losses incurred in respect of policyholders as of September 30 2020, in the amount of NIS 110 million, and charged variable management fees in the fourth quarter.

For additional information on the market risks to which The Phoenix Insurance is exposed and on the results of sensitivity tests relating to market risks, please see Note 40 to the Financial Statements.

Financial liabilities -

Following the Event, in March 2020, the Bank of Israel extended authorized entities (pension funds, provident funds, mutual funds and insurance companies) a request for proposal for reverse repurchase (REPO), purchase and reverse repurchase sale of government bonds and zero-coupon bonds. As of the report date, The Phoenix Insurance entered into a REPO transaction totaling approximately NIS 389 million.

Fair value measurement of tangible and intangible assets -

For further details on impairment testing of intangible assets, including goodwill, please see Note 4 to the Financial Statements. As to the effect of changes in the excess of the value of non-marketable assets used to calculate the insurance liabilities in the health insurance segment, please see Note 40.

4. Liquidity, financial position and funding sources

An assessment carried out by the Company led to the conclusion that the Event has had no material effect on the Company's liquidity, its financial strength and funding sources; it was also found that the Company complies with any contractual restrictions and financial covenants set in the deeds of trust. For details about the financial covenants of the bonds and delaying circumstances of the promissory notes, please see Note 26 to the Financial Statements.

In March 2020, Midroog published a "Special Report - Sector Comments" for insurance companies, whereby, as estimated by Midroog, the adverse effects of the coronavirus on insurance companies increase their credit risks, but at the same time, these companies have the capacity to absorb losses, a very low liquidity risk and a long average duration of liabilities providing them with relatively high flexibility for coping with stress events.

For further details regarding the ratings of the Company and The Phoenix Insurance, please see Note 26 to the Financial Statements.

5. Additional activities

Senior housing

Senior citizens are the population group with the highest risk to suffer from complications of coronavirus infections; therefore, the virus presents an increased risk to those living in senior housing facilities. As of the report date, the residents and employees of Ad 120 have been vaccinated; therefore, the risk of infection has decreased. However, Ad 120 continues its testing routine in order to take good care of the residents and employees of Ad 120.

When assessing the fair value of investment property, Ad 120's management identified that a slowdown in the rate of marketing of residential units is expected in the short-term; accordingly, the occupancy rates in the reporting year was down from 90% in 2019 to 88.2% in the reporting year. Nevertheless, if the crisis does not continue, Ad 120's management expects that in the long-term, demand for residential units will not be adversely impacted, and therefore there will be no material changes in the turnover rates. In the opinion of the Company, at this stage, there are no market input that justify a material change in the assumptions made, including the discount rates.

Financial services

At the beginning of the crisis, mainly during the first quarter of the reporting year, the Company recorded significant impairments and experienced significant redemptions, mainly in mutual funds. As of the second quarter of the reporting year, total assets under management increased as a result of an appreciation of the assets, mainly in mutual funds. The value of total assets under management held by the mutual funds was up by NIS 3.3 billion compared to as of December 31 2019 and there was no material change in the value of assets under management compared to December 31 2019.

Insurance agencies

The scope of activity in the agencies segment was not materially affected, except for the effect of declines in financial markets that caused investment losses during the reporting period, at amounts which are immaterial to the Group.

6. Additional actions taken by the Group

On March 25 2020, The Phoenix Insurance and the Phoenix employees' Workers' Committee signed an agreement which was revised by signing a new collective agreement on June 30 2020; for further details, please see Note 23 to the Financial Statements. The above is based on information available to the Company as of the report publication date. It should be noted that Event's impact on the scope of business activity in Israel and around the world is yet to be determined; therefore, the Group's results may be further impacted in the future.

It should also be clarified that the Company's assessments of the potential implications of the spread of the coronavirus on its operations are uncertain and are not under its control. These assessments are based, inter alia, on publications on the topic in Israel and around the world, and on the measures taken by world countries in order to deal with the spread of the virus, as well as Group management's assessments of potential measures for dealing with the various effects, bearing in mind, inter alia, existing barriers (or the absence of such barriers) on the Group's ability to cope with such effects, and accordingly, their materialization is uncertain. These assessments may not materialize, in whole or in part, or may materialize in a different manner, including in a materially different manner, from that which is expected.

The Group continues to monitor developments in Israel and globally on an ongoing basis, and will continue to report, as required, on material effects of the spread of the coronavirus on the Group's operations, if any.

1.3.21. **Legal proceedings**

For details further regarding legal proceedings, please see Note 42 to the Financial Statements.

1.3.22. **Human capital**

For further details regarding the Company's human capital and changes therein, please see Section 4.6 below.

1.4 **Areas of Activity**

The Group operates in the fields of insurance, pension and provident funds and in the field of capital market and financial services. The Group's key material operating segments are as follow:

1.4.1 **Life insurance and long-term savings**

The life insurance and long-term savings segment includes the life insurance, provident funds and pension funds subsegments, focusing principally on retirement savings (under various categories of insurance policies, pension funds and provident funds, including advanced education funds), as well as life, disability and permanent health insurance.

1.4.2 **Property and Casualty insurance**

Property and casualty insurance includes all insurance subsegments, except for life insurance, long-term savings, and health insurance. The principal insurance coverages provided in this segment are property and liability insurance. The Group operates in the property and casualty insurance segment in the following key subsegments - compulsory motor insurance, motor property insurance, and other property and casualty insurance.

(a) The compulsory motor insurance subsegment: comprises the Group's activity in providing insurance coverage pursuant to the statutory provisions of the Motor Insurance Ordinance [New Version], 1970, resulting from the use of a motor vehicle, and provides cover for bodily injury (to the driver of the vehicle, passengers in the vehicle or pedestrians) resulting from the use of a motor vehicle, under the CRAV Law.

(b) The motor property insurance subsegment: focuses on cover for property loss to insured vehicles and includes the Group sale of policies for property damages to insured vehicles, including cover for motor property loss (for example, due to accident and/or theft) and cover for third-party loss caused by the insured vehicle.

(c) Other property and casualty insurance subsegments: this includes the Group's activity in the sale of a variety of policies in three key subsegments: property (non-motor) insurance - which provides policyholders with cover against physical damage to his/her

property (for example, insurance for homes and businesses); liability insurance which is generally sold together with property insurance for businesses and provides cover for the policyholder's liability towards third parties (for example, third-party liability, employers' liability, professional liability, including directors' and officers' liability, and product liability for faulty products); and other property and casualty insurance subsegments (for example, engineering insurance - including contract works and marine insurance). Furthermore, The Phoenix Insurance has a dedicated department which markets investment policies to home buyers (Sales Law guarantees).

1.4.3 **Health insurance**

This segment includes the Group's activity in illness and hospitalization insurance, for individuals and groups, as well as dental insurance. The policies sold in these subsegments cover the range of damages sustained by the policyholder due to illnesses and/or accidents (excluding death). Furthermore, this segment also includes the Group's activity in long-term care insurance and critical illness insurance, as well as travel insurance and sick leave insurance.

1.4.4 **Financial services**

The activity in this segment takes place through the Excellence Group and consists mainly of financial asset management services such as the marketing and management of investments for customers, underwriting and investment banking, management of mutual funds, and provision of stock exchange and trading services. In addition, The Phoenix Group manages private funds under this area of activity, which are mainly aimed at qualified investors. For further details, please see Section 2.4.2.6 of the report.

1.4.5 **Insurance agencies**

This area of activity includes insurance brokerage services provided by The Phoenix Group through insurance agencies held by a wholly-owned subsidiary of the Company - The Phoenix Insurance Agencies (1989) Ltd. (hereinafter: "**The Phoenix Agencies**"), which markets insurance products, and pensions and provident funds of various institutional entities in the market. For a list of material agencies held by The Phoenix Agencies, please see the Group's holdings structure chart in Section 2.5 below and in the Additional Information about the Corporation chapter in the Periodic Report.

1.5 **Additional Operations that Do Not Constitute Areas of Activity**

1.5.1 **Other investing activities**

In addition, and as part of its activity in the segments described above, the Group is engaged in a range of investment activities, including investments in securities, bonds and other financial assets (both marketable and non-marketable), financing, credit, financial derivatives, real estate and holding companies, as well as ownership interest in various companies,

including Gama - which provides financial services in connection with credit cards and specializes in financing, management and discounting of credit cards. The investment activity is conducted mainly against various insurance reserves, and against the equity capital required for the insurance activity and capital surpluses of The Phoenix Insurance and other Group companies. For further details about the Company's investment activities, please see Section 4.3.1 of the report.

1.5.2 **Risk management**

The Company manages the aforementioned areas of activity by employing risk management methodologies. The Group places emphasis on management of the risks to which it is exposed, with the purpose of identifying and estimating the potential impact of these risks on the future financial position of the Group companies. For further details regarding risk management, please see Note 40 to the Financial Statements and the section titled "Disclosure on exposure to, and management of, market risks" in the Report of the Board of Directors.

1.6 Investments in the Company's Equity and Transactions in its Shares

For further details on the Company's controlling shareholders, please see Section 1 above.

1.7 Dividend Distribution

1.7.1 **Dividend distribution and retained earnings**

In 2019, the Company distributed a cash dividend of NIS 250 million. In addition, in September 2019, the Company distributed all its shares in Mehadrin Ltd. as a dividend in kind to the Company's shareholders, in order to comply with the provisions of the Law for the Promotion of Competition and Reduction of Concentration, 2013 in connection with its ownership stake in Mehadrin Ltd. For further details - including the Board of Directors' explanations for the distribution - please see the Company's immediate report dated August 15 2019 (Ref. No.: 2019-01-070854).

In March 2021, concurrently with the approval of the Company's Financial Statements as of December 31 2020, which are included in this Periodic Report, the Company's Board of Directors decided to distribute a dividend in accordance with the Company's dividend distribution policy, totaling NIS 406.4 million. A total of approximately NIS 26.4 million - which was used to execute the share buyback plan as detailed in Section 1.7.4 below - shall be deducted therefrom. Accordingly, the amount that shall in effect be distributed as a cash dividend is NIS 380 million, i.e., NIS 1.49220 per share. It shall be clarified that to the extent that options are exercised by employees between the dividend declaration date and the record date, the per-share dividend amount shall be adjusted in accordance with the actual number of outstanding shares on the

record date. The Company shall publish, as required, a supplementary report in respect of said adjustment on the record date.

According to the Company's Financial Statements as of December 31 2020, which are included in this Periodic Report, the Company has positive retained earnings of approximately NIS 5,940 million, taking into account, for the avoidance of doubt, the dividend specified in this section.

1.7.2 External restrictions on dividend distribution

In the last two years, no external restrictions were placed which affected the Company's ability to distribute dividends, and the Company is unaware of any external restrictions that may affect its ability to distribute dividends in the future, except for the general statutory dividend distribution restrictions applicable by virtue of in the Companies Law, and the restrictions on dividend distribution under the bonds' deeds of trust (Series 3 to 5). For further details, please see Note 26 to the Financial Statements.

However, there are external restrictions under the Commissioner's Directives applicable to insurance companies, pertaining to the ability of The Phoenix Insurance to distribute dividends. It should also be noted that in October 2020, The Phoenix Insurance's Board of Directors has set a minimum economic solvency ratio target of 135% (taking into account the transitional measures) while the minimum solvency ratio target without taking into account the transitional measures in the transitional period is 105%. For further details, please see Section 2.1 to the Report of the Board of Directors, Section 1.3.4 above and the immediate report dated October 28 2020 (Ref. No. 2020-01-107803).

1.7.3 Dividend distribution policy

In October 2020, the Company's Board of Directors approved a new dividend distribution policy, whereby the Company shall distribute an annual dividend at a minimum rate of 30% of the Company's distributable comprehensive income as per its audited annual consolidated financial statements for the relevant year. This was approved after The Phoenix Insurance's Board of Directors approved a new dividend policy to distribute 30%-50% of comprehensive income pending maintenance of minimum solvency ratios.. For further details, please see the Company's immediate report dated October 28 2020 (Ref. No. 2020-01-107812). As part of a decision to distribute dividends made in respect of 2020, the share buyback plan detailed in Section 1.7.4 below was taken into account.

It is stipulated that the foregoing is not intended to derogate from the authority of the Board of Directors in determining the dividend to be distributed, as it deems appropriate at any given time.

1.7.4 Share buyback

In September 2020, the Company's Board of Directors approved a share buyback plan for the purchase of Company shares for a period of one-year, totaling up to NIS 100 million. The plan shall be executed from time to time, at the discretion of the Company's management, which was authorized by the Company's Board of Directors to purchase the securities during the period prescribed for the plan's execution. As of the report publication date, the Company made several share buybacks, for a total of NIS 26.4 million (1,496,755 shares of 1 par value each). It should be noted that some of the shares purchased as part of the share buyback plan be used to settle the options awarded to officers and employees of the Company and subsidiaries. For further details, please see the Company's immediate reports dated October 1 2020 and October 14 2020 (Ref Nos.: 2020-01-106773 and 2020-01-11235, respectively).

In 2020, the Company carried out a share buyback, as detailed below:

Purchase date	Purchase price (NIS 1)	No. of shares purchased
Oct. 1 2020	16.42	60,000.00
Oct. 4 2020	16.83	18,012.00
Oct. 5 2020	17.24	330,496.00
Oct. 11 2020	17.58	315,000.00
Oct. 12 2020	17.57	37,000.00
Oct. 13 2020	17.73	50,000.00
Oct. 14 2020	17.99	686,247.00
Total		1,496,755.00



Part B

Description of the
Group's Business
by Areas of Activity



2.1 Life Insurance and Long-Term Savings

2.1.1 Products and services

Key areas of activity included in the long-term savings and life insurance segment:

The Group is involved in all life insurance and long-term savings activities, including life insurance policies, pension funds and provident funds (conferring rights in accordance with their rules and regulations), including advanced education funds.

2.1.1.1 Life insurance:

2.1.1.1.1 General

Life insurance policies provide an option to obtain insurance coverage without a savings components (including protection in the event of death, permanent health insurance and disability insurance), as well as an option to combine insurance coverage with a savings component, or even savings without any insurance coverage. The policyholder can redeem the savings upon retirement or at another date. The policyholder may choose the composition that best suits his/her needs from among the insurance products and savings components. Policies may be individual or sold as insurance funds in accordance with the Provident Funds Regulations. Savings for retirement in policies that are recognized as insurance funds are designed exclusively for payment of an annuity (excluding the severance pay component). Until December 31 2007, policyholders could choose between an annuity or capital track (from which the savings could be withdrawn as a lump sum). Policies with a savings component can be divided into several key categories, differentiated by the methods employed by insurance companies to invest the funds, the types of coverages and the management fees or expenses collected by the insurance companies.

2.1.1.1.2 Description of life insurance products

(1) Products that include a savings component:

- **"Mixed"/"Pension"/"Savings" insurance (traditional/classic)** - policies consisting of life insurance and savings components, the marketing of which was permitted until 2001. In "Mixed" policies, the insurance amount is predetermined and paid to the beneficiaries in the event of the premature death of the policyholder or at the end of the policy period (usually at the age of 65). In "Pension" policies, the amount of pension specified in the policy is paid out when the policyholder reaches the age specified in the policy. In "Savings" policies, the amount specified in the policy is paid at the end of the policy period; however, if the policyholder dies before that date, his/her beneficiaries receive the savings accumulated up to the date of his/her death.

Policies of this type, which were sold until the end of 1990, are linked to the Consumer Price Index (insurance amount, premium and redemption value), whereas policies which were sold as from 1991 are participating policies (except for the premium, which is linked to the CPI), and management fees are deducted from the amounts accrued in the policy.

- **"Preferred" policies ("Yielding", "Abundant")** - policies that combine a savings component, which may be withdrawn as a monthly annuity or as a lump sum upon reaching retirement age, in accordance with the Provident Funds Regulations and life insurance, where the policyholder determines how the premium shall be split between the life insurance and savings components and may change the ratio in accordance with the policy's terms conditions and subject to approval by the Company. These policies were marketed from 1982 to 2003. The ratio between the accrued assets and the annuity that the policyholder may receive (hereinafter - the **"Annuity Conversion Factor"**) in these policies is specified and guaranteed. Policies of this type - which were sold until the end of 1990 - are linked to the CPI (insurance amount, premium and accrual), whereas policies sold as from 1991 are participating policies (except for the premium, which may be linked to the CPI); management fees are deducted from the policies' accruals.
- **"Track", "Track for Life", "New Track" and "Track for Managers and Employees" and "Track for Self-Employed"** insurance - these policies were issued as from 2004 and their different premium components are separated from one another and can be quantified: the expenses charged as management fees are separated from the premium, and the portion of the premium used to purchase life insurance is separated therefrom, with the portion of the premium contributed towards savings. Furthermore, management fees are collected from the accumulated savings amount as a percentage of the balance of that amount. The savings amount accumulated in "Track" policies is invested in various investment tracks, as selected by the policyholder from a range of investment tracks offered. In policies sold until the end of 2012, the Annuity Conversion Factor is specified and guaranteed, whereas in policies sold as from 2013, the Annuity Conversion Factor is guaranteed only for policyholders who took out the policy when they were aged 60 or more, except for individual policies, in which the Annuity Conversion Factor is not guaranteed at all.
- **Excellence Invest** - a savings policy without an insurance component. The investments are managed by Excellence Nessuah Asset Management Ltd. and

divided into investment baskets managed according to the investment portfolio method, i.e. - a portfolio manager determines the mix of the holdings in the various financial products according to the definitions of each of the investment baskets selected by the policyholder. Excellence Invest's products allow customers to benefit from portfolio management services for investment amounts that are lower than those normally required to receive portfolio management services.

- **Insurance funds with a self-directed investment track** - a "Track for Self-Employed" insurance plan, which is regulated under the Supervision of Financial Services (Provident Funds) (Individually Managed Provident Fund) Regulations, 2009, whereby planholders may manage investments in their own insurance policies by themselves or through a portfolio manager, as they deem fit. A dedicated bank account is opened for each policy with one of the banks with which the Company cooperates; amounts accumulated in the policy are invested through this bank account. As from June 2017, the amount of contributions towards benefits a self-directed provident fund is limited to is NIS 5.2 million.

Set forth below are additional features of the policies described above:

- **Linkage terms and annuity conversion factors**

Yield-promised insurance policies (marketed until the end of 1990): the insurance amounts, the savings accumulated in these policies and the annuities they pay are CPI-linked. The basis for guaranteeing the return is the insurance companies' investment in respect of a significant part of the accrual in designated government (Hetz) bonds, which guarantee linkage to the CPI plus interest ranging from 4% to 6.2%. The Annuity Conversion Factor in these policies is guaranteed and based on the life expectancy as known at the time they were marketed.

Yield-dependent policies - participating (marketed mainly from 1991): the savings accumulated in these policies as well as the annuity that they pay are not CPI-linked but rather depend on the profits attained by the insurance company in the various investment channels. The Annuity Conversion Factor in these policies is based on the known life expectancy when they were marketed. In policies sold on or after January 1 2013, the conversion factor will only be determined when the policyholder retires, based on the mortality tables in force at that time, unless the policyholder was more than 60 years of age when the insurance policy commenced.

■ **Management fees**

Policies marketed from 1991 to 2003: The insurance company is entitled to fixed management fees at a rate of 0.6% per annum of total assets, plus 15% of the real yield less the fixed management fees (hereinafter - "**variable management fees**"). If real losses have accrued, the insurance companies are not entitled to variable management fees until the accrued loss is covered.

Policies marketed from 2004 and thereafter: The insurance company is entitled to fixed management fees in respect of the accrual and to management fees in respect of the premium. For further details regarding the maximum management fee rates, please see the table in Section 2.1.1.4 below.

Life insurance policies can be managed in accordance with the following legal frameworks:

Policies that are subject to the Provident Fund Regulations (hereinafter: "Insurance Funds"):

Managers insurance policies: insurance which includes a retirement savings component, comprising contributions made by the employer and employee (severance pay and retirement benefits), where the premium paid for the insurance is allocated to the different risks (mainly death and permanent health insurance) and to a retirement savings. According to the Provident Fund Regulations, managers insurance is approved as an insurance fund according to the Provident Funds Regulations. and entitles the employer and employee to various tax benefits.

Retirement benefits insurance for the self-employed - policies that confer tax benefits on deposits and withdrawals and are subject to the Provident Funds Regulations.

Policies that are not subject to the Provident Fund Regulations:

Individual insurance policies - policies for private individuals for savings purposes, which are not approved as provident funds.

(2) **Products that do not include a savings component:**

- **Pure life insurance** - insurance in the event of death with no savings component. This insurance guarantees the beneficiary a lump sum or payment in installments to beneficiaries in the event of death. The policy period varies from one to several years. This insurance is sold as a rider (additional coverage)

to other life insurance policies or as a stand-alone policy. For further details, please see Section 2.1.1.1.3.

- **Group life insurance** - life insurance designed for groups of policyholders, as prescribed in the Supervision of Insurance Business Regulations (Group Life Insurance), 1993. Additional types of insurance may also be included. The premium is paid as a lump sum for the group's planholders.
- **Permanent health insurance (PHI)** - guarantees payment of a monthly compensation amount after a waiting period, which starts when the policyholder becomes incapacitated (partially or fully); the policy pays out until the earlier of the end of its term or when the policyholder is once again able to work. Usually, the waiting period is three months. In addition to paying out a monthly compensation amount, the insurance benefits include releasing the policyholder from payment of the premium for other insurance coverages (death, disability, etc.), if any, and from payment of a premium in respect of the policy's savings component, thereby retaining the policyholder's rights throughout this period. This insurance is sold as a standalone policy, as a rider to the policies mentioned above and as additional cover provided in the group policy under the Supervision of Financial Services Regulations (Insurance) (Group PHI), 2006.

According to the circular titled "Guidelines on PHI Plan", an insurer may offer its planholders in pension funds expansions aimed at supplementing the corresponding disability coverage in the pension fund (insurance umbrella).

- **Additional insurance coverage** - such as accidental disability, accidental death, professional disability, and more, which account for a small part of total premiums and are immaterial to the Company's business performance.

2.1.1.1.3 **Structure of profitability**

Basic profits in the life insurance segment stem from the following principal sources:

Underwriting earnings: the difference between the premium collected to cover the risk and the actual cost of the risk (as reflected in claims payouts, including contingent claims and the reserves for the claims, as well as annuity payouts or transfers to reinsurance).

Investment profit / financial margin: in yield-dependent insurance policies - the margin between the actual return and the return guaranteed to the policyholder. In participating policies: the management fees in respect of the accrual as described above.

Operating profit: the difference between the management fees component in respect of the marketing and operating expenses and actual expenses.

Profits of the life insurance segment as reported in the financial statements are also affected by accounting rules pertaining to revenue recognition and deferral of costs, revaluation of assets, development of actuarial provisions as a result of regulatory requirements, and changes in the actuarial assumptions arising, among other things, from demographic changes that affect longevity, mortality, morbidity, changes in the uptake of pension benefits, changes in the interest rate environment, etc.

The insurance company's profits from the sale of life insurance policies is based mainly on the aggregate performance of the abovementioned components throughout the term of the policy. The extent to which the policies are retained (hereinafter: "**Portfolio Retention**") therefore plays a crucial role in the profitability of the insurance company over time.

Revenues from investments held against insurance reserves and capital have a significant effect on insurance companies' profits, due to the substantial amounts of the Group's assets and reserves invested in the capital market. Furthermore, changes in the capital market, in the implicit yields and in other investments in the economy have a significant effect on the Group's profits.

Changes in rates and marketing of life insurance products - In accordance with the guidelines of the Capital Market, Insurance and Savings Authority, as from February 2019, the insurance companies set new life insurance tariffs for individual life insurance plans and mortgage life insurance plans, such that these products will be sold from the said date under the new tariffs. The new tariffs reflect a significant reduction compared to the previous ones. It should be noted that, as far as the Company is aware, as of the report date, insurance companies engaged in life insurance have not yet received approval to market life insurance policies that combine risk and savings components.

At the same time, as part of the permit to market individual life insurance and mortgage life insurance plans, the Capital Market, Insurance and Savings Authority has set a mechanism of reimbursement of fees and commissions to insurance companies by agents within one to six years from the date of commencement of insurance in case of policy cancellation.

In view of the fact that tariffs were changed in a sweeping manner for the entire insurance sector, the Company is of the opinion that the change in tariffs will not directly affect the scope of sales. As to the change in the fees and commissions reimbursement mechanism, this mechanism is expected to affect, if at all, the rate of policy cancellation

in the policy's second year and thereafter, and as of the report date, there is insufficient information as to the actual effect.

2.1.1.2 The pension subsegment

2.1.1.2.1 General

The pension fund (hereinafter: the "**Fund**") enables its policyholders to save for pension in the long term (old-age pension) and also provides coverage for disability (disability pension) and death (survivors' pension). The Group's activity in the pension segment is carried out through The Phoenix Excellence Pension and Provident Fund Ltd. (hereinafter: "**Phoenix Excellence**"). As of the report date, Phoenix Excellence is a wholly-owned subsidiary of The Phoenix Insurance Company, which operates as the management company of the pension and provident funds. Notwithstanding the aforesaid, The Phoenix Insurance intends to transfer the Phoenix Excellence's shares to the Company by way of a dividend in kind. For further details, please see Section 1.3.10. above.

The pension fund provides the following insurance coverages:

- (1) Old-age pension: an annuity paid to planholders from the date of their retirement throughout their life.
- (2) Disability pension: a pension paid to planholders who are work-incapacitated, based on a decision of the fund's medical committee. The annuity amount is determined as a percentage of the qualifying income for disability and survivors benefits, as defined by the fund's rules and regulations and in accordance with the degree of disability. Additionally, a planholder who becomes disabled may be "released" from contributions to the fund so long as he/she remains disabled. This means that the fund continues to credit his/her account with contributions during that period, as if he/she had made the contributions themselves, in accordance with the degree of his/her disability.
- (3) Survivors pension: an allowance paid to the survivors (widow/er and orphans younger than 21) of a planholder who dies during the period in which he/she was insured or after he/she retires. As in the case of the disability pension, the survivor's pension is a percentage of the qualifying income for disability and survivors benefits, as defined in the fund's rules and regulations.

There are three categories of pension funds - old pension funds (under special/ordinary administration), new comprehensive pension funds, and new general pension funds:

- (1) **Old pension funds** - in the past, these funds benefited from the issuance of designated bonds bearing guaranteed interest at a rate of 5.57% to cover at least

93% of their liabilities. Any remaining balance was invested in voluntary investments in accordance with the Provident Funds Regulations. As part of the 1995 the pension funds reform, the purpose of which was, among other things, to reduce the funds' deficits and to balance out the funds' assets and liabilities, the old pension funds were closed to new planholders, and the proportion of designated bonds was reduced. As a result of the reform, there are currently two classes of old funds - balanced old pension funds (10 funds) and pension funds under special government administration (8 funds).

- (2) **New pension funds** - as of the report publication date, there are 9 comprehensive pension funds operating in Israel. These funds started operating in 1995 following the aforementioned reform, whereby new planholders will be enrolled in new pension funds to be established as of that. The new comprehensive pension funds are entitled to various benefits from the government, including tax benefits as per the Income Tax Ordinance, the Provident Funds Law and the Provident Funds Regulations, and are entitled to invest some of the fund's assets (up to 30%) in designated bonds that guarantee a real annual yield of 4.86%. When crediting to planholders the yields arising from the designated bonds, funds make a distinction between planholders receiving an annuity, planholders who are older than 50, and other planholders, as per the provisions of the law.

In accordance with the Yield Imputation Regulations, as from July 2017, 60% of the designated bonds are allocated to retirees, and the remaining balance are held against actuarial liabilities of active planholders, provided that the total proportion of designated bonds does not exceed 30% of the funds' total assets under management. As of June 2018, the new comprehensive pension funds operate according to unified rules and regulations that apply to all of the aforesaid pension funds.

Contributions into a new fund are capped at the equivalent of 20.5% of double the average wage in Israel. Currently, the maximum rate of management fees is 6% of the contributions towards benefits and 0.5% of the accrual.

- (3) **New general pension funds** - contributions into a new comprehensive pension fund are capped at the equivalent of 20.5% of double the average wage in Israel. Savers who wish to contribute higher amounts, may do so in new general pension funds that are not eligible for designated bonds. In new general funds, contributions are not capped, and one-off contributions may also be made. Furthermore, a new general fund does not have to provide the insurance coverages mentioned above, and as such, some of these funds only provide old-

age pension. As of the report publication date, there are 9 new general pension funds operating in Israel.

The maximum rate of management fees that may be collected in a general pension fund is 1.05% of the accrual and 4% of the contributions. For further details about management fees and changes therein, please see Section 2.1.1.4 below.

The contributions towards benefits received from pension fund planholders are divided into the following components: life insurance (if insurance coverage was purchased), savings, and management fees. Pension fund management companies generate their revenues from the management fees they collect (calculated as a percentage of the contributions towards benefits and the accrual).

In pension funds, claims are paid out of the fund, namely, from the planholders' assets, such that the policyholders are the ones to bear the risks arising from the claims. It should be noted that the new funds are required to apply an actuarial balancing out mechanism every quarter, which adjusts the actuarial liabilities to the fund's assets.

Phoenix Excellence Pension and Provident Funds manages the following funds:

"The Phoenix Comprehensive Pension" is a comprehensive pension fund established in 1995. The pension fund operates various insurance tracks offering various levels of insurance coverage and various types of payouts upon reaching retirement age; the fund also offers planholders several investment tracks to choose from.

The Phoenix Supplementary Pension (previously named: the "The Phoenix General Pension") is a new general fund established in 2000. The fund operates in conjunction with the comprehensive pension fund and contributions in excess of the aforesaid cap are deposited with it. The fund is not eligible for designated bonds, although the contributions amounts are not capped and one-off deposits may also be made.

"Amit" - an old balanced pension fund, which was closed to new planholders in 1995.

Set forth below are the details of The Phoenix Insurance's pension funds during the reporting year:

Fund	Management company	Year on which fund was established	Type of fund	Contributions towards benefits (in NIS million) for 2020	Assets (in NIS million) as of December 31 2020)
The Phoenix Comprehensive Pension	The Phoenix Excellence Pension and Provident Fund Ltd.	1995	Comprehensive pension	4,335	34,799
The Phoenix Supplementary Pension		2000	New general	163	770
Amit Yessod (Pension Fund for Senior Planholders)		1992	Old balanced	19	1,659
Total				4,517	37,228

The contributions towards benefits are current contributions only, and do not include transfers of accruals in respect of planholders' transitioning to the pension funds from other pension funds. Money transferred to the Group's pension funds in 2020 (including transfers for unification of accounts) totaled NIS 3,005 million and, on the other hand, money transferred from the Group's pension funds to other funds totaled NIS 2,199 million.

2.1.1.2.2 **Structure of profitability**

Management companies in the pension segment generate their revenues from management fees they collect (from contributions towards benefits and from accruals), and the profits are the difference between the net management fees (after discounts, if any) and the management company's actual operating and marketing expenses. It should be noted that in recent years there has been an erosion in management fees as a result of various reforms and increased competition in the industry. In that context, it should be noted that in October 2018, the Commissioner published a document dealing with the **Results of the Procedure for Selecting the Selected Pension Funds**, as part of which the names of four pension funds were published, which were selected by the Capital Market, Insurance and Savings Authority (Altshuler Shaham, Psagot Meitav Dash, Halman Aldubi), which started operating on November 1 2018 and will operate through October 31 2021 (hereinafter: the "**Default Funds**") The selected funds offer management fees at rates that are significantly lower than the average management fees normally paid in the market. The Default Funds serve as the default for employees who have

not selected a provident fund, and for employees for whom there is no provident fund into which they may contribute towards their benefits under law or an agreement (including existing default agreements). It should be noted that on March 31 2019, all default agreements selected by the employer expired, and as from April 1, 2019, new employees cannot join the arrangements set out therein; as a result, where an employee did not select a fund, he/she is enrolled to one of the Default Funds. In the reporting period, the erosion in management fees in the market continued, including in funds managed by the Company.

Amounts paid out by pension funds in respect of claims (including payment of annuities) have no direct effect on the management company's profits, since the insurance is mutual and the risks arising from the claims are borne by the planholders. In pension funds, the entire yield arising from investment of planholders' funds, less the management fees from accruals, is credited to the planholders, and therefore - the effect of investment performance on the profits of the pension fund's management company is limited to the indirect effect derived from the total assets under management by the pension fund, which forms the principal basis for the management fees collected by the pension fund's management company. Furthermore, there are investment gains on the management company's nostro portfolio.

2.1.1.3 **Provident funds segment**

2.1.1.3.1 **General**

Provident funds offer savers (hereinafter: "**planholders**") an additional option for long-term or mid-term savings, entitling them to various tax benefits and the option (under certain conditions) to withdraw accrued funds as a lump sum. There are several types of provident funds:

- **Individual provident funds for retirement benefits** are long-term provident funds. In individual retirement benefit funds, a lump sum may be withdrawn only in respect of amounts stemming from contributions made until the end of 2007, and any contributions made in January 2008 and thereafter may be withdrawn only as an annuity (previously, these funds were named "non-annuity provident funds", and are currently named "savings provident funds"). In these funds, both the employer and the employee make regular monthly contributions deducted from the employee's salary, whereas for self-employed planholders, only the planholder contributes into the fund.

- **Advanced education funds** are mid-term provident funds. Funds accrued in an advanced education fund may be withdrawn for education purposes from the end of the third year of their enrollment in the fund; after six years of enrollment, the funds may be withdrawn for any purpose.
- **Personal severance pay provident funds** are for varying terms, depending on the periods of employment and planholder's preferences; regarding contributions made from January 2008 and thereafter, these funds also function as savings provident funds, but severance pay may be withdrawn as a lump sum, even if contributions were deposited with the fund in 2008 and thereafter).
- **Central severance pay funds** are funds in which employers accumulate funds to guarantee the payment of severance pay to their employees. In these funds, the planholder is the employer, which accumulates the funds in its own name on behalf of all of its employees (these funds were closed to contributions in 2011).
- **Guaranteed return provident funds** are funds that guaranteed a rate of return to its planholders in accordance with the fund's rules and regulations. These funds are no longer open to new planholders.
- **Self-directed provident funds and advanced education funds**, through which the planholder or a portfolio manager acting on his/her behalf can manage these types of self-employed planholders' saving funds that are defined in the regulations, as well as funds deposited with advanced education funds, subject to investment restrictions to be observed by the management company charged with the management of the savings. As from June 2017, the amount of contributions towards benefits a self-directed provident fund is limited to is NIS 5.2 million.
- **Investment provident fund** is a savings provident fund which was first marketed in late 2016; the total amount of contributions towards benefits in such a fund is capped at NIS 70,000 per calendar year (CPI-linked). planholders may withdraw funds from an investment provident fund at any time with no obligation to wait until retirement age. However, early withdrawals are subject to tax on the total real profits accrued. As to the option of transferring funds from one investment provident fund and another investment provident fund or to an annuity provident fund, please see Section 4.1.6.1.9.

- **Child long-term investment provident fund for savings** are provident funds with which the National Insurance Institute of Israel has been depositing every month - since January 2017 - NIS 50 for every child entitled to a child allowance until the child reaches the age of 18. The parents can increase the sum of the savings by further NIS 50 out of the child allowance funds paid by the National Insurance Institute. Until the child reaches the age of 21, the National Insurance Institute will pay the management fees in respect of the savings with the provident fund; thereafter, the fees will be paid by the planholder. Withdrawal of the accrued funds is possible when the child reaches the age of 18; if the child does not withdraw the funds until he/she reaches the age of 21, the child will receive a NIS 500 grant from the government.

It should be noted that the Commissioner's Directives on Selection of a Provident Fund set guidelines for employers wishing to hold a tender for selecting an annuity provident fund and/or an advanced education fund, which will be set as the default fund for the purpose of contributions for employees who did not select another fund. Accordingly, many Israeli employers issued such tenders mainly for an advanced education fund for their employees.

Companies managing provident funds generate their revenues from the management fees they collect on the assets. For further details about the management fees in the Phoenix and Excellence funds, please see below in this section. Given that the management company does not charge management fees as a percentage of profits, the effect of the return on management fees income is indirect, and stems from the effect of the return on total assets under management, which forms the basis for collecting the management fees.

The Company manages provident funds and advanced education funds through The Phoenix Excellence., which manages all the products listed above.

Provident funds managed by the Group

Set forth below are the details of Phoenix Excellence's provident funds:

Fund	Fund type	Year founded	Contributions towards benefits in 2020 (in NIS million)	Net accrual in 2020 (in NIS million) ⁴	Assets under management as of Dec. 31 2020 (in NIS million)
Excellence Gemel	Retirement benefits and severance pay	1979	541	(404)	14,021
Excellence Advanced Education	Advanced education	2000	1,438	(326)	15,792
Excellence Central Severance Pay	Severance pay	1965	-	(31)	943
Excellence Gemel for Investment	Retirement benefits	2016	257	152	866
Excellence Gmula Yield-Guaranteed	Retirement benefits and severance pay	1974	9	(16)	921
Excellence Self-Directed Provident Fund	Retirement benefits and severance pay	2011	7	12	94
Excellence Self-Managed Advanced Education	Advanced education	2011	6	11	79
Excellence Gemel Multi Track Severance Pay	Severance pay	2016	0	0	232
Phoenix Self-Managed Advanced Education	Self-directed advanced education fund	2011	6	(1)	416
Phoenix Self-Managed Provident Fund	Self-directed provident fund	2011	0	15	1344
Excellence Investment Provident Fund for Savings for Each Child	Retirement benefits	2017	77	73	372
Total			2,341	(514)	35,080

In 2020, net accrual decreased compared with 2019 (from NIS 754 million in 2019 to minus NIS 514 million in 2020). In 2020, monies transferred to the Group's provident funds totaled NIS 1,780 million, whereas monies transferred from the Group's provident funds to other funds totaled NIS 3,042 million.

2.1.1.3.2 Structure of profitability

In the provident funds subsegment, the management company's principal source of profit is the difference between the income from management fees collected and the selling, operating and service expenses incurred by the management company. It should be noted that in recent years there has been an erosion in management fees as a result of various reforms and increased competition in the industry.

⁴Contributions + withdrawals + transfers, net.

In the provident funds subsegment, the entire net yield (net of investment expenses) arising from investment of planholders' funds, less the management fees from accruals after discounts, is credited to the planholders, and therefore the effect of investment performance on the management company's profits is limited to the indirect effect derived from the total assets under management by the provident fund, which forms the basis for the management fees collected by the management company. For further details regarding maximum management fees, please see Section 2.1.1.4 below.

In this context, it should be noted that The Phoenix Excellence manages, among other things, a yield-guaranteed provident fund - "Gmula". According to the rules and regulations of this fund, the maximum rate of management fees that may be charged in the fund's guaranteed return tracks is 2% of the accrual. Since this is a yield-guaranteed fund, the company is required to ensure that planholders are credited by the amount of the guaranteed return. The annual calculation is performed in relation to the annual return achieved. To the extent that returns are obtained in excess of the guaranteed return and in excess of the relevant management fee rates charged by the company, these excess returns are credited to the fund through a dedicated fund that accumulates a surplus that is used in years in which the guaranteed return is not achieved.

Summary information about the Group's pension and provident funds:⁵

2020									
In NIS million	Pension funds			Provident funds for retirement benefits and severance pay	Advanced education Funds	Other central severance pay fund	Investment provident fund	Child long-term investment provident fund for savings	Total
	Old pension funds	Comprehensive	Supplementary						
Assets under management	1,659	34,799	770	16,379	16,287	1,175	866	372	72,308
Contributions towards benefits	19	4,335	163	558	1,450	-	257	77	6,858
Net accrual (decrease)	9	4,457	186	(392)	(315)	(31)	152	73	4,138
Rate of management fees on accruals	0.72%	0.20%	0.31%	0.56%	0.69%	0.56%	0.58%	0.23%	-
Rate of management fees on contributions	6.20%	2.10%	1.54%	0.01%	-	-	-	-	-

⁵ As of June 30 2019, The Phoenix Pension was merged with Excellence Gemel & Hishtalmut Ltd., which was renamed The Phoenix Excellence Pension and Provident Fund Ltd.

2019									
In NIS million	Pension funds			Provident funds for retirement benefits and severance pay*	Advanced education funds*	Other central severance pay fund*	Investment provident fund*	Child long-term investment provident fund for savings	Total
	Old pension funds	Comprehensive	Supplementary						
Assets under management	1,568	28,604	554	16,160	15,918	1171.86	685	288	64,949
Contributions towards benefits	21	3,954	104	866	1,535	0	259	92	6,831
Net accrual (decrease)	13	3,979	100	504	(83)	33.12	209	91	4,846
Rate of management fees on accruals	0.77%	0.24%	0.46%	0.60%	0.68%	0.63%	0.57%	0.23%	-
Rate of management fees on contributions	6.16%	2.44%	1.77%	0.02%	-	-	-	-	-

2018									
In NIS million	Pension funds			Provident funds for retirement benefits and severance pay	Advanced education Funds	Other central severance pay fund	Investment provident fund	Child long-term investment provident fund for savings	Total
	Old pension funds	Comprehensive	Supplementary						
Assets under management	1,394	21,921	403	14,184	14,461	1,025	412	173	53,974
Contributions towards benefits	22	3,452	72	703	1,414	-	255	73	5,991
Net accrual (decrease)	20	2,816	49	653	615	35	230	72	4,490
Rate of management fees on accruals	0.74%	0.27%	0.61%	0.60%	0.71%	0.69%	0.54%	0.23%	-
Rate of management fees on contributions	6.17%	2.86%	1.99%	0.04%	-	-	0.03%	-	-

2.1.1.33 The Halman Aldubi transaction

As part of the implementation of the Company's business strategy and its wish to increase assets under management - particularly in the pension and provident funds area of activity - on December 7 2020, the Company entered into a merger agreement with Halman-Aldubi Investment House Ltd. (hereinafter: "**Halman-Aldubi**"). Under the merger agreement, a reverse triple merger was carried out, with Halman Aldubi becoming a privately-held company wholly owned by the Company. The proceeds of the transaction for Halman Aldubi was NIS 275 million. On February 28 2021, upon meeting the conditions precedent, the merger was completed.

On February 22 2021, the Company entered into an agreement with Meitav Dash Provident Funds and Pension Ltd. (hereinafter: "**Meitav Dash Provident**"), according to which following the completion of the agreement with Halman Aldubi, as aforesaid, the Company will exercise its influence as Halman Aldubi's sole shareholder, such that Halman Aldubi Provident and Pension Funds Ltd. (hereinafter - "**Halman Provident**"), a wholly-owned subsidiary of Halman Aldubi, will sign an agreement for the sale to Meitav Dash Provident of the new pension funds managed by Halman Provident until March 31 2021, as agreed between the Company and Meitav Dash Provident, for NIS 45 million, to be paid in one lump sum on completion date. The completion of the sale is subject to meeting acceptable conditions precedent as specified in the agreement. The deadline for the completion of the sale is set for May 31 2021, unless the parties agree to extend it.

In accordance with publications on the Pension-Net website, total assets under management in the acquired pension funds is approximately NIS 4.34 billion as of January 31 2021, NIS 4.15 billion as of December 31 2020, and NIS 2.61 billion as of December 31 2019. In the nine months ended September 30 2020, the revenues of the pension funds segment of Halman Provident and Pension Funds Ltd. amounted to NIS 12.66 million (year ended December 31 2019 - NIS 12.67 million).

Subsequent to the transaction, Halman Provident and Pension Funds Ltd. shall continue with the management of various funds, including old pension funds.

For further details, please see the immediate reports from the following dates: December 8 2020, January 28 2021, February 3 2021, February 23 2021, February 24 2021, and February 28 2021 Ref. Nos.: 2020-01-133119, 2021-01-011467, 2021-01-013942, 2021-01-022078, 2021-01-021813 and 2021-01-023697, respectively.

2.1.1.4 **Key differences between the various long-term savings instruments**

The state encourages saving through the three pension savings products (insurance funds, pension funds and provident funds), mainly by way of giving tax incentives to savers, through various provisions in labor laws, and by the issuing designated bonds in which some of the policyholders or planholders' funds are invested, and for some of the products.

One may distinguish between the products based on:

1. **The insurance coverage:** Life insurance policies that combine life insurance and savings provide considerable flexibility in determining the various components and scope of the insurance coverage. It should be noted that as stated in Section 2.1.1.1.3 above, as of the report date,, the insurance companies engaged in the life insurance segment have not yet received approval for

marketing life insurance policies that combine life insurance coverage and savings. The pension plans combine insurance coverage and savings, but the insurance coverage is limited to the basic events of retirement, disability, or death. Provident funds offer only a savings component and do not provide insurance coverage. Nevertheless, as from July 2013, provident funds may offer their planholders insurance coverage as part of group and individual policies.

2. **Manner of engagement and payment obligations of the financial institution:**

In life insurance, the insurance company's obligation towards the policyholder is a contractual undertaking written into the insurance contract - the policy - whereas in a pension fund and/or provident fund, the planholder undertakes to comply with the fund's rules and regulations which define the rules for entitlement to payment, the rate of payment, etc. Planholders' rights and obligations vary from time to time as the rules and regulations are revised. In an insurance contract, the insurance company undertakes to pay the insurance benefits when, upon the occurrence of the insurance event, even if there have been changes that were not taken into account when the contract was drawn up, such as an increase in life expectancy. In this context, it should be noted that the Annuity Conversion Factor in "Track" policies that have been marketed since 2013 is guaranteed only for planholders who joined when they were 60 years old or older. Nevertheless, the annuity calculated on the date of retirement of all policyholders is linked to the investment profits and is not affected by changes in life expectancy.

In a pension fund, there is mutual guarantee between the planholders. The actuarial assumptions which form the basis for planholders' rights are reviewed from time to time according to actual circumstances, and if these assumptions change, for better or worse, the planholders' rights change, and they bear jointly any actuarial surplus or deficit the fund may have.

3. **Returns:** in life insurance policies sold since 1991 and in provident funds, the accrued funds are invested in the free market in various investment channels, according to the saver's choice. The new pension funds benefit from issuance of CPI-linked, non-marketable government bonds, and bear fixed interest on 30% of their assets.
4. **Management fees:** The following table lists the key restrictions on management fees:

The following is a summary of the main restrictions relating to management fees according to the various pension channels (the latest provisions in connection with the determination of management fee rates are in accordance with the Financial Services Supervision Regulations (Provident Funds) (Management Fees), 2012:

	Non-annuity provident funds (savings provident funds)	Advanced education funds and provident funds that are not non- annuity provident funds (that are not savings provident funds) and Gmula*****	Managers insurance and retirement benefits insurance for the self- employed	General pension fund	Comprehensive pension fund	Investment provident fund	Child long-term investment provident fund for savings
Maximum management fees until 31.12.2012	2% of accrual + 0% of contributions	2% of accrual + 0% of contributions	2% of accrual + 13% of contributions, provided that: deposits are converted using a ratio of 1:10 (*)	2% of accrual + 0% of contributions	0.5% of accrual + 6% of contributions	n/a	n/a
Maximum management fees for 2013 (transition period)	1.1% of accrual + 4% of contributions	No change	1.1% of accrual + 4% of contributions (**)	1.1% of accrual + 4% of contributions	No change	n/a	n/a
Maximum management fees as from 2014	1.05% of accrual + 4% of contributions (****)	No change (****)	1.05% of accrual + 4% of contributions (***)	1.05% of accrual + 4% of contributions	No change	n/a	n/a
Maximum management fee	No change	No change	No change	No change	No change	1.05% of the accumulated balance; 4% of deposits	0.23% of the accumulated balance*****
Maximum management fees collected from planholders with whom the fund lost contact	0.3% of accrual	0.3% of accrual	0.3% of accrual	0.3% of accrual	0.3% of accrual	0.3% of the accumulated balance	0.23% of the accumulated balance*****
Maximum management fees collected from annuity recipients	-	-	0.6% of annuity (**)	0.6% of annuity	0.5% of annuity		

(*) Applicable to policies issued from January 1 2004.

(**) Applicable to policies issued from January 1 2013.

(***) Applicable to policies issued from January 1 2014.

(****) Notwithstanding that which is stated in the table, as of 2016, the management fees collected from a planholder's accrual in all his/her accounts with a provident fund that is not an insurance fund will be no lower than NIS 6 per month.

(*****) In the case of the Excellence Gmula provident fund, the fund's rules and regulations stipulate that the maximum management fees that may be collected in guaranteed return tracks will be up to 2% of the accrual.

(*****) Collected from the National Insurance Institute rather than from planholders.

2.1.1.5 **Impact on competition between the various products**

Provident funds are the leading products for long-term savings, inter alia as a result of measures taken by the Commissioner, such as: the default funds reform that accelerated the decrease in management fees in the pension fund product; cancellation of guaranteed conversion factors in life insurance products that include a savings component which made the product less attractive; cancellation of capital provident funds; and the withholding of an approval to market life insurance policies that combine life insurance and a savings component.

Advanced education Funds

Since advanced education funds offer dedicated tax benefits to those who make contributions into such funds, and since the minimum savings period is relatively short (6 years), there are no real alternatives to this saving channel.

Other financial products (individual savings products)

The reporting year saw a continued trend whereby the volume of public investments in individual savings products such as individual savings policies, investment provident funds that constitute an alternative to other liquid savings products such as bank deposits, mutual funds, portfolio management and the like - continued. The attractiveness of these products stems from several reasons, including: exposure to non-marketable investments, attractive management fees, and tax benefits.

The Company believes that the trends in the long-term savings segment may lead to the following:

1. Pension funds will continue to be a leading product among long-term savings products.
2. The decrease in average management fees in the market will continue.
3. As to reduction of the maximum amount in management fees collected from recipients of annuities in the pension funds and in insurance policies for annuities (for the draft regulations on this subject, please see Section 4.1.6.2.3 to the Report).
4. The use of technological and digital means in the marketing and distribution process of the products will increase in this segment.
5. Employers will prefer to enroll new employees in default funds rather than in other pension funds.
6. Lower profitability of life insurance products.
7. Growth in individual savings products will continue.

2.1.1.6 New products

During the reporting year, The Phoenix Insurance (in the managers insurance policies and savings policies under its management) and The Phoenix Excellence (in the advanced education fund, provident fund and comprehensive pension fund under its management) added a passive investment track which tracks the S&P 500 index. The track was added by changing the name and investment policy of an existing track in the above funds.

The S&P 500 share index is composed of the 500 large-cap companies listed on the main US stock exchanges. Adding the investment tracks as aforesaid is designed to expand the range of investment tracks and savings solutions the Company offers its customers.

2.1.2 Competition

Life insurance - five key insurance companies operate in Israel in the life insurance segment - The Phoenix, Migdal, Clal, Harel, and Menora, as well as several smaller insurance companies. According to the figures of the Capital Market, Insurance and Savings Authority, these five companies collected approximately 95% of the premiums in this segment in the first three quarters of 2020.

The market shares of the five key insurance companies in Israel out of total premiums in 2018 to 2020 are as follows (by percentage):

Company	1-9/2020	2019	2018
Migdal	29.7%	30.2%	30.5%
Harel	19.7%	19.4%	18.0%
Clal	19.0%	18.5%	18.8%
The Phoenix	15.8%	16.1%	16.3%
Menora	10.3%	10.5%	10.9%
Other	5.5%	5.3%	5.5%
All companies	100.0%	100.0%	100.0%

The competition between the companies is reflected mainly in the amount of the management fees paid by policyholders, the price of the insurance coverages they purchase, the quality of service, returns on the investments, level and method of compensation in the various distribution channels, and in the development of additional distribution channels.

Pension - in 2020, total contributions paid into comprehensive pension funds for the entire market amounted to NIS 45.3 billion, compared to NIS 43.2 billion in 2019.

Other than Phoenix Excellence, the largest companies that operate in the pension segment are Menora Mivtachim, Migdal Makefet, Clal Pension and Harel Pension. In addition, default funds operated by the investment houses Altshuler Shaham, Psagot and Halman Aldubi intensified the competition in this field and caused the trend of erosion of management fees to continue.

Following is data on the market share of the principal competitors in the pension market in 2018-2020 out of total premiums of the new comprehensive pension funds (according to the Capital Market, Insurance and Savings Authority's website "Pensyanet"; figures are based on contribution amounts) (by percentage):

Fund	2020	2019	2018
Menora Mivtachim	28.0%	28.9%	29.5%
Harel Pension	19.6%	20.1%	20.5%
Migdal Makefet	16.0%	17.9%	18.9%
Clal Pension	13.3%	13.7%	14.4%
The Phoenix Pension	9.6%	8.9%	8.8%
Other funds (Altshuler Shaham, Psagot, Halman Aldubi and Ayalon Meitav)	13.5%	10.5%	7.8%
Total	100.0%	100%	100%

The pension funds' segment is characterized by fierce competition, which increased as a result of the introduction of the default pension funds. As a result of greater public awareness of the importance of saving towards retirement, and as a result of changes in alternative products (for further details, please see Section 2.1.1.2.1 above), the public is more aware of the management fees rates collected on the deposits and accruals of pension funds planholders, as well as of the quality of investment management in the pension funds and the returns attained therein - all of which constitute important factors in the process of selecting a fund; there is also greater awareness of the quality of service rendered to customers.

Provident funds - In 2020, total assets under management by the segment was NIS 795 billion, compared with NIS 534 billion as of December 31 2019.

Set forth below is a list of the management companies with the highest amounts of assets under management in the provident funds segment, and a description of the development of their share in total provident fund assets in 2018-2020, based on the Capital Market, Insurance and Savings Authority's figures ("Gemel Net") (by percentage):

Management company	2020	2019	2018
Altshuler Shaham Provident Funds and Pension Ltd.	25.4%	20.4%	16.5%
Psagot Provident and Pension Funds Ltd.	9.1%	10.6%	11.8%
Meitav Dash Provident Funds and Pension Ltd.	7.7%	8.4%	9.1%
Yelin Lapidot Provident Funds Management Ltd.	7.5%	8.0%	8.2%
Harel Pension and Provident Ltd.	6.6%	7.3%	7.4%
Clal Pension and Provident Funds Ltd.	6.4%	6.9%	7.2%
The Phoenix Excellence Pension and Provident Fund Ltd.	6.1%	6.4%	6.6%
Menora Mivtachim Pension and Provident Funds Ltd.	5.1%	5.4%	5.4%
Migdal Makefet Pension Fund and Provident Funds Ltd.	3.3%	3.6%	3.6%
Advanced Education Funds for Teachers and Kindergarten Teachers - a Management Company Ltd.	3.3%	3.3%	3.3%
Halman Aldubi Provident and Pension Funds Ltd.	3.1%	3.4%	3.4%
Other	16.3%	16.1%	17.8%
Total	100.0%	100.0%	100.0%

The following table provides information about the transfer of money from/to the Company in the long-term savings segment from 2018 to 2020:

In NIS thousand	2020			Total
	Company's activity			
	Life insurance	Provident funds*	Pension funds	
Transfers to the company from other entities				
Transfers from other insurance companies	325,719	94,043	318,689	325,719
Transfers from pension funds	189,473	25,927	2,667,954	189,473
Transfers from provident funds	205,792	1,659,752	18,749	205,792
Total transfers to the company	720,984	1,779,722	3,005,392	720,984
Transfers from the company to other entities				
Transfers to other insurance companies	185,250	146,747	49,956	185,250
Transfers to pension funds	509,830	65,863	2,016,934	509,830
Transfers to provident funds	802,057	2,829,742	131,646	802,057
Total transfers from the company	1,497,137	3,042,352	2,198,536	1,497,137
Net transfers	(776,153)	(1,262,630)	806,856	(776,153)

In NIS thousand	2019			Total
	Company's activity			
	Life insurance	Provident funds	Pension funds	
Transfers to the company from other entities				
Transfers from other insurance companies	434,601	3,468	159,476	597,545
Transfers from pension funds	349,000	4,217	2,144,785	2,498,002
Transfers from provident funds	225,951	2,332,420	11,235	2,569,606
Total transfers to the company	1,009,552	2,340,105	2,315,496	5,665,153
Transfers from the company to other entities			-	
Transfers to other insurance companies	179,600	621	67,524	247,745
Transfers to pension funds	284,897	15,978	419,514	1,720,389
Transfers to provident funds	421,463	2,088,908	72,331	2,582,702
Total transfers from the company	885,960	2,105,507	1,559,369	4,550,836
Net transfers	123,592	234,598	756,127	1,114,317

In NIS thousand	2018			Total
	Company's activity			
	Life insurance	Provident funds*	Pension funds	
Transfers to the company from other entities				
Transfers from other insurance companies	258,851	336	42,332	301,519
Transfers from pension funds	379,055	4,939	1,411,811	1,795,805
Transfers from provident funds	276,269	2,604,852	5,205	2,886,326
Total transfers to the company	914,175	2,610,127	1,459,348	4,983,650
Transfers from the company to other entities				
Transfers to other insurance companies	141,262		92,485	233,747
Transfers to pension funds	146,966	9,656	1,326,684	1,483,306
Transfers to provident funds	307,193	2,064,686	65,183	2,437,062
Total transfers from the company	595,421	2,074,342	1,484,352	4,144,459
Net transfers	318,754	535,785	(25,004)	839,191

* The figure was restated.

Effect of legislative changes on competition in the area of activity

Regulatory provisions in recent years have led to increased competition between the various entities operating in the pension savings market and in the life insurance market. Following are the main provisions:

- Lowering of prices of life insurance products.
- Revision of the mechanism for reimbursement of fees and commissions by agents to insurance companies in the event of cancellation of policies that came into force during 2019.
- Selection of four default funds in a competitive process conducted by the Commissioner (for further details, please see Section 2.1.1.2.2 to the Report).
- Amendment to the Advice Law, which prohibits a link between the rate of management fees and the amount of distribution commission paid to the pension agent.
- Settlement of the consolidation of pension savings by transferring amounts saved by the planholder with inactive pension funds to his/her account with active pension funds.
- Provisions regarding management of a new pension fund, which increase the possibility for planholders' transitioning to new pension funds close when approaching retirement age.

Amendment to the regulations on transfer of funds from one provident fund to another; the amendment makes it possible to transfer funds from one investment provident fund to another, and to transfer funds from an investment provident fund to an annuity provident fund.

- Draft regulations published in December 2020, suggesting the reduction of the maximum amount in management fees collected from recipients of annuities from an annual rate of 0.5% to an annual rate of 0.3%, in respect of recipients of annuities in pension funds and insurance policies for annuities (for draft regulations on this subject, please see Section 4.1.6.2.3 to the Report).

The Company believes that these changes may enhance existing trends in the long-term savings segment, as described in Section 2.1.2 above in connection with boosting competition. The weighted effect of these trends may have an adverse effect on profits in the long-term savings segment.

How the Group deals with competition

The Group is taking action to address the growing competition in the industry, mainly through the following measures:

1. Continued development and improvement of the investment function and quality of investment management.
2. Increase in total assets under management, including, among other things, as a result of mergers and acquisitions (for further details on the merger with Halman Aldubi Investment House Ltd., please see Section 2.1.1.3.3 to the Report).
3. Operational and organizational streamlining by way of restructuring the Company and its various units, and improving the operational infrastructure in order to develop and enhance the customer relations and service as well as the distribution channels, while developing dedicated expertise in the areas of operation and service. Constantly developing and updating its tracks, products and promotions.
4. Service and marketing using diverse distribution channels.
5. Allocating management and financial resources to advertising, marketing and distribution channels, as well as brand-name enhancement.
6. Structural changes allowing The Phoenix Insurance to develop while reducing the capital requirements to which it is subject.

2.1.3 Customers

a. Life insurance

The Phoenix Insurance markets its products to a broad range of customers who can be divided into three main categories - salaried employees planholders, individual and self-employed policyholders, and groups. The Phoenix Insurance has no significant dependence on any single customer. The following table provides a breakdown of premiums among life insurance customers (by percentage):⁶

	2020	2019
Salaried employee planholders	48.5	51.6
Policyholders - private individuals and self-employed	49.8	46.8
Collective	1.7	1.6
Total	100	100

The rate of redemptions (annualized) from the reserves, including in respect of investment contracts, increased from 3.47% in 2019 to 4.17% in 2020.

⁶ Including insurance contracts and investment contracts (investment contracts are individual policies without an insurance component).

b. Pension funds

Set forth below is a breakdown of The Phoenix Pension and Provident Funds customers⁷ (by percentage):

	2020	2019
Salaried employee planholders	97	97
Planholders - private individuals and self-employed	3	3
Total	100	100

The number of planholders of The Phoenix Comprehensive Pension Fund was lower in 2020 by 1.9%, and its assets under management increased by 22% compared with 2019, following the increase in the number of planholders and total assets by 0.4% in 2018 and 30% in 2019, respectively.

c. Provident funds

As of December 31 2020, approximately 602 thousand planholder accounts were managed by the Phoenix Excellence's provident funds, compared with approximately 598 thousand accounts in the previous year. Set forth below is the breakdown of planholder categories in provident funds (by percentage):

	Advanced education fund		Fund for retirement benefits and severance pay		Investment provident fund		Child long-term investment	
	2020	2019	2020	2019	2020	2019	2020	2019
Employee	85	85	49	45	-	-	-	-
Self-employed	15	15	51	55	100	100	100	100
Total	100	100	100	100	100	100	100	100

The information presented above in this chapter includes forward-looking information, as defined in the Securities Law, 1968. This information contains, inter alia, forecasts, targets, assessments and estimates relating to future events or matters, including reference to various risk factors and developments as described in the report, the materialization of which is uncertain and may be impacted by various factors which are not under the Company's control. Forward-looking information is not a proven fact and is based, in part, on the Company's estimates, which are based on various, diverse data and entities that have not been verified or confirmed by the Company. It is hereby clarified that actual results may differ from that which is described herein. Forward-looking information refers exclusively to the date on which the report was written, and the Company is under no obligation to revise and/or change any information pertaining to forward-looking information as presented here, insofar as it becomes aware of any additional information in connection with such information.

⁷ In The Phoenix Comprehensive Pension and The Phoenix Supplementary Pension.

2.2 Property and Casualty Insurance

Key subsegments of property and casualty insurance

This area of activity includes the Group's operations in the compulsory motor insurance subsegment, the motor property insurance subsegment and other property and casualty insurance, which includes the remaining property and casualty insurance subsegments, such as property, liability, engineering, marine and aviation insurance.

The terms of most property and casualty insurance policies is up to one year, and these policies provide indemnity to the policyholder in the event of loss, depending on the insurance coverage.

2.2.1 Compulsory motor insurance

Compulsory motor insurance consists of coverage for bodily injury resulting from the use of a motor vehicle.

2.2.1.1 Products and services

This subsegment consists of a single product that provides insurance coverage under the Motor Insurance Ordinance (New Version), 1970 (hereinafter: the "**Motor Insurance Ordinance**") for the motor vehicle owner and the driver against any liability they may incur under the Road Accident Victims Compensation Law, 1975 (hereinafter: the "**CRAV Law**") and against any other liability they may incur due to bodily injury caused by or as a result of the use of a motor vehicle to the driver, passengers, or pedestrians hit by the motor vehicle as a result of the use thereof, and in accordance with the provisions of the Economic Efficiency Law (for further details about the CRAV Law and the Economic Efficiency Law, please see Section 4.1.7.1.2, Section 4.1.7.1.3 and Section 4.1.7.1.4 to the Report).

Characteristics of compulsory motor insurance:

- (1) Duty to insure - the Motor Insurance Ordinance stipulates that a person shall not use, cause or allow another person to use a motor vehicle unless his/her or another person's use of the motor vehicle is covered by a policy which is in force according to the requirements of the Ordinance.
- (2) The coverage provided in this product is uniform.
- (3) Absolute liability with no need to prove blame.
- (4) Limit of compensation - the liability in the policy is unlimited. Nevertheless, the maximum wages for purposes of calculating the compensation due to loss of earnings and loss of earning capacity is limited to three times the average wages in Israel (net), and the maximum compensation for non-financial loss is limited to the amount prescribed in the CRAV Law, which is currently approximately NIS 180 thousand.

- (5) Date on which the insurance comes into force - the date of commencement of the insurance stated in the insurance certificate, but not before the date on which the insurance certificate was stamped with the bank's stamp; the policy period will end at midnight on the date of expiration of the insurance stated in the insurance certificate.
- (6) Policy period - usually one year, aiming that the last day of the insurance will be the last day of the month in which the policy period ends.
- (7) Exclusivity of course of action - a road accident victim, who has a cause of action under the CRAV Law, must claim damages only under the CRAV Law, and will have no cause of action under any other law.

2.2.1.2 Competition

All the insurance companies operate in the compulsory motor insurance subsegment. Given that the insurance coverage is standard and the size of the market is limited, competition in the compulsory motor subsegment focuses mainly on insurance prices, rates of fees and commissions paid by the various companies to insurance agencies, proper segmentation of the population of drivers and accurate pricing of the policies offered to them.

Two new insurance companies were established in 2018, which engage directly with their policyholders, mainly in the property and casualty insurance segment, with emphasis on the motor vehicle subsegment. These companies have significantly increased the competition in the vehicle insurance subsegment.

Set forth below is information about the market share of the Company and key competitors in the compulsory motor subsegment, by gross premiums (activity in Israel only) (by percentage):

	January - September 2020	2019	2018
Menora*	14.0	14.2	14.6
Harel	11.6	12.4	12.3
Shlomo	12.4	12.2	11.7
The Phoenix	11.3	11.0	10.7
IDI	9.4	10.5	10.7
Migdal	9.5	9.3	9.6
Clal	10.4	8.8	8.9
Ayalon	7.2	7.9	8.3
Other companies	14.2	13.7	13.2
Total	100	100	100

*Comparative figures for Menora include the operations of Shomera.

The Company copes with competition by working to increase its market share while maintaining the quality and profitability of the portfolio on the one hand, and applying control measures on the other. Furthermore, The Phoenix Insurance diversifies its marketing and distribution methods by engaging in digital sales under the "Phoenix Smart" brand, via the Company's website and call centers.

2.2.1.3 Customers

- a. The Phoenix Insurance is not dependent on any single customer in the compulsory motor insurance subsegment.
- b. The Phoenix Insurance has no single customer that accounts for 10% or more of its revenues.
- c. The Phoenix Insurance's customers include private customers, business customers, groups, car fleets as well as Israel Railways.

Breakdown of premiums from customers (gross)* by percentage:

	2020	2019
Vehicle fleets, ⁸ groups and Israel Railways	10.2	10.9
Other policyholders**	89.8	89.1
Total	100	100

* The figures are based on insurance policy commencement dates.

** Mainly private policyholders.

Customer loyalty and retention:

The rate of renewals in terms of premiums in the compulsory motor insurance subsegment in 2020 was approximately 70% compared with approximately 67% in 2019.

Set forth below are details about customer loyalty in the compulsory motor insurance subsegment in terms of premiums turnover for 2020 (by percentage):

Years of customer seniority	Up to one year	One to two years	Two to three years	Three years and up	Total
Distribution of customer seniority	36	21	19	24	100

In 2020, the percentage of customers insured under motor property insurance in addition to compulsory motor insurance in terms of policies was similar to that of 2019 - approximately 97.5%, compared to approximately 97% in 2018.

⁸ The definitions for vehicle fleets and collectives were taken from the Codex of Regulations (Consolidated Circular).

2.2.2 Motor property insurance

Motor property insurance consists of coverage for self-inflicted damage to a vehicle as well as damage to third-party property resulting from the use of a motor vehicle.

2.2.2.1 Products and services

Motor property insurance (CASCO) is the most common type of voluntary insurance in the property and casualty insurance segment. Motor property insurance covers property damage caused to the insured vehicle (hereinafter: "**comprehensive insurance**") and damage caused to third-party's property as a result of the use of the insured vehicle (hereinafter: "**third-party insurance**"). In this chapter, comprehensive insurance signifies coverage given both in respect of property damage caused to the insured vehicle and in respect of property damage that the insured vehicle may cause to third-party's property.

This subsegment is divided into two categories:

- a. Insurance for private and commercial motor vehicles weighing up to 3.5 tons (hereinafter: "**light commercial vehicle**"). This category is subject to the terms and conditions of a standard motor insurance policy, as explained below.
- b. Insurance for vehicles which are not private or light commercial vehicles. This category is residual and applies to all vehicles that are not included in the first category (e.g. trucks, taxis, motorbikes, tractors, mechanical engineering equipment, etc.). The terms and conditions of the standard policy do not apply to these vehicles.

Characteristics of motor property insurance:

Motor property insurance is voluntary insurance which is not mandatory under law.

The various types of coverages: The terms and conditions of the standard policy include, among other things, coverage in the event of an accident, theft, fire, malicious damage, natural disaster damages, property damage caused to a third party, and more. The Company also offers various riders such as coverage for risks of earthquake, riots, strikes as well as related services such as towing, replacement vehicle in the event of an accident or theft, coverage for broken windscreen and coverage for headlights and mirrors. The Company also offers a range of riders and coverages for commercial vehicles that are not light commercial vehicles.

2.2.2.2 Competition

The motor property insurance subsegment is highly competitive, mainly due to the lack of differentiation in the insurance coverage offered by the various companies.

Competition in this segment focuses mainly on insurance prices, the service rendered by insurance companies to their policyholders, the rates of fees and commissions paid by the various companies to insurance agencies, proper segmentation of the population of drivers and accurate pricing of the policies offered to them.

Two new insurance companies were established in 2018, which engage directly with their policyholders, mainly in the property and casualty insurance segment, with emphasis on the motor vehicle subsegment. These companies have significantly increased the competition in the vehicle insurance subsegment.

Set forth below is information about the market share of the Company and key competitors in this subsegment, by gross premiums (activity in Israel only) (by percentage):

	January-September 2020	2019	2018
Menora*	17.2	17.6	18.2
IDI	12.8	14.3	14.7
The Phoenix	12.4	12.4	12.6
Migdal	10.1	9.8	10.6
Harel	10.8	10.0	9.5
Clal	8.1	7.9	8.1
Ayalon	7.8	8.3	7.5
Other companies	20.8	19.7	18.8
Total	100	100	100

* Comparative figures for Menora include the operations of Shomera.

To cope with the competition, the Company maintains a reasonable level of profitability by applying an appropriate segmented pricing strategy, developing new products (for example, "Phoenix Drive"), developing new direct and digital distribution channels ("Phoenix Smart"), and recruiting agents. Additionally, in February 2021, The Phoenix Insurance signed an agreement to provide strategy and data management services with a specializing in the field. Under the contract, the said company will assist The Phoenix Insurance, among other things, in formulating a pricing model based on Big Data.

2.2.2.3 Customers

- (a) The Phoenix Insurance is not dependent on any single customer in the motor property insurance subsegment.
- (b) The Phoenix Insurance has no single customer that accounts for 10% or more of its revenues.

- (c) The Phoenix Insurance's customers in the motor property insurance subsegment consist of private customers, business customers, groups and car fleets.

Breakdown of gross premiums from customers (*) (by percentage):

	2020	2019
Vehicle fleets and collectives ⁹	7.6	7.9
Other policyholders**	92.4	92.1
Total	100	100

* The figures are based on insurance policy commencement dates.

** Mainly private policyholders.

Customer loyalty and retention

In 2020, the renewal rate in the motor property insurance segment, in terms of premiums for policies that were in force in the previous year was 67%, compared to 65% in 2019.

Set forth below is information about customer loyalty in the motor property insurance subsegment in terms of premiums turnover in 2020 (by percentage):

Years of customer seniority	Up to one year	One to two years	Two to three years	Three years and up	Total
Distribution of customer seniority	34	19	14	33	100

In the motor property insurance subsegment, customers who also had compulsory motor insurance policies in 2020, 2019 and 2018 accounted for 91%, 91% and 92%, respectively, of all the policies in this subsegment in the relevant years.

New products:

The "Phoenix Drive" policy - In March 2020, The Phoenix began to market "Phoenix Drive" - a comprehensive insurance policy by mileage.

This policy is based on billing depending on the mileage the policyholder drives in effect. Under the terms and conditions of the policy, the policyholder must pay a base premium and will be charged based on the mileage he/she actually drives in each of the months of the insurance period. The insurance is run using a dedicated app that can be used to perform most of the policy's functions (adding drivers, viewing travel history and charges, etc.).

⁹ The definitions for vehicle fleets and collectives were taken from the Codex of Regulations (Consolidated Circular).

2.2.3 Other property and casualty insurance

Other property and casualty insurance consists of a broad range of insurance coverages that can be divided into three key main subsegments: property insurance, liability insurance and other insurance.

2.2.3.1 **Products and services**

The Phoenix Insurance sells property and casualty insurance products in property, liability and other subsegments, offering insurance solutions as part of a broad range of plans catering to an extensive range of occupations and needs.

Property insurance

In the property insurance subsegment, the Group offers mainly home insurance, building insurance covering the mortgage period, and various types of business insurance.

- (a) **Home insurance policy:** this policy is based on the standard policy, and includes a package of riders in addition to the mandatory requirements under the Supervision of Insurance Business Regulations (Terms of Home and Contents Insurance Contracts), 1986. Customers can opt for multiple coverages including building insurance covering the mortgage period, all risks insurance for jewelry and valuables, employers liability insurance, third-party liability insurance, bicycle insurance, terrorism damage insurance, etc.

The Company also offers its policyholders coverage against terrorism risks in respect of their home contents (excluding property tax payout). Payment in respect of this coverage is made in addition to insurance benefits the policyholder is entitled to receive by virtue of the Property Tax and Compensation Fund Law, 1961, according to which the policyholder will be paid compensation due to loss or damage caused to the contents of his/her home due to an act of terrorism.

- (b) **Business insurance and large businesses insurance:** this type of insurance is designed to provide insurance coverage in respect of the policyholder's interests in business-related property and buildings and the contents thereof; the insurance covers physical loss or damage caused due to fire and related risks (coverage sold together with coverage for risk of fire, lightning and additional risks, e.g. burglary, natural damages, explosions, earthquakes, to the extent that these coverages are purchased (extended fire insurance policy)). Furthermore, one may purchase coverage for consequential loss, stemming from certain physical damages to the property, i.e., loss of profits.

The Phoenix Insurance generally offers this insurance as part of a comprehensive insurance package that includes, among other things, an option to purchase liability insurance and other types of insurance, such as money insurance, goods in transit insurance, electronic equipment insurance and more. Business insurance is provided under umbrella policies (namely, policies that combine various insurance coverages). Furthermore, the Company has its EXTRA series of policies for offices, stores, workshops and synagogues, which are dedicated policies for various business categories. The coverage for large businesses is provided according to the needs of each customer and, in most cases, the customer works with an insurance consultant who acts on its behalf and defines the needs and, quite often, the wording of the policy as well.

The Company also sells business insurance coverage against cyber crimes; such coverage includes, among other things: reimbursement of compensation paid by the policyholder due to breach of privacy, reimbursement of costs and expenses associated with managing a cyber event, reimbursement of costs associated with responding to a security breach, cyber extortion, loss of income, and data restoration costs.

Liability insurance

- (a) **Employers' liability insurance:** this type of insurance covers the employer's (the policyholder) liability towards its employees over the term of the policy in respect of bodily injury sustained by the employee covered under the insurance policy due to an accident or illness during the course of his work or as a result thereof. This policy is event-based. Coverage under these policies is usually residual and applies to amounts payable in excess of payouts by the National Insurance Institute, which is in charge of work-place accidents. In some cases, the limit of liability in policies of this type is pre-determined; however, a higher limit may be purchased based on the policyholder's needs and at his/her request. The liability covered by these policies is usually governed by the Torts Ordinance.

This coverage is sold both as an individual standalone policy (employer liability coverage only), and as part of large business insurance policies, business insurance policies, umbrella insurance policies, or as a chapter within contractors' insurance policies.

- (b) **Third-party liability insurance:** the purpose of this insurance is to protect policyholders against legal liability which they may have towards third parties, for bodily injury or property damage caused due to their negligence, including consequential damages, and which occurred during the policy period. This policy is event-based. The coverage is adapted to the policyholder's activity and the limit of liability is set by the policyholder, at his/her discretion, based on the level of risk to which he/she believes to be exposed. This cover is sold both as an individual standalone policy (third-party liability

coverage only), and as part of large business insurance policies, business insurance policies, umbrella insurance policies, or as a chapter within contractors' insurance policies. The liability covered by these policies is usually governed by the Torts Ordinance.

- (c) **Other liability insurance:** liability insurance also includes other products, including professional liability insurance, directors and officers' liability insurance, and product liability insurance.

In contrast to the types of liability insurance listed above, these products offer tail coverage, although such policies usually also refer to the date on which the event occurred (policies based on the date on which the claim were filed with a retroactive date).

Other types of insurance

In addition to property and liability insurance, The Phoenix Insurance also markets contractors' insurance (for the duration of a project or open policies for one insurance year in respect of all projects during that period), insurance covering mechanical-engineering equipment, mechanical breakdown insurance, refrigerated inventory insurance, cargo in transit and shippers' liability insurance, short-term personal accident insurance under business insurance policies and such, fidelity insurance, agricultural insurance, investment insurance for home buyers (Sales Law guarantee), electronic equipment insurance, insurance covering production and cancellation of events, clinical trials insurance, cancellation of flights insurance, money insurance, goods in transit insurance, works of art, marine, aviation, terrorism acts and cyber insurance.

2.2.3.2 Competition

- (a) The other property and casualty insurance subsegment is highly competitive, which is reflected in policies that are tailored to the customers' needs, niche activity, reduced tariffs and the offering of special discounts.
- (b) Most Israeli insurance companies compete with The Phoenix Insurance in the other property and casualty insurance subsegment.

Set forth below is data about the market share of the various companies in the other property and casualty insurance subsegment (by percentage):

	January-September 2020	2019	2018
Harel	20.8	22.3	22.8
Clal	15.1	14.0	14.0
The Phoenix	13.3	13.6	13.7
Migdal	11.2	11.6	11.5
Ayalon	11.1	10.5	10.7
Menora*	11.9	11.0	10.8
Other companies	16.8	17.0	16.5
Total	100	100	100

*Comparative figures for Menora also include the operations of Shomera.

Set forth below is a breakdown of information by property and liability subsegments:

Other property insurance subsegments (excluding motor property insurance)

	January-September 2020	2019	2018
Harel	18.5	18.5	18.9
Clal	17.7	16.9	16.4
The Phoenix	13.5	14.3	14.1
Migdal	11.4	11.9	12.2
Menora*	11.2	11.3	11.4
Ayalon	7.9	7.5	7.9
Other companies	19.7	19.6	19.1
Total	100	100	100

*Comparative figures for Menora also include the operations of Shomera.

Liability subsegments

	January-September 2020	2019	2018
Harel	24.0	28.1	29.0
Ayalon	15.5	15.1	15.1
The Phoenix	12.9	12.5	13.1
Migdal	10.8	10.9	10.4
Clal	11.3	9.7	10.2
Menora*	12.8	10.5	9.9
Other companies	12.7	13.2	12.3
Total	100	100	100

*Comparative figures for Menora include the operations of Shomera.

- (c) The principal methods for coping with competition in this segment include providing quality service, entering into niche insurance markets where competition is less intense and the Company can develop its expertise and reputation, customizing policies to customers' needs, and reinforcing the quality of actuarial pricing. Competition in this segment is impacted, among other things, by trends in the global reinsurance market.

2.2.3.3 Customers

- (a) The Phoenix Insurance is not dependent on any single customer in the other property and casualty insurance subsegment.
- (b) Neither does the Company have a single customer in the other property and casualty subsegment that accounts for 10% or more of its revenues.
- (c) The Company's customers in the other property and casualty insurance subsegment are mostly private customers.

Breakdown of premiums from customers (gross) (by percentage):*

	2020	2019
Large business customers ¹⁰	8.4	6.6
Other policyholders	91.6	93.4
Total	100	100

* The figures are based on the commencement dates of the insurance policies.

The increase in premiums from large business customers in the reporting year stems primarily from a large property insurance transaction. The renewal rate in the other property and casualty insurance subsegment is relatively high due to the customization of policies to customers' requirements, specialization by the insurance companies and the tendency of customers in this subsegment to remain loyal to one insurance company, in part due to the desire to maintain continuity of the insurance coverage. In the home insurance subsegment

The renewal rate in 2020 was the same as in 2019 - approximately 87% - in terms of premiums received in the current year in respect of policies that were in effect in the previous year.

Set forth below is information about customer loyalty in the home insurance subsegment in terms of premiums in 2020 (by percentage):

Years of customer seniority	Up to one year	One to two years	Two to three years	Three years and up	Total
Distribution of customer seniority	9	9	8	74	100

¹⁰ "Large business customers" signify policyholders which account for at least 1% of the premiums in the segment.

The information presented above in this chapter includes forward-looking information, as defined in the Securities Law, 1968. This information contains, inter alia, forecasts, targets, assessments and estimates relating to future events or matters, including reference to various risk factors and developments as described in the report, the materialization of which is uncertain and may be impacted by various factors which are not under the Company's control. Forward-looking information is not a proven fact and is based, in part, on the Company's estimates, which are based on various, diverse data and entities that have not been verified or confirmed by the Company. It is hereby clarified that actual results may differ from that which is described herein. Forward-looking information refers exclusively to the date on which the report was written, and the Company is under no obligation to revise and/or change any information pertaining to forward-looking information as presented here, insofar as it becomes aware of any additional information in connection with such information.

2.3 Health Insurance Segment

2.3.1 Products and services

2.3.1.1 General

Health insurance policies are designed to indemnify or compensate policyholders for medical expenses incurred as a result of decline in health, illness or accident. The illness and hospitalization subsegment also includes long-term care insurance, critical illness insurance, dental insurance, insurance covering sick leave, travel insurance, insurance for Israelis residing overseas, and personal accidents insurance.

2.3.1.2 Segment's structure and key markets

The Israeli health insurance market is divided into three levels:

The first level comprises the basic basket of health services (hereinafter: the "**Healthcare Services Basket**"), which is provided mainly by health maintenance organizations to all Israeli residents by virtue of the National Health Insurance Law, 1994 (hereinafter: the "**Health Insurance Law**").

The second level, which is an extension of or an alternative for the Healthcare Services Basket, is the supplementary health services (hereinafter: the "**SHABAN**"), which are provided to the public only by health maintenance organizations. This level is subject to the limitations stipulated in the Health Insurance Law.

The third level comprises private health insurance purchased directly from insurance companies and subject to underwriting considerations applied by insurance companies when they issue such insurance to policyholders. Private health insurance is offered both in the form of personal health insurance policies (hereinafter: "**individual insurance**").

policies") and in the form of group policies ("**group insurance**"). The Group's activity in the health insurance segment includes both individual and group insurance policies.

Individual health insurance (individual and group) is part of the total national health expenditure in Israel. Private health insurance is a growing area of activity, among other things, in light of the gap between the healthcare services provided by the state within the framework of the Healthcare Services Basket and those provided under private health insurance. Private health services include the use of advanced drugs and medical treatments in order to improve quality of life and increase life expectancy; they are provided with high availability and tailored to the specific needs of different population groups, including coverage for transplants, medications not included in the Healthcare Services Basket, surgeries abroad, new medical technologies not included in the Healthcare Services Basket and long-term care services.

The different levels of the health insurance sector in Israel are highly regulated and closely supervised. The legislative arrangements in this sector have changed considerably and, in some cases, are influenced by government policies relating to healthcare, including the expansion or curtailing of the services provided as part of the Health Services Basket.

Individual insurance - these are generally insurance plans offered for long periods (for the policyholder's entire life or up to a pre-determined age), even if the policyholder's medical condition changes during this period. Most health insurance plans marketed since February 2016 are subject to provisions according to which the insurance period is renewed every two years (for the policyholder's entire life or up to a pre-determined age) and some are characterized by accruing significant reserves during such periods ("**renewable policies**"). Changes in actuarial assumptions and forecasts with respect to future risk may lead to material changes in the provision amounts. Due to the considerable weight of the reserves amount, the investment income held against the insurance reserves in this segment has a material effect on profits in this segment.

The most recent renewal was carried out in June 2020, without raising the premium, and is valid through June 2022.

Group insurance - the terms and conditions of group insurance agreements are determined in negotiation between the insurer and the policyholder representing the group, and apply to all the individuals included in the relevant group. Usually, these agreements are signed for pre-determined periods of several years (but no more than five years), and sometimes include a mechanism for adjusting the premium during the policy period. Due to this difference, the tariffs paid for group insurance are generally lower than those paid for similar coverages in individual policies. Some group insurance

agreements include insurance continuity when the group insurance agreement terminates or when an individual ceases to be a member of the group (right to continuity).

Long-term care group insurance - The Phoenix Insurance ceased to sell group long-term care policies at the end of 2017, except for long-term care insurance to HMO members. The Phoenix Insurance insured the members of Meuhedet HMO until December 31 2019, and as of January 2020, it insures the members of Maccabi HMO.

As of July 2016, the provisions of the Directives regarding Financial Services Supervision (Insurance) (Group Long-Term Care Insurance to Members of Health Maintenance Organizations), 2015 set out a uniform policy for group long-term care insurance coverage given to members of HMOs and regulate the terms and conditions of the policies and the duties of insurers providing such insurance.

In July 2020, an amendment to the said directives was published, which aims to enable policyholders who purchased basic coverage to purchase an expanded group long-term care insurance policy, for members of HMOs, covering a longer period than the basic coverage, for an additional premium.

For further details regarding major changes in the field of group health insurance, including the group long-term care insurance for HMO members, please see also Sections 4.1.8.1-4.1.8.4 below.

2.3.1.3 **Principal changes in the health insurance segment**

For information on legislative changes relating to the health insurance segment in the reporting period, please see Section 4.1.8 below.

2.3.1.4 **Description of health insurance plans/principal health services offered**

2.3.1.4.1 **Insurance covering medical expenses:** such insurance plans usually include indemnification in respect of expenses incurred due to surgery, transplants and/or special medical treatment abroad, coverage for medicines that are not included in the Healthcare Services Basket, alternative treatments, medical services that involve the use of advanced technologies, ambulatory medical services, etc., all in accordance with the insurance plans purchased for or by policyholders. Supplementary products are added to these insurance plans, which provide a broad range of options for expanding the insurance coverage, in accordance with the policyholder's needs.

2.3.1.4.2 **Long-term care insurance (LTC):** Insurance for long-term care is designed to cover the costs incurred by individuals who are unable to perform activities of daily living (ADLs),¹¹ and require special care. Policyholders utilize their entitlement to long-term care

¹¹ Activities of Daily Living (ADLs) are six basic daily activities; one's inability to do all or some of those activities defines his/her need for long-term care.

insurance benefits primarily in old age. Long-term care insurance plans entitle policyholders to receive monthly benefits upon the occurrence of an insurance event, in accordance with the insurance amount purchased by the policyholder, for long-term care in the policyholder's home or in a nursing home. Coverage is provided for the period specified in the policy upon the occurrence of the insurance event. Some policies in this segment provide benefits for a limited time, while others provide life-long benefits, based on the option selected by the policyholder when taking out the insurance. The importance of this segment stems mainly from the increase in life expectancy and the relative increase in the number of people requiring long-term care. The Phoenix Insurance does not market individual long-term care policies in view of the guaranteed return in such plans and the complexity of the reinsurance that this segment requires. Regarding changes in the field of group long-term care insurance for HMO members, please see Section 2.3.1.2 above.

23.1.4.3 Dental insurance: under dental insurance, the Company issues policies that provide coverage for dental treatments including, among other things, conservative dentistry, orthodontics, implants, and periodontal dentistry. The policy is paid by way of monthly premiums. Dental insurance coverage is sold only as part of group insurance.

23.1.4.4 Critical illness insurance: insurance that includes a payout upon diagnosis of a critical illness. The insurance guarantees payment of a one-off amount if the policyholder is diagnosed with one of the critical illnesses listed in the policy. Benefits are paid to the policyholder without any requirement to prove expenses incurred for the purpose of treating the illness; this differentiates critical illness policies from health insurance policies in which the policyholder is entitled to indemnity payments based on reimbursement of expenses. The Phoenix Insurance markets critical illness insurance with a compensation component.

23.1.4.5 Sick-leave insurance: this type of insurance provides coverage purchased by employers to ensure that they are indemnified for expenses they incur in respect of sick leave benefits payable to their employees under the Sick Leave Law. The "Healthy Business" policy marketed by The Phoenix Insurance was created such that it will suit most employers in Israel and comply with the requirements arising from the provisions of the law, regulations, expansion ordinances, and collective agreements. The following coverage is included in these insurance policies: illness and workplace accidents and injuries.

23.1.4.6 Insurance for Israelis living abroad: In the reporting year, the Company sold insurance policies in cooperation with David Shield Life Insurance Agency (2000) Ltd. (hereinafter: "**David Shield**"); these policies provide health insurance coverage to Israelis living abroad, either permanently or for extended periods of time, for whom travel

insurance is unsuitable since it is limited in time and provides limited coverage. In April 2020, the shareholders in David Shield founded a new insurance company - David Shield Insurance Company Ltd., which received an insurer license and began marketing these insurance plans directly. As of that date, The Phoenix ceased to sell such insurance plans and, in accordance with an agreement signed between the parties, in January 2021, the existing insurance portfolio was transferred from The Phoenix to David Shield Insurance Company Ltd.

23.1.4.7 Travel insurance: The Phoenix Insurance sells a travel insurance policy - Phoenix Smart Travel Insurance and during part of the reporting year also marketed PassportCard policies - modular travel insurance policies comprising a uniform basic policy and optional riders, which enable to adapt them to the traveler's needs, according to their travel style and existing medical condition;

Following the outbreak of the coronavirus pandemic and as a result of an almost complete halt of flights abroad, there was a decrease in the volume of premiums, a fact which led to a loss in this subsegment. On the other hand, there was a decrease in the number of health insurance claims due to activity restrictions as a result of the outbreak of the pandemic.

During this period, The Phoenix enacted changes, launching a new policy rider named "Coronavirus Shield", which provides for special costs before and after going abroad due to a pandemic; it also adjusted its policy regarding the sale of foreign travel insurance in accordance with the risk assessment conducted for various destinations from time to time.

It should also be noted that as of July 2019, The Phoenix Insurance signed an agreement for cooperation with Air Doctor Ltd., which has developed an app that provides advanced services for policyholders traveling abroad.

The app allows policyholders to contact a physician with the click of a button, according to location. The policyholder can choose how to receive the service, summon the physician for a visit at the hotel, book an appointment at a clinic or schedule a video conference call, including receiving a prescription, all without the need to fill out forms or make a payment. During the reporting period, most of The Phoenix Insurance's out-of-hospital claims for foreign travel policies were made through the app.

Due to the coronavirus pandemic, a new service was added to the app, which allows policyholders to obtain a referral for a coronavirus test from a local physician, and in major cities it is even possible to identify the testing location closest to the policyholder's whereabouts.

23.1.4.8 The policies are sold by The Phoenix Insurance, and the Group's agents. Travel insurance is also sold as a group policy based on the terms and conditions of Smart Group. In accordance with the provisions of Section 2.3.1.4.6 above, in April 2020, David Shield Insurance Company Ltd. also began selling PassportCard foreign travel policies directly and therefore, The Phoenix Insurance ceased to sell PassportCard policies and consolidated its foreign travel activities in The Phoenix SMART Travel Insurance policies.

23.1.4.9 **Personal accident insurance (for periods exceeding one year):** The insurance sold to individuals includes coverage for accidental death or disability due to an accident, with compensation amounts ranging from NIS 50,000 to NIS 500,000, and/or coverage at the insurance amount, which is derived from the insurance amount purchased to cover additional events caused by an accident, such as fractures, burns, hospitalization and long-term care. Moreover, the policy also includes an indemnification component for related expenses in the event of an accident, such as payment for a private nurse, costs of evacuation by ambulance, physiotherapy, etc. An additional plan (rider) can be purchased, which extends the insurance coverage to a weekly compensation amount in respect of accidents; this provides for a weekly compensation if an employee becomes incapacitated due to accident, in accordance with the plan taken out by the policyholder. Personal accident insurance is also sold under group policies. For further details about the regulation in this area which will take effect in May 2021, please see Section 4.1.8.2 below.

2.3.2 Structure of profitability

In the health insurance segment, profits are generated, among other things, by applying a proper and strict underwriting process to policyholders, proper pricing of the various products, while taking into account the costs of inputs of the various health indices, and efficient medical procurement activity. It should be noted that individual insurance has a higher inherent risk due to, among other things, the prolonged coverage period (normally a significant number of years). As to the policies that are marketed as from February 2016 and the mechanism for updating the prices and coverages that characterize them, there is long-term uncertainty as to the Commissioner approving the updating of tariffs and their effect on the product's profitability. Segment results are also affected by interest rates and capital market fluctuations, which have a major effect on investment income, and on long-term insurance reserves, primarily in the long-term care subsegments. In addition, the results of this subsegment have a significant effect on The Phoenix Insurance's solvency ratio. For further details, please see Section 2.1.5 to the Report of the Board of Directors.

2.3.3 New products

On adapting the Company's insurance plans to changing regulations, please see Section 4.1.8 to the Report. In August 2020, The Phoenix Insurance launched a "Healing" 2020" insurance plan for compensation in respect of critical illnesses. In this plan, new illnesses were added to the coverage and changes and improvements were made that expand the scope of the coverage, including: The categories of illnesses were eliminated, such that the new plan includes a list of 47 critical illnesses, of which 42 provide for entitlement to full compensation and 5 - for partial compensation; the cap on the amount of insurance events for which claims may be filed was eliminated - in the past, the plan was limited to 2 insurance events during the period while in the new plan, it is possible to file claims without restriction on the number of events. The restriction canceling the policy after a claim from the first category of diseases has been filed was withdrawn.

2.3.4 Competition

The key competitors in this segment are Harel, Clal, Migdal, and Menora, and the Supplementary Healthcare Services of the health maintenance organizations (SHABAN). In group insurance, which are usually decided upon through a tender process, the large number of participants intensifies competition, which is reflected, among other things, in the erosion of rates.

As shown in the following table, the dominant actor in the health insurance segment is the Harel Group.

As detailed in the following table, The Phoenix Insurance has the second largest market share among Israeli insurance companies. It should be noted that, following The Phoenix Insurance's win of the tender to provide LTC insurance to members of the Maccabi HMO, The Phoenix Insurance began insuring the HMO's members on January 1 2019. On December 31 2019, The Phoenix Insurance ceased to insure the members of the Meuhedet HMO, and the insurance policies of the HMO's members were transferred to another insurance company, as part of a tender procedure.

The health insurance reform that entered into force in February 2016 prescribed a standard policy for surgeries in Israel. Furthermore, the Authority publishes a calculator for comparing prices of health insurance policies offered by the various companies. The standard policy and the calculator intensify the competition in the segment.

Set forth below¹² is information about the market share of the Company and key competitors in the segment, by earned gross premiums (by percentage):

	January- September 2020	2019	2018
Harel	37.4	37.3	37.9
The Phoenix	21.5	24.7	18.1
Clal	9.8	10	17.1
Migdal	12.6	12.2	12
Menora	11.3	8.4	7.1
Yeter	7.4	7.4	7.8
Total	100	100	100

In 2019, there was an increase in The Phoenix Insurance's market share following its win of the Maccabi tender, while in the reporting year, there was a decrease in The Phoenix Insurance's market share due to the transition of the Meuhedet HMO to Menora Insurance Company Ltd.

2.3.5 Customers

Health insurance customers can be divided into three main categories:

- (a) **Individuals:** For these policyholders, insurance plans can be tailored to their needs, both in terms of the insurance coverage and the premium they pay. Illness and hospitalization insurance plans for individual customers are typically whole-life insurance plans. Under individual policies, the policyholder may cancel the policy at any time.
- (b) **Group insurance:** The Phoenix Insurance enters into group insurance policies with entities, workers' unions, and major Israeli corporations, under which it provides employees of these companies and their families with health and dental insurance. The term of illness and hospitalization insurance plans for customers in group insurance is fixed, mostly up to 5 years. Entities that enter into group insurance plans normally use the services of expert external insurance consultants, and their insurance policies are more diversified, in accordance with the customer's specific requirements. Additionally, group insurance rates are lower (at the policyholder level) due to volume discounts, due to the fact that the policy period is fixed, as well as since agreements often include a price adjustment mechanism. Under group insurance plans, all policyholders are normally not tested for pre-existing medical conditions and are exempt from a qualifying period.
- (c) **Members of HMOs:** The Phoenix Insurance provides group long-term care insurance services to the members of Maccabi Healthcare Services (hereinafter: "**Maccabi**"), including

¹² The figures in this table are based on a sectors report from the Commissioner's website.

operational services for long-term care policyholders of Maccabi Magen - Mutual Medical Insurance Association Ltd.

According to the agreement with Maccabi, The Phoenix Insurance manages and settles claims by policyholders, including adding new policyholders to the policy. Furthermore, The Phoenix Insurance holds in trust the funds accrued for the policyholders in a policyholders' fund to be managed in accordance with the terms and conditions of the tender (hereinafter: the "**Policyholders Fund**"). The term of the agreement is five years from January 1 2019 until December 31 2023 (hereinafter: the "**Agreement Period**"); Maccabi and The Phoenix Insurance are entitled to extend the Agreement Period by additional periods (up to three years in total).

The number of Maccabi members covered by long-term care insurance through Maccabi is approximately 1.4 million. The total annual premium amount for the reporting period is approximately NIS 890 million. The Phoenix Insurance pays 20% of the total insurance benefits, and the Policyholders Fund pays 80% of the total insurance benefits. Accordingly, the premium that The Phoenix Insurance is entitled to is for 20% of the insurance risk and for operating the insurance plan. Furthermore, The Phoenix Insurance entered into proportional reinsurance agreements with several reinsurers to hedge and diversify the risk it is exposed to.

Set forth below is a breakdown of premiums from customers (gross) in 2019 - 1-9.2020 (by percentage)

	1-9.2020	2019
Private customers:		
Health	37	41
LTC	9	8
Total private customers	46	49
Group customers:		
Health	22	18
LTC	0	0
Total group customers:	22	18
HMO members	32	33
Total	100	100

The increase in the premium rates paid by members of the HMOs is mainly due to The Phoenix Insurance's winning the Maccabi tender, as stated above. In 2020, revenues from the Maccabi HMO were over 10% of revenues from health insurance premiums.

The rate of policy cancellation for private long-term insurance policies in the health segment, in terms of premiums,¹³ was 11.2%, 10.3% and 10.3% in 2020, 2019 and 2018, respectively. In the long-term care segment - the rate is 4.7%.

The information presented above in this chapter includes forward-looking information, as defined in the Securities Law, 1968. This information contains, inter alia, forecasts, targets, assessments and estimates relating to future events or matters, including reference to various risk factors and developments as described in the report, the materialization of which is uncertain and may be impacted by various factors which are not under the Company's control. Forward-looking information is not a proven fact and is based, in part, on the Company's estimates, which are based on various, diverse data and entities that have not been verified or confirmed by the Company. It is hereby clarified that actual results may differ from that which is described herein. Forward-looking information refers exclusively to the date on which the report was written, and the Company is under no obligation to revise and/or change any information pertaining to forward-looking information as presented here, insofar as it becomes aware of any additional information in connection with such information.

2.4 Financial Services

2.4.1 General information about the segment

2411 Segment structure and changes therein

The Phoenix Group operates in the financial services segment, inter alia, through Excellence. As of the report date, The Phoenix Investments wholly owns Excellence Investments Ltd. (hereinafter: **Excellence Investments**). Excellence Investments operates through companies under its control (hereinafter, for the sake of convenience, to be called "**Excellence**") in a variety of activities in the capital market sector: investment marketing and management for customers; management and operation of mutual funds; underwriting and investment banking; trading services on the TASE and related services; trust services (in the framework of options and management of employee compensation plans as well as mergers and acquisitions); alternative products as well as sale of related products.

Significant external changes that affect this area of activity are the scope and nature of activity in the capital market as well as regulatory changes (please see section 2.4.1.5 below). For a chart of Excellence's holdings, please see Section 1.2 above.

¹³ Private insurance policies only. Excluding critical illness insurance, LTC insurance and foreign travel insurance.

24.1.2 **Restructuring in the Excellence Group**

In December 2019, Excellence Group decided to restructure the Group, including merging several companies and operations, levelling the ownership structure (such that it involves mainly direct holdings of the various subsidiaries by Excellence Investments) and liquidating various inactive companies. The objectives of the restructuring are, among others things, simplification of the ownership structure, cost savings, creating a business synergy between the merged companies and as a result, also obtaining a competitive advantage over competitors, reducing the risks arising from splitting holdings in companies and from holding companies that are no longer active.

In the first half of 2021, Excellence is expected to complete the merger process of several companies into Excellence Investment Management and Securities Ltd. (hereinafter: the **"TASE Member"**), including Excellence Nessuah Asset Management Ltd. (hereinafter: the **"Portfolio Management Company"**). Accordingly, following the merger procedure, the TASE Member will be held directly by Excellence Investments.

24.1.3 **Acquisition of Alumot Group companies**

In February 2020, Excellence completed the acquisition of Alumot Portfolio Management Ltd. (hereinafter: **"Alumot Portfolio Management"**) and Alumot Mutual Fund Management Ltd. (hereinafter: **"Alumot Funds"**). In May 2020, the companies acquired as mentioned above were merged into the Portfolio Management Company and into KSM Mutual Funds, respectively. For additional details on the acquisition of Alumot, please see Section 3.a.i(a) and Section 2.4.12 below.

24.1.4 **Acquisition of Halman Aldubi Group companies**

In February 2021, the merger transaction - under which the Company acquired Halman-Aldubi Investment House Ltd. (hereinafter - **"Halman-Aldubi"**), by way of a reverse triple merger transaction - was completed. In March 2021, after the completion of the merger as aforesaid, Halman-Aldubi and the TASE member are expected to sign an agreement whereby the TASE member will acquire the entire issued share capital of Halman Aldubi Investment Portfolio Management (2007) Ltd. (hereinafter - **"HA Portfolio Management"**) - a wholly owned company of HA Investments.

24.1.5 **Restrictions, legislation, standards and specific constraints**

Excellence's operations in various areas of the capital market are subject to substantial regulation. The following is a list of key provisions that apply to Excellence's operations.

24.1.5.1 **Regulation of mutual funds**

Mutual funds management is regulated under the provisions of the Joint Investments in Trust Law and regulations promulgated thereunder, and the ETFs activity is also regulated under the Tel Aviv Stock Exchange regulations and guidelines, including with regard to listing ETFs. This subsegment is regulated by the Israel Securities Authority. The law and regulations include, among other things: provisions about the approvals required to set up a mutual fund; holdings through means of control of the fund manager; terms and conditions for the qualifications of employees and/or people who take part making decisions concerning the management of a fund's investment portfolio; requirements pertaining to the composition of the board of directors of the fund manager; qualification of its members; appointment of board of directors' committees; obligation to publish a prospectus; obligation to publish the fund's annual report; duties of the fund's manager and trustee; allowed transactions, types of assets and maximum rates of such assets that the fund's manager is allowed to hold; material transactions or transactions that involve a conflict of interest and approval thereof; actions which the fund's manager, trustee and related parties thereof may not carry out; definition of actions that constitute breaches that carry monetary sanctions (administrative enforcement); civil or criminal offenses and related sanctions; minimum equity; obligation to have insurance coverage; and other various restrictions in respect of changes in the fund's investment policy.

The law also regulates the fund manager's disclosure and reporting requirements, including monthly reports to the Israel Securities Authority about each fund's assets, liabilities, payments made out of its assets, and additional details, as well as reports issued on an ongoing basis.

In addition, as part of Amendment 28 to the Joint Investments in Trust Law 1994, as from October 2018, all ETNs managed by Excellence were converted into ETFs and transferred to the management of KSM Mutual Funds.

24.1.5.2 **Regulations in the underwriting subsegment:**

The underwriting and issuance subsegment is regulated under the Securities Law and the regulations promulgated thereunder, and specifically under the Securities Regulations (Underwriting), 2007 (hereinafter: the "**Underwriting Regulations**"). The Underwriting Regulations regulate, among other things, the requirements for eligibility to operate in the underwriting subsegment, including: requirements to have insurance coverage; composition of an underwriter's board of directors and qualifications required of board members and other officers of an

underwriter; deposit requirements; rules concerning record keeping and documentation; and reporting requirements. Under the Securities Law, the underwriter, as the party signing off a prospectus, is liable towards the buyers of securities sold under the said prospectus and towards sellers and buyers of securities as part of on-floor or off-floor trading, for damages incurred due to misleading information included in the prospectus. Such liability does not apply to anyone who can prove that he/she acted in good faith and took all adequate precautions to ensure that the prospectus shall not contain misleading information.

The Israel Securities Authority regulates the entities operating in this subsegment and enforces the provisions of the law. At the same time, the Group's activities in the underwriting subsegment are affected by the provisions of the laws that apply to issuers and investors, in particular institutional investors.

In August 2020, the Israel Securities Authority's Staff Position "Distribution as Underwriting" (hereinafter - the "**Staff Position**") was published, whereby the Israel Securities Authority's staff is of the opinion that it is presumed that a distributor or a related party thereof, which purchases securities in an issuance in which it serves as a distributor and sells the securities within no more than 6 months from issuance date, is considered as if it has undertaken in the first place to purchase the securities in order to sell them thereafter, and as such - serves as an underwriter in the issuance. The Israel Securities Authority excluded from this presumption the activities of "managers of others' funds"; however, the nostro investment activities of an affiliated entity or the activities of portfolio managers were not included in this exclusion; this may lead to Excellence Nessuah Underwriting (1993) Ltd. being subject to rules and liability applicable to underwriters, despite the fact that at the time services were provided to the customer and at the time of the issuance, it acted solely as a distributor. In this context, the Company and corporations under its control filed a pre-ruling application with the Israel Securities Authority, requesting the ISA's confirmation to the effect that the abovementioned presumption does not apply to the acquisition of securities as part of The Phoenix Insurance's nostro activity or as part of Excellence Nessuah Asset Management's portfolio management activity, in issuances where Excellence Nessuah Underwriting serves as a distributor, to the extent that these related parties purchase securities under the circumstances and in the manner described in the pre-ruling application. The pre-ruling application is being considered by the Israel Securities Authority, and the Company awaits the ruling (in writing) or alternatively - a revision of the staff position accordingly.

24.1.53 Regulation in the investment marketing and portfolio management subsegment:

Investment portfolio management and investment marketing are regulated by the provisions of the Advice Law, its regulations, directives, as well as circulars of the Israel Securities Authority. According to the Advice Law, a corporation engaged in the management of investment portfolios, and those it employs as investment portfolio managers, must hold a portfolio management license from the Israel Securities Authority. The Advice Law and the regulations promulgated thereunder also apply to the relationships between the license holder and its customers, and imposes various duties as to the nature of the engagement, the dealings between the license holders and customers, the provision of services to customers, as well as minimum capital and insurance coverage requirements.

In addition, the activities of the "Portfolio Management Company are subject to the Prohibition on Money Laundering Law and the Prohibition on Money Laundering Ordinance (Identification, Reporting and Record-Keeping Obligations of Portfolio Managers to Prevent Money Laundering and Financing of Terrorism), 2010, which imposes various obligations in connection with identifying customers and reporting their actions.

In January 2020, the Israel Securities Authority issued a directive to portfolio managers, mutual fund managers and mutual fund trustees titled "Portfolio Management Service 2.0". The purpose of the directive is to enable portfolio management companies to provide investment marketing services through the management of four dedicated funds that will be outsourced, with the service being provided by the portfolio management company through digital means only. In December 2020, the Israel Securities Authority issued an amended version of the draft for public comment in order to receive the public's comments thereon; according to the amended version, portfolio managers will be allowed to provide portfolio management services 2.0 using traditional methods without being required to implement significant technological developments, through a managed account.

24.1.54 Regulation of TASE services:

Following are the main statutes that govern the operations of the TASE Member:

- a. **TASE Rules and Regulations:** The TASE Member is subject to the provisions of the TASE Rules and Regulations and the guidelines set thereunder, which relate, among other things, to: terms of qualifications for TASE membership; TASE members' obligations vis-a-vis the TASE, its

members, and their customers; permitted areas of activity; requirements for appointing various control functions; provisions regarding monitoring and control over compliance with the TASE Rules and Regulations; various provisions for IT management, etc.

- b. **TASE clearing house bylaws:** In addition to its membership in the TASE, the TASE Member is part of the TASE clearing house and thus subject to the clearing house's bylaws. Furthermore, since some of its customers trade options and derivatives on the MAOF clearing house, and since the TASE Member is not a member of the MAOF clearing house, the Member operates in this clearing house through a supporting member, and as such is subject to the MAOF clearing house bylaws applicable to TASE members who are not members of the clearing house.
- c. **The Advice law and the regulations promulgated thereunder:** Since the TASE Member holds an investment marketing license, it is subject to the provisions of the Advice Law, regulations promulgated thereunder, guidelines and circulars of the Israel Securities Authority.
- d. **The Prohibition on Money Laundering Law and ordinances promulgated thereunder:** The TASE Member is subject to the provisions of the Prohibition on Money Laundering Law and the Prohibition on Money Laundering Ordinance (Identification, Reporting and Record-Keeping Obligations of Portfolio Managers to Prevent Money Laundering and Financing of Terrorism), 2010. These provisions stipulate, among other things, the duties of to identify the account holder and duties concerning control and reporting in relation to customers of the TASE Member.

24.1.55 **Privatization of the TASE:**

Following the recommendations of the Committee for Increasing Trading Competition and Liquidity on the Stock Exchange (hereinafter: the "**Committee for Increasing Liquidity**"), the ownership structure was changed by allocating shares to TASE members based on an economic model that had been formulated.

As of the report date, following the sale of part of the holding in the TASE shares to third parties, Excellence Investments holds approximately 2.9% of the TASE's shares.

24.1.56 **Amendment to the Securities Law (Amendment No. 63, 2017):**

Amendment No. 63 enacted Section 49A (a), which prohibits the offering of securities trading services in foreign stock exchanges through a securities trading

system that is not managed by a stock exchange licensed in Israel. Section 49A(b) also stipulates that the Chairman of the Israel Securities Authority may authorize such offering. In December 2018, the Israel Securities Authority published the terms and conditions for obtaining such a permit. In June 2019, the TASE Member submitted an application for a permit from the Israel Securities Authority. In March 2020, a permit was obtained as requested.

24.1.5.7 Draft Memorandum of the Securities Law (Regulating Broker-Dealer Activity), 2020:

In November 2020, the said memorandum of law was published with the aim of applying regulatory duties to entities providing broker-dealer services, and which until that date have not been subject to such regulation. The memorandum of law also seeks to apply further duties to non-bank TASE members - including the TASE Member - in addition to their duties as per the provisions of the TASE Rules and Regulations with regard to responsibility vis-a-vis customers as well as fiduciary duty and duty of care. Furthermore, the memorandum of law applies double regulation to the TASE Member, both under the Securities Law and under the TASE Rules and Regulations, but it does not regulate the activity of banking corporations. As of the report publication date, the memorandum of law has yet to be approved.

24.1.5.8 Proper Conduct of Banking Business:

In July 2020, Proper Conduct of Banking Business Directive No. 432, "Transferring Activity and Closing a Customer's Account" was revised. The directive allows customers to submit online an application to transfer a securities portfolio without having to go to the branch. The objective of the directive is, among other things, to increase competition in the brokerage market.

24.1.6 Changes in the scope of operations and profitability of the subsegment

- 24.1.6.1 On December 31 2020, assets under management by the Excellence Group totaled approximately NIS 54.6 billion, compared to NIS 51.5 billion as of December 31 2019. The increase in assets under management stemmed from the increase in assets in the mutual funds; this increase is mainly attributed to price increases in markets and from capital raising in the various funds. For further details, please see Section 5.8 to the Report of the Board of Directors.

24.1.62 **Market trends in the reporting year and their effect on Excellence's areas of activity:**

a. **Mutual funds**

The scope of activity in this industry is derived from the situation in the capital market, the range of instruments issued, the number of issues and total amount of investments therein, and from changes in the public's preferences as to investments specializing in foreign markets, commodities and financial derivatives.

2020

Since the beginning of 2020, the world has been experiencing an event which has had macroeconomic ramifications, and which originated in the spread of the coronavirus (COVID-19) (hereinafter - the "**Coronavirus Outbreak**"). The Coronavirus Outbreak sent waves of shock through global financial markets, which slumped and became highly volatile, launching the world into a period of uncertainty. The Israeli government, like other governments worldwide, took various measures to prevent the spread of the virus, including travel restrictions during certain periods, restrictions on the opening of businesses and the number of employees present in their premises and other restrictions.

The slump in capital markets had an adverse effect on the value of assets under management by the mutual funds. Furthermore, at the beginning of the crisis, mutual funds experienced large-scale redemptions; however, since the beginning of the second quarter of 2020, mutual funds saw inflows. The fund's manager takes action to maintain its activity, including by working remotely and in accordance with the guidance of the competent authorities.

During the reporting period, assets under management by the mutual funds sector decreased by approximately NIS 20.9 billion; on the other hand - assets under management by mutual funds in KSM Mutual Funds increased by approximately NIS 3.3 billion as a result of inflows, appreciation and the acquisition of Alumot's mutual funds, which had NIS 2.4 billion in assets under management. Furthermore, total assets under management by the traditional mutual funds sector decreased by approximately NIS 21.5 million, and on the other hand - assets under management by traditional mutual funds in KSM Mutual Funds increased by approximately NIS 2.6 billion (of which approximately NIS 2.4 billion - as a result of the acquisition of Alumot, as mentioned above).

In open-ended tracker funds, total assets under management in the sector increased by approximately NIS 10.1 billion, and in KSM Mutual Funds - assets under management were up by approximately NIS 2.4 billion in the reporting period. In the ETFs sector, total assets under management by the sector decreased in the reporting period by approximately NIS 2.7 billion, while in KSM Mutual Funds - assets under management decreased by approximately NIS 1.4 billion.

As of the report date, Excellence manages, through the Fund Manager, 349 funds in most of the existing investment channels:

99 funds under management (of which 22 funds are hosted by external entities), 172 ETFs and 78 open-ended tracker funds.

Set forth below are data about total assets under management by the mutual funds sector in Israel and in KSM Mutual Funds (in NIS billions):

	December 31 2020		December 31 2019		December 31 2018	
	Total sector	KSM Mutual Funds	Total sector	KSM Mutual Funds	Total sector	KSM Mutual Funds
Traditional funds	166	10.1	188	7.6	170	6.6
Open-ended tracker funds	51	9.3	41	7	26	4.2
ETFs	91	25.9	93	27.3	86	23.8
Money market funds	23	1	29	1.1	23	1.2
Total	331	46.3	351	43	305	35.8

b. **Underwriting and investment banking**

As in the case of leading stock exchanges worldwide, during 2020 trading on the Tel Aviv Stock Exchange was characterized by high volatility due to the coronavirus pandemic, which plunged all markets into a deep economic crisis. At the beginning of the year, trading opened with price hikes, which continued the previous year's trend, and leading Tel Aviv Stock Exchange share indexes reached record levels in February 2020. As the coronavirus spread worldwide, the price hikes quickly turned into sharp declines in capital markets, which hit record lows in March 2020, when many countries - including Israel - imposed lockdowns in an attempt to contain the spread of the virus. The decrease in scope of business activity and the lockdowns resulted in an economic crisis in Israel and around the world, which triggered a spike in unemployment and in government deficit, a sharp decline in GDP, and an increase in uncertainty in the markets. On the other hand, various measures, including economic aid programs introduced by governments and central banks in Israel and around the world, as well as the development of the coronavirus vaccine to halt morbidity from the virus, have had a positive effect on markets, which rallied but still suffered from volatility. In November there was a surge in share indexes around the world, including on the Tel Aviv Stock Exchange, as a result of pharmaceutical companies' announcing significant progress in the development of a coronavirus vaccine. In December, capital markets continued their rebound, albeit at a slower pace. Alongside the rebound in the capital market, there was a significant increase in the number of IPOs in the equity market, and 27 new companies (and partnerships) were listed on the Tel Aviv Stock Exchange during 2020.

During 2020, approximately NIS 16.1 billion were raised on the Tel Aviv Stock Exchange as part of share issues and private offerings of shares; approximately NIS 4.4 billion of that amount was raised as part of 27 IPOs (compared with approximately NIS 3.2 billion in 7 IPOs in 2019). Furthermore, the trend of using non-uniform offerings to institutional investors continued. It should also be noted that in 2020,

four R&D partnerships were listed on the Tel Aviv Stock Exchange - the first such partnerships listed since the publication of the guidance allowing the listing of an R&D partnership in May 2019. Furthermore, 18 of the IPOs in 2020 were carried out by high-tech companies - operating in sectors to the growth of which the coronavirus crisis contributed.

As a rule, as in the case of the equity market and the global trend, bond trading was also highly volatile during the year; bond trading was also affected by the Bank of Israel's acquisitions of government and corporate bonds.

The amount raised through issuance of corporate bonds (in the stock exchange, excluding issues abroad, TASE UP and structured bonds) decreased in 2020 to approximately NIS 49 billion compared with approximately NIS 69 billion in 2019 - a decrease that is almost entirely attributed to companies operating in the financial sector. On the other hand, issuance of bonds by non-financial companies remained stable and totaled approximately NIS 38 billion - only slightly less than last year, due to the need to recycle marketable bonds while taking advantage of low interest rates.

For further details regarding Excellence Nessuah Underwriting in public offerings carried out in 2020, please see Section 2.4.2.2 below.

c. **Investment marketing and investment management for customers**

On December 31, 2020, 2019 and 2018, total assets under management in investment portfolios, including financial assets issued by Excellence and acquired into the managed portfolios) was approximately NIS 9.5 billion, NIS 9.4 billion and NIS 9.8 billion, respectively.

Total assets under management in Excellence's investment portfolios did not change significantly compared to last year.

d. **Stock exchange and trading services**

During the reporting year, trading volumes on the TASE increased by approximately 42% compared with 2019. The increase stemmed from higher equity trading volumes and bonds trading volumes.

The trading volumes of the TASE Member increased by approximately 22% compared with last year; the increase stemmed mainly from an increase in the TASE member's equity trading volumes.

The profits generated by the TASE Member is exposed to changes in the Bank of Israel's interest rate and in the Federal Reserve's interest rate. Such a decrease shall have an adverse effect on the TASE member's spreads, both in terms of deposits and credit. During the reporting year, the Fed's interest rate decreased significantly; this had an adverse effect on the spreads of the TASE member's deposits and on the Company's profitability.

24.1.7 **Critical success factors**

The critical success factors in this operating segment are: securing high returns on investments for customers compared with competitors in the same investment channels; a professional and high-skilled workforce; a savvy marketing function; a high-level digital infrastructure; a high level of service to customers; rapid response to market events and developments; familiarity and relationships with financial institutions abroad; expanding the product offering while adapting it to market needs; innovation; adapting the nature of operations to regulatory changes; positioning Excellence as a leading investment house; ongoing, close work relationships with institutional investors and customers; reliable, advanced IT systems and software.

24.1.8 **Main entry and exit barriers**

24.1.8.1 The principal entry barriers for this operating segment are: the relevant legislation, including restrictions and conditions for obtaining the permits and licenses required to engage in the activity; the need to meet equity requirements or provide other collateral based on the provisions of the relevant laws, such as insurance coverage; finding professional and skilled employees; relationships with financial institutions overseas; obtaining approvals from the authorities to issue products to the public (TASE and the Israel Securities Authority).

24.1.8.2 Changes in the terms and conditions of eligibility for membership on the TASE and procedures for acceptance of new members - in order to allow new members to join the TASE, so as to increase competition in the market; in January 2021, the TASE published a draft amendment of its Rules and Regulations; the draft was released for public comment; the suggested change in the eligibility terms and conditions will be such that insurance companies and credit card companies will also be able to become TASE members. As of the report publication date, the draft has yet to be approved.

24.1.8.3 Changes in areas of activity TASE members may engage in - In January 2021, the TASE published a draft amendment to its Rules and Regulations; the draft was released for public comment; it proposes to expand the areas of activity TASE members may engage in, such that members will be able grant credit to their

customers for purposes other than funding activities involving financial assets. As of the report publication date, the draft has yet to be approved.

24.1.84 The main exit barriers from this area of activity are the sale of activities that in some case require obtaining licenses, control permits and other approvals. Furthermore, in some of the activities, the relevant company has long-term agreements for the provision of services in that operating segment (including commitments under various tenders), and exiting the area of activity requires termination of such agreements.

24.1.9 **Alternatives for products in the segment and changes therein**

Alternatives to investment management (portfolio and mutual funds) are savings channels which do not require ongoing investment management (for example, bank deposits), self-management of investments in securities, direct management through bank advisory services or any other type of investment advisory services, and purchase of ETFs. Furthermore, long-term savings products offered by insurance companies and provident funds' management companies (for example, investment provident funds, savings policies, etc.) also serve as an alternative. Alternatives for ETFs and tracker funds are equity mutual funds that strive to outperform the indices, and foreign index funds traded on foreign exchanges, whose activity is similar to that of ETFs traded on the TASE. Alternatives for underwriting operations include capital raising on foreign stock exchanges and loans from banks or non-bank entities.

24.1.10 **Structure of competition in the area of activity and changes therein**

The segments in which Excellence operates in the capital market are characterized by numerous competitors and fierce competition from investment houses, banks and other entities operating in the capital market. In recent years, competition has increased due to the emergence of new actors in the market, following expansion of activities in the capital market, as well as due to Amendment No. 28, which enabled issuers of tracker funds to convert them into ETFs. For further details about competition in this area of activity, please see Section 2.4.6 below.

In 2021, Excellence's website is expected to launch a digital platform for onboarding new customers and management of portfolio management customers, with customers given the option to manage their investments by opening accounts with the TASE Member or through their accounts with banking corporations.

2.4.2 Products and services

The following are the key subsegments comprising the Company's financial services segment:

2421 **Investment marketing and investment management for customers**

In this subsegment, Excellence provides marketing and investment management services in Israel and abroad; management of mutual funds; and management of a real estate investment trust (REIT) which focuses on income-generating real estate.

Investment portfolio marketing and management:

Excellence, through its portfolio management company, provides investment marketing services and manages investment portfolios for private customers, corporations and institutional entities from various economic sectors through a range of investment channels. The portfolio management company holds an investment portfolio marketing and management license under the Advice Law. Investments are made by a highly-qualified and experienced team comprised of qualified investment managers, licensed to manage investment portfolios. Portfolio management is carried out through most Israeli banks and non-bank TASE members. For further details about total assets under management by the portfolio management company, please see Section 2.4.4 below.

Transactions in customer accounts managed with banks and/or with TASE members are carried out by Excellence under powers of appointment authorizing the execution of transactions in the customers' accounts. The investment policy is determined in coordination with the customers according to their definitions and needs, and is set forth in a written agreement. In addition, the portfolio management company has agreements with the banks with whom customers' accounts are managed; according to these agreements the portfolio management company undertakes, among other things, to act solely on behalf of its customers based on the power of appointment granted to them.

Income from portfolio management operations stems from management fees collected from customers that receive investment marketing and management services.

Management of mutual funds and ETFs:

Mutual fund management operations are regulated by the Joint Investments in Trust Law and the regulations promulgated thereunder, and in the case of ETFs - the operations are also regulated by the TASE Rules and Regulations. Mutual funds are established under an agreement between the fund manager and a trustee, which specifies the fund's investment policy, the maximum fees which the fund manager and trustee may charge, etc. The sale of mutual fund units is made in accordance with a prospectus in which fund units are offered to the public. Publication of such a prospectus requires a permit from the Israel Securities Authority, and the subscription period for the units offered under the prospectus is limited

to one year from the date of issuing the prospectus. This period is renewed for one further year by the fund manager's publication of a prospectus once a year. Furthermore, ETFs are traded on the TASE and can be purchased and sold during trading on the TAXE. The Securities Regulations set disclosure requirements regarding the prospectus, and impose liability on the parties signing the prospectus under the Joint Investments in Trust Law and the Securities Law. Most revenues stem from management fees charged by each fund; a small portion of revenues stems from the load charge collected by the fund manager upon the purchase of units in the fund. In ETFs, the fund manager is also entitled to set variable management fees that may be positive or negative depending on the performance of the fund versus the asset which the fund tracks in accordance with the provisions of the Joint Investments in Trust Law and the regulations promulgated thereunder.

For further details about the number of funds managed by KSM and total assets under management, please see Section 2.4.1.6.2 above.

Agreement for the acquisition of Alumut Funds:

For further details on the acquisition of Alumot Funds, please see Section 2.4.12 below.

Contracting with external investment managers in investment management agreements and consulting agreements, for the mutual funds:

As of the report date, Azimuthline Capital Markets Ltd. - holder of a portfolio management license (hereinafter: the "**External Investment Manager**") - renders investment management services to mutual funds managed by KSM Mutual Funds; the services are provided by employees of the External Investment Manager. This is in addition to agreements signed in 2017 between KSM Mutual Funds and the ION hedge fund, according to which ION will act as an advisor to the fund manager for the fund it manages; additional agreements were signed between KSM Mutual Funds and Alliance Bernstein (Luxembourg) S.a.r.l., a New York-based foreign mutual funds management company (hereinafter - "**AB**"), whereunder KSM Mutual Funds will serve as the representative and marketer of AB's funds in Israel in the private customers segment, and will also offer units of Class A foreign funds managed by AB to the Israeli public. AB shall also serve as an investment advisor to funds under the foreign shares category of KSM Mutual Funds.

In October 2020, KSM Mutual Funds and The Phoenix Investments entered into an advisory services agreement, whereunder the company shall provide external advisory services to funds managed by KSM Mutual Funds.

Index tracking services provided by KSM to Group companies:

KSM provides index tracking services for the index-tracking pension savings plans launched by The Phoenix Insurance Group and by Phoenix Excellence. As of the report date, eight

investment baskets are being managed, with total assets under management of NIS 12.8 billion.

REIT fund management:

REIT 1 Ltd. (hereinafter: "**REIT**") is an investment fund investing in real estate; REIT is traded on the TASE. In April 2006, REIT entered into an agreement with REIT 1 Management Services Ltd. (hereinafter: "**REIT Management**"), approximately 52.5% of the issued share capital of which is held by Excellence; under the agreement, REIT Management will provide REIT with advisory services in respect of the company's management.

In May 2020, an agreement was signed under which Excellence sold 5% of REIT Management's issued shares, such that subsequent to the sale, Excellence holds approximately 47.5% of REIT Management's issued share capital. The other shareholders in REIT Management have the option to purchase Excellence's stake in REIT Management's shares. The option is exercisable in September 2025.

24.22 **Underwriting and investment banking**

Excellence, through Excellence Nessuah Underwriting (1993) Ltd. (hereinafter: "**Excellence Nessuah Underwriting**"), provides underwriting, management, consultancy and distribution services for public and private offerings in Israel, including distribution and management of marketable securities. It also renders services in securities transactions (including offers of sale) and securities distribution, brokerage and advisory services in securities transactions, financing, and investment banking.

Excellence Nessuah Underwriting also participates, among other things, in the administration of IPOs and serves as manager of the consortium of underwriters or distributors and/or as an underwriter or distributor, as the case may be.

In underwritten IPOs, the underwriters undertake to purchase the securities that are not subscribed for by the public, thus ensuring that the issuing company raises the amount of money planned. Since by law the underwriter that signs the prospectus is responsible for the details included therein, the issue includes due diligence procedures about the issuing companies.

As part of Excellence Nessuah Underwriting's activity as a distributor (in offerings that are not underwritten), and as part of its administration of private offerings, Excellence Nessuah Underwriting does not sign the offering's prospectus. It is noted that private offerings do not include an offer to the public, and are therefore exempt from the duty to publish a prospectus. In most cases, the offering of securities is carried out in accordance with shelf prospectuses. In public offerings carried out through shelf prospectuses, the underwriter serves mainly as a distributor and the fee paid to it depends on the scope of the offering and usually is low; the

fee will also vary depending on the type of the issue (as a rule, fees from issuance of shares are higher than fees from issuance of bonds). Accordingly, most of the Group's activities are distribution activities.

Issuers (whether they are reporting corporations or not) also have the option to enter into private transactions. In the case of private transactions, the underwriter mainly provides the marketing services. To date, the majority of the issues of securities are carried out in the form of offerings of securities to the public (rather than through private offerings). However, in recent years, there was an increase in the proportionate share of private transactions out of all capital raising in the sector.

Most of the revenues in this subsegment stem from underwriting, distribution, and management fees paid to underwriters or distributors, as the case may be, by the companies raising capital.

Furthermore, from time to time, the Group generates revenues from fees and commissions in the investment banking subsegment, primarily from brokerage in private loan transactions and private offerings of securities. The fees and commissions amounts is usually derived from the transaction amount.

During the reporting period, most capital raised by Excellence Nessuah Underwriting was through debt, with a smaller portion raised through shares.

2423In 2020, Excellence Nessuah Underwriting participated as a distributor in 43 public offerings, compared with 42 in 2019, and 49 in 2018; in the said periods, Excellence Nessuah Underwriting did not serve as an underwriter in public offerings (but rather as a distributor). Furthermore, Excellence Nessuah Underwriting participated in the management and distribution of several private offerings. Despite the similar number of offerings in which Excellence Nessuah Underwriting participated in 2020 compared with 2019, the Group's revenues from underwriting and investment banking declined in 2020 compared with 2019, mainly since the total amount raised in the offerings in which Excellence Nessuah Underwriting participated in 2020 was lower than that raised in offerings in which it participated in 2019 (considering that the fees and commissions are derived from the value of the transaction); the difference in revenues was also affected by a change in the offerings mix and a decline in revenues from management of marketable securities due to sizable redemptions of such securities during 2020. **Stock exchange and trading services**

Excellence provides its customers, through the TASE Member, brokerage services in all trading channels including foreign and Israeli shares, bonds in Israel, bonds abroad (through Excellence Nessuah Financial Products Ltd.), derivatives, foreign securities, coordination of

issues, coordination of tender offers, and distribution of securities for interested parties in companies.

Securities trading activities are carried out through accounts with the TASE Member in the name of its customers.

It is noted that trading of foreign bonds is not carried out through the TASE but rather on the OTC market.

Furthermore, the TASE Member renders analysis services in markets in Israel and abroad.

The TASE Member also provides market-making services involving securities traded on the TASE, in cooperation with Bina Investments Ltd. As of the report date, the TASE Member is the market maker of 93 securities.

In addition, the TASE Member extends its customers credit for securities activities.

During the past year, in view of the coronavirus crisis and a global trend of increased involvement of private individuals in securities trading, the number of the TASE member's private customers increased. The TASE Member invested significant marketing and sales resources, and increased its manpower in order to support its increased activity in this area.

During the past year, the amount of credit extended to customers increased from approximately NIS 307 million in 2019 to approximately NIS 403 million in the reporting period.

The TASE Member provides its customers with deposit services (both deposits denominated in shekels and in foreign currency). All customers' funds are deposited by the TASE Member in trust with banking corporations according to the policy set by the TASE Member at its sole discretion, for variable periods, which are not necessarily identical to the depositing periods for which customers deposited their funds with the TASE Member. The TASE Member's profits in this area stem from the difference between the interest rate the TASE Member receives from banking corporations for various periods, and the interest rate it credits its customers with.

As part of executing the activities described above, the TASE Member provides clearing and operating services in respect of securities and funds, in accordance with and subject to the provisions of the TASE Rules and Regulations applicable to non-bank TASE members.

As of the report date, trading in stocks and bonds through non-bank TASE members represents a small portion of the trading turnover of this activity in the TASE.

In February 2019, an administrative enforcement procedure was instigated against the TASE Member, as part of which it was claimed that during 2011-2014, the TASE member carried out numerous pre-arranged orders without marking them as required under the TASE Rules

and Regulations. In December 2020, the enforcement panel issued its decision which approved an administrative settlement, as part of which the TASE member paid a monetary sanction, the amount of which was immaterial. Once the payment was made, the procedure was concluded.

In October 2020, the Israel Securities Authority announced to the TASE Member that a request for the imposition of a monetary sanction had been submitted to the Committee for the Implementation of Monetary Sanctions for Violation of Provisions under Section 7 to the Prohibition on Money Laundering and Financing of Terrorism Law, 2000, and Sections 2(a), 2(c), 3(b), 3(c), 5, 11 and 18 to the Anti-Money Laundering Ordinance (Identification, Reporting and Keeping Records Requirements by Stock Exchange Members for the Purpose of Preventing Money Laundering and Financing of Terrorism, 2010. This request was based on an audit carried out by the Israel Tax Authority in November 2018 through May 2019. The TASE Member submitted its response to the request through its representatives. The request does not specify the amount of the requested monetary sanction, and a hearing was set for the end of April 2021.

2424 **Alternative products**

Excellence - through Excellence Alternative Assets Ltd. (hereinafter - "**Excellence Alternative Assets**") - gives its customers the option to invest in alternative products, including investment funds, by setting up special-purpose limited partnerships (hereinafter - "**feeders**"). Generally, the target audience for investment in feeders are qualified customers. In 2020 Excellence Alternative Assets established 2 feeders, which raised in total approximately USD 83 million.

2425 **ESOP Trust Services**

ESOP is engaged in the provision of trust services to its customers, mainly in the following fields:

Trustee services to employee remuneration plans governed by the provisions of Section 102 to the Income Tax Ordinance [New Version], 1961 (hereinafter: the "**Income Tax Ordinance**"). Trustee services (including tax withholding agent services) as part of M&A transactions.

Source code escrow - as part of which the source code of various software is deposited with ESOP. In consideration for the trust services, ESOP is entitled to trustee's fees and other various payments as set out in the trust agreement to which ESOP is a party. It should be noted that for the purpose of providing the trust services, ESOP uses securities accounts with the TASE Member, and most of its customers' accounts are managed with the TASE Member.

2426 **The Phoenix Capital Ltd.**

The Phoenix Capital Ltd. serves as the general partner in the following funds:

The "Anchor" fund: the Anchor fund was launched in February 2018; the general partner of the fund is The Phoenix Capital Ltd., 65% of which is held by The Phoenix Investments (hereinafter:

"The Phoenix Capital"). The Anchor fund invests in CLO bonds abroad. The fund mainly focuses on qualified investors. As part of the agreement for the establishment of the fund, The Phoenix Investments has undertaken to provide a number of services for the fund's management, including support in the fields of investment management and hedging services. In addition, The Phoenix Insurance and/or subsidiaries under its control provide a guarantee to the credit facility extended to the fund by a banking corporation; in the reporting year, the credit facility increased to USD 50 million.

The "Phoenix Real Estate Debt" fund: The Phoenix Capital owns 50% in the general partner KYC Investments Ltd. as of November 2019. Phoenix Real Estate Debt fund invests in bridge loans backed by housing real estate properties in the USA. At this stage, the fund mainly focuses on qualified investors. As part of the agreement for the establishment of the fund, The Phoenix Investments has undertaken to provide a number of services for the fund's management, including providing a credit facility and/or guarantees, as well as hedging services.

"The Phoenix Invest Varied Debt Strategies Israeli Partnership" fund: In February 2019, The Phoenix Capital established the said fund, which constitutes a cluster of funds that invest in non-bank credit platforms in Israel and abroad, as well as in debt funds. As of the report date, the fund has one institutional investor. As part of the agreement for the establishment of the fund, The Phoenix Investments has undertaken to provide a number of services for the fund's management, including support in the fields of investment management and hedging services.

The total amount raised in the reporting period by the said funds of The Phoenix Capital was approximately NIS 293 million.

24.2.7 **Phoenix Investment Funds Ltd.**

The Phoenix Investment Funds Ltd. - a wholly owned company of The Phoenix Investment and Finances - is the general partner in the "Phoenix Co Invest" fund, which commenced its operations in June 2019 and invests - together with The Phoenix Group - in private equity and infrastructure transactions where there is surplus allocation. At this stage, the fund mainly focuses on qualified investors.

The total amount raised in the reporting period by the said The Phoenix's Co Invest fund was approximately NIS 55 million.

For further details regarding the market making activity, please see Section 2.4.12 above.

2.4.3 **Breakdown of revenues and profitability of products and services**

The following are details of Excellence's revenues by subsegments included in the Company's financial services segment, costs attributable to these subsegments, and their operating profit, as of December 31 2018, 2019, and 2020 (in NIS millions). For further details, please see also Section 5.8 to the Report of the Board of Directors.

	Stock exchange and trading services			Underwriting and investment banking			Investment management (ETFs, mutual funds, and portfolio management)			Other		
	Dec. 31 2020	Dec. 31 2019	Dec. 31 2018	Dec. 31 2020	Dec. 31 2019	Dec. 31 2018	Dec. 31 2020	Dec. 31 2019	Dec. 31 2018	Dec. 31 2020	Dec. 31 2019	Dec. 31 2018
Total income	120	109	85	7	10	10	248	224 ¹⁵	173	40	33 ¹⁴	4
Variable costs that do not constitute income in another subsegment	11	8	5	(*	1	1	71	39	32	-	2	-
Fixed costs that do not constitute income in another subsegment	63	51	44	4	4	3	105	123	117	19	21 ¹⁶	-
Total cost	74	59	49	4	5	4	176	162	149	19	23	-
Operating profit	46	50	36	3	6	5	72	62	24	21	10	1
Total assets	754 ¹⁹	591	454	20	24	16	1,193 ¹⁸	591 ¹⁷	712	363	372	337
The minority share in the subsegment from external	-	-	-	(*	1	1	11	9	8	-	1	-

(* An amount lower than NIS 1 million)

¹⁴Including the revenues of ISOP (the financial statements of which were first consolidated in these reports).

¹⁵In 2018, the revenues included a one-off loss as a result of interest rate differentials.

¹⁶Including the revenues of ISOP (the financial statements of which were first consolidated in these reports).

¹⁷The decrease is due to the conversion of ETNs into ETF-type mutual funds.

¹⁸ The increase is mainly due to designated cash in respect of market making.

¹⁹ The increase is due to an increase in credit for the purchase of securities as well as from the TASE clearing house.

2.4.4 Customers

Mutual funds are marketed to the general public.

Customers in the investment portfolio management segment include institutional customers, various types of corporations (companies, non-profit organizations, local authorities, kibbutzim, etc.), as well as private customers. The relationship between the Excellence and its customers in the investment management segment are mostly long term. However, there is no minimum engagement period, and the parties may terminate the engagement at any time, subject to the provisions of the agreement and the law.

Customers in the underwriting and investment banking segment are mainly private and public companies seeking to raise capital or offer securities to the public.

Customers in the trading and stock exchange services subsegment are primarily institutions in Israel and abroad, qualified customers and private companies and individuals (in the reporting year, the number of private customer increased, presumably due to the coronavirus pandemic, which brought about an increase in private customers engaging in trading).

Investments in alternative products - among other things, Excellence offers its customers the option to invest in investment funds by establishing special-purpose limited partnerships. The target audience of these investments are qualified customers, which are corporations and private customers in Israel.

The following is a breakdown of customer portfolios managed by the Excellence Group, by monetary value, as of December 31 2018, December 31 2019 and December 31 2020 (in NIS million).

	December 31 2020		December 31 2019		December 31 2018	
	No. of portfolios	Assets under management (in NIS million)*	No. of portfolios	Assets under management (in NIS million)*	No. of portfolios	Assets under management (in NIS million)*
Up to NIS 0.5 million	690	218	552	172	700	210
NIS 0.5-1.5 million	860	725	668	581	672	587
NIS 1.5-5 million	330	843	264	673	247	646
Over NIS 5 million	192	7,678	145	8,031	152	8,415
Total	2,072	9,463	1,629	9,457	1,771	9,858

Including the assets of funds held in managed portfolios.

The absolute increase in the number of portfolios stems from the acquisition and merger of the activity of Alumot Portfolio Management, as described in Section 2.4.1.3 above. Net of the above factor, there was a decrease in both the volume of portfolios and total assets under management. The decrease stemmed primarily from the coronavirus crisis, competition from competing products, such as investment policies, investment provident fund, and Amendment 190, which led private customers to transition to these competing products. The corporations, municipalities and public entities segment experienced a decrease in assets under management due to the coronavirus crisis and needs stemming therefrom.

2.4.5 **Marketing and distribution**

In the investment management and marketing segment, portfolio management marketing is carried out through a network of independent agents, providers of details of potential customers and a number of telemarketing representatives engaged in recruiting customers through proactive telephone calls. Marketing of mutual funds and ETFs mainly carried out through investment advisors at the branches of the various banks, institutional entities and portfolio managers, as well as through advertising on various media channels.

Marketing of the underwriting and investment banking activity is carried out by Excellence's employees, and targets managers of large companies.

Marketing of the trading activity is mainly carried out through advertising in digital media, including on the Excellence's website and other websites, apps, as well as independent agents the Company works with, who receive fees and commissions in respect of customers they recruit.

2.4.6 **Competition**

Investment marketing and management:

In Israel, there are numerous organizations specializing in portfolio management for others and in the provision of investment marketing services. The main competitors are the large entities. In light of the consolidation trend in the market, the number of players is declining, but competition between the large entities is intensifying.

Harel, Peilim Capital Markets, Psagot, IBI, Altshuler Shaham, Meitav-Dash, Yelin Lapidot and Migdal Capital markets are portfolio managers which Excellence believes are its main competitors in the portfolio management segment. Excellence believes that it is one of the leading companies in the field of portfolio management in Israel.

It should be noted that the increase in the costs of recruiting new customers alongside the decrease in management fees on the one hand, and market players' wish to reach other audiences other than their traditional ones in the field of portfolio management on the other hand, led principal players to develop digital portfolio management and investment marketing platforms. This activity is supported by initiatives of the Israel Securities Authority, which works to enact legislative amendments and guidance that facilitate such activity. It seems, therefore, that most of the competition in this area in future years will take place in the sphere of digital portfolio management and investment marketing, with market players investing substantial resources in such platforms.

The mutual funds sector is also characterized by a large number of competitors and by fierce competition. Competition is primarily against other mutual fund managers and alternative products. In recent years, competition has become fiercer and is manifested, inter alia, in competition on management fees, good performance measured according to yields, and risk indicators which will lead, inter alia, to higher ratings, as indicated below. Furthermore, in recent years several new small investment houses and fund managers penetrated the market, each issuing several new trust funds. In light of the aforementioned, the level of competition is high, and has even intensified due to Amendment No. 28 and the conversion of ETNs into ETFs, the penetration of additional competitors into the mutual funds sector, and the marketing of foreign funds in Israel.

Immediately prior to the report date, there are 2,161 mutual funds managed by several dozen active institutionals that create fierce competition between competitors. As a result, the importance of mutual funds increased in recent years, having a decisive impact on the competition between the various institutions in this segment. Each of the banks has models for decision supporting systems used by investment advisors (hereinafter: "**rating systems**"). The banks' rating systems are extremely important to the competition in this industry, as investment advisors and customers base their investment decision process on such ratings. To the best of Excellence's knowledge, the banks have several rating systems based on various models, and Excellence is unable to estimate the model determined by each bank. Excellence estimates that internal ratings in bank systems, which are based on objective data (rather than necessarily on qualitative parameters such as reputation, etc.), represent a key parameter in advisors' decision to purchase various mutual funds in the industry. It is noted in this respect that the banks provide independent consulting and charge fund managers distribution commissions (except in the case of tracker funds).

As of December 31 2020, Excellence's share in the ETFs market is 29%, 18% in the tracker funds market, and 6% in the traditional funds market.

Excellence estimates that allowing foreign funds to operate in Israel (following the entering into

force of Amendment 23 to the Joint Investments in Trust Law) and the conversion of ETNs into ETFs (following the entering into force of Amendment 28 to the Joint Investments in Trust Law have further intensified the competition in these segments.

Underwriting

The underwriting company operates in a highly competitive market. The competitors of the underwriting company have access to the majority of potential customers and can offer them their services. Some of the competitors are companies controlled or jointly held by banks, while other competitors are owned by insurance companies and/or related to investment houses. At this stage, the scope of activity of foreign underwriters in the local market is immaterial.

As of the report date, there are approximately 20-25 active underwriters and distributors competing in the field of underwriting and distribution in Israel, of which about 15 - including the Company - compete to serve as lead underwriters (and about four are dominant underwriters), while all others normally join consortiums of underwriters and distributors. In addition, other financial entities operate in this area, the activity of which may constitute competition in the field of underwriting.²⁰ The main way of coping with competition is by becoming more professional and nurturing continuous and good relationships with institutional investors in Israel, and with existing and potential customers (public companies, etc.).

Trading and stock exchange services Competitors of the TASE Member are banking corporations that are TASE members and non-bank TASE members. As of the report date, there are 11 TASE members that are Israeli banks, 6 non-bank TASE members, 3 foreign banks, and 3 remote members. Competition between TASE members focuses on fees and commissions rates, quality of service and analytics, and a range of services offered to customers.

The Group's competitors in this area of activity are all TASE members, in particular banking corporations and Israel Brokerage & Investments I.B.I Ltd., Leader Holdings and Investments Ltd. (which operates through another TASE member), Meitav Dash Trade Ltd., and Psagot Securities Ltd.

Excellence's market share varies by type of activity.

In recent years, the banks clearly strengthened their hold on the brokerage market, fees and commissions have been reduced, and regulatory requirements increased - reducing profitability in this field.

²⁰ Since no underwriting market inputs are published, Excellence cannot assess its market share compared to its competitors.

2.4.7 **Permanent Property**

In April 2013, Excellence signed a lease agreement with Amot Investments Ltd. (hereinafter: "Amot"), whereby Excellence leased from Amot six floors of office space in the building known as Amot Platinum in Kiryat Arie, Petah Tikva. The lease was signed for a period of 10 years, which began in the first quarter of 2014, with two optional lease extension terms of 5 years each. As of January 2018, Excellence sublets one of the six floors it leased from Amot; as of the report publication date, another floor is for lease.

2.4.8 **Human capital**

Description of the organizational structure

Excellence's CEO is Ms. Hanna Hollander, and Mr. Eyal Ben Simon serves as Chairman of the Board of Directors.

The Excellence Group's headquarters includes, in addition to its Chairman and CEO, a finance department, a legal department, a risk management department, as well as human resources, marketing and operations and an IT department. The Group's operations are carried out through subsidiaries, with each entity having a direct manager, or direct managers reporting directly to Excellence's CEO and Chairman. The main subsidiaries following the merger, as specified in Section 2.4.1.2 above, are: mutual fund managers, the market maker for mutual funds, the TASE Member, Excellence Nessuah Underwriting, ESOP Management and Trust Services Ltd. Excellence Alternative Assets Ltd., and Excellence Pension Insurance Agency Ltd.

Material changes in the workforce

In early 2020, the Chairman of the Excellence Group, Mr. Moshe Amit, ended his service, and Mr. Eyal Ben Simon was appointed in his stead. As of the end of 2020, Excellence has 355 employees, compared to 321 employees at the end of 2019.

On March 14 2021, the CEO of the TASE Member, Mr. Elad Benbaji, is expected to end his service, and Mr. Elad Burshtein is expected to be appointed in his stead.

On December 31 2020, the collaboration agreement between Excellence Investments and a privately-held company owned by Mr. Sharon Yeager, who served as the Chairman of the Board of Directors and CEO of Excellence Nessuah Underwriting ended; this included the sale to Excellence Investment of Mr. Yeager's stake in Excellence Nessuah Underwriting's shares. On the said date, Mr. Yeager's service as Chairman of the Board of Directors and CEO of Excellence Nessuah Underwriting ended.

Dependence on employees

Excellence is subject to a certain risk from the resignation of some of its key employees, department managers, etc., due to their unique knowledge and experience. For these reasons, Excellence leads retention programs for key employees, and develops technological systems and processes for the management and retention the organization's knowledge.

Benefits and the nature of employment agreements

The majority of Excellence's employees have written personal employment contracts in place. The majority of Excellence's employees employed in professional positions receive, in addition to their base salary, annual bonuses at varying rates. Excellence's executives are eligible for bonuses calculated as a variable rate of the annual financial performance of specific consolidated companies. Certain Excellence employees are eligible for bonuses calculated according to transaction volumes, or according to other preset criteria. Most of Excellence's subsidiaries have adopted employee compensation policies. For some employees, compensation policies are based on applicable laws, requiring attention to the following parameters: multiannual compensation, consideration of results and risks, set ratios between preset compensation components and variable components, etc.

Excellence gives its employees bonuses according to their bonus agreements. Bonuses to Excellence employees are determined by the its earnings, the earnings of its subsidiaries, and additional components according to each employee's position and purview, subject to applicable statutory restrictions, if any.

Excellence's employment termination liabilities are determined in accordance with the law and employment agreements. Excellence's liabilities for base salaries in respect of employment termination are covered by current ongoing contributions and accrued amounts in pension funds, severance pay funds, and executive insurance policies. Excellence also complies with the provisions of the expansion order for comprehensive pension insurance for some of its employees who, as of the order's effective date, were not eligible to pension arrangements to their benefit.

2.4.9 Suppliers

249.1 The TASE member has an agreement with FMR Computers and Software Ltd. (hereinafter: "**FMR**"), according to which the TASE Member receives software development services, computer-assisted data processing, including generation of reports, and computer processing based on information received directly from the TASE. The agreement is extended from time to time. The said agreement is material to the TASE Member, as well as to other non-bank TASE members, due to significant dependence on this IT service provider since, as of the reporting date, there is no other

available supplier for the services that Excellence receives from FMR, and without the FMR system, the TASE Member will be unable to provide TASE member services.

In July 2019, the TASE Member and FMR signed an agreement extending the services agreement until June 2021. As of the reporting date, no agreement for further renewal or extension of the services agreement has been signed yet, due to disagreements between the parties.

24.92 The portfolio management company has an agreement with Danel Financial Solutions Ltd. (hereinafter: "**Danel System**"), which provides IT systems used for day-to-day operations. The portfolio management company uses the Danel System to review compliance with its customers' investment policy and with the Company's policy, to calculate the portfolios' exposures, manage various control reports, to produce periodic statements for its customers, and more. Danel System is the main system used by the employees of the portfolio management company. This constitutes a material agreement for the portfolio management company.

24.93 For further details about the lease agreement between Excellence and Amot Investments Ltd., please see Section 2.4.7 to the Report.

2.4.10 **Investments**

As described in Section 2.4.1.5.5. above, as of the report date, the Company holds approximately 2.9% of the issued share capital of the Tel Aviv Stock Exchange Ltd. it should be noted that the sale of the aforesaid shares is subject to a price cap. If the shares are sold for a price which is higher than the said cap, the consideration paid in respect thereof shall be transferred to the Tel Aviv Stock Exchange. Furthermore, the holding of more than 5% of the shares of the Tel Aviv Stock Exchange Ltd. is subject to obtaining a permit from the Israel Securities Authority. The Company does not hold or manage a nostro portfolio for itself. In February 2021, the TASE announced that it is contemplating a share buyback scheme, whereby it will acquire TASE shares held by TASE members, the sale of which is subject to a price cap as mentioned above, against the allocation of new shares at a price that will reflect a discount on the share's listed price. In March 2021, the TASE issued an update whereby the Israel Securities Authority is considering the legality of the TASE scheme as described above. It should be clarified that, to the best of the Company's knowledge, no decision has been made by the TASE to go ahead with the scheme, and neither has Excellence decided whether to take part therein, if the TASE indeed decides to execute it.

2.4.11 Financing

Excellence finances its operations using its own sources, banking sources, and non-banking sources. Excellence's main operations in the securities segment usually require liquid cash assets, which are mainly financed by its equity capital and bank credit. Excellence does not have restrictions on obtaining credit facilities.

Following are Excellence's outstanding liabilities (in NIS millions):

	Balance as of December 31 2020	Balance as of December 31 2019	Balance as of December 31 2018
Short-term credit and loans	67	88	98

Short-term credit - credit is used for transactions in financial instruments, the TASE Member's credit activity, and for Excellence's ongoing activities, and bears a variable interest rate ranging from Prime to Prime minus 0.7%. For credit in US dollar, variable interest ranging from LIBOR +1.0% to Libor +2.7%.

In the reporting period, Excellence utilized, from time to time, available credit facilities according to its current needs and liquidity (Excellence did not fully utilize its available credit facilities). The available credit facilities do not limit Excellence in its ongoing activity.

2.4.12 Material agreements

- (a) **Acquisition of Alumot** - in January 2020, a three-way agreement was signed between KSM Mutual Funds and Excellence - Zmiha Securities & Investments Ltd. as the first party, Alumot (Goren - B.T.H) Holdings (2007) Ltd., Mr. Kobi Navon and K.N Capital Group Ltd. as the second party (hereinafter - the "**Sellers**"), and Alumot Mutual Fund Management Ltd. (hereinafter - "**Alumot Funds**") and Alumot Portfolio Management Ltd. (hereinafter - "**Alumot Investment Portfolio Management**"), as the third party - for the acquisition of 100% of the shares of Alumot Mutual Funds Management Ltd. and 100% of the shares of Alumot Investment Portfolio Management Ltd. As of the transaction execution date, Alumot Funds has assets under management totaling approximately NIS 2.5 billion; furthermore, Alumot Portfolio Management has assets under management totaling approximately NIS 0.9 billion. The transaction was completed on February 26 2020 after the conditions precedent set in the acquisition agreement were fulfilled. As part of the agreement, the Seller provided various representations, including with regard to legal claims, employer-employee relationships and various material agreements to which Alumot is a party. Furthermore, the agreement includes confidentiality and non-competition clauses that bind Alumot and its officers. The agreement includes an indemnification commitment on behalf of the Sellers in respect of breach of undertakings and representations; to secure the indemnification commitment, the Sellers deposited in trust

a portion of the sale proceeds for a 12-month period. Shortly before the completion date, Excellence Growth sold its holdings in Alumot Portfolio Management to Excellence's portfolio management company. In May 2020, the Registrar of Companies issued a merger certificate whereby - as from the said date - Alumot Funds was merged with and absorbed by KSM Mutual Funds. Furthermore, Alumot Portfolio Management was merged into Excellence's investment portfolio company; (upon execution of the merger, the companies were removed from the records of the Registrar of Companies). Accordingly, all mutual funds managed by Alumot Funds were transferred to the management of KSM Mutual Funds, and the management of Alumot Portfolio Management's portfolios was transferred to the management of Excellence Portfolio Management.

- (b) **Operation of funds** - as of the report publication date, some of the Mutual Funds of KSM Mutual Funds are operated by KSM Mutual Funds (for ETFs and some tracker funds), and some are operated by First International Bank of Israel Ltd. (for managed funds and some tracker funds). In addition, various banks provide brokerage services and custodian services. Furthermore, Bank Hapoalim Ltd. provides TASE member services to the mutual funds operated by KSM Mutual Funds.

Excellence's management estimates that, although Excellence is not dependent on either of these suppliers (as services are rendered by a number of suppliers under competitive terms), switching to a new service provider may involve significant costs and a relatively long implementation period. Excellence is potentially exposed to operational risks due to the need to routinely adapt operations to ever-evolving regulatory requirements. Excellence is also exposed to operating risk from malfunctions in the Group's computer and/or communications systems with the operating bank, which may cause interruptions in transfer and withdrawal orders in the segment's products, and indirectly undermine the Group's reputation.

- (c) **Agreements between index developers and KSM Mutual Funds**

Issuance of tracker funds on a securities index requires a license from the index developer, who is also responsible for the index being calculated and published, and the fund manager undertook to indemnify the index developer for expenses and damages caused to them due to claims and proceedings related to the tracker funds.

It is noted that, in recent years, there has been an increase in payments for licenses to index developers. The growth stems from the expansion of products and the increase in the license fee amount, which are calculated according to total assets under management.

- (d) In October 2018, an agreement between KSM Mutual Funds and a sister company thereof (hereinafter - the "**Market Maker**") - for the provision of money making services in respect of ETF units managed by the Money Maker - entered into force. Pursuant to the agreement, the Market Maker provides money making services to ETF units. The Market Maker is required to comply with the rules set in Chapter I of the Third Part of the TASE Rules and Regulations, and the guidance provided therein in relation to market making, as revised from time to time. At the end of each trading day, the Market Maker works with the ETF's manager to redeem and create the fund's units in consideration for the assets comprising the tracker asset of the ETF, including other assets creating an exposure for these assets, as well as cash (hereinafter, collectively - the "**asset mix**"). The asset mix and the manner of its transfer between the Money Maker and the ETF manager are described in the prospectus of each ETF and/or in KSM Mutual Funds' reports to the public.
- (e) **Liquidity agreement between The Phoenix Insurance and the TASE Member**
In 2017, The Phoenix Insurance signed a master credit facility agreement extending no more than NIS 400 million in credit to the TASE Member; the funds will be used to bridge liquidity timing differences that may arise if customers of the TASE Member withdraw their deposits and the TASE Member does not have sufficient funds to cover such withdrawals.
- (f) For further details about the lease agreement between Excellence and Amot Investments Ltd., please see Section 2.4.7 to the Report.
- (g) For details about the agreement between the TASE Member, a subsidiary of Excellence, and FMR Computers and Software Ltd., please see Section 2.4.9.1 to the Report.
- (h) For further details about the agreement between the portfolio management company and Danel Financial Solutions Ltd., please see Section 2.4.9.2 to the Report.

2.4.13 **Business objectives and strategy**

As part of The Phoenix's strategic plan, Excellence adjusts and positions itself as an investment house that focuses solely on the management of assets for the short and medium terms and on the provision of financial services. In order to establish a growth strategy, Excellence works to find solutions for the provision of financial services through digital means, both in the field of asset management and in the field of distribution, while developing suitable platforms and utilizing regulatory changes to facilitate the provision of digital services in full or in part.

During the reporting year, Excellence placed an emphasis on improving its performance in the field of mutual funds management. Excellence shall continue working to increase its market share in passive and active funds, both through organic growth (by utilizing the combined sales function of the passive and active funds) and through mergers and acquisitions; Excellence will also retain its leading position in the field of ETFs.

Furthermore, Excellence works to expand its activity in the field of brokerage services to individuals and corporations through the TASE member by way of recruiting new customers, while providing them a digital services offering that integrates all Group's areas of activity.

The Company faces business challenges that include positioning and establishing itself in the short and medium-term assets management market. It also faces administrative challenges, as it has to adapt the structure of the investments house to the aforementioned segments of activity, while reinforcing its management, employees and organizational culture.

Excellence will continue to set the standard for high service level to its customers, and will reinforce the relationship with its customers and distributors, with emphasis on regulation, supervision, control and auditing.

2.4.14 Risk management and enforcement, control and supervision mechanisms

Excellence has in place a corporate governance structure for risk management, which include three lines of defense: the first line of defense - the Company's business and operating units which undertake risks as part of their activities and participate in the processes of identifying and assessing risk, taking preventative measures, mitigating risks, and monitoring and reporting them. This includes the risk control departments in the subsidiaries. The second line of defense - the Company's risk management functions. The third line of defense - the board of directors, the committees of the board of directors and the internal auditing function.

Set forth below is the structure of Excellence's risk management, control and monitoring function:

Excellence has a central Risk Management Department for the entire Group. The Risk Management Manager reports to the CEO of Excellence and to the Chief Risk Officer of the Company. The Chief Risk Officer is responsible for increasing risk management in the Group, establishing a uniform approach and a shared, clear vision of the Group companies' risk management objectives, as well as maximizing value for Group-level management.

The Risk Management Department is charged with risk management in the Group through differential binding professional guidelines issued to the subsidiaries. This format is applied to each subsidiary and each line of business based on each company's profile, operations, and the economic and commercial environment in which it operates.

Risk management auditors in the subsidiaries report to the subsidiary's CEO, but receive professional guidance from the Chief Risk Management Officer. The Risk Management Department manages operational risks and financial risk (market, liquidity and credit risks) in the Excellence Group and its subsidiaries. The department operates alongside the Regulation and Compliance Department, which is charged with managing legal risk in the Excellence Group.

In addition, some of the companies have compliance officers, who are in charge of compliance and prohibition of money laundering. Their role includes, among other things, monitoring the compliance of the relevant organs with the provisions of the laws applicable thereto, including the TASE Rules and Regulations and its guidelines.

IT risks, including cyber protection and information security are managed by the IT Department and the head of information security.

Excellence appointed an officer in charge of privacy protection, whose role is to mitigate the privacy protection risks and report to subsidiaries' managements and boards of directors.

In the framework of its risk-management function, Excellence has a control function that examines, among other things, credit activities, risks and investments, including through credit and investment controllers.

Excellence conducts periodic risk and compliance surveys in accordance with the provisions of the relevant regulations and/or proactive surveys in order to increase the efficiency of its activities, and maintain monitoring and control thereon. The risk surveys include mapping and identifying of risks in Excellence's different areas of activity and the scope of exposure arising therefrom, as well as recommending steps to mitigate the risks. The risk and compliance surveys are presented to the Audit Committee and boards of directors of the companies whose activities were surveyed; based on the surveys, multiannual work plans are prepared to close the gaps and minimize risks in the audit, control, compliance and risk management areas.

Excellence has an internal audit division that includes an internal auditor who is responsible, inter alia, for implementing annual and multi-year work plans for the internal audit function, and monitors implementation of findings and reporting.

Excellence's subsidiaries have internal enforcement programs for securities, as a direct result of the Improvement of the Israel Securities Authority's Enforcement Procedures (Legislation Amendments) Law, 2011, and the Increasing Enforcement in the Capital Market (Legislation Amendments) Law, 2011. Changes in these plans are approved by the Board of Directors of the relevant subsidiary from time to time.

During the reporting year, Excellence continued to address risk management in the various companies in the Group, with emphasis on developing risk factors in accordance with the global coronavirus crisis.

2.4.15 Discussion of risk factors

Following are details of risk factors embodied in Excellence's entire activity. It should be emphasized that there are other risks that are specific to each of Excellence's areas of activity that are not detailed below but which could affect them.

For further details regarding the risk factors, please see Note 40 to the Financial Statements in general, and Section 1.2 to Note 40 in particular.

The following table summarizes the key risks which may affect the course of Excellence's business in its various areas of activity. Risks are described according to their nature - macroeconomic risks, industry-specific risks, and risks that are specific to Excellence. The risks are ranked according to the assessment as to their effect on Excellence's business as a whole made by Excellence's management.

Type of risk	Summary description	The extent of effect on Excellence's business
Macroeconomic risks	Effect of geopolitical, political, security and economic factors	Moderate
	Pandemic risks	Moderate
Industry-specific risks	Market failure and illiquidity	High
	Decline in scope of activity and in the value of assets under Excellence's management	Moderate
	Customer credit	Moderate
	Dependency on third parties and dependency on a supplier	Moderate
	Operational risks and trading errors	High
	Business continuity	High
	Regulatory risks and regulatory changes	High
	Legal risks	Moderate
	Industry-specific risk in the field of ETNs	Moderate
	Cyber risks	High
Risks which are specific to Excellence	Human capital	Moderate
	Damage to Excellence's reliability and reputation	High
	Independent operation of ETFs	High

The information presented above in this chapter includes forward-looking information, as defined in the Securities Law, 1968. This information contains, inter alia, forecasts, targets, assessments and estimates relating to future events or matters, including reference to various risk factors and developments as described in the report, the materialization of which is uncertain and may be impacted by various factors which are not under the Company's control. Forward-looking information is not a proven fact and is based, in part, on the Company's estimates, which are based on various, diverse data and entities that have not been verified or confirmed by the Company. It is hereby clarified that actual results may differ from that which is described herein. Forward-looking information refers exclusively to the date on which the report was written, and the Company is under no obligation to revise and/or change any information pertaining to forward-looking information as presented here, insofar as it becomes aware of any additional information in connection with such information.

2.5 Insurance Agencies Services

2.5.1 General information about the segment

General

The Phoenix Group holds a number of insurance agencies through The Phoenix Agencies; the agencies provide brokerage and marketing services in connection with pension, insurance and financial products of several insurance companies, including The Phoenix Insurance, as well as products of investment houses and other institutional entities.

The rate of premiums received through insurance agencies controlled by the Group out of total premiums in The Phoenix Group in 2019-2020:²¹

Type of product*	Premium rate in 2020	Premium rate in 2019
Life insurance	22.8%	21.7%
Pension and provident funds	27.74%	23.94%
Health - individual	11.5%	9.4%

*The rate of premiums in the property and casualty subsegment of the agencies controlled by the Group in 2019 and 2020 is immaterial.

Set forth below are data regarding the agencies and the material activities held by The Phoenix Agencies (above and hereinafter: the "**Material Agencies**").

²¹ The data in the table do not relate to the Oren Mizrach agency as an agency controlled by The Phoenix in the reporting period. It should be noted that The Phoenix Agencies became the controlling shareholder in Oren Mizrach on December 31 2020.

1. **Shekel Insurance Agency (2008) Ltd.** (hereinafter - "**Shekel**"), an agency wholly owned by The Phoenix Agencies. Shekel is an arrangement management agency, mainly in the field of life insurance, long-term savings, financial and health insurance products; Shekel cooperates with all insurance companies and investment houses in Israel which are engaged in its areas of activity.

Shekel operates through dedicated departments and through agencies and ventures it owns. Among Shekel's professional departments and areas of activity are the fields of pension and provident funds, finance, health insurance, retirement services for retiring employees and a Counseling Center providing advice and personal response to queries from senior management of various employers. Furthermore, Shekel provides personal services in connection with all property and casualty insurance subsegments, such as motor, home, marine, travel insurance and more.

Shekel provides comprehensive services to employers and employees. Services to employees are provided starting with the employee's onboarding, throughout his/her service with the employer, and until he/she retires or moves to another workplace; services include analysis and examination of all existing pension plans and setting up a pension solution tailored to meet the employee's needs. Services to employers include comprehensive operational pension services; as part of these services, Shekel provides collection and clearing services in relation to contributions towards pension and automated statements, including a control and feedback system between the financial institution and the employer.

Shekel has approximately 403 employees, 4,800 employers, approximately 200,000 active customers and more than 15 niche ventures, partnerships and subsidiaries.

In the reporting period, the agency has acquired full (100%) control of two investee agencies for a total of approximately NIS 20 million, and sold holdings in two ventures for a total of approximately NIS 3.5 million, in accordance with the Company's strategy to generate profit-focused growth, improve its holdings and achieve synergy in the Group.

Further to that which is stated in Section 1.3.7 to the Report regarding the acquisition of future cash flows, in January 2021 The Phoenix Insurance and Shekel signed an agreement for the acquisition of Shekel's future inflows of fees and commissions for a total of NIS 80.2 million.

2. **Agam Liderim Insurance Agency (2003) Ltd.:** a subsidiary agency of The Phoenix Agencies, which holds 70% of the equity and voting rights therein (directly and indirectly). As of the report date, the remaining holdings in Agam (30%) are held indirectly by Mr. Yitzhak Oz (hereinafter: "**Oz**"), who holds 34% of the shares of Agam Liderim Holdings (2001) Ltd. (hereinafter - "**Agam Holdings**"), and by Mr. Moshe Sasson (6%). The remaining shares of

Agam Holdings are held by The Phoenix Agencies. For further details regarding agreements with Agam's shareholders, please see Section 2.5.8 below.

Agam is an arrangement management agency, mainly in the field of life insurance, long-term savings, financial products and health insurance. Agam operates through dedicated departments and through agencies and ventures it owns. Among Agam's professional departments and areas of activity are the fields of pension and provident funds, finance, health and travel insurance, retirement services to retiring employees and a center providing advice and personal response to queries from senior managements of various employers.

Agam provides comprehensive services to employers and employees. Services to employees are provided starting with the employee's onboarding, throughout his/her service with the employer, and until he/she retires or moves to another workplace; services include analysis and examination of all existing pension plans and setting up a pension solution tailored to meet the employee's needs. Agam provides comprehensive operational pension services to employers, including collection and clearing services in respect of contributions towards pension and automated reporting, as well as a controls and feedback system between the financial institution and the employer.

Agam has approximately 341 employees, more than 200,000 active customers and more than 20 niche ventures, partnerships and subsidiaries. The company acquired an insurance agency for approximately NIS 4.3 million.

3. **Cohen Givon Insurance Agency (1994) Ltd.:** a subsidiary agency of The Phoenix Agencies, which holds 52% of the equity and voting rights therein. The remaining shares are held directly and indirectly by Mr. Ran Givon, who serves as the agency's CEO. The agency specializes in providing property and casualty insurance to municipalities and local authorities.
4. **Ramon-Granit Insurance Agency (1994) Ltd.:** a subsidiary agency of The Phoenix Agencies, which holds 90% of the equity and voting rights therein (directly and indirectly). The remaining shares are held directly and indirectly by Mr. Shuki Leshner, who serves as the agency's CEO. It should be noted that in October 2019, The Phoenix Agencies signed an agreement for the acquisition of a further rate of 17% from Mr. Leshner. The effective date for this sale was set to January 1 2020. In addition, the terms of the Put option held by Mr. Leshner were changed such that the first date on which it may be exercised was set to December 31 2024. The value of the shares on the option's exercise date shall be determined by an agreed appraiser, provided that under no circumstances will the value of the shares be less than the value of Ramon Granit, as set for the purpose of the transaction described above, plus linkage differences and interest at the rate of 1.5%, net of all dividends to be distributed until actual payment date.

The agency is engaged principally in marine insurance and property and casualty insurance of large businesses, specializing in unique niches of marine and combined transport insurance, such as international deliveries and storage, shipping and distribution. The Company also operates as the licensed representative of Munich Re in Israel in the field of marine and aviation-related insurance, and as such, it will be able to provide a range of extensive insurance coverage in the field of cargo and long-term storage insurance. It should be noted that in the reporting year, the agency sold to the Oren Mizrach agency its property and casualty insurance portfolio, which focuses on insurance of individuals and is unrelated to the issues described above.

5. **Oren Mizrach Insurance Agency Ltd.:** a subsidiary agency of The Phoenix Agencies, which holds - as of the report date - approximately 70% of the equity and voting rights therein. Mr. Oren Cohen serves as the agency's CEO and holds (indirectly) approximately 30% of the voting and equity rights in the agency. For further details regarding the acquisition of approximately 20% of the agency by The Phoenix Agencies, please see Section 1.3.9 above.

The agency operates in all insurance and finance subsegments, mainly through sub-agents. The agency also holds a number of other agencies.

In the field of individual motor and home insurance - the agency operates through a sister agency - Web Price Insurance Agency (2017) Ltd. - which developed a computer system that generates a digital acquisition process that offers customers the most cost-efficient home and motor insurance from among quotes by various insurance companies. During the reporting period, 7 further transactions were conducted to increase control in agencies or existing portfolios or to acquire new portfolios and agencies at the total amount of approximately NIS 22 million.

Further to that which is stated in Section 1.3.7 to the Report regarding the acquisition of future cash flows, in December 2020 The Phoenix Insurance and Oren Mizrach signed an agreement for the acquisition of Shekel's future inflows of fees and commissions for a total of NIS 11.9 million.

6. **T.A.I.S. Gvanim Insurance Agency (1987) Ltd.:** a subsidiary agency of The Phoenix Agencies, which holds 50% of the equity and voting rights therein (directly and indirectly). The remaining shares are held indirectly by three partners, two of whom, Mr. Eli Lanir and Mr. Yoram Nitzan also serve as joint CEOs in the agency.

The agency is engaged in the fields of pension, health and individual risks insurance and cooperates with all institutional entities operating in these areas. Furthermore, the agency has diverse activity in most property and casualty insurance subsegments.

7. **The Employee Benefit Experts - Benefit Ltd. (hereinafter - "Benefit"):** The Phoenix Agencies holds 100% of the issued and paid up share capital and voting rights of Benefit, which specializes in the provision of advisory services to organizations (including provision of actuarial opinions), assessing and improving employees' rights, benefits and compensation, and supporting retirement schemes in various organizations. Benefit also specializes in setting up advisory systems in the said areas. In addition, Benefit holds 100% of the rights in Benefit Life Insurance Agency (1995) Ltd., which is engaged in marketing pension products.
8. **Other agencies:** in addition to the above-listed agencies, The Phoenix Agencies operates through other insurance agencies, held jointly with other shareholders (which, in most cases, run the agencies). These agencies operate in the various areas of insurance, pension and provident funds. The agencies are engaged in brokerage activities in the fields of pension, property and casualty, life and other insurance.

2.5.2 Scope of activity

a. The area of activity's structure and changes therein

The Phoenix Agencies operates in the field of insurance agencies in Israel, which is an area of activity regulated by the Commissioner of the Capital Market, Insurance and Savings Authority. For the key applicable regulatory provisions, please see Section 2.5.7 below.

During the reporting period, there was an increase in revenues and profits in The Phoenix Agencies' areas of activity, including, among other things, as a result of its high technological capabilities, level of service and unique services provided by its key agencies.

In addition, the agencies have a comparative advantage stemming from their utilization of synergies arising from mergers and acquisitions and collaborations in their areas of activity, which, in the opinion of the Company, worked in their favor during the reporting year.

For further details regarding revenues, costs and profits attributed to this area of activity, please see Note 3 to the Financial Statements.

b. Critical success factors in the area of activity

The following success factors may be listed, among other things, in connection with the activity of insurance agencies:

- High technological level as well as effective early adoption of new technologies.
- A range of diverse distribution channels.
- Retaining each agency's comparative advantage in its field, including the field of arrangement management.
- High-quality, fast, flexible and reliable customer service system.

- Significant financial capabilities.
- Flexibility and agreements with all Israeli insurance companies with the aim of providing optimal solutions to customers.

c. **Major entry and exit barriers in area of activity**

The following entry and exit barriers apply to the activity of insurance agencies:

- Compliance with regulatory and legal requirements (see Section 2.5.7 below).
- Having in place the technological and professional platforms to support the area of activity.
- Experience, reputation and professional knowhow, as well as skilled manpower.
- Substantial financial capabilities.
- Obtaining a license from the Commissioner in accordance with the Supervision Law.
- Obtaining a control permit from the Commissioner in accordance with the Supervision Law.

2.5.3 Products and services

- a. The agencies held by The Phoenix Agencies are engaged in brokerage and distribution activities in the fields of property and casualty, pension, life and other insurance. The agencies offer their agents insurance products of a range of insurance companies, including those of the Company. Furthermore, the Company's key agencies also offer technological solutions, as described in Section 2.5.1 above.
- b. In the opinion of The Phoenix Agencies, as of the report date no changes are expected to take place in the scope and range of The Phoenix Agencies' products and services.
- c. In the opinion of The Phoenix Agencies, as of the report date, the Company's market share in this area of activity is not expected to decrease.

2.5.4 Customers

Customers of the agencies activity comprise two primary groups:

- a. In the field of arrangement agencies, The Phoenix Agencies' customers are employees and employers who are customers of the agencies held by The Phoenix Agencies.
- b. In other agencies held by The Phoenix Agencies, customers are both business customers and individuals from all sectors of the economy.

As of the report date, The Phoenix Agencies is not dependent on a single customer that the loss of which will have a material impact on this area of activity.

2.5.5 Competition

The insurance agencies area of activity is intensely competitive. The main competitors of the arrangement agencies (Shekel and Agam) are the other arrangement agencies, the most significant of which are Mivtach Simon, Tmura and Davidoff.

The main methods used by The Phoenix Agencies to address the competition, and key factors that affect its competitive position include, among other things, a constant improvement of service levels, ongoing streamlining and adoption of new technologies allowing the provision of fast, professional and effective services to employees and employers.

2.5.6 Seasonality

The scope of activity of The Phoenix Agencies is not significantly affected by seasonality.

Nevertheless, as a rule, the fourth quarter generates the highest profits in the fields of pension, provident funds and finance.

2.5.7 Specific regulation

The insurance agencies area of activity is regulated under specific rules and regulations and by the Commissioner's Directives.

The "**Commissioner's Directives**" - directives issued by the Commissioner pursuant to his powers in accordance with the Supervision Law, Advice Law, and Provident Funds Law, as well as procedures issued by the Commissioner.

"**Corporate agent**" - a corporation that has been granted an insurance agent license under Section 26 of the Supervision Law.

The insurance agencies' area of activity is supervised by the Commissioner and is subject to many legal provisions, including the Supervision Law, the Pension Advice Law and regulations promulgated thereunder, as well as the Commissioner's Directives, which aim to protect policyholders and planholders. These directives relate both to regulatory requirements applicable to insurance agencies and to requirements stemming from their relationships with their customers. Violation of the provisions of the law, including the Commissioner's Directives, may constitute an administrative violation, in respect of which a monetary sanction is imposed; in some instances, an administrative violation may even constitute a criminal offense.

Set forth below is a summary of the legal provisions applicable to the insurance agencies area of activity, as well as bills and drafts published during the reporting period and through the report's publication date:

1. **Legislative arrangements:**

- 1.1 **The Supervision Law** regulates, among other things, the issues of insurance agencies' licensing, permits of control and holding of means of control, receipt of business and payment of brokerage fees and commissions for insurance brokerage services.

Pursuant to the provisions of the Supervision Law, it is forbidden to engage in insurance brokerage services and receive fees and commissions for such services without first obtaining a license from the Commissioner as required by law. The Supervision Law regulates, among other things, the receipt of an insurance agent license, including a corporate agent license, a control permit and a permit to hold means of control in a corporate agent. The Supervision Law also sets provisions regarding the safeguarding of policyholders' interests, such as the prohibition on providing a misleading description of an insurance transaction.

- 1.2 **The Pension Advice Law** regulates the granting of a license to provide pension advice and market pension products; the law includes provisions on providing operating services to employers, including restrictions applicable to insurance agents who render operating services to an employer for whose employees it provides pension advice. Furthermore, the law regulates the requirements, prohibitions and restrictions applicable to the marketing of pension products, including the insurance agent's duty to ensure that the pension product suits the customer's needs; under the law, the agent also has a duty of care and a fiduciary duty to its customers. The law also sets provisions on payment to agents, including prohibition on direct collection of a fee or commission from a customer in addition to a fee or commission paid by an institutional entity.

- 1.3 **The Provident Funds Law** provides for the right of an employee - for whom an employer makes contributions towards pension - to select the license holder to market the pension products or carry out transactions in his/her provident fund. Furthermore, an amendment to the law enacted in 2017 prohibits a management company from paying insurance agents any commissions the calculation of which is tied to the rate of management fees collected by the management company from planholders.

- 1.4 **The Insurance Contract Law** and amendments thereto, regulate, among other things, the insurance agent's position in the relationship between an insurer, policyholder, and an insurance agent, and sets, among other things, presumptions as to the insurance agent's being an agent of the insurer.

2. **The Commissioner's circulars:**

- 2.1 **The circular titled Services Rendered to Customers by Agents and Advisors** stipulates provisions on rendering adequate services by a license holder and stipulates the

rules and conditions for collecting fees and reimbursement of expenses paid directly by the customer.

- 2.2 **The Signing-On to Insurance Plans circular** sets provisions regulating conduct of insurance companies and insurance agents when signing on policyholders to an insurance plan. Among other things, the law requires that the insurance policy meet the insurance candidate's needs, including by checking the list of insurance products he/she has in place by submitting a query to the "Har Habituach" website.

In December 2020, the **Signing on to Insurance Plans circular - Amendment** was published, whereunder, among other things, it became mandatory for an insurance agent to disclose to an insurance candidate that most of its revenues are received from certain companies; the circular prohibits the agent from conditioning the acceptance of an insurance candidate on a minimum insurance period, and requires insurers to disclose to insurance candidates the results of the process in which his/her insurance needs are reviewed.

- 2.3 **The Explanation Document Circular - Amendment** sets a uniform wording for the explanation document to be delivered to customers by an agent marketing pension products, among others things, while providing pension advice or marketing pension products, as part of his/her duty under the Pension Advice Law to ensure that the pension product suits the customer's needs and to explain his/her recommendation in writing. Furthermore, the Circular sets guidance on a license holder's duty, in the process of ensuring that the pension product meets the customer's needs, and of providing fair disclosure as to the considerations guiding his/her recommendation.
- 2.4 **The Power of Appointment to a License Holder Circular** sets a uniform format for a power of appointment form, by which a customer may appoint a license holder to receive information about pension savings managed for him/her in an institutional entity, or take in his/her name actions as part of pension advice or marketing, including through central pension clearing system (as defined in the Pension Advice Law).
- 2.5 **The Institutional Entity's Engagement with an License Holder Circular** regulates the engagement between insurance agents and institutional entities in view of the Supervision Law and the Pension Advice Law's provisions prohibiting agents from brokering between customers and institutional entities, if the agent and the institutional entity do not have an agreement in place that includes the terms and conditions set in the said laws.
- 2.6 **The Circular titled Involvement of an Entity which is not a License Holder in the Marketing and Sale of Insurance Products other than Group Insurance** regulates engagements between regulated entities and external entities with regard to setting rules

about an external entity's involvement in the marketing or sale of an individual insurance product, such that such activities shall not be in violation of the law. In 2019, the circular was amended such that travel insurance can no longer be sold by a person or entity who does not hold an insurance broker license, effectively forbidding travel agents from selling such insurance.

2.7 **The Insurance Circular titled Instituting Service Contracts and their Marketing Form** stipulates, among other things, provisions on the marketing of service contracts through insurance agents.

2.8 **The Clarification on Pension Marketing Procedure when Accepting Candidates to a Pension Plan** stipulates that a transaction carried out for a customer with respect to a pension product, including the signing on of a customer to a pension plan, shall only be carried out after a pension marketing procedure has been followed as set out in the Pension Advice Law. The clarification further stipulates that an institutional entity may only pay a distribution fee if a pension insurance agent conducted such a transaction as part of a pension marketing procedure. The clarification applies to signing on new planholders to a pension plan as of February 4 2018.

2.9 In July 2020, the Ministry of Finance published the **Financial Services Supervision (Consulting, Marketing and Pension Clearing System) Law (Amendment No. 11) Memorandum**, 2020, which suggests allowing banks to dispense pension advice by telephone or digital means. In this context, it should be noted that, during the coronavirus pandemic, the Authority announced that it will not instigate enforcement procedures against banks that had dispensed pension advice by telephone or digital means.

2.5.8 [Material agreements](#)

Agam Liderim Holdings (2001) Ltd.

In March 2019, the Company, Oz and Hagoz (2015) Ltd., which is owned by **Oz** (hereinafter: "**Hagoz**") entered into an agreement for the sale of Oz's stake in Agam Holdings' shares to the Company (hereinafter: the "**Options Agreement**"). Under the Options Agreement, a Put option was granted to Hagoz from January 1 2020 to December 31 2020 (hereinafter - the "**Option Period**") to sell all of its shares in Agam Liderim Holdings (2001) Ltd. (hereinafter: "**Agam Holdings**") to the Company, and the Company was granted a Call option for the duration of the Option Period to purchase all of Hagoz's shares in Agam Holdings.

The options were awarded in lieu of and further to previous options agreements between Oz and The Phoenix Agencies. In December 2019, the Options Agreement was revised, and it was agreed that the period of the Put and Call options shall be deferred by 4 years, such that the options shall be exercisable between January 1 2024 and January 3 2025, and the effective date with regard to the

transaction's value shall be deferred accordingly from December 31 2020 to January 1 2025. It was also agreed that the minimum price for all the shares that shall be held by Hagoz at the option exercise date shall be at a company value (for Agam Holdings) of NIS 350 million. For further details, please see the immediate report dated December 31 2019 (Ref. No. 2019-01-126565).

Oren Mizrach Insurance Agency Ltd.

In December 2020, an agreement was signed, pursuant to which The Phoenix Agencies acquired from Oren Agency shares of Oren Mizrach and Webprice constituting 1% of the issued share capital of each of the said companies; furthermore, The Phoenix Agencies acquired from Oren Holdings 38% of the ownership interests in Oren Agency and 70% of the controlling interests of Oren Agency, such that following the completion of the transaction, The Phoenix Agencies holds (directly and indirectly) 69.62% of the ownership interests in the Oren Mizrach Group.

The transaction was completed based on company value of NIS 160 million for the Oren Mizrach Group, and is subject to the consideration adjustment mechanism set in the agreement. The mechanism shall be activated after the approval of Oren Mizrach Group's 2022 financial statements. As a result of the completion of the transaction, The Phoenix Agencies recorded a NIS 60 million after tax gain. For further details, please see the Company's immediate report dated December 6 2020 (Ref. No. 2020-01-132153) and Note 7 to the Financial Statements.

2.5.9 Marketing and distribution

The marketing and distribution of the products of agencies held by the Company is carried out in accordance with the Commissioner's Directives, as described in Section 2.5.7. The arrangement agencies provide, as aforesaid, end-to-end services to employers and employees. Services to employees are provided starting with the employee's onboarding, throughout his/her service with the employer, and until he/she retires or moves to another workplace; services include analysis and review of all existing pension plans and setting up a pension solution tailored to meet the employee's needs, including marketing of pension and financial products and health insurance. The arrangement agencies receive fees and commissions from insurance companies for the abovementioned marketing and brokerage services.

Services to employers include end-to-end operational pension services, including collection and clearing services in relation to contributions towards pension and automated statements, including a controls and feedback system between the financial institution and employer. The arrangement agencies collect handling fees from employers for these services. Marketing and distribution of the other products is carried out in the manner generally accepted in the industry, through licensed insurance agents.

2.5.10 Human capital

For further details regarding the number of employees engaged in this field, including any material changes in the workforce, please see Section 4.6.2 to the Report.

2.5.11 Suppliers and service providers

As part of its current activities, The Phoenix Agencies engages with a range of service providers. To the best of The Phoenix Agencies' knowledge, it is not dependent on a primary supplier.

2.5.12 Legal proceedings

The Phoenix Agencies is not a party to material legal proceedings, except for two petitions to approve lawsuits as class actions, which were filed against Agam (one of which was also filed against Shekel). For further details, please see Note 42(a) Sections 21 and 34 to the Financial Statements.

2.5.13 Investments

The Phoenix Agencies grants shareholders' loans to some of its investee agencies based on predetermined milestones, for the purpose of funding the acquisition of agencies and insurance portfolios.

2.5.14 Objectives and strategy

The Phoenix Agencies aspires to expand its activities in the area of the insurance agencies and to improve its profitability by increasing the scope of its operations either through mergers and acquisitions and collaborations with other entities or by improving its ongoing operations, through, among other things, increasing the efficiency of the agencies' procedures and adopting technological solutions.

The information presented above in this chapter includes forward-looking information, as defined in the Securities Law, 1968. This information contains, inter alia, forecasts, targets, assessments and estimates relating to future events or matters, including reference to various risk factors and developments as described in the report, the materialization of which is uncertain and may be impacted by various factors which are not under the Company's control. Forward-looking information is not a proven fact and is based, in part, on the Company's estimates, which are based on various, diverse data and entities that have not been verified or confirmed by the Company. It is hereby clarified that actual results may differ from that which is described herein. Forward-looking information refers exclusively to the date on which the report was written, and the Company is under no obligation to revise and/or change any information pertaining to forward-looking information as presented here, insofar as it becomes aware of any additional information in connection with such information.



Part C

Additional Information about Insurance
Areas of Activity Not Included in the
Areas of Activity



N/A



Part D

Additional Information

Additional Information at Company Level



As a rule, the data in this chapter do not relate to the Group's financial services area of activity, which is mostly operated through Excellence. For further details on issues described in this chapter in relation to the financial services area of activity, please see Section 2.4.1.5 above.

4.1 Restrictions and Regulation to which the Group's Activity is Subject

4.1.1 Regulation and supervision - general

As described in this chapter, the Group's activities in its areas of activity are subject to the general provisions of the law and the specific provisions of the law applicable to each of the Group's areas of activity.

Group companies are regulated by various regulators, including the Capital Market, Insurance and Savings Authority (hereinafter: the "**Authority**" or the "**Commissioner**"), which regulate the activity of the Group's institutional entities and insurance agencies. The Authority is an independent authority which reports to the Ministry of Finance, and its roles include: 1. Protecting and safeguarding the interests of policyholders, planholders and customers of the regulated entities. 2. Ensuring the stability and proper management of the regulated entities. 3. Promoting competition in the financial system in general, and in particular - in the fields of capital market, insurance and savings. 4. Encouraging technological and business innovation for the regulated entities, in view of the Authority's purviews as per Sections 1-3 above.

Furthermore, in its capacity as a publicly-traded company, the Group is also subject to the provisions of the securities laws and is regulated in that context by the Israel Securities Authority; in addition, the Group is subject to the provisions of the companies laws applicable to publicly traded companies. The Group's companies are subject, from time to time, to administrative enforcement procedures and fines.

During the reporting period, starting in March 2020, the Commissioner published a series of temporary orders due to the spread of the coronavirus. The orders were designed to facilitate the activities of the institutional entities and their customers, and adjust the provisions of the law to the activities of institutional entities and license holders in the situation created due to the coronavirus crisis. For further details, please see Section 4.1.1.1.7 below.

Set forth below is a summary of the legal provisions applicable to the Group as well as bills and drafts that have a material effect on the Group, published during the reporting period and through the report publication date: It should be noted that the provisions listed in this report do not constitute an exhaustive list of all legal provisions applicable to the Company, rather - they are only the key ones. Many other regulations and directives regulate the activities of the insurer and the management companies in the fields of insurance, pension funds and provident funds. The regulations and directives are updated on the Ministry of Finance's website at:

<https://mof.gov.il/hon/Regulations/Pages/RegulationAndLegislation.aspx>

4.1.1.1 Legislative arrangements

4.1.1.1.1 The Insurance Contract Law, 1981 mainly regulates the relationship between an insurer and policyholders, including the status of the insurance agent.

The **Insurance Contract Law (Amendment No. 10), 2020** was published in September 2020. The amendment adds to the law a new section whereby insurance benefits shall be paid by bank transfer, unless the policyholder or the beneficiary, as the case may be, opts to receive them in any other way.

The **Insurance Contract Law (Amendment No. 11), 2020** was published in November 2020. The amendment extends the limitation period in relation to life insurance, critical illness and hospitalization insurance and long-term care insurance, from 3 years to 5 years.

4.1.1.1.2 Financial Services Supervision (Insurance) Law, 1981 and the regulations promulgated thereunder, regulate, among other things, the Commissioner's authorities, licensing of insurers and insurance agents, holding of means of control in an insurer and in an agent which is a corporation, supervising of insurance businesses and the safeguarding policyholders' interests. The Supervision Law includes a list of provisions the breach of which constitutes a criminal offense; the law expands the scope of officers' responsibility to prevent the breaches. Furthermore, in accordance with the Supervision Law, the Commissioner has authorized to impose monetary sanctions and civil fines of significant amounts without filing an indictment.

4.1.1.13 The Law for the Promotion of Competition and Reduction of Concentration, 2013 (hereinafter: the "**Concentration Law**" and/or the "**Law**"). The Concentration Law was published in December 2013; the Law is composed of three key chapters: (1) restricting the control in "pyramid-shaped" companies to two tiers and imposing enhanced corporate governance rules on such companies; (2) separation between significant financial corporations (such as banks, insurance companies, investment funds, etc.) and significant non-financial entities as defined in the Concentration Law, which prohibits a significant non-financial corporation from controlling and holding means of control in an insurer which is a significant financial entity; and (3) taking into account aggregate concentration considerations and sectoral competition considerations in the allocation of rights to use government resources (essential infrastructures and privatized assets) to concentrated entities.

A list of concentrating entities, a list of significant non-financial entities, and a list of the significant financial entities is published from time to time on the Ministry of Finance's website.

Several subsidiaries of the Company (such as The Phoenix Insurance and The Phoenix Excellence) are included in the list of concentrating entities, due to their definition as significant financial entities.

The Law allows reporting entities to have a holding structure of no more than two tiers. The Company is a first-tier company.

The Concentration Law sets restrictions and conditions for separating significant financial entities from significant non-financial entities. As part of the said restrictions, the Concentration Law sets a restriction whereby an institutional entity may hold no more than 10% of the means of control in a significant non-financial corporation. The Law also prohibits a controlling shareholder of a significant non-financial corporation, a person related to such a controlling shareholder or an officer in a significant non-financial corporation from serving as a director in a significant financial corporation.

In December 2020, a public appeal was published by a team entrusted with assessing the implementation of the chapter dealing with the separation between significant non-financial entities and significant financial entities and its impact on the level of concentration in the Israeli economy.

The team's conclusions and recommendations will be filed with the Knesset's Finance Committee. As part of the public appeal, the public was asked to submit opinions as to the effects of Chapter D of the Law and the separation between significant non-financial entities and significant financial entities on the level of concentration in the Israeli economy. The Company is currently working on submitting its opinion as part of the Israeli Insurance Association.

Circulars issued by the Capital Market, Insurance and Savings Authority

- 4.1.1.14** In July 2020, an amendment to the **Signing-On to Insurance Plans** circular was published. The purpose of the circular is to prevent the payment of double premiums to which policyholders are sometimes unaware. The circular stipulates that: (a) an insurance company which receives an application to sign on an insurance candidate who already has an existing policy with another company shall bear the responsibility for cancelling the other policy for that policyholder; and (b) in the event that the new insurance company fails to do so, it will be obliged to pay the insurance candidate the insurance premium he/she had paid the insurance company with whom he/she has taken out the original policy, as from the date of the cancellation application, under the terms and conditions set out in the circular.
- 4.1.1.15** In December 2020, the **Signing-On to Insurance Plans circular - Amendment** was published, whereunder, among other things, it became mandatory for an insurance agent to disclose to an insurance candidate that most of its revenues are received from certain companies; the circular prohibits conditioning the acceptance of an insurance candidate on a minimum insurance period, and requires to disclose to insurance candidates the results of the process in which his/her insurance needs are reviewed.
- 4.1.1.16** In April 2020, a paper titled **Policy Regarding the Issuance of a Permit to Hold the Means of Control in an Institutional Entity to Entities which Manage Customers' Funds** was issued; the document allows entities managing customer funds to hold a stake of up to 7.5% in an institutional entity, such that the said permit may be issued not only to entities without a controlling shareholder as was the case so far, but also to entities that do have controlling shareholders. The Company has requested such a permit from the Capital Market, Insurance and Savings Authority.

4.1.1.1.7 Temporary orders published following the coronavirus crisis

In view of the spread of the coronavirus, which started in March 2020, the Commissioner published a series of amendments to circulars, which constitute temporary orders whose purpose is to facilitate and/or adjust the activity of institutional entities and license holders in view of the coronavirus crisis.

The said amendments deal, among other things, with the following matters: postponing the deadline for submitting financial statements; providing a disclosure in the financial statements on the effects of the coronavirus crisis; postponing the deadlines for filing various reports to the Commissioner; making adjustments to the manner of Board of Directors' work (such as canceling the requirements for a physical meeting and allowing the postponement of meetings); allowing an insurance agent to hold a telephone meetings with a customer instead of holding physical meetings, and extending the periods within which a response should be issued to customers' queries; prohibiting the withholding of pension benefits to a customer who did not provide a life certificate; extending to 12 months the automatic temporary life insurance coverage provided by pension funds and managers' insurance policies, and expanding the scope of applicability of that temporary insurance coverage; suspending insurance policies of policyholders who wish to have their policies suspended and giving policyholders the option to renew insurance coverage (in business and third-party liability insurance); giving an insurance company settling a long-term care insurance claim the option to ask policyholders to attach information relevant to the claim in the event that it was unsuccessful in obtaining such information through a confidentiality waiver form; allowing tax-exempt withdrawal of funds from an education fund, subject to the conditions set, even before the date on which the planholder becomes entitled to make such a withdrawal; stipulating that an institutional entity will be entitled to increase the rate of management fees due to the discontinuation of contributions to the provident fund only after 12 months have passed since the date on which such contributions were discontinued, instead of 6 months (which was later substituted by a letter by the Capital Market, Insurance and Savings Authority calling institutionals to continue to show solidarity towards customers who had their pension contributions halted); stipulating conditions whereby a self-employed customer who is unemployed may withdraw funds from a pension fund; and more.

Furthermore, temporary orders were published following the coronavirus crisis, which mostly involved giving institutional entities expedients in their investment management activity, including: giving insurers the option to calculate the "assets held" against non-rated credit at the rate of 5% such that the calculation is carried out for all types of liabilities together (type 10, 40 and 70), rather than for each type separately; allowing entities to give savers loans for a period of up to 15 years rather than up to 7 years; allowing greater flexibility to institutional entities with regard to the scope of analysis they are required to do prior to purchasing a bond in the secondary market and extending the validity period of existing analyses; allowing institutional entities to purchase corporate bonds while giving them some flexibility as to the provisions set in accordance with the recommendation of the Hodak Committee, in order to allow investment flexibility and optimal utilization of opportunities in the secondary market; allowing institutional entity to invest in series of marketable bonds which are not government bonds (of the state of Israel) or an issuer's marketable securities up to a total constituting 49% of the overall par value of that series, under the terms set; providing expedients with regard to the requirements applicable to institutional entities in connection with reporting to the Commissioner a material active or passive deviation.

4.1.2 **Provisions regarding regulation of corporate governance**

4.1.2.1 Legislative arrangements

4.1.2.1.1 In August 2018, a circular titled **Institutional Entity's Board of Directors** was published, which stipulates a series of new directives as to the qualifications of the members and chairman of the board, the composition of the board, the board members' competency, their place of residence, knowledge of the Hebrew language, restrictions on the appointment and service of directors, requirements for expertise of board members, the board's powers and conduct, and directives concerning the board's committees. The circular came into force on April 2 2019; longer transitional measures were set with regard to the implementation of certain directives, such that the entire circular will be implemented within no more than three years from the said date.

4.1.3 **Provisions regarding investment management by institutional entities**

4.1.3.1 Legislative arrangements

4.1.3.1.1 **Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012 (hereinafter: the "Regulations")** set a uniform framework for investment rules applicable to all institutional entities, including the nostro funds.

4.1.3.1.2 The codex of regulations on management of investment assets compiles and combines regulatory provisions that were included in the various circulars by virtue of the Commissioner's power pursuant to the Regulations; this power was given to the Commissioner with the aim of adapting some of the restrictions applicable to institutional entities to changing market conditions.

4.1.3.1.3 Supervision of Financial Services Regulations (Provident Funds) (Direct Expenses Incurred as a Result of Execution of Transactions), 2008 (hereinafter: the "Expenses Regulations").

These regulations regulate the types of direct expenses an institutional entity may deduct from planholders' funds under its management in respect of investments it makes in addition to the management fees it collects from planholders.

Pursuant to the temporary order, which is in effect through February 28 2021, the rate of direct expenses stemming from investment in non-marketable security or the provision of loans, external management fees and expenses stemming from mortgages, shall not exceed 0.25% of total assets under management by the institutional entity (hereinafter: the "**Limit**" and/or the "**Temporary Order**"). The Limit does not apply to certain expense types as set out in the Regulations.

In March 2021, the Authority published a clarification whereby, in view of the dissolution of the 23rd Knesset before the completion of the Expenses Regulations, the temporary order would remain in force until July 26 2021.

4.1.3.1.4 The Supervision of Financial Services Regulations (Provident Funds) (Direct Expenses Incurred as a Result of Execution of Transactions), (Amendment), 2020, which were published in September 2020, stipulate that an institutional entity shall disclose and report to planholders - when signing them on as planholders and as part of the annual report - the collection of direct expenses and their rate, under the terms and in the manner set by the Commissioner. Accordingly, in December 2020 the Commissioner published the **Circular on Annual and Quarterly Report to Planholders and Policyholders of Institutional Entities - Amendment**, which added to the annual report a breakdown of the types of investments for which direct expenses were charged and of the yield net of the direct expenses. Furthermore, in November 2020 the Commissioner published a **Draft Circular on Acceptance of Planholders by a Pension or a Provident Fund - Amendment**, which suggests requiring institutional entities to inform a person, who wishes to join as a planholder in a provident fund, of the direct expenses; such disclosure will be made using forms filled out by candidates to sign on to funds, and in the notice issued to planholders once they have joined the fund.

4.13.15 In April 2020, an amendment to the provisions of the **Consolidated Circular - Management of Investment Properties - Chapter 5 of Title 4, "ETFs and Debt Settlement Arrangements"** - was published. The amendment deals with the following: 1. An institutional investor's becoming the controlling shareholder in a borrower corporation or a holder of more than 20% of the means of control of that corporation, as a result of receiving such means of control as part of a debt settlement arrangement. The draft stipulates that, subject to the terms and conditions included therein, the institutional investor may continue to serve as the controlling shareholder and hold the said means of control; 2. An institutional investor shall be allowed to collect from provident funds it manages or from funds held against yield-dependent liabilities the management fees collected by a manager of an ETF, provided that the conditions set out in paragraph (5)(b) of the definition of "Management Fees to External Part" in Regulation 3A of the Direct Expenses Regulations, as well as the following conditions are met: a) the rate of management fees charged in respect of the ETF shall not exceed 0.1% of the value of the assets, provided that the overall rate in respect of investment in ETFs as aforesaid shall not exceed 5% of the expense limit set in Regulation 2(b) of the Direct Expenses Regulations (i.e., the 0.25% limit); b) the CPI is not among the indexes listed in the provision; furthermore, a reference was made to an old fund to which a special administrator was appointed pursuant to Section 78d of the Supervision Law.

4.13.16 In October 2020, an amendment to the provisions of the **Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets" (Various Amendments)** was published. The amendment sets a number of permanent amendments to the provisions of the chapter dealing with management of investment assets, including: (a) exempting institutional entities from the requirement imposed on issuers to obtain the investment committee's approval for a bonds repurchase transaction, to the extent that the relevant bond is not classified as a troubled debt; (b) giving institutional entities the option to give a loan at a rate higher than thirty percent to savers who have a permanent source of income in the form of retirement pension (from a pension fund or an insurance company) or in the form of a budgetary pension.

4.13.17 In October 2020, an Amendment of the Provisions of the **Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets" - Internal Rating Model** was published. The amendment sets out terms and conditions in addition to those set out in the in the chapter dealing with management of investment assets regarding internal rating of credit, and stipulates that the internal rating model of an institutional entity that meets the terms and conditions listed therein shall be deemed an internal rating model approved by the Commissioner. The terms and conditions relate to the model's characteristics, the methods employed to validate and document it and the manner in which it was used. The amendment stipulates transitional measures for its implementation. The Company validates its internal rating models accordingly.

4.13.2 Drafts and bills for legislative arrangements:

4.13.21 In August 2020, the Commissioner published a draft amendment to the provisions of the **Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets"**, which included a number of amendments, including reducing the scope of the definition of "debt settlement arrangement", such that the debts included in the "Management of Investment Assets" chapter shall apply only when the relevant arrangement deals with troubled debt.

4.13.22 In August 2020, the Commissioner published a draft amendment to the provisions of the **Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets" (Hybrid Bonds)**. The draft stipulates that an institutional entity may invest in hybrid bonds, provided that all of the following terms and conditions are met: a) the hybrid bond is traded in a stock exchange or offered in the primary market as part of a public offering; b) the issuer has undertaken that the hybrid bond shall be rated at least once a year by a rating agency, until its maturity date; c) the issuer has undertaken to pay interest at a higher rate in the event of downgrading of the issuer or the hybrid bond's rating.

4.13.23 In January 2021, the Competition Authority published a draft of the Economic Competition Rules (Class Exemption for Joint Loan Arrangements) (Temporary Order) (Amendment), 2021. The class exemption deals with loans in which credit was extended by several financial entities to a specific business borrower. The amendment suggests to renew the class exemption for a period of 5 years, taking into consideration the experience the Competition Authority has gained since it was initially enacted. It is also suggested to make several amendments to the class exemption, the key of which include: amending the definition of "lender" in Section 1 of the class exemption, such that it will also include credit providers operating by

virtue of licenses issued pursuant to the provisions of the Financial Services Supervision Law (Regulated Financial Services), 2016; and, to amend Section 2(4) to the class exemption such that a joint loan arrangement, which includes two large lenders, one of whom arranges the loan, shall be allowed only when both the participation of all of the large lenders and the arranging of the loan by any of them are required for the purpose of obtaining better credit terms for the borrower.

4.13.24 In January 2021, the Commissioner published an amendment to the provisions of the **Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets" (Collaboration with a Related Fund)**. The purpose of the amendment is to define and set terms and conditions for collaboration between an institutional entity and an investment fund which is a related party thereof, in order to safeguard the savers' interests while maximizing the advantages of such an investment. The terms and conditions set in the amendment include, among other things, a condition whereby the services shall only be rendered in relation to non-marketable assets that the institutional investor holds or is expected to hold directly rather than through the fund; the engagement is subject to the investment committee's approval, taking into account the issues listed in the amendment; and monitoring and supervision mechanisms were set for engagements of this type.

4.13.25 In January 2021, the Commissioner published a draft amendment to the provisions of the **Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets" (Lending of Securities)**. Following an amendment to the TASE's Rules and Regulations, whereby the TASE launched a central securities lending platform that will enable capital market actors direct lending among a range of financial instruments, with the TASE clearing house serving as a central counter party, such that it guarantees the return of the security to the lender at the end of the lending period, even if the borrower did not meet its obligations, it was suggested to revise the existing provisions regarding securities lending and adapt them to the amendment made as aforesaid.

4.13.26 In February 2021, the Commissioner published a draft of the **Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities) (Amendment), 2021**. The amendment combines a number of amendments, including: a) allowing institutional investors to use only savers' funds to purchase a further 29% (i.e., maximum holding of 49%) in a corporation whose activity was limited to development and construction of a dedicated infrastructure project in Israel, or corporations whose objective is to raise capital for infrastructure projects in Israel, including corporations, the objective of whose investments is to improve the ability to tackle and reduce the effects of

climate change; b) further to the coming into effect of Amendment No. 28 to the Joint Investments in Trust Law 2018 (hereinafter - "Amendment No. 28"), it was suggested to stipulate that the restriction imposed on institutional entities' investment in ETFs shall apply only to ETFs which are a related party of the relevant institutional entity, and which are not funds investing in accordance with the Jewish law; c) it was suggested to give old funds higher flexibility in terms of asset management, broaden the types of investments those funds are allowed to make as well as the investment rates therein; d) terms and conditions were set for investment in hybrid bonds.

4.13.27 In February 2021, the Commissioner published a draft amendment to the provisions of the **Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets" (Investment Considerations relating to Environmental, Social and Corporate Governance Aspects, Emerging Risks, Cyber Risks and Technological Risks)**. According to the proposed amendment, since investment considerations relating to environmental, social and corporate governance aspects (hereinafter: "ESG Considerations") are becoming more significant to the overall investment policy set by investment committees of institutional investors, such investment policy shall be set in relation to ESG Considerations which are relevant to the performances of the investment portfolio and may impact them.

4.1.4 Provisions on accounting reports, reporting and presentation rules and reports to be submitted to the Commissioner

4.14.1 General

The Supervision Law and the regulations promulgated thereunder stipulate, among other things, provisions regarding the content, details and accounting principles to be applied in the preparation of insurance companies' financial statements, including the accounting treatment applied to insurer's assets and liabilities.

The main accounting principles used by the Group in preparing the financial statements are described in Note 2 to the Company's financial statements.

From time to time the Commissioner publishes circulars and directives pertaining to reporting rules for both insurers and management companies, and to the accounting rules that should be applied to financial statements of insurers and management companies.

4.14.1.1 In January 2020, the Capital Market, Insurance and Savings Authority published the "Procedure for Filing an Accounting Pre-Ruling". The purpose of the procedure is to regulate the manner in which institutional entities file a pre-ruling pertaining to accounting issues, and to promote the regulatory certainty and transparency of the Capital Market, Insurance and Savings Authority's positions. In accordance with the

procedure, as a rule, an entity may file an application for a pre-ruling when a clarification is needed in relation to accounting issues. The procedure describes the manner of filing the application and its content, the Commissioner's considerations when replying to such an application and the timetable for receiving the reply. According to the procedure, the Commissioner's reply to the application shall be published in order to enhance transparency for other regulated entities.

4.1.4.1.2 The Securities Regulations (Reporting in English), 2020 were published in November 2020; the said regulations set terms and conditions, the compliance with which will allow corporations to report in English alone; the regulations also set terms and conditions that will allow a reporting corporation to change its reporting language from Hebrew into English and vice versa. Furthermore, in June 2020, the Israel Securities Authority published a notice titled "Voluntary Publication of Reports Translated into English" dealing with the option of publishing a "convenience translation" into English alongside the reporting in Hebrew. As to the Company's announcement in February 2021 regarding its voluntary reporting policy in English, please see Section 1.3.16 above.

4.1.4.1.3 On June 2020, the Capital Market, Insurance and Savings Authority published a paper titled **"Roadmap for the Adoption of International Accounting Standard (IFRS) 17 - Insurance Contracts"**. The roadmap lists the steps required to ensure the preparedness of Israeli insurance companies for the implementation of IFRS 17 - Insurance Contracts - and the timetables for the implementation of these steps. The steps set out in the roadmap are designed to increase the level of regulatory certainty as to the planned implementation date of the standard and as to the main steps insurance companies will need to take in order prepare for the implementation. The roadmap sets key milestones, the achievement of which will be required as part of the preparations made by insurance companies. These milestones pertain to several aspects of preparedness: (1) IT systems; (2) project management; (3) accounting policies; (4) quantitative tests; and (5) disclosure to the public. The standard shall be applied from the reporting periods relating to January 1 2023 and onwards.

Further to the publication of the roadmap, in October 2020 and February 2021, the Commissioner published a draft circular titled **Revision of the Consolidated Circular regarding Measurement - Professional Issues Pertaining to the Application of IFRS 17 in Israel**. The purpose of the draft circular is to create as uniform a method of application of the Standard as possible by Israeli insurance companies by setting principles for application of the Standard with respect to certain professional issues regarding which the standard is not unequivocal, or whose application in Israel requires some interpretation.

For further details regarding the preparations made by the Company for application of the standard, please see Note 2 to the Financial Statements.

4.1.4.1.4 In March 2020, the Commissioner published a circular on the **Amendment to the Provisions of the Consolidated Circular regarding the Measurement of Liabilities - Liability Adequacy Testing (LAT)**. The circular's objective is to make specific changes to the manner in which liability adequacy testing is carried out in Israel. The suggested amendment will increase the level of aggregation of the various insurance products for the purpose of calculating LAT, in order to increase the correlation with the methods employed for that purpose in Europe and to better reflect economic capital in the financial statements. This change is expected to reduce volatility in the financial statements, and achieve a better correlation between accounting capital and economic capital. It is suggested that this change shall apply to accounting periods (quarterly and annual) starting on January 1 2020 and thereafter, while retrospectively restating the figures, as required in accordance with generally accepted accounting principles.

4.1.4.1.5 In June 2020, the Commissioner published a circular titled **Amendment to the Provisions of the Consolidated Circular regarding Measurement of Liabilities - Illiquidity Premium**. The "Measurement of Liabilities" chapter of the consolidated circular deals, among other things, with insurance companies' duty to perform liability adequacy testing for all its insurance businesses (property and casualty, life, long-term care and health). The circular allows adding an illiquidity premium to the discount rate when calculating the supplement arising from the LAT; such illiquidity premium will vary between various policies and reserves. The circular sets a specific illiquidity premium rate that will be used when performing LAT for long-term care insurance policies (individual insurance policies), compulsory motor and liability insurance in financial statements of insurance companies. The circular came into effect on June 30 2020, but the Company was allowed to early adopt the provisions of the circular in its financial statements as of March 31 2020.

4.1.4.1.6 In June 2020, the Commissioner published a circular on the **Allocation of Assets Not Measured at Fair Value when Performing LAT**. The circular's objective is to provide clarifications as to the allocation of non-marketable assets when performing LAT in order to improve the comparability between the various insurance companies and the regulatory certainty. The circular also revises the disclosure requirements relating to this issue in financial statements of an insurance company; this is due to the fact that the allocation of assets and the transfer of assets between insurance groups can potentially have a material effect on the financial statements of insurance companies.

The circular came into effect as from the financial statements as of June 30 2020. For further details, please see Note 40 to the Financial Statements.

4.1.5 Actuary and risk management, including provisions regarding Solvency II-based Economic Solvency Regime

4.1.5.1 General

As part of its insurance activities, an insurer is required to hold assets against its liabilities.

From time to time, the Commissioner publishes circulars providing guidance on actuarial assessments used in life, health and property and casualty insurance.

Most of the actuarial rules, methods and assumptions used to determine the Group's insurance liabilities are listed in Section 2.1 of the Report of the Board of Directors, Notes 2 and 40 to the Financial Statements, and the actuary's statements in the life, health and property and casualty subsegments, which are attached to the Financial Statements.

4.1.5.2 Duty to appoint an actuary, actuaries' work methods and required qualifications

The Supervision Law stipulates that an insurer, including an insurer which serves as a pension fund's management company, must appoint an actuary for each of its insurance segments; the actuary's roles include, among other things, making recommendations to the Board of Directors and CEO as to the amount of the insurer's insurance liabilities or the actuarial balance sheet of the pension fund it manages, as applicable.

4.1.5.3 Duty to appoint a Chief Risk Officer, his/her roles and required qualifications

An institutional entity is required to appoint a Chief Risk Officer and set up a risk management function. The Chief Risk Officer's roles include, among other things, identifying the Company's material risks, quantifying and estimating their effect and reporting to the Board of Directors and CEO.

4.1.5.4 Provisions regarding the implementation of Solvency II-based Economic Solvency Regime

The Phoenix Insurance is subject to a Solvency II-based economic solvency regime, which regulates capital requirements and risk-management processes in insurance companies. In accordance with the provisions of the Consolidated Circular, the economic solvency ratio report as of the December 31 and June 30 data of each year shall be included in the first periodic report published after the calculation date.

In March 2020, the Commissioner published an outline for the application of the European Solvency II directive (hereinafter: the "**Outline**"). In accordance with the Outline (and revisions thereof published during 2020), the deadline for publication of the economic solvency ratio report as of December 31 2019 was set to October 31 2020 (instead of May 31 2020); it was

also decided that an insurance company is exempt from calculating and reporting its economic solvency ratio as of June 30 2020.

Further to the Outline, in October the Commissioner published Insurance Circular 2020-1-15 - "Amendment to the Consolidated Circular concerning Application of Solvency II-Based Economic Solvency Regime for Insurance Companies" (hereinafter: the "**Current Solvency Circular**"), which superseded insurance circular 2017-1-9 - the first directive dealing with the Solvency II-based Economic Solvency Regime, published in June 2020. In addition, in October 2020, the Commissioner published Insurance Circular 2020-1-17 - "Revising the Provisions of the Consolidated Circular regarding Disclosure on Economic Solvency Ratio", which revised the disclosure provisions applicable to entities subject to economic solvency regime.

Set forth below is a summary of the main changes included in the Commissioner's Directives as per the Current Solvency Circular, compared with Insurance Circular 2017-1-9:

4.1.5.5 An option was added to the transitional measures whereby companies may increase their economic capital through a deduction from their insurance reserves, which will decrease gradually until 2032 (hereinafter - the "**Deduction during the Transitional Period**"). The Deduction during the Transitional Period shall be calculated by homogeneous risk groups of liabilities, in respect of policies issued by December 31 2016. 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.

4.1.5.6 Various provisions were revised in terms of the calculation of the required capital, including reducing the capital requirements in respect of shares held for the long-term (as defined by the Current Solvency Circular), and increasing the loss absorption adjustment with respect to deferred tax asset beyond the balance of the deferred tax reserve as per the economic balance sheet, up to 5% of the basic solvency capital requirement (BSCR).

In March 2021, a letter from the Commissioner was published, Ref. No. 2021-423, stating that the deadline for publication of the economic solvency ratio report as of December 31 2020, as well as the accompanying files reported to the Commissioner, shall be filed no later than June 30 2021 (in lieu of May 31 2021). In addition, the letter states that an insurance company may refrain from publishing an economic solvency ratio report as of June 30 2021.

4.1.6 The principal legal frameworks of the long-term savings area of activity

4.1.6.1 Legislative arrangements

4.1.6.1.1 The Financial Services Supervision (Provident Funds) Law, 2005 (hereinafter: the "**Provident Funds Law**") regulates the establishment of

management companies, the manner in which they are to be managed and ways in which they operate; the law lists the terms and conditions for obtaining a license to manage a management company, and sets provisions on obtaining permits to control and hold stakes in management companies. The law also regulates the relationship between a planholder and the management company and even determines the rights of a planholder in a provident fund.

4.1.6.1.2 Financial Services Supervision (Consulting, Marketing and Pension Clearing System) Law, 2005 (hereinafter: the "**Pension Advice Law**") regulates the practice of engaging in advice on and marketing of pension products, including provisions on the duty to obtain a license and the terms and conditions of such a license, prohibitions and restrictions on the practice of providing advice on and marketing of pension products, supervision of license holders, and the Commissioner's right to set proper conduct provisions and provisions designed to safeguard policyholders' interests, including the imposition of sanctions, civil fines and criminal sanctions. The law also sets provisions dealing with the licensing procedure of a company operating a pension clearing system, and the mechanisms for supervising such a company (hereinafter: the "**Clearing System**").

The Clearing System is used to transfer information about pension products of planholders in the various institutional entities, transfer applications to make changes in the pension products and information about direct contributions by employers; the Clearing System is also used to make actual transfers of funds.

4.1.6.1.3 The Prohibition on Money Laundering Law, 2000, and the Prohibition on Money Laundering (Obligations of Identification, Reporting and Record Keeping by Insurers, Insurance Agents and Management Companies to Prevent Money Laundering and Financing of Terrorism) Ordinance, 2017, require insurers, insurance agents and management companies to identify and verify customers' details. The said law and ordinance set, among other things, provisions regarding the requirement to conduct a "know your customer" procedure when issuing a life insurance contract and opening a provident fund account, the requirement to check whether the customer is included in the list of active terrorist groups and individuals as defined in the ordinance, and the requirement to submit regular and special reports to the Israel Money Laundering and Financing of Terrorism Prohibition Authority.

4.1.6.1.4 The Income Tax Ordinance (New Version), 1961 confers upon provident funds, pension funds and insurance funds a special status with regard to income tax credits and deductions and various exemption provisions; this status is designed

to encourage the public to save for retirement through provident and insurance funds.

4.1.6.1.5 Income Tax Regulations (Rules for the Approval and Management of Provident Funds), 1964 (hereinafter: the "**Provident Funds Regulations**")

regulate certain aspects of the management of provident funds, including contributions to be made into such funds, the use of their funds, payments to planholders and provisions with regard to reports issued to planholders.

The Provident Funds Regulations apply to pension funds, provident funds and insurance plans approved as insurance funds (executive insurance and insurance for the self-employed).

4.1.6.1.6 The Supervision of Financial Services Regulations (Provident Funds) (Insurance Coverages in Provident Funds), 2013 regulate the insurance

coverages that a management company is allowed to purchase for planholders in an annuity provident fund under its management, the terms and conditions of such insurance coverage, and the terms and conditions for group insurance in an advanced education fund and in a non-annuity provident fund. For further details about a temporary order enacted in the reporting year with respect of these regulations, please see Section 4.1.1.1.7 above.

4.1.6.1.7 The Supervision of Financial Services Regulations (Provident Funds) (Self-Directed Provident Funds), 2009 (hereinafter: "**Self-Managed Provident Funds**")

allow savers to manage the investment of their pension savings by themselves. This arrangement enables savers to benefit from tax benefits in respect of contributions made into provident funds and/or education funds, and at the same time, to control the manner in which their funds are invested, either personally or through a portfolio manager who follows the savers' instructions.

4.1.6.1.8 The Supervision of Financial Services Regulations (Provident Funds) (Crediting Yields in a New Comprehensive Pension Fund), 2017 stipulate

provisions regarding the crediting of yields in respect of the designated bonds; the regulations also stipulate that the bonds' yield shall be calculated separately for each investment track. The regulations stipulate provisions in connection with the crediting of designated bonds' yields for three groups of planholders: those who receive an annuity, those who are aged 50 or over and other planholders; the separation between planholders who receive an annuity and the other planholders shall be made immediately, and the separation between planholders younger than 50 and those aged 50 or over shall be completed by 2024. The Commissioner was also given the power (under the limitations set out in the regulations) to change

the amount of designated bonds issued to a certain fund, if a gap arises in the demographic balance.

4.1.6.1.9 The Supervision of Financial Services Regulations (Provident Funds) (Transfer of Funds between Provident Funds) (Amendment), 2020, was

published in September 2020, and included provisions allowing the transfer of funds from one investment provident fund to another investment provident fund. The revised regulations also allow the transfer of funds from an investment provident fund to an annuity provident fund, provided that the planholder has reached early retirement age.

4.1.6.1.10 In December 2020, the Commissioner published the Settlement of PHI Insurance Claims Circular. The circular's objective is to separately and

comprehensively regulate the procedure of settling a PHI insurance claim, in order to ensure a fair, effective and transparent claim settlement procedure, by, among other things, using a model that will allow an objective handling of a PHI insurance claim in a way that will exhaust the policyholder's rights, as in the case of the settlement of disability claims in pension funds. Among other things, the circular addresses the following issues: general claim settlement principles; the requirement to set a system of rules for handling and settling claims; training of those engaged in the settlement of claims; the manner of receiving a claim for insurance benefits and the handling of such a claim, including timetables; medical testing; filing an appeal with a medical committee and appeal with a medical committee for appeals; conducting an investigation; approval of a claim and payment notice; rejection notice and compromise; roles of management and board of directors; and ongoing reports to the Commissioner. It is not yet possible to estimate the full extent of the circular's impact on claims settlement expenses, but the Company expects that the circular's provisions shall cause an immaterial increase in such expenses. In March 2021, an amendment to the said circular was published, in which the effective date of the circular was postponed to September 1 2021.

4.1.6.1.11 In June 2020, the Commissioner published the circular titled "Withdrawal of Funds from Small Accounts with Provident Funds - Amendment". The

circular titled "Withdrawal of Funds from Small Accounts with Provident Funds" stipulated that management companies shall be required to carry out a "proactive withdrawal" and post a check to planholders whose account has a balance higher than NIS 50 and lower than NIS 1,350. The amendment to the circular increases to NIS 8,000 the account balance to which a "proactive withdrawal" from a provident fund shall apply (instead of the current amount of NIS 1,350), where checks will be posted to planholders gradually, in five steps, over a one-year period.

4.1.6.2 Drafts and bills for legislative arrangements:

- 4.1.6.2.1** In October 2020, the Authority published its vision on the activity of the Pension Clearing System as from 2025. The vision comprised three draft circulars: a uniform format for transferring information and data in the pension savings market, the manner of making contributions to provident funds, and the duty to use a central pension clearing system. The Authority also published a green paper on this subject. The vision addresses the manner of transferring information (changing the interfaces currently used), the date on which the information is up-to-date, expanding the scope of currently available information, adding additional processes to existing processes of working with the clearing system and improving existing processes.
- 4.1.6.2.2** In July 2020, the Ministry of Finance published the **Financial Services Supervision (Consulting, Marketing and Pension Clearing System) Law (Amendment No. 11) Memorandum, 2020**, which suggests allowing banks to dispense pension advice by telephone or digital means. In this context, it should be noted that, during the coronavirus pandemic, the Capital Market, Insurance and Savings Authority announced that it will not instigate enforcement procedures against banks that had dispensed pension advice by telephone or digital means.
- 4.1.6.2.3** In December 2020, the Commissioner published a draft of the **Supervision of Financial Services Regulations (Provident Funds) (Management Fees) (Amendment), 2020**. The draft suggests to amend the Management Fees Regulations and to reduce the maximum annual rate of management fees collected from planholders who receive an annuity from 0.5% to 0.3%; this amendment will apply to planholders of comprehensive pension funds and general pension funds, who started receiving an annuity as from January 1 2021, and to policyholders in insurance policies issued by insurance funds after January 1 2021.
- 4.1.6.2.4** In December 2020 the Commissioner published the circular on **Withdrawal of Funds from Provident Funds - Second Draft**, which suggests to regulate in a comprehensive manner the process of withdrawal of funds from provident funds, and to set provisions whose aim is to create a uniform withdrawal procedure for all institutional entities.

4.1.7 The principal legal frameworks of the property and casualty insurance area of activity

4.1.7.1 Legislative arrangements

4.1.7.1.1 Property and casualty insurance

Supervision of Financial Services Regulations (Insurance) (Calculation of Insurance Reserves in Property and Casualty Insurance), 2013 deal with the manner of calculating insurance reserves such that they adequately and properly reflect the insurer's insurance liabilities.

For further details on these regulations and the Commissioner's Directives, please see Note 2 to the Financial Statements.

4.1.7.1.2 Compulsory motor insurance

The Motor Insurance Ordinance (New Version), 1970 (hereinafter: the "**Motor Insurance Ordinance**") stipulates that every person using or allowing others to use a motor vehicle must have a valid insurance policy in accordance with the Motor Insurance Ordinance. Pursuant to the Motor Insurance Ordinance, a compulsory motor insurance policy covers the motor vehicle's owner and the driver against any liability they may incur under the Road Accident Victims Compensation Law, 1975 (hereinafter: the "**CRAV Law**") and against any other liability they may incur due to bodily injury caused by or as a result of the use of a motor vehicle to the driver, passengers, or pedestrians hit by the motor vehicle as a result of the use thereof.

4.1.7.1.3 The **Road Accident Victims Compensation Fund** (hereinafter: "**Karnit**") is a corporation established under the CRAV Law; its purpose is to compensate victims who are eligible for compensation by virtue of that law, but are unable to claim compensation from an insurance company due to one of the following circumstances: the identity of the driver who caused the accident is unknown; the driver does not have compulsory motor insurance, or the insurance does not cover the liability; the vehicle's insurer is under liquidation or an administrator was appointed for the insurer.

4.1.7.1.4 The **Economic Efficiency Law (Legislative Amendments for the Implementation of the Economic Plan for 2009 and 2010), 2009** (hereinafter - the "**Economic Efficiency Law**"). In accordance with the amendment, as from 2010, the insurance liability in respect of the provision of medical services, which are included in the basket of services set out in the Second Addendum to the National Health Insurance Law, and in the National Health Insurance Ordinance (Medications in the Health Services Basket) was transferred from the insurance companies to the health maintenance organizations; accordingly, the premium component relating to the said

insurance liability in respect of medical services is transferred to the health maintenance organizations.

- 4.1.7.15 The Motor Insurance Regulations (Creation and Management of Databases), 2004**, determine the activity of a database operator, which is in charge of the management of the database and the generation of reports used, among other things, to assess the risks in the compulsory motor insurance subsegment, and to determine the cost of pure risk on the basis of which compulsory motor insurance tariffs are determined (hereinafter: the "**Base Tariff**").
- 4.1.7.16 The Motor Insurance Regulations (Residual Insurance Arrangement and Mechanism for Determining the Tariff), 2001, stipulate the residual insurance arrangement (hereinafter: the "Pool")**, which is based on a co-insurance by all insurers. The purpose of the residual insurance is to cover the compulsory motor insurance risk of those who are rejected by commercial insurance companies due to exceptional risk levels (mainly motorbikes and all-terrain vehicles). Each insurance company's share in the residual insurance is determined every year based on its proportionate share - during the past year - in the compulsory motor insurance subsegment. The Pool operates as an insurer, and its rates are determined by the Commissioner. The Phoenix's proportionate share in the Pool's losses in 2020 was 11.09%.
- 4.1.7.17 The Motor Insurance Ordinance (Amendment No. 23) (Loading Component in Insurance Tariff), 2018** was published in July 2018; the amendment stipulates that the loading component - which is the amount each policyholder insured under policies outside the Pool should pay as part of insurers' participation in the Pool's costs - was permanently increased to 8% from mid-2020 and thereafter.
- 4.1.7.18 The National Insurance Law (Combined Version) 1995 (hereinafter - the "National Insurance Law") authorized the National Insurance Institute (hereinafter - the "NII")** as a corporation operating as an insurance entity by virtue of that law. Pursuant to Section 328 of the National Insurance Law, where the NII has a liability to pay an annuity to a victim, and at the same time a liability arises to a third-party to pay compensation to that victim in respect of the same event, the NII may receive indemnification from the said third party in respect of annuities it has paid or is required to pay. Following negotiations held between the Israeli Insurance Association and NII, pursuant to the approval of the Antitrust Commissioner, the parties reached a draft subrogation agreement, which regulates the NII's indemnification right and lists, among other things, the circumstances in which the Company may reject the subrogation demand and indemnification rates. Following the above, in July 2015, the

Company and NII signed a subrogation agreement relating to compulsory motor insurance, in accordance with the principles of the above draft.

With regard to the said agreement, it should be noted that in March 2018, the **Economic Efficiency Law (Legislative Amendments for the Achievement of Budgetary Targets 2019), 2018** was published, whereby the individual subrogation right available to the National Insurance Institution by virtue of Section 328 of the National Insurance Law in respect of road accidents will be revoked, and - as a result - the agreements signed to regulate this right will be terminated. In lieu of this right of subrogation, an overall netting arrangement will be established, under which a fixed amount will be transferred from the insurance companies each year to cover their liability according to parameters determined by law and/or regulations. The agreement shall apply to all road accidents that occurred from January 1 2019 and thereafter; insurance companies' liability with regard to road accidents that occurred between January 1 2014 to December 31 2018 shall also be regulated. Following negotiations between the insurance companies and the NII, the parties reached understandings about the manner of transferring the payments to the NII, both in respect of past years and in the future, including changing the regulations applicable to past years, against the transfer of advance an payment to be offset in accordance with actual claims to be submitted to each company. To be passed into law, the said understandings will need to undergo a legislative procedure in the Knesset; as of the report publication date, such a procedure has yet to be completed.

4.17.1.9 In October 2017, an **amendment to the National Insurance (Discounting) Regulations, 1978**, came into force, which provides for the calculation of allowances paid by the National Insurance Institute for individuals injured in work accidents, and the manner in which these allowances should be discounted. Under the regulations, the life expectancy component shall be based on schedules published by the Central Bureau of Statistics; the discount rate will be updated every four years, and the manner of its calculation is determined provided that the rate of change is not higher than 1% (and the interest rate shall not be lower than 0%). The interest rate according to the regulations is 2% (instead of the previous rate - 3%).

The regulations gave rise to a discrepancy in court rulings in connection with the discount rate of claims for compensation for bodily injury paid by insurance companies to injured policyholders, and an appeal was filed with the Supreme Court in the matter (Civil Appeal 3751/17, Israel Motor Insurance Database (the Pool) vs. John Doe), in order to decide this issue. In August 2019, the Supreme Court issued a judgment in the said appeal to the effect that the discount rate shall be 3% (hereinafter: the "**Judgment**"). In addition, the Judgment states that until a legislative amendment has

been made, the discount rate may be changed in accordance with a two-year test mechanism as set out in the Judgment.

In September 2020, the Supreme Court issued a judgment on an appeal filed by NII against Megilot Dead Sea Regional Council; the said judgment stipulates that the court's Judgment - whereby the subrogation claims will be discounted at a rate of 3% rather than 2% - supersedes the Discounting Regulations and bind the NII.

Accordingly and based on the opinion of its legal counsel, in the reporting period, the Company reduced its insurance liabilities in the motor vehicle and liability insurance in respect of NII claims. For further details, please see Note 40 to the Financial Statements.

4.1.7.1.10 Motor property

Supervision of Insurance Business Regulation (Contract Terms and Conditions for Insuring a Private Vehicle), 1986, stipulate the wording of a standard policy that includes the minimum terms and conditions for provision of insurance coverage for private and commercial vehicles weighing up to 3.5 tons. According to the regulations, policyholders may only be given benefits in addition to the terms and conditions of the standard policy, and the scope of their coverage, risks, property and liabilities may only be expanded - not reduced.

4.1.7.1.11 In March 2021, the Commissioner published the **Supervision of Financial Services Regulations (Insurance) (Terms of Compulsory Motor Insurance Contract) (Amendment), 2021**, which stipulated, among other things, the following provisions: the fine imposed upon cancellation of a policy by a policyholder was revoked; the option to suspend the policy (as in the case of a property insurance policy) was introduced; management expenses that were in place to date were revoked; a provision was set whereby an insurer shall not be exempted from settling a claim if the driver had a valid driver's license at any time during the 120 months prior to the road accident date (provided that when the accident occurred, he/she was not disqualified from receiving or holding a driver's license); and a dedicated "licensed vehicle trader" policy was added. The regulations will be in effect for six months from the date of their publication.

4.1.7.1.12 Other property and casualty insurance

Supervision of Insurance Business Regulations (Contract Terms and Conditions for Insuring Homes and their Contents), 1986 stipulate the wording and terms and conditions of a standard policy and a minimum binding home and contents insurance coverage.

4.1.7.1.13 In December 2020, the Commissioner published a letter dealing with **Exclusions in Reinsurance in Property and Casualty Insurance following the Coronavirus Pandemic - Amendment**. In his letter, the Commissioner set out the restrictions that would apply to the companies when drafting exclusions in property and casualty insurance policies. The Company modified the wording of the relevant policies such that they will be in line with the said wording, and received the Commissioner's approval for the changes.

4.1.7.2 Drafts and bills for legislative arrangements:

4.1.7.2.1 In January 2021, a draft amendment to Regulation 309 to the Transport Regulations, 1961 was published, which proposes to amend the definition of "safety damage" caused to a vehicle, which is currently defined as a "damage causing material deformation, twisting, crack or breakage in one of the load-bearing columns of the vehicle's body", such that the word "material" shall be deleted from the definition, in order to prevent interpretations that may lead to different decisions in similar cases. In the opinion of the Company, if the proposal is allowed, many more vehicles will be declared "total loss", which may increase the insurance benefits paid by companies.

4.1.8 The principal legal frameworks of the health insurance area of activity

4.1.8.1 In September 2018, the Commissioner published the **Provisions of the Consolidated Circular - Title 6, Part 3 - Long-Term Care Insurance**, which regulates in a detailed manner the process of settling long-term care insurance claims.

In December 2020, the Commissioner published a further amendment to the circular, which postpones to July 1 2021 the commencement date of the section dealing with the insurance companies' engagement with providers of functioning assessments; the commencement date was postponed due to claims that the application of the provisions is complex and require further review.

4.1.8.2 In June 2020 the Commissioner published an amendment to the **Consolidated Circular - Title 6, Part 3 - Chapters 3, 2 and 4 - Personal Accidents Insurance**. The amendment sets out provisions the purpose of which is to regulate the personal accidents subsegment, such that the selling process of such insurance will be fair and that the scope of the insurance coverage be properly explained to the insurance candidate. The amendment also sets out provisions for drafting a personal accidents insurance plan, in order to ensure appropriate insurance coverage upon the occurrence of an insurance event. For that purpose, the amendment sets out a basic coverage for a policy, which includes coverage for death, disability, hospitalization, fractures, burns and recovery days; the amendment sets a uniform and broad definition for the term "accident"; a two-year insurance period was established, and so were

specific provisions for issuing individual personal accidents insurance policies, and a mechanism for settling disability claims under such a policy.

The amendment also stipulates a two-year transitional period starting on the commencement date, during which an insurance company will be required to maintain an internal control mechanism that will assess - on a semi-annual basis - the manner of issuing individual personal accidents insurance policies, in particular with respect to the populations defined in the circular.

In January 2021, the Commissioner published an amendment to the circular, whereby the commencement date of the said circular was postponed by three months to May 1 2021.

4.1.8.3 In July 2020, **Directives regarding Financial Services Supervision (Insurance) (Group Long-Term Care Insurance to Members of Health Maintenance Organizations) (Amendment), 2020** were published. The provisions of the Directives regarding Financial Services Supervision (Insurance) (Group Long-Term Care Insurance to Members of Health Maintenance Organizations), 2015 set out a uniform policy for group long-term care insurance coverage given to members of health maintenance organizations, and regulate the terms and conditions of the policy and the duties of insurers providing such insurance. The purpose of the above amendment is to enable policyholders who purchased basic coverage to purchase an expanded group long-term care insurance policy for members of health maintenance organizations covering a longer period than the basic coverage, and to receive additional insurance benefits, subject to a medical underwriting process and to payment of additional premiums as set out in the amendment. The expansion of the insurance coverage will be made possible in two ways: extending the allowance entitlement period by ten years (in addition to the five years included in the basic coverage) and increasing the allowance amounts.

Furthermore, in November 2020 further amendments were made to the said directives; as part of the amendments: (1) the expanded coverage period was extended such that it covers the policyholder's entire life; (2) it was determined that the insurance premium paid for the expanded coverage and the additional insurance benefits shall be determined in accordance with the policyholder's age and the date on which he joined the insurance coverage, specifically when the policyholder is 65 or older (unlike in the case of the previous provisions on insurance premiums paid for the basic coverage, whereby insurance premiums shall be calculated based on the policyholder's age on payment date, regardless of when he joined the insurance); (3) it was determined that health maintenance organizations shall be allowed to collect amounts out of the principal of the expanded coverage in respect of their expenses relating to the expanded coverage and additional insurance benefits, provided that such expenses will not exceed 5% of the insurance premiums collected for the expanded coverage and additional insurance benefits; and (4) the commencement date was changed such that the marketing of the expanded coverage shall begin on July 1 2021, and the marketing of coverage for the policyholder's entire

life plus the additional insurance benefits shall start on July 1 2022, in order to enable the health maintenance organizations and the insurance companies to make preparations for the above marketing activities.

4.1.8.4 In August 2020, the Commissioner published the **Circular on Principles for Medical Underwriting - Amendment**. The circular sets out disclosure provisions for disabled insurance candidates in connection with candidates' right to reassess their eligibility for the insurance. The circular also stipulates that an institutional entity shall be required to make an independent assessment of the candidate's medical and functional status on the autism spectrum rather than rely on the mere fact that he/she receives a disability annuity from the National Insurance Institute.

4.1.8.5 In September 2020, the Commissioner published **Amendment of the Provisions of the Consolidated Circular - Title 6, Part 3 - Long-Term Care Insurance**. The purpose of the Amendment is to set out supplementary provisions to those set out in the Commissioner's Directives regarding Financial Services Supervision (Insurance) (Group Long-Term Care Insurance to Members of health maintenance organizations) (Amendment), 2020 as described above, with regard to the management of policyholders' funds accrued in respect of the various long-term care insurance coverages.

In that context, it should be noted that on January 1 2019, The Phoenix Insurance began to provide group long-term care insurance coverage to members of the Maccabi Healthcare Services for a period of 5 years with an option to extend by up to 3 years. The Phoenix Insurance and Maccabi are examining the said outlines in connection with the extended coverage and their significance, as well as the various ways to implement them.

4.1.8.6 In November 2020, **Directives regarding Financial Services Supervision (Insurance) (Group Health Insurance) (Amendment), 2020** were published; the directives amend Section 14 of the group health insurance directives, such that an insurer may reimburse a policyholder, which is a health maintenance organization, whose members are insured under a travel insurance policy, any amounts expensed by the health maintenance organization in respect of its management of a group travel insurance policy, provided that such amounts will not exceed 10% of all insurance premiums collected from policyholders under a travel insurance policy for members of health maintenance organizations.

4.1.9 The principal legal frameworks of the financial services area of activity

For further details on the legal frameworks of the financial services segment, please see Section 2.4.1.5 of the report.

4.1.10 The principal legal frameworks of the insurance agencies services area of activity

For further details on the legal frameworks of the financial services segment, please see Section 2.5.7 below.

4.2 Entry and Exit Barriers

4.2.1 Entry barriers

4.2.1.1 Insurance, pension funds and provident funds activity

In accordance with the provisions of the law, an entity wishing to engage in insurance (including the holding of pension and provident funds' management companies) is required to obtain an insurer license under the Supervision Law (hereinafter: an **"insurer license"**); the holding of more than five percent of a certain type of means of control in an insurer is conditional upon obtaining a permit from the Commissioner to hold such means of control (hereinafter: a **"holding permit"**), and control in an insurance agency is also conditional upon obtaining a control permit from the Commissioner (hereinafter: a **"control permit"**).

When reviewing requests for insurer licenses, a corporate agent, a holding permit and a control permit, the Commissioner takes into account, among other things, a broad range of considerations, including: the applicant's work plans; the suitability of officers' qualifications to their roles; financial means; experience and business background of the entities applying for the license or permit; the competition in the capital market, including the insurance industry and the level of service therein; the Government's economic policy; reinsurance arrangements; the workforce, etc. The Commissioner may set terms and conditions and restrictions in connection with issuing permits including the condition that the insurer has a fixed and stable control core, a prohibition on placing a charge on means of control included in the insurer's control structure, maintaining the framework of the control group, including setting provisions or restrictions on the sale or transfer of means of control to others.

Furthermore, pursuant to Section 32(c1) to the Supervision Law, a material holding in the field of long-term savings is prohibited. A material holding is defined as the holding of a market share of more than 15% of long-term savings assets, as defined in the Supervision Law.

The **Supervision of Financial Services Regulations (Insurance) (Minimum Capital Required for Insurance License), 2018** were approved in January 2018; these regulations supersede the Supervision of Financial Services (Insurance) (Minimum Capital Required from Insurer), 1998, and determine the rate of equity required to

obtain an insurer license. The purpose of the regulations is, among other things, to reduce entry barriers to the Israeli insurance market and encourage the entry of companies relying on technology and innovation.

It should be noted that, pursuant to the aforesaid regulations, new insurance companies entered the market targeting a broad range of customers wishing to purchase insurance directly; so far, those insurance companies focused on selling motor insurance and travel insurance, mostly through digital means supported, inter alia, by call centers.

In the field of pension savings, the establishment of the default pension funds and the termination of collective agreements between employers and management companies in March 2019 in accordance with the **Circular on Provisions Regarding Selection of Provident Funds**, caused the funds selected as default funds to become more dominant than others. For further details, please see Section 2.1.1.2.2.

Furthermore, pursuant to the Reduction of Concentration Law, restrictions are placed on investment in institutional entities by entities holding significant non-financial holdings. For further details on the Reduction of Concentration Law, please see Section 4.1.1.1.3 above.

4.2.1.2 **Permit to hold means of control in institutional entities**

In July 2013, the Commissioner and Banking Supervision Department published a joint document dealing with **Guiding Principles for General Criteria and Conditions for Entities Applying for a Permit to Control and Hold Regulated Financial Entities**. In the document, the Commissioner drafted a list of guiding principles that shall constitute the basis for a detailed framework of criteria and conditions for issuing a control permit; the details of this framework may vary according to the types of regulated entity. The considerations taken into account when assessing a permit application relate, among other things, to four principal areas: (1) personal and business honesty and integrity; (2) financial strength; (3) planned investment strategy; (4) the applicant's business experience, area of business of the applicant and the entities in respect of which a permit is requested, and the potential for conflicts of interest in the regulated entity.

Further to said document, in February 2014, the Commissioner published a document dealing with a **Policy for Control in an Institutional Entity (hereinafter: the "Policy Paper")**. The Policy Paper lists the Commissioner's Directives regarding control in an institutional entity and on the filing of an application for a control permit in an institutional entity. The directives pertain to applicants applying for a new control permit; however, they will also apply to holders of an existing control permit, with the necessary modifications to the permit they hold. It should be noted that in the case of

joint control, each entity in the controlling shareholders' group is required to obtain a control permit, and therefore, each such entity is required to file a control permit application.

The Policy Paper pertains, among other things, to the following issues: (1) the terms and conditions that pertain to an applicant applying for a joint control permit; (2) the control structure and method of holding means of control in an institutional entity in the case of a non-financial entity, foreign banking corporation and a foreign institutional entity, an entity managing funds, partnership, trust and an institutional entity; (3) the minimum holding rate. In that context, it was determined, among other things, that the required holding rates are as follows: a stake of more than 30% in an institutional entity which is required to maintain a large amount of minimum capital, a stake of more than 40% in an institutional entity which is required to maintain a medium amount of minimum capital, and a stake of more than 50% in an institutional entity which is required to maintain a small amount of minimum capital; (4) the funding of the corporations through which the institutional entity is held; (5) placing of charges on the means of control; (6) the financial strength of the applicant. It should be noted that the Company is an institutional entity which is required to maintain a large amount of minimum capital, and accordingly, the minimum holding rate required of its controlling shareholders is 30%.

Furthermore, in July 2019, the Commissioner published a paper dealing with a **Policy for Issuing - to Entities Managing Customers' Funds - Permits to Hold Means of Control in an Institutional Entity without a Controlling Shareholder**; the paper's objective is the set terms and conditions which an entity managing customers' funds is required to comply with in order to receive a holding permit for holding up to 7.5% of the means of control in an institutional entity without a controlling shareholder. It should be noted that, in accordance of the above, in January 2020, the Company and its controlling shareholders received a permit to hold a stake of up to 7.5% in Clal Insurance Enterprises Holdings Ltd.

4.2.1.3 **Financial services activity**

For further details on entry barriers in the financial services segment, please see Section 2.4.1.8 of the report.

4.2.1.4 Licenses and permits received

As stated in Section 4.2.1.1 above, pursuant to the Supervision Law, the holding of more than 5% of an insurer's "**means of control**"²² is subject to obtaining the Commissioner's permit.

On October 31 2019, as part of the transaction to acquire control in the Company by the Funds, the ultimate shareholders of the funds and the funds themselves were given a control permit and a holding permit in respect of the Company and regulated corporations under its control, The Phoenix Insurance and Excellence Pension (hereinafter: the "**Control Permit**").

The Control Permit includes various provisions, including: provisions regarding maintaining the control and holding structure in the funds (including in the ultimate managing partner of each of the funds), provisions regarding the holdings and control structure of corporations in the Company's chain of control and Beleneus's holdings in the Company itself; provisions regarding the sale or transfer of means of control between control group members, and sale or transfer of means of control in the Company; provisions regarding the requirement to maintain minimum equity; restrictions regarding the placing of charges on means of control of the Company or companies in the chain of control; various provisions regarding reporting to the Commissioner changes in shareholding in the Company; provisions regarding the holding in trust of 4.5% of the shares of the Company's control core in order to supplement the equity if The Phoenix Insurance is unable to comply with the equity requirements it is subject to (as shall be applicable from time to time). The Control Permit came into effect on the date on which the transaction for acquisition of control was completed.

It also should be noted that, as part of the transaction for acquisition of control, a permit to hold means of control as collateral in respect of an obligation (hereinafter: the "Charge Permit") was given to the funding entities in the transaction (several Israeli banks and institutional entities); the permit allowed these entities to place a charge on the means of control in the Company, which is held by the funds (through Belenus) and on the means of control in Belenus. The Charge Permit stipulates, among other things,

²² "Means of control" are defined in the Supervision Law as follows: (1) a voting right in the general meeting of a company or a corresponding organ of another corporation; (2) the right to appoint a director in the corporation; and for that purpose, (1) the person/entity that appointed a director in a corporation shall be viewed as the holder of the right to appoint such a director; (2) a corporation, an officer of which was appointed as director in another corporation and the controlling shareholder of that corporation shall be deemed as the holders of the right to appoint the said officer; (3) the right to participate in the corporation's profits; (4) the right to receive a share in the remaining balance of the corporation's assets upon its liquidation, after the settlement of its liabilities.

provisions regarding the sale of the pledged means of control and provisions on reporting to the Commissioner.

The Control Permit is updated, from time to time, as required, and in accordance with structural changes resulting from mergers and acquisitions of various companies and operations in the Group's areas of activity supervised by the Capital Market, Insurance and Savings Authority.

4.2.15 **Shareholders' equity**

Insurance companies

A company engaged in insurance activity is required to meet regulatory capital requirements which constitute a significant entry barrier for operating in this field.

For further details regarding the capital requirements, including the application of a Solvency II-based economic solvency regime, the transitional measures in connection with full application of the provisions, the restrictions on dividend distribution and the capital adequacy target, please see Section 2.1 to the Report of the Board of Directors.

Management company - Phoenix Excellence

Through August 27 2020, The Phoenix Insurance undertook to supplement, at any given time, The Phoenix Excellence's shareholders' equity to the amount set in the Provident Funds Regulations. As part of the transfer of The Phoenix Excellence's shares to The Phoenix Holdings, the said undertaking was transferred to The Phoenix Holdings as from the said date.

4.2.16 **Expertise, knowhow and experience**

The Group's insurance and financial services activities require the possession of specific knowhow, mainly in the field of actuarial sciences and risk management; these activities also require familiarity with the relevant markets, including the reinsurance market. Furthermore, gaining experience in this area of activity, accumulating actuarial information and creating an extensive database serve a very important role in the setting prices and underwriting new businesses.

4.2.17 **Minimum size (economies of scale)**

In order to cover the high fixed operational costs required to operate investment and insurance systems, including meeting the range of regulatory requirements in the various areas of activity, it is required to have minimum revenues.

4.2.2 Exit barriers

The principal exit barriers from the Group's various areas of activity are also prescribed by the relevant laws.

4.2.2.1 The insurance, pension funds and provident funds activity

The liquidation or winding-up of an insurer's insurance businesses are regulated by the Commissioner, who may instruct an insurer to act in a certain manner when winding-up businesses, or ask the court to issue an order whereby the liquidation will be carried out by the court or under court supervision. A merger, split, discontinuance of management or voluntary liquidation require obtaining the Commissioner's advance approval. Where an application for issuing orders appointing a receiver or a temporary liquidator was filed in respect of a management company, and such orders were not cancelled within the period set in the Provident Funds Law, or if management was not transferred to another management company within the period set in the law, the Commissioner may exercise his powers in an effort to maintain the stability of the provident fund, including by appointing an authorized manager in accordance with the rules set for insurance companies. In the life insurance and pension businesses and in the property and casualty insurance business, which are long-tail businesses, the discontinuance of activities involves a run-off coverage arrangement in respect of all policyholders and planholders' rights.

The transfer of control in an institutional entity requires the acquired to obtain a control permit; for further details regarding criteria and general terms and conditions applicable to an entity applying for a permit to control and hold regulated institutional entities, please see Section 4.2.1.2 to the Report.

4.2.2.2 Financial services

For further details on exit barriers in the financial services segment, please see Section 2.4.1.8 to the Report.

4.2.2.3 Insurance agencies

For further details on exit barriers in the financial services area of activity, please see Section 2.5.2 to the Report.

4.3 Critical Success Factors

4.3.1 General success factors

Success factors common to all of the Group's areas of activity:

1. The economic conditions of the market, employment, interest rates and the condition of the capital market;
2. Regulation, including supervision of prices;
3. Competition in the areas of activity;
4. Customer loyalty and portfolio retention;
5. Quality of investment management;
6. Quality of financial risk management;
7. Distribution channels, including their ability to boost demand and create new markets;
8. The product offering and ability to adapt the products to market conditions and customers' needs;
9. Quality of service to policyholders, planholders and agents;
10. Positioning the Company as a leader in the field, while creating a brand that will enhance its status among competitors;
11. Retaining and acquiring high-quality staff;
12. Technological innovation;
13. Level of IT systems and technology;
14. Effectiveness of operations and the level of operating, marketing and selling expenses;
15. Exercising effective controls;
16. Strength and stability.

4.3.2 Unique success factors of the insurance and pension areas of activity

The following factors may be attributed to the insurance and pension areas of activity:

1. Quality of underwriting;
2. Rate of management fees entities may collect under law and the actual rate collected;
3. Quality of actuarial assumptions applied to pricing and to determining reserves;
4. Incidence and severity of the claims, including catastrophe events;
5. Quality of all aspects of claims management;
6. Protections and cost of reinsurance;
7. Changes in life expectancy;
8. Scope of tax benefits to the customer (in the life insurance and long-term savings segment);

9. Transition to effective digital processes and products;
10. Developments in medical and other technologies, inculcating medical inflation;
11. Changes in the Health Basket;
12. Management of capital and the Company's economic solvency ratio;
13. Quality of management of nostro investments and planholders' investments.

4.4 Investments²³

4.4.1 Investment management

Structure of investment management

The Phoenix Investments manages the insurance, pension and provident funds investments of The Phoenix Group, including investments against yield-dependent liabilities (funds of planholders and policyholders hereinafter: "OPM" - Other People Money), non-yield-dependent liabilities (nostro funds), and the Group's share capital. In addition, Excellence Investments manages investments for the financial services area of activity. For further details regarding Excellence Investments, please see Section 2.4 above.

Investment management is carried out jointly for OPM's interests of The Phoenix Insurance, Phoenix Excellence and Halman Aldubi Provident and Pension Funds Ltd. (as of March 1 2021), through The Phoenix Investments. Accordingly, the investment management is carried out through common committees for all entities listed above, including a joint investment committee, a joint internal credit subcommittee and a underperforming debt forum.

The investment committee approves the investment policies of the various products, taking into account their specific characteristics. Once a decision has been made by the investment committee, the Board of Directors of each of the companies listed above approves the investment policy for the relevant company.

1. The Group's investment management policy

The Group operates in a range of investment areas, including marketable securities, non-marketable debt, real estate, investment funds, private equity, etc. The exposure rates in relation to each of the various areas of activity are determined under the investment policies. The investment policies are based, among other things, on the targets of work plans, work assumptions about macroeconomic conditions in Israel and around the world, trends in various markets and investment areas, estimates as to interest rates, foreign currency exchange rates, political and security conditions, unemployment rates, etc. The investment policies are brought for approval before the investment committees (OPM and Nostro) and the boards of directors of The Phoenix Insurance and The Phoenix Excellence

²³ This section relates to the investment management of an insurer, pension fund and provident fund managed by a management company, rather than to investment management within the financial services segment.

at least once a year. Pursuant to the "Statement on Expected Investment Policy" Circular No. 2009-9-13, the Company publishes on its website information concerning its investment policies. For further details on the Company's investment policy, please see the Company's website at:

<https://www.fnx.co.il/investors-relations-hebrew/investment-information-reports/the-expected-investment-policy/>

2. Investment control

The Investment Control Department is a separate unit operating independently of the unit charged with initiating, performing, allocating, and assessing investment assets. The unit reports to the Investment Controller Department, which is part of The Phoenix Insurance's Finance Division, and operates independently of the investment activity. The unit audits the investment activity on an ongoing basis in accordance with the regulations applicable to the Company's investment management activities. Accordingly, the Investment Controller Department is in charge of a range of reports that the Company is required to issue pursuant to regulatory provisions and internal requirements of the various corporate organs.

3. Investment management services

Investment management is carried out by The Phoenix Investments. Accordingly, The Phoenix Investments entered into an investment management agreement with each of the following Group companies: The Phoenix Insurance, Phoenix Excellence Pension and Provident Fund and Halman Aldubi Pension and Provident Funds Ltd. (as of March 1 2021). Furthermore, The Phoenix Investments entered into a management investment agreement with KSM ETN Holdings Ltd. - a subsidiary of Excellence - in connection with the management of the passive investment tracks; The Phoenix Investments also entered into an agreement with Excellence Nessuah Asset Management Ltd. - a subsidiary of Excellence - in connection with the management of the investments made for the Excellence Invest policies.

Investment management is carried out by investment managers who specialize in the various investment fields. Investments in marketable securities are carried out separately for OPM's funds and Nostro funds through dedicated investment managers. Other investments are carried out through investment managers who render services both to management of Nostro funds and management of OPM's funds; each investment opportunity is offered simultaneously to both Nostro investment manager and to a OPM's investment manager, based on a predetermined ratio.

Investment managers are supported by an internal research department, and use reviews and analyses issued by Israeli and foreign banks as well as investment house analysts. Furthermore, the investment managers are supported by other professional departments, such as the Finance Department, Legal Counsel Division, etc.

4. Individual Retirement Account (IRA): the investments in respect of self-directed policies and provident funds (IRA) are managed through external investment managers funded by planholders, or directly by the planholders.

5. Insurance, pension funds and provident funds

The assets of the insurer, the provident funds and pension funds are managed in accordance with and subject to the Investment Regulations, which stipulate, among other things, provisions as to the types of assets they may hold against their liabilities, as well as the characteristics of these assets.

The Group companies, which manage their own investments through The Phoenix Investments, appointed a committee to manage planholders investments for funds under their management (hereinafter: the "**OPM Investment Committee**"). As of the report date, the OPM Investment Committee consists of five members. All committee members meet the eligibility terms and conditions for external directors according to the Companies Law and the eligibility terms and conditions for members of the OPM Investments Committee. The OPM Investment Committee convenes at least every two weeks. The Phoenix Insurance also appointed a committee for investment of the insurer's share capital and for investment of funds to cover insurance liabilities, which are non-yield dependent (hereinafter: the "**Nostro Investment Committee**"). The Nostro Investment Committee consists of five members, including two external directors. The Nostro Investment Committee convenes at least once a month.

Credit risk management

The codex of regulations and the provisions of circulars dealing with management of investment assets include provisions on the management of credit by institutional entities, as follows:

1. Credit risk management relating to investment activity

The objective of the guidelines on credit risk management relating to investment activity is to ensure that institutional entities have managerial, professional and operational support as well as adequate control and supervision mechanisms. The circular sets rules and tools for determining a policy for providing credit as part of the overall investment policy set by the Board of Directors; in addition, the circular determines the powers of the investment committees and the credit committee, as well as supervision, control and reporting mechanisms.

Pursuant to the codex of regulations and the relevant circulars, The Phoenix Investments has a non-marketable debt function; The Phoenix Insurance and Phoenix Excellence also have joint committees. The credit policy addresses the following issues, among others: (a) hierarchies of credit transaction authorizations; (b) exposure to credit risks; (c) exposure to borrowers by type of borrower; (d) ensuring the existence of management, supervision and control mechanisms for the management of these risks.

2. Provision of non-marketable debt by institutional entities

The Group is engaged in various types of financing, including various types of commercial debt (bonds and non-marketable loans), with or without collateral, structured financing including asset-backed bonds, other structured products, financial derivatives and compound assets, deposits, capital notes, and guarantees under the Sale Law and for building projects (solely as part of the nostro activities).

3. Handling troubled debt and debt collection actions taken by institutional entities

Provisions regarding the manner of handling troubled debts and debt collection actions taken by institutional entities aim to ensure that institutional entities will be proactive in collecting debts. Furthermore, the provisions are designed to define a framework for an institutional entity's ongoing monitoring and control of debts under its management, handling of troubled debt and reaching decisions as to the measures taken to collect the debt, its participation in a debt settlement arrangement process and the identity of the functions in charge of these actions. The Troubled Debt Forum is in charge of assessing the status of debts and their classification as troubled and/or other debt. Underperforming debts shall be classified in accordance with the following categories: a) debt under special supervision; b) debt in arrears; c) doubtful account. The Underperforming Debt Forum is in charge, among other things, of drawing up immediate and periodic reports and participating in all discussions held by competent organs in order to decide the handling of troubled debt, while making recommendations on provisions for debts in accordance with authorization hierarchies. The Internal Credit Committee is in charge of making recommendations as to the manner of handling troubled debts which are adjusted loans. Furthermore, Underperforming debts are monitored on an ongoing basis, the status of troubled debts is discussed, and a quarterly report is issued to the Board of Directors and its various committees regarding Underperforming debts and the developments in the debts' status and the handling status.

4. Management of passive investments

As of the report date, the Group manages approximately 25 passive investment tracks totaling approximately NIS 14.8 billion in assets under management (of which approximately NIS 12.8 billion is invested in index-tracking "investment baskets"). Based on their investment policies,

these funds track indexes which are publicly available. The investment in these tracks are operated by KSM ETN Holdings Ltd.

4.4.2 Breakdown of assets under management

Total assets under management by The Phoenix Investments as of December 31 2020 and December 31 2019 is approximately NIS 177.8 billion and approximately NIS 160.9 billion, respectively - net of the mutual funds activity, which is managed by Excellence Investments - as described in the following table:

As of December 31 2020 (in NIS million)

Institutional entity	Mutual funds and ETFs	Nostro (*)	Yield-dependent life insurance (*)	Pension funds	Advanced education funds managed by the Group (**)
The Phoenix Insurance	-	27,900	77,400	-	-
Phoenix Excellence	-	64	-	37,300	34,900
Excellence Investments	55,820	-	-	-	-
Other	-	960	-	-	-
Total	55,820	28,924	77,400	37,300	34,900

(*) For further details about the separation between liabilities with respect to insurance contracts and investment contracts, please see Notes 16 and 17 to the Financial Statements.

(**) Subsequent to the reporting period, on March 1 2021, the assets of Halman Aldubi Pension and Provident Ltd. were added to the assets under management by Phoenix Excellence. Total assets under management by Halman Aldubi as of December 31 2020 is approximately NIS 64 billion. For further details, please see Note 7 to the Financial Statements.

As of December 31 2019 (in NIS million)

Institutional entity	Mutual funds and ETFs	Nostro (*)	Yield-dependent life insurance (*)	Pension funds	Provident funds and advanced education Funds
The Phoenix Insurance	-	25,481	71,471	-	-
Phoenix Excellence	-	44	-	30,726	33,188
Excellence Investments	52,970	-	-	-	-
Other	-	400	-	-	-
Total	52,970	25,925	71,471	30,726	33,188

(*) For further details about the separation between liabilities with respect to insurance contracts and investment contracts, please see Notes 16 and 17 to the Financial Statements.

For further details on the Group's investment in real estate properties or disposal of such properties during the reporting year, please see Note 8 to the Group's Financial Statements.

For further details about the Group's investments, please see also Notes 12, 13 and 40 to the Financial Statements.

Investment income and its effect on the profits of the insurance and management companies

The investment income that offsets insurance reserves and share capital has a material effect on the insurance companies' profits. The extent of the effect on profits depends on the characteristics of the insurance liabilities (Nostro, OPM) and the terms and conditions of management fees for products against which the relevant reserve is held.

In OPM policies issued by December 31 2003, the return on investments is credited to policyholders, while the insurer is entitled to fixed management fees and to variable management fees from the real return achieved after deducting the fixed management fees. In these products, the financial results of the insurance company are also affected by volatility in the return credited to policyholders in view of the fact that the variable management fees are collected from the real return achieved after deducting the fixed management fees. For further details about the weighted returns in OPM policies, please see also Section 5 to the Report of the Board of Directors.

In OPM policies issued since 2004, the return on investments is credited to policyholders while the insurer is only entitled to fixed management fees. In these products, the effect of the investment results on the insurance company's profits is reduced to the effect derived from total assets under management, on which the insurer's fixed management fees are based.

In pension and provident funds, the return on investment net of the management fees on accruals, net of discounts, is credited to the planholders; therefore, the effect of investment performance on the profits of the pension or provident fund's management company is limited to the effect derived from the total assets under management by the pension or provident fund, on which the management fees collected by the pension or provident fund's management company are based. Furthermore, in connection with a yield-guaranteed provident fund, the profits of the management company may be eroded if the provident fund did not achieve the guaranteed yield.

In life insurance policies which are not yield-dependent (in respect of that portion of the life insurance portfolio that is not backed by designated bonds), in property and casualty insurance and in the equity portfolio, the linkage of assets does not fully correspond to the linkage of the liabilities. Therefore, changes in capital markets, interest rates, the consumer price index and foreign currency exchange rates may have a material effect on the Group's financial performance, especially due to the sizable reserves managed by the Group. For further details, please see Note 40 to the Financial Statements.

A substantial part of the Group's asset portfolio is invested in marketable securities traded in the capital market. Therefore, returns in various investment channels in the capital market have a material effect both on the returns achieved for the Group's customers and on the Group's earnings. For further details on this matter, please see also Section 5 to the Report of the Board of Directors.

4.4.3 Material investments in investees

In addition to the institutional entities held by the Group, it also holds other investments, the principal of which are: a 100% stake in The Phoenix Agencies, which is held by the Company as described in Section 2.5 above; a 100% stake in Excellence Investments through The Phoenix Investments; a 49% stake in Gama through The Phoenix Investments; and a 100% stake in the senior housing chain Ad 120, through The Phoenix Insurance.

As of December 31 2020, the Group's investment in associates totals approximately NIS 757 million, including shareholders' loans. For further details, please see Note 7 to the Financial Statements.

Set forth below is a general summary description of the Company's material subsidiaries and affiliates, the activities of which were not included in the description of the areas of activity and/or other sections in this chapter:

(a) Ad 120 Residence Centers for Senior Citizens Ltd. (hereinafter - "Ad 120")

"Ad 120" develops, builds and manages high-end senior housing facilities. The chain operates three centers (in Rishon LeZion, Ramat Hahayal and Hod Hasharon) - under the Ad 120 brand name. The centers have units of various sizes for independent residents, assisted living wards and nursing care wards. "Ad 120" works to expand its activities in this field and is considering various options of constructing or acquiring further senior housing facilities. As of the report date, Ad 120 is carrying out foundation works in another senior housing facility in Modi'in. Furthermore, a permit for the basements and car parks was obtained, and Ad 120 is working to obtain a building permit in respect of the project's above-ground sections. Furthermore, in December 2018, Ad 120 won a tender for building a senior housing facility in Kiryat Motzkin, and promotes the planning and construction processes of a new senior housing facility, including the preparation of a plan for approval by a district planning and building committee. In addition, Ad 120 is carrying out works to expand its senior housing facility in Ramat Hahayal; the works include building one and a half floors on top the existing floors of the building. The new floors will be divided into additional residential units. The works began after a mediation agreement was signed with residents of the senior housing facility as part of a lawsuit they filed with the Magistrate Court in connection with the works. At the same time, an administrative petition is underway in connection with a claim filed by several residents, whereby Ad 120 does not have sufficient building rights to carry out the project.

At the beginning of 2020, an amendment to the Assisted Living Law, 2012 came into effect, which stipulates, among other things, that holding the tenants' deposits is conditional upon providing tenants one of the following collateral for repayment of the balance of the deposits in the event of insolvency: first-ranking mortgage, bank guarantee from a bank or an insurer, or depositing some of deposit funds in trust. Accordingly, Ad 120 provided its residents with a guarantee as collateral.

The occupancy rates in the senior housing facilities held by Ad 120 in 2017, 2018 and 2019 were over 90%. In 2020, the overall occupancy rate in the chain was 88.2%, due to the effect the coronavirus pandemic had on Ad 120's ability to welcome new tenants, and due to the beginning of construction work in the Ramat Hahayal facility.

The senior housing facilities are presented in the Company's financial statements at fair value. Set forth below is a table presenting the fair value of the senior housing facilities in millions of NIS:

	Dec. 31 2020	Dec. 31 2019
Ramat Hahayal	874	845
Hod Hasharon	443	440
Rishon LeZion	206	200
Modi'in	77	56
Kiryat Motzkin	78	75

The following table outlines the financial data of Ad 120 in thousands of NIS:

	2020	2019	2018
Revenues	118,959	119,002	115,948
Revaluation gains	39,901	61,460	14,738
Comprehensive income for the period	73,582	74,419	35,136
No. of units	654	658	666

In 2020, 2019 and 2018, Ad 120 had pre-tax revaluation gains totaling NIS 39.9 million, NIS 61.4 million and NIS 14.7 million, respectively.

The reasons for the revaluation gains are as follows:

- a. Price increases;
- b. Increase in the facilities' operating profits;
- c. Continued decline in interest rates, which caused a decrease in discount rates and increased revaluation gains;

- d. Appreciation of real estate properties - changes carried out in the senior housing facilities, which increased the number of residential units (or the area designated for housing purposes), caused an increase in revaluation gains.

The key parameters used by the appraiser in appraising the fair value of the senior housing facilities as of December 31 2020 and December 31 2019 are: the discount rate - 8% for cash flows from senior housing facilities and 7.25% for cash flows from the commercial spaces. The appraiser also assumed that the tenant turnover rate in the long-term will be approximately 10% per year.

The Phoenix Insurance classified the investment in Ad 120 as an investment against health and life insurance liabilities. In January 2021, The Phoenix Insurance's Board of Directors decided to consider the possibility of selling its control stake and up to 100% of The Phoenix Insurance's holdings in Ad 120, as part the execution of its multi-year strategic plan, whereby the Group will focus, among other things, on its core business and maximize the value of the Group's asset portfolio. For further details, please see Chapter 4 of the Report of the Board of Directors.

(b) Gama Management and Clearing Ltd. (hereinafter - "Gama")

The Phoenix Investments holds 49% of Gama's share capital. Gama is engaged in financing, factoring, clearing and management of credit card transactions, providing various types of credit, factoring receivables and credit card reconciliation services. As part of its activity, Gama provides services to approximately 10,000 businesses operating in 18,000 points of sale. Gama provides its customers with the following services: credit card factoring, credit card clearing, credit card reconciliations, checks factoring, financing of equipment and imports, factoring, loans and credit, and real estate-backed financing. The factoring services involve bringing forward payments to merchants against the businesses' assigning credit card transactions to the factoring company. Among other things, the service allows merchants - Gama's customers - to offer their customers installment purchases, with the merchants receiving early payments in respect of the transactions. The company is considering the possibility of expanding its activity to related areas, and has applied to the Bank of Israel for a credit card acquirer license.

As part of the acquisition agreement, The Phoenix Investments provided Gama with a NIS 50 million shareholders' loan, which is subordinate to Gama's lenders. The parties are negotiating the repayment of the loans in installments over a period of approximately 6 years; repayment shall commence approximately one and a half years after issuance date. Furthermore, the parties agreed that each party wishing to sell its entire holdings in Gama's shares shall have the right to obligate the other party to sell its Gama shares at the same time (hereinafter - the "**Drag Along Right**"). The consideration paid to the party that was obligated to sell its shares will be the higher of: (a) the share price as offered in respect of the sale of Gama shares owned by the shareholders exercising the Drag Along Right as aforesaid; (b) the share price reflected in the consideration as

defined in the 2008 sale agreement to The Phoenix Investments (hereinafter: the "**Sale Agreement**"), linked to the consumer price index as of the sale date and through the consideration payment date, plus Gama's retained earning balance as of the date on which the consideration shall be paid. In the event that the party that was obligated to sell its shares provided shareholders' loans, its rights in the loans shall be added to the consideration, and any such loans shall be repaid on that date. The Drag Along Right is subject to a right of offer to each of the shareholders that will be required to join on the same terms and conditions set for the sale.

As a result of the coronavirus crisis, as outlined in Section 1.3.20 above, the turnover of Israeli merchants and companies declined significantly, as did Gama's activity and revenues. Gama took measures to reduce credit exposures, mainly in the field of checks factoring, as well as to prevent liquidity problems, including reducing the scope of its credit portfolio, mainly in the field of checks factoring. Despite the aforesaid and throughout the crisis period, until the prospectus date, Gama continued to provide loans and financing across all its areas of activity, and did not reduce the scope of its customer recruitment efforts. After reviewing the actual credit default data in 2020, the provisions for impairment of receivable balances were adjusted to reflect the expected effect of the coronavirus pandemic on expected credit losses. Nevertheless, as of the report date, actual data do not indicate an increase in the credit default rate due to the coronavirus crisis. In addition, Gama altered its work practices, such that some of its employees now work remotely where needed; the company continues to provide all services to its customers.

In January 2021, Gama informed the Israel Securities Authority of its intention to apply for a prospectus publication permit. For further details about the investment in Gama, please see Note 7 to the Financial Statements.

(c) **Haphen-Tao Holdings Limited Partnership**

The Company holds - through The Phoenix Insurance and The Phoenix Investments - 50% of the interests in Haphen-Tao Holdings Limited Partnership (hereinafter: the "**Partnership**"). The Partnership owns 50% of the rights and liabilities in the Mall Hayam shopping center in Eilat, such that the Company indirectly holds 25% of the shopping center. The Partnership is entitled to receive its share of Mall Hayam's profits, after repayment of the loan in respect of which a charge was placed on Mall Hayam.

(d) **Phoeniclass Ltd. (hereinafter: "Phoeniclass")**

The Phoenix Investments holds approximately 67% of Phoeniclass's share capital.

Phoeniclass and the Kibbutzim College of Education (hereinafter - the "Kibbutzim College") entered into a combination transaction agreement in respect of a land plot in north Tel Aviv, owned by Kibbutzim College, including the land on which the Kibbutzim College's existing

buildings are situated. As part of the transaction, and in exchange for the rights to build 450 residential units on the land plot, Phoeniclass will execute the residential project, transfer to the Kibbutzim College some of the sales proceeds, which will be used to fund a new complex for the College, and will bear some of the cost of building public spaces that will be handed over to the Tel Aviv municipality for commercial and public use (hereinafter: the "**Project**").

Phoeniclass is working to promote the licensing and planning procedures for the Project, while negotiating with the Kibbutzim College (and its representatives) to finalize the transaction's principles and execution. As part of the steps taken to promote the licensing procedures, in February 2021 Phoeniclass filed with the local planning committee an application for a building permit in respect of the first residential high-rise.

4.4.4 Developments in the macroeconomic environment

Set forth below is a summary description of trends, events and developments in the Group's macroeconomic environment, that have or are expected to have an effect on the Group.

Financial markets in Israel

The outbreak of the coronavirus pandemic during the first quarter resulted in a lockdown, which has had severe economic consequences, peaking in the second quarter and reflected in GDP data published during the reporting period, with a 29% contraction in GDP in the second quarter - the sharpest in the past 40 years - and record unemployment rates, which peaked at 27% in April (including employees on unpaid leave). As soon as the authorities began to lift the lockdown measures, there were indications that the recovery is quicker than expected, with unemployment rates falling to 11.6% in August and credit card data reflecting a return to pre-crisis levels. In view of the positive data, the Bank of Israel revised its growth forecasts for 2020 from -6.0% in its July forecast to -4.5% in its August forecast. Furthermore, the Bank of Israel continued to support recovery by publishing a plan to purchase corporate bonds. The government continued to support recovery as well, by publishing several aid programs, most notably the award of a grant to each and every citizen. At the end of September, after another surge in infection rates, it was decided to impose a second lockdown. The second lockdown is expected to trigger a renewed but more moderate surge in unemployment compared to the first lockdown; this is due to, among other things, the fact that activity in most other world countries will continue almost as usual. The aggregate rate of increase in inflation in July-August was 0.2%; since the beginning of the year and until the August CPI, inflation was down by 0.6% - a rate which is significantly lower than inflation expectations at the beginning of the year. During the reporting period, there was a significant geopolitical development, with the signing of a normalization agreement between Israel and the United Arab Emirates, and expectations that additional such agreements will be signed at a later stage. In the political sphere, there was a real possibility of early elections due to disagreement regarding budget approval; however, this risk subsided.

In line with economic developments and the global trend, the Tel Aviv Stock Exchange recorded a 1.5% increase in the quarter; however, levels are still 17% lower than they were at the beginning of the year. The yield on 10-year bonds in Israel increased in the reporting period from 0.63% to 0.71%; the shekel appreciated 1.0% to NIS 3.43 against the dollar, but weakened by 3.1% against the euro, reaching NIS 4.02 per EUR 1.

Subsequent to the balance sheet date

During October, the lockdown in Israel was gradually lifted, with most restrictions lifted by mid-November; however, some of the restrictions are still in place, including in the field of tourism (domestic and foreign), education and the leisure sector. Despite the second lockdown, in October the IMF revised its 2020 growth forecast for the Israeli economy to more than 5.9%, in line with other developed countries, in view of indications of a more rapid recovery than in the first lockdown. The Bank of Israel revised its 2020 growth forecast to -5.0%. Prominent positive indications included the decline in unemployment rates in Israel to 4.2% (excluding employees on unpaid leave) during the first half of September. In the second half of October and in view of the lockdown, the unemployment rate increased to 5.1% and the rate of employees on unpaid leave increased from 5% at the beginning of September to 15% in the first half of October. In October, the Bank of Israel's Research Department estimated that the government deficit in this year will reach 13% of GDP. Rating agency Moody's decided not to alter Israel's credit rating, reiterating it at A1. In the third quarter, inflation increased by 0.1%; since the beginning of the year, inflation decreased by 0.7%. In October, the Bank of Israel expanded its monetary quantitative easing by expanding its government bonds purchase program by a further NIS 35 billion, and by extending its four-year credit facility to banks at a negative interest rate of -0.1% against loans to be extended to small businesses at an interest rate of no more than prime + 1.3%. In the geopolitical arena, Israel signed two new normalization agreements with Bahrain and Sudan. The trend on the Tel Aviv Stock Exchange was positive subsequent to the balance sheet date, as was the case in other stock markets worldwide; this trend is attributed to a good reporting season for the third quarter, the decline in uncertainty in view of the results of the US elections and optimism as to the development of coronavirus vaccines.

The TA 125 index was up by 8.7%; the shekel appreciated by 1.6% against the USD, reaching NIS 3.38 per USD 1, and by 0.7% against the euro, reaching NIS 3.99 per EUR 1. The 10-year yield increased to 0.82%.

Capital markets abroad

Due to the severe crisis that erupted in the first quarter, as a result of the coronavirus pandemic, governments imposed lockdowns in almost all countries, which led to significant economic contraction peaking during the second quarter. The economic contraction was reflected, among other things, in growth data, with the EU economy contracting at a quarterly rate of 11.8%, and the US economy - at an annual rate of 31.4%. The crisis also impacted unemployment rates. The weighted unemployment rate in the EU increased from 3.5% prior to the crisis to 14.7% at the height of the crisis in April. As a result of the lifting of lockdowns, the unemployment rate fell sharply to 8.4% in August. The recovery from the crisis has exceeded economists' expectations, which was reflected in Citi's Economic Surprise Index. The items with the most prominent results of surveys held among chief procurement officers in the USA were the "new orders" item, which was up to 67.6 points in August compared with an expected increase to 58.8 points. Despite the fact that unemployment rates remained high, in June, retail sales levels were higher than pre-crisis. Many believe that the strong consumption data were made possible by aggressive grants given by governments both to the unemployed and to all households. Towards the end of July, concerns emerged in the USA that the effects on the first stimulus package will begin to wear off without the Senate being able to agree on an outline for a second package; this issue underlined trading throughout the reporting period. EU countries reached a historical understanding to fund a joint relief package; this boosted investors' trust in the EU's stability and led to a sharp and prolonged strengthening of the euro around the world. Alongside the above developments, companies' Q2 financial statements surprised many, since despite a very sharp decline in sales, companies reported profits, as a result of, among other things, streamlining measures. Equity markets continued the trend of sharp rallies, which started at the end of the first quarter; the trend was led by technology companies, which continue to emerge as the big winners of the crisis.

The S&P 500 was up by 8.5%; the Euro Stoxx 50 index decreased by 1.3%; the yield on 10-year US bonds remained relatively stable at 0.7%; and the euro appreciated by 4.3% against the dollar, reaching EUR 1.17 per USD 1.

Subsequent to the balance sheet date

Although there been data indicating a continued and faster-than-expected recovery in the global economy after the lifting of the first lockdown, there was a sharp increase in the number of coronavirus patients worldwide, which led many European countries to declare a range of lockdown measures in early November. Among prominent macroeconomic data that pointed to faster-than-expected recovery were unemployment, real estate and industry-related data. Another positive indication was provided with the commencement of the Q3 reporting season, with most companies reporting results that were surprisingly positive; at the same time, the race to develop a vaccine for the coronavirus continued, culminating with Pfizer announcing, in mid-November, the superb results

of its trial and its expectations to receive FDA approval and start marketing the vaccine as early as the beginning of 2021. At the same time, at the beginning of November elections were held in the USA, with Biden emerging as the winner but with Democrats failing to achieve a majority in the Senate; these results calmed concerns that extreme changes will take place in Federal economic policy in terms of tax and regulation, but also with regard to the risk that a huge stimulus package will be passed by the Senate.

These developments led to a marked increase in yields in the long tenors of the curve, with the yields on 10-year bonds in the US increasing from 0.68% to 0.92%. The S&P 500 continued a marked positive trend with an increase of 5.8%, but a shift occurred with investors preferring growth shares over value shares, and technology shares lost their lead. The dollar continued to weaken around the world; it weakened against the euro by 0.6%, reaching a level of USD 1.18 per EUR 1, weakening 4.9% against the euro since the beginning of the year

4.5 Reinsurance

4.5.1 General

Israeli insurance companies normally cover a substantial proportion of the insurance risk they assume by entering into engagements with reinsurers. The maximum amount of risk retained by an insurer after transferring some of the risk to the reinsurer is called "retention". Reinsurance has several advantages:

1. It allows insurance companies to diversify the risks to which they are exposed;
2. It allows insurance companies to improve their ability to assume additional risks and at higher insurance amounts;
3. It allows insurance companies to enhance their ability to protect their share capital from exceptional events (catastrophe events, including multiple natural disasters: earthquake, fire, etc.).

Despite the above, reinsurance agreements do not prejudice the contractual rights of policyholders, nor do they exempt insurance companies from their obligations towards policyholders. Therefore, the stability of reinsurers impacts insurance companies. Furthermore, the terms of engagement with reinsurers impact the profitability of insurance companies. It should be noted that settling accounts with reinsurers may spread over many years.

There are two types of reinsurance:

Treaty Reinsurance is reinsurance agreement, which is signed every year between the insurance company and the reinsurer; in this type of reinsurance, the reinsurer assumes all risks or businesses to be transferred to it by the ceding insurer, under the agreed terms and conditions, without the need to approve each and every risk or business.

Reinsurance comprises proportional reinsurance and non-proportional reinsurance. The difference between the two types of reinsurance is reflected in the type of relationship between the assumption of risk (the coverage of a claim) and the premium; in proportional reinsurance, the share of the risk assumed by the reinsurer is identical in proportion to the reinsurer's share in the premium, whereas in non-proportional insurance - the risk assumed by the reinsurer is not directly proportional to its share in the premium. Thus, for example, in a proportional reinsurance contract where the reinsurer undertakes to pay 75% of each claim in the property subsegment, that reinsurer will also receive 75% of the premium in respect of the subsegment (excluding the fees component), whereas in a non-proportional reinsurance contract, where the reinsurer's share of each claim in the compulsory motor subsegment shall be the portion above USD 100 thousand and below USD 1 million, that reinsurer's share in the premium will be a fixed and predetermined percentage of all premiums or exposure in the subsegment, or a predetermined premium amount.

a. Proportional reinsurance

Quota share reinsurance contract: the reinsurer undertakes a fixed percentage of coverage of each claim in a specific subsegment against an identical fixed proportion of the premium.

Surplus reinsurance contract: the reinsurer undertakes a variable percentage of coverage of each claim up to an agreed cap against an identical proportion of the premium.

b. Non-proportional reinsurance

Excess of loss contract: this is a reinsurance for an individual claim, whereby the ceding insurer agrees to absorb all losses up to a predetermined retention amount, and the reinsurer agrees to absorb the excess-of-losses above the predetermined retention amount (mostly up to the predetermined limit) against a predetermined proportion of all premiums in that subsegment or a predetermined premium amount. One of the contracts that falls under this category of non-proportional reinsurance contracts is the contract protecting against catastrophes.

Stop loss contract: the reinsurer indemnifies the ceding insurer to the extent that the percentage or total amount of losses in a certain subsegment over a certain period (usually a year) exceeds a predetermined percentage or total amount, in return for a predetermined percentage of all premiums in this subsegment.

Facultative reinsurance is taken out to cover risks arising from specific policies and distributed among a number of reinsurers. Facultative reinsurance shall apply in one of the following cases: (1) when the sum insured exceeds the reinsurance treaty's capacity; or (2) the risk or area of activity is excluded from the Reinsurance treaty; or (3) when it is estimated that the business is relatively risky. In facultative reinsurance, the reinsurer decides separately and in advance for each risk or area of activity whether it wishes to share the risk and at what percentage.

Generally, the rate of reinsurance in the life insurance subsegment is significantly lower than the rate of reinsurance in the property and casualty insurance. This is due to the fact that most of the premium in life insurance is in respect of a savings component, which is not reinsured. The scope of reinsurance purchased also varies among property and casualty subsegments; in the case of subsegments with homogeneous risk, where the level of risk is highly diversified within the portfolio (such as in the motor subsegment - compulsory and property), there is a lower level of reinsurance, whereas in more heterogeneous subsegments, with lower risk diversification levels and higher risk (such as in other property insurance), a higher rate of reinsurance is undertaken.

4.5.2 The reinsurers market and the manner of engagement with reinsurers

The market of reinsurers with ratings relevant to The Phoenix Insurance (reinsurers with financial ratings higher than (-A), as mentioned above in this section) comprises of more than 200 insurers. The Phoenix Insurance works continuously with approximately 90 reinsurers. The reinsurers' capacity depends mainly on the materialization of insurance risks, which they assumed during the past few years. Thus, for example, the occurrence of catastrophes around the world causes a decrease in reinsurers' capacity.

A potential deterioration in the condition of the reinsurance market may have a number of consequences: firstly, an insurance company that entered into reinsurance contract is directly exposed to the reinsurer's ability to meet its obligations upon the occurrence of an insurance event; secondly, a decline in the strength of a reinsurer may cause the insurance company to seek for replacement it with another reinsurer, which will involve further costs in connection with the original reinsurance and a risk that the original coverage terms will not be achieved; this will might require the recording of an accounting loss, since there is a concern that the reinsurer will not meet its obligations; thirdly, a deterioration in the condition of the reinsurance market may reduce the capacity of reinsurers, in a way that impairs the insurance company's ability to offer coverage in its ordinary course of business; it may also lead to an increase in reinsurance prices and to other changes in the terms of engagement with the reinsurer, in a way that will lead to additional costs or impair the quality of the insurance coverage. In addition to the above, if an insurance company does not have access to reinsurance at the required scope, it may lead to its failing to meet the regulatory capital requirements it is subject to.

The term of reinsurance engagements in property and casualty insurance is usually one year. The term of reinsurance engagements in life, health and long-term care insurance is usually for the entire life of the policies issued within a defined period.

Reinsurance prices are affected by factors such as the quality of the insurance portfolio (past performance of the insurance portfolio); relevant events in Israel and globally, the interest rate and the condition of capital markets worldwide.

In reinsurance, the ceding insurer pays reinsurers a premium, while reinsurers reimburse the ceding insurer in respect of claims, and pays it commissions, mainly in respect of proportional reinsurance contracts.

The commissions paid by reinsurers normally constitute a percentage of the premium transferred to reinsurers; in some cases, this rate is determined in advance (regardless of the results achieved), in other cases - the rate depends on the underwriting results of the ceded businesses. The commissions amount may vary during the engagement period.

Sometimes, The Phoenix Insurance receives - in addition to the basic commission - a profit commission payable as a percentage of the underwriting earnings in respect of the relevant risk (i.e., premium net of claims, reinsurer's expenses and fees).²⁴

Until the reporting year, the global reinsurance market was highly competitive due to surplus capital and lack of investment alternatives. This trend has changed during the reporting year due to the coronavirus pandemic, which caused price increases. The 2021 Reinsurance renewals took place while reinsurers' were dealing with the fallout of the coronavirus pandemic and adverse developments in global catastrophe losses, the effect of which was reflected as mentioned above. The said price increases did not occur uniformly across all subsegments. The most significant increase occurred in the Directors & Officers' professional liability and the marine insurance subsegments.

4.5.3 Description of the policy of exposure to reinsurers

General

The Insurance Commissioner's Circular titled Management of Exposure to Reinsurers, published in 2003, sets out, among other things, provisions and guidelines on how to manage exposure to reinsurers, including a requirement for setting policies and exposure caps for reinsurers, as well as provisions on reporting to the Commissioner.

At least once a year, an insurer's board of directors is required to discuss its policy on exposure to reinsurers, and the insurer's assessments of the management of, and controls over, the exposure; the board is also required to set exposure limits to a single reinsurer and to a group of affiliated reinsurers. The Board of Directors will hold such a discussion after assessing the quality of the insurer's existing controls and tools for the management of exposure to reinsurers.

The policy of exposure to reinsurers must include, among other things, a policy for management of exposure to reinsurers in the life, Casualty, Non-Life and health insurance subsegments, as well as the setting of a maximum exposure framework for reinsurers, according to parameters set by the Board of Directors. Such parameters may be qualitative in nature, such as the reinsurer's international rating.

²⁴ In facultative reinsurance, there are normally no profit commissions.

There are two types of exposures to reinsurers:

- a. Exposure to outstanding balances, and exposure to the risk that the reinsurer will fail to meet its existing and future obligations. This exposure is managed by ongoing monitoring of the reinsurer's position in the global market, as well as fulfillment of its financial obligations.
- b. Exposure to a single sizable loss or an accumulation of losses due to a large-scale event. The exposure is assessed on the basis of maximum probable loss (MPL), or alternately, an event limit. The event limit is set separately for each reinsurer in the contract signed therewith.

The Phoenix Insurance purchases reinsurance as part of the implementation of its risk management policy. The purchase of reinsurance is carried out in policies or subsegments in which the Company believes that it will be more efficient to cede some or all of the risk.

Internal actuarial assessments, various models and past claims experience provide The Phoenix Insurance with an indication as to the estimated level of reinsurance required.

In accordance with a policy set by the Board of Directors, The Phoenix Insurance engages with reinsurers rated A- or higher, which are rated by one of four ratings agencies – Fitch, AM Best, Standard & Poor's and Moody's (in the short-tail subsegments, the Company may contract reinsurers rated BBB+ at a rate that shall not exceed 10% of the total exposure). Pursuant to a clarification published in 2012 by the Commissioner regarding the calculation of capital requirements of insurance companies, which addressed, among other things, the manner in which the rating of a reinsurer is determined for the purpose of calculating the capital requirements regarding reinsurers, the external rating to be taken into account for the capital requirement will be that of a rating agency that shall be selected in advance by each company (hereinafter: the "**default agency**"). If the default agency has no relevant rating, then the lowest rating amongst the rating agencies approved by the Commissioner will be used. During that year, the Company's Board of Directors approved Standard & Poor's as its "default agency".

As a rule, The Phoenix Insurance aims to engage with numerous reinsurers, in order to avoid a situation where it is dependent on a specific reinsurer, and in order to diversify the risks appropriately. In many of its reinsurance contracts, The Phoenix Insurance requires the inclusion of downgrade clause, allowing it to terminate the contract if the reinsurer's rating is downgraded below a predetermined rating.

Set forth below are the key points of the policy for management of exposure to reinsurers and exposure limits as set by the Board of Directors:

1. Limit of exposure to reinsurers' balances:

Total exposure to outstanding balances of a single reinsurer with a rating of AA- or higher shall not exceed 20% of the Company's calculated capital.²⁵ Total exposure to outstanding balances of a single reinsurer with a rating of A+ to A- shall not exceed 15% of the Company's calculated capital.

2. Earthquake exposure limits:

- Total exposure in respect of earthquakes per single reinsurer whose rating is AA- or higher shall not exceed 30% of the Company's calculated capital. Total exposure to a single reinsurer with a rating of A+ to A- shall not exceed 25% of the Company's calculated capital.
- Total exposure in respect of earthquakes per single reinsurer whose rating is AA- or higher shall not exceed 20% of reinsurers' total exposure to earthquakes. Total exposure in respect of earthquakes per single reinsurer whose rating is A+ to A- shall not exceed 15% of reinsurers' total exposure to earthquakes.

4.5.4 Life insurance

The Phoenix Insurance enters into quota share and surplus proportional reinsurance agreements with various reinsurers in order to protect itself against the risk in the life insurance portfolio (but not the savings component). Previously, Modified Reinsurance agreements (hereinafter: "**Mod-Re**") were also drawn up in respect of policies that included a savings component. Several large collective insurance policies have a proportional reinsurance agreement.

The Phoenix Insurance's reinsurance agreements in respect of life insurance policies are normally drawn up for unlimited periods and may be cancelled by giving preliminary notice for future policies only. The reinsurers pay The Phoenix Insurance a commission composed of two components: a commission calculated as a percentage share of the premium ceded to them, and a profit commission based on the insurance results for that year.

²⁵ For this purpose - the "calculated capital" means the Company's total calculated capital in accordance with the Capital Regulations.

Following are reinsurers that account for more than 10% of total reinsurance premiums in the life insurance and long-term savings segment:

Reinsurer	2020		
	Reinsurance premium (in NIS million)	% of total reinsurance premium	S&P rating (as of Dec. 31 2020)
Swiss Re	40	41%	AA-
Gen Re	20	20%	AA+
Munich Re	13	13%	AA-

Reinsurer	2019		
	Reinsurance premium (in NIS million)	% of total reinsurance premium	S&P rating (as of Dec. 31 2019)
Swiss Re	42	43%	AA-
Gen Re	16	16%	AA+
Munich Re	14	14%	AA-

Following are ratings of reinsurers in the life insurance and long-term savings segment:

S&P* rating	No. of reinsurers in 2020	No. of reinsurers in 2019
Rated AA and above	2	3
Rated A to AA (not included)	8	8
Rated A-	1	1
Rated +BBB**	1	0

* For reinsurers not rated by S&P, the lowest rating issued by the following three rating agencies was used: AM Best, Moody's and Fitch. For further details about the Group's investments, please see also Notes 10, 24 and 40 to the Financial Statements.

** This relates to a reinsurer whose rating was downgraded below (A-) in the reporting year.

Catastrophe contract

In 2020 (as in previous years), the Company signed a non-proportional reinsurance agreement, which covers the risk of bodily injury, death and disability resulting from a catastrophe event. The cover is an excess-of-loss which protects the accumulation of The Phoenix Insurance's retention from life insurance, personal accidents and travel insurance policies. For further details, please see Note 40 to the Company's Financial Statements.

Reinsurance agreement - mass lapse scenario in the life and health insurance subsegments

In December 2020, The Phoenix Insurance and a reinsurer entered into a mass lapse reinsurance agreement, the objective of which is to provide The Phoenix Insurance with partial protection against a mass lapse scenario in its life and health insurance subsegments.

According to The Phoenix Insurance's estimate, this transaction is expected to improve its economic solvency ratio by approximately 3%-5% (without taking into account the transitional measures), all subject to market conditions, the structure of the insurance portfolio, actuarial assumptions and capital requirements. It should be noted that, except for the above, the transaction does not have a material effect on the Company's financial results. For further details, please see the immediate report dated December 27 2021 (Ref. No.: 2020-01-132958).

4.5.5 Health insurance

The Phoenix Insurance enters into quota share proportional reinsurance agreements with various reinsurers to protect itself against some of the risk components in its health insurance portfolio. A number of large collective insurance policies have a proportional reinsurance agreement in respect of some of the coverage components.

Reinsurance agreements in respect of health insurance policies are normally drawn up for unlimited periods and may be cancelled by giving preliminary notice for future policies only. The reinsurers pay The Phoenix Insurance a commission that may be composed of two components (and varies in accordance with the terms and conditions of the various agreements): a commission calculated as a percentage share of the premium ceded, and a profit commission based on the insurance results for the year.

The rating of reinsurers that account for more than 10% of total reinsurance premiums in health insurance:

Reinsurer	2020		
	Reinsurance premium (in NIS million)	% of total reinsurance premium	S&P rating* (As of December 31 2020)
Swiss Re	89	32%	AA-
Allianz Worldwide Ca	87	31%	A+
Gen Re	36	13%	AA+

Reinsurer	2019		
	Reinsurance premium (in NIS million)	% of total reinsurance premium	S&P rating* (As of Dec. 31 2019)
Allianz Worldwide Ca	202	54%	A+
Swiss Re	73	19%	AA-
Gen Re	38	10%	AA+

The exposure to Allianz decreased mainly as a result of the termination of the David Shield and relocation transactions, as described in Section 2.3 above. Furthermore, the increase in the reinsurance premium of Swiss Re stems from new reinsurance agreements.

Reinsurers in the health insurance subsegment:

S&P rating*	No. of reinsurers in 2020	No. of reinsurers in 2019
Rated AA and above	1	2
Rated A to AA (not included)	8	10
Rated A-	1	0
Rated +BBB**	1	0

* For reinsurers not rated by S&P, the lowest rating issued by the following three rating agencies was used: AM Best, Moody's and Fitch.

For further details about payments to reinsurers and further details, please see also Notes 10, 24 and 40 to the Company's Financial Statements.

** This relates to a reinsurer whose rating was downgraded below (A-) in the reporting year.

4.5.6 Property and casualty insurance

Compulsory motor insurance

The Phoenix Insurance's liabilities in the compulsory motor insurance subsegment are protected by an "excess-of-loss" reinsurance contract. As a result of the said arrangement, the exposure per claim or per event is limited. As is normally acceptable in contracts of this type, the Company does not collect commissions from reinsurers. In addition to the existing agreement, the Company entered into quota share agreements with several reinsurers. These agreements were renewed for 2021.

For further details about payments to reinsurers and other data, please see also Notes 10, 24 and 40 to the Company's financial statements.

Motor property

Motor property insurance is characterized by a high level of risk spread, and a relatively homogeneous risk. As a result, the reinsurance rate in this subsegment is low, and only catastrophic damages such as earthquakes, fires and natural disasters are covered. The Phoenix Insurance's liabilities in the motor property insurance subsegment are protected by an "excess of loss" - cat cover reinsurance contract. For further details about payments to reinsurers and further details, please see also Notes 10, 24 and 40 to the Company's Financial Statements.

Other property and casualty insurance

The Phoenix Insurance enters into reinsurance contracts in the property and casualty insurance subsegment on an annual basis. The Phoenix Insurance purchases reinsurance for most of the subsegments in which it operates: fire, property, engineering (including contractors), terrorism, personal accidents and liability, including directors and officers' liability, cyber and marine insurance.

For further details about reinsurance, and for details about the various types of coverages generally accepted in reinsurance, please see Notes 10, 24 and 40 to the Financial Statements.

Property subsegments

Industrial and commercial property insurance and homeowners & householders insurance: protected under a proportional combined contract - quota share and surplus. Large risks are reinsured under facultative contracts. Proportional insurance contracts provide protection up to a maximum limit for a catastrophe event, which varies among the various reinsurers. In respect of the self-retention portion, The Phoenix Insurance purchases reinsurance protection covering catastrophe events at a rate of 2% of the aggregate sum insured. In the homeowners insurance subsegment, in addition to the above mentioned treaty, there is also a quota share treaty.

Engineering and Contractors all risks: protected under a proportional combined contract - quota share and surplus treaty. In respect of the self-retention portion, The Phoenix Insurance purchases insurance protection covering catastrophe events at a rate of 2% of the aggregate sum insured. The excess of loss amount covering catastrophe events, which applies to the self-retention portion in property, commercial or industrial, homeowners and engineering insurance, is determined as a percentage of the cumulative self-retained sums insured based on generally accepted actuarial models.

Earthquake coverage

In 2020, reinsurers' exposure to earthquake under proportional reinsurance amounted to approximately USD 2.22 billion. The Phoenix Insurance's self-retention aggregate exposure, as derived from and measured according to its proportional reinsurance agreements, was approximately USD 11.98 billion as of the end of 2020. In order to protect this exposure, non-proportional protection of 2.0% was purchased. In the Company's opinion, following the purchase of protection, the maximum amount The Phoenix Insurance would have borne upon the occurrence of a catastrophe event is approximately USD 15.5 million.

There are no reinsurers the total exposure of which to earthquake exceeds 10%. For further details about reinsurance, including reinsurers' balances, please see Notes 10, 24 and 40 to the Financial Statements.

Terrorism

Protected by an excess of loss insurance contract, which applies to amounts in excess of a fixed self-retention. There is also a cap per insurance event.

Liability subsegments

Liabilities: includes employers' liability, third party liability, product liability and professional indemnity. The contract is an excess of loss contract in respect of amounts in excess of the self-retention amount,

with caps per risk and per event. In 2021, a quota share treaty was signed in addition to the existing contract.

Directors' and officers' liability: this subsegment is protected under an excess of loss contract in respect of amounts in excess of the self-retention amount, with a cap in place per policy.

Various subsegments

Personal accidents: There is protection against the risk arising from aggregate losses under the catastrophe agreement.

Marine and cargo: protected under a combined proportional insurance contract, quota share and surplus, with a cap per shipment, in combination with a non-proportional reinsurance contract for aggregate retained losses in the cargo subsegment.

Ship hull, yachts and third party: protected by a proportional quota contract with a cap per covered vessel.

General

Total insurance premiums in the other property and casualty insurance subsegment stemming from insurance policies for which reinsurance coverage in excess of 90% was purchased in 2020 is approximately NIS 600 million (gross) and NIS 12.7 million (retention).

Property and casualty insurance: no reinsurer accounts for more than 10% of total reinsurance premiums in 2020 and 2019.

Rating of reinsurers in property and casualty insurance:

Rated by S&P*	No. of reinsurers in 2020	No. of reinsurers in 2019
Rated AA and above	10	10
Rated A to AA (not included)	93	101
Rated A-	22	19
Rated +BBB	4	0
Not rated	17	16
Total	146	146

* For reinsurers not rated by S&P, the lowest rating issued by the following three rating agencies was used: AM Best, Moody's and Fitch.

Set forth below is a summary of reinsurance premiums and results by subsegment (in NIS millions):

Property and casualty insurance

	2020	2019	2018
Reinsurance premiums -			
Compulsory motor insurance	288	321	313
Motor property	-	-	-
Other property and casualty insurance -			
Other property subsegments (for further details, please see below*)	525	480	446
Other liability subsegments	165	114	102
Other subsegments	3	6	4
Total reinsurance premiums	981	921	865
Profit (loss) results²⁶ -			
Compulsory motor insurance	(55)	(66)	(88)
Motor property	-	-	-
Other property and casualty insurance -			
Other property subsegments	172	189	58
Other liability subsegments	69	45	(5)
Other subsegments	-	6	3
Total reinsurance income for the year	186	174	(32)
*Reinsurance premiums			
Property subsegments	2020	2019	2018
Proportional	365	327	297
Non-proportional	1	1	2
Earthquake (1)	159	152	147
Total reinsurance premiums in the property subsegments	525	480	446

(1) The premium includes all reinsurance arrangement types covering catastrophe risks (proportional reinsurance, facultative reinsurance, and excess of loss reinsurance to cover the aggregate retention). The decrease in premiums in the compulsory motor subsegment in 2020 compared with 2019 and 2018 stems mainly from a change the quota share reinsurance contract. The increase in reinsurance premiums in the reporting period stems mainly from a change in the renewal dates of a large policy in the property loss segment, in which the insurance coverage period exceeds one year. The increase in reinsurance premiums in other liability subsegments in 2020, compared with 2019 and 2018, stems from new businesses in the professional indemnity and third-party subsegments.

In the compulsory motor insurance the loss attributed to reinsurance is an accounting loss arising from an allocation of reserves in accordance with actuarial rules applicable to gross reserves. It should be noted that the actual result of the agreement may be materially different and will depend on the future development of claims. The decrease in losses in compulsory motor insurance in the reporting year and in 2019 compared with 2018 stems from a decrease in liabilities as result of a Supreme Court judgment regarding the discount

²⁶ The data relate to results of agreements with reinsurers.

rate applicable to damages payable; under the judgment, the discount rate shall be 3%, which is higher than the rate used by the Company to calculate the reserves in 2018.

In the property subsegments, most of the increase in reinsurers' profits in 2020 and 2019 compared with 2018 stems mainly from the property loss subsegment as a result of a positive revision of the actuarial model.

In the liability subsegments, most of the increase in reinsurers' profits in 2020 compared with 2019 stems from improvement in the third-party and professional indemnity subsegments. The 2018 loss stems mainly from a number of large claims in the ship hull, third-party and professional liability subsegments.

4.6 Human Capital

The Company is a holding company and does not have salaried employees. Most Group employees are employed by The Phoenix Insurance, and some are employed by other consolidated companies.

4.6.1 The Group's organizational structure

The Company's Board of Directors sets the Company's policy and supervises the performance and actions of the CEO. The Group is headed by the Company's CEO, who also serves as The Phoenix Insurance's CEO.

The Group's key units are: insurance fields - long-term savings and life risks insurance (which also includes the Phoenix Excellence²⁷), property and casualty insurance and health insurance. HQ units: Finance, Actuarial Department - Life and Health Insurance, Actuarial Department - Property and Casualty Insurance, Risk Management, Human Resources Information and Control, Marketing, and Legal Counseling, which reports, both in administrative and in professional terms, to the Company's CEO. Alongside the said units, the Group has the Central Claims, Service and Operations Division, and the IT Division. In the reporting year, the Group carried out an organizational change, establishing an Internal Audit Unit in lieu of the former internal audit function, which comprised non-employees. The head of the unit reports to the Chairman of the Company's Board of Directors. The Group's investment activity, including for The Phoenix Insurance and Phoenix Excellence, is carried out by The Phoenix Investments. The financial services activity is carried out by Excellence Investments. For further details regarding Excellence's human capital, please see Section 2.4.8 to the Report. In February 2020, the Company announced the restructuring of the Sales Division, with the aim of concentrating the property and casualty insurance activity under the property and casualty insurance unit, concentrating life and health insurance sales under the long-term savings unit, and concentrating the operations and service activities under the Company's Central Service and Operations Department.

²⁷For further details on the Phoenix Insurance's intention to transfer Phoenix Excellence to the Company, please see Section 1.3.10 above.

The Company has two principal managerial forums headed by the CEO: a smaller business forum composed of a number of senior executives; and an extended managerial forum, which also includes other senior executives in addition to the members of the business team.

The insurance, pension and provident fund activities are carried out by The Phoenix Group, which divides them into areas of activity, each of which is headed by an Executive Vice President.

The process of formulating the business strategy is carried out in each unit and the relevant HQ units. As of the reporting date, the business units are in charge of the marketing, distribution and service management activities for insurance agents and The Phoenix Insurance's customers.

The Company operates a retail marketing and distribution function focusing on distribution of and providing services for pension products and other individual products.

The Company also sells various insurance products through digital sale interfaces on the Company's website and through a call center. This activity is marketed under the "Phoenix Smart" brand name.

The Claims, Operations and Service Division provides service to the Group's customers insurance claims (property and casualty, health and life insurance claims). This function is also charged with replying to queries filed by the Group's customers on a range of issues. "The Phoenix Agencies" concentrates the holdings in the insurance agencies that operate as separate and independent companies. For further details about The Phoenix Agencies, please see Section 2.5 above.

4.6.2 The Group's workforce

Set forth below is a breakdown of the Group's workforce in 2019 and 2020:

	Dec. 31 2020	Dec. 31 2019
The Group's management	11	29
Sales Division*	0	498
Property and casualty insurance*,**	458	334
Long-term savings and life insurance**,*	491	523
The Phoenix Excellence Pension and Provident Fund Ltd.*	147	231
Health insurance	56	67
Service, operations and claims division*	1,019	920
IT and other HQ units*	699	722
The Phoenix Investments	76	61
The Phoenix Insurance Agencies	1	1
Total for Group, excluding Excellence Investments, The Phoenix Agencies and Ad 120 employees	2,958	3,386
Excellence Investments	355	321
Insurance agencies controlled by the Company***	770	830
Ad 120	317	320
Total - Group	4,410	4,857

* For further details regarding the structural change in the Sales Division, please see Section 4.6.1 to the Report.

**Including the retail marketing and distribution unit and employees assigned to Phoenix Smart

*** The decrease in the number of employees stems from streamlining processes in the arrangement agencies controlled by the Company.

During 2020, the Group's workforce decreased by 428 employees - excluding employees of Excellence Investments, the Agencies and Ad 120. The decrease in the number of employees stems mainly from the execution of a voluntary retirement plan as described in Section 4.6.3 below.

For further details regarding directors and officers, please see Regulations 26 and 26A in Chapter Five of the Periodic Report - Additional Details regarding the Company.

For further details regarding personal changes in the Board of Directors and the senior management, please see Note 41 to the Company's financial statements.

4.6.3 Workers' organizations

In March 25 2020, due to the coronavirus crisis, the Company signed a memorandum of understanding with the National Workers' Union of Phoenix Workers, which addressed, among other things, reducing the salaries of employees and executives, freezing pay raises for 2020, updating pay raise rates for 2021, paying a pitch-in bonus to all Company employees, establishment of an aid fund to support employees, and a vacation days reserve, as well as agreement on furloughing employees. For further details, please see the Company's immediate report dated March 26 2020 (Ref. No.: 2020-01-026086) as well as Sections 4.6.3 and 4.6.4 to the Report on the Company's Business as of December 31 2019, which was published on March 31 2020 (Ref. No.: 2020- 01-034023).

On June 2020, The Phoenix Insurance signed a collective agreement between it and the New General Workers' Federation and the National Workers' Union of Phoenix Workers, which mainly addressed various issues related to working conditions due to the effect of the coronavirus crisis on the economy as a whole and on the Company in particular. The agreement addressed the acceleration of a restructuring plan designed to improve service and operation for policyholders and agents, reducing expenses for the Company and adjusting to the competitive environment and changing market conditions; the agreement includes, among other things, a voluntary retirement plan for 10% of the Company's employees, reimbursement of the pay cut carried out in April 2020 and increase of the pay raise rate for 2021 to 4.7% (adjusted for inflation). For further details, please see the Company's immediate report dated June 30 2020 (Ref. No. 2020-01-069357).

4.6.4 Benefits and the nature of employment agreements

The Phoenix Insurance is a member of the Association of Life Insurance Companies of Israel Ltd., which is a member of the Coordinating Bureau of Economic Organizations; therefore, all collective agreements signed by the Coordinating Bureau of Economic Organizations apply to The Phoenix Insurance.

In May 2019, a new collective agreement, valid through December 31 2021, was signed; for further details, please see the Company's immediate report dated May 6 2019 (Ref. No. 2019-01-039201); the agreement provides for benefits and terms of employment as well as labor relations between The Phoenix Insurance and The Phoenix Pension and their employees. This collective agreement is based on the articles of the first collective agreement, signed in July 2016, insofar as the articles have not been amended or revised under the new agreement. The two collective agreements, severally and jointly, address, among other things, rates and dates of pay raises, entitlement to annual bonuses and other bonuses, welfare budgets and other related benefits, pension insurance and meeting all parties' claims so as to reach agreement.

4.6.5 Compensation policy

4.6.5.1 Under law, the Company and The Phoenix Insurance have a compensation policy in place for officers and senior employees. The compensation plan takes into account the provisions of the Law for Compensation of Officers in Financial Corporations (Special Approval and Disallowing the Deduction of Exceptional Bonus for Tax Purposes), 2016, that applies to compensation paid in a financial corporation and its approval; the said law provides, among other things, that an employee of a financial corporation may not receive a compensation which is more than 35 times higher than the lowest compensation paid to an employee of the corporation in the year prior to the engagement date (for this purpose, an "employee" shall include employees of a manpower contractor employed by the financial corporation). The law also sets out approval procedures in respect of compensation paid to an employee of a financial corporation who is paid more than NIS 2.5 million. Furthermore, the compensation policy is mainly based on multi-year results, return on capital achieved by the Group, and a series of personal parameters adapted to the various officers, which are based on the work plans to be set by the Board of Directors each year.

During the reporting year, the Compensation Committee, Board of Directors and General Meeting approved a number of amendments to the Company's compensation policy.

In October 2020, the Company's General Meeting approved, among other things, a compensation policy for 2020-2022. The Company integrated into the new compensation policy the provisions of Institutional Entities Circular 2019-9-6, which amends the provisions of Consolidated Circular, Title 1, Part 5, Chapter 5 - "Compensation" - dated July 11 2019.

In October 2020, the Company's General Meeting approved, among other things, a compensation policy for 2021-2023.

For further details regarding the Company's compensation policy (including amendments thereto), please see the Company's immediate reports of February 18 2020 and September 16 2020 (Ref. Nos.: 2020-01-014290 and 2020-01-102009, respectively).

- 4.652 Options plan for employees and officers: In December 2018, the Company adopted an option plan for employees and officers. Pursuant to the options plan, the Company awards, from time to time and without consideration, warrants (hereinafter, in this section: “**Options**”) to employees and officers of the Company and companies under its control. In September 2020, the Company's Board of Directors approved an additional allotment of up to 5,578,000 additional options to employees and officers of the Company and some of its subsidiaries. For further details, please see the immediate reports dated December 27 2018 (Ref. No.: 2018-01-119905), February 3 2019 (Ref. No.: 2019-01-009838), May 1 2019 (Ref. No.: 2019-01- 037938), May 6 2019 (Ref. No.: 2019-01-039360), October 31 2019 (Ref. No.: 2019-01-107011), November 28 2019 (Ref. No.: 2019-01-116347) and October 11 2020 (Ref. No.: 2020-01-110610) and October 27 2020 (Ref. No.: 2020-01-107788).
- 4.653 Incentive plan for investment employees: pursuant to the Commissioner’s circular, which ordered that a compensation policy be set for investment employees, and in accordance with the aforesaid compensation policy, the Group has a multi-year plan to compensate investment employees; this plan is designed to balance out the fixed and variable compensation components, and to reflect the level of risk involved in achieving the returns in the various investment channels. The plan is based on a series of parameters and profitability targets, which are based, as a general rule, on cumulative three-year results, the results in the various investment channels compared to competitors, taking into consideration the relative risk level of the various channels with respect to several parameters, as well as the relative risk level.
- 4.654 Insurance, indemnification and exemption for officers and senior employees:
- 4.654.1 The Company purchased a liability insurance policy covering its directors and officers, and provided officers with indemnification and exemption letters. For further details regarding the indemnification and exemption letters and the insurance policy covering officers, please see Regulation 22 in Part 4 of the Periodic Report and Note 41 to the Financial Statements. As part of the General Meeting held in March 2020, the wording of the indemnification and exemption letters was revised such that the indemnification that may be provided to Company’s officers was extended in accordance with the provisions of the law and the provisions of the amended indemnification and exemption letters.
- 4.654.2 For further details regarding the revision of the Company’s compensation policy and the increase in the liability insurance coverage amount provided to the Company’s officers (with a liability limit of US USD 220 million), please see Regulation 29 in Part 4 to the Periodic Report.

4.6.6 Training programs

The Company's training programs focus on maintaining the professional level of its employees by providing ongoing guidance and updates on matters pertaining to legislative changes and new laws and regulations, the enforcement plan adopted by the Company, improvement of the service approach and capabilities, changes in internal procedures, etc. The Company also implements various executive training programs with the aim of improving the quality of management and use of management tools.

4.7 Marketing and Distribution

4.7.1 Overview

The Group's key distribution channels are as follows:

Marketing and distribution in the insurance businesses are carried out by insurance agents, insurance agencies and distribution in digital channels to allow for swift purchase of products by policyholders. Most agents have agreements in place with several insurance companies in order to meet customers' diverse needs. Key considerations for agents in selecting an insurance company to contract with: rate of fees and commissions, quality of service provided by the insurance company, product and service innovation, and suitability of the insurance company's products to the needs of the agents' customers. Key considerations for insurance companies in selecting agents to work with: the agent's areas of activity, expertise and relative advantages, potential for business collaboration with the insurance company, agent's profitability, fees and commissions charged by the agent, quality of the agent's sales, retention of the agent's portfolio, the agent's customer base and his reliability.

The agents' activities are managed primarily by the Sales Division. In February 2020, the Company announced the restructuring of its Sales Division, which mainly involved concentrating the property and casualty insurance activity under the property and casualty insurance division, life and health insurance sales under the long-term savings division, and the operations and service activities under the Company's central service and operations division.

The Company operates an advanced online portal through which it provides marketing, business and sales-related information to agents in connection with their entire activities, as well as professional and operational information. The information is also offered to the agent through a dedicated mobile app.

The Company operates a sales call center that provides services to The Phoenix' agents (Fn4u); the call center supports the Company's sales activities, for and in collaboration with the Company's agents.

The Company also operates digital marketing channels through which it sells life insurance products, and a retail marketing and distribution function focusing on distribution of, and providing services for, pension products and other individual products. Digital sales of insurance products is carried out through sales interfaces on the Company's website and through a call center. This activity is marketed under The Phoenix Smart brand name.

The Company operates a customer call center, which aims to provide swift response to customers' inquiries, including inquiries in connection with the reports issued by the Company to its customers, questions regarding insurance policies, etc. Customers can contact the Company through all widely used digital communication channels, such as WhatsApp, text messages, email and by phone. Furthermore, the Company's website is used to send customers personal information and allows customers to perform transactions using the "personal zone". In addition, the Company provides marketing information to existing and potential customers.

The Company operates in the social media platforms Facebook and Instagram, where it has a community of more than 70,000 followers. It also generates dedicated content on YouTube and other digital media platforms. By maintaining direct contact with its customers through social media platforms, the Company generates a dialogue on insurance issues and other aspects relating to health, savings and property, answers questions, handles service-related complaints and provides answers to questions relating to Company's products and services.

4.7.2 Agents and insurance agencies (hereinafter: "Agents")

Centralized marketing and distribution activities of The Phoenix Insurance are conducted through the insurance agents.

The Phoenix Insurance also acts through the arrangement agencies and other insurance agencies employing subagents. These agencies usually cooperate with a number of insurance companies.

For further details regarding the Group's agencies, please see Section 2.5 above.

4.7.3 The banks - pension advicer

The banking corporations serves as a distribution channel in the field of long-term savings, in their capacity as pension advisors. The scope of activity in this channel is immaterial.

4.7.4 Regulation of the activity of pension agents,/pension marketers/ pension advisors

The agents' activity is regulated by the Commissioner as well. Agents' activities are regulated under the Insurance Contract Law, Supervision Law, and with regard to pension products and

marketers of pension products - also under the Advice and Marketing Law. The Supervision Law requires an existing written agreement between an insurer and an insurance agent.

4.7.5 Life insurance and long-term savings

As of the report date, the insurance, pension and provident funds marketing function is composed of the agents function, working in accordance with distribution agreements signed with the Company, as described above, and of a retail marketing and distribution function.

The agents function & fees and commissions

The Phoenix Insurance and The Phoenix Excellence pay agents fees and commissions at variable rates. The fees and commissions rates are determined by product type, an agent's productivity, profitability of the agent's insurance portfolio, and is also based on specific negotiations with agents and other characteristics of each agent. The insurance agents work with sales managers who are employed by The Phoenix Insurance, who provide guidance on sales-related issues and help solve issues stemming from current activities.

The fees and commissions paid over the applicability period of these policies are usually determined as a percentage of the premium; in "track" savings policies and in provident funds, the commissions usually determined as a percentage of the accrual. Fees and commissions are also paid in respect of the agent's sales activity immediately prior to the policies' purchase date. It should be noted that the Advice Law prohibits tying management fees paid by a policyholder to the fee paid to the agent for the sale of pension and financial products as of April 2017 and thereafter.

For further details on the share of the Group's arrangement agencies in the life insurance premiums and in contributions towards benefits collected by pension funds, please see Section 2.5 above.

Set forth below is the average rate of fees and commissions out of gross premiums in life insurance (by percentage):

	2020	2019	2018
Average rate of fees and commissions out of premiums	8.00	7.70	8.14

Set forth below is the average fees and commissions rate in the first year out of the new annualized premium (by percentage):²⁸

	2020	2019	2018
Average rate of fees and commissions out of the new annualized premium*	44	32	23

* The increase in the average commission rate in 2020 is due to a decrease in total current premiums as a result of the coronavirus crisis.

Pension advisors

The Phoenix Excellence has in place agreements for the distribution of its products with most commercial Israeli banks. Under the agreements, distribution of provident and pension products is carried out in exchange for a distribution fee at the maximum rate allowed under the Advice Regulations.

The agreements are for an unlimited period and may be cancelled by each party by giving the other party an advance notice.

The Phoenix Insurance has not yet signed distribution agreements for the distribution of its insurance products with the banks.

4.7.6 Property and casualty insurance

Marketing in the property and casualty insurance segment is carried out by the Company's agents and through digital distribution channels under the Phoenix Smart brand name. In 2020, there was no single agent whose sales constituted more than 10% of the sales of individual policies in this subsegment.

²⁸ Annualized premium - the annual premium as if paid for a whole year in advance in one lump sum, when the insurance is taken out, rather than being paid in installments.

Average rate of fees and commissions out of gross premiums (by percentage):

	2020	2019	2018
Compulsory motor insurance	4.6	4.9	5.0
Motor property	17.4	17.9	18.2
Other property and casualty insurance	15.9	17.4	18.2

4.7.7 Health insurance

In the health insurance segment, marketing is mostly carried out by the Company's agents and supported by the Fnx4u customer call center and by the Retail Unit. In the field of collective health insurance, marketing is carried out by the Company's agents, with employees responding to queries of representatives of the relevant organizations (advisors and/or agents) requesting price quotes. In travel insurance, marketing is carried out by agents and The Phoenix Smart, both through digital channels and sales representatives.

Set forth below is the average rate of fees and commissions out of gross premiums in the health insurance area of activity (by percentage):

	2020	2019	2018
Average rate of fees and commissions on premiums	13.9	17.3	23

The structure of fees and commissions paid to Agents in respect of selling an individual health insurance policy is essentially similar to the structure of the fees and commissions paid in the life insurance subsegment in respect of the risk products (for further details about the structure of the fees and commissions, please see above in Section 4.7.5 to the Report. For collective insurance policies marketed by Agents, the Company normally pays the Agents fees and commissions calculated as a percentage of the paid premium.

4.8 Suppliers and Service Providers
4.8.1 Suppliers and service providers in the insurance areas of activity

As part of their activities, the Group companies engage numerous suppliers and service providers in the various insurance areas of activity, mainly for settlement of claims. The suppliers and the service providers are selected in accordance with the quality and nature of the services offered by them, their availability and their areas of expertise. Engagements with these suppliers and service

providers include, among other things, payment based on global rates, payment by transaction, by percentage of the risk, and by hourly rate or per professional opinion. To the extent possible, the Group avoids being dependent on a single supplier, as the term is defined in the Commissioner's circular on revising provisions in the periodic reports of insurance companies, and works to diversify its pool of suppliers.

In the motor property subsegment, the Company provides its customers with services such as: towing, replacement car in case of an accident or theft, as well as replacing car windscreens and windows, headlights, mirrors, etc. Each agreement with a service provider sets annual or periodic rates to be paid by The Phoenix Insurance to the service provider. The suppliers of towing and replacement car services are Drachim Road Side and Towing Services Ltd. and Shagrir Group Vehicle Services Ltd.

In home insurance, as of September 2017 (following the amendment to the provisions of the Consolidated Circular with regard to water damages), the Company entered into an agreement with Natav Claims Management Ltd. for the provision of management services. Pursuant to the agreement and, in accordance with the amendment to the Consolidated Circular, the policyholder selects the plumber from a list of suppliers included in the arrangement with The Phoenix Insurance; the list is published as well on the company's website. In business insurance, Aminut Express Services Ltd. continues to provide services in connection with pipe damage.

In the field of customer services, in February 2015, the Company and Teleclal Ltd. entered into agreement for the provision of customer call center services, in addition to the Company's own call center, with the aim of improving the quality of services provided to the Company's customers.

4.8.2 Suppliers and service providers in the field of provident and pension funds

- a. In June 2016, The Phoenix Pension and Malam Provident Operation Ltd. entered into an agreement for the provision of operating services for planholders' accounts in provident funds and in the self-directed advanced education fund; (the agreement replaced a previous agreement with a former supplier). In view of the transfer of the provident funds formerly managed by The Phoenix Pension to Excellence Gemel, the aforesaid agreement was assigned from The Phoenix Pension to Excellence Gemel as of January 1 2017.
- b. In 2007, Excellence Gemel and Mizrahi Tefahot Bank Ltd. entered into an agreement for the operation of planholders' accounts with provident funds under its management. During the reporting period, the agreement period was extended.
- c. In 2012, The Phoenix Pension and Malam Payroll Ltd. entered into an agreement for the provision of services in the field of systems for management of tax and pension allowance calculation for pension funds planholders.

- d. In 2006, The Phoenix Pension entered into an agreement for the provision of fund physician and medical committees services to pension fund planholders claiming disability. In 2021, The Phoenix Excellence entered into an agreement with another supplier in this field.
- e. The Phoenix Pension's agreements were assigned to The Phoenix Excellence as part of the merger of The Phoenix Pension with Excellence Gemel in June 2019. Excellence Gemel & Hishtalmut Ltd. was renamed The Phoenix Excellence Pension and Provident Funds Ltd.

4.8.3 IT suppliers and service providers

The Group has agreements with several hardware and software suppliers; the Group also has maintenance service agreements with these suppliers. In addition, the Group enters into agreements with various suppliers for the provision of development and maintenance services. The types of agreements with these suppliers include engagement at a fixed price per project, engagement on an hourly basis and engagement based on a price per unit. The Group also has agreements in place with various suppliers which provide it with services comprising, inter alia, of: development, maintenance, operation, storage and processing of information, information systems or infrastructure, from time to time or on a regular basis at the suppliers' premises.

In view of the knowhow accumulated by suppliers during the course of the service period, the Group may naturally become dependent, in the short-term, on a specific supplier of IT services, since replacing a supplier in this field involves the investment of costs and time. Such dependency may arise, for example, due to the need to execute a project within a short period of time in order to address changes in regulation or software, or in a project involving an area where the supplier has advantage over others due to specific expertise it acquired.

4.9 Permanent Property

The Group's permanent property mainly includes office buildings, computers, software (which is presented under the "other assets" line item in the financial statements) and equipment. For further details, please see Note 6 to the Financial Statements.

4.9.1 Set forth below is a description of the key properties used in the Group's activities:

The Group's offices at Hashalom Road, Givatayim: Most of the Group's activities take place in a single site. The Phoenix Insurance has the rights to be registered as owner of 22 floors of office space at 53 Hashalom Road, Givatayim, with a total gross area of 28,000 m², warehouses with a total area of 700 m², and 547 parking spaces in the underground parking lot used for the Group's offices. The Company also leases offices with a total area of 500 m² from other owners in the building.

Offices at 7 Palyam St., Haifa: The Company manages its activities in the north of Israel in offices it leases in a building located at Palyam Street, with a total area of 1,300 m² and 10 parking spaces.

Office floor in Dona House, Jerusalem: The Phoenix Investments owns one floor and 16 parking spaces in Dona House at 20 Beit Hadfus St., Jerusalem. The entire floor (approximately 800 m²) is used as The Phoenix Insurance's Jerusalem branch.

Givat Shmuel: The Company leases office space with an area of 6,800 m² and 157 parking spaces in the Amitech building at Givat Shmuel. The space is used by various units of the Group.

Rishon LeZion: the Company leases office space in a building located in Rishon LeZion with an area of 4,680 m² and 200 parking spaces; these offices are used to expand The Phoenix Insurance's business.

For further details regarding Excellence's permanent property, please see above in Section 2.4.7 to the Report.

The 1000 Compound in Rishon LeZion: in December 2019, The Phoenix submitted a bid in a tender held by the Rishon LeZion municipality for the purchase of a plot of land in the 1000 Compound zoned for business and commercial use and for execution of construction work. The tender covers an area of 15 acres, with rights to approximately 355 thousand m². Under the tender, the winner undertakes to self-use up to 50 thousand m² within 5 years of winning the tender. In February 2020, the Company received confirmation from the Rishon LeZion municipality that it has won the tender. The Company is currently in advanced planning stages of the project, and excavation and reinforcement works are being held on site.

4.9.2 IT systems

In 2020, the Group invested approximately NIS 239 in software and computers. The Company's total current IT expenses amounted to approximately NIS 365 million, an approximately NIS 16 million stemming mainly from an increase in current automation expenses. For further details, please see Note 4, Note 6 and Note 35 to the Financial Statements.

The Group's IT Division provides all IT services to the organization through the Company's employees and, when necessary, through various subcontractors and software suppliers as well. The Group's IT division serves all of The Phoenix's employees nationwide and provides the Group's pension funds with IT services and access to The Phoenix Group's IT systems; the IT division also supports the Agents and their employees across Israel, who use various communications infrastructures.

The IT services of Excellence and the insurance agencies held by the Group are generally managed independently.

The Phoenix Group's core IT infrastructures are based on IBM UNIX computers and Windows and Linux-based servers operating on IT infrastructures providing services to 10,000 users, including the Company's employees and Agents. The Company's IT center is installed at its head office in Givatayim. The Company also operates a backup site in Netanya, which includes all the IT infrastructures and systems required for the Company's operations (including Excellence) at times of emergency, allowing for business continuity in the event that the main site is out of order. The storage systems in which all of the Company's data is saved in the main site are regularly synchronized with the backup site. The backup site is also used to develop and test the Company's systems. Further to regulatory requirements and in order to enhance The Phoenix Group's information survivability, an additional backup site was set up in Cyprus.

Approximately 1,000 workstations of the Company's users were converted to virtual desktop infrastructure (VDI).

The Phoenix Group's main IT systems are as follows: the core life insurance systems were internally developed by The Phoenix Group. The systems operate on UNIX infrastructure supported by ORACLE databases and are mostly written in COBOL. In recent years, the Group is in the process of improving its systems to support the expansion of its services and to continue to support its business processes and regulatory requirements in future years. The life insurance system manages policyholders, policies, products, coverage, underwriting, Agents' agreements, fees and commissions, collection, redemptions and loans. Life insurance claims and most of the health claims are managed using a SAP-based central claims system. The Phoenix Group operates provident and advanced education policies through an operating entity.

Apart from the policy management system, which is based on a Malam-Team Comtec product, most of the core property and casualty insurance systems are also based on internally developed systems using the same infrastructure. This system operates in conjunction with systems that manage policyholders, Agents, fees and commissions, collection, payments and claims.

The core insurance systems are supported by various document and work process management systems, systems managing the activity with reinsurers, as well as risk management and actuarial systems. Most of the systems are supported by widely-known and widely-used software products, which are implemented in The Phoenix in order to provide the required business response. The Company operates an extensive DWH system, which provides information on all of Company's operational systems.

The finance and procurement activities are based on SAP software package, which is linked to all of the organization's systems, thereby serving as a single source of reliable information. The investment system is based on software by Danel in combination with a dedicated BI system.

The Company manages its service centers using Oracle's Siebel CRM system; the system provides a central platform for management of inquiries received in the various service centers from customers, Agents and employers.

In the reporting year, the Cyber Security Unit focused on further enhancement of corporate protection systems. These include the following key activities: expanding the activity of the control center (SIEM/SOC) such that it operates 24/7, improving the control path logging capabilities in the enterprise core systems, improving the transfer of data regarding events to the control center, upgrading workstation protection mechanisms, increasing control over access to enterprise production environments, reviewing access authorizations for company employees and agents, increasing employee awareness of cyber risks, responding to privacy protection requirements, and addressing risk survey gaps.

4.9.3 Online and digital activity

The Group operates a marketing website used to provide to the public information regard the Group, its product offerings, general information regarding various insurance coverages, information targeted to specific groups or population segments and regulatory information. The Phoenix policyholders can use the website to search for service providers with whom the Company has arrangements to provide services to its customers (such as: auto repair shops, physician, appraisers, etc.).

Customers can use the website to purchase compulsory and comprehensive motor insurance, travel insurance, and home and mortgage insurance. Policyholders can use the website to digitally open claims for most insurance products and download and fill out a wide range of forms; the public can contact the Company through its range of communication channels to obtain information or carry out transactions, using online chat, email, as well as text and WhatsApp messaging.

The Group also operates a personal zone for its policyholders, through which they can easily and conveniently receive a copy of their policy, the status of processes underway, applications and claims, print out various documents, update personal information and monitor their pension contributions on an ongoing basis at a time of their choosing, without waiting. The website is accessible to people with disabilities, and allows access to information using various aids. The website's content is also pc screen and mobile-optimized.

In addition, the Group operates a dedicated Facebook page, where information is available regarding its products and activities; the Facebook page can be used to contact the Company's various service channels in order to receive information and support in performing various transactions. The Company is also active in other digital media platforms, such as Google, YouTube, Instagram, etc. It should be noted that other Group companies have their own websites.

The Company also has a dedicated website for its agents (an agents' portal) through which they can receive information regarding their activity with the Company as well as information regarding policyholders who are insured through them; this website can also be used by agents to offer life insurance and/or pensions and/or long-term savings to policyholders.

4.9.4 Vehicles

The vehicles used by the Group are mainly operated through operating leases.

4.10 Seasonality

4.10.1 Life insurance

Revenues from life insurance premiums are not significantly affected by seasonality. Nevertheless, in view of the tax benefits available on contributions towards life insurance, a significant proportion of new sales are carried out towards the end of the year.

Set forth below is a breakdown of gross life insurance premiums by quarter:

	2020		2019	
	%	In NIS million	%	In NIS million
Q1	26.4	1,259	26.8	1,396
Q2	23.8	1,134	25.5	1,328
Q3	24.7	1,176	23.8	1,241
Q4	25.1	1,197	23.9	1,244
Total	100	4,766	100	5,209

4.10.2 Property and casualty insurance

The seasonality of premiums is particularly noticeable in the first quarter; this is mainly due to renewal of motor insurance policies of various groups of employees and businesses' vehicle fleets, whose renewal dates normally fall in January; seasonality is also caused by renewal of business insurance policies, which are typically renewed in January or April. The effect of premiums seasonality on profits is mainly offset by the unearned premium reserve mechanism.

It should be noted that a severe winter may trigger an increase in claims, mainly in the motor property subsegment.

Set forth below is a breakdown of gross property and casualty insurance premiums by quarter:

	2020		2019	
	%	In NIS million	%	In NIS million
Q1	30.84	887	30.4	856
Q2	22.66	651	23.9	673
Q3	23.66	680	24.4	687
Q4	22.84	657	21.3	599
Total	100	2,875	100	2,815

4.10.3 Health insurance

The breakdown of premium data by quarter shows that seasonality does not materially affect the distribution of health insurance premiums during the calendar year.

4.11 Intangible Assets

4.11.1 General

The Company registered trademarks in respect of the logo containing its brand name and a number of insurance products and brand names. The Phoenix uses several brand names in the insurance and finance segments, such as: The Phoenix, The Phoenix Smart, The Phoenix Excellence, Excellence, and more. The brand names benefit from the reputation created by The Phoenix over more than 70 years of activity, both among policyholders and insurance professionals.

In order to enhance awareness of the Company's brand names, The Phoenix uses mass communication channels such as: commercial TV, regional and national radio stations, Instagram, YouTube, Facebook, Google, and more. For further details, please see Chapter 4 to the Report of the Board of Directors.

4.11.2 Databases

The Phoenix Insurance maintains databases, which are essential for the management of its business, in accordance with the Privacy Protection Law, 1981.

4.11.3 Information systems

The Company develops, through its employees and suppliers, copyright-protected software for internal use. For further details regarding IT systems, please see also Section 4.9.2 above.

4.11.4 Goodwill and excess of costs

As of December 31 2020, the Company has goodwill and excess of cost, mainly from acquisition of insurance agencies and provident funds activity, totaling approximately NIS 1,278 million (approximately NIS 1.062 million as of December 31 2019), net of amortization. These are mainly attributed to goodwill, fees and commissions portfolios and future management fees. At the end of 2020, the Company tested the recoverability of its goodwill and did not conclude that its value was impaired. For further details, please see Note 4 to the Financial Statements.

4.12 Financing

4.12.1 The Group finances its activity, inter alia, from external sources, including issuance of promissory notes, bonds, as well as short-term and long-term bank and non-bank loans.

The total financial liabilities as of December 31 2020 and 2019 are approximately NIS 7,044 thousand and approximately NIS 5,757 thousand, respectively.

Average interest rate

The average interest rates on loans from bank and non-bank sources in 2020, which are not earmarked for specific use by the Group, are listed in the following table:

	Average interest rate on loans not earmarked for specific use (by percentage)			
	Average rate	Subordinated bonds	Long-term borrowings	Short term loans
Banking sources - CPI-linked	-	-	-	-
Banking sources - USD-linked	1.58	-	-	1.58
Bank sources - non-linked	2.16	-	-	2.16
Non-bank sources - CPI-linked	1.18	2.25	0.44	-
Non-bank sources - non-CPI-linked	2.87	3.05	1.88	3.68

For further details regarding the promissory notes and bonds issued, please see Note 26 to the Company's Financial Statements.

4.12.2 Capital and debt raising

Publication of prospectuses

In August 2019, the Company published a shelf prospectus, according to which it may issue various securities, such as: ordinary Company shares of NIS 1 par value each, preferred shares, non-convertible bonds (including by way of expansion of existing series of Company's bonds as may be from time to time), bonds convertible into Company shares (including by way of expansion of existing series of bonds convertible into Company's shares as may take place from time to time), option warrants exercisable into Company shares, option warrants exercisable into bonds, option warrants exercisable into bonds convertible into Company shares, and marketable securities. For further details,

please see the Company's immediate report dated August 15 2019 (Ref. No. 2019-01-070590) and Note 26 to the Company's Financial Statements.

In August 2019, The Phoenix Capital Raising published a shelf prospectus pursuant to which it will be able to issue various types of securities in accordance with the provisions of law – nonconvertible bonds (including by expanding existing series of bonds of The Phoenix Capital Raising as they will be from time to time) and option warrants exercisable into bonds of The Phoenix Capital Raising. The issuance proceeds in respect of the above securities will be deposited with The Phoenix Insurance for its use at its own discretion and responsibility.

In the reporting year, the Company raised capital and debt as follows:

Debt raising

Series 5 bonds

On February 20 2020, the Company issued NIS 220,000 par value of registered Series 5 bonds of NIS 1 par value each; the bonds, which are linked to the CPI, were issued pursuant to the Company's shelf offering report of August 15 2019 (Ref. No. 2019-01-070590) in consideration for NIS 220,000 thousand. The bonds (Series 5) will be repaid (principal) in six variable annual payments, which will be paid on May 1 of each of the years 2022 to 2024, on May 1 2028 and May 1 of each of the years 2029 to 2030, with the first payment to be made on May 1 2022, and the sixth and final payment to be made on May 1 2030, with each of the first payments up to and including the third payment repaying 4% of the principal, the fourth payment repaying 28% of the fund, and the fifth and sixth payments repaying 30% of the fund. The outstanding balance of the bonds' principal (Series 5) will bear a fixed annual interest rate of 0.44%. Ma'alot rated the Series 5 bonds at iIAA- with a stable outlook. The issuance proceeds were used by the Company to inject Tier 1 capital into its subsidiary - The Phoenix Insurance - after obtaining the Commissioner's approval for this capital injection. On September 6 2020, the Company issued a further NIS 380,000 thousand par value of registered Series 5 bonds of NIS 1 par value each, by way of expansion of the series 5 bonds; the bonds, which are linked to the CPI, were issued pursuant to the Company's shelf offering report dated September 3 2020 (Ref. No. 2020-01-098124), in consideration for NIS 372,780 thousand. The issuance proceeds were used by the Company for early repayment of its Series 2 bonds. For further details, please see the Company's immediate reports dated August 30 2020 and September 30 2020 (Ref. Nos.: 2020-01-095238 and 2020-01-106440, respectively).

Events that occurred after the reporting period

Series 4 bonds

On February 3 2021, the Company issued a further NIS 127,384 thousand par value of registered Series 4 bonds of NIS 1 par value each, by way of expansion of the Series 4 bonds, which were issued pursuant to the Company's shelf offering report dated February 3 2021 (Ref. No. 2021-01-013684),

in consideration for NIS 128,403 thousand. The proceeds of the expansion have been and will be used by the Company for its ongoing needs and those of its subsidiaries, including expected investments, such as the acquisition of the entire share capital of Halman-Aldubi Investment House Ltd.

Series 5 bonds

In February 2021, the Company issued further NIS 222,616 thousand par value of registered Series 5 bonds of NIS 1 par value each, by way of expansion of the series 5 bonds; the bonds, which are linked to the Index, were issued pursuant to the Company's shelf offering report dated September 3 2021 (Ref. No. 2021-01-013684), in consideration for NIS 223,729 thousand. The proceeds of the expansion have been and will be used by the Company for its ongoing needs and those of its subsidiaries, including expected investments, such as the acquisition of the entire share capital of Halman-Aldubi Investment House Ltd.

4.12.3 Credit limitations

Series 3 bonds

As part of the deed of trust of the Company's Series 3 bonds, the Company undertook not to place a general floating charge on its assets as long as the Series 3 bonds have not been repaid in full, unless it obtains the bondholders' consent in advance and placed on that date a charge of the same rank in favor of the Series 3 bondholders. Furthermore, with respect to Series 3 bonds, the Company assumed upon itself restrictions on distribution of dividends and expansion of the bonds series; the Company has also undertaken to comply with various financial covenants.

For further details, please see Sections 5.8 and 1.4 and Appendix 1 to the deed of trust attached to the shelf offering report published on January 22 2018 (Ref. No. 2018-01-007317).

Series 4 bonds

As part of the deed of trust of the Company's Series 4 bonds, the Company undertook not to place a general floating charge on its assets as long as Series 4 bonds are not repaid in full, unless it has obtained the bondholders' consent in advance and placed on that date a lien of the same rank in favor of Series 4 bondholders. Furthermore, with respect to Series 4 bonds, the Company assumed upon itself restrictions on distribution of dividends and expansion of the bonds series; the Company has also undertaken to comply with various financial covenants. For further details, please see Sections 5.6 and 5.10 and Appendix 1 to the deed of trust attached to the shelf offering report published on May 7 2019 (Ref. No. 2019-01-039576).

Series 5 bonds

As part of the deed of trust of the Company's Series 5 bonds, the Company undertook not to place a general floating charge on its assets as long as the Series 5 bonds are not repaid in full, unless it

obtained the bondholders' consent in advance and placed on that date a charge of the same rank in favor of Series 5 bondholders. Furthermore, with respect to Series 5 bonds, the Company assumed upon itself restrictions on distribution of dividends and the expansion of the bonds series; the Company has also undertaken to comply with various financial covenants. For further details, please see Sections 5.7 and 5.9 and Appendix 1 to the deed of trust that was attached to the shelf offering report published on February 20 2020 (Ref. No. 2020-01-014890).

Apart from the aforesaid undertakings, the Company is not subject to any credit restrictions.

4.12.4 Credit rating

Rating reports published by Midroog

The Company

On January 29 2020 Midroog announced it was reiterating the rating of Series 2, 3 and 4 bonds at Aa3.il, with a stable outlook. On January 11 2021, Midroog announced it was reiterating the rating of Series 3 and 4 bonds at Aa3.il, with a stable outlook. On January 31 2021, Midroog announced it has rated the extension of up to NIS 350 million of Series 4 and 5 bonds issued by the Company at Aa3.il, with a stable outlook. For further details, please see the Company's immediate reports dated January 29 2020 (Ref. No. 2020-01-009604), April 23 (Ref. No. 2019-01-036663), January 11 2021 (Ref. No. 2021-15-004746), and January 31 2021 (Ref. No. 2021-15-012981).

The Phoenix Capital Raising

On December 24 2020 Midroog left unchanged The Phoenix Insurance's financial strength rating at Aa1.il, the rating of subordinated bonds (hybrid tier 3 capital) at Aa3.il, and the rating of subordinated bonds (hybrid tier 2 and tier 2) at Aa3.il. The rating outlook is stable. For further details, please see the immediate report issued by Phoenix Capital Raising on December 24 2020. (Ref. No. 2020-15-139896).

Rating reports published by Ma'alot

The Company

On February 3 2020, Ma'alot S&P announced its rating of iIAA- for the issuance of Series 5 bonds in the amount of up to NIS 220 million. On April 21 2020, Ma'alot S&P reiterated the Company's rating at -iIAA - with a stable outlook. On September 1 2020, Ma'alot S&P announced its rating of -iIAA for the issuance of Series 5 bonds in the amount of up to NIS 380 million. On October 21 2020, Ma'alot S&P reiterated the Company's rating at iIAA- - with a stable outlook. On January 31 2021, Ma'alot S&P reiterated the Company's rating at iIAA- - with a stable outlook; it rated the extension of Series 4 and 5 bonds in the amount of up to NIS 350 million at iIAA-. For further details, please see the Company's immediate reports dated February 3 2020 (Ref. No. 2020-01-010801), April 21 2020 (Ref. No. 2020-

01-040161), September 1 2020 (Ref. No. 2020-01-097101), October 21 2020 (Ref. No. 2020-01-106408), and January 31 2021 (Ref. No. 2021-01-013065).

The Phoenix Capital Raising

On April 21 2020, Ma'alot S&P reiterated The Phoenix Insurance's rating at iIAA+ and upgraded its outlook from "positive" to "stable". On October 21 2020, Ma'alot S&P reiterated The Phoenix Insurance's rating at iIAA+ - with a stable outlook. On January 31 2021, Ma'alot S&P reiterated The Phoenix Insurance's rating at iIAA+. For further details, please see The Phoenix Capital Raising's immediate reports dated April 21 2020 (Ref. No. 2020-01-040167), October 21 2020 (Ref. No. 2020-01-106111), and January 31 2021 (Ref. No. 2021-01-013263).

4.13 Risk Factors

This section deals with the key risk factors to which the Group is exposed.

For further details regarding the risk factors, risk management policy, work processes, methods employed in risk management, existing controls and the roles of the Chief Risk Officer, please see Note 40 to the Financial Statements.

4.13.1 Table of risk factors embodied in insurance activities

The following table lists the key risk factors to which the Company is exposed and their potential effect:

Risk factors	The effect of risk factors on the Group's activity		
	High	Moderate	Low
Macroeconomic risks -			
State of the market economy	✓		
Unemployment rate		✓	
Breakdown of market risks:			
Interest rate risk	✓		
Credit Gap Risk	✓		
Capital instruments risk (shares and non-financial assets)	✓		
Foreign exchange rate risk		✓	
Inflationary risk		✓	
Credit Risk	✓		
Industry risks			
Insurance risks (including longer life expectancy, pension uptake, and illness)	✓		
Catastrophe risk (including earthquakes, epidemics, war, etc.)	✓		
Regulation	✓		
Legal precedents		✓	
Competition	✓		
Portfolio retention rate	✓		
Reinsurance availability and stability risk		✓	
Change in the public's preferences		✓	
Risks specific to the Company			
Liquidity Risk			✓
Risk of asset-liability mismatch		✓	
Operational risks		✓	
IT risk		✓	
Privacy protection and information security risks	✓		
Pricing and underwriting risks		✓	
Claims and class actions		✓	
Compliance risks		✓	
Outsourcing risks			✓
Impairment of the Company's goodwill, financial strength, market cap or rating		✓	

The potential effect of the risk factors on the Group is based on the estimates of the Group's management, taking into consideration the scope and nature of its activities as of the report date. The actual effect may vary due to changes in the Group's activities or market conditions. For further details regarding the key risk factors in relation to the financial services activities, please see Section 2.4.15 to the Report.

4.14 Material Agreements

4.14.1 Reinsurance agreements

For further details regarding the Company's engagements with reinsurers, please see Section 4.5 above.

4.14.2 Agreements relating to holdings in investees

For further details regarding these agreements, please see Section 4.4.4 above.

4.14.3 Agreement for the acquisition of the shares of Agam Liderim Holdings (2001) Ltd. by The Phoenix Agencies

For further details regarding the agreement, please see Section 8 to the Report.

4.14.4 The Maccabi agreement

For further details regarding this agreement, please see Section 2.3.5(c) to the Report.

4.14.5 The KSM option agreement

For further details regarding this agreement, please see Section 2.3.5(c) to the Report.

4.14.6 Application of IFRS 17

For further details regarding the Company's investment activities, please see Section 1.3.17 to the Report.

4.14.7 Agreement for the purchase of future fees and commissions inflows between The Phoenix Insurance and The Phoenix Agencies

For further details regarding this agreement, please see Section 2.3.5(c) to the Report.

For further details regarding Excellence's material agreements, please see Section 2.4.12 to the Report.

4.15 Business Targets and Strategy

For further details regarding the Company's business targets and strategy, please see Section 1.3.1 above and Section 4 to the Report of the Board of Directors.



Part E

Corporate Governance Aspects



5.1 Details regarding the Company's External Directors

As of the report date, the Company's Board of Directors includes 9 directors, 2 of whom are external directors and one of which is an independent director. The external directors are Ms. Rachel Levine and Mr. Zohar Tal; the independent director is Dr. Ehud Shapira.

The Company adopted a Board of Directors procedure, which lists, among other things, the roles of the Board of Directors and its committees; the procedure was updated in April 2019.

5.2 Information about the Company's Internal Auditor

5.1.1 Details of the internal auditor:

As of the report publication date, the Company's Chief Internal Auditor is Ms. Michal Leshem (CPA), who began her term in office on September 1 2020.

As of the report publication date through August 31 2020, Mr. Shmuel Rosenblum, (CPA, LL.M) served as the internal auditor of The Phoenix Holdings, The Phoenix Insurance Company and The Phoenix Capital Raising. On July 28 2020, the Board of Directors approved Mr. Rosenblum's request to end his service.

The Audit Committees also approved the appointment of Ms. Michal Leshem (CPA) as Chief Internal Auditor, and the establishment of an internal audit function in the Company as of September 1 2020. The appointment was approved in view of Ms. Leshem's qualifications, expertise and professional experience, taking into account, among other things, the type and size of the corporation, and the scope and complexity of its activities. The appointment was approved by the Commissioner of the Capital Markets, Insurance and Savings Authority on August 10 2020.

The Chief Internal Auditor meets the criteria set in Section 3(a) of the Internal Audit Law, 1992, the provisions of Section 146(b) of the Companies Law, and the provisions of Section 8 of the Internal Audit Law.

Ms. Leshem serves as the Internal Auditor of The Phoenix Insurance, Phoenix Excellence and The Phoenix Investments.

The internal audit work is carried out through employees of the Company's internal audit function, and through outsourced services. The Chief Internal Auditor reports to the Chairman of the Board of Directors.

Mr. Meir Ilya (CPA) serves as the internal auditor of The Phoenix Investments and Finances Ltd., and Mr. Uri Holtzman (CPA) serves as internal auditor of Ad 120; both Mr. Ilya and Mr. Holtzman are partners in the Rosenblum Holtzman & Co. accounting firm.

5.1.2 The work plan:

The internal audit function's work plan for 2020 was derived from the multi-year plan for 2019-2022, which is based on a risk survey held in order to set the audit targets in key areas; the survey was held and discussed in 2019. The work plan also includes focal points in accordance with the changes in the Company's business activity and structure, regulation, and risk levels. Substantive activities are audited more frequently. Additional activities may be audited more frequently, in accordance with the Chief Internal Auditor's assessment, based on guidance issued by one or more of the following: the Board of Directors, Audit Committee and management. The work plan allows the Chief Internal Auditor to exercise discretion in deciding to deviate therefrom. The Chairman of Board of Directors, the CEO and the Audit Committee may expand the scope of the plan or request specific changes. Substantive changes in the annual work plan are reported to the Audit Committee.

The scope and nature of the work of the Chief Internal Auditor and her team were determined taking into consideration the scope of the Company's activities and its various areas of activity.

The Chief Internal Auditor submits to the Audit Committee a detailed periodic report about the auditing activity in the reporting period.

Interested party transactions are discussed and approved by the competent organs as required by law. As part of the work plan, the Internal Audit Division also reviews approved interested party transactions. Other material transactions, including approval of such transactions, are reviewed from time to time as part of the work plan and in accordance with generally accepted auditing principles.

5.1.3 Hours invested and audit of investees:

Company	No. of hours invested	
	The Company's internal auditor	Other internal auditors
The Phoenix Holdings	97	-
The Phoenix Insurance	24,360	-
The Phoenix Capital Raising	46	-
Phoenix Excellence**	4,138	-
Ad 120	-	381
The Excellence Group*	-	3,750
Total hours	28,641	4,131

* Subsidiaries of The Phoenix Investments and Finances Ltd.

** Including approximately 700 hours carried out by the operating bank

In 2020, approximately 28,641 hours were invested in internal audit activities in the Company and its institutional entities. Furthermore, investees of the Company employ other internal auditors, whose scope of employment reached approximately 4,131 hours.

5.1.4 Conducting the audit

The internal audit was conducted in accordance with the provisions of the Internal Audit Law, 1992, and the Companies Law, 1999, as well as in accordance with generally accepted practices while adapting the application of the guidelines and professional standards issued by the Chartered Institute of Internal Auditors (IIA).

The Board of Directors, through its Audit Committee, oversees the Internal Audit Division's work procedures, practices and results. The Board of Directors is of the opinion that the internal auditor's work practices are appropriate and in line with the composition and scope of the Group's activities.

5.1.5 Access to information

During the course of the audit work, the Chief Internal Auditor was provided with documents and information as required. The Chief Internal Auditor and her team were given full, ongoing and unrestricted access to IT systems and financial data, where such access was required to perform their work.

5.1.6 Chief Internal Auditor's report

The Chief Internal Auditor's reports are submitted in writing. Generally, upon issuance of the internal audit reports by the internal audit function, and as part of the current work process, the reports are discussed with the audited functions. Internal audit reports are submitted on an ongoing basis to the Chairman of the Board of Directors, the Company's CEO, Legal Counsel, Chief Risk Officer and the Company and/or the subsidiaries' audit committees, as applicable. In 2020, the Company's Audit Committee held 4 meetings, and the audit committees of the Group's institutional entities held 27 meetings, of which approximately 18 meetings discussed the internal audit reports.

5.1.7 The Board of Directors' assessment of the Chief Internal Auditor's work

In the Board of Directors assessment, and based on the internal audit quality survey the scope, nature and continuity of the Chief Internal Auditor's work plan are reasonable under the circumstances, and are sufficient to achieve the Group's internal control objectives.

The Chief Internal Auditor is a Group employee, having the status of a VP and employed on a full-time basis; she receives a monthly salary including related social benefits. The Chief Internal Auditor has an individual compensation plan whereunder an annual bonus is awarded as part of the overall compensation policy adopted by the Company and its institutional entities.

In the opinion of the Board of Directors, the Chief Internal Auditor's terms of employment are reasonable and fair and reflect the Chief Internal Auditor's meeting her personal targets and contribution to the Company. The Board of Directors has found that the compensation policy paid to the Chief Internal Auditor is in line with the compensation policy of the Company and its institutional entities, and does not give rise to any concern that her professional judgment would be compromised.

The total cost of the internal auditor's salary in 2020 amounted to approximately NIS 397 thousand.

During the reporting year, the Chief Internal Auditor was awarded approximately 200,000 non-marketable option warrants exercisable into ordinary shares of NIS 1.00 par value each; the option warrants were awarded as part of the option plan applicable to Company and Group employees and officers.

The cost of internal audit services rendered to the Company in 2020 amounted to approximately NIS 2.4 million including VAT.

In the opinion of the Board of Directors, the compensation terms of the Chief Internal Auditor and her staff do not give rise to fear of the Chief Internal Auditor's professional judgment being subject to influence.

5.3 Information about the Independent Auditor

The Company's independent auditors are Kost Forer Gabbay & Kasierer (hereinafter: "**Kost**" and/or "**EY**"). Kost serve as the independent auditors of most of the Group's material companies.

The engagement partner in charge of the Company on behalf of Kost is Tal Hay-Zion (CPA), who has replaced CPA Moshe Shahaf as of April 2019.

The auditors' fees are determined based on the scope of the work carried out in a publicly-traded company and institutional entity which is an insurance company, and in the other Group companies.

5.3.1 The independent auditor's fees are approved by the Company's Board of Directors.

Set forth below is a breakdown of the independent auditors' fees in NIS thousand (excluding VAT) for services rendered by them in 2019-2020 and the number of hours invested:

2020					
Salary					
		Audit services*	Special tax services	Other services	Total
The company and its wholly owned companies**	EY	450	19	400	869
	Other	157	31	-	188
The Phoenix Insurance and companies under its control	EY	2,772	107	1,885	4,764
	Other	150	76	-	226
Excellence and its consolidated companies	EY	520	257	-	777
Total		4,049	490	2,285	6,824

(*) The audit services include fees in respect of SOX and solvency auditing.

(**) Excluding The Phoenix Insurance, Excellence and companies under their control.

The increase in the number of audit hours invested in The Phoenix Holdings stems from the restructuring - the transfer of the agencies from The Phoenix Insurance to The Phoenix Holdings. Furthermore, Ad 120 was transferred from The Phoenix Holdings to The Phoenix Insurance.

2019					
Salary					
		Audit services*	Special tax services	Other services	Total
The company and its wholly owned companies**	EY	395	21	192	609
The Phoenix Insurance and companies under its control	EY	2,871	161	980	4,012
	Other	281	110	-	391
* Excellence and its consolidated companies	EY	743	167	-	910
Total		4,290	460	1,172	5,922

(*) The audit services include fees in respect of SOX and solvency auditing.

(**) Excluding The Phoenix Insurance, Excellence and companies under their control.

2020					
No. of hours					
		Audit services*	Special tax services	Other services	Total
The company and its wholly owned companies**	EY	2,643	122	1,028	3,793
	Other	1,339	124	-	1,463
The Phoenix Insurance and companies under its control	EY	12,636	317	4,859	17,812
	Other	800	150	-	950
* Excellence and its consolidated companies	EY	3,152	829	-	3,981
Total		20,570	1,542	5,887	27,999

(*) The audit services include fees in respect of SOX and solvency auditing.

(**) Excluding The Phoenix Insurance, Excellence and companies under their control.

The increase in the number of audit hours invested in The Phoenix Holdings stems from the restructuring - the transfer of the agencies from The Phoenix Insurance to The Phoenix Holdings. Furthermore, Ad 120 was transferred from The Phoenix Holdings to The Phoenix Insurance.

2019					
No. of hours					
		Audit services*	Special tax services	Other services	Total
The company and its wholly owned companies**	EY	2,133	55	794	2,982
The Phoenix Insurance and companies under its control	EY	13,159	426	4,956	18,541
	Other	1,770	100	-	1,870
* Excellence and its consolidated companies	EY	4,218	654	-	4,872
Total		21,280	1,235	5,750	28,265

(*) The audit services include fees in respect of SOX and solvency auditing.

(**) Excluding The Phoenix Insurance, Excellence and companies under their control.

5.4 Effectiveness of Internal Controls over Financial Reporting and disclosure

5.4.1 The Securities Regulations

Amendment No. 3 to the Securities Regulations (Periodic and Immediate Reports), 2009 (hereinafter - "**ISOX**"), which deals with internal controls over financial reporting and the disclosure thereof (hereinafter: the "**Regulations**"), was published in December 2009. The amendment enacts a number of changes aimed at improving the quality of financial reporting and disclosure by reporting corporations.

As from the publication date of the ISOX amendment, and as set out in the Company's previous Reports of the Board of Directors, the Company has been working on an ongoing basis to implement the required procedure in The Phoenix Group in accordance with the provisions of the ISOX amendment. In accordance with the provisions of the ISOX amendment, the Company opted to implement to the internal controls of all of its consolidated institutional entities the provisions of the Commissioner's circulars applicable thereto - the Institutional Entities Circular 2009-9-10, "Management's Responsibility for Internal Controls over Financial Reporting"; Institutional Entities Circular 2010-9-6, "Management's Responsibility for Internal Controls over Financial Reporting - Amendment"; Circular 2010-9-7 "Internal Controls over Financial Reporting - Statements, Reports and Disclosures"; Circular 2012-9-5 "Internal Controls over Financial Reporting - Statements, Reports, Disclosures and Management's Responsibility for Internal Controls over Financial Reporting - Amendments"; and Circular 2015-9-15, "Internal Controls over Financial Reporting - Statements, Reports, Disclosures and Management's Responsibility for Internal Controls over Financial Reporting - Amendments" (hereinafter - "**Management's Responsibility Circulars**").

The reports and statements required in accordance with the ISOX amendment are attached below to the periodic financial statements; please see Part 4 - Report on the Effectiveness of Internal Controls over Financial Reporting and Disclosure.

The processes relating to the institutional entities are also addressed in the Commissioner's circulars, please see below in Section 5.4.2

5.4.2 The Commissioner's circulars

Alongside the process described in Section 5.4.1 above, The Phoenix Group's institutional entities apply the provisions of Management's Responsibility Circulars pertaining to controls and procedures regarding disclosure and internal controls over financial reporting of an institutional entity, and implement the procedures required in connection therewith, as described below; this is done in accordance with the stages and dates set out in the above-mentioned circulars and in collaboration with external consultants engaged for that purpose. As part of this process, the Group's institutional

entities adopted the internal control model of COSO - Committee of Sponsoring Organization of the Treadway Commission - which is a generally accepted framework for assessment of internal controls.

■ Disclosure controls and procedures

Managements of the institutional entities, together with their CEOs and CFOs, assessed the effectiveness of the controls and procedures concerning the said institutional entities' disclosure in their financial statements as of the end of the period covered in the Report. Based on this assessment, the CEOs and CFOs of the institutional entities in The Phoenix Group concluded that, as of the end of the period, the controls and procedures as per the institutional entities' disclosure are sufficiently effective for recording, processing, summarizing, and reporting the information that the institutional entities are required to disclose in their quarterly report in accordance with the provisions of the law and the reporting provisions set by the Commissioner of the Capital Market, Insurance, and Savings and on the date set out in these provisions.

■ Internal controls over financial reporting

During the quarter ending December 31 2020, no changes took place in the internal controls over financial reporting of the Group's institutional entities that had a material effect, or is expected to have a material effect, on the institutional entities' internal controls over financial reporting. Furthermore, the Group's institutional entities are conducting a process of improving and streamlining processes and/or internal controls and/or customer service. The reports and statements relating to the relevant processes are attached to the Financial Statements of The Phoenix Group's institutional entities, in accordance with the provisions of Management's Responsibility Circulars.

Benjamin Gabbay, Chairman of the BOD

Eyal Ben Simon, CEO

Date: March 24 2021

Part 2

Report of the Board of Directors on the State of the Company's Affairs



This English translation from the Hebrew version of the report has been made for convenience and information purposes only. In case of any conflict or discrepancy between the terms of this English translation and the original version prepared in Hebrew, the Hebrew version shall prevail. The Company makes no representations as to the accuracy and reliability of the financial information in this English translation.

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Report of the Board of Directors on the State of the Company's Affairs As of December 31 2020

The Report of the Board of Directors of The Phoenix Holdings Ltd. (hereinafter, "**The Phoenix Holdings**" or the "**Company**" or the "**Corporation**") as of December 31 2020, outlines the principal changes in the Company's operations in the period from January through December 2020 (hereinafter - the "**reporting year**").

The report was prepared in accordance with the Securities (Periodic and Immediate Reports) Regulations, 1970. With regard to the insurance, pension, and provident fund operations of the Group, the report was prepared pursuant to the Regulations Concerning Supervision of Insurance Business (Reporting), 1998, and in accordance with the directives issued by the Supervisor of the Capital Market, Insurance and Savings (the "**Supervisor**" or the "**Commissioner**").

The Report of the Board of Directors is an integral part of the Periodic Report, and the Periodic Report is to be read in its entirety, as a single unit. For further explanations regarding changes between the financial results for 2019 and the financial results for 2018 – please see the Report of the Board of Directors on the State of the Company's Affairs as of December 31 2019, as published in the Company's Periodic Report for 2019.

1. The Group's Structure, Areas of Activity, and Developments in the Group

1.1. Group structure

The Company's shareholders

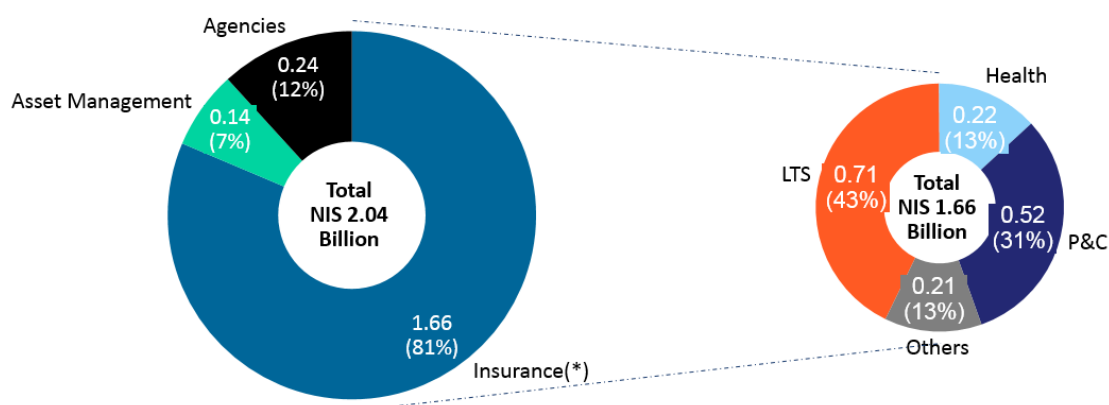
The controlling shareholder of the Company is Belenus Lux S.à.r.l. (hereinafter - "**Belenus**") which is held by Centerbridge Partners LP and Gallatin Point Capital LLC (hereinafter - the "**Funds**"). As of the report date, Belenus holds approximately 32.69% of the Company's issued and paid up share capital. In July 2020, Leolin Lux S.à.r.l., a sister company of Belenus, acquired a total of 0.33% of the Company's issued and paid up share capital. As a result, the Funds' ownership interest in the Company's issued and paid up share capital is approximately 33.02%. For further details, please see the

Company's immediate reports dated July 14 2020 July 22 2020 and October 8 2020 (Ref Nos.: 2020-01-075330, 2020-01-077073 and 2020-01-109887, respectively).¹

1.2. Areas of activity

1.2.1. For a description of the Group's areas of activity and its holding structure, please see Section 1.2 in the chapter entitled Description of the Corporation's Business in the Financial Statements.

1.2.2. The Company has various sources of income from the activities of its subsidiaries, as outlined in the sections dealing with the various operating segments. Set forth below is the pre-tax comprehensive income attributed to the shareholders in the reporting year (for further details, please see Note 3 to the Financial Statements):



(*) The income includes intra-group adjustments.

1.3. Developments in the Group

1.3.1. Multi-year strategic plan

In December 2020, the Company's Board of Directors decided to adopt a multi-year strategic plan for the Company and its Group subsidiaries - The Phoenix: Looking Ahead - based on joint work with the Company's management and work teams, in collaboration with an international consulting firm specializing in strategy and restructuring. The strategic plan was formulated considering current and future changes in the Company's core activities in order to improve business performance, increase profitability over time, diversify revenue sources, develop new capabilities in areas which are relevant to the

¹ The consolidated financial statements include the statements of the Company's investees. In assessing control, potential voting rights that are exercisable as of the balance sheet date are taken into account.

Group's activity, utilize existing capabilities and infrastructures to expand activity, identify new growth drivers, and more. The implementation of the strategic plan includes rebranding of The Phoenix. For further details, please see Chapter 4 below.

1.3.2. **Share buyback**

In September 2020, the Company's Board of Directors approved a share buyback plan for the purchase of Company shares for a period of one-year, totaling up to NIS 100 million; the plan was approved as the price of the Company's shares at the time provided a significant economic opportunity for the Company. The plan was approved after the Board of Directors ensured that the Company would continue to meet the regulatory distribution tests. The plan shall be executed from time to time, at the discretion of the Company's management, which was authorized by the Company's Board of Directors to purchase the securities during the period prescribed for the plan's execution. As of the Report publication date, the Company made several share buybacks, for a total of NIS 26.4 million (1,496,755 shares of 1 par value each). Some of the shares purchased as part of the share buyback plan may be used to settle options awarded to officers and employees of the Company and subsidiaries. For further details, please see the Company's immediate reports dated October 1 2020 and October 14 2020 (Ref Nos.: 2020-01-106773 and 2020-01-11235, respectively).

1.3.3. **Dividend distribution policy**

In October 2020, the Company's Board of Directors approved a new dividend distribution policy, whereby the Company shall distribute an annual dividend at a minimum rate of 30% of the Company's distributable comprehensive income as per its audited annual consolidated financial statements for the relevant year. This was approved after The Phoenix Insurance's Board of Directors approved a new dividend policy to distribute 30%-50% of comprehensive income pending maintenance of minimum solvency ratios. For further details, please see the Company's immediate report dated October 28 2020 (Ref. No. 2020-01-107812).

On March 24 2021, concurrently with the approval of the Company's Financial Statements as of December 31 2020, which are included in this Periodic Report, the Company's Board of Directors decided to distribute a dividend in accordance with the Company's dividend distribution policy, totaling NIS 406 million. A total of approximately NIS 26 million - which was used to execute the share buyback plan as detailed in Section 1.3.2 below - shall be deducted from the total distribution amount. Accordingly, the amount that shall in effect

be distributed as a cash dividend is NIS 380 million and NIS 1.49 per share. It shall be clarified that to the extent that options are exercised by employees between the dividend declaration date and the record date, the per-share dividend amount shall be adjusted in accordance with the actual number of outstanding shares on the record date. The Company shall publish, as required, a supplementary report in respect of said adjustment on the record date.

According to the Company's Financial Statements as of December 31 2020, which are included in this Periodic Report, the Company has positive retained earnings of approximately NIS 5.9 billion, taking into account, for the avoidance of doubt, the dividend specified in this section.

1.3.4. Publication of The Phoenix Insurance's economic solvency ratio report and setting capital adequacy ratio targets

On October 28 2020, The Phoenix Insurance published its economic solvency ratio report as of December 31 2019, whereby The Phoenix Insurance's economic solvency ratio, after taking into account the transitional measures, is 165%, and 105% if the Transitional Period is not taken into account. In addition, The Phoenix Insurance's Board of Directors has set a minimum economic solvency ratio target of 135%, taking into account the transitional measures; the minimum economic solvency ratio target without taking into account the transitional measures in the Transitional Period is 105%. Furthermore, The Phoenix Insurance's Board of Directors approved an economic solvency ratio target range of 150%-170%, within which The Phoenix Insurance aspires to be during and at the end of the Transitional Period, taking into account the deduction during the Transitional Period and its gradual reduction. For further details, please see the Company's immediate report dated October 28 2020 (Ref. No. 2020-01-107803) and Section 2.1.4 below.

Regarding the estimate made by the Company for calculating the economic solvency ratio as of December 31 2020 and for further details, please see Section 2.1.4 below.

1.3.5. **Reinsurance transaction - effect on the economic solvency ratio of The Phoenix Insurance**

In December 2020, The Phoenix insurance and a reinsurer rated AA by an international ratings agency entered into a mass lapse reinsurance agreement, the objective of which is to provide The Phoenix Insurance with partial protection against a mass cancellation scenario in its life and health insurance operations. According to The Phoenix Insurance's estimates, this transaction is expected to improve its economic solvency ratio by approximately 3%-5% (without taking into account the transitional measures), all subject to market conditions, the structure of the insurance portfolio, the actuarial assumptions and the capital requirements as of the date on which the transaction will come into effect. The transaction does not have a material effect on the Company's financial results.

1.3.6. **Examining the possibility of selling Ad 120**

In January 2021, The Phoenix Insurance's Board of Directors decided to examine the possibility of selling its control stake (and up to 100% of The Phoenix Insurance's holdings) in Ad 120 - Residence for Senior Citizens Ltd. (hereinafter - "Ad 120") as part of its execution of the multi-year strategic plan as described in Section 1.3.1, whereby the Group will focus, among other things, on its core business and unlocking the value of the Group's asset portfolio. As of the report date, the Company is acting to implement the aforesaid with the assistance of an investment bank with which the Company has entered into an agreement in this matter. For further details, please see the immediate report dated January 28 2021 (Ref. No.: 2021-01-011200).

1.3.7. **Option award agreement - KSM Sal Certificates Holdings Ltd.**

In November 2020, the Company entered into an agreement with Boaz Nagar and SHLA Tal Services and Investments Ltd., which he owns and controls (hereinafter, jointly - "**Boaz**"), which hold 3% of the shares of KSM Sal Certificates Holdings Ltd. (hereinafter - "**KSM**"), and with Avner Hadad (hereinafter - "**Avner**"), who holds 6.55% of KSM shares, in an agreement to grant put options to Boaz and Avner and call options to the Company, as specified below:

The agreement grants Boaz and Avner put options that oblige the Company to purchase their KSM shares on the dates and maximum rates as follows: 1) in the 6-month period beginning on September 1 2025 - 40% of their shares; 2) in the 6-month period beginning on September 1 2027 - additional 40% of their shares; 3) In a one-year period beginning

on September 1 2030 – the remaining balance of the shares that they will hold at that time.

The agreement grants the Company a call option to purchase all of Boaz and Avner's KSM shares for a period of one year beginning 10 years after the date of signing the agreement. Such a call option will be available to the Company even if Boaz or Avner (or both) cease to serve as officers in KSM, for 6 months after the termination date. The purpose of the agreement is to strengthen the partnership with Boaz and Avner and continue to position KSM as a leader in the mutual funds industry. For further details, please see the Company's immediate report dated November 2 2020 (Ref. No.: 2020-01-118371).

1.3.8. **Agreement for the purchase of fees and commissions between The Phoenix Insurance and The Phoenix Agencies - effect on the solvency ratio of The Phoenix Insurance**

In July 2020, The Phoenix Insurance's Board of Directors decided to approve engagements with agencies constituting related parties of The Phoenix Insurance for the purchase of future fees and commissions. It is expected that the completion of the aforesaid transactions (to the extent that they are, indeed, completed) shall improve The Phoenix Insurance's solvency ratio. As of the report date, transactions totaling NIS 92 million before VAT were executed. For further details, please see Note 7(e)(6) to the Financial Statements.

1.3.9. **Agreement with Oren Cohen - Oren Mizrach Insurance Agency Ltd.**

On December 3 2020, an agreement was signed between the Company, The Phoenix Insurance Agency (1989) Ltd. (hereinafter: "**The Phoenix Agencies**"), Oren Mizrach Insurance Agency Ltd. (hereinafter: "**Oren Mizrach**") and Webprice Insurance Agency (2017) Ltd. (hereinafter: "**Webprice**") - two insurance agencies, 50% of the share capital of which is held by the Phoenix Agencies (hereinafter, jointly: the "**Oren Mizrach Group**"), Oren Cohen - Insurance Agency (2000) Ltd., which holds the remaining 50% of Oren Mizrach Group's share capital (hereinafter: the "**Oren Agency**"), Cohen Oren Baruch Holdings Ltd. - a company holding the entire share capital of the Oren Agency (hereinafter: "**Oren Holdings**") and Mr. Oren Cohen, who holds the entire share capital of Oren Holding and serves as CEO of the Oren Mizrach Group (hereinafter: "Oren Cohen"). Pursuant to the agreement, Oren Agency sold to The Phoenix Agencies Oren Mizrach and Webprice shares constituting 1% of the issued share capital of each of the said companies; furthermore, Phoenix Agencies purchased from Oren Holdings 38% of the ownership

interests in Oren Agency and 70% of the control stake in Oren Agency. Following the completion of the transaction, The Phoenix Agencies holds - both directly and indirectly - 69.62% of the ownership interests in Oren Mizrach Group. The transaction was completed based on company value of NIS 160 million, and is subject to the consideration adjustment mechanism set in the agreement. The mechanism shall be activated after the approval of Oren Mizrach Group's 2022 financial statements. After the completion of the transaction and as a result of obtaining control in Oren Mizrach and Webprice, the Company recorded in its books of accounts a profit of approximately NIS 62 million. For further details, please see the Company's immediate report dated December 6 2020 (Ref. No. 2020-01-132153) and Note 7(d)(3) to the Financial Statements.

1.3.10. Transfer of the shares of management company Phoenix Excellence from The Phoenix Insurance to the Company

In January 2021, The Phoenix Insurance's Board of Directors discussed, for the second time,² the transfer of The Phoenix Excellence's shares and ratified the decision made in December 2019 to transfer, by way of a dividend in kind distribution, to the Company, in preparation for receiving the Israel Tax Authority's approval for the transfer. It should be noted that the approval of the Capital Market, Insurance and Savings Authority has already been received. For further details - including the Board of Directors' original explanations for the distribution - please see the Company's immediate report dated December 31 2019 (Ref. No.: 2019-01-126166). It should be noted that as part of the distribution of the dividend in kind and prior to its execution, in August 2020, the Company's Board of Directors approved the Company's commitment to supplement The Phoenix Excellence's equity to the amount stipulated in the Regulations Concerning Supervision of Financial Services (Provident Funds) (Minimum Equity Required from a Management Company of a Provident Fund or a Pension Fund), 2012, in lieu of The Phoenix Insurance's obligation.

²The decision to distribute the Phoenix Excellence dividend was initially made in December 2019. Due to the passage of time and since the Israel Tax Authority's regulatory approval has yet to be received, the Board of Directors of the Company discussed the issue again and approved the distribution.

1.3.11. **Acquisition of the Halman-Aldubi Investment House**

The Halman-Aldubi transaction

As part of the implementation of its business strategy and its wish to expand its asset management activities in general and its pension and provident funds activities in particular, on February 28 2021, the merger transaction - under which the Company acquired Halman-Aldubi Investment House Ltd. (hereinafter - "**Halman-Aldubi**"), by way of a reverse triple merger transaction - was completed. Upon completion of the transaction, Halman Aldubi became a private company wholly owned by the Company. The proceeds of the transaction for Halman Aldubi was NIS 275 million.

Loan to Halman Aldubi Provident and Pension Funds

On February 18 2021, the Company entered into an agreement with Halman-Aldubi Provident and Pension Funds Ltd., a company wholly owned by Halman-Aldubi (hereinafter: "**Halman Provident**"), according to which the Company will extend Halman Provident a loan to finance full early redemption of all bonds (Series A) issued by Halman Provident, in the amount of NIS 73.6 million (hereinafter, respectively: the "**Bonds**" and the "**Early Redemption**"), as well as to finance the early and full repayment of a loan totaling NIS 15 million (the "**Bank Loan Amount**"), taken by Halman Provident from a local banking corporation. On March 8 2021, the early redemption of the bonds was executed and the Bank Loan Amount was transferred to the local banking corporation.

Sale of default pension fund - Meitav-Dash transaction

On February 22 2021, the Company entered into an agreement with Meitav Dash Provident Funds and Pension Ltd. (hereinafter: "**Meitav Dash Provident**"), according to which following the completion of the agreement with Halman Aldubi, as aforesaid, the Company will exercise its influence as Halman Aldubi's sole shareholder, such that Halman Provident will sign an agreement for the sale to Meitav Dash Provident of the new pension funds managed by Halman Provident for NIS 45 million, to be paid in one lump sum on the completion date. On March 10 2021, Halman Provident signed the said agreement. The completion of the sale is subject to meeting accepted conditions precedent, and the last date for the completion of the funds sale agreement is scheduled for May 31 2021, unless the parties agree to extend the date.

For further details, please see the immediate reports from the following dates: December 8 2020, January 28 2021, February 3 2021, February 18 2021, February 23 2021, February 24 2021, and February 28 2021 Ref. Nos.: 2020-01-133119, 2021-01-011467, 2021-01-013942, 2021-01-020860, 2021-01-022078, 2021-01-021813 and 2021-01-023697, respectively.

1.3.12. **Option plan for employees and officers**

In December 2018, the Company adopted an option plan for employees and officers. Pursuant to the option plan, the Company grants, from time to time and free of charge, option warrants (hereinafter, in this section: "**Options**") to employees and officers of the Company and companies under its control. On September 16 2020, the Company's Board of Directors approved an additional allotment of up to 5,578,000 options to employees and officers of the Company and its subsidiaries. For further details regarding the plan and the allotments made thereunder, please see the immediate reports dated December 27 2018 (Ref. No.: 2018-01-119905) and February 3 2019 (Ref. No.: 2019-01-009838) from May 1 2019 (Ref. No.: 2019-01- 037938), dated May 6 2019 (Ref. No.: 2019-01-039360) dated October 31 2019 (Ref. No.: 107011-01-2019), dated November 28 2019 (Ref. No.: 2019-01-116347) dated October 11 2020 (Ref. No.: 2020-01-11061) and dated October 27 2020.

1.3.13. **Compensation policy for 2021-2023**

On October 22 2020, an extraordinary general meeting of the Company's shareholders approved the compensation policy applicable to new officers in respect of 2021-2023. The new compensation policy is adapted to the Company and its work plans, and reflects changes in its management and the challenges it faces in this period. The policy was formulated in accordance with the provisions and restrictions set by law. The changes made to the policy were designed, among other things, to enhance the link between the scope of the annual bonus and the fulfillment of the Company's targets and the personal performance of its officers. For further details, please see the Company's Immediate Report dated September 16 2020. (Ref. No. 2020-01-102009).

1.3.14. **Establishment of an internal auditing unit in The Phoenix**

On July 28 2020, the Board of Directors decided to approve the request of the internal auditor of the Company and The Phoenix Insurance (hereinafter, jointly - "**The Phoenix**"), Mr. Shmuel Rosenblum (CPA) to terminate his term in office as The Phoenix's internal auditor. The Audit Committees and Board of Directors of The Phoenix approved

the appointment of Ms. Michal Leshem (CPA) as the Chief Internal Auditor of the Phoenix and the establishment of an internal audit unit in the Company as of September 1 2020. The appointment was approved by the Commissioner of the Capital Markets, Insurance and Savings Authority on August 10 2020. For further details, please see the Company's immediate reports dated July 28 2020. (Ref. No. 2020-01-080460) and August 13 2020 (Ref. No. 2020-01-088194).

1.3.15. Establishment of a strategy committee

In April 2020, the Company's Board of Directors and The Phoenix Insurance's Board of Directors approved the establishment of Strategy Committees, which will advise the Boards on strategies and corporate development.

1.3.16. Voluntary policy of reporting in English

In February 2021, the Company's Board of Directors approved the adoption of a voluntary reporting policy in English on the English-language MAYA website of the Tel Aviv Stock Exchange, beginning on the date of publication of the Company's annual financial statements for 2020. The adoption of the said policy is based, inter alia, on a notice published by the Israel Securities Authority on June 30 2020 - "Notice to Companies: Voluntary Publication of Translations of Reports into English." For further details, please see the Company's immediate report dated February 25 2021. (Ref. No. 2021-01-023287).

1.3.17. Officers

For further details regarding changes in the composition of the Board of Directors and officers of the Company – please see Section 4.6.2 to the Report on the Company's Business.

1.3.18. Changes in the collective agreement following the coronavirus crisis

On May 6 2019, a new collective agreement, valid through December 31 2021, was signed; the agreement provides for benefits and terms of employment as well as labor relations between The Phoenix Insurance and The Phoenix Pension and their employees. The collective agreement is based on the articles of the first collective agreement, signed in July 2016, insofar as the articles have not been amended or revised under the new agreement. The two collective agreements, severally and jointly, address, among other things, rates and dates of pay raises, entitlement to annual bonuses and other bonuses, welfare budgets and other related benefits, pension insurance and meeting all parties'

claims so as to reach agreement. For further details, please see the Company's immediate report dated May 6 2019 (Ref. No.: 2019-01-039201).

On March 25 2020, due to the coronavirus crisis, the Company signed a memorandum of understanding with the National Workers' Committee of Phoenix Workers, which addressed, among other things, reducing the salaries of employees and executives, freezing pay raises for 2020, updating pay raise rates for 2021, paying a pitch-in bonus to all Company employees, establishment of an aid fund to support employees, and a vacation days reserve, as well as agreement on furloughing employees. For further details, please see the Company's immediate report dated March 26 2020 (Ref. No.: 2020-01-026086) as well as Sections 4.6.3 and 4.6.4 to the Report on the Company's Business as of December 31 2019, which was published on March 31 2020 (Ref. No.: 2020- 01-034023).

On June 30 2020, The Phoenix Insurance signed a collective agreement between it and the New General Workers' Federation and the National Workers' Committee of Phoenix Workers, which mainly addressed various issues related to working conditions due to the effect of the coronavirus crisis on the economy as a whole and on The Phoenix Insurance in particular. The agreement addressed the acceleration of a restructuring plan designed to improve service and operation for policyholders and agents, reducing expenses for the Company and adjusting to the competitive environment and changing market conditions; the agreement includes, among other things, a voluntary retirement plan for 10% of the Company's employees, reimbursement of the a pay cut carried out in April 2020 and increase of the pay raise rate for 2021 to 4.7% (adjusted for inflation). For further details, please see the Company's immediate report dated June 30 2020 (Ref. No.: 2020-01-069357).

1.3.19. Liability insurance for board members and officers

On March 30 2020, the General Meeting approved an update of the Company's compensation policy in accordance with the provisions of Section 267A of the Companies Law whereby the directors, officers and other main position holders will be entitled to be included in the officers' liability insurance arrangement. The coverage ceiling (the policy's liability limit) may not exceed USD 220 million plus reasonable legal expenses in accordance with Section 66 of the Insurance Contract Law per event and in total for the insurance period and with an annual premium not in excess of USD 2 million with self-participation (a deductible) of up to USD 1 million. For further details, please see Note 41(B) to the Financial Statements.

1.3.20. Rating

- a. On January 29 2020 Midroog announced it was reiterating the rating of Series 2, 3 and 4 bonds at Aa3.il, with a stable outlook. On January 11 2021, Midroog announced it was reiterating the rating of Series 3 and 4 bonds at Aa3.il, with a stable outlook. On January 31 2021, Midroog announced it has rated the extension of up to NIS 350 million of Series 4 and 5 bonds issued by the Company at Aa3.il, with a stable outlook. For further details, please see the Company's immediate reports dated January 29 2020 (Ref. No. 2020-01-009604), April 23 2020 (Ref. No. 2019-01-036663), January 11 2021 (Ref. No. 2021-15-004746), and January 31 2021 (Ref. No. 2021-15-012981).

On February 3 2020, Ma'alot S&P announced its rating of -ilAA for the issuance of Series 5 bonds in the amount of up to NIS 220 million. On April 21 2020, Ma'alot S&P reiterated the Company's rating at -ilAA - with a stable outlook. On September 1 2020, Ma'alot S&P announced its rating of -ilAA for the issuance of Series 5 bonds in the amount of up to NIS 380 million. On October 21 2020, Ma'alot S&P reiterated the Company's rating at -ilAA - with a stable outlook. On January 31 2021, Ma'alot S&P reiterated the Company's rating at -ilAA - with a stable outlook; it rated the extension of Series 4 and 5 bonds in the amount of up to NIS 350 million at -ilAA. For further details, please see the Company's immediate reports dated February 3 2020 (Ref. No. 2020-01-010801), February 21 2020 (Ref. No. 2020-01-040161), September 1 2020 (Ref. No. 2020-15-087466), October 21 2020 (Ref. No. 2020-15-105949), and January 31 2021 (Ref. No. 2021-15-012963).

- b. On December 24 2020 Midroog left unchanged The Phoenix Insurance's financial strength rating at Aa1.il, the rating of subordinated bonds (hybrid tier 3 capital) at Aa3.il, and the rating of subordinated bonds (hybrid tier 2 and tier 2) at Aa3.il. The rating outlook is stable. For further details, please see the immediate report issued by Phoenix Capital Raising on December 24 2020. (Ref. No. 2020-15-139896).
- c. On April 21 2020, Ma'alot S&P reiterated The Phoenix Insurance's rating at +ilAA and upgraded its outlook from "positive" to "stable". On October 21 2020, Ma'alot S&P reiterated The Phoenix Insurance's rating at +ilAA - with a stable outlook. On January 31 2021, Ma'alot S&P reiterated The Phoenix Insurance's rating at +ilAA. For further details, please see The Phoenix Capital Raising's immediate reports dated April 21 2020 (Ref. No. 2020-15-039951), October 21 2020 (Ref. No. 2020-15-114891), and January 31 2021 (Ref. No. 2021-15-013263).

1.3.21. Debt raising - issuance of Series 4 and 5 Bonds by the Company

Issuance of Bonds (Series 5)

In February 2020, the Company issued NIS 220 million in NIS 1 par value each registered Bonds (Series 5), which were issued pursuant to a shelf offering report of the Company dated February 20 2020 (Ref. No. 2020-01-014890). For further details – please see the Company's immediate report dated February 23 2020 (Ref. No. 2020-01-015433). The Company used the proceeds of the issuance to reinforce the Tier 1 capital of The Phoenix Insurance under the Solvency II regime.

Expansion of bonds (Series 5) and early redemption of bonds (Series 2)

On August 27 2020, the Company's Board of Directors decided on full conditional early redemption of Bonds (Series 2) in the total amount of NIS 368,375,636, which was implemented on September 29 2020. For further details, please see Note 26(d)(2) to the Financial Statements and the Company's immediate reports dated August 30 2020 and September 7 2020 (Ref. Nos.: 2020-01-095238 2020-01-098754).

In order to implement the aforesaid early redemption, on September 7 2020, the Company expanded its Series 5 bonds by issuing 380 million registered CPI-linked Series 5 bonds of NIS 1 par value each; the bonds were issued according to the Company's shelf offering report dated August 15 2019 (Ref. No.: 2019-01-070590) in consideration for NIS 372,780 thousand. The discount rate of the issuance is 2.13748%, and the uniform weighted discount rate that applies to all Series 5 bonds is 1.31953%. The terms of the bonds (Series 5) are identical to the terms of the existing bonds (Series 5), which were rated by Ma'alot at -ilAA with a stable outlook.

Expansions of bonds Series 4 and 5

In February 2021, the Company extended, by NIS 127,384 thousand, registered bonds Series 4 NIS 1 of par value each and NIS 222,616 thousand in NIS 1 par value each registered bonds (Series 5), which were issued pursuant to the Company's shelf offering report dated February 3 2021 (Ref. No. 2021-01-013684). The proceeds of the offering were used by the Company for its ongoing needs and those of its subsidiaries, including the acquisition of Halman Aldubi's entire share capital.

1.3.22. **Interest**

The reporting year was characterized by the continued decrease in the interest rate curve in the mid-to-long term; this trend impacts the assets and liabilities of The Phoenix Insurance, as well as on its solvency ratio. For further details, please see Section 2.1.5 and Section 6 to the Report.

1.3.23. **Issuance of Restricted Tier 1 capital (RT1) by The Phoenix Insurance**

The Phoenix Insurance is considering the issuance of an Additional Tier 1 capital instrument, recognized as regulatory capital under the Economic Solvency Regime, in order to strengthen its capital and improve its solvency ratio. In March 2021, the Board of Directors approved the continuation of the issuance procedure. The recognition of the instrument as an Additional Tier 1 capital instrument is subject to the approval of the Commissioner of the Capital Market, Insurance and Savings.

The issuance amount is expected to be approximately NIS 300 million. The terms and conditions of the instrument, including the redemption period, are in accordance with the provisions of Part B ("Provisions in respect of Equity Capital of Insurance Companies") to Insurance Circular 2020-1-15, "Provisions for Applying Economic Solvency Regime Based on Solvency II for Insurance Companies".

1.3.24. **The Company's preparation for the application of IFRS 17**

In February 2021, as part of The Phoenix's preparations for the implementation of IFRS 17 (hereinafter: the "**Standard**") in the financial statements of the Company and The Phoenix Insurance as of the quarterly and annual periods beginning on January 1 2023, The Phoenix Insurance signed agreements with software and integration service providers for the purpose of applying the Standard. The purpose of the agreements is to implement and assimilate a system aimed at enabling the Company to meet the regulatory requirements regarding the application of the Standard, including the requirements detailed in "Roadmap for the Adoption of International Financial Reporting Standard (IFRS) 17, Insurance Contracts, published on June 7 2020 by the Capital Market, Insurance and Savings Authority.

In addition, The Phoenix Insurance entered into an agreement with EY Canada in partnership with EY Israel, which includes expanding their auditing and consulting services. The contract was preapproved by The Phoenix Insurance's Audit Committee, which determined - after being presented with satisfactory references - that the said

consultancy project meets the independence rules according to the Commissioner's position titled "Impairment of the Independence of an Independent Auditor due to the Provision of an Ancillary Service" published in January 2021. For further details, please see Note 2(ee)(1) to the Financial Statements.

1.4. **The coronavirus and its impact**

The reporting year will be remembered as the year of the coronavirus. During January 2020, the coronavirus, which was first detected in China, started spreading, causing morbidity and death among populations all over the world. The effect of such spread led to various countries, including Israel, taking steps to stop the spread of the virus and the implications thereof. The spread of the coronavirus (hereinafter - the "**Event**") has had a material impact on the Group's operations and the volatility of its results during the reporting year.

The spread of the coronavirus led to a series of restrictions, including, inter alia, temporary closing of many businesses and movement restrictions, travel restrictions imposed on visitors from various countries, restrictions on attendance at work places and temporary closure of education systems. The restrictions - the intensity of which changed throughout the reporting year - resulted in lower economic activity in Israel and around the world, as well as in substantial volatility in the financial markets. The restrictions were approved by the government and the Knesset, with the necessary changes, under the Emergency Laws and Regulations, which were revised from time to time in accordance with the status assessments.

Due to the nature of its activities, the Group is exposed to volatility in the financial markets and to the recession, as well as to insurance risks arising from the Event. For further details on sensitivity and exposure to the risk factors, please see also Note 40 to the Financial Statements (hereinafter – the "**Annual Report**"). It should be noted that since the coronavirus started to spread, the activity in various sectors of the Israeli economy has been unstable and dictated by government policies. As of the report date, there is an immunization program for the entire population in Israel. Most of the population has already been vaccinated. Notwithstanding the aforesaid, the Israeli economy is yet to return to normal activity; even sectors that have resumed activity are subject to various social distancing restrictions. Therefore, at this stage, there is uncertainty as to the rate of recovery of the Israeli economy. Generally speaking, the above is also true of the state of global markets (except for the vaccination, in which Israel is one of the world leaders in

1.4 The coronavirus and its impact (cont.)

terms of the rate of having inoculated its population), which has had an impact on the Group's activity.

The Event affects The Phoenix Group on a number of levels:

a. Business continuity

The effect of employees' absences from work, and the Group's ability to continue providing a high level of service to its agents, policyholders and businesses and customers, and to continue conducting processes which are essential to the Company's activities. The Company has a business continuity management (BCM) function. The Group operates in accordance with a business continuity plan, under which, among other things, employees can work remotely. Throughout the entire period, the Company continued to provide a fast, efficient and service-oriented response in all operating segments. In order to continue operating from all remote locations, hundreds of computers and technological devices were allocated to employees and managers in order to enable the Company to continue working in orderly fashion. As of the report date, most of the Company's employees - who have recovered from the virus or have been vaccinated - have resumed their pre-pandemic work patterns.

b. Financial performance of the insurance activity

As a result of the Event, The Phoenix Insurance is exposed to an insurance risk that may impact its insurance liabilities and the scope of its activities in the following fields:

1. Life insurance and long-term savings -

The principal exposure stems from life insurance policies, and may materialize in a substantial manner. Notwithstanding the aforesaid, and despite the mortality rates of coronavirus patients in Israel, the effect on the Company - as of the report date - is immaterial. It should be noted that in any case, The Phoenix Insurance has a non-proportional reinsurance contract to cover death and disabilities resulting from a catastrophic event. The contract purchased is an excess of loss-type contract that protects the accumulation of The Phoenix Insurance's self-insured retention. The subsegments covered are life insurance, permanent health insurance, personal accidents, medical expenses, and travel.

1.4 - The coronavirus and its impact (cont.)

In the first quarter of the reporting year, collected premiums declined as a result of the Event. The decrease in collection of current contributions towards benefits paid into pension funds and managers insurance policies is attributed mainly to the decrease in employment rates and to the sharp increase in the number of employees on unpaid leave.

It should be noted that this decline has become substantially more moderate since the beginning of the second quarter through the report publication date. Furthermore, at the beginning of the Event, there was an increase in withdrawals from, and redemption of, savings and financial products (mainly advanced education funds and savings products). It should be noted that, as of the report date, this trend has significantly moderated.

2. Health insurance (including long-term care) -

As a result of flights abroad coming to an almost complete halt during most of the reporting year, The Phoenix's travel insurance activity was impaired in terms of premium proceeds, which resulted in a loss for the subsegment in the reporting year and three-month period ended December 31 2020, in the amount of approximately NIS 28 million and NIS 3 million, respectively before tax. This trend continued through the Financial Statements publication date. It should also be noted that, from time to time, The Phoenix Insurance adjusted its policy regarding the sale of travel insurance in accordance with the risk assessment for various destinations.

As to payment of claims and contingent claims, The Phoenix Insurance is covered by reinsurance, which covers most of the exposure arising from claims with respect to travel insurance policies. It should also be noted that, during the reporting year (mainly in the second quarter), the number of health insurance claims decreased, presumably as a result of activity restrictions imposed due to the coronavirus pandemic. The Phoenix Insurance estimates that the scope of exposure in the fields of travel insurance and health insurance is immaterial. As to flight cancellation insurance, please see under property and casualty insurance below.

1.4 The coronavirus and its impact (cont.)

3. Property and casualty insurance

The Phoenix Insurance is active in the field of flight cancellation insurance, where it is exposed to claims arising from cancellations resulting from the restriction of flights due to the spread of the coronavirus. During the reporting year, The Phoenix recorded a loss of approximately NIS 13 million with respect to the said exposure. The entire aforesaid loss was recorded in the first half of the reporting year.

The Phoenix Insurance is active in the field of professional liability insurance and insurance of directors and officers. In the opinion of The Phoenix Insurance, the number of claims against directors and officers is expected to increase in the near future. However, at this stage, it is impossible to assess the scope of this exposure. Nevertheless, the Company has reinsurance agreements in place in respect of a considerable portion of the exposure. In the field of insurance for businesses, the Company may face difficulties in collecting premiums due to the insolvency of the businesses it has insured, which will have an adverse effect on its revenues. At this stage, it is not possible to assess the scope of such an effect. During the reporting year (mainly in the second quarter), the number of claims decreased (mainly in the motor insurance subsegments) as a result of the restrictions imposed due to the coronavirus pandemic.

The Phoenix Insurance is exposed to increases in the cost of claims in other property and casualty insurance subsegments, such as vehicles, property, home insurance, etc., as a result of shortages of raw materials and/or spare parts which will lead to an increase in their price. At this stage, The Phoenix Insurance cannot estimate the scope of the exposure.

A number of motions to approve class action lawsuits were filed against The Phoenix Insurance (and other insurance companies) in connection with motor, home and employers' liability insurance, claiming that the insurance companies in general and The Phoenix in particular should repay policyholders some of the premiums paid to them during the period in which activity was subject to restrictions due to the Event. The applicants claim that, during the relevant period, the insurance risk has ostensibly declined in these insurance segments.

For further details, please see Note 42 to the Financial Statements regarding motion to approve lawsuits as class action lawsuits.

1.4 The coronavirus and its impact (cont.)

4. Exposure to reinsurers

Reinsurers worldwide are expected to suffer heavy losses as a result of the Event. The Board of Directors of The Phoenix Insurance has set maximum exposure limits for the reinsurers whom The Phoenix Insurance has contracted, based on their international ratings. For further details concerning the Company's exposure to reinsurers, please see Section 6.6 in Note 40 to the Financial Statements.

As of the report publication date, and despite the fact that the majority of Israel's population has been vaccinated, there is still uncertainty as to the Event and the scope of impact to sales of insurance products, the scope of contributions in the various pension savings policies, as well as the impact to estimates made by the Company, such as studies on morbidity, cancellations, and mortality. In view of the above, at this stage, it is impossible to assess the full extent of the Event's impact.

c. Measurement of assets and liabilities

1. Financial assets

The operations of the Group expose it to declines in the financial markets and changes in interest rate curves, which affect both the Group's own (nostro) investments and the management fees collected from the management of the assets of planholders of participating policies and planholders of pension funds and provident funds.

The income from investments that offsets insurance reserves and equity has a material effect on the financial performance. As a result of the decline in financial markets in Israel and globally during the first quarter of the reporting year, the value of the Group's nostro assets decreased by NIS 835 million. However, later in the year, financial markets in Israel and around the world rallied, resulting in a NIS 2,240 million increase in the Group's nostro assets. Therefore, the Company recorded a pre-tax profit of approximately NIS 1,405 million in the reporting period.

1.4 **The coronavirus and its impact (cont.)**

The Company examined the impairments to non-marketable equity assets and real estate properties for which there were clear indications of material impairment due to the Event, while exercising proper professional judgment.

The impairment testing included, among other things, specific testing of real estate properties, including reliance on an opinion issued in connection with the applicable discount rate and enquiries with asset managers to assess the indications for impairment.

As a result of the impairment testing in the reporting period as aforesaid, during the first quarter, the Company recorded impairment of approximately NIS 100 million (before tax) in respect of non-marketable assets in its nostro portfolio, and impairment of approximately NIS 283 million (before tax) in respect of participating policies. It should also be noted that the decrease in participating policies as aforesaid did not affect the financial performance as presented in the Financial Statements. Most such impairments were reset as of the report date.

Furthermore, during the first quarter of the reporting year, total assets under management by the Group under yield-dependent insurance policies, provident funds and pension funds decreased by approximately 10.1%. As of the report date, there is an 8.5% increase in total assets under management compared to December 31 2019. This increase is mainly due to the increase in yields.

As of the report date, due to the rally in capital markets, the Company recovered the full amount of accumulated real investment losses incurred by policyholders as of September 30 2020, in the amount of NIS 110 million, and charged variable management fees in the fourth quarter.

For additional information on the market risks to which The Phoenix Insurance is exposed and on the results of sensitivity tests relating to market risks, please see Note 40 to the Financial Statements.

1.4 The coronavirus and its impact (cont.)

2. Financial liabilities -

Following the Event, on March 15 2020 the Bank of Israel extended authorized entities (pension funds, provident funds, mutual funds and insurance companies) a request for proposal for reverse repurchase (REPO), purchase and reverse repurchase sale of government bonds and zero-coupon bonds. As of the report date, The Phoenix Insurance engaged in a REPO transaction totaling approximately NIS 389 million.

3. Fair value measurement of tangible and intangible assets -

- a. Intangible assets including goodwill - during the reporting year, the Company assessed the need to retest for impairment. Testing the assets for impairment before one year has elapsed since the assets were last tested for impairment was required in view of indications of impairment as a result of the Event. After assessing the indications and the recoverable amounts, where required, it was found that the recoverable amounts of the above cash-generating units is higher than their carrying amounts and that no testing for impairment is needed.
 - b. Property, plant and equipment and deferred acquisition costs (DAC) - after an assessment carried out by the Company as described in Section 1 above, no indication of impairment was identified.
4. As to the impact of changes in the excess value of non- marketable assets used to calculate the insurance liabilities in the health insurance segment, please see Note 40 of the Financial Statements.

d. Liquidity, financial position and funding sources

An assessment carried out by the Company led to the conclusion that the Event has had no material effect on the Company's liquidity, its financial strength and funding sources; it was also found that the Company complies with any contractual restrictions and financial covenants set in the deeds of trust. For further details about the financial covenants of the bonds and delaying circumstances of the promissory notes, please see Note 26 to the Financial Statements.

1.4 The coronavirus and its impact (cont.)

In March 2020, Midroog published a "Special Report - Sector Comments" for insurance companies, whereby, as estimated by Midroog, the adverse effects of the coronavirus on insurance companies increase their credit risks, but at the same time, these companies have the capacity to absorb losses, a very low liquidity risk and a long average duration of liabilities providing them with relatively high flexibility for coping with stress events.

In October 2020, S&P (Ma'alot) announced that it is reiterating the rating of The Phoenix Insurance at ilAA+, with a stable outlook. For further details and an updated rating report, please see Section 1.3.20(b) above.

On December 27 2020 Midroog left unchanged The Phoenix Insurance's financial strength rating at Aa1.il, the rating of subordinated bonds (hybrid tier 3 capital) at Aa3.il, and the rating of subordinated bonds (hybrid tier 2 and tier 2) at Aa3.il. The rating outlook is stable. For further details and an updated rating report, please see Section 1.3.20(a) above.

e. Other activities

1. Assisted living facilities

Senior citizens are the population group with the highest risk to suffer from complications of coronavirus infections. Therefore, the virus presents an increased risk to those living in assisted living facilities. As of the report date, the residents and employees of Ad 120 have been vaccinated; therefore, the risk of infection has decreased. However, Ad 120 continues its testing routine in order to take care of the residents and employees of Ad 120.

When assessing the fair value of investment property, Ad 120's management identified that a slowdown in the rate of marketing of residential units is expected in the short-term; accordingly, the occupancy rates in the reporting year was down from 90% in 2019 to 88.2% in the reporting year. Nevertheless, if the crisis does not continue, Ad 120's management expects that in the long-term, demand for residential units will not be adversely impacted, and therefore there will be no material changes in the turnover rates. In the opinion of the Company, at this stage, there are no market input that justify a material change in the assumptions made, including the discount rates. Regarding the possibility of selling Ad 120, please see Section 1.3.6 above.

1.4 The coronavirus and its impact (cont.)

2. Financial services

At the beginning of the crisis, mainly during the first quarter of the reporting year, the Company recorded significant impairments and experienced significant redemptions, mainly in mutual funds. As from the second quarter of the reporting year, total assets under management increased as a result of an increase in the value of the assets, mainly in mutual funds. The value of total assets under management held by the mutual funds, as of the date of the report, is higher than its pre-crisis level. The value of total assets under management by mutual funds was up by NIS 3.3 billion compared to December 31 2019 and there was no material change in the value of assets under management compared to December 31 2019.

3. Insurance agencies

The scope of activity in the agencies segment was not materially affected, except for the effect of declines in financial markets that caused investment losses during the reporting year, at amounts which are immaterial to the Group.

f. **Additional measures taken by the Group**

On March 25 2020, The Phoenix Insurance and the Phoenix Employees Workers' Committee signed an agreement which was revised by signing a new collective agreement on June 30 2020. For further details, please see Note 1.3.18 above. The above is based on information available to the Company as of the report publication date. It should be noted that the Event's impact on the scope of business activity in Israel and around the world is yet to be determined; therefore, the Group's results may be further impacted in the future.

1.4 The coronavirus and its impact (cont.)

It should also be clarified that the Company's assessments of the potential implications of the spread of the coronavirus on its operations are uncertain and are not under its control. Those assessments are based, inter alia, on publications on this subject in Israel and around the world, and on the measures taken by countries in order to deal with the spread of the virus, as well as Group management's assessments of the potential measures for dealing with the various effects, bearing in mind, inter alia, existing barriers (or the absence of such barriers) on the Group's ability to deal with such effects, and accordingly, their materialization is uncertain. These assessments might not materialize, in whole or in part, or materialize in a different manner, including in a materially different manner, from what was expected.

The Group continues to monitor developments in Israel and globally on an ongoing basis, and will continue to report, as required, on material effects of the spread of the coronavirus on the Group's operations, if any.

2. Description of the Business Environment

2.1. Implementation of the economic solvency regime provisions applicable to The Phoenix Insurance Company Ltd.

2.1.1. Provisions regarding the implementation of the Economic Solvency Regime

The Phoenix Insurance is subject to the Solvency II-based Economic Solvency Regime 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 "Current Solvency Circular"), which was published on October 14 2020. The Revised Solvency Circular replaces the provisions of a circular published in June 2017 (hereinafter - the "Original Solvency Circular"). The Economic Solvency Regime is a regulation that settles capital requirements and risk-management processes among the insurance companies. The Economic Solvency Regime sets a standard model for calculating eligible capital and the regulatory solvency capital requirement, aiming to bring insurance companies to a situation where they have the capacity to absorb losses arising from the materialization of unexpected risks to which they are exposed. The solvency ratio is the ratio between an insurance company's economic shareholders' equity recognized for solvency purposes and the required capital.

2.1.2. Set forth below is a summary of the main changes included in the Commissioner's provisions as per the Current Solvency Circular, compared with the Original Solvency Circular:

2.1.2.1. An option was added to the transitional provisions whereby companies may increase the economic capital through a deduction from the insurance reserves, which will decrease gradually until 2032 (hereinafter - the "Deduction during the Transitional Period"). With regard to the Deduction during the Transitional Period, a letter was sent to insurance companies managers entitled "Principles for calculating deduction during the Transitional Period in the Solvency II-based Economic Solvency Regime" (hereinafter - the "Principles Letter"). Pursuant to the Principles Letter, the Deduction during the Transitional Period shall be calculated by dividing

insurance obligations into homogeneous risk groups in respect of policies issued through December 31 2016. 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 (net of the difference between the fair value and the carrying amount 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 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 without expedients during the Transitional Period.

2.1.2.2.Reducing the capital requirement in respect of shares held for the long-term (as defined in the Solvency Circular) to 22% instead of the regular rates, where with regard to shares held against yield-dependent liabilities an insurance company may assume that 75% of the shares shall be considered as being held for the long-term.

2.1.2.3.The loss absorption adjustment with respect to deferred tax assets was increased beyond the balance of the deferred tax reserve as per the economic balance sheet, 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 Supervisor that it is probable that it will have future taxable income against which the tax assets may be utilized.
- The future profits shall stem only from property and casualty insurance or from Not Similar to Life Techniques (NSLT) health insurance.

2.1.3. The economic solvency ratio report in respect as of December 31 2019 was published on October 28 2020 (Ref. No.: 2019-01-126082), and was prepared and presented in accordance with the provisions of Chapter 1, Part 4, Section 5 of the Consolidated Circular, as recently revised in Circular 2020-1-17 (hereinafter - the "Disclosure Provisions").

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 after the Calculation Date.

On March 19 2020, the Commissioner published a letter, Ref. No. SH 2020-2031, stipulating that an insurance company is exempted from publishing an economic solvency ratio report as of June 30 2020 and from filing solvency reporting files in relation to that date.

On March 14 2021, a letter from the Commissioner was published, Ref. No. 2021-423, stating that the deadline for publication of the economic solvency ratio report as of December 31 2020, as well as the accompanying files reported to the Commissioner, shall be filed no later than June 30 2021 (in lieu of May 31 2021). In addition, the letter states that an insurance company may refrain from publishing an economic solvency ratio report as of June 30 2021.

2.1.4. **Economic solvency ratio and minimum capital requirement (MCR):**

The meaning of the terms in this section is the same as in Appendix B to Chapter 2 in Part 2 of Title 5 of the Consolidated Circular - "Economic Solvency Regime".

a. Economic solvency ratio:

	As of December 31	
	2019***	2018**
	Audited*	
	In NIS thousand	
Shareholders equity for SCR	12,086,505	8,607,874
Capital required for SCR	7,455,885	4,570,934
Surplus	4,630,620	4,036,940
Economic solvency ratio (in %)	162%	188%

The impact of material capital-related actions that took place in the period between the calculation date and the publication date of the solvency ratio report:

Raising equity instruments	220,000	300,000
Shareholders equity for SCR	12,306,505	8,907,874
Surplus	4,850,620	4,336,940
Economic solvency ratio (in %)	165%	195%

(*) "Audited" refers to an audit held in accordance was conducted pursuant to International Standard on Assurance Engagement (ISAE) 3400 – "The Examination of Prospective Financial Information".

(**) All data relating to December 31 2018, are presented taking into account the transitional provisions in effect as of that date.

(***) The solvency ratio calculation as of December 31 2019 does not include the effect of retrospective application following a proactive policy change regarding LAT in life and health insurance.

These figures on the surplus solvency, which take into account the capital activities described above, do not include the effects of the business operations of The Phoenix Insurance subsequent to the reporting date, changes in the composition and size of the insurance investments and liabilities, exogenous effects and regulatory changes that affect the business environment. For further details regarding the economic solvency ratio without applying the transitional provisions for the Transitional Period, and without adjusting the shares scenario, and for details regarding the solvency ratio target and restrictions imposed on the Company with respect to dividend distribution, please see Section d below.

b. Minimum capital requirement (MCR)

	As of December 31	
	2019***	2018**
	Audited*	
	In NIS thousand	
Minimum capital requirement (MCR)	1,863,971	1,399,022
Shareholders equity for MCR	8,919,336	6,602,212

(*) "Audited" refers to an audit held in accordance was conducted pursuant to International Standard on Assurance Engagement (ISAE) 3400 – "The Examination of Prospective Financial Information".

(**) All data relating to December 31 2018, are presented taking into account the transitional provisions in effect as of that date.

(***)The calculation does not include the effect of retrospective application following a proactive policy change regarding LAT in life and health insurance.

c. Limitations on dividend distribution and solvency ratio without the implementation of the transitional measures

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 Phoenix Insurance, which is an institutional entity, is subject to capital requirements set by the Commissioner. On October 27 2020, The Phoenix Insurance's Board of Directors set a minimum economic solvency ratio target and target range based on Solvency II.

The minimum economic solvency ratio target, taking into account the transitional measures, is set at 135% while the minimum solvency ratio target without taking into account the provisions during the Transitional Period is set at 105%,³ set to reach 135% at the end of the Transitional Period according to the Company's capital

³ On December 30 2019, the Board of Directors of The Phoenix Insurance approved the transfer of Excellence Pension and Provident Funds Ltd. to the Company as distribution of a dividend in kind. The transfer was approved by the Commissioner; however, the Israel Tax Authority's approval for the execution of the transfer has not yet been received, and therefore the transfer has not yet been made. In view of the above, on October 27 2020, The Phoenix Insurance's Board of Directors passed a resolution whereby the target is inapplicable to the transfer. Upon receipt of the Israel Tax Authority's approval, the execution of the abovementioned transfer shall be assessed subject to the provisions of the Solvency Circular and letter. For further details, please see Section 1.3.10 to the Report of the Board of Directors. It should also be noted that this transfer is expected to reduce The Phoenix Insurance's capital surplus by approximately NIS 170 million (an impact of approximately 2% on the solvency ratio), based on a calculation carried out in respect of December 31 2019, without taking into account the provisions in the Transitional Period.

plan. Furthermore, The Phoenix Insurance's Board of Directors approved an economic solvency ratio target range of 150%-170%, 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. As of December 31 2019, the date of the last audited calculation, the Company meets the set targets. 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 Solvency Circular) 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.

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

d. Solvency ratio without applying the transitional provisions for the Transitional Period, and without adjusting the shares scenario:

	As of December 31	
	2019****	2018**
	Audited	
	In NIS thousand	
Shareholders' equity for SCR (NIS thousand)	9,161,522	9,139,354
Capital required for SCR (NIS thousand)	8,896,554	7,042,367
Economic solvency ratio (in %)	103%	130%
<u>The impact of material capital-related actions that took place in the period between the calculation date and the publication date of the solvency ratio report:</u>		
Raising equity instruments	220,000	300,000
Shareholders equity for SCR	9,381,522	9,439,354
Surplus	484,967	2,396,987
Economic solvency ratio (in %)	105%	134%
<u>Capital surplus after capital-related actions in relation to the Board of Directors' target:</u>		
Minimum solvency ratio target without applying the transitional provisions	105% ⁴	111%
Capital surplus over target***	40,140	1,642,448

(*) "Audited" refers to an audit held in accordance was conducted pursuant to International Standard on Assurance Engagement (ISAE) 3400 – "The Examination of Prospective Financial Information".

(**) All data relating to December 31 2018, are presented taking into account the transitional provisions in effect as of that date.

(***) The capital surplus includes 35% of the original difference attributed to the purchase of the activity of provident funds and management companies amounting to approximately NIS 15 million as of December 31 2019 and 2018. The difference is not recognized for dividend distribution purposes.

(****) The solvency ratio calculation as of December 31 2019 does not include the effect of retrospective application following a proactive policy change regarding LAT in life and health insurance.

⁴On December 30 2019, the Board of Directors of The Phoenix Insurance approved the transfer of Excellence Pension and Provident Funds Ltd. to the Company as distribution of a dividend in kind. The transfer was approved by the Commissioner; however, the Israel Tax Authority's approval for the execution of the transfer has not yet been received, and therefore the transfer has not yet been made. In view of the above, on October 27 2020, The Phoenix Insurance's Board of Directors passed a resolution whereby the target is inapplicable to the transfer. Upon receipt of the Israel Tax Authority's approval, the execution of the abovementioned transfer shall be assessed subject to the provisions of the Solvency Circular and letter. For further details, please see Section 1.3.10 to the Report of the Board of Directors. It should also be noted that this transfer is expected to reduce The Phoenix Insurance's capital surplus by approximately NIS 170 million (an impact of approximately 2% on the solvency ratio), based on a calculation carried out in respect of December 31 2019, without taking into account the provisions in the Transitional Period.

e. Dividend distribution and estimate of the economic solvency ratio as of December 31 2020

During the first quarter of 2021, The Phoenix Insurance performed an estimate to calculate the Solvency II-based economic solvency ratio as of December 31 2020 (hereinafter, the "Estimate"). The Estimate is based on the results of complete runs of actuarial calculations, market risk calculations, credit risks and economic balance sheet as of December 31 2020. During the second quarter of 2021, the Company will finalize its calculations and publish the results, according to the Commissioner's requirements. It should be noted that the said calculated Estimate is not reviewed or audited by the independent auditor.

On March 24 2020, based on the results of the Estimate and the revised capital management plan, The Phoenix Insurance's Board of Directors approved a dividend distribution of NIS 200 million.

According to the results of the Estimate, following the dividend distribution,⁵ as stated above, the solvency ratio of The Phoenix Insurance as of December 31 2020 was within the 173%-181% range, and the economic solvency ratio net of the transitional provisions for the Transitional Period and without adjusting the shares scenario is 112%-118%.

The latest audited solvency ratio published by the Company without applying the transitional measures and excluding the share scenario adjustment (as of December 31 2019) is 105%, i.e., higher than 100% even after the dividend distribution. In addition, the results of the Estimate meet the capital target set by the Board of Directors, which is 105% and meet the 150%-170% target range, in which the company seeks to be during and after the Transitional Period, given the Deduction during the Transitional Period and its gradual reduction; thus, the Company meets the requirements of the letter published by the Commissioner in October 2017 regarding restrictions on dividend distribution, as stated above.

The Estimate of the solvency ratio as of December 31 2020 includes the effect of the reinsurance transaction in respect of the mass lapse (for further details, please see Section 1.3.5 above), the effect of the purchase transaction of payable fees and

⁵ The dividend distribution amount takes into account the transfer of Excellence Pension and Provident Funds Ltd. to the Company, although as of the report publication date, this transfer has not yet been made since the Israel Tax Authority has yet to grant its approval.

commissions made until the Calculation Date (for further details, please see Section 1.3.8 above) and the extension of the average duration of debt assets included in the nostro portfolio. The Estimate does not include the effect of the business activity of The Phoenix Insurance subsequent to December 31 2020 until the report publication date, changes in the mix and amounts of insurance investments and liabilities, exogenous effects - including changes in the risk-free interest rate curve, and regulatory changes affecting the business environment.

It should also be noted that from December 31 2020 to the report publication date, there was an increase in the long-term risk-free interest rate curve, that may have a positive effect on The Phoenix Insurance's solvency ratio.

In addition, on March 24 2021, the Board of Directors of The Phoenix Insurance approved taking under consideration the issuance of an Additional Tier 1 capital instrument in the amount of approximately NIS 300 million; the issuance shall have a positive effect on The Phoenix Insurance's solvency ratio. For further details, please see Section 1.3.23 above.

- 2.1.5. Changes in the linked shekel risk-free yield curve affect the Company's economic solvency ratio.

The following table summarizes the positive (negative) risk-free linked interest ("spot") rates:⁶

Range/years		Dec. 31 2019	Dec. 31 2020	March 21 2021
Short term	1-3	Between (0.77)% and (0.95)%	Between 0.13% and (0.85)%	Between (1.21)% and (1.38)%
Mid-term	4-10	Between (0.90)% and (0.47)%	Between (0.94)% and (0.58)%	Between (1.25)% and (0.43)%
Medium-long term	11-15	Between (0.38)% and (0.07)%	Between (0.49)% and (0.23)%	Between (0.34)% and (0.05)%
Long term	16-25	Between 0.01% and 0.62%	Between (0.18)% and 0.23%	Between 0% and 0.37%

⁶ The risk-free linked interest rate curves were taken from Fair Spread Ltd. In addition to risk-free-interest, the Company takes into account other components when calculating its solvency ratio. For further details, please see the solvency ratio report published on October 28 2020 (Ref. No.: 2019-01-126082).

The Company estimated the effect of the decline in the linked shekel yield curve on the results as of December 31 2019; a corresponding decline of 50 basis points along the linked shekel yield curve would lead to a decline of approximately 10% in the economic solvency ratio, as stated above.

This result is an estimate, based on the data available as of December 31, 2019, and constitutes an indication that is designed to illustrate the effect of a decline in the interest rate on the solvency ratio; we cannot infer the result had the Company made this estimate on the report publication date. Furthermore, this estimate was calculated on the basis of a corresponding 50 basis points decline along the entire curve, and therefore a change by another rate in the interest rate curve would not have necessarily had a linear and symmetric effect on the Company's solvency ratio as of the above date.

The calculation of the solvency ratio is 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 the estimate in this report, if such forecasts, assessments, sensitivity tests, 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, and underwriting earnings rate), assumptions regarding future management actions, capital market returns, future revenue, and damage in catastrophe scenarios.

2.2. **Arrangements in force** Please see Section 4.1.1 in the Report on the Company's Business.

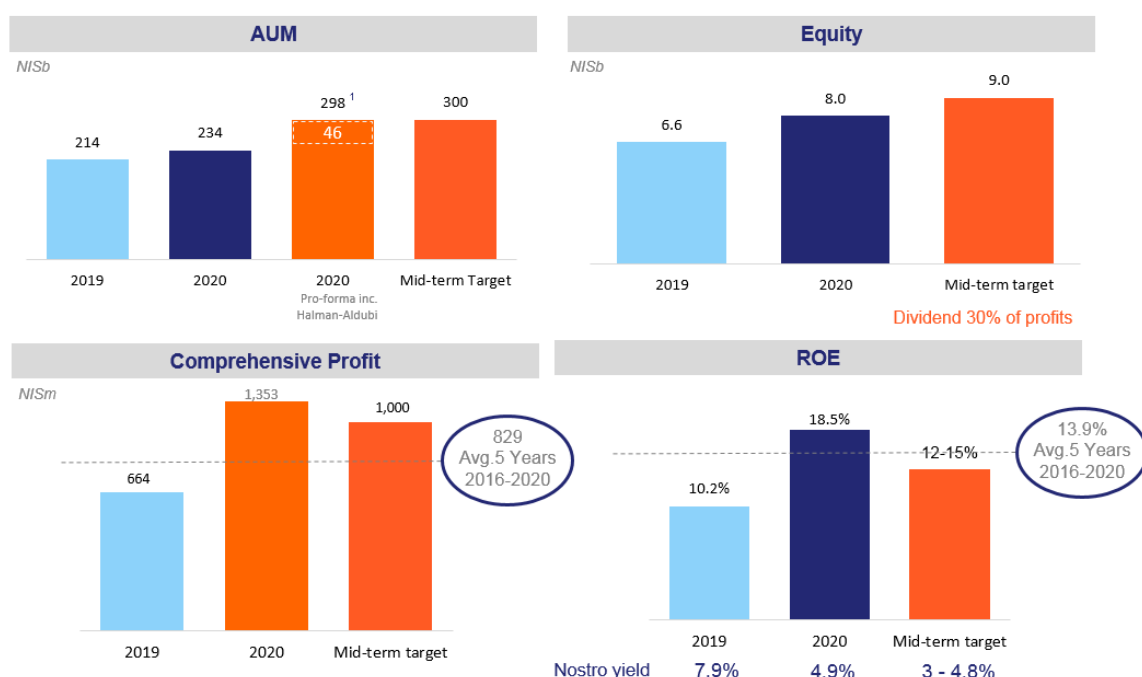
3. **Developments in the Macroeconomic Environment**

Please see Section 4.4.5 in the Report on the Company's Business.

4. Business Targets and Strategy

The Group's business strategy and targets constitute forward-looking information, as defined in Section 32A of the Securities Law, and are based on the data and information available to the Group as of the report date, its plans as a result thereof, the market situation and the Group's position. The Group's business strategy and targets may change from time to time. In addition, the achievement of the Group's targets and strategy is uncertain and is not under the sole control of the Group. The Group's business strategy and targets may not be realized due to, among other things, changes in the Group's priorities, new needs of the Group, market developments, other business opportunities, etc.

The strategic plan is based on four fundamental principles: yield-focused growth, technological innovation and efficiency, maximization of the portfolio's value, and capital management.



Yield-focused growth

As part of the plan, The Phoenix opted to focus on products generating high yields by using growth engines such as the agencies and the SMART direct channel in property and casualty insurance products, Excellence Investments in the field of financial products, and growth in the field of pension and provident funds. The Phoenix has set itself a growth target whereby it will reach at least NIS 300 billion in total assets under management (40%) for the duration of the plan.

- As part of the Company's plan to increase its total assets under management, the Company acquired investment house Halman Aldubi Ltd. and the Alumot Investment House. The acquisition will increase the Group's total assets under management by approximately NIS 64 billion, to NIS 298 billion.⁷ For further details, please see Section 1.3.11 above.
- As to the agencies held by the Group, the plan focuses on accelerating organic growth, acquiring further insurance agencies, digitizing and implementing information IT systems for customers and agencies and increasing profits by relying, among other things, on economies of scale. In this context, it should be noted that during the reporting year, The Phoenix acquired control over the Oren Mizrach Agency; in addition, there are several other agencies under the agencies that are under its control. For further details, please see Section 1.3.9 below.
- In its direct channel - Phoenix SMART - the Group focuses on optimizing the digital customer experience and rendering optimal service; the Group also focuses on digital marketing and automation, creating an analytical pricing and marketing model as well as cross selling. The Phoenix has set itself the target of doubling (to 20%) its direct insurance sales market share over the period of the plan; The Company estimates that this direct sales channel is expected to grow significantly during this period.
- Excellence investment house will focus mainly on its growth engines: KSM - passive and active mutual funds, as well as on increasing the activity of accounts managed by private customers and boosting digitization in the brokerage company.

⁷ The pro forma total assets under management mentioned above include provident fund assets managed by the Israel Electric Corporation (IEC). Net of IEC assets, total assets under management by the Group will reach approximately NIS 252 billion.

Technological innovation and efficiency

Technological innovation - The Phoenix has set itself the objective of being a leader in technological and digital transformation by implementing innovative processes - collaborations with startups, innovative intra-organizational initiatives, venture capital investments in startups, and establishing a lab for development of growth engines. The Company is currently in the process of establishing a fund, to be incorporated as a limited partnership, which shall make early-stage venture capital investments in the fintech field. The fund's investors will include entities from The Phoenix Group as well as external investors; digital - data-based pricing and underwriting, automation and process streamlining, using advanced digital tools, all of which will contribute to a substantial improvement in customers' and agents' user experience; data infrastructure - setting up advanced data and artificial intelligence systems, modernizing infrastructures and developing open platforms that will accelerate technological innovation.

Efficiency - The Phoenix aims to save NIS 300 million in annual expenses while implementing digital tools to improve customer service and experience. Costs will be cut by way of streamlining, digitizing and automation processes. Furthermore, The Phoenix has implemented and continues to implement operational changes in order to achieve optimal management of its activities. The Phoenix also works to cut procurement expenses and costs relating to suppliers providing services through which claims are settled. In that context, it should be noted that during the reporting year, The Phoenix implemented a streamlining plan, which included, among other things, voluntary retirement of approximately 10% of the Company's employees. For further details, please see Section 4.6.3 in the Periodic Report and the Company's immediate report of June 30 2020 (Ref. No. 2020-01-069357).

Maximizing the portfolio

The Phoenix acts to generate and unlock value by managing the Group's assets in an active and yield-focused manner while focusing on the Group's core areas of activity and assets.

- Subsequent to the reporting year, The Phoenix started to assess the possibility of selling The Phoenix Insurance's control stake (and up to 100% of its holdings) in Ad 120 - Residence for Senior Citizens Ltd. For further details, please see Section 1.3.6 above.
- In January 2021, Gama informed the Israel Securities Authority of its intention to apply for a prospectus publication permit. The Phoenix Investments, a subsidiary of

the Company, holds 49% of Gama shares as of the report publication date. The Phoenix Investments intends to purchase shares as part of the offering and increase its ownership stake to over 50%, fully diluted. To the extent that the issuance will indeed proceed and the Company will gain control over Gama, the Company is expected to record a one-off capital gain, depending on the issuance proceeds. It shall be clarified that the information stated in this section is forward-looking information, and there is no certainty that Gama will indeed complete the issuance and become a publicly-traded company.

Capital management

As part of its strategic plan, The Phoenix works to reduce dependency on market volatility and interest rate environment on the one hand, and reach capital levels which comply with solvency capital requirements on the other hand. The Phoenix reduces fluctuations in its profits by, among other things, improving the balancing out of assets and liabilities, improving the hedging of the interest rate risk and optimizing old insurance portfolios through reinsurance solutions. In addition, the strategic plan supports enhancing and streamlining the capital base and building the economic capital.

As part of the aforesaid actions, The Phoenix Insurance entered into agreements with The Phoenix Agencies constituting a related party of The Phoenix Insurance, to purchase a future flow of fees and commissions totaling up to NIS 262 million. It is expected that the completion of the aforesaid transactions (insofar as they are, indeed, completed) will improve The Phoenix Insurance's solvency ratio, as outlined in Section 1.3.8 below). Furthermore, The Phoenix insurance and a reinsurer entered into a mass lapse reinsurance agreement whose objective is to provide The Phoenix Insurance with partial protection from a mass cancellation scenario in its life and health insurance operations. The Phoenix Insurance estimates that this transaction may improve its economic solvency ratio as outlined in Section 1.3.5 below.

For further details about the intention of The Phoenix Insurance to issue Restricted Tier 1 capital (RT1), please see Section 1.3.23 above.

For the presentation describing the strategic plan, please see the Company's immediate report dated December 2 2020 (Ref. No. 2020-01-131349).

5. **The Board of Directors' Explanations for the State of the Corporation's Business**

5.1. **General**

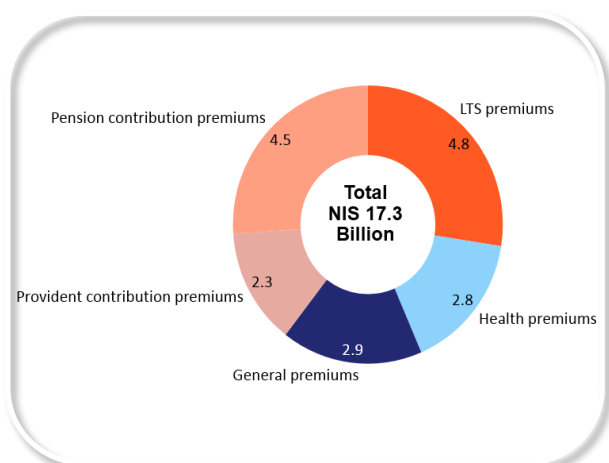
The Group's operations are affected by constant changes in regulations and regulatory reforms that are not executed simultaneously. The Group operates in a complex and changing reality in which it must prepare for such regulatory changes.

In addition, as the controlling shareholder of institutional entities, the Group must also deal with proposed changes in the minimum capital requirements that apply to the operations of institutional entities, which impose, among other things, restrictions on dividend distribution by institutional entities.

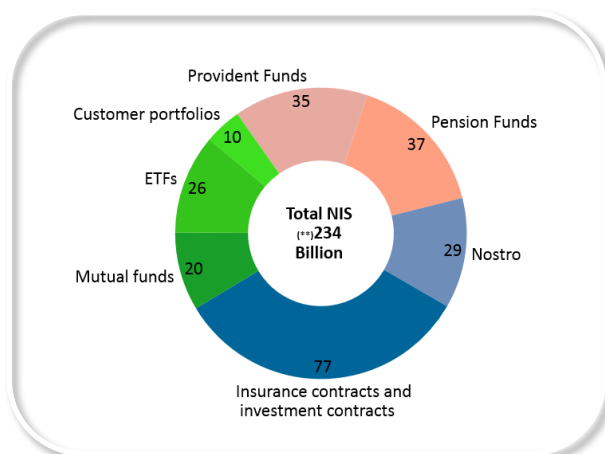
The Group's operations and results are significantly affected by the capital markets, including, among other things, the low-interest environment that has implications for its insurance liabilities and on the returns embodied in the Group's financial asset portfolios, and consequently also on the management fees and the financial margins from investments.

5.2. Key data from the Group's consolidated financial statements

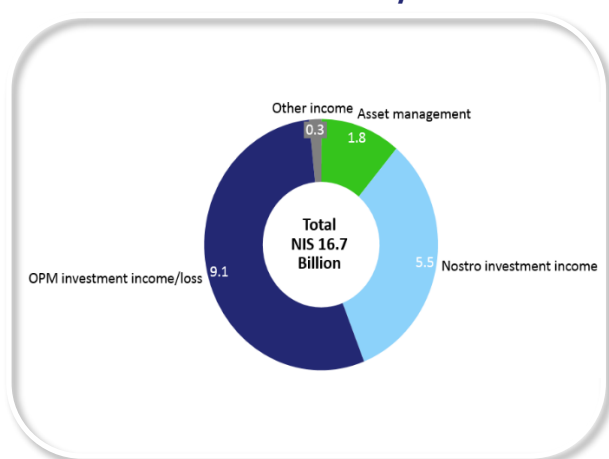
Earned premiums, and contributions towards benefits for 1-12/2020



Assets under management as of December 31 2020



Gross income for 1-12/2020

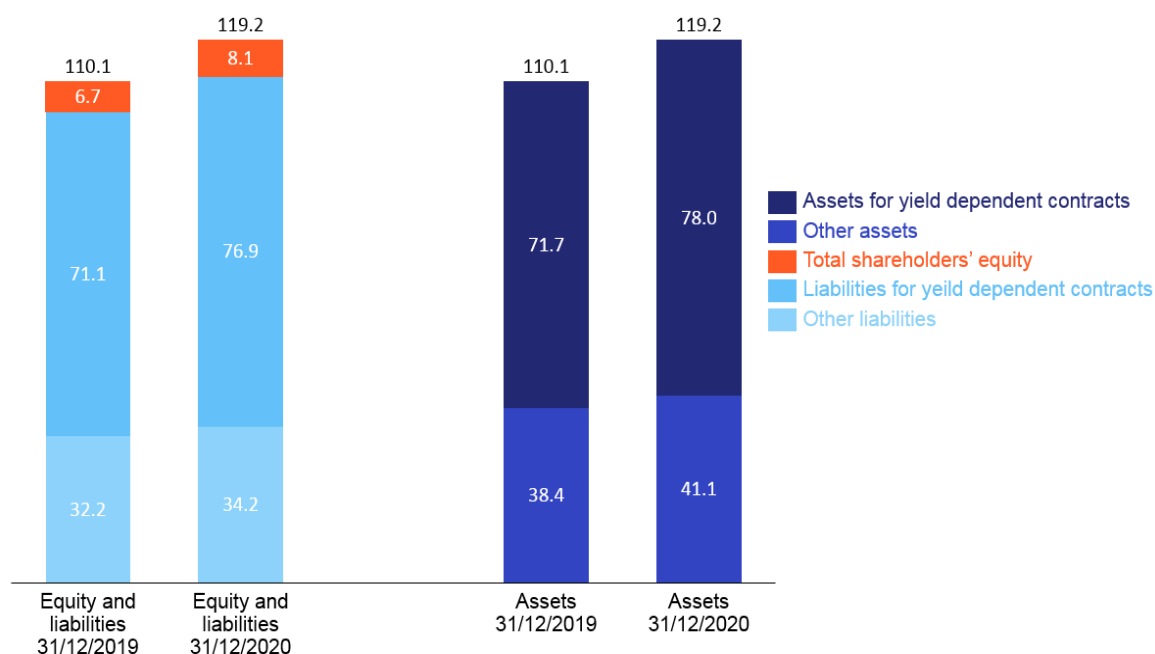


(**) Subsequent to the report date, and upon acquisition of the Halman Aldubi investment house as mentioned above, the Group's total assets under management will reach approximately NIS 298 billion (including NIS 18 billion in pension and provident funds assets and NIS 46 billion in assets of IEC and the Israel Ports Company (IPC)).

Total assets under management in provident funds, pension funds, ETFs, mutual funds, and customers' investment portfolios are not included in the Company's consolidated financial statements. Proceeds in respect of investment contracts are not included under premiums; rather, they are charged directly to liabilities in respect of insurance contracts and investment contracts.

5.3. Description of the development of the Group's financial position:

Following are key data from the consolidated balance sheets (in NIS billion):



Assets:

Total financial assets in respect of yield-dependent contracts and cash and cash equivalents in respect of yield-dependent contracts as of December 31 2020, amounted to approximately NIS 78.0 billion, compared to approximately NIS 71.7 billion as of December 31 2019.

Liabilities:

Liabilities in respect of insurance contracts and yield-dependent investment contracts amounted to approximately NIS 76.9 billion as of December 31 2020, compared to approximately NIS 71.1 billion as of December 31 2019.

During the first quarter of the reporting year, the Company retrospectively applied the effect of the amendment to the consolidated circular on Liability Adequacy Test (LAT), which was published in March 2020; the amendment stipulated that a LAT shall be calculated while grouping life insurance products (excluding long-term care products) rather than calculating LAT for each life insurance product.

The direct effect of the retrospective application on the liability for non-yield-dependent insurance contracts as of December 31 2019 is a decrease of NIS 382 million, and an increase of NIS 131 million in the deferred taxes liability. For further details, please see Note 2C to the financial statements.

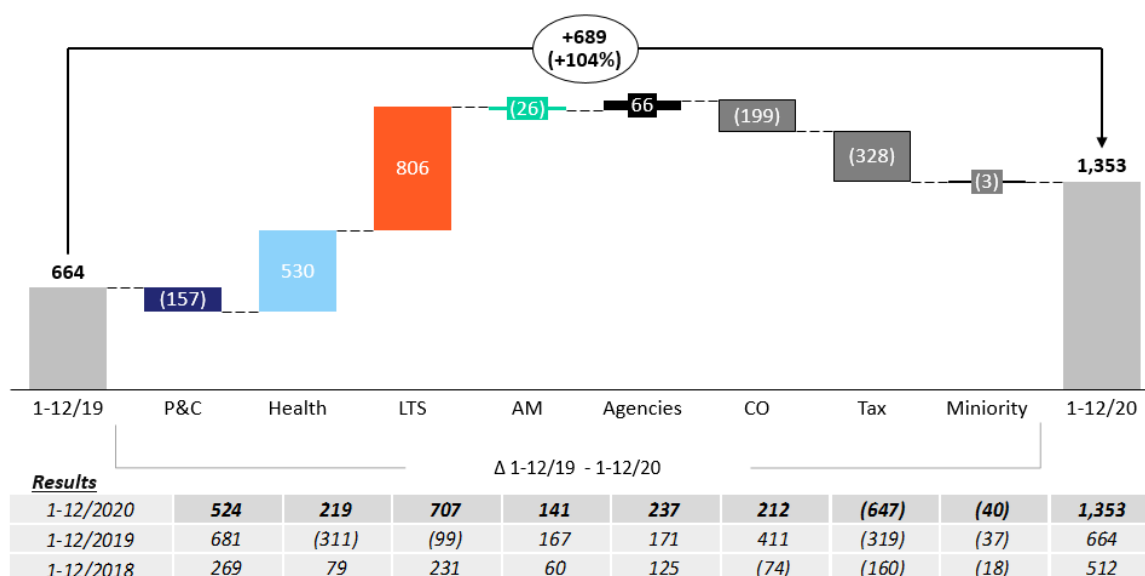
5.4. **Description of the development of the Group's comprehensive income:**

5.4.1. **General**

5.4.1.1. At each reporting period, the Company reviews its sources of income, according to the segments breakdown, as outlined in Section 5.4.2. It should be noted that in the health insurance and in property and casualty insurance segments, the profitability review is based on a breakdown to underwriting earnings, which assumes a real return of 3% on the portion that is not backed by Hetz bonds, and earnings stemming from capital market effects, which include income from nostro investments above or below a real return of 3%, the effect of the interest rate curve and other non-recurring effects.

5.4.1.2. In the life insurance and long-term savings segment, the Company reviews its profitability across all reporting periods or the segment's profitability based on a breakdown to nostro investment income net of yield credited to policyholders, the effect of the interest rate curve, including changes in the K value and other non-recurring effects, and the underwriting earnings, which include, among other things, income from variable and fixed management fees.

5.4.2. **Set forth below is an analysis of the Company's financial performance by segment for the reporting year, compared to last year (in NIS million):**



A substantial part of the Group's assets portfolio is invested in the capital market. Therefore, returns in various investment channels in the capital market have a material impact both on the returns achieved for the Group's customers and on the Group's earnings. Investment income and losses reflect the behavior of capital markets in Israel and abroad, and the behavior of the consumer price index and the exchange rates of the shekel against major currencies, whose aggregate effect on the earnings from investments is the main reason for fluctuations in the reported results.

In the reporting year, investment income, including pre-tax other comprehensive income, amounted to approximately NIS 5,758 million, compared with a gain of approximately NIS 9,714 million in 2019. It should be noted that a significant portion of the said investment gains or losses was carried to participating policies and had no direct effect on the Company's results. The Company's results are mainly affected by investment income from its nostro portfolio, as reflected in Section 5.4.4 below.

Income from management fees decreased in the reporting year by approximately NIS 130 million compared to last year. Most of the decrease stems from lower collection of variable management fees compared to last year in the amount of NIS 177 million, due to declines in financial markets in Israel and around the world following the coronavirus, which caused a decrease in the value of planholders' portfolios. For further details about the effects of the coronavirus pandemic, please see Section 1.4 above.

Furthermore, the increase in gains in the reporting year compared to last year was positively affected, in a material manner, by a total of NIS 1,121 million as a result of the change in the risk-free interest rate curve and the illiquidity premium. For further details about the impact of interest, please see Section 5.4.4.1 below and Note 40 to the Financial Statements.

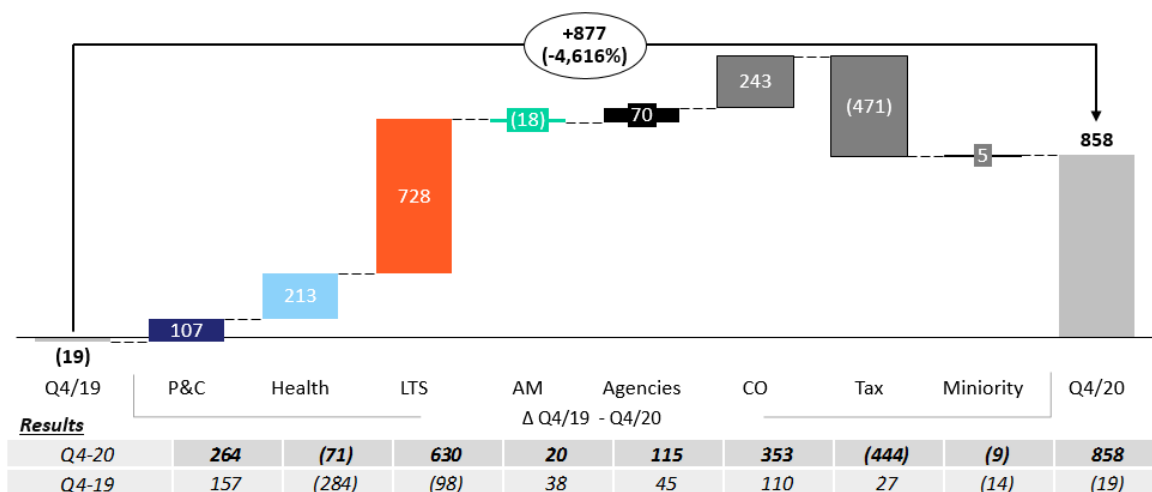
In the reporting year, the rate of fees and commissions, marketing expenses, and other acquisition costs out of gross earned premiums was approximately 16.2%, compared to 16.9% last year. In the reporting year, the rate of general and administrative expenses out of gross earned premiums was approximately 13.1%, compared with 11.3% last year; the increase stems mainly from a decline in gross earned premiums during the reporting year compared to last year, mostly due to a change in the long-term savings sales mix in pension products over managers insurance and due to expenses in respect of employees' retirement agreements.

Tax expenses in the reporting year include the first-time creation of a tax reserve in the amount of NIS 70 million in respect of the Company's intention to sell its control stake in Ad 120 and in respect of an expected dividend from The Phoenix Agencies that is subject to profit tax in accordance with the Company's dividend distribution policies. For further details, please see Section 1.3.3 and Section 1.3.6 above and Sections D.6 and E.3 to Note 7 to the financial statements.

The operating segments profit in the reporting year includes a payroll tax expense in the amount of NIS 17 million, compared with NIS 30 million in payroll tax income last year. This effect reduced the operating segments profit during the reporting period compared to last year by approximately NIS 47 million, which was offset by tax expenses.

Furthermore and in addition to that which is stated in Section 5.3 above, the earnings last year were impacted by the amendment of the consolidated circular on Liability Adequacy Test (LAT), published in March 2020. The direct effect of the change is an increase of approximately NIS 177 million in pre-tax comprehensive income and an increase of approximately NIS 117 million in post-tax comprehensive income. For further details, please see Note 2.DD to the Financial Statements.

5.4.3. **Set forth below is an analysis of the Company's financial performance by segment in the fourth quarter compared with the corresponding quarter last year (in NIS million):**



In the fourth quarter, investment income (including pre-tax other comprehensive income) amounted to approximately NIS 6,648 million, compared with an income of approximately NIS 3,373 million in the fourth quarter last year. It should be noted that a significant portion of the said investment gains or losses was carried to participating policies and had no direct effect on the Company's results. The Company's results are mainly impacted by investment income from its nostro portfolio, as reflected in Section 5.4.5 below.

In the fourth quarter, income from management fees were up by approximately NIS 95 million compared with the corresponding period last year. Most of the increase is due to higher collection of variable management fees following the rallies in financial markets in Israel and around the world in the fourth quarter compared with the corresponding period last year.

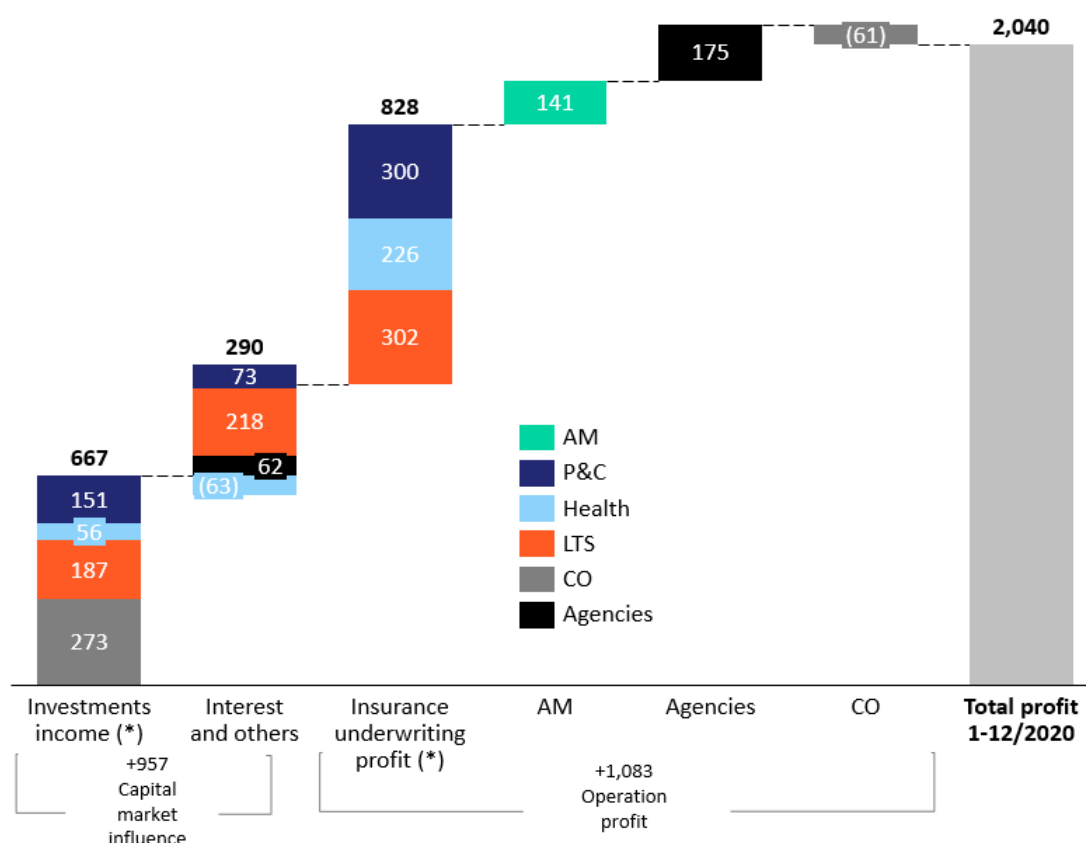
Furthermore, the increase in gains in the fourth quarter compared to the corresponding quarter last year was positively affected, in a material manner, by a total of NIS 466 million as a result of the change in the risk-free interest rate curve and the illiquidity premium. For further details about the impact of interest, please see Section 5.4.5.1 below and Note 40 to the Financial Statements.

Tax expenses in the quarter include the first-time creation of a tax reserve in the amount of NIS 70 million in respect of the Company's intention to sell its control stake in Ad 120 and in respect of an expected dividend from The Phoenix Agencies that is subject to profit

tax in accordance with the Company's dividend distribution policies. For further details, please see Section 1.3.3 and Section 1.3.6 above and Note 7 to the Financial Statements.

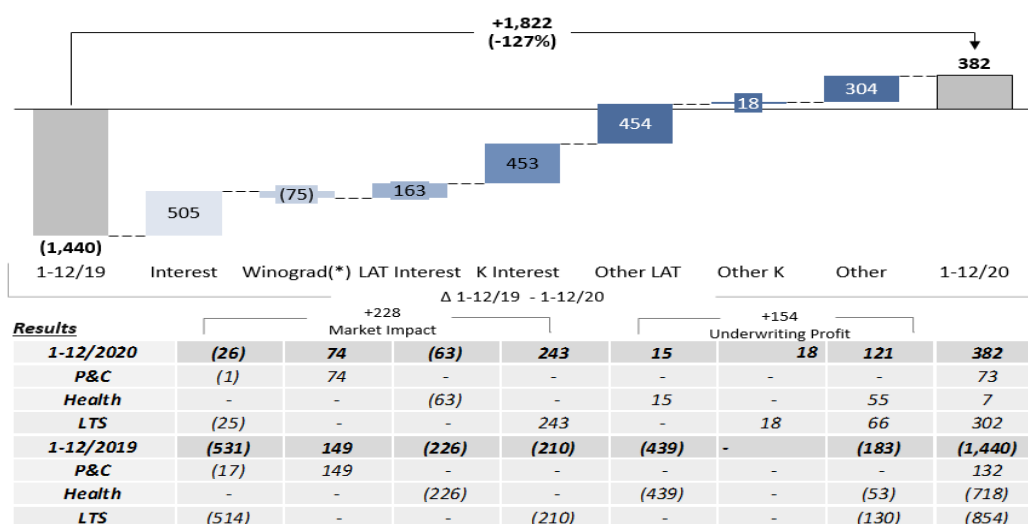
The operating segments profit in the quarter includes a payroll tax expense in the amount of NIS 17 million, compared with NIS 30 million in payroll tax income in the fourth quarter last year. This effect reduced the operating segments profit in the fourth quarter compared to the same quarter last year by approximately NIS 47 million, which was offset by tax expenses.

5.4.4. **Set forth below is an analysis of the sources of the Company's pre-tax comprehensive income by earnings per activity and earnings from capital market effects for the year ended December 31 2020 (in NIS million):**



(*) The underwriting earnings in health insurance and in property and casualty insurance (P&C) and health insurance assume a real return of 3%; all remaining investment income below and above the 3% real return are included in capital market effects. Furthermore, investment income in life insurance is presented net of yield credited to policyholders. Please see Section 5.4.1.

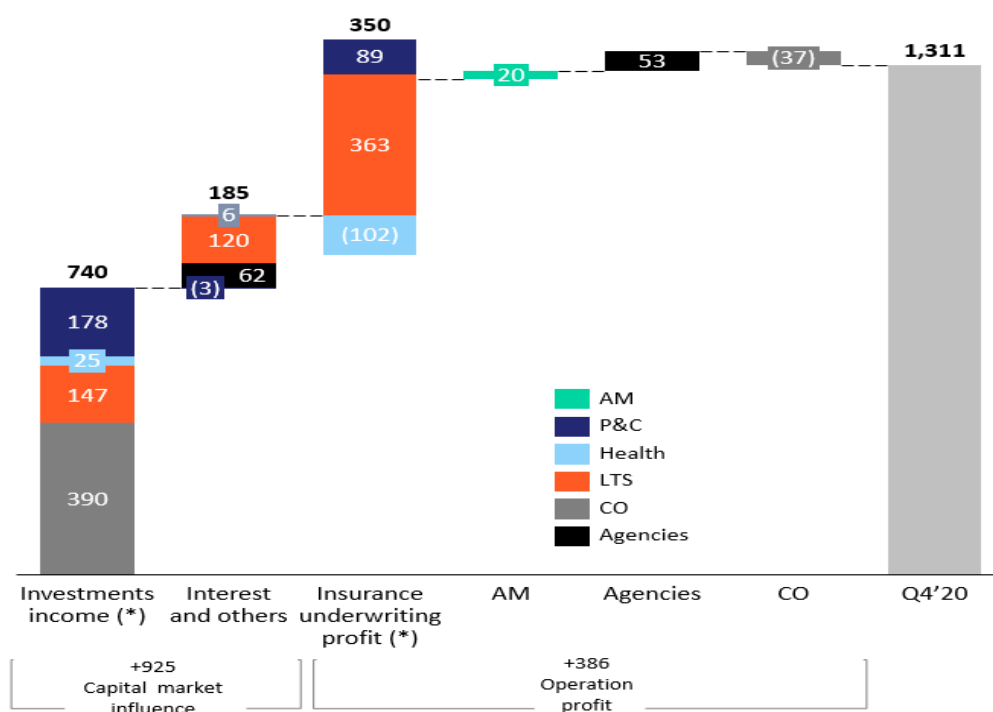
5.4.4.1. **Set forth below is an analysis of the interest rate effects and main non-recurring effects on pre-tax insurance liabilities in the reporting year compared with last year (in NIS million):**



(*) Winograd - includes all current changes after first-time application of the ruling, as described in Section 5.7.1 below.

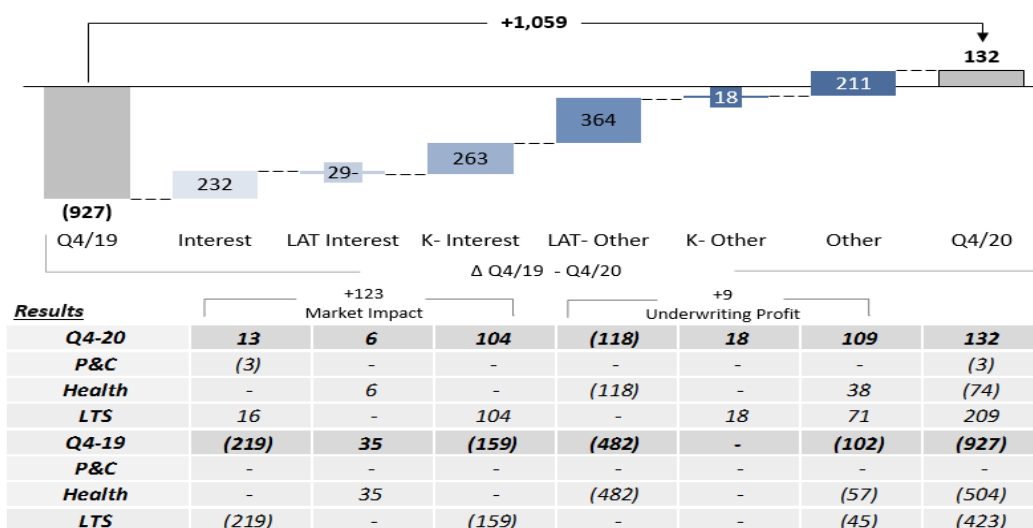
The results in the reporting year compared to the corresponding period last year were affected by changes in yield curves, changes in the value of assets and their allocation as a result of first time application of the amendment of the LAT circular, first time application of the illiquidity premium circular, changes stemming from the impact of the change in discount rate applied to National Insurance allowances, the updating of the life expectancy rates and changes in assumptions. These changes triggered a decrease in insurance liabilities amounting to approximately NIS 382 million in the reporting year (before tax) compared with an increase of approximately NIS 1,440 million last year (before tax).

5.4.5. **Set forth below is an analysis of the sources of the Company's pre-tax income by earnings per activity and earnings from capital market effects for the three-month period ended December 31 2020 (in NIS million):**



(*) The underwriting earnings in health insurance and in property and casualty insurance assumes a real return of 3%; all remaining investment income is included in capital market effects. Furthermore, investment income in life insurance is presented net of yield credited to policyholders. Please see Section 5.4.1.

5.4.5.1. **Set forth below is an analysis of the interest effects and main non-recurring effects on pre-tax insurance liabilities in the fourth quarter compared with the corresponding quarter last year (in NIS million):**



The results in the fourth quarter compared to the corresponding quarter last year were affected by changes in yield curves, changes in the value of assets as a result of first time application of the amendment of the LAT circular, first time application of the illiquidity premium circular, and changes in assumptions. These changes triggered a decrease in insurance liabilities amounting to approximately NIS 132 million in the reporting period compared with an increase of approximately NIS 927 million in the corresponding period last year. For further details, see Note 40 to the financial statements.

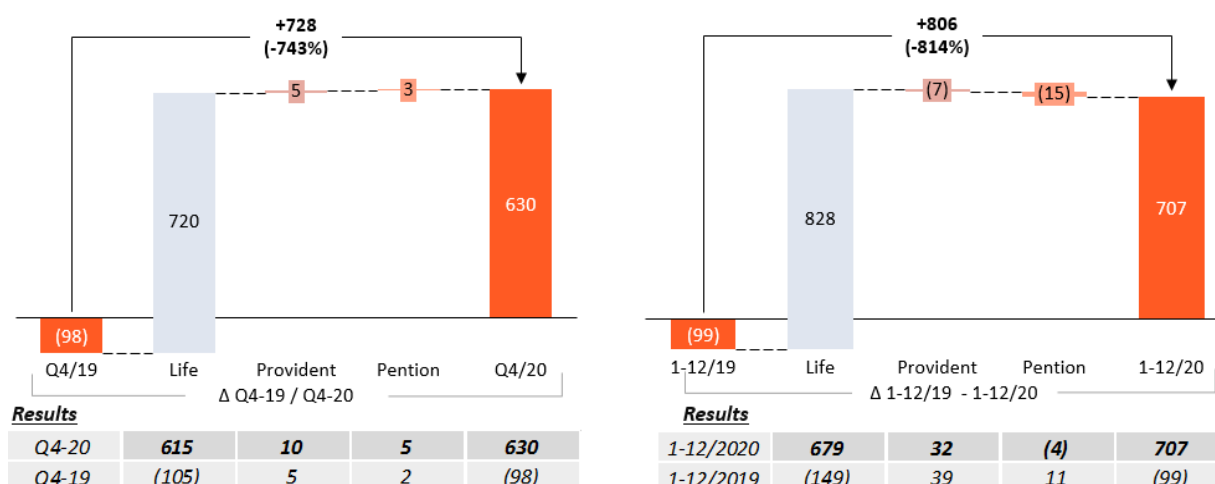
5.4.6. Set forth below are data regarding the Company's return on equity:

	1-12/2020	1-12/2019	1-12/2018	10-12/2020	10-12/2019
Return on shareholders' equity for the period (based on comprehensive income for the period ^(*))	18.5%	10.2%	8.3%	53.9%	(1.1%)

(*) Return on equity is calculated based on the income for the period or comprehensive income for the period attributed to Company's shareholders, adjusted to reflect a one-year period and divided by the average equity for the period.

Following is a description of the developments in the Group's financial performance, by operating segment (in NIS million, before tax):

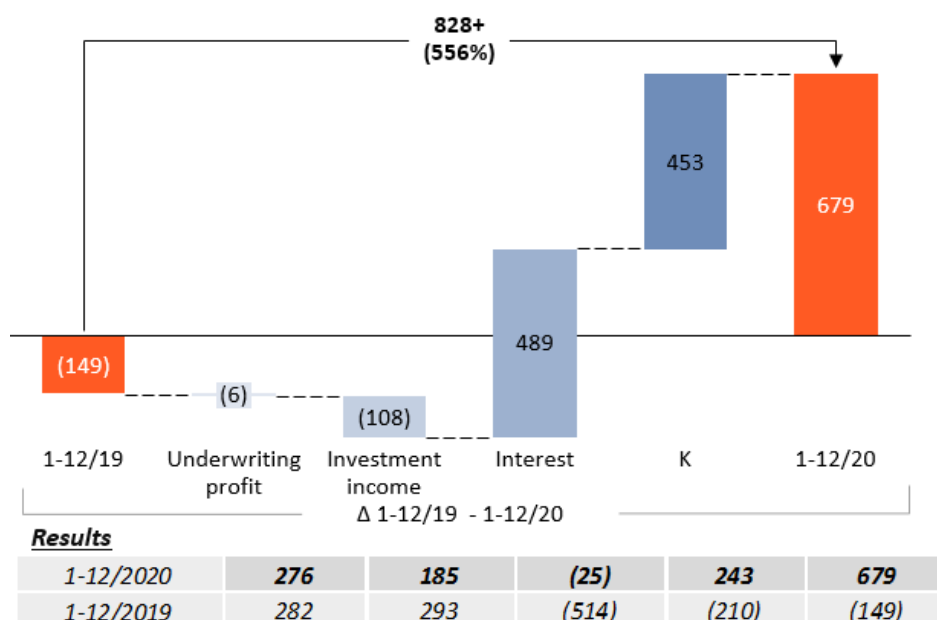
5.5. Developments in the life insurance and long-term savings (LTS) operating segment



5.5.1. Life insurance subsegment

Earnings on investments have a material effect on the profitability of this segment, which is characterized by accrual of significant reserves over long periods. Investment earnings are affected by capital market fluctuations, as well as changes in interest rates and the rate of change in the Israeli consumer price index, which affect the yields on marketable financial asset portfolios held against insurance and contingent claims reserves. It should be noted that a significant portion of the investment income was carried to participating policies and has no direct effect on the Company's results.

5.5.2. **Following is an analysis of the main effects and changes on the results of the life insurance subsegment for the reporting year compared to last year (in NIS million):**



(*) Investment income is net of yield credited to policyholders. Please see Section 5.4.1.2 above.

The underwriting earnings in the reporting year compared to last year were mainly affected by a decrease in income from management fees due to lower collection of variable management fees, as a result of the declines in financial markets in Israel and around the world, which triggered a year-on-year decrease in the value of planholders' portfolios in The Phoenix Insurance.

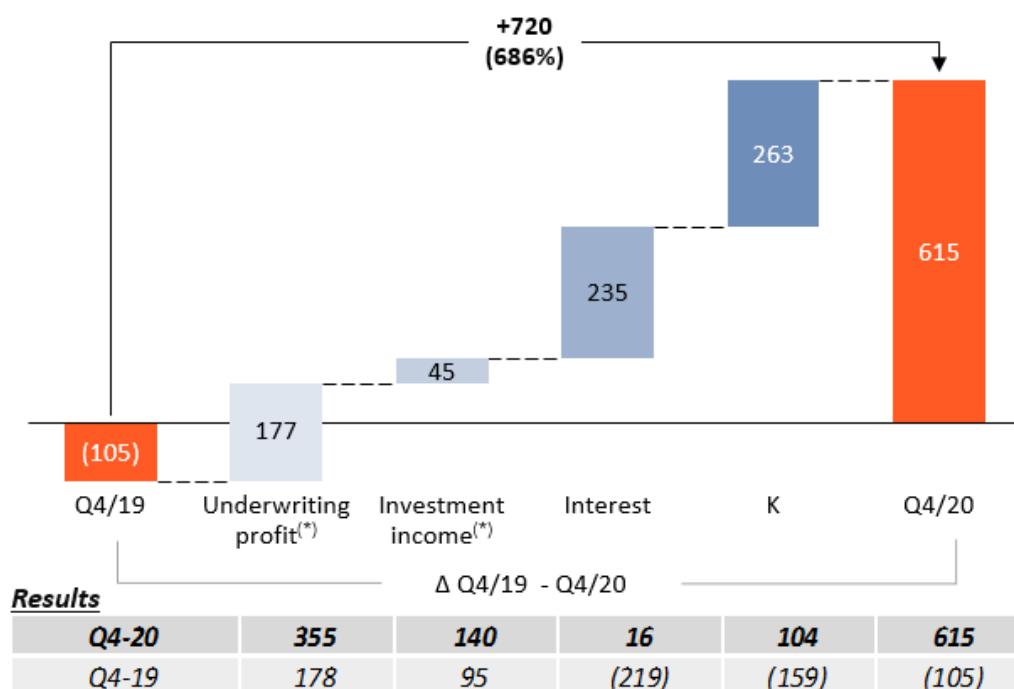
Investment income in the reporting year compared to last year decreased mainly due to the decrease in investment income stemming from the nostro portfolio, net of the yield credited to policyholders in respect of guaranteed return policies.

The results in the reporting year were positively affected by the changes in the risk-free interest rate curve and the effects on the K factor in relation to last year. In the reporting year, the effect is a decrease of NIS 218 million in insurance reserves, compared with a NIS 724 million increase last year, as reflected in the chart above (effects of the K factor and interest rate).

For further details and for details regarding the insurance liabilities' sensitivity to changes in interest rates, please see Note 40 to the financial statements.

Furthermore and in addition to that which is stated in Section 5.3, the earnings last year were impacted by the amendment of the consolidated circular on Liability Adequacy Test (LAT). The direct effect of the change is an increase of approximately NIS 177 million in pre-tax comprehensive income (most of the effect relates to the changes in interest section above). For further details, please see Note 2c to the financial statements.

5.5.3. **Following is an analysis of the main effects and changes on the results of the life insurance subsegment for the fourth quarter compared to the corresponding quarter last year (in NIS million):**



(*) Investment income is net of yields credited to policyholders. Please see Section 5.4.1.2.

The underwriting earnings in the fourth quarter compared to the corresponding quarter last year were mainly affected by an increase in income from management fees due to higher collections of variable management fees as a result of the rallies in financial markets in Israel and around the world, which brought about a year-on-year increase in the value of planholders' portfolios in The Phoenix Insurance.

In addition, results in the fourth quarter improved due to changes in the risk-free interest rate curve and changes in the K factor, compared to last year, as reflected in the above chart.

For further details and for the sensitivity of the insurance liabilities to a change in the interest rates, please see Note 40 to the annual financial statements.

- 5.5.4. The rate of redemptions out of the average reserve (in annual terms) was approximately 3.1% compared with 2.9% in the corresponding period last year. It should be noted that the general state of the economy, employment rates, the coronavirus crisis, employees' wages, and market competition all affect this rate.

5.5.5. **Weighted returns on participating policies**

Following are details concerning estimated net investment earnings attributed to policyholders of participating policies and management fees calculated according to the Commissioner's guidelines, based on insurance reserve balances and returns:

	1-12/2020	1-12/2019	1-12/2018	10-12/2020	10-12/2019
	In NIS millions				
Investment gains (losses) attributed to policyholders after management fees	3,333	6,294	(343)	4,896	2,311
Management fees	740	893	382	416	317

(*) Excluding investment income (losses) credited (debited) to policyholders in the health insurance segment.

Set forth below are the nominal returns on participating policies in respect of policies issued from 1992 to 2003:

	(J Fund) Policies issued up to 2004				
	1-12/2020	1-12/2019	1-12/2018	10-12/2020	10-12/2019
Nominal returns before payment of management fees	6.61%	13.95%	0.23%	9.08%	4.79%
Nominal returns after payment of management fees	4.99%	11.52%	(0.37%)	7.91%	3.92%
Real returns before payment of management fees	7.25%	13.61%	(0.95%)	9.08%	5.00%
Real returns after payment of management fees	5.61%	11.18%	(1.55%)	7.91%	4.12%

Fluctuations in these returns are a function of capital market returns in Israel and abroad, changes in the consumer price index, and changes in the exchange rate of the shekel against major currencies.

Set forth below are the nominal returns on participating policies in respect of policies issued from 2004 and thereafter:

	Policies issued from 2004 and thereafter				
	1-12/2020	1-12/2019	1-12/2018	10-12/2020	10-12/2019
Nominal returns before payment of management fees	7.03%	13.48%	(0.37%)	9.12%	4.48%
Nominal returns after payment of management fees	5.97%	12.34%	(1.41%)	8.85%	4.25%
Real returns before payment of management fees	7.67%	13.14%	(1.55%)	9.12%	4.69%
Real returns after payment of management fees	6.61%	12.00%	(2.58%)	8.85%	4.45%

For subsequent events in connection with the coronavirus pandemic, please see Section 1.4 above and Note 1.C to the Financial Statements.

5.5.6. **Provident funds subsegment**

The Group manages provident and advanced education funds through The Phoenix Excellence, a wholly owned subsidiary of The Phoenix Insurance, which manages benefits and severance pay funds, advanced education funds, a central benefits and severance pay fund, a yield-guaranteed provident fund, an investment provident fund, a child long-term investment provident fund for savings, a personally managed benefits provident fund, and a personally managed advanced education fund.

For further details on the merger of management companies of the provident funds, advanced education funds, and pension funds, and on the decision passed by The Phoenix Insurance's Board of Directors regarding the distribution of the shares of Phoenix Excellence Pension and Provident Funds Ltd. as dividend in kind to the Company in the reporting year, please see Section 1.3.10 above.

As part of the implementation of its strategy and its wish to expand its asset management activities in general and its pension funds activities in particular, on February 28 2021, the merger transaction - under which the Company acquired Halman-Aldubi - was completed. For further details, please see Section 1.3.11 above.

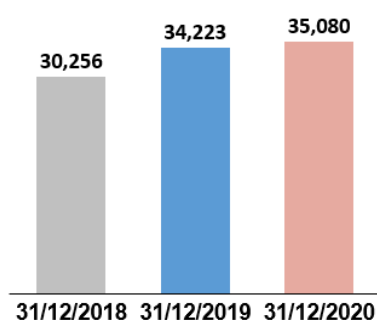
For key data as to the financial results of the provident funds subsegment, please see Note 3 to the Financial Statements.

The pre-tax comprehensive income in the reporting year amounted to approximately NIS 32 million compared to approximately NIS 39 million last year.

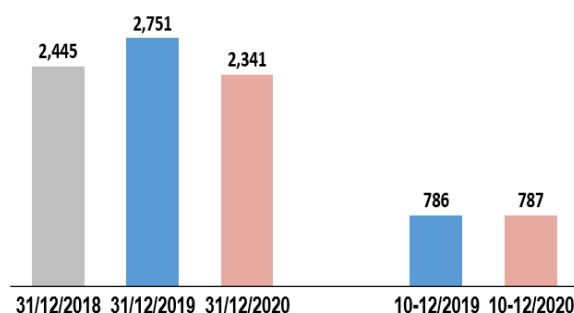
The decrease in profit is mainly due to the decrease in capital market yields, which affected both the margin in guaranteed return provident funds and in the investment income from the nostro portfolio. The effect is a NIS 10 million decrease in investment income compared with last year. The decrease in contributions towards benefits in the reporting year is mainly due to a decrease in one-off deposits compared to last year.

Developments in contributions towards benefits and total assets under management:

Assets under management as of December 31
2020



Earned premiums, and contributions towards
benefits for 1-12/2020



Based on Ministry of Finance data,⁸ aggregate contributions towards benefits in the provident funds subsegment in the reporting year totaled approximately NIS 47,104 million, compared to a total of approximately NIS 45,491 million last year, reflecting an increase of approximately 3.5%. According to the Ministry of Finance data, as of December 31 2020, total assets under management in the provident funds subsegment amounted to approximately NIS 579 billion, compared to approximately NIS 534 billion as of December 31 2019, an increase of approximately 8.5%, which stems mainly from positive net accumulation in the provident funds subsegment.

5.5.7. Pension funds subsegment

The Group's pension subsegment is conducted through the Phoenix Excellence, a wholly-owned subsidiary of The Phoenix Insurance.

For further details on the merger of the management companies of the provident funds, advanced education funds, and pension funds, and on the decision passed by The Phoenix Insurance's Board of Directors regarding the distribution of the shares of Phoenix

⁸ Based on Gemel Net data.

Excellence Pension and Provident Funds Ltd. as dividend in kind to the Company in the reporting year, please see Section 1.3.10 above.

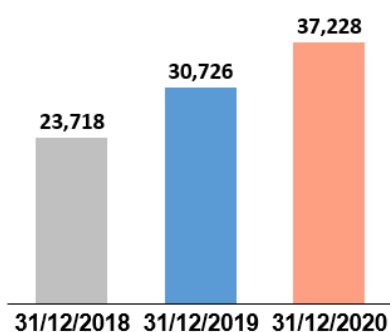
As part of the implementation of its strategy and its wish to expand its asset management activities in general and its pension funds activities in particular, on February 28 2021, the merger transaction - under which the Company acquired Halman-Aldubi - was completed. For further details, please see Section 1.3.11 above.

For key data on the financial results of the pension subsegment, please see Note 3 to the Financial Statements.

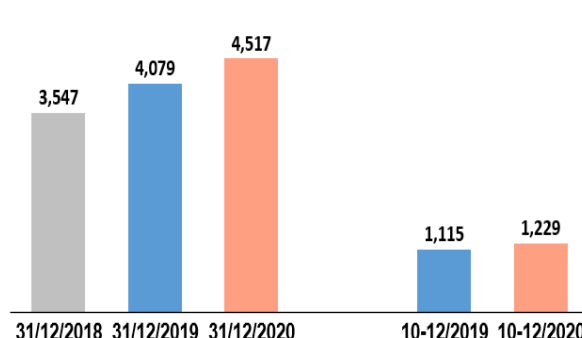
The pre-tax loss in the reporting year amounted to approximately NIS 4 million compared to a pre-tax profit of approximately NIS 11 million last year. The decrease in profit stems mainly from a decrease in capital market returns, which affected the assets of the management company over the last year, from an increase in marketing expenses and other acquisition costs, as well as from an increase in general and administrative expenses resulting from the revision of the Group's expense allocation model.

Developments in contributions towards benefits and total assets under management:

Assets under management as of December 31 2020



Earned premiums, and contributions towards benefits for 1-12/2020



Based on Ministry of Finance data,⁹ aggregate contributions towards benefits in the new comprehensive pension funds subsegment in the reporting year totaled approximately NIS 45,287 million, compared to a total of approximately NIS 43,182 million last year, reflecting an increase of approximately 4.9%.

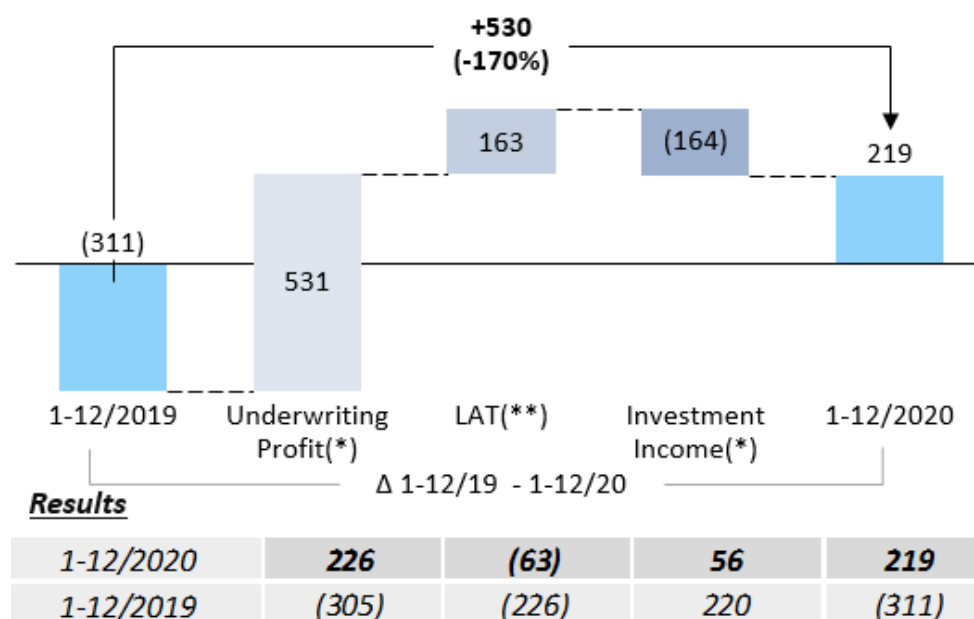
⁹ Based on Pension Net data.

According to Ministry of Finance data, as of December 31 2020, total assets under management in the new comprehensive pension funds subsegment amounted to a total of approximately NIS 465 billion, compared to approximately NIS 404 billion on December 31 2019, an increase of approximately 15.0%.

5.6. Health insurance segment

Earnings on investments affects the profitability of this segment, some of whose products (such as long-term care insurance) are characterized by accrual of significant reserves over long periods. Investment earnings are affected by capital market fluctuations, as well as changes in interest rates and the rate of change in the Israeli consumer price index, which affect the yields on marketable financial asset portfolios held against insurance and contingent claims reserves.

5.6.1. Set forth below is an analysis of the main effects and changes on the results of the health insurance subsegment for the reporting year compared to last year (in NIS million):



(*) The underwriting earnings assume a real rate of return of 3%. Investment income includes income from own (nostro) investments above or below a 3% real return. For further details, please see Section 5.4.1.1 above.

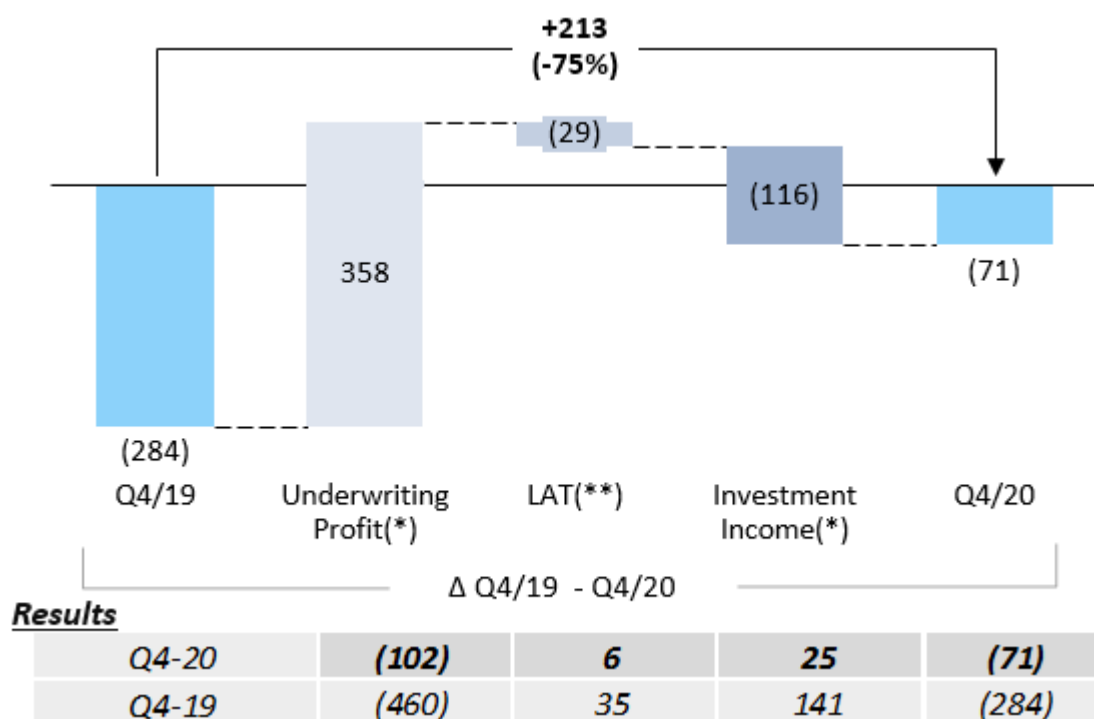
(**) Including all changes in interest rate and excess non-marketable assets in LAT only. For further details on changes due to revisions in assumptions and other changes, please see Note 40 to the Financial Statements.

The increase in the underwriting earnings in the reporting year compared to last year, totaling NIS 531 million, is mainly due to an increase in the LAT reserve as a result of revising actuarial assumptions and other effects in the amount of NIS 15 million,

compared to the increase in the LAT reserve as a result of revising the assumptions regarding cancellations, expenses, mortality rates and others for a total of NIS 499 million last year. Additional effects on the underwriting earnings in reporting year are mainly due to the termination of an agreement for the provision of collective long-term care insurance for the Meuhedet HMO on December 31 2019, and a result of an almost complete halt of the travel insurance activity; the effect was partially offset by the rate of claims.

Additionally, profit was up in the reporting year compared with last year, as a result of a NIS 163 million decrease in the interest rate curve. The effects in the reporting year arose from an increase in the LAT reserve due to a decrease of approximately NIS 285 million in the interest rate curve, which was offset by a decrease in the LAT reserve due to transfer of excess of value of non- marketable assets amounting to approximately NIS 112 million - mostly from the life insurance segment to the health insurance segment; the LAT reserve also decreased by approximately NIS 110 million due to the first-time application of the LAT circular and application of the Commissioner's circular on increasing the illiquidity premium. The main effect on the LAT reserve last year was the result of the decrease in the risk-free interest rate curve and the illiquidity premium in the amount of approximately NIS 226 million. Investment income in the reporting year compared to last year decreased mainly due to the decrease in investment income stemming from the nostro portfolio. For further details, please see Note 40 to the Financial Statements.

5.6.2. Set forth below is an analysis of the main effects and changes on the results of the health insurance subsegment for the fourth quarter compared to the corresponding quarter last year (in NIS million):



(*) The underwriting earnings assume a real rate of return of 3%. Investment income includes income from investments with a real return of more or less than 3%. For further details, please see Section 5.4.1.1 above.

(**) Including all changes in interest rate and excess value of non-marketable assets in LAT only. For further details on changes due to changes in assumptions and other changes, please see Note 40 to the Financial Statements.

The improvement in the underwriting results in the fourth quarter compared to the same quarter last year, totaling NIS 358 million, is mainly due to an increase in the LAT reserve as a result of revising actuarial assumptions and other effects in the amount of NIS 118 million, compared to the increase in the LAT reserve as a result of revising the assumptions regarding cancellations, expenses, mortality rates and others for a total of NIS 528 million last year. With the exception of said effect, the changes in the underwriting results in the fourth quarter of the reporting year compared to the corresponding period last year are mainly due to an almost complete halt of the travel insurance activity.

Additionally, profit was down in the reporting year compared with last year, as a result of a NIS 29 million decrease in the interest rate curve. The fourth quarter results include an increase in the LAT reserve due to a decrease in the risk-free interest rate curve of approximately NIS 81 million, which was offset by a decrease of approximately NIS 87

million in the LAT reserve due to recognition of excess value of non-marketable assets. The results in the fourth quarter last year were affected by a decrease in the LAT reserve as a result of an increase in the risk-free interest rate curve in the amount of approximately NIS 35 million. Investment income in the reporting year compared to last year decreased mainly due to the decrease in investment income stemming from the nostro portfolio. For further details, please see Note 40 to the Financial Statements. It should be noted that at this stage, the Company has ceased to market long-term care insurance policies in view of the guaranteed return in long-term care insurance plans, and the complexity of the related reinsurance in this area.

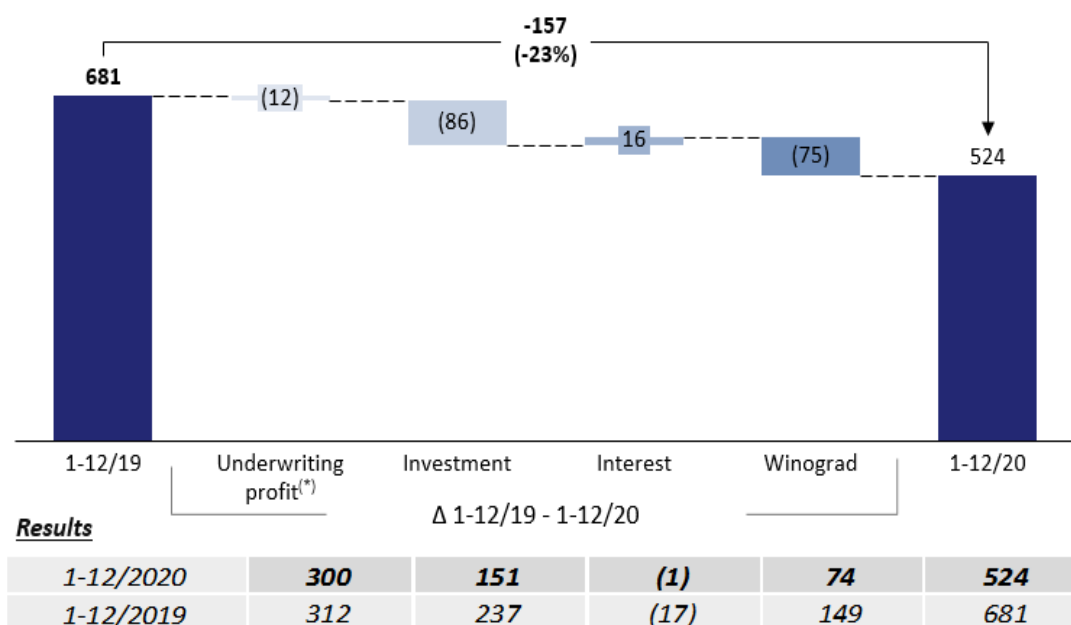
5.7. **Property and casualty insurance**

5.7.1. **The discount rate applied to National Insurance allowances**

Further to Section 4.1.7.1.9 of the 2020 Periodic Report, a judgment handed down by the Supreme Court was published on September 17 2020 in an appeal filed by the National Insurance Institute against the Dead Sea Scrolls Regional Council; in the judgment, the Court ruled that its recommendation to the National Insurance Institute in its judgment of August 8 2020 (hereinafter: the "Kaminitz Ruling") to discount the restitution requirements according to 3% discount interest rather than 2%, despite the discounting provisions, is binding as long as the law is not changed following Kaminitz Ruling.

In addition, on November 10 2020, a decision of the Supreme Court was published, which rejected the motion for a further hearing on the Kaminitz Ruling. Therefore, the Kaminitz Ruling remains binding. The Company believes that these decisions anchor the Kaminitz Ruling and explicitly applies it to the National Insurance Institute. Accordingly, and based on the opinion of its legal counsel, in the third quarter, the Company reduced its reserve for compulsory motor insurance liabilities by approximately NIS 61 million and the reserve for National Insurance Institute claims by approximately NIS 13 million.

5.7.2. **Set forth below is an analysis of the main effects and changes on the results of the property and casualty insurance subsegment for the reporting year compared to last year (in NIS million):**



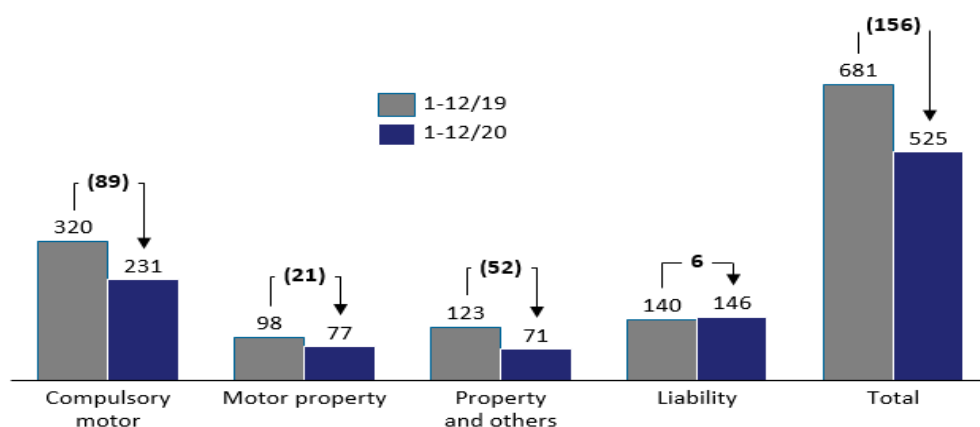
(*) The underwriting earnings assume a real rate of return of 3%. Investment income includes income from investments with a real return of more or less than 3%. For further details, please see Section 5.4.1.1 above.

The decrease in underwriting earnings in the reporting year compared to last year stemmed mainly from weather damage and from the losses in the flight cancellation subsegment due to the spread of the coronavirus.

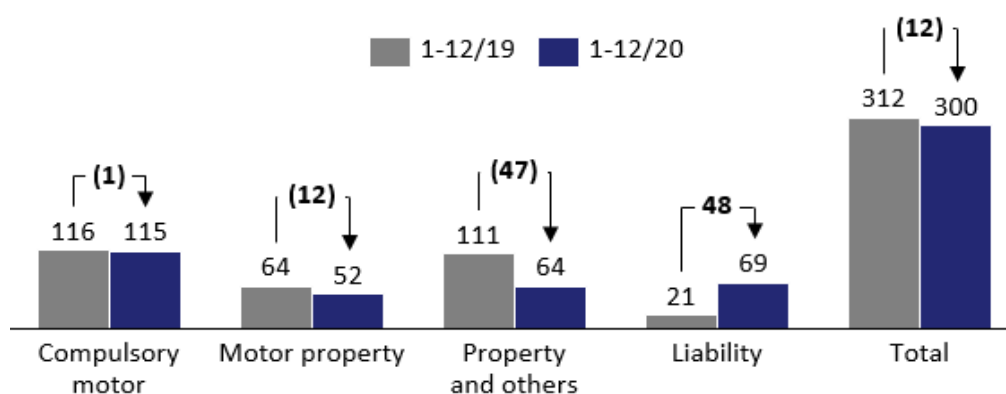
The decrease in investment income in the reporting year compared to last year stemmed from sharp declines in markets in Israel and globally due to the spread of the coronavirus.

For further details on the effect of changes in the discount rate applied to National Insurance Institute allowances, please see Section 5.7.1 above.

5.7.3. **Set forth below is the pre-tax comprehensive income in the various subsegments of property and casualty insurance for the reporting year compared to last year (in NIS million):**



Set forth below are the pre-tax underwriting earnings in the various subsegments of property and casualty insurance for the reporting year compared to last year (in NIS million):

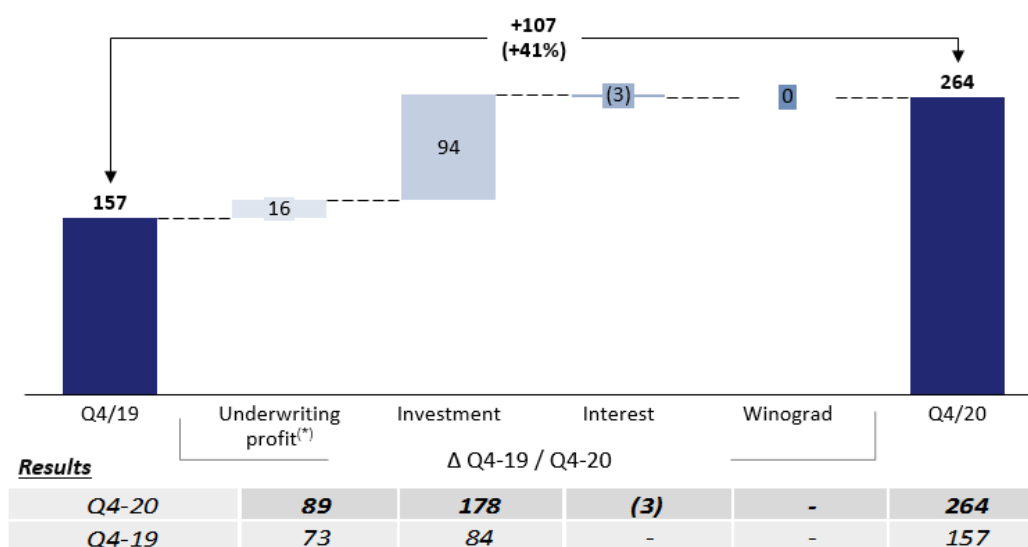


In the reporting year, underwriting earnings from the motor property subsegment were impacted by weather damages and a decrease in average premiums, which was offset against a decrease in the prevalence of claims due to lower activity as a result of the restrictions brought about by the coronavirus crisis.

The decrease in underwriting earnings in the property and other subsegment stems mainly from the impact of weather damage on businesses, and from losses on flight cancellation insurance policies due to the coronavirus crisis.

The increase in the underwriting earnings generated from the liability subsegment in the reporting period stems from a negative development last year in liabilities in respect of previous years in the third party liability subsegment, and from changes in the discount rate applied to National Insurance allowances as set out in Section 5.7.1. above.

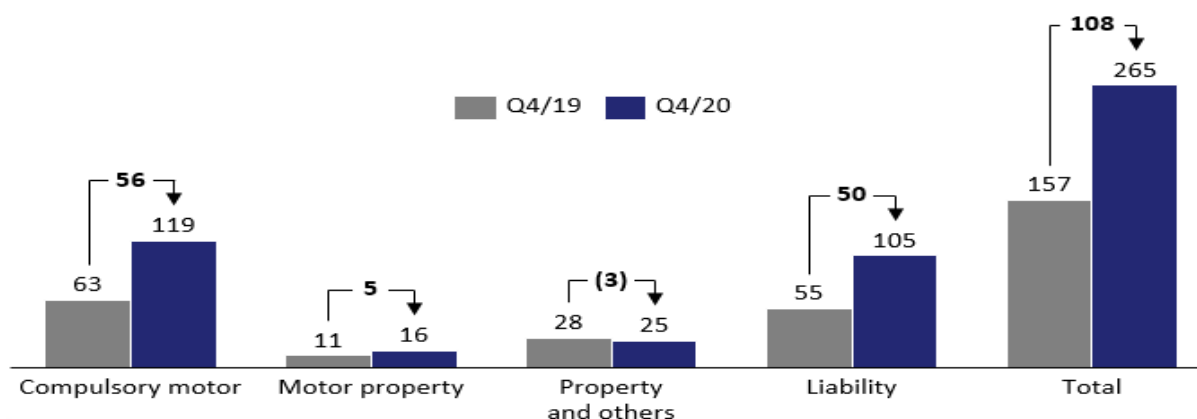
5.7.4. **Set forth below is an analysis of the main effects and changes on the results of the property and casualty insurance subsegment for the fourth quarter compared to the corresponding quarter last year (in NIS million):**



(*) The underwriting earnings assume a real rate of return of 3%. Investment income includes income from investments with a real return of more or less than 3%. For further details, please see Section 5.4.3 above.

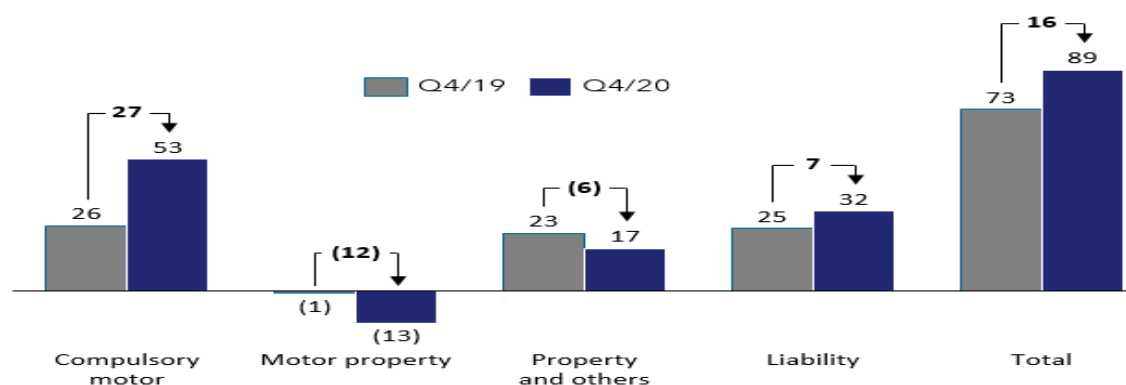
For further details on the effect of changes in the discount rate applied to National Insurance Institute allowances, please see Section 5.7.1 above.

5.7.5. **Set forth below is the pre-tax comprehensive income in the various subsegments of property and casualty insurance for the fourth quarter compared with the corresponding period last year (in NIS million):**



Fourth quarter financial results of the compulsory motor and liability subsegments include mainly the change in the discount rate applied to National Insurance allowances; please see Section 5.7.1 above.

Set forth below are explanations for the pre-tax underwriting earnings in the various subsegments of property and casualty insurance for the fourth quarter compared with the corresponding quarter last year (in NIS million):



The increase in underwriting earnings in the compulsory motor insurance subsegment in the fourth quarter compared with the fourth quarter of last year is due to a decrease in the insurance liabilities in respect of previous years.

In the reporting year, underwriting earnings from the motor property subsegment were impacted by weather damages and a decrease in average premiums, which was offset against a decrease in the prevalence of claims due to lower activity as a result of the restrictions brought about by the coronavirus crisis and an increase in marketing expenses.

The decrease in underwriting earnings in the property and other subsegment stems mainly from the impact of weather damage on businesses and homes.

The increase in the underwriting earnings generated from the liability subsegment in the reporting period stems from an adverse development in a corresponding period in liabilities in respect of previous years in the third party liability subsegment.

5.7.6. **Set forth below is an analysis of the gross loss ratio and combined ratio, and retention loss ratio in the motor property and other subsegments:**

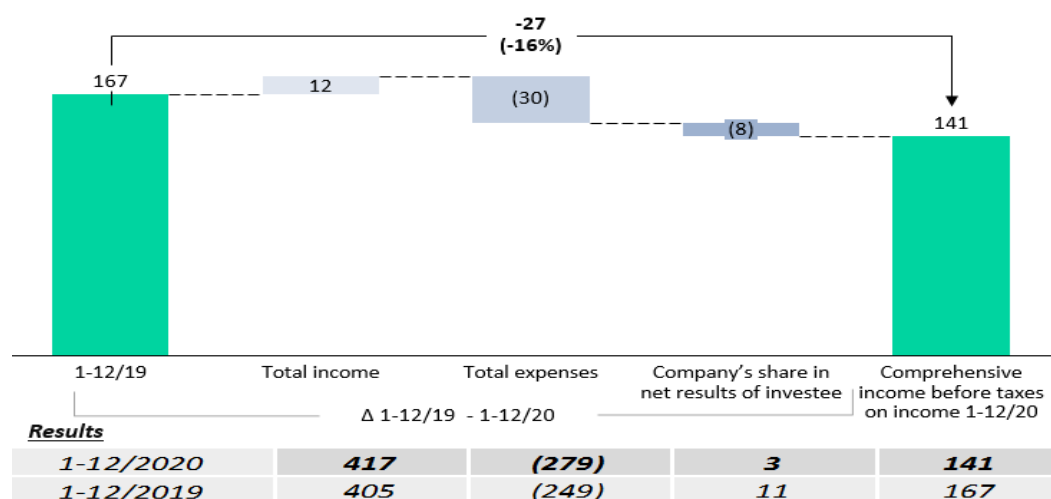
	Motor property		
	In NIS millions		
	1-12/2020	1-12/2019	1-12/2018
Gross loss ratio	66.9%	66.9%	60.5%
Retention loss ratio	66.9%	66.9%	60.5%
Gross combined ratio	96.4%	96.0%	89.9%
Retention combined ratio	96.4%	96.0%	89.9%

	Property and other subsegments		
	In NIS millions		
	1-12/2020	1-12/2019	1-12/2018
Gross loss ratio	40.7%	32.9%	51.3%
Retention loss ratio	37.8%	26.0%	33.1%
Gross combined ratio	68.9%	60.9%	79.1%
Retention combined ratio	76.4%	62.1%	66.8%

5.8. **Financial services segment**

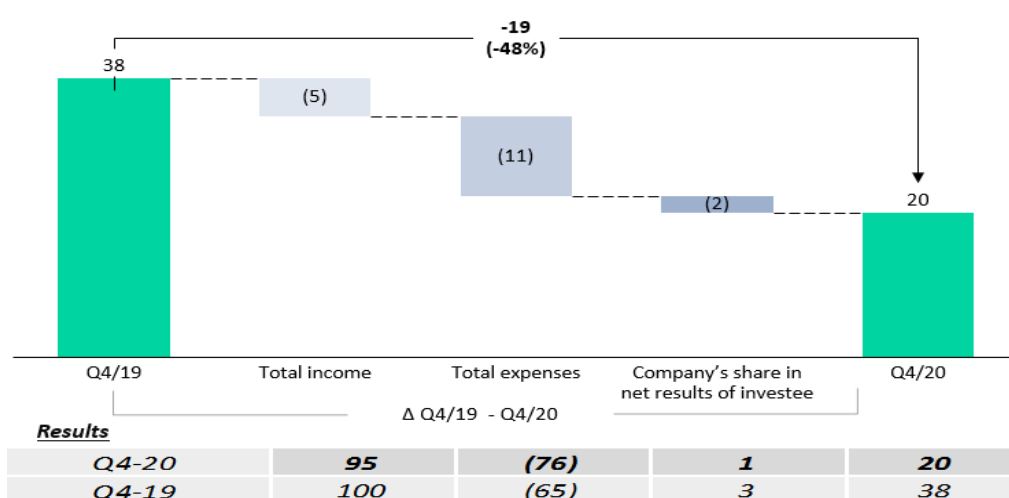
Most of the segment's activities are carried out through Excellence.

Set forth below is an analysis of the main effects and changes on the results of financial services for the reporting year compared to last year (in NIS million):



The increase in comprehensive income before tax is mainly due to an increase in market-making activities in the ETFs and stock exchange member, despite the decrease in total assets under management as a result of the spread of the coronavirus and declines in financial markets, which resulted in a decrease in income from management fees and a recording of a gain - last year - from revaluation of an investee consolidated for the first time due to the Company assuming control, in the amount of NIS 29 million.

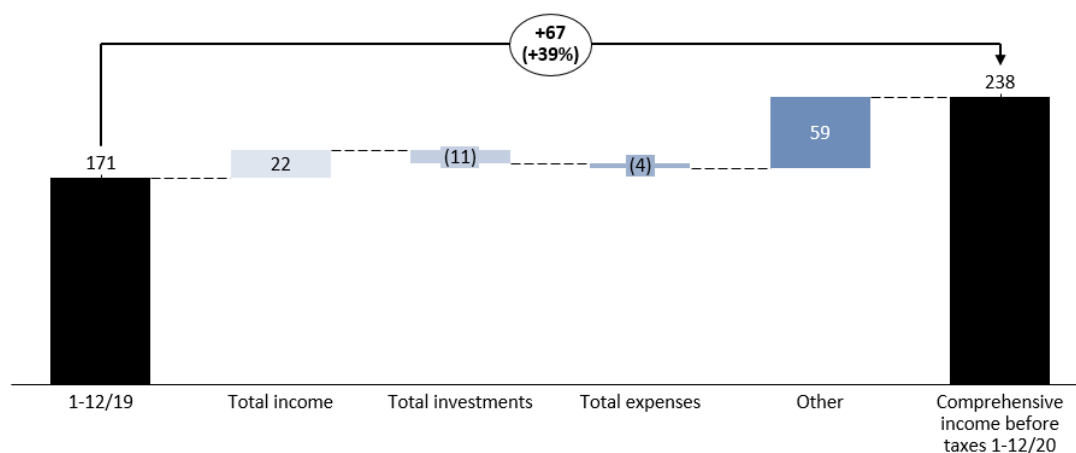
Set forth below is an analysis of the main effects and changes on the results of the financial services segment for the fourth quarter compared to the corresponding quarter last year (in NIS million):



The decrease in earnings in the fourth quarter compared with the corresponding quarter last year stemmed mainly from the Company's recognizing a one-off earning as aforesaid in the corresponding quarter last year.

5.9. The insurance agencies segment

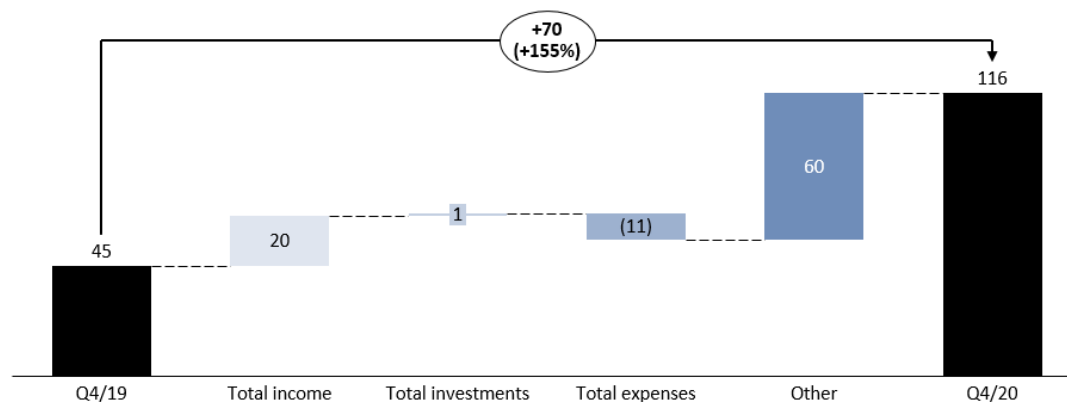
Set forth below is an analysis of the main effects and changes on the results of the insurance agencies segment for the reporting year compared to last year (in NIS million):



Results					
1-12/2020	418	0	(251)	71	238
1-12/2019	395	11	(247)	12	171

Most of the increase in profit is due to a one-off gain from a revaluation of an investment in a company that was first consolidated in the fourth quarter of the year, in the amount of approximately NIS 62 million. Net of said effect, comprehensive income from this segment increased in the reporting year, mainly as a result of growth and an increase in sales.

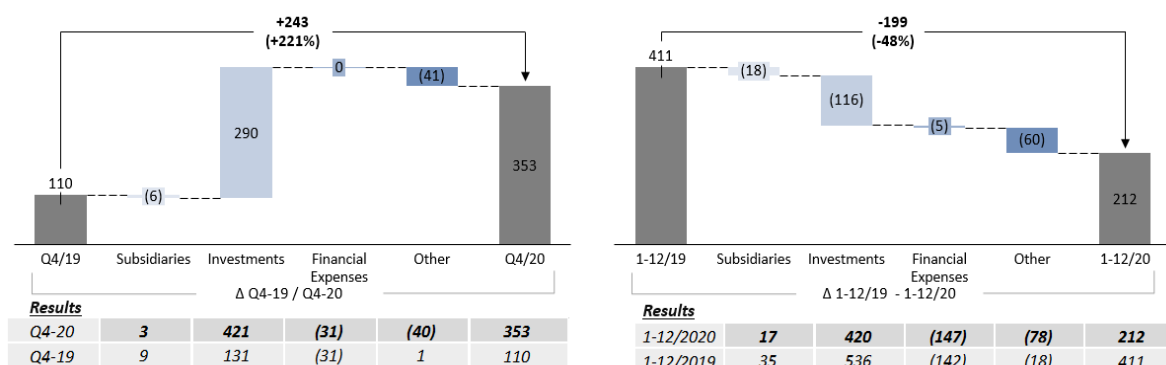
Set forth below is an analysis of the main effects and changes on the results of the insurance agencies segment for the fourth quarter compared to the corresponding quarter last year (in NIS million):



Results					
Q4-20	126	2	(74)	62	116
Q4-19	105	1	(63)	2	45

Most of the increase in profit is due to a one-off gain from a revaluation of an investment in a company that was first consolidated in the fourth quarter of the year, in the amount of approximately NIS 62 million. Net of said effect, there is an increase of approximately NIS 7 million in profit from activity in the field in the fourth quarter, mainly as a result of growth and an increase in sales.

5.10. Other segments and activities not attributed to the operating segments



In the reporting year, comprehensive income other than from the reporting segments totaled approximately NIS 212 million compared to income of approximately NIS 411 million last year. In the fourth quarter, income amounted to approximately NIS 353 million compared with an income of approximately NIS 110 million in the corresponding quarter last year. This change stems primarily from capital market returns, which were lower in the reporting year compared to the returns in the previous year and significantly higher in the fourth quarter compared with the returns in the same quarter last year.

5.11. Analysis of cash flow development

The consolidated cash flows from operating activities in the reporting year amounted to approximately NIS 4,771 million. The consolidated cash flow used in investing activities in the reporting year amounted to approximately NIS 480 million; the principal components of those cash flows were: NIS 233 million used to develop and purchase software, NIS 138 million used to purchase property, plant and equipment, and NIS 87 million used to acquire consolidated companies which were consolidated for the first time.

The consolidated cash flow provided by financing activities in the reporting year amounted to approximately NIS 374 million; those cash flows included, among other things, a total of NIS 585 million arising from issuance of bonds, a total of NIS 389 million arising from receipt of financial liabilities - a REPO transaction of government bonds and zero-coupon bonds, and a total of NIS 555 million used to repay financial liabilities.

The Group's cash and cash-equivalent balances increased from a total of approximately NIS 7,344 million at the beginning of the reporting year to approximately NIS 12,010 million at the end of the reporting year.

6. Disclosure on Exposure to, and Management of, Market Risks

The Group's risk management activities are designed to support and protect the Group against unexpected losses, which may prevent the Group from achieving its business objectives. The existing risk management system is based on fundamental principles of risk management and controls, which include, inter alia, proper involvement and understanding of risk management by the Board of Directors, providing tools for assessing and measuring risk, and putting in place supervision and control measures in respect of those risks. The following chapter presents exposure to market risks; position data and sensitivity tests do not include the insurance company, which accounts for most of the activity in the consolidated company (for a description of the corporation's risks and risk management policies and supervision thereof, please see Note 40 to the Financial Statements).

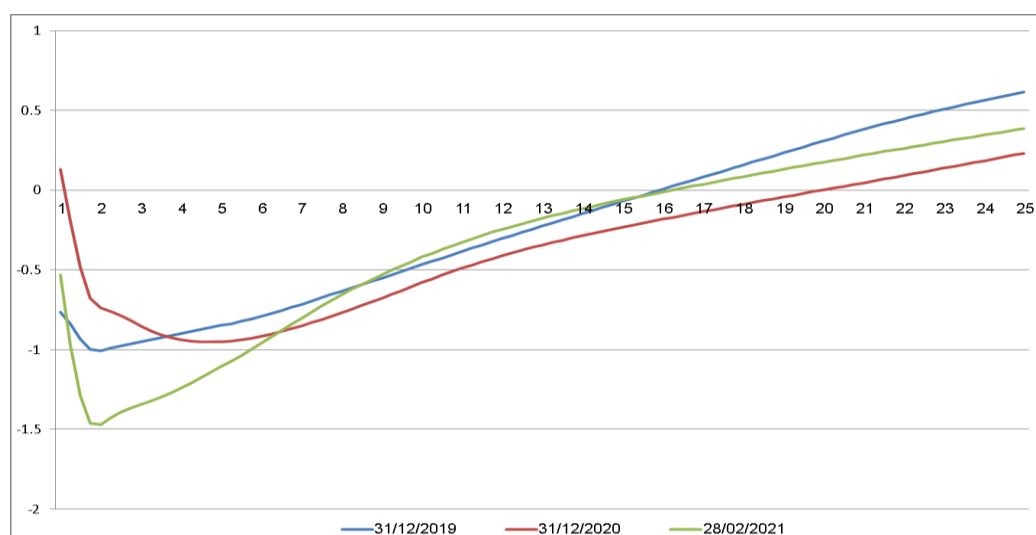
Definitions for this section:

1. The **"Group"** - The Phoenix Holdings, including its consolidated companies, with the exception of The Phoenix Insurance.
2. **"Nostro Assets"** - financial assets held by the Group.
3. **"Nostro Liabilities"** - the Group's financial liabilities.

The person in charge of market risk management in the corporation:

The person in charge of market risk management in the Group is Mr. Amit Netanel. The Chief Risk Officer received the full cooperation of the Company's management and Board of Directors in all matters required to fulfil his duties.

Set forth below is the linked risk-free interest rate curve ("spot")



The following tables summarize the results of sensitivity tests for the nostro assets (as defined above) on comprehensive income before tax, as of December 31 2020. The results are presented in NIS million, and do not include the insurance company:

Risk factor – index-linked interest rate

Type of instrument	Profit (loss) from changes in the risk factor			Fair value	Profit (loss) from changes in the risk factor		
	Absolute value increase of 2%	10% increase	Increase of 5%		Decrease of 5%	Decrease of 10%	Absolute value decrease of 2%
Government bonds	-	-	-	0.1	-	-	-
Corporate bonds	(1.8)	(0.1)	-	33.0	-	0.1	1.9
Capital note to the insurance company	(48.6)	(1.5)	(0.7)	410.8	0.7	1.5	57.8
Total assets	(50.4)	(1.6)	(0.8)	443.8	0.8	1.5	59.7
The Phoenix bonds*	57.1	2.0	1.0	(586.7)	(1.0)	(2.0)	(66.6)
Total liabilities	57.1	2.0	1.0	(586.7)	(1.0)	(2.0)	(66.6)
Total	6.7	0.4	0.2	(142.8)	(0.2)	(0.4)	(6.8)

(*) The value of The Phoenix's bonds under the model is 1.54% lower than their market value (596), the reason being that the credit spread reflected in The Phoenix's bonds is lower than the average risk spread for similarly rated bonds.

Risk factor - NIS-based interest rate

Type of instrument	Profit (loss) from changes in the risk factor			Fair value	Profit (loss) from changes in the risk factor		
	Absolute value increase of 2%	10% increase	Increase of 5%		Decrease of 5%	Decrease of 10%	Absolute value decrease of 2%
Government bonds	(0.1)	-	-	4.6	-	-	0.2
Corporate bonds	(0.3)	-	-	6.7	-	-	0.4
Total assets	(27.2)	(0.8)	(0.4)	290.1	0.4	0.8	32.3
The Phoenix bonds*	(27.6)	(0.8)	(0.4)	301.4	0.4	0.8	32.9
Total liabilities	20.9	0.3	0.2	(544.1)	(0.2)	(0.3)	(23.4)
Total	20.9	0.3	0.2	(544.1)	(0.2)	(0.3)	(23.4)

(*) The value of The Phoenix's bonds under the model is 1.8% lower than their market value (554), the reason being that the credit spread reflected in The Phoenix's bonds is lower than the average spread for similarly rated bonds.

Risk factor - foreign currency (basis risk)*

Type of instrument	Profit (loss) from changes in the risk factor		Fair value	Profit (loss) from changes in the risk factor	
	10% increase	Increase of 5%		Decrease of 5%	Decrease of 10%
Corporate bonds	0.2	0.1	1.9	(0.1)	(0.2)
Cash in foreign currency	0.3	0.2	3.1	(0.2)	(0.3)
Foreign stocks	0.1	-	1.0	-	(0.1)
Total assets	0.6	0.3	5.9	(0.3)	(0.6)
Total	0.6	0.3	5.9	(0.3)	(0.6)

(*) The maximum daily increases and decreases observed in the past 10 years across all relevant currencies were less than 10% in absolute value terms.

Risk factor - Israeli shares (basis risk)*

Type of instrument	Profit (loss) from changes in the risk factor		Fair value	Profit (loss) from changes in the risk factor	
	10% increase	Increase of 5%		Decrease of 5%	Decrease of 10%
Israeli shares	4.9	2.2	49.1	(1.7)	(4.4)
Total assets	4.9	2.2	49.1	(1.7)	(4.4)
Total	4.9	2.2	49.1	(1.7)	(4.4)

(*) The maximum daily increases and decreases observed in the past 10 years across all relevant share indices were less than 10% in absolute value terms.

Risk factor - foreign shares*

Type of instrument	Profit (loss) from changes in the risk factor		Fair value	Profit (loss) from changes in the risk factor	
	10% increase	Increase of 5%		Decrease of 5%	Decrease of 10%
Foreign stocks	0.1	-	1.0	-	(0.1)
Total assets	0.1	-	1.0	-	(0.1)
Total	0.1	-	1.0	-	(0.1)

(*) The maximum daily increases and decreases observed in the past 10 years across all relevant share indices were less than 10% in absolute value terms.

Assumptions underlying the calculations

Fair value: Fair value was calculated using the discounted cash flow model, using the suitable interest rate for the cash flow period. The discount rate was calculated based on the market interest rate for the cash flow period, plus the risk premium derived from the security's rating. Market interest rate data was taken from the database that feeds The Phoenix's risk management system, and risk premium data (credit spreads) were taken from Fair Spread.

Scenarios: Daily historical changes in the past ten years were tested for each of the relevant risk factors (such as exchange rates and shares). The maximum and minimum daily changes were calculated for each risk factor, excluding interest rate risk, for which the calculation was based on a 2% absolute increase/decrease during a single day. This scenario was selected after a study of the yield curve database found that in the past 10 years, no absolute change exceeding 2% was observed in any single day. These changes served as scenarios for potential changes in each of the risk factors. Scenario outcomes were calculated at the single asset level, so as to avoid distorting results by aggregating different instruments.

7. Corporate governance aspects

7.1. Disclosure on directors with accounting and financial expertise

For further details about directors possessing financial accounting expertise, please see the corporate governance questionnaire attached to the corporation's reports.

7.2. Compensation of senior officers

As a rule, contracts with the Company's senior officers comply with the Company's compensation policy and are based on individual agreements between each officer and the Company. These agreements specify the officer's salaries, social benefits, ancillary payments, retirement terms, and post-employment non-compete clauses. All employment terms and conditions are based on the responsibilities and complexities of the officer's position with the Company.

For details concerning compensation paid to the five highest-paid officers in the Company or companies under its control, please see Regulation 21 in the Periodic Report.

7.3. **Disclosure on the percentage of independent directors**

For further details about the percentage of independent directors, please see the corporate governance questionnaire attached to the corporation's reports.

7.4. **Disclosure on the financial statements' approval process in a reporting entity**

Pursuant to the Israel Securities Authority's directive on disclosures required in the Report of the Board of Directors as to the financial statements' approval process in a reporting entity, the corporate organs charged with governance in the corporation should be identified, and disclosure must be made of the procedures implemented by those charged with governance in the corporation, prior to the financial statements' approval. The directive does not apply to insurance companies. The Group's institutional entities are subject to the Supervisor's directives, and accordingly follow Sections 302 and 404 to the Sarbanes-Oxley Act of 2002 (hereinafter - "**SOX**"), including review of work processes and internal controls in institutional entities. The financial statements of the said institutional entities include managers' statements as to the fairness of the financial data presented in the financial statements and the existence and effectiveness of internal controls in relation to these financial statements. For further details, please see Section 5.4 to the Report on the Company's Business.

As part of the review of the financial results, meetings are held which are attended by the CEO, the CFO, division heads and other relevant officers, in which participants discuss material issues concerning financial reporting, including material transactions outside the ordinary course of business, material valuations used in the financial statements, the reasonability of the data and the accounting policies applied.

The Company's Board of Directors is the organ charged with governance and approval of the financial statements. The Company's Board of Directors has appointed a committee to review the financial statements (hereinafter: the "**Balance Sheet Committee**" or the "**Committee**"); the Committee submits to the Board of Directors its recommendations concerning the approval of the financial statements, prior to their approval by the Board. The Committee is not an Audit Committee.

7.5. **Company policies regarding donations/corporate social responsibility**

As an integral part of Israeli society, giving back to the community is at the core of the Company's values, and is something it practices itself and encourages its employees to practice. It is important for The Phoenix to show its appreciation and gratitude to the community in which it conducts its businesses.

The Company supports a broad range of activities in various fields, such as supporting hospitals, disadvantaged youth, aid organizations supporting women and teenage girls, preparation for military service, education and more.

In order to implement its policy in an optimal manner, the Company appointed a Community Relations Committee, which convenes from time to time to assess donation applications submitted to the Company by social organizations and other charities.

The Company is currently developing an up-to-date strategy for engaging with the community, which will reflect The Phoenix's being a leading and innovative company in its community outreach activities, while strengthening its relationship with the community, its involvement therein and its employees' volunteer work.

The Company also opted to focus on a number of additional key areas of activity:

- **Adoption of Armored Corps Battalion 77 of the IDF** - as part of the "Adopt a Soldier" project of Ha'aguda Lema'an Hachayal (the Association for the Wellbeing of Israel's Soldiers).

As part of this activity, in addition to its NIS 100,000 donation for the welfare of the battalion's soldiers, the Company maintains ongoing contact with the soldiers and treats them with special events and gifts; Company employees also visit the soldiers on the ground during training and operations.

- **Assistance to the "Migdal Ohr" network** – a charity with a country-wide network of schools and education programs catering for thousands of at-risk children from all walks of life in Israeli society - from infancy to adolescence. The donation was dedicated to support the foster family program, which is a unique living model for children aged 10 to 12, combining boarding school accommodation alongside a foster family that supports and nurtures the children.

- The **"Phoenix Class"** - in the Hadera Technoda

This science and technology education center provides research, science and technology activities to many children, youth and adults every year.

The center is located at the heart of the Gi'vat Olga neighborhood, which is home to disadvantaged population groups, many of whom are new immigrants from Ethiopia and Caucasus. This educational program constitutes a unique and interactive learning environment. The Phoenix has undertaken to invest in and provide support to one class starting from year one, with the aim of helping these special children to reach academic success.

- **Supporting Yad Vashem** - The Phoenix supports the official world Holocaust remembrance center in order to further knowledge and heritage among all people.
- **The Tal Center** - offers integrative and holistic treatment (combining conventional and alternative medicine) to cancer patients in order to alleviate symptoms of cancer and cancer treatments, and improve patients' quality of life.
- **"Ha'Chevre Ha'Tovim"** - a charity that distributes food parcels to underprivileged families, and provides tools for economic empowerment in order to improve society by doing rather than by talking about it.
- **Pre-military academies** - a range of educational programs participated by youth from the Israeli periphery, aiming to educate for leadership and prepare youth for meaningful army service and life as civilians.
- **The Michal Sela Forum** - works to save lives and fights against domestic violence by thinking "outside the box", advances innovative technological solutions and makes "red flags" signaling an abusive relationship accessible to couples.

The Company's monetary donations in the reporting year amounted to NIS 1,189,060. The donations are made directly to the various organizations pursuant to management's decision.

7.6. **Company's policy regarding negligible transactions**

For further details on the Company's policy regarding negligible transactions, please see Note 41 to the Financial Statements.

7.7. **Internal auditor**

For further details on the internal auditor and the establishment of an internal audit function in the Company – please see Chapter E, Section 5.2 to the Report on the Company's Business and Section 1.3.14.

7.8. **Independent Auditor**

For further details on the Company's independent auditor, please see Chapter E, Section 5.3 to Report on the Company's Business.

8. **Disclosure Provisions Relating to the Corporation's Financial Reporting**

8.1. **Subsequent events**

For further details regarding events subsequent to the balance sheet date, please see Note 43 to the Financial Statements.

8.2. **Provisions concerning preparations for application of the Solvency II Directive**

For further details regarding the Group's preparations for application of the Solvency II Directive, see Section 2.1 of the Report of the Board of Directors and Note 7 to the Financial Statements.

8.3. **Reporting critical accounting estimates**

The Company does not make use of critical accounting estimates, the use of which and/or a reasonable change in which could have a significant impact on the Group's financial position and/or financial performance. For further details, please see Note 2 to the financial statements.

8.4. Dedicated disclosure for the Company's bondholders

Series/issuance date	Bonds Series 3	Bonds Series 4	Bonds Series 5
Rating agency	Midroog / Ma'alot	Midroog / Ma'alot	Midroog / Ma'alot
Rating as of the report date	Aa3.il ilAA /-	Aa3.il ilAA /-	Aa3.il ilAA /-
Par value on issuance date	NIS 272,191,000	NIS 264,000,000	NIS 600,000,000
Interest type	Non-linked	Non-linked	CPI-linked
Nominal interest	2.22%	The Bank of Israel's variable quarterly interest rate plus a 1.28% spread	0.44%
Effective interest rate on issuance date	Approximates the nominal interest	1.7%	0.55%
Listed on the TASE	Yes	Yes	Yes
Principal payment dates	5 equal annual installments of 16.66% on July 31 of each of the years 2022 through 2026, and one installment of 16.7% on July 31 2027.	2 equal annual installments of 12% on July 31 of each of the years 2020 and 2021 and 4 equal annual installments of 19% on July 31 of each of the years 2025 through 2028.	3 equal annual installments of 4% on July 1 of each of the years 2022 through 2024, one installment of 28% on May 1 2028, and 2 equal annual installments of 30% on May 1 of each of the years 2029 through 2030.
Interest payment dates	Semi-annual interest on January 31 and July 31	Quarterly interest on January 31, April 30, July 31, and October 31	Semi-annual interest on May 1 and November 1
Nominal par value as of December 31 2020	NIS 272 million	NIS 264 million	NIS 600 million
Index-linked nominal par value as of December 31 2020	NIS 272 million	NIS 264 million	NIS 600 million
Carrying amount of bonds' outstanding balances as of December 31 2020	NIS 271 million	NIS 262 million	NIS 586 million

Series/issuance date	Bonds Series 3	Bonds Series 4	Bonds Series 5
Carrying amount of interest payable as of December 31 2020	NIS 2.5 million	NIS 0.6 million	NIS 0.4 million
Market value as of December 31 2020 (*)	NIS 287 million	NIS 267 million	NIS 596 million
Series' materiality	The series is material as this term is defined in Regulation 10(b)13(a) of the Securities Regulations (Periodic and Immediate Reports), 1970.	The series is material as this term is defined in Regulation 10(b)13(a) of the Securities Regulations (Periodic and Immediate Reports), 1970.	The series is material as this term is defined in Regulation 10(b)13(a) of the Securities Regulations (Periodic and Immediate Reports), 1970.

(*) The market value includes interest accrued as of December 31 2020.

Early redemption of Series 2 bonds

On August 27 2020, the Company's Board of Directors decided to make a full conditional early repayment of the bonds (Series 2) at the total amount of NIS 368 million, which was implemented on September 29 2020. The full early redemption was conditional upon the completion of a debt raising considered by the Company, through the issuance of its Series 5 bonds by way of a series expansion (hereinafter: the "Condition Precedent") which were offered by way of a uniform offering to the public pursuant to the Company's shelf prospectus published on August 15 2019 bearing the date August 16 2019 (Ref. No.: 2019-01-070590). On September 7 2020, the Condition Precedent for the full early redemption was met; on September 23 2020, the bonds (Series 2) were removed from the indices on the Tel Aviv Stock Exchange. As a result of the said repayment, the Company recorded a loss from early redemption in the amount of approximately NIS 20 million. For further details, see the Company's immediate reports of August 30 2020 and September 7 2020 (Ref. Nos.: 2020-01-095238, 2020-01-098754).

Contractual restrictions and financial covenants

As part of the deed of trust of the Company's Series 3 bonds, the Company undertook not to place a general floating charge on its assets as long as Series 3 bonds are not repaid in full, unless it obtained the bondholders' consent in advance and placed on that date a lien of the same rank in favor of Series 3 bondholders. Furthermore, with respect to Series 3 bonds, the Company assumed restrictions on distribution of dividends and expansion of the bonds series; the Company also undertook to comply with financial covenants whereby

its shareholders' equity will not fall below NIS 2.5 billion for two consecutive quarters, and that the Company's net financial debt to total assets ratio will not exceed 50% for two consecutive quarters. For further details, please see the shelf offering report dated January 22 2018.

As part of the deed of trust of the Company's Series 4 bonds, the Company undertook not to place a general floating charge on its assets as long as Series 4 bonds are not repaid in full, unless it has obtained the bondholders' consent in advance and placed on that date a lien of the same rank in favor of Series 4 bondholders. Furthermore, with respect to Series 4 bonds, the Company assumed restrictions on distribution of dividends and expansion of the bonds series; the Company also undertook to comply with financial covenants whereby its shareholders' equity will not fall below NIS 2.9 billion for two consecutive quarters, and that the Company's net financial debt to total assets ratio will not exceed 50% for two consecutive quarters. For further details, please see the shelf offering report dated May 7 2019.

As part of the deed of trust of the Company's Series 5 bonds, the Company undertook not to place a general floating charge on its assets as long as Series 5 bonds are not repaid in full, unless it has obtained the bondholders' consent in advance and placed on that date a lien of the same rank in favor of Series 5 bondholders.

Furthermore, with respect to Series 5 bonds, the Company assumed restrictions on distribution of dividends and expansion of the bonds series; the Company also undertook to comply with financial covenants whereby its shareholders' equity will not fall below NIS 3.2 billion for two consecutive quarters, and that the Company's net financial debt to total assets ratio will not exceed 50% for two consecutive quarters. In addition, a mechanism for adjusting the rate of change in interest rate due to noncompliance with financial covenants was set: In the event that the Company's shareholders' equity falls below NIS 3.5 billion, the annual interest rate will increase by the rate set in Section 5.9 of the Deed of Trust. For further details, please see the shelf offering report dated February 20 2020.

As of balance sheet date, the Company complies with the financial covenants described above. On December 31 2020, the net financial debt ratio is approximately 12%, and the Company's shareholders' equity as per its standalone financial statements as of December 31 2020, was approximately NIS 7,970 million, which is higher than the above required shareholders' equity. For further details – please see Note 26 to the Company's Financial Statements as of December 31 2020.

The members of the Board of Directors thank the Company's management, employees and agents for their contribution to the Company.

Benjamin Gabbay
Chairman of the Board of
Directors

Eyal Ben Simon
CEO

March 24 2021

Part 3

Financial Statements The Phoenix Holdings



This English translation from the Hebrew version of the report has been made for convenience and information purposes only. In case of any conflict or discrepancy between the terms of this English translation and the original version prepared in Hebrew, the Hebrew version shall prevail. The Company makes no representations as to the accuracy and reliability of the financial information in this English translation.



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**Report of Independent Auditors to the Shareholders of The Phoenix Holdings Ltd.
Regarding Audit of the Components of the Internal Control over Financial Reporting
In accordance with Section 9B(c) to the Securities Regulations
(Periodic and Immediate Reports), 1970**

We have audited components of internal control over financial reporting of The Phoenix Holdings Ltd. and its subsidiaries (hereinafter, jointly: the "Company") as of December 31 2020. These components of internal control were set as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting, and for assessing the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for the said date. Our responsibility is to express an opinion on the components of internal control over financial reporting based on our audit.

Components of internal control over financial reporting were audited by us according to Audit Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of the Components of the Internal Control over Financial Reporting" (hereinafter: Audit Standard (Israel) 911"). These components are: (1) entity level controls, including controls on the preparation process and closing of the financial reporting and general controls of information systems, (2) controls over processes which are very material for the financial reporting and disclosure of the Phoenix Insurance Company Ltd. and other material consolidated companies (hereinafter: the "audited control components").

We conducted our audits in accordance with Auditing Standard (Israel) 911. This standard requires that we plan and perform the audit to identify the audited control components and to obtain reasonable assurance whether these control components have been maintained effectively in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists in the audited control components, as well as reviewing and evaluating the effectiveness of the planning and maintenance of these control components based on the assessed risk. Our audit of these control components included performing such other procedures as we considered necessary under the circumstances. Our audit focused only on the audited control components, unlike internal control of all material processes relating to financial reporting, and therefore our opinion refers only to the audited control components. In addition, our audit did not take into account the mutual effects between the audited control components and those which are not audited, and therefore our opinion does not take into account such possible effects. We believe that our audit provides a reasonable basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and components of internal controls in particular, may not prevent or detect a misstatement. In addition, making projections on the basis of any evaluation of effectiveness is subject to the risk that controls may become inadequate due to changes in circumstances, or that the degree of compliance with the policies or procedures may be adversely affected.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31 2020.

We also audited, in accordance with the generally accepted auditing standards in Israel, the Company's financial statements as of December 31 2020 and 2019 and for each of the three years ended December 31 2020, 2019 and 2018, and our report, of March 24 2021 included an unqualified opinion on these financial statements as well as an emphasis of matter to that which is stated in Note 42 to the consolidated financial statements regarding exposure to contingent liabilities.

**Tel Aviv,
March 24 2021**

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

Report of the Independent Auditor

to the Shareholders of The Phoenix Holdings Ltd.

We have audited the consolidated statements of financial position of The Phoenix Holdings Ltd. (hereinafter – the “Company”) as of December 31 2020 and 2019 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years the last of which ended on December 31 2020. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion of these financial statements based on our audit.

We did not audit the financial statements of certain consolidated subsidiaries, the assets of which have been consolidated and which constitute approximately 1.7% of total consolidated assets as of December 31 2020 and 2019, and the revenues of which are consolidated and constitute approximately 2%, 1.6% and 0.7% of total consolidated revenues for the years ended December 31 2020, 2019 and 2018, respectively. Furthermore, we did not audit the financial statements of equity-accounted companies, the investment in which amounted to NIS 450,245 thousand and NIS 392,955 thousand as of December 31 2020 and 2019, respectively, and the Company's share in the profits of which amounted to NIS 23,212 thousand, NIS 60,827 thousand and NIS 54,675 thousand for the years ended December 31 2020, 2019 and 2018, respectively. The financial statements of the above companies were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those set forth in the Certified Public Accountants (Modus Operandi of Certified Public Accountant) Regulations, 1973. These standards require that we plan and perform the audit in order to obtain a reasonable degree of assurance that the financial statements do not contain material misstatement. An audit involves examining, on a sample basis, evidence supporting the amounts and information included in the financial statements. An audit also involves assessing the accounting principles used, and significant estimates made, by the Board of Directors and management of the Company, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the reports of other independent auditors provide an adequate basis for our opinion.

In our opinion, based on our audit and the reports of the other independent auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31 2020 and 2019 and their results of operations, changes in equity and cash flows for each of the three years in the period ended December 31 2020, in accordance with International Financial Reporting Standards (IFRS), and in accordance with the disclosure requirements set by the Commissioner of the Capital Market, Insurance and Savings in accordance with the Financial Services Regulation (Insurance) Law, 1981.

Furthermore, in our opinion, based on our audit and the reports of other accountants, the financial statements referred to above are prepared in accordance with the Israeli Securities (Preparation of Annual Financial Statements) Regulations, 2010 to the extent that these regulations apply to companies consolidating insurance companies.

Without qualifying our opinion, we would like to draw attention to that which is stated in Note 42 to the financial statements regarding exposure to contingent liabilities.

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel “Audit of the Components of the Internal Control over Financial Reporting”, components of internal control over financial reporting of the Company as of December 31 2020, and our report of March 24 2021 included an unqualified opinion on the effectiveness of these components.

Tel Aviv,
March 24 2021

Kost Forer Gabbay & Kasierer
Certified Public Accountant

Assets	Note	As of December 31	
		2020	2019
		In NIS thousand	
Intangible assets	4	2,016,668	1,760,398
Deferred tax assets	22	55,104	31,523
Deferred acquisition costs	5	1,712,630	1,733,547
Property, plant and equipment	6	861,865	769,665
Investments in associates	7	756,869	717,930
Investment property for yield-dependent contracts	8	1,839,576	1,554,065
Investment property - other	8	2,728,710	2,547,356
Reinsurance assets	16,17	2,531,659	2,347,721
Credit for purchase of securities	9	403,000	307,000
Current tax assets		6,422	356,105
Receivables and debit balances	10	529,792	475,248
Premiums collectible	11	651,825	721,577
Financial investments in respect of yield-dependent contracts	12	65,570,447	64,304,915
Financial investments for holders of deposit certificates and structured bonds	12A	239,000	284,000
Other financial investments:			
Marketable debt assets	13	8,095,468	8,079,279
Non-marketable debt assets	13	14,007,189	12,975,710
Shares	13	1,899,993	1,583,954
Other	13F	3,247,469	2,169,583
Total other financial investments		27,250,119	24,808,526
Cash and cash equivalents in respect of yield-dependent contracts	14A	10,464,216	5,612,435
Other cash and cash equivalents	14B	1,545,903	1,731,709
Total assets		119,163,805	110,063,720
Total assets in respect of yield-dependent contracts	12	78,034,084	71,662,076

The accompanying notes are an integral part of the consolidated financial statements.

	Note	As of December 31	
		2020	2019
		In NIS thousand	
<u>EQUITY</u>	15		
Share capital		309,951	309,951
Premium and capital reserves in respect of shares		833,592	830,437
Treasury shares		(26,411)	-
Capital reserves		913,036	726,936
Retained earnings		5,939,754	4,768,261 (*)
Total equity attributed to the Company's shareholders		7,969,922	6,635,585
Non-controlling interests		111,908	106,939
Total equity		8,081,830	6,742,524
<u>Liabilities</u>			
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts	16	23,469,887	23,192,190 (*)
Liabilities in respect of insurance contracts and yield-dependent investment contracts	17	76,856,913	71,090,877
Liabilities in respect of deferred taxes	22	897,804	795,446 (*)
Liability for employee benefits, net	23	59,362	52,553
Liability in respect of current taxes		63,444	23,861
Payables and credit balances	24	2,452,851	2,126,822
Liabilities in respect of structured products	25	238,000	282,000
Financial liabilities	26	7,043,714	5,757,447
Total liabilities		111,081,975	103,321,196
Total equity and liabilities		119,163,805	110,063,720

(*) Applied retrospectively; for further details, please see Note 2.DD(2) below.

The accompanying notes are an integral part of the consolidated financial statements.

Eli Schwartz
Executive Vice President,
CFO

Eyal Ben Simon
Chief Executive Officer

Benjamin Gabbay
Chairman of the Board of
Directors

Date of approval of the financial statements - March 24, 2021

	Note	For the year ended December 31		
		2020	2019	2018
		In NIS thousand		
Premiums earned, gross	27	10,382,652	11,325,445	10,104,187
Premiums earned by reinsurers	27	1,328,978	1,402,156	1,177,983
Premiums earned - retention	27	9,053,674	9,923,289	8,926,204
Gains on investments, net and finance income	28	5,479,706	9,109,695	1,117,633
Income from management fees	29	1,357,189	1,487,484	826,670
Income from fees and commissions	30	556,051	541,639	483,433
Income from other financial services	31	159,000	143,000	164,558
Other income	32	131,846	86,096	37,826
Total income		16,737,466	21,291,203	11,556,324
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross		12,529,564	18,567,824 (*)	8,521,612 (*)
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts		826,690	954,092	939,957
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	33	11,702,874	17,613,732	7,581,655
Fees and commissions, marketing expenses and other purchase expenses	34	1,750,103	1,918,439	1,753,339
General and administrative expenses	35	1,360,028	1,281,208	1,210,657
Other expenses (income)	37	54,885	16,052	(5,036)
Finance expenses	38	146,509	142,598	179,526
Total expenses		15,014,399	20,972,029	10,720,141
Share in profits of equity-accounted investees	7	39,697	96,920	70,600
Net income before taxes on income		1,762,764	416,094	906,783
Taxes on income	22	553,829	107,818 (*)	237,507 (*)
Net income for the year		1,208,935	308,276	669,276
Attributed to:				
Company's shareholders		1,169,023	271,466	651,459
Non-controlling interests		39,912	36,810	17,817
Net income for the year		1,208,935	308,276	669,276
Earnings per share attributable to the Company's shareholders (in NIS):	39			
Basic earnings per share				
Earnings per ordinary share of NIS 1 par value (NIS)		4.57	1.06 (*)	2.58 (*)
Diluted earnings per share				
Earnings per ordinary share of NIS 1 par value (NIS)		4.57	1.06 (*)	2.58 (*)

(*) Applied retrospectively; for further details, please see Note 2.DD(2) below.

	Note	For the year ended December 31		
		2020	2019	2018
		In NIS thousand		
Net income for the year		<u>1,208,935</u>	<u>308,276</u>	<u>669,276</u>
Other comprehensive income (loss):				
<u>Amounts that will be or that have been reclassified to profit or loss when specific conditions are met</u>				
Net change in fair value of financial assets classified as available for sale, carried to capital reserves		455,703	808,977(**)	(85,311)(**)
Net change in fair value of financial assets classified as available for sale, carried to the income statement		(516,761)	(258,243)	(189,489)
Gain on impairment of financial assets classified as available for sale, carried to the income statement		324,220	62,424 (**)	36,447 (**)
Company's share in net other comprehensive income (loss) of equity-accounted companies		(3,412)	(17,850)	13,032
Tax effect	22	(89,697)	(209,425)	79,329
Total components of net other comprehensive income (loss) subsequently reclassified to profit or loss		<u>170,053</u>	<u>385,883</u>	<u>(145,992)</u>
<u>Amounts that shall not be subsequently reclassified to profit or loss</u>				
Revaluation of property, plant, and equipment	6	17,314	10,188	8,407
Actuarial gain (loss) in respect of defined benefit plans	23	497	(1,508)	(394)
Company's share in net other comprehensive loss of equity-accounted companies		-	-	(48)
Tax effect		(4,190)	(1,834)	(1,714)
Total components of other comprehensive income that shall not be subsequently reclassified to profit or loss.		<u>13,621</u>	<u>6,846</u>	<u>6,251</u>
Total other comprehensive income (loss), net		<u>183,674</u>	<u>392,729</u>	<u>(139,741)</u>
Total comprehensive income for the year		<u>1,392,609</u>	<u>701,005</u>	<u>529,535</u>
<u>Attributed to:</u>				
Company's shareholders		1,352,697	664,215	511,741
Non-controlling interests		39,912	36,790	17,794
Comprehensive income for the year		<u>1,392,609</u>	<u>701,005</u>	<u>529,535</u>

(**) Reclassified.

The accompanying notes are an integral part of the consolidated financial statements.

	Attributed to Company's shareholders											Non-controlling interests	Total equity
	Share capital	Premium and capital reserves in respect of shares	Treasury shares	Retained earnings	Capital reserve from transactions with non-controlling interests	Capital reserve from transaction with controlling shareholder	Capital reserve from share-based payment	Revaluation reserve	Reserve from translation differences	Capital reserve in respect of available-for-sale financial assets	Total		
	In NIS thousand												
Balance as of January 1 2020	309,951	830,437	-	4,768,261 (*)	(43,622)	11,000	40,047	103,463	(19,926)	635,974	6,635,585	106,939	6,742,524
Net income	-	-	-	1,169,023	-	-	-	-	-	-	1,169,023	39,912	1,208,935
Other comprehensive income (loss)	-	-	-	290	-	-	-	13,331	(3,412)	173,465	183,674	-	183,674
Total comprehensive income (loss)	-	-	-	1,169,313	-	-	-	13,331	(3,412)	173,465	1,352,697	39,912	1,392,609
Stock-based compensation	-	3,155	-	-	-	-	4,896	-	-	-	8,051	-	8,051
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(31,971)	(31,971)
Purchase of treasury shares (see Note 15.D)	-	-	(26,411)	-	-	-	-	-	-	-	(26,411)	-	(26,411)
Acquisition of non-controlling interests (see Note 7.D(8))	-	-	-	-	-	-	-	-	-	-	-	(3,000)	(3,000)
Commencement of consolidation (see Note 7.D(3))	-	-	-	-	-	-	-	-	-	-	-	28	28
Transfer from revaluation reserve in respect of revaluation of PP&E, at the depreciation amount	-	-	-	2,180	-	-	-	(2,180)	-	-	-	-	-
Balance as of Dec. 31 2020	309,951	833,592	(26,411)	5,939,754	(43,622)	11,000	44,943	114,614	(23,338)	809,439	7,969,922	111,908	8,081,830

The accompanying notes are an integral part of the consolidated financial statements.

(*) Applied retrospectively; for further details, please see Note 2.DD(2) below.

	Attributed to Company's shareholders										Non-controlling interests	Total equity	
	Share capital	Premium and capital reserves in respect of shares	Treasury shares	Retained earnings	Capital reserve from transactions with non-controlling interests	Capital reserve from transaction with controlling shareholder	Capital reserve from share-based payment	Revaluation reserve	Reserve from translation differences	Capital reserve in respect of available-for-sale financial assets			Total
	In NIS thousand												
Balance as of January 1 2019	309,892	828,221	-	4,976,239 (*)	(43,622)	11,000	36,931	97,441	(2,076)	232,241	6,446,267	114,467	6,560,734
Net income	-	-	-	271,466 (*)	-	-	-	-	-	-	271,466	36,810	308,276
Other comprehensive income (loss)	-	-	-	(979)	-	-	-	7,845	(17,850)	403,733	392,749	(20)	392,729
Total comprehensive income (loss)	-	-	-	270,487	-	-	-	7,845	(17,850)	403,733	664,215	36,790	701,005
Stock-based compensation	-	2,121	-	-	-	-	3,270	-	-	-	5,391	-	5,391
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(44,504)	(44,504)
Transfer from revaluation reserve in respect of revaluation of property, plant, and equipment, at the depreciation amount	-	-	-	1,823	-	-	-	(1,823)	-	-	-	-	-
Exercise of employee options	59	95	-	-	-	-	(154)	-	-	-	-	-	-
Dividend (see Note 15)	-	-	-	(250,000)	-	-	-	-	-	-	(250,000)	-	(250,000)
Distribution of shares of Mehadrin Ltd. as dividend in kind	-	-	-	(230,288)	-	-	-	-	-	-	(230,288)	-	(230,288)
Expiry of a put option for non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	186	186
Balance as of December 31 2019	309,951	830,437	-	4,768,261	(43,622)	11,000	40,047	103,463	(19,926)	635,974	6,635,585	106,939	6,742,524

The accompanying notes are an integral part of the consolidated financial statements.

(*) Applied retrospectively; for further details, please see Note 2.DD(2) below.

	Attributed to Company's shareholders											Non-controlling interests	Total equity
	Share capital	Premium and capital reserves in respect of shares	Treasury shares	Retained earnings	Capital reserve from transactions with non-controlling interests	Capital reserve from transaction with controlling shareholder	Capital reserve from share-based payment	Revaluation reserve	Reserve from translation differences	Capital reserve in respect of available-for-sale financial assets	Total		
	In NIS thousand												
Balance as of January 1 2018	304,574	689,753	(24,669)	4,442,215 (*)	(57,274)	11,000	37,065	92,740	(15,108)	391,265	5,871,561	35,573	5,907,134
Net income	-	-	-	651,459 (*)	-	-	-	-	-	-	651,459	17,817	669,276
Other comprehensive income (loss)	-	-	-	(199)	-	-	-	6,473	13,032	(159,024)	(139,718)	(23)	(139,741)
Total comprehensive income (loss)	-	-	-	651,260	-	-	-	6,473	13,032	(159,024)	511,741	17,794	529,535
Stock-based compensation	-	7,285	-	-	-	-	4	-	-	-	7,289	-	7,289
Issuance of shares	5,250	98,101	-	-	-	-	-	-	-	-	103,351	-	103,351
Transfer from revaluation reserve for revaluation of property, plant, and equipment, at the depreciation amount	-	-	-	1,772	-	-	-	(1,772)	-	-	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,595)	(2,595)
Acquisition of treasury shares	-	-	(19,476)	-	-	-	-	-	-	-	(19,476)	-	(19,476)
Effect of IFRS 15 first-time application	-	-	-	992	-	-	-	-	-	-	992	-	992
Reissuance of treasury shares	-	33,012	44,145	-	-	-	-	-	-	-	77,157	-	77,157
Exercise of employee options	68	70	-	-	-	-	(138)	-	-	-	-	-	-
Dividend	-	-	-	(120,000)	-	-	-	-	-	-	(120,000)	-	(120,000)
Expiry of a put option for non-controlling interests	-	-	-	-	13,652	-	-	-	-	-	13,652	63,695	77,347
Balance as of December 31 2018	309,892	828,221	-	4,976,239	(43,622)	11,000	36,931	97,441	(2,076)	232,241	6,446,267	114,467	6,560,734

(*) Applied retrospectively; for further details, please see Note 2.DD(2) below.

The accompanying notes are an integral part of the consolidated financial statements.

		For the year ended December 31		
		2020	2019	2018
Appendix		In NIS thousand		
<u>Cash flows provided by (used in) operating activities</u>				
		1,208,935	308,276 (*)	669,276 (*)
	(a)	<u>3,562,529</u>	<u>258,257</u>	<u>(1,489,104)</u>
		<u>4,771,464</u>	<u>566,533</u>	<u>(819,828)</u>
<u>Cash flows from investing activities</u>				
		(137,587)	(100,301)	(27,953)
		1,158	-	95
		(44,845)	(137,947)	(86,218)
		13,089	29,896	36,314
	(b)	(86,665)	(37,592)	-
		(3,000)	-	-
		(8,173)	(5,431)	(2,460)
		19,746	2,379	10,434
		<u>(233,430)</u>	<u>(257,756)</u>	<u>(180,892)</u>
		<u>(479,707)</u>	<u>(506,752)</u>	<u>(250,680)</u>
<u>Cash flows from financing activities</u>				
		-	-	103,351
		(26,411)	-	(19,476)
		-	-	77,157
		72,097	12,000	-
		(572,121)	(561,844)	(197,266)
		-	(250,000)	(120,000)
		(41,646)	(35,159)	-
		388,837	-	-
		585,433	1,210,879	766,853
		(31,971)	(44,504)	(2,595)
		-	(800)	(21,250)
		<u>374,218</u>	<u>330,572</u>	<u>586,774</u>
<u>Increase (decrease) in cash and cash equivalents</u>				
		4,665,975	390,353	(483,734)
<u>Balance of cash and cash equivalents at beginning of year</u>				
	(c)	<u>7,344,144</u>	<u>6,953,791</u>	<u>7,437,525</u>
<u>Cash and cash equivalents balance at end of the year</u>				
	(c)	<u>12,010,119</u>	<u>7,344,144</u>	<u>6,953,791</u>

(*) Applied retrospectively; for further details, please see Note 2.DD(2) below.

The accompanying notes are an integral part of the consolidated financial statements.

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
<u>Adjustments required to present cash flows from operating activities (1)</u>			
a. <u>(2):</u>			
<u>Items not involving cash flows</u>			
Net (gains) on financial investments in respect of insurance contracts and yield-dependent investment contract	(4,356,557)	(7,546,336)	86,794
Change in fair value of investment property in respect of yield-dependent contracts	(25,857)	(77,591)	(55,600)
<u>Net (gains) losses on other financial investments</u>			
Marketable debt assets	(166,427)	(234,833)	257,536
Non-marketable debt assets	(581,800)	(603,916)	(317,732)
Shares	24,735	(135,658)	93,703
Other	(228,807)	(232,671)	73,768
Depreciation and amortization	300,140	301,449	251,975
Loss (gain) on disposal of property, plant, and equipment	-	432	(47)
Change in fair value of investment property	(53,004)	(102,186)	(42,051)
Gain on disposal of real estate properties	-	(275)	(691)
Provision for impairment of property, plant and equipment	(7,957)	5,109	-
Gain from remeasurement of investment in an investee consolidated for the first time	(67,268)	(29,000)	-
Change in financial liabilities	853,786	28,959	441,263
Income tax expenses	553,829	107,818 (*)	237,507 (*)
Company's share in the profits of associates, net	(39,697)	(96,920)	(70,600)
Payroll expenses in respect of share-based payment	4,896	3,269	4
<u>Changes in other balance sheet line items, net:</u>		1,916,925	
Change in liabilities in respect of non-yield-dependent insurance contracts	277,697	(*)	785,155 (*)
Change in liabilities in respect of yield-dependent contracts	5,766,036	15,582,740	3,614,818
Change in liabilities for bonds, ETFs	(44,000)	(102,000)	(27,279,937)
Change in financial investments for holders of ETFs, certificates of deposit	45,000	141,000	28,546,292
Change in deferred acquisition costs	20,917	(42,381)	(72,787)
Change in reinsurance assets	(183,938)	(310,782)	(441,162)
Change in liabilities for employee benefits, net	7,306	369	3,134
Change in accounts receivable and collectible premiums	28,325	(151,561)	583
Change in payables and credit balances	306,867	298,898	130,111
Change in credit for purchase of securities	(96,000)	10,000	(122,000)
Revaluation of loans granted to associates	(1,938)	(823)	-
<u>Financial investments and investment property in respect of insurance contracts and yield-dependent investment contracts:</u>			
Acquisition of real estate properties	(259,654)	(52,064)	(47,723)
Proceeds on sale of real estate properties	-	15,226	29,771
Acquisitions of financial investments, net	3,091,025	(7,896,946)	(5,521,993)
<u>Financial investments and other investment property:</u>			
Acquisitions of financial investments, net	(1,264,985)	(249,598)	(1,656,952)
Proceeds on sale of real estate properties	-	6,424	16,239
Acquisition of real estate properties	(128,350)	(170,525)	(45,588)
<u>Cash paid and received during the year for:</u>			
Taxes paid	(354,687)	(292,895)	(443,292)
Taxes received	142,896	168,600	60,398
Total cash flows provided by (used in) operating activities	<u>3,562,529</u>	<u>258,257</u>	<u>(1,489,104)</u>

(1) Cash flows from operating activities include cash flows in respect of acquisition and sale of financial investments and investment property arising from insurance contracts and investment contracts activities.

(2) Cash flows from operating activities include cash flows in respect of dividend and interest received, as described in this appendix

The accompanying notes are an integral part of the consolidated financial statements.

		For the year ended December 31		
		2020	2019	2018
		In NIS thousand		
	<u>Acquisition of consolidated companies consolidated for the first time</u>			
b.	<u>Assets and liabilities of the consolidated companies as of acquisition date:</u>			
	Working capital (excluding cash and cash equivalents)	(4,288)	9,589	-
	Financial assets	-	(876)	-
	Property, plant and equipment, net	(10,710)	(1,415)	-
	Goodwill arising from acquisition	(154,549)	(42,235)	-
	Intangible assets	(83,796)	(54,204)	-
	Deferred taxes	22,012	10,555	-
	Financial liabilities	12,309	109	-
	Minority interests	28	186	-
	Disposal of investment in an associate	78,677	32,000	-
	Liability for payment in respect of acquisition of an investee	6,741	8,699	-
	Loan from parent company	46,911	-	-
		<u>(86,665)</u>	<u>(37,592)</u>	<u>-</u>
c.	<u>Cash and cash equivalents</u>			
	Balance of cash and cash equivalents at beginning of year:			
	Cash and cash equivalents	1,731,709	1,730,520	1,317,703
	Cash and cash equivalents in respect of yield-dependent contracts	<u>5,612,435</u>	<u>5,223,271</u>	<u>6,119,822</u>
		<u>7,344,144</u>	<u>6,953,791</u>	<u>7,437,525</u>
	Balance of cash and cash equivalents at end of year:			
	Cash and cash equivalents	1,545,903	1,731,709	1,730,520
	Cash and cash equivalents in respect of yield-dependent contracts	<u>10,464,216</u>	<u>5,612,435</u>	<u>5,223,271</u>
		<u>12,010,119</u>	<u>7,344,144</u>	<u>6,953,791</u>
d.	<u>Material non-cash activities</u>			
	Recognition of right-of-use asset against a lease liability	(8,383)	(30,620)	-
	Appreciation (impairment) of available-for-sale assets against a capital reserve	263,162	613,158	(159,024)
	Appreciation (impairment) of deferred taxes in respect of available for sale assets against a capital reserve	(89,697)	(209,425)	(79,329)
	Distribution of an investee's shares as dividend in kind (*)	-	(230,288)	-
e.	<u>Breakdown of amounts included in operating activities</u>			
	Interest paid	1,611	5,457	10,818
	Interest received	608,612	631,081	585,487
	Dividend received	32,215	39,704	36,867

(*) For further details, please see Note 15.H.

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - GENERAL**A. Activity of the Reporting Entity**

The Phoenix Holdings Ltd. (hereinafter - the "Company" or "The Phoenix") is an Israeli resident company incorporated in Israel, whose official address is 53 Derech Hashalom St., Givatayim, Israel. The Company's consolidated financial statements as of December 31 2020 include the financial statements of the Company and its subsidiaries (hereinafter, jointly – the "Group") and investments in associates. The Group's main business is insurance, pension and provident funds, and financial services. The securities of the Company are listed for trading on the Tel Aviv Stock Exchange.

B. Control of The Phoenix Holdings

The controlling shareholder of the Company is Belenus Lux S.à.r.l. (hereinafter - "Belenus") which is held by Centerbridge Partners LP and Gallatin Point Capital LLC (hereinafter - the "Funds"). As of the report date, Belenus holds approximately 32.69% of the Company's issued and paid-up share capital. In July 2020, Leolin Lux S.à.r.l., a sister company of Belenus, had purchased a total of 0.33% of the Company's issued and paid-up share capital. As a result, the Funds' ownership interest in the Company's issued and paid share capital is approximately 33.02%. For further details, please see the Company's immediate reports dated July 14 2020 July 22 2020 and October 8 2020 (Ref Nos.: 2020-01-075330, 2020-01-077073 and 2020-01-109887, respectively).

C. Spread of the coronavirus

The reporting year will be remembered as the year of the coronavirus. During January 2020, the coronavirus - which was first detected in China - started spreading, causing morbidity and death among populations all over the world. The effect of the spread led various countries, including Israel, to take steps to stop the spread of the virus and the implications thereof. The spread of the coronavirus (hereinafter - the "Event") has had a fluctuating, material impact on the Group's operations and results during the reporting period.

The spread of the coronavirus led to a series of restrictions, including, inter alia, temporary closure of many businesses as well as movement restrictions, travel restrictions imposed on visitors from various countries, restrictions on attendance at work places and temporary closure of schools. The restrictions - the intensity of which varied throughout the reporting year - resulted in lower economic activity in Israel and around the world, as well as in substantial volatility in financial markets.

1 – GENERAL (cont.)

The restrictions were approved by the government and the Knesset, *mutatis mutandis*, under the Emergency Laws and Regulations, which were revised from time to time in accordance with status assessments.

Due to the nature of its activities, the Group is exposed to volatility in financial markets and to economic slowdown, as well as to insurance risks arising from the Event. For further details on sensitivity and exposure to the risk factors, please see also Note 40 to the financial statements (hereinafter – the “Annual Report”).

It should be noted that since the coronavirus began to spread, the activity in various sectors of the Israeli economy has been unstable and dictated by government decisions. As of the report date, there is an immunization program in place for the entire Israeli population, most of which has already been vaccinated. Notwithstanding the aforesaid, the Israeli economy is yet to return to normal activity; even sectors that have resumed activity are subject to various social distancing restrictions. Therefore, at this stage, there is uncertainty as to the rate of recovery of the Israeli economy. Generally speaking, the above is also true of the state of global markets (except for the vaccination effort, in which Israel is one of the world leaders in terms of the rate of having inoculated its population), which has had an impact on the Group's activity.

The Event affects The Phoenix Group on several levels:

1. Business continuity

The effect of employees' absences from work, and the Group's ability to continue providing a high level of service to its agents, policyholders and businesses and customers, and to continue conducting processes which are essential to the Company's activities. The Company has a business continuity management (BCM) function. The Group operates in accordance with a business continuity plan, under which, among other things, employees can work remotely. Throughout the entire period, the Company continued to provide a fast, efficient and service-oriented response across all operating segments. In order to continue operating from all remote locations, hundreds of computers and technological devices were allocated to employees and managers in order to enable the Company to continue working in an orderly fashion. As of the report date, most of the Company's employees - who have recovered from the virus or have been vaccinated - have resumed their pre-pandemic work patterns.

NOTE 1 – GENERAL (cont.)**2. Financial performance of the insurance activity**

As a result of the Event, The Phoenix Insurance is exposed to an insurance risk that may affect its insurance liabilities and the scope of its activities in the following fields:

a. Life insurance and long-term savings

The principal exposure arises from life insurance policies, and may materialize in a substantial manner. Notwithstanding the aforesaid, and despite the mortality rates of coronavirus patients in Israel, the effect on the Company - as of the report date - is immaterial. It should be noted that in any case, The Phoenix Insurance has a non-proportional reinsurance contract to cover death and disabilities resulting from a catastrophic event. The contract purchased is an excess loss-type contract that protects the accumulation of The Phoenix Insurance's self-insured retention. The subsegments covered are life insurance, permanent health insurance, personal accidents, medical expenses, and travel. In the first quarter of the reporting period, the amount of current premiums declined as a result of the Event. The decrease in collection of current contributions towards benefits paid into pension funds and managers insurance policies is attributed mainly to the decrease in employment rates and to the sharp increase in the number of employees on unpaid leave. It should be noted that this decline has become more moderate since the beginning of the second quarter through the report publication date. Furthermore, at the beginning of the Event, there was an increase in withdrawals from, and redemption of, savings and financial products (mainly advanced education funds and savings products). It should be noted that, as of the report date, this trend has significantly moderated.

b. Health insurance (including long-term care)

As a result of flights abroad coming to an almost complete halt during most of the reporting period, The Phoenix's travel insurance activity was impaired in terms of premium proceeds, which resulted in a loss for the subsegment in the reporting year of approximately NIS 28 million, before tax. This trend continued through the financial statements' publication date. It should also be noted that, from time to time, The Phoenix Insurance adjusted its policy regarding the sale of travel insurance in accordance with the risk assessment for various destinations.

NOTE 1 – GENERAL (cont.)

As to payment of claims and contingent claims, The Phoenix Insurance is covered by reinsurance, which partially covers the exposure arising from claims in respect of travel insurance policies.

It should also be noted that, during the reporting period (mainly in the second quarter), the number of health insurance claims decreased, presumably as a result of activity restrictions imposed due to the coronavirus pandemic.

The Phoenix Insurance estimates that the scope of exposure in travel insurance and health insurance is immaterial. As to flight cancellation insurance, please see Section c.1 under Property and Casualty Insurance.

c. Property and casualty insurance

The Phoenix Insurance is active in the field of flight cancellation insurance, where it is exposed to claims in respect of cancellations resulting from restriction of flights due to the spread of the coronavirus. During the reporting period, The Phoenix recorded a loss of approximately NIS 13 million in respect of the said exposure; the entire aforesaid loss was recorded in the first half of the reporting year.

The Phoenix Insurance is active in the field of professional liability insurance and insurance of directors and officers. In the opinion of The Phoenix Insurance, the number of claims against directors and officers is expected to increase in the near future; however, at this stage, it is impossible to assess the scope of this exposure. Nevertheless, the Company has reinsurance agreements in place in respect of a considerable portion of the exposure.

In the field of insurance for businesses, the Company may face difficulties in collecting premiums and insolvency of the businesses it has insured, which is expected to have an adverse effect on its revenues. At this stage, it is impossible to assess the scope of such an effect.

During the reporting period (mainly in the second quarter), the number of claims decreased (mainly in the motor insurance subsegments) as a result of the restrictions imposed due to the coronavirus pandemic.

NOTE 1 – GENERAL (cont.)

The Phoenix Insurance is exposed to increases in the cost of claims in other property and casualty insurance subsegments, such as motor, property, home insurance, etc., as a result of shortages of raw materials and/or spare parts which will lead to an increase in their price. At this stage, The Phoenix Insurance cannot estimate the scope of the exposure.

A number of motions to approve class action lawsuits were filed against The Phoenix Insurance (and other insurance companies) in connection with motor, home and employers' liability insurance, claiming that the insurance companies in general and The Phoenix in particular should repay policyholders some of the premiums paid to them during the period in which activity was subject to restrictions due to the Event; the applicants claim that, during the relevant period, the insurance risk has ostensibly declined in these insurance segments. For further details, please see Note 42 to the financial statements regarding petitions to approve lawsuits as class actions in Sections 42-45.

d. Exposure to reinsurers

Reinsurers worldwide are expected to suffer heavy losses as a result of the Event. The Board of Directors of The Phoenix Insurance has set maximum exposure limits for the reinsurers whom The Phoenix Insurance has contracted, based on their international ratings. For further details concerning the Company's exposure to reinsurers, please see Section 6.6 in Note 40 to the financial statements.

As of the report publication date, and despite the fact that the majority of Israel's population has been vaccinated, there is still uncertainty as to the Event and the scope of sales of insurance products, the scope of contributions in the various pension savings policies, as well as regarding estimates made by the Company, such as in respect of studies on morbidity, cancellations, and mortality. In view of the above, at this stage, it is impossible to assess the full extent of the Event's impact.

NOTE 1 – GENERAL (cont.)**3. Measurement of assets and liabilities****a. Financial assets**

The operations of the Group expose it to declines in the financial markets and changes in interest rate curves, which affect both the Group's own (nostro) investments and the management fees collected in respect of the management of the assets of planholders of participating policies and planholders of pension funds and provident funds.

The income from investments that offsets insurance reserves and share capital has a material effect on the financial performance. As a result of the decline in financial markets in Israel and globally during the first quarter of the reporting year, the value of the Group's nostro assets decreased by NIS 835 million. On the other hand, later in the year, financial markets in Israel and around the world rallied, resulting in a NIS 2,270 million increase in the Group's nostro assets. As a result, the Company recorded a profit of approximately NIS 1,435 million in the reporting period before tax and the depreciation effect.

Furthermore, the Company tested for impairment non-marketable equity assets and real estate properties, for which there were clear indications of material impairment due to the Event, while exercising proper professional judgment.

The impairment testing included, among other things, specific testing of real estate properties, including reliance on an opinion issued in connection with the applicable discount rate and enquiries with asset managers to assess the indications for impairment. As a result of the impairment testing in the reporting period as aforesaid, during the first quarter, the Company recorded impairment of approximately NIS 100 million (before tax) in respect of non-marketable assets in its nostro portfolio, and impairment of approximately NIS 283 million (before tax) in respect of participating policies. It should also be noted that the said impairment in participating policies as aforesaid did not affect the financial performance as presented in the financial statements. Most such impairments were reset as of the report date.

NOTE 1 – GENERAL (cont.)

Furthermore, during the first quarter of the reporting year, total assets under management by the Group under yield-dependent insurance policies, provident funds and pension funds decreased by approximately 10.1%. As of the report date, there is an 8.5% increase in total assets under management compared to December 31 2019. This increase is mainly due to higher yields.

As of the report date, due to the rally in capital markets, the Company covered the full amount of accumulated real investment losses incurred by policyholders as of September 30 2020, in the amount of NIS 110 million, and charged variable management fees in the fourth quarter.

For additional information on the market risks to which The Phoenix Insurance is exposed and on the results of sensitivity tests relating to market risks, please see Note 40.

b. Financial liabilities

Following the Event, on March 15 2020, the Bank of Israel extended authorized entities (pension funds, provident funds, mutual funds and insurance companies) a request for proposal for reverse repurchase (REPO), purchase and reverse repurchase sale of government bonds and zero-coupon bonds. As of the report date, The Phoenix Insurance entered into a REPO transaction totaling approximately NIS 389 million.

c. Fair value measurement of tangible and intangible assets

For information on testing for impairment of intangible assets, including goodwill, please see Note 4 below. As to the effect of changes in the excess of the value of non-marketable assets used to calculate the insurance liabilities in the health insurance segment and property and casualty segment, please see Note 40.

4. Liquidity, financial position and funding sources

An assessment carried out by the Company led to the conclusion that the Event has had no material effect on the Company's liquidity, its financial strength and funding sources; it was also found that the Company complies with any contractual restrictions and financial covenants set in the deeds of trust. For details about the financial covenants of the bonds and delaying circumstances of the promissory notes, please see Note 26 to the financial statements.

NOTE 1 – GENERAL (cont.)

In March 2020, Midroog published a "Special Report - Sector Comments" for insurance companies, whereby, as estimated by Midroog, the adverse effects of the coronavirus on insurance companies increase their credit risks, but at the same time, these companies have the capacity to absorb losses, a very low liquidity risk and a long average duration of liabilities providing them with relatively high flexibility for coping with stress events.

For information regarding the ratings of the Company and The Phoenix Insurance, please see Note 26.

5. Additional activities**Senior housing**

Senior citizens are the population group with the highest risk to suffer from complications of coronavirus infections; therefore, the virus presents an increased risk to those living in assisted living facilities. As of the report date, the residents and employees of Ad 120 have been vaccinated; therefore, the risk of infection has decreased. However, Ad 120 continues its testing routine in order to take good care of the residents and employees of Ad 120. When assessing the fair value of investment property, Ad 120's management identified that a slowdown in the rate of marketing of residential units is expected in the short-term; accordingly, the occupancy rates in the reporting year was down from 90% in 2019 to 88.2% in the reporting year. Nevertheless, if the crisis does not continue, Ad 120's management expects that in the long-term, demand for residential units will not be adversely impacted, and therefore there will be no material changes in the turnover rates. In the opinion of the Company, at this stage, there are no market input that justify a material change in the assumptions made, including the discount rates.

NOTE 1 – GENERAL (cont.)**Financial services**

At the beginning of the crisis, mainly during the first quarter of the reporting year, the Company recorded significant impairments and experienced significant redemptions, mainly in mutual funds. As of the second quarter of the reporting year, total assets under management increased as a result of an appreciation of the assets and raisings, mainly in mutual funds. The value of total assets under management by the mutual funds, as of the report date, is higher than its pre-crisis level. The value of total assets under management by mutual funds was up by NIS 3.3 billion compared to as of December 31 2019 and there was no material change in the value of assets under management compared to December 31 2019.

Insurance agencies

The scope of activity in the agencies segment was not materially affected, except for the effect of declines in financial markets that caused investment losses during the reporting period, at amounts which are immaterial to the Group.

6. Additional actions taken by the Group

On March 25 2020, The Phoenix Insurance and the Phoenix Employees Workers' Committee signed an agreement which was revised by signing a new collective agreement on June 30 2020; for further details, please see Note 23.F to the financial statements.

The above is based on information available to the Company as of the report publication date. It should be noted that Event's impact on the scope of business activity in Israel and around the world is yet to be determined; therefore, the Group's results may be further impacted in the future.

It should also be clarified that the Company's assessments of the potential implications of the spread of the coronavirus on its operations are uncertain and are not under its control. These assessments are based, inter alia, on publications on the topic in Israel and around the world, and on the measures taken by world countries in order to deal with the spread of the virus, as well as Group management's assessments of potential measures for dealing with the various effects, bearing in mind, inter alia, existing barriers (or the absence of such barriers) on the Group's ability to cope with such effects, and accordingly, their materialization is uncertain. These assessments may not materialize, in whole or in part, or may materialize in a different manner, including in a materially different manner, from that which is expected.

NOTE 1 – GENERAL (cont.)

The Group continues to monitor developments in Israel and globally on an ongoing basis, and will continue to report, as required, on material effects of the spread of the coronavirus on the Group's operations, if any.

D. Merger of the pension funds management company with the provident funds management company

On March 31 2019, the Board of Directors of The Phoenix Insurance decided to merge subsidiaries The Phoenix Pension and Excellence Gemel, such that the receiving company shall be Excellence Gemel. The merger was completed on June 30, 2019. Following the merger, the pension funds managed by The Phoenix Pension Ltd. were transferred to the management of Excellence Gemel & Hishtalmut Ltd., making Excellence Gemel the management company for all of The Phoenix Group's provident and pension funds. Following the merger, as aforesaid, Excellence Gemel & Hishtalmut Ltd. was renamed The Phoenix Excellence Pension and Provident Funds Ltd.

E. Distribution of The Phoenix Excellence Pension and Provident Funds Ltd.'s shares

On December 30, 2019, the Board of The Phoenix Insurance Ltd. approved the distribution of the shares of The Phoenix Excellence Pension and Provident Funds Ltd., constituting approximately 100% of the issued and paid-up share capital of The Phoenix Excellence as dividend in kind to the Company. The actual distribution of the dividend is subject to approval by the Israel Tax Authority and the Capital Market, Insurance and Savings Authority. As of the report publication date, the Capital Market, Insurance and Savings Authority has given approval to execute the distribution, but no such approval has been received as yet from the Israel Tax Authority. For additional details, please see the immediate report of the Company dated December 31, 2019 (Ref. No. 2019-01-126166).

F. Acquisition of Halman-Aldubi Investment House Ltd.

On December 7 2020, the Company entered into a merger agreement with Halman-Aldubi Investment House Ltd. (hereinafter: "Halman-Aldubi"). Under the merger agreement, a reverse triple merger was carried out, with Halman Aldubi becoming a private company wholly owned by the Company. The consideration of the transaction is NIS 275 million. On February 28 2021, upon meeting the conditions precedent, the merger was completed.

NOTE 1 – GENERAL (cont.)

Total assets under management by Halman Aldubi as of December 31 2020 is approximately NIS 64 billion.

For further details, please see Note 7.

G. Examining the possibility of selling Ad 120

In January 2021, The Phoenix Insurance's Board of Directors decided to examine the possibility of selling its control stake in Ad 120, as part of the execution of its multi-year strategic plan. As of the report date, the Company is acting to implement the aforesaid with the assistance of an investment bank with which the Company has entered into an agreement in this matter. For further details, please see the Bank's immediate report dated January 28 2021 (Ref. No.: 2021-01-011200). For further details, please see Note 7.

H. Gama - IPO and assuming control

The Phoenix Investments, a subsidiary of the Company, holds 49% of Gama shares as of the report publication date.

In January 2021, Gama informed the Israel Securities Authority of its intention to apply for a prospectus publication permit. The Phoenix Investments intends to acquire additional Gama shares as part of an issuance, such that following the issuance, The Phoenix Investments will hold at least 50% of Gama's shares, fully diluted. To the extent that the issuance will indeed proceed and the Company will gain control over Gama, the Company is expected to record a one-off capital gain, depending on the issuance proceeds. It shall be clarified that the information stated in this section is forward-looking information, and there is no certainty that Gama will indeed complete the issuance and become a publicly-traded company.

NOTE 1 – GENERAL (cont.)**I. Definitions**

In these financial statements –

The Company	The Phoenix Holdings Ltd.
The Group	The Phoenix Holdings Ltd. and its consolidated companies.
The Phoenix Insurance	The Phoenix Insurance Company Ltd., a wholly-owned subsidiary.
The Phoenix Investments	The Phoenix Investments and Finance Ltd., a wholly-owned subsidiary.
Ad 120	Ad 120 Residence Centers for Senior Citizens Ltd.
Excellence	Excellence Investments Ltd., a subsidiary of Phoenix Investments Ltd., is a wholly-owned subsidiary of the Company.
The Phoenix Excellence Pension and Provident Funds Ltd.	The Phoenix Excellence Pension and Provident Funds Ltd., a wholly-owned subsidiary of The Phoenix Insurance. As for the restructuring, please see Note 7
The Phoenix Capital Raising	The Phoenix Capital Raising (2009) Ltd., a wholly-owned subsidiary of The Phoenix Insurance.
The Phoenix Agencies	The Phoenix Insurance Agencies (1989) Ltd., a wholly-owned subsidiary of the Company as from April 18 2019; until then, it was wholly-owned by The Phoenix Insurance. As for the restructuring, please see Note 7
Delek Group	Delek Group Ltd., the parent company of the Company until November 4, 2019.
Belenus Lux S.a.r.l	The controlling shareholder, held in directly by Centerbridge Partners LP and Gallatin Point Capital LLC (hereinafter - the "Funds").
Leolin Lux S.a.r.l	Holds 0.33% of the Company's share capital and is indirectly held by the Funds through a chain of companies.
Consolidated companies/subsidiaries	Companies or partnerships whose financial statements are consolidated, directly or indirectly, with the financial statements of the Company

NOTE 1 – GENERAL (cont.)

Associates	Companies over the financial and operating policies of which the Company has significant influence, but not control, and the Company's investment in which is presented in the Company's consolidated financial statements based on the equity method.
Investees	Consolidated companies, and companies or partnerships, the Company's investments in which are included in the financial statements based on the equity method.
Related parties	As defined by IAS 24, Related Parties.
Interested parties and controlling shareholder	As defined in the Securities Regulations (Annual Financial Statements), 2010.
The Supervisor or Commissioner	The Commissioner of the Capital Market, Insurance and Savings
The Supervision	Supervision of Financial Services (Insurance) Law, 1981
The Capital Regulations	Regulations Concerning Supervision of Financial Services (Insurance) (Minimum Capital Required of an Insurer), 1998, including amendments thereto.
Investment Rules	Regulations Concerning Supervision of Financial Services (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012, and the circular entitled Investment Rules Applicable to Institutional Entities.
Reporting Regulations	Regulations Concerning Supervision of Insurance Business (Reporting), 1998, and amendments thereto.
Insurance contracts	A contract under which one party (the insurer) assumes a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insurance event) adversely affects the policyholder.
Investment contracts	Policies that do not constitute insurance contracts.
Yield-dependent contracts	Insurance contracts and investment contracts in the life and health insurance segments in which the liabilities for the savings or risk components are linked to the yields on the investment portfolio (participating policies), or are derived from such contracts.
Assets for yield-dependent contracts	Total assets against liabilities arising from yield-dependent contracts.
Reinsurance assets	Reinsurers' share in insurance reserves and contingent claims.

NOTE 1 – GENERAL (cont.)

Liabilities in respect of insurance contracts Insurance reserves and contingent claims in life insurance, property and casualty insurance and health insurance.

Premiums Premiums including fees.

Premiums earned Premiums relating to the reporting period.

Amendment 28 Amendment 28 regulates the conversion of exchange-traded notes to exchange-traded funds (ETFs). The ETFs confer the right to receive yields arising from the rate of change in the price of an index or a commodity, to tracking funds, which are mutual funds based on management of other people's money, in order to achieve an optimal result in accordance with the fund's investment policy, aiming to achieve results from the rate of change in the price of the index or a commodity constituting their underlying asset (tracking funds)

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES**A. Basis of presentation**

The financial statements of the Company have been prepared on a cost basis, except for investment property, a class of land and buildings included in property, plant and equipment, available-for-sale financial assets, financial assets and liabilities (including derivative instruments), presented at fair value through profit and loss and insurance liabilities.

For further information about the measurement of these assets and liabilities, please see Sections J-N below.

B. Statement of compliance with International Financial Reporting Standards

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter - "IFRS"). The financial statements have been prepared in accordance with the disclosure requirements prescribed by the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereinafter, and the Securities Regulations (Preparation of Annual Financial Statements), 2010, insofar as these regulations apply to insurance companies.

The accounting policies applied to the financial statements have been applied consistently across all the periods presented, unless stated otherwise.

C. Significant considerations, estimates and assumptions used in the preparation of the financial statements**The considerations**

In applying the Group's principal accounting policies, management took into account the following issues, which have the most material effect on the amounts recognized in the financial statements:

1. Classification of insurance contracts and investment contracts

Insurance contracts are contracts in which the insurer assumes a significant insurance risk from another party. For each contract, or class of similar contracts, management considers whether they embody a significant insurance risk and should therefore be classified as either insurance contracts or investment contracts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**2. Classification and designation of financial investments**

The Group's management exercised judgement in classifying and designating the financial investments into the following classes:

- Financial assets measured at fair value through profit or loss.
- Held-to-maturity investments.
- Loans and receivables.
- Available-for-sale financial assets.

Please see Note 2.K.

Estimates and assumptions

Preparation of the financial statements requires management to use estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and their underlying assumptions are reviewed on an ongoing basis. Changes in the accounting estimates are charged in the period in which the change in estimate is made.

When formulating accounting and actuarial estimates used in the preparation of the Group's financial statements, the Group's management is required to make assumptions regarding circumstances and events involving considerable uncertainty. When exercising its judgement to determine the estimates, the Group's management relies on past experience, various facts, external circumstances, and reasonable assumptions, including expectations as to the future, where it is possible to formulate such expectations, according to the relevant circumstances of each estimate.

It is clarified that actual results may differ from these estimates, inter alia due to regulatory changes published or expected to be published in the areas of insurance, pension, and provident funds, and there is uncertainty as to the manner of their realization and implications.

Following are the main assumptions used in the financial statements concerning uncertainties as of the balance sheet date, and critical estimates calculated by the Group. Significant changes in those estimates and assumptions may change the value of assets and liabilities in the financial statements in the subsequent year:

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**1. Liabilities in respect of insurance contracts**

These liabilities are based on actuarial valuation methods and on estimates as to demographic and economic variables. The various actuarial valuations and the assumptions are mainly derived from past experience and are based on the fact that past behavior patterns and claims represent what will happen in the future. Changes in risk factors, prevalence or severity of events, as well as changes in the legal situation could have a material effect on the amounts of liabilities in respect of insurance contracts. For further information, please see Note 40(5).

For information about changes in principal assumptions used to calculate insurance liabilities in life and health insurance, please see Note 21 and Note 40.

2. Contingent liabilities

Several lawsuits and petitions to approve lawsuits as class actions are pending against the Group. When assessing the chances lawsuits filed against the Company and its investees, the companies relied on the opinions of their legal counsel. These opinions are issued based on the best of the legal counsels' professional judgment, and take into account the current stage of the proceedings as well as legal experience gained on various matters. Since the outcomes of the lawsuits will ultimately be determined in the courts, these outcomes may differ from the assessments provided by legal counsel. For further information, please see Note 42.

In addition to the aforesaid claims, the Company is exposed claims/lawsuits that have not yet been claimed/filed, where, among other things, there is doubt as to the interpretation of an agreement and/or the provisions of the law and/or the manner of their implementation. This exposure is brought to the attention of the Company and its investees in several ways, including through customers' contacting the Group's functions, in particular the Group's ombudsman, through customers' complaints to the Public Enquiries Unit in the Commissioner's office, and through lawsuits (other than class action lawsuits) filed with the courts. These issues are brought to the attention of the Group's management to the extent the relevant functions identify that the claims might have wide-ranging implications.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

When assessing the risk arising from claims/lawsuits that have not yet been filed, Group companies rely on internal assessments of the relevant parties and management, which assess the chances that a lawsuit will be filed and the prospects of its success if filed. The assessment is based on experience gained with respect to the filing of lawsuits and an analysis of each claim on its merits. In view of the preliminary stage of the legal proceedings, the actual outcome could differ from the assessment made before the lawsuit was filed.

3. Determining the fair value of non-marketable debt assets

The fair value of non-marketable bonds, loans and deposits 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.

4. Impairment of financial investments

When there is objective evidence of impairment of loans and receivables presented at amortized cost, or where the value of available-for-sale financial assets is impaired, the amount of the loss is recognized in profit or loss; please see Note 13.

At each balance sheet date, the Group reviews whether there is objective evidence as described above.

5. Investment property

Investment property that can be measured reliably is presented at fair value at the reporting date with fair value changes carried to profit or loss. The fair value is usually determined by external and independent appraisers based on economic valuations, which include the use of valuation techniques and assumptions as to estimates of projected future cash flows from the property and an estimated discount rate adequate for these cash flows. Where possible, fair value is determined in relation to recent real estate transactions involving properties with characteristics and locations similar to those of the assessed property.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

When measuring the fair value of investment property, the Company's appraisers and management use certain assumptions as to rates of return required in respect of the Group's properties, future rental prices, occupancy rates, contract rates, probability of leasing vacant spaces, operating expenses for the properties, the tenants' financial strength and the consequences arising from investments requiring future development, in order to assess the future cash flows from the properties. Changes in assumptions used to measure investment properties may result in a change in fair value. Please see Note 8 below.

6. Reliable measurement of investment property under construction

To assess whether the fair value of an investment property under construction may be reliably measured, the Group takes into account, inter alia, the following relevant criteria:

1. Whether the real estate property under construction is located in an area where the market is developed and liquid.
2. Price quote from recent transactions or previous assessments, for acquisition or sale purposes, of properties in a similar condition and location.
3. Signing a construction agreement with a construction contractor.
4. Obtaining building permits.
5. Percentage of land designated for rent which has been leased in advance to tenants.
6. A reliable estimate of construction costs.
7. A reliable estimate of the value of the finished property.

When an assessment of the above criteria shows that the fair value of an investment property under construction can be reliably measured, the property is measured at its fair value in accordance with the Group's policy regarding investment property. When reliable measurement is impossible, investment property under construction is measured at cost less impairment loss, if any.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**7. Impairment of goodwill**

The Group tests goodwill for impairment at least once a year. This requires management to assess the expected future cash flows from continued use of the cash-generating unit to which goodwill has been allocated. Management is also required to estimate the appropriate discount rate for these cash flows. Please see Note 4 below.

8. Determining recoverability of deferred acquisition costs

The recoverability of deferred acquisition costs is reviewed once a year using assumptions as to cancellation, mortality and morbidity rates and other variables. If the costs cannot be recovered under these assumptions, the Group may need to accelerate the amortization or even write-off the deferred acquisition costs. Please see Note 5.

9. Revaluation of property, plant and equipment

The Group measures buildings and land constituting property, plant and equipment at revalued amounts, and fair value changes are recognized in other comprehensive income. The Group contracted an independent external appraiser to estimate fair value as of December 31 2020. Buildings and land are valued based on evidence available in the market, using comparable prices adapted to specific market factors such as the type, location and condition of the assets. Please see Note 6.

10. Deferred tax assets

Deferred tax assets are recognized in respect of carryforward losses for tax purposes and temporary differences which have not yet been utilized, provided that a future taxable income is expected against which they can be utilized. An estimate by management is required in order to determine the recognizable tax asset amount, that is based on the timing and taxable income amount expected and on the tax planning strategy.

11. Determining the fair value of share-based payment transactions

The fair value of share-based payment transactions is determined upon initial recognition, using an accepted option pricing model. The model is based on share price and exercise price inputs and on assumptions regarding expected volatility, expected life and expected dividend.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**D. Financial statements structure and operating cycle period**

The Group's ordinary operating cycle generally exceeds one year, in particular for life insurance and long-term savings, long-term care, illness and hospitalization insurance, and property and casualty insurance in the liability and compulsory motor insurance sectors.

The consolidated statements of financial position, which include mainly the assets and liabilities of the consolidated insurance company, were presented according to liquidity, with no distinction made between current and non-current assets. This presentation, which provides more relevant information, is consistent with IAS 1, Presentation of Financial Statements.

E. Functional currency and foreign currency**1. Functional currency and presentation currency**

These financial statements are presented in NIS, which is the Company's functional currency, rounded to the nearest thousand. This currency best reflects the economic environment in which the Company operates.

The assets and liabilities of an investee that is a foreign operation, including excess of cost generated, are translated at the closing exchange rate at each reporting date. Profit or loss items are translated at average exchange rates for the presented periods. Translation differences generated are charged to other comprehensive profit (loss).

When a foreign operation is fully or partially disposed of, such that control is lost, the cumulative profit (loss) relating to that operation, that was recognized as other comprehensive income or loss, is carried to profit or loss. When a foreign operation is partially disposed of, while retaining control in the consolidated company, a proportionate part of the amount that was recognized in other comprehensive income is re-attributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency

Transactions denominated in foreign currency (a currency other than the functional currency) are recorded upon initial recognition at the exchange rate on the date of the transaction. Subsequent to initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each balance sheet date into the functional currency at the exchange rate as of that date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Exchange rate differentials, other than those capitalized to qualifying assets or charged to equity in hedging transactions, are carried to the income statement. Non-monetary assets and liabilities presented at cost are translated at the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currency and presented at fair value are translated into the functional currency at the exchange rate prevailing on the date on which the fair value was determined.

3. Monetary items linked to the Consumer Price Index

Monetary assets and liabilities linked to changes in the Israeli Consumer Price Index (the "CPI") are adjusted in accordance with the relevant CPI on each reporting date according to the terms and conditions of the agreement.

F. Cash and cash equivalents

Cash comprises cash balances available for immediate use and call deposits. Cash equivalents include highly liquid short-term investments, which can be easily converted into known amounts of cash and are exposed to an insignificant risk of changes in value and are not restricted by pledges.

G. Consolidated financial statements, business combinations and goodwill

1. The consolidated financial statements include the statements of companies that are controlled by the Company (subsidiaries). Control exists when a company has the power to influence the investee, exposure, or rights, to variable returns from its involvement with the investee, as well as the ability to use its power to affect the amounts of its return from the investee. When assessing control, potential voting rights are taken into account only if they are substantive. The financial statements are consolidated from the date on which control is gained until the date on which control ceases.

The financial statements of the Company and its subsidiaries are prepared as of the same dates and periods. The accounting policies in the financial statements of the subsidiaries were applied uniformly and consistently with those applied in the Company's financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Intra-group balances and any unrealized income and expenses arising from intra-group transactions, were eliminated in the preparation of the consolidated financial statements. Unrealized gains arising from transactions with associates and entities under joint control were eliminated against the investment based the Group's interests in these companies. Unrealized losses were eliminated in the same way as unrealized gains, but only to the extent that there was no evidence of impairment.

2. Business combinations are accounted for using the acquisition method. The cost of acquisition is measured at the fair value of the proceeds transferred at acquisition date, plus any non-controlling interests in the acquiree. In any business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value at acquisition date or in accordance with the proportionate share in the fair value of the net identified assets of the acquiree.

Direct acquisition costs are carried to the income statement as incurred.

In a business combination carried out in stages, the acquirer's equity interest held in the acquiree prior to obtaining control is measured at fair value as of acquisition date, and any revaluation of the previous investment is recognized in the income statement at the date control was obtained.

Contingent consideration is recognized at its fair value at acquisition date. Contingent consideration is classified as a financial asset or liability according to IAS 39. Subsequent changes in the fair value of the contingent consideration are recognized in the income statement. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent measurement.

Goodwill is initially measured at cost, which represents the difference between the acquisition consideration and the amount of non-controlling interests and net identified assets acquired and liabilities assumed. If the resulting amount of goodwill is negative, the acquirer will recognize the resulting gain on acquisition date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**3. Non-controlling interests****Measurement of non-controlling interests on the business combination date**

Non-controlling interests in subsidiaries represent that portion of the subsidiaries' equity that cannot be attributed to the parent company, whether directly or indirectly. Non-controlling interests are presented separately under the Company's equity and are measured at fair value on the business combination date, or according to their proportionate share in the identified assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Implementing this accounting policy is not allowed for other instruments that meet the definition of non-controlling interests (such as options for ordinary shares). These instruments are measured at fair value or in accordance with other relevant IFRSs.

Allocation of comprehensive income to the shareholders

Profit or loss and any component of other comprehensive income are attributed to the owners of the Company and to non-controlling interests. Loss is attributed to the owners of the Company and to non-controlling interests even if the result is a negative balance of non-controlling interests.

4. Investment in joint arrangements

Joint arrangements are arrangements in which the Company has joint control. Joint control is the contractually agreed-upon sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

(1) Joint ventures

In joint ventures, the parties to the arrangement have joint control over the interests in the net assets of the arrangement. A joint venture is accounted for using the equity method.

(2) Joint operations

In joint operations, the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In a joint operation, the Company recognizes its proportionate share in the assets, liabilities, revenues and expenses of the joint operation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Acquisition of an interest in a joint operation which constitutes a business as defined in IFRS 3, is accounted for by the acquisition method, including measurement of identified assets and liabilities at fair value, recognition of deferred taxes arising from this measurement, accounting for transaction costs, and recognition of goodwill or gain from a bargain purchase. The aforesaid applies to the acquisition of the initial interest and additional rights in a joint operation that constitutes a business.

H. Investment in associates

Associates are companies over which the Group has significant influence, but not control, over the monetary and operating policies. An investment in an associate, with the exception of an investment included in the investment portfolios of participating policies - see Note 2.K(5) - is presented on the basis of the equity method.

I. Investments accounted for in accordance with the equity method

The Group's investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or joint venture is presented at cost plus post-acquisition changes in the Group's share in net assets, including other comprehensive income of the associate or joint venture. Gains and losses arising from transactions between the Group and the associate or joint venture are eliminated in accordance with the ownership stake.

Goodwill in respect of the acquisition of an associate or joint venture is presented as part of the investment in the associate or joint venture, measured at cost and is not systematically amortized. Goodwill is tested for impairment as part of the investment in the associate or joint transaction as a whole.

The financial statements of the Company and the associate or joint venture are prepared as of the same dates and periods. The accounting policies in the financial statements of the associate or joint venture were applied uniformly and consistently with those applied to the Group's financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the case of an acquisition of an associate or joint venture that is achieved in stages, when the previous investment in the acquired company was accounted for using the provisions of IAS 39, the Group applies IFRS 3 to business combination achieved in stages. As a result, equity interests in the acquiree that are held by the Group prior to the attainment of significant influence or joint control, are measured at fair value at the acquisition date and are included in the acquisition proceeds while recognizing profit or loss in accordance with the fair value measurement, as aforesaid.

In an associate where losses in excess of its capital have been incurred, the Company recognized its share in the losses of the associate up to the amount of its investment in the associate plus a loss that it may have incurred as a result of a guarantee or other financial support given in respect of the associate, up to the guarantee amount or other financial consideration. For this purpose, the investment includes long-term receivable monetary items (such as loans granted) which there is no intention to settle or repay in the foreseeable future.

The equity method is applied until the date of the loss of significant influence over the associate or the loss of joint control over the joint venture, or their classification as a held-for-sale investment.

The Company continues to apply the equity method even in cases where an investment in an associate becomes an investment in a joint venture, and vice versa. The Company applies the provisions of IFRS 5 to the investment or part of the investment in an associate or joint venture that is classified as held for sale. Any portion remaining in this investment that is not classified as held for sale continues to be accounted for using the equity method.

Once significant influence or joint control has been lost, the Group measures the fair value of any remaining investment in the associate or joint venture, and recognizes a gain or loss as the difference between the proceeds from the disposal of the investment in the associate or joint venture and the fair value of the remaining investment and the carrying amount of the investment disposed of as of that date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**J. Insurance contracts and asset management contracts**

IFRS 4, Insurance Contracts, allows an insurer to continue applying the accounting policy it applied prior to the transition date to IFRS reporting in respect of insurance contracts that it issues (including related acquisition costs and related intangible assets) and reinsurance contracts that it acquires.

Following is a summary of the accounting policy applied to insurance contracts:

1. Life insurance and long-term savings

- a) Revenue recognition - please see Section W below.
- b) Liabilities for life insurance contracts:

Liabilities for life insurance contracts are calculated according to the Commissioner's directives (regulations and circulars), generally accepted accounting principles and standard actuarial methods. The liabilities are calculated according to the relevant coverage data, such as the age of the policyholder, number of years of coverage and type and amount of insurance, etc.

Liabilities for life insurance contracts are determined on the basis of actuarial valuations performed by the Supervising Actuary at The Phoenix Insurance Ltd. (hereinafter - "The Phoenix Insurance"), Mr. Mark Rabaev. The reinsurers' share in liabilities for life insurance contracts is based on the terms and conditions of the relevant contracts.

Liabilities for CPI-linked life insurance contracts and CPI-linked investments used to cover these liabilities were included in the financial statements according to the last CPI published prior to the balance sheet date, including liabilities for life insurance contracts for policies with semi-annual linkage.

- c) Commissioner's directives regarding liabilities for annuities:

Circulars issued by the Commissioner, regarding the calculation of the liabilities for annuities in life insurance policies, set instructions on how to calculate the provisions as a result of the improvement rate in life expectancy requiring monitoring the adequacy of the liabilities for life insurance contracts to ensure that annuities are received and properly supplemented. For further information, please see Note 40, Section 5.1.2.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)d) Deferred acquisition costs:

- (1) Deferred acquisition costs ("DAC") for life insurance policies include fees and commissions to agents and purchasing supervisors and general and administrative expenses relating to the purchase of new policies. DAC is amortized at equal annual rates over the term of the policy but no longer than 15 years. DAC for cancelled or settled policies are derecognized at the cancellation or settlement date.
- (2) The Phoenix Insurance's actuary assesses the recoverability of the DAC every year. This assessment verifies that the liabilities for insurance policies and investment contracts, net of the DAC, is sufficient, and that the policies are expected to generate future income to cover the DAC deduction and the insurance liabilities, operating expenses and fees and commissions for these policies

The assumptions used for this assessment, including assumptions regarding cancellations, operating expenses, yield on assets, mortality and morbidity rates, are determined by the Company's actuaries annually on the basis of past experience and relevant current studies.

In addition, each year, the Company's actuary validates the estimated period for receiving management fee income in respect of investment contracts, pension funds and provident funds in order to determine the DAC amortization period created in respect thereof.

- (3) Fees and commissions paid to agents and purchasing supervisors in respect of purchase of asset management contracts (pension and provident funds) are recognized as deferred acquisition costs (DAC) if they are separately identified and reliably measurable, and if their recoverability through management fees is expected. The DAC is amortized at equal annual rates over 10 years.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)e) Liability adequacy testing for life insurance contracts

The Group tests the adequacy of the reserves. If the test indicates that the premiums received are insufficient to cover the expected claims, less insurance reserves at the calculation date, a special provision is recorded for the shortfall. Homogeneous groups of policies defined by the Commissioner are tested separately. For further details, please see Note 40, Section 5.1.8.

The assumptions used in these tests include assumptions for cancellations, operating expenses, yields on assets, interest rates, illiquidity premiums, mortality, pension uptake rates and morbidity rates, taking into account the amount by which the fair value of marketable assets exceeds their carrying amount. These assumptions are determined by the actuary every year on the basis of past experience and other relevant studies.

For information about the change in insurance liabilities, amendment to the provisions of the consolidated circular, Measurement of Liabilities - Liability Adequacy Test (LAT) and allocation of non-marketable assets among the LAT reserves for life and health insurance, please see Note 40, Sections 5.1.8 and 5.1.10.

f) Contingent claims:

Contingent claims, net of the reinsurers' share therein, are calculated on a base-by-case basis, according to the valuation of Phoenix Insurance's experts, based on the notifications regarding the insurance events and the insurance amounts. The provisions for pension payments, ongoing payment claims for income protection insurance, the direct and indirect expenses arising there from, as well as the provisions for incurred but not yet reported claims (IBNR) are included under the liabilities for insurance contracts and investment contracts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)g) Investment contracts:

Proceeds in respect of investment contracts are not included in the earned premiums line item but rather carried directly to liabilities in respect of insurance and investment contracts. Redemptions and maturities of these contracts are not included in the income statement but rather deducted directly from liabilities in respect of insurance contracts and investment contracts.

Investment income, management fees collected from policyholders, change in liabilities and payments for insurance contracts for policyholders' share in investment income, fees and commissions to agents, and general and administrative expenses are charged to the income statement in respect of these contracts.

h) Provision for participation in earnings of policyholders in group insurance:

The provision is included under the payables and credit balances line item. In addition, the change in the provision is offset against income from premium.

2. Property and casualty insurancea) Revenue recognition - please see Section W below.

b) Payments and changes in liabilities for insurance contracts, gross and in retention, include, among other things, settlement and direct handling costs in respect of claims paid, indirect costs of settling claims, outstanding claims in the reported year, as well as adjustment of the provision for contingent claims (including a provision for direct and indirect costs for handling claims) recorded in previous years.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)c) Liabilities for insurance contracts and deferred acquisition costs:

The insurance reserves and outstanding claims included in the liabilities in respect of insurance contracts line item, and the reinsurers' share in the reserve and in the contingent claims included under the reinsurance assets line item, are calculated in accordance with the Supervision of Financial Services Regulations (Insurance) (Calculation of Property and Casualty Insurance Reserves), 2013 (hereinafter - the "Calculation of Reserves Regulations"), the Commissioner's directives, and standard actuarial methods for calculating contingent claims, applied at the discretion of the supervising actuaries.

d) Liabilities for insurance contracts are composed of insurance reserves and contingent claims, as follows:

- 1) The unearned premium provision reflects the insurance premium for the insurance period subsequent to balance sheet date and is calculated on a daily basis.
- 2) Provision for premium deficiency. This provision is recognized if the unearned premium (less deferred acquisition costs) does not cover the expected cost in respect of insurance contracts. In the motor property insurance, comprehensive home, and business insurance subsegments, the provision is based, inter alia, on a model set in the Calculation of Reserves Regulations.
- 3) Insurance reserves and contingent claims are calculated according to the methods set out below:

3.1 Contingent claims and the reinsurers' share therein are included on the basis of an actuarial valuation, except for the subsegments listed in Section 3.2 below. Indirect expenses to settle claims are included on the basis of an actuarial valuation. The actuarial calculation for The Phoenix Insurance, for property and casualty insurance, was carried out by the supervising actuary of The Phoenix Insurance, Ms. Anna Nahum, who is employed by The Phoenix Insurance.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

3.2 For marine, aircraft including third-party liability insurance, incoming business and other risks, for which the actuary determined that an actuarial model cannot be applied, due to lack of statistically significant data, the contingent claims were included based on an case-by-case valuation according to an opinion received from counsel and experts of The Phoenix Insurance that handle claims according to the reports of ceding companies for incoming business, with the addition of IBNR where necessary. The valuations include an adequate provision for handling expenses unpaid as of the date of the financial statements.

3.3 Subrogation and salvage recoveries are taken into consideration in the underlying data by which the actuarial valuations of the contingent claims are calculated.

3.4 The Phoenix Insurance believes that the contingent claims are adequate, given that the contingent claims are calculated mainly on an actuarial basis and their balance includes appropriate provisions where required for IBNR.

e) Liability adequacy testing in property and casualty insurance

The Company reviews the adequacy of Property and Casualty insurance (P&C) liabilities in accordance with the best practice principles.

f) Deferred acquisition costs in property and casualty insurance include fees and commissions to agents and general and administrative expenses in connection with the purchase of policies, relating to unearned premiums. The acquisition costs are calculated separately for each subsegment, on the basis of the actual rates of expenses or according to standard rates as determined in the Supervision Regulations, as a percentage of the unearned premium, whichever is lower.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

- g) Business received from the Israeli compulsory motor insurance Pool of the Israeli Insurance Companies Association (hereinafter - the "Pool"), from other insurance companies (including co-insurance and incoming foreign businesses) and from underwriting agencies, is reported according to the reports received up to the balance sheet date with the addition of the relevant provisions, based on the rate of The Phoenix Insurance's participation therein.
3. Health insurance
- a) Revenue recognition - please see Section W below.
- b) Liabilities for health insurance contracts:
 Liabilities for health insurance contracts are calculated according to the Commissioner's directives (regulations and circulars), generally accepted accounting principles and standard actuarial methods. The liabilities are calculated according to the relevant coverage data, such as the age of the policyholder, number of years of coverage and type and amount of insurance,
 Liabilities in respect of health insurance contracts and reinsurers' share therein are determined on the basis of an actuarial valuation. This is performed by the chief actuary of The Phoenix Insurance, Ms. Luba Sharapov, who is an employee of The Phoenix Insurance.
- c) Liability adequacy testing for health insurance contracts:
 The Company performs loss recognition testing for health insurance contracts. If the test indicates that the premiums received are insufficient to cover the expected claims, a special provision is recorded for the shortfall. Groups of policies defined by the Commissioner are tested separately. The assumptions used in these tests include assumptions for cancellations, operating expenses, morbidity and mortality, interest rates and illiquidity premium, taking into account the amount by which the fair value of marketable assets exceeds their carrying amount. These assumptions are determined by the actuary each year on the basis of past experience and other relevant studies. For collective policies, the testing is performed according to the claims experience of the individual collective and subject to the statistical reliability of that experience. For additional details, including updating the illiquidity premium in 2020, please see Note 40, Sections 5.1.8 and 5.1.10.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**d) Contingent claims:**

The provisions for ongoing payment claims in Long Term Care (LTC) insurance, the direct and indirect expenses arising therefrom, as well as provisions for incurred but not yet reported claims (IBNR), are included under liabilities in respect of insurance contracts.

In travel insurance, cargo insurance for marine, aircrafts, sales law guarantee, financial guarantees, credit insurance, foreign trade risks and incoming businesses - for which the actuary determined that an actuarial model is inapplicable - due to lack of statistically significant data - the contingent claims were included based on a case-by-case evaluation according to assessments by external experts and company employees handling claims, reports by ceding companies for incoming business, with the addition of IBNR and reserves where necessary.

e) Provision for policyholders' participating policies in collective insurance:

The provision for policyholders' participating policies in collective insurance is included under "payables and credit balances". In addition, the change in the provision is offset against premiums earned.

f) The unexpired risk reserve, included in the liabilities for insurance contracts line item, includes, if necessary, a provision for an expected retention loss (premium deficiency) that is calculated based on an actuarial estimate based on a cash flow estimate for the contract.**g) Deferred acquisition costs:**

1. Deferred acquisition costs ("DAC") include fees and commissions to agents and acquisition supervisors and general and administrative expenses related to the purchase of new policies. In the illness and hospitalization subsegments, policies are amortized at equal rates over the period of the policy, but no longer than six years, and in long-term health insurance subsegments (such as long-term care and critical illnesses) the policies are amortized over no more than 15 years. Deferred acquisition costs relating to canceled policies are written off on the cancellation date.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

2. The Company's actuary assesses the recoverability of the DAC each year. The assessment verifies that the liabilities for insurance policies, net of DAC for policies sold, are sufficient, and that the policies are expected to generate future income to cover the DAC's amortization and the insurance liabilities, operating expenses as well as fees and commissions for those policies

The assumptions used in this assessment, which include assumptions regarding cancellations, operating expenses, yield on assets, mortality and morbidity rates, are determined by the actuaries every year on the basis of past experience and relevant current studies.

K. Financial instruments

1. Non-derivative financial instruments

Non-derivative financial instruments include both financial assets and financial liabilities. Financial assets include financial investments (marketable debt assets, non-marketable debt assets, shares and others) and other financial assets such as other receivables and cash and cash equivalents. In addition, financial instruments include financial liabilities, such as loans and borrowings received, and supplier credit and other payables.

Initial recognition of financial assets

Non-derivative financial instruments are recognized initially at fair value, plus, for instruments not presented at fair value through profit or loss, any direct attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized as an asset or liability when the Company accepts the contractual terms and conditions (the transaction date).

Financial assets are classified into the following classes:

Cash and cash equivalents

Cash comprises cash balances available for immediate use and call deposits. Cash equivalents include highly liquid short-term investments, which can be easily converted into known amounts of cash and are exposed to an insignificant risk of changes in value and are not restricted by pledges.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)Held-to-maturity investments

If the Company has expressed intent and ability to hold debt securities to maturity, then such debt securities are classified as held-to-maturity. Held-to-maturity investments are recognized initially at fair value, plus any attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method (taking into consideration transaction costs), less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets designated as available for sale or which are not classified into one of the following classes: financial assets measured at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses arising from fair value adjustments, except for interest, exchange rate differentials, and dividend from an equity instrument, are recognized in other comprehensive income. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is transferred to the income statement.

Financial assets at fair value through profit or loss

A financial instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.

Loans and receivables

Loans and receivables are investments with fixed or determinable payments that are not traded in an active market. Subsequent to initial recognition, loans are presented at cost, plus direct transaction costs, using the effective interest rate, less provision for impairment. Short-term receivables are recognized according to their terms and conditions, usually at their nominal value.

2. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Group currently has a legally enforceable right to offset the amounts recognized and intends either to settle the asset or liability on a net basis or to dispose of the asset and settle the liability simultaneously.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

The right to offset must be legally enforceable not only in the ordinary course of business of the parties to the contract, but also in the event of bankruptcy or insolvency of one of the parties. In order for the offset right to be readily available, it must not be contingent on a future event, or have periods of time in which it is inapplicable, nor events that may cause it to expire.

3. Derivative financial instruments

Financial derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes in fair value are carried to the income statement under investment income, net and finance income.

4. CPI-linked assets and liabilities not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, are revalued each period in accordance with the actual change in the CPI.

5. The Group decided to designate assets as follows:

a. Financial assets in investment portfolios of participating policies

These assets, which include marketable and non-marketable financial instruments, were designated at fair value through profit or loss, for the following reasons: These are portfolios under management, separate and identified, whose presentation at fair value significantly reduces an accounting mismatch of reporting financial assets and financial liabilities at different bases of measurement. Furthermore, their management is based on fair value, and the portfolio's performance is measured at fair value, in accordance with a documented risk management strategy. The information about the financial instruments is reported to management (the relevant investments committee) internally, at fair value.

b. Non-marketable financial assets that are not included in investment portfolios against participating policies (nostro)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Assets meeting the criteria of the loans and receivables class, including Hetz bonds, were classified to this class and measured at amortized cost, using the effective interest method.

Non-marketable equity instruments are classified as available-for-sale financial assets.

- c. Marketable financial assets which are not included in investment portfolios against participating policies (nostro), which do not include embedded derivatives or do not constitute derivatives (including investment funds)

These assets are classified as available-for-sale financial instruments.

- d. Financial instruments that include embedded derivatives requiring bifurcation

These assets are designated to the class of fair value through profit or loss.

- e. Marketable financial assets in a consolidated subsidiary engaged in investment management

These assets were classified as fair value through profit or loss, and include held-for-trading financial assets and financial assets designated at fair value through profit or loss.

6. Financial liabilities

The liabilities are recognized initially at fair value. Loans and other liabilities measured at amortized cost are presented net of direct transaction costs.

Subsequent to initial recognition, the accounting treatment of financial liabilities is based on their classification as described below:

- a. Financial liabilities at amortized cost

Subsequent to initial recognition, loans and other liabilities are recognized at cost, less direct transaction costs, using the effective interest method.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**b. Financial liabilities measured at fair value through profit or loss**

Financial liabilities measured at fair value through profit or loss include financial liabilities classified as held-for-trading and financial liabilities designated, upon initial recognition, to be presented at fair value through profit or loss.

Financial liabilities are classified as held for trading if they were acquired principally for the purpose of selling them in the short term. Profit or loss for liabilities held for trading is carried to profit or loss.

Derivatives, including bifurcated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments.

The Group assesses whether embedded derivatives are required to be bifurcated when the Group first becomes a party to the contract. The need to bifurcate an embedded derivative is only reassessed if there is a change in the terms and conditions of the contract that significantly modifies the cash flows from the contract.

A liability may be designated at initial recognition to fair value through profit or loss, subject to the terms and conditions set out in IAS 39.

7. Put option granted to non-controlling shareholders

The Group granted non-controlling shareholders (hereinafter - the "Non-Controlling Interests") a put option to sell part or all of their ownership interests in consolidated companies. The Non-controlling interests were classified as financial liabilities on the day of grant. At each balance sheet date, the Group recognizes financial liabilities at the present value of the estimated expected payment to the non-controlling interests. At the same time, the non-controlling interests are accounted for as if they were held by the Group. For business combinations that occurred up to December 31 2009, changes in the liability in subsequent periods, other than the time value recognized in profit or loss, caused by a change in the estimate of expected payments, are recognized in goodwill until exercise of the option.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

For business combinations that occurred after January 1 2010, the entire change in the liability amount is carried to profit and loss. If the options are exercised in subsequent periods, the consideration paid is accounted for as settlement of the liability. If the option expires, the expiry is accounted for as sale of an investment in the consolidated company while retaining control. If the Company has the right to choose to make the expected payment in cash or by way of the Company's shares, the liability is not recognized in the financial statements at the award date.

8. Derecognition of financial instruments**a) Financial assets**

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full to a third party, without material delay. In addition, it has transferred substantially all the risks and rewards associated with the asset or has not transferred and has not retained substantially all the risks and rewards associated with the asset but has transferred control of the asset.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset or transfers control thereof, a new asset is recognized in accordance with the Company's continuing involvement therein. Continuing involvement by way of providing a guarantee for the transferred asset is measured at the lower of the original balance of the asset in the financial statements and the maximum amount of consideration that the Company may be required to repay.

(b) Financial liabilities

A financial liability is derecognized when it is extinguished, that is to say, when the liability is discharged, canceled or expires. A financial liability is extinguished when the debtor (the Group) repays the liability by a cash payment, other financial assets, goods or services, or is legally released from the liability.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Where an existing financial liability is exchanged for another financial liability from the same lender on substantially different terms and conditions, or where the terms and conditions of an existing liability are substantially modified, such an exchange or modification is accounted for as a derecognition of the original liability and the recognition of a new liability at fair value as of that date. The difference between the balances of the above two liabilities in the financial statements is carried to the income statement. If the exchange or modification is immaterial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized from the exchange. When determining whether a change has occurred in the substantive terms and conditions of an existing liability, the Company takes qualitative and quantitative considerations into account.

L. Property, plant and equipment

Buildings and land are measured at revalued amounts, and fair value changes are carried to other comprehensive income. Buildings and land are valued based on evidence available in the market, using comparable prices adapted to specific market factors such as the type, location and condition of the assets.

The Group believes that fair value measurement is a more relevant basis for the value of the Group's assets and equity.

Other property, plant and equipment items are presented at cost plus direct acquisition costs, less accumulated depreciation and accumulated impairment losses, and less investment grants received in respect thereof, but do not include current maintenance expenses. Cost includes spare parts and auxiliary equipment used for the property, plant and equipment items.

The components of a property, plant and equipment item with a significant cost in relation to the total cost of the item are depreciated separately, according to the components method.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Depreciation is calculated at equal annual rates on a straight-line basis over the asset's useful life, as follows:

	2019-2020
Buildings	20-50
Computers	3-7
Vehicles	7
Equipment and furniture	7-17
Leasehold improvements	See below
Works of art	Without depreciation

1. Revaluation of land and buildings is charged to the revaluation reserve presented in shareholders' equity, less the tax effect. The revaluation reserve is recognized in retained earnings during the use of the asset, according to its depreciation rate or when the asset is derecognized.
2. Revaluation is carried out routinely to ensure that the balance in the financial statements is not materially different from the value that would have been calculated at fair value at the reporting date.
3. Impairment of a revalued asset is carried directly to other comprehensive income, up to the amount of the credit balance in the revaluation reserve for that asset. Any further impairment is carried to profit or loss. Any increase in the asset's value as a result of revaluation is recognized in profit or loss up to the amount where it cancels out the impairment that was previously recognized in profit or loss. Any subsequent increase is carried to the revaluation reserve.
4. Leasehold improvements are depreciated on a straight-line basis over the rental period (including the option period to extend the term of the contract, which the Group intends to exercise), or according to the estimated useful life of the improvement, whichever the shorter.
5. The useful life, depreciation method and residual value are reviewed at least at each year-end, and changes are accounted for prospectively as a change in accounting estimate. Depreciation of assets ceases at the earlier of the date on which the asset is classified as held for sale and the date on which the asset is derecognized. See Section Q below for further information about impairment of property, plant and equipment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**M. Investment property**

Investment property is initially measured at cost, including direct acquisition costs. After initial recognition, investment property is measured at fair value which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment property are recognized in profit or loss as incurred. Investment property is not systematically depreciated.

Investment property under development for future use as investment property is also measured at fair value as set out above, when fair value can be reliably measured. The cost basis of investment property under development includes the cost of land plus the costs of credit used to finance the construction, direct incremental planning and development costs and brokerage fees for rental agreements thereof.

The Group determines the fair value of investment property on the basis of a valuation by external independent appraisers who are experts in the valuation of real estate properties and have the appropriate expertise and experience, and on the basis of the extensive professional expertise of the Group's management, as well on the valuation of internal expert appraisers.

Assisted living facilities, excluding the long-term care departments and supportive care units, are recognized as investment property.

N. Leases

On January 1 2019, the Company applied IFRS 16 - *Leases* for the first time (hereinafter - the "Standard"), the Company opted to apply the provisions of the Standard under the modified retrospective approach (without restating the comparative results).

The accounting policy applied as of January 1, 2019 regarding leases is as follows:

The Company accounts for a contract as a lease contract when the right to control an identified asset is transferred, as provided therein, for a period of time, for a consideration.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**1. The Company as lessee**

For transactions in which the Company is the lessee, it recognizes at commencement date a right-of-use asset against a lease liability, excluding transactions for periods of up to 12 months and transactions in which the underlying asset is of low value, in which the Company opted to recognize the lease fees as an expense in profit or loss on a straight line basis over the lease term.

When measuring the lease liability, the Company opted to apply the expedient available under the Standard, and did not separate between lease components and non-lease components, e.g.: management services, maintenance services, etc., included in the same transaction.

In transactions where the employee is entitled to a company car as part of his/her terms of employment, the Company accounts for these transactions as employee benefits in accordance with the provisions of IAS 19, rather than as a sublease.

On commencement date, the lease liability includes all unpaid lease payments, capitalized at the lease's implicit interest rate, when it can be readily determined, or at the Company's incremental interest rate. After commencement date, the Company measures the lease liability using the effective interest method.

At commencement date, the right-of-use asset is recognized at the amount of the lease liability plus lease fees paid on or before commencement date, plus transaction costs incurred.

A right-of-use asset is measured using the cost model and depreciated over the shorter of its useful life or the lease term.

When there are indications of impairment, the Company assesses the impairment of the right-of-use asset in accordance with the provisions of IAS 36.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**2. The Group as lessor**

The tests for classifying a lease as a finance or operating lease depend on the nature of the agreements and are assessed at the inception date, in accordance with the principles set forth in the Standard:

a. Finance Lease

A lease transaction in which substantially all risks and rewards of ownership of the asset are transferred to the lessee, is classified as a finance lease.

Lease transactions in which the Company is the lessor

On commencement date, the leased asset is derecognized and an asset is recognized against it under receivables for finance lease; the value of this asset is equal to the present value of the lease proceeds discounted by the interest implicit in the lease. Any difference between the balance of the leased asset before derecognition and the balance of "receivables for finance lease" is recognized in profit or loss. After commencement date, the lease proceeds are allocated between finance income reflecting a fixed periodic yield rate on receivables for finance lease, and settlement of receivables for finance lease. Accounts receivable in respect of a finance lease, for impairment and derecognition purposes, is accounted for in accordance with the provisions of IAS 9.

For transactions including non-lease components, the Company accounts for such components according to the relevant accounting standard rather than under receivables for finance lease.

b. Operating lease

A lease transaction in which all risks and rewards of ownership of the asset are not transferred to the lessee, is classified as an operating lease. Lease proceeds are recognized as income in profit or loss on a straight line over the lease term. Direct initial costs incurred in respect of the lease agreement are added to the cost of the leased asset and recognized as an expense over the lease term on the same basis.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**3. Lease payments linked to the Consumer Price Index**

On the lease commencement date, the Company uses the CPI rate on commencement date in order to calculate future lease payments.

In transactions in which the Company is the lessee, changes in the rate of future lease payments resulting from changes in the CPI are discounted (with no change in the discount rate applicable to the lease liability) to the balance of the right-of-use asset and charged as an adjustment to the balance of lease liability, only when a change occurs in cash flows due to a change in the CPI (i.e., the date on which the adjustment of lease payments takes effect).

4. Variable lease payments

Variable lease payments based on performance or use and independent of the CPI or interest are recognized as an expense on the date they are made in transactions in which the Company is the lessee, and as income in transactions in which the Company is the lessor.

When there are indications of impairment, the Company assesses the impairment of the right-of-use asset in accordance with the provisions of IAS 36.

5. Options to extend and terminate a lease term

A non-cancellable lease term also includes terms covered by an extension option when it is reasonably certain that the extension option will be exercised, as well as a terms covered by an option to terminate the lease when it is reasonably certain that the termination option will not be exercised.

Where a change occurs in the expectation that the extension option will be exercised or that the termination option will not be exercised, the Company re-measures the balance of the lease liability in accordance with the revised lease term, at the revised discount rate on the date of change in expectation, while the amount of the change is carried to the balance of the right-of-use asset until it is reduced to zero, and any remaining amount is recognized in profit or loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**6. Lease modifications**

When the lease terms are modified such that the modification does not reduce the lease amount and is not accounted for as a separate lease transaction, the Company re-measures the balance of the lease liability according to the amended lease terms and conditions, at the revised discount rate on the date of the amendment, and carries the amount of the change in the balance of the lease liability to the balance of the right-of-use asset.

When the lease terms and conditions are modified such that the modification reduces the amount of the lease, the Company recognizes a profit or loss from the partial or full derecognition of the balance of the right-of-use asset and the lease liability. Subsequently, the Company re-measures the balance of the lease liability in accordance with the modified lease terms and conditions, using the revised discount rate on the date of the modification, and carries the amount of the change in the lease liability to the balance of the right-of-use asset.

7. Subleases

In transactions where the Company leases an underlying asset (head lease) to a third party (sublease), the Company assesses whether the risks and rewards of ownership of the right-of-use assets have been transferred, inter alia, by comparing the sublease term to the useful life of the right-of-use asset created in the head lease.

When substantially all risks and rewards of ownership have been transferred, the Company accounts for the sublease as a finance lease, otherwise the sublease is accounted for as an operating lease.

When a sublease is classified as a finance lease, the leased asset is derecognized on commencement date and a "receivables for finance lease" asset is recognized the amount of which is equal to the present value of the lease proceeds discounted by the interest implicit in the lease. Any difference between the balance of the leased asset before derecognition and the balance of "receivables for finance lease" is recognized in profit or loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

The accounting policy applied to leases until December 31, 2018 is as follows:

The tests for classifying leases as finance or operating leases are based on the nature of the agreements and implemented on the inception date of the lease in accordance with the following rules set out in IAS 17.

The Company as lessee

1. Finance lease

Assets in respect of which substantially all risks and rewards of ownership were transferred to the lessee are classified as a finance lease. The leased asset is measured at the commencement date at the lower of the leased asset's fair value or the present value of minimum lease payments.

The leased asset is depreciated over the shorter of its useful life or the lease term.

2. Operating Lease

Assets in respect of which substantially all the risks and rewards of ownership are not transferred are classified as operating leases. Lease payments are recognized as an expense in profit or loss using the straight-line method, over the lease term.

The Group as lessor

1. Finance lease

Assets in respect of which substantially all risks and rewards of ownership were transferred to the lessee are classified as a finance lease. The leased asset is derecognized and a finance lease "receivables for finance lease" asset is recognized at the present value of the lease proceeds. Subsequent to initial recognition, the lease proceeds are allocated between finance income and settlement of "receivables for finance lease". For impairment and derecognition purposes, the financial asset "receivables for finance lease" is accounted for in accordance with the provisions of IAS 39.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**2. Operating Lease**

Assets in respect of which substantially all risks and rewards of ownership of the asset are not transferred are classified as an operating lease. Direct initial costs accrued in respect of the lease agreement are added to the cost of the leased asset and recognized as an expense over the lease term on the same basis. Lease proceeds are recognized as income in profit or loss on a straight-line basis over the lease term. Contingent lease proceeds are carried as income to the income statement on the date on which the Company is entitled to receive them.

P. Intangible assets

Separately acquired intangible assets are measured on initial recognition at cost plus direct acquisition costs. Intangible assets acquired in a business combination are measured at fair value at acquisition date. Costs relating to internally generated intangible assets, excluding capitalized development costs, are carried to the income statement as incurred.

Intangible assets with indefinite useful lives are not systematically amortized and are tested for impairment annually or whenever there is an indication that an impairment has taken place. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If events and circumstances do not continue to support such assessment, the change in the useful life assessment from indefinite to definite is accounted for as a change in accounting estimate, and the asset is also tested for impairment on that date. As of that date the asset is amortized systematically over its useful economic life.

Intangible assets with a definite useful life are amortized over their useful life and tested for impairment when there are indications thereof. The amortization period and method applied to an intangible asset with a definite useful life are reviewed at each year end at the very least.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**1. Software development costs**

Software development costs are capitalized only if: the development costs can be measured reliably; the software is technically and commercially feasible; future economic benefits are expected from the development; and the Group intends to complete the development and use the software and has sufficient resources to do so. A capitalized expense includes the cost of the materials, direct labor and overhead expenses directly attributable to preparation of the asset for its intended use. Other development expenses are carried to profit or loss as incurred.

Capitalized development costs are measured at cost less any accrued amortization and impairment losses.

2. Software

The Company's assets include IT systems consisting of hardware and software. Software that is an integral part of hardware, which cannot function without the software installed on it, is classified as property, plant and equipment. However, licenses for standalone software which adds functionality to the hardware, are classified as intangible assets.

3. Subsequent costs

Subsequent costs are recognized as an intangible asset only when it increases the future economic benefits embodied in the specific asset to which it relates. All other costs, including costs related to goodwill or internally generated brands, are carried to profit or loss as incurred.

Amortization is carried to the income statement over the estimated useful life of the intangible assets, except for goodwill - from the date on which the assets are available for use.

4. Amortization

The estimated useful lives for the current and comparative periods are as follows:

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

	Years	Amortization method
Computer software	3-10	Straight line
Brand	5-10	Straight line
Non-compete agreements	5-13	Straight line
Future management fees	9-15	Straight line
Fees and commissions portfolios	2-10	Straight line

Estimates as to the depreciation method and useful life are reviewed at least at the end of each reporting year.

P. Impairment

The Group assesses at each reporting date whether there is objective evidence of impairment for the following assets:

1. Financial assetsa. Financial assets measured at amortized cost

Objective evidence of impairment is present when one or more events had a negative effect on the estimated future cash flows from the asset after initial recognition. The amount of the loss carried to the income statement is measured as the difference between the asset's balance in the financial statements and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) capitalized at the original effective interest rate of the financial asset. If the financial asset bears variable interest, capitalization is carried out according to the present effective interest rate.

In subsequent periods, impairment losses are reversed when the recovery of the asset's value can be objectively attributed to an event that has occurred after the recognition of the loss. The amount of the reversal is carried to profit or loss up to the amount of any previously recognized impairment loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Group considers evidence of impairment for debt assets classified to loans and receivables at both the specific asset level and at the collective level of an asset class with similar credit risk characteristics (collective assessment). All individually significant loans and receivables are tested for specific impairment. Loans and receivables for which no specific impairment was identified are collectively tested for any collective impairment that was incurred but not yet identified.

b. Available-for-sale financial assets

The evidence for impairment of equity instruments classified as available-for-sale financial assets includes a significant or prolonged decline in the fair value of the asset below its cost and assessment of changes in the technological, economic or legal environment in which the issuer of the instrument operates. The testing for significant or prolonged impairment depends on the circumstances at each balance sheet date. The testing takes into account historical fluctuations in fair value and the existence of a prolonged decline in fair value at a total rate of 20% or more, or a prolonged decline in fair value of 12 months or more. Where there is evidence of impairment, the aggregate loss, which was carried to other comprehensive income, is reclassified to profit or loss. In subsequent periods, reversal of impairment loss is not carried to profit or loss but rather recognized in other comprehensive income (loss).

Evidence of impairment of debt instruments classified as available-for-sale financial assets includes one or more events that had an adverse effect on the estimated future cash flows from the asset subsequent to the investment date. Where there is evidence of impairment, the aggregate loss, which was carried to other comprehensive income, is recognized as an impairment loss in profit or loss. In subsequent periods, the amount of the impairment loss is reversed if the increase in fair value can be objectively attributed to an event occurring after the impairment loss was recognized. The amount of the reversal is carried to profit or loss up to the amount of any previously recognized impairment loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**2. Reinsurance**

- a. The liabilities of reinsurers towards The Phoenix Insurance do not exempt it from its liabilities to policyholders according to the insurance policies. If a reinsurer fails to meet its liabilities under the reinsurance contracts, The Phoenix Insurance may incur losses.
- b. The Phoenix Insurance includes a provision for doubtful debts for reinsurers' debts whose collection is doubtful on the basis of specific risk estimates and on the basis of the extent of the debt.

In addition, when determining the reinsurers' share in insurance liabilities, The Phoenix Insurance also considers the likelihood of collection from the reinsurers. When the reinsurers' share as aforesaid is calculated on an actuarial basis, the share of those reinsurers who are in financial difficulties is calculated in accordance with the actuary's recommendation, which takes all risk factors into account.

In addition, when preparing the provisions, The Phoenix Insurance takes into account, among other things, the willingness of the parties to reach cut off agreements (termination of agreements by final repayment of debts) to reduce exposure.

3. Premium receivable

The provision for premiums receivable in the property and casualty insurance business is calculated according to estimates based, among other things, on debts in arrears and existing collaterals.

4. Customer credit for purchase of securities

Customer credit is initially recognized at fair value, and subsequently measured at amortized cost based on the effective interest method, less a provision for doubtful debts.

The provision for doubtful debts is determined specifically for debts which Company's management believes are unlikely to be collected. Impaired trade receivables are derecognized when they are assessed as uncollectible.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**5. Non-financial assets**

The Group tests for impairment of non-financial assets other than deferred acquisition costs, investment property, assets arising from employee benefits, and deferred tax assets whenever events or changes in circumstances indicate that the balance in the financial statements is irrecoverable. When the balance of the non-financial assets exceeds their recoverable amount, the assets are amortized to their recoverable value. The recoverable value is the higher of fair value less costs of disposal and value in use.

In assessing value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to each asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. All impairment losses are charged to the income statement under the other expenses line item.

Any impairment loss from an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since an impairment loss was last recognized. Reversal of the loss is limited to the lower of the amount of previously recognized impairment in respect of the asset (net of depreciation or amortization) or its recoverable amount. As to assets measured at cost, reversal of the loss is carried to profit or loss.

The following criteria are applied in testing for impairment the following specific assets:

a. Goodwill

The Company assesses goodwill impairment annually, as of December 31, or more frequently if events or changes in circumstances indicate impairment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Goodwill impairment is determined by testing the recoverable amount of a cash generating unit (or a group of cash generating units) to which the relates belongs. An impairment loss is recognized if the recoverable amount of the cash generating unit (or group of cash generating units) to which goodwill has been allocated is less than the financial statements balance of the cash generating unit (or group of cash generating units). Impairment losses from goodwill cannot be reversed in subsequent periods.

b. Associates

After implementing the equity method, the Company assesses whether it is necessary to recognize a further impairment loss in respect of impairment of the investment in associates. At each balance sheet date, the Company assesses whether there is objective evidence of impairment of an investment in an associate. Impairment is assessed for the entire investment, including goodwill attributable to the associate.

c. Art works and intangible assets with indefinite useful life

The Group assesses goodwill for impairment annually, on December 31, or more frequently if events or changes in circumstances indicate impairment.

Q. Fair value measurement

Fair value is the price that would be received when selling an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes a transaction taking place in the principal market for the asset or liability, or in the absence of a principal market - in the most advantageous market.

The fair value of an asset or liability is based on assumptions to be used by market participants to price the asset or liability, assuming that market participants act in their economic interests.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits through the optimal use of the asset, or by selling it to another market participant who will make optimal use of the asset.

The Group uses valuation techniques that are appropriate to the circumstances and for which sufficient information is available to measure fair value, while maximizing the use of relevant observable data and minimizing the use of unobservable data.

The fair value of financial instruments traded in an active market is determined by market prices on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using transactions that were recently made at market terms, reference to the current market value of another instrument which is substantially the same, discounting of cash flows, or other valuation methods. The value of non-marketable bonds, loans and deposits is based on the cash flow discount method; please see Note 13G.

All assets and liabilities measured at fair value, or the fair value of which was disclosed, are categorized within the fair value hierarchy, based on the lowest level of the data, which is significant to fair value measurement as a whole:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: Inputs that are not based on observable market data (assessment techniques not using observable market data).

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**R. Share capital and treasury shares**

Costs directly attributable to the issue of shares and share options are recognized as a deduction from equity.

The Company's shares held by the Company and/or subsidiaries are measured at their acquisition cost and are offset against the Company's equity. Profit or loss from the purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

S. Employee benefits

The Group has several employee benefit plans:

1. Short-term employee benefits

Short-term employee benefits are benefits which are expected to be fully paid within up to 12 months after the end of the annual reporting period in which employees provide the services. These benefits include salaries, paid annual leave, paid sick leave, recreation pay and employer's National Insurance contributions and are recognized as expenses as the services are rendered. A liability for a cash bonus or a participating plan is recognized when the Group has a legal or constructive obligation to make such payment in respect of a service rendered by an employee and the amount can be measured reliably.

2. Post-employment benefits**Defined contribution plan**

The Group has defined contribution plans in accordance with Section 14 of the Israeli Severance Pay Law. According to these plans, the Group pays fixed contributions without having a legal or constructive obligation to pay further contributions even if the fund does not have sufficient amounts to pay all employee benefits related to the employee's service in the current and prior periods.

Contributions to a defined contribution plan in respect of severance pay or pension are recognized as an expense when contributed concurrently with performance of the employee's services.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

In addition, the Group has a defined benefit plan in respect of severance pay under the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement.

The liability for severance pay is measured on the basis of the actuarial value of the projected unit credit. The actuarial calculation takes into account future pay raises and rates of employee turnover based on the estimated timing of payment. The amounts are presented on the basis of discounting the future cash flows using the interest rate based on the yield at the reporting date on CPI-linked high-quality corporate bonds with maturity dates approximating the period for the Group's severance pay liability.

The Company makes contributions to pension funds and insurance companies on an ongoing basis in respect of its severance pay liability to some of its employees (hereinafter - the "Plan Assets"). The Plan Assets are assets held by the employee benefit fund in the long term or in qualifying insurance policies. The Plan Assets are not available for the use of the Group's creditors, and cannot be paid directly to the Group.

The severance pay component in policies issued by the Company does not constitute Plan Assets and is offset from liabilities in respect of insurance contracts.

The liability for employee benefits in the statement of financial position presents the present value of the defined benefit liability less the fair value of the Plan Assets.

Remeasurements of the net liability are carried to other comprehensive income.

3. Other long-term benefits

Group employees are entitled to benefits in respect of adaptation grants. The Group's net obligation for other employee benefits, other than post-employment benefit plans, is in respect of the amount of future benefit payable to employees for their services rendered in current and prior periods.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**4. Termination benefits and voluntary retirement benefits**

Termination benefits are recognized as an expense when the Group has committed to terminate employment before retirement age and it is unable to revoke the offer, or when the Group recognizes restructuring costs that include payment of termination benefits, whichever the earlier.

5. Share-based payment transactions

Other employees/service providers of the Company are entitled to benefits by way of share-based payment settled in equity instruments and some employees/other service providers are entitled to benefits by way of cash-settled share-based payment measured on the basis of the increase in the Company's share price.

Cash-settled transactions in equity instruments

The cost of transactions with employees settled in equity instruments is measured according to the fair value of the equity instruments at the time of grant. The fair value is determined using an accepted option pricing model.

For other service providers, the transaction cost is measured at the fair value of the goods or services received in exchange for the equity instruments granted.

The cost of transactions settled in equity instruments is recognized in profit or loss in addition to a corresponding increase in capital over the period in which the conditions of performance and/or service are met and ends on the date on which the relevant employees are entitled to the compensation (hereinafter - the "Vesting Period"). The recognized cumulative expense in respect of transactions settled in equity instruments as of the end of each reporting period up to the vesting date reflects the extent to which the Maturity Period has elapsed and the Group's best estimate of the number of equity instruments that will eventually vest.

No expense is recognized for grants that do not ultimately vest, except for grants whose vesting is conditional upon a market condition, which are accounted for as vesting irrespective of whether the market condition is satisfied, assuming that all the other vesting conditions (service and/or performance) are satisfied.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized beyond the original expense calculated for any modification that increases the total fair value of the reward granted or is otherwise beneficial to the employee/other service provider at fair value at the modification date. If a grant of an equity-settled instrument is cancelled, it is accounted for as if it had vested on the cancellation date, and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the cancelled grant and is identified as a replacement grant on the grant date, the cancelled and new grants are both treated as a modification of the original grant, as described above.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value on the grant date using a standard option pricing model. For further information, please see Note 36. The fair value is recognized as an expense over the Vesting Period and a corresponding liability is recognized. The liability is remeasured at each reporting date at fair value until settled, and any changes in fair value are carried to the income statement, taking into account the scope of services provided until that date.

T. Liability in respect of structured bonds, bonds and long-term loans

Bonds issued and loans received are initially recognized at fair value, less transaction costs. In subsequent periods, bonds and loans are presented at amortized cost. Any difference between the consideration (less transaction costs) and the redemption value is recognized in the income statement over the bond or loan term, as relevant, using the effective interest method.

U. Liability in respect of short sale of securities

Liabilities in respect of short sale of securities are initially recognized at fair value when the relating transaction expenses are charged to the income statement. Subsequent to initial recognition, these liabilities are measured at fair value against profit or loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**V. Provisions**

In accordance with IAS 37, a provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is likely that financial resources will be required to settle the obligation and the obligation can be reliably estimated. When the Group expects that some or all of the expense will be reimbursed to the Company, such as in an insurance contract, the repayment will be recognized as a separate asset, only when it is highly likely that the asset will be received. The expense is recognized in the income statement less the reimbursement of the expense.

Types of provisions included in the financial statements:

1. Legal claims

A provision for claims is recognized if, as a result of a past event, the Company has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be reliably estimated.

2. Onerous contracts

A provision for onerous contracts is recognized when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group under it. The provision is measured at the lower of the present value of the expected cost of terminating the contract and the present value of the expected net cost of fulfilling the contract.

3. Levies

Levies imposed on the Company by government institutions through legislation, are treated in accordance with IFRIC 21, whereby the liability to pay the levy is recognized only upon occurrence of the event that gives rise to the payment obligation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**W. Revenue recognition****1. Premiums**

- a) Premiums in the life insurance segment and certain subsegments of health insurance, including savings premiums and excluding proceeds in respect of investment contracts, are recorded as revenues on collection date.

Cancellations are recorded when a notification is received from the policyholder or when initiated by the Group due to arrears in payments, subject to the provisions of the law. Policyholders' participation in profits is deducted from the premiums.

- b) Property and casualty insurance premiums are recorded as income based on monthly output reports. The premiums usually relate to an insurance period of one year. Gross income from premiums and changes in unearned premium are recorded under earned premiums, gross.

Premiums on compulsory motor insurance are recorded when the premium is paid, since insurance coverage is contingent upon payment of the premium.

Premiums on policies that take effect after the balance sheet date or premiums on policies for a period exceeding one year are recorded as a prepaid income under the payables and credit balances line item.

The income included in the financial statements is after cancellations requested by policyholders and net of cancellations and provisions due to non-payment of premiums, subject to the provisions of the law, and net of the policyholder's participation in profits, based on valid agreements.

2. Management fees

- a) Management fees for dependent insurance contracts

The management fees are calculated in accordance with the Commissioner's directives on the basis of the yield and the aggregate savings of the policyholders in the participating portfolio.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)Management fees include the following components:

For policies sold as from January 1 2004 - fixed management fees only.

For policies sold through December 31 2003 - fixed and variable management fees.

The fixed management fees are calculated at fixed percentages out of the aggregate savings and recorded on an accrual basis.

The variable management fees are calculated as a percentage of the annual real profit (as from January 1 through December 31) attributed to the policy, less the fixed management fees collected on that policy. Only positive variable management fees can be collected, net of negative amounts accumulated in previous years.

During the year, the variable management fees are recorded on an accrual basis in accordance with the real monthly yield to the extent that such yield is positive. In months when the real yield is negative, the variable management fees are reduced to the amount of the aggregate variable management fees collected since the beginning of the year. Negative yield for which a reduction of the management fees was not made during a current year, will be deducted for the purpose of calculating the management fees from positive yield in subsequent periods.

b) Management fees from pension funds and provident funds:

Income from the management of pension funds and provident funds is recognized on the basis of the balances of the assets under management and on the basis of the proceeds from members, in accordance with the Commissioner's directives.

c) Management fees from mutual funds and customer portfolio management:

Income from the management of mutual funds and income from the management of customers' portfolios are recognized on the basis of the balances of assets under management.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**3. Fees and commissions****In the Insurance Agencies**

Income from property and casualty insurance fees and commissions is recognized as incurred.

Income from life insurance fees and commissions is recognized on the basis of the date of entitlement for payment of the fees and commissions according to agreements with the insurance companies, net of provisions for refunds of fees and commissions due to expected cancellations of insurance policies.

In the insurance company

Income from reinsurance fees and commissions in property and casualty, life and health insurance is recognized as incurred.

4. Rental income

Rental income is recognized on a straight-line basis over the lease term. A fixed increase in rent over the term of the contract is recognized as income on a straight-line basis over the lease term.

5. Revenue recognition from the disposal of art works

Income from sale of works of art is included at the date of delivery when the revenue can be reliably estimated, there is a binding contractual agreement with the buyer and it is highly likely that the consideration will be received.

6. Income from financial services**a. Income from underwriting and distribution**

Income from underwriting and distribution fees and commissions is recorded when the issuance and distribution is carried out, after fulfillment of the terms of the agreement with the company and/or issuer.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**b. Income from consulting services**

Income from consulting services (insurance agencies, management of employee options) is charged to profit or loss over the service period.

c. Income from financial transactions

Net income (loss) from financial transactions include gains on ETFs activity, market making, interest income (expenses) on amounts invested (taken), income from dividends, changes in fair value of financial assets measured by fair value through profit or loss, losses from impairment of financial assets, profits (losses) from exchange rate differentials and profits (losses) from hedging instruments recognized in profit or loss. Interest income and expenses are recognized upon accrual, using the effective interest method. Income from dividend is recognized when the Company is entitled to receive payment. If the dividend is paid in respect of marketable shares, the Company recognizes the income on the ex-dividend date.

d. Variable consideration

The Group sets the transaction price separately for each contract with a customer. When exercising this judgment, the Company assesses the effect of all variable considerations in the contract, taking into account assumptions, variations and claims. In determining the effect of the variable consideration, the Company usually uses the "most reasonable amount" method as set forth in the standard, whereby the transaction price is determined taking account only of the most reasonable among the possible contract considerations. The Company includes variable considerations only if it is highly likely that there will be no significant cancellation of the amount of the recognized income when any uncertainty associated with the variation in consideration emerges subsequently.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**e. Contractual balances**

The Group charges customers upon fulfilment of a performance obligation under the terms and conditions of the contract with the customers. In cases where income for fulfilling a performance obligation is recognized in profit or loss but prior to charging the customer, the non-contingent amounts recognized are stated under income receivable.

Amounts received from customers prior to the Company's fulfillment of a performance obligation are presented under the customer advances line item and are recognized as income in profit or loss upon fulfilment of the performance obligation.

X. Net gains (losses) from investments, finance income and expenses

Gains (losses) from net investments and finance income include interest income and linkage differences for debt assets, dividend income, gains (losses) from sale of available-for-sale financial assets, changes in the fair value of financial assets presented at fair value through profit or loss, foreign currency gains (losses) for debt assets, changes in the fair value of investment property and rental income from investment property. Gains (losses) on the realization of investments are calculated as the difference between the net realization consideration and the original cost or the amortized cost and are recognized on the sale date. Interest income is recognized as it accrues using the effective interest method. Income from dividend is recognized when the Company is entitled to receive payment. If the dividend is in respect of marketable shares, the Company recognizes the income on the ex-dividend date.

Foreign currency gains and losses and changes in the fair value of investments are reported on a net basis.

Finance expenses comprise interest expenses on loans received, interest and exchange rate differentials on reinsurers' deposits and balances, and changes in the time value of provisions. All uncapped borrowing costs are charged to profit or loss using the effective interest method.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**Y. General and administrative expenses**

General and administrative expenses are classified as indirect expenses to settle claims (included under payments and changes in liabilities for insurance and investment contracts), acquisition-related costs (included under fees and commissions, marketing costs and other acquisition costs) and the balance of general and administrative expenses included in this section. Classification is in accordance with the Group's internal models, validated periodically in accordance with the Company's activity, based on direct expenses charged and indirect expenses attributed.

Z. Taxes on income

The tax results for current or deferred taxes are carried to profit or loss, unless they refer to items carried to other comprehensive income or to equity.

Current taxes

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted as of the reporting date, as well as adjustments to the tax liability payable in respect of prior years.

Deferred taxes

Deferred taxes are calculated for temporary differences between the amounts in the financial statements and the amounts taken into account for tax purposes.

Balances of deferred taxes are calculated at the tax rate that is expected to apply when the asset is disposed of or the liability settled, based on tax laws that have been enacted or substantively enacted as of the reporting date.

Deferred tax assets are reviewed at each reporting date and amortized if it is no longer probable that they will be utilized. The carryforward losses and deductible temporary differences for which no deferred tax assets were recognized are reviewed at each reporting date, and if it is probable that they will be utilized, an appropriate deferred tax asset is recognized.

Deferred taxes in respect of investment property held to recover substantially all the economic benefits thereof by disposing of it rather than by using it, are measured according to the expected settlement method of the underlying asset, based on disposal rather than on use.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

If the Company owns a single asset entity, and the Company expects to dispose of the investment by selling the shares of the single asset entity rather than by disposing of the asset itself, the Company is required to recognize deferred taxes both for the temporary inside differences arising from the difference between the tax basis of the asset and its carrying amount, and for the temporary outside differences arising from the difference between the tax basis of the shares and the share of the company holding the net assets of the subsidiary in the consolidated financial statements.

When calculating deferred taxes, taxes applicable in the event of a disposal of investments in investees are not taken into account, if the sale of such investments is not expected in the foreseeable future. In addition, deferred taxes that would apply in the event of the distribution of earnings by investees as dividends have not been taken into account, since the distribution does not give rise to an additional tax liability, or due to the Company's policy not to distribute a dividend by a consolidated company that triggers an additional tax liability. Income tax relating to shareholder distributions of an equity instrument and transaction costs of an equity transaction are accounted for according to IAS 12.

Deferred taxes are offset if there is a legal right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

AA. Earnings per share

Earnings per share are calculated by dividing the net income attributable to the Company's shareholders by the weighted number of ordinary shares outstanding in the period.

Potential ordinary shares are included in the calculation of diluted earnings per share when their conversion dilutes earnings per share from continuing operations. Potential ordinary shares that have been converted during the period are included in the diluted earnings per share only until the conversion date, and starting from that date - they are included in basic earnings per share. The Company's share in the earnings of investees is based on its share in the earnings per share of the investees multiplied by the number of shares held by the Company.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**BB. Reclassified**

The Notes to the Financial Statements include reclassifications. The reclassifications did not have an effect on the equity, profit and loss and comprehensive income.

CC. Redesignation of Ad 120 from the "other" segment to the life insurance and long-term savings segment and health insurance segment

As from Q3 of 2019, the Company changed the reporting method to operating decision makers in the Company, such that Ad 120 is presented as part of the health insurance segment rather than under the "other" segment.

In addition, in light of the publication of the LAT circular, regarding the allocation of assets other than at fair value when performing the liability adequacy test (LAT), starting in the second quarter of the reporting year, the Company allocated the results of Ad 120 to the life insurance and long-term savings and health insurance segments. For further information regarding the provisions of the LAT circular, please see Note 40, Section 5.1.8. The following table reconciles the abovementioned changes, under the assumption that the Company would have designated Ad 120 to the life insurance and long-term savings and health segment:

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Life insurance and long-term savings segment	For the year ended December 31	
	2020	2019
	Audited	
	In NIS thousand	
Premiums earned, gross	4,765,553	5,209,366
Premiums earned by reinsurers	99,195	98,235
Premiums earned - retention	4,666,358	5,111,131
Gains on investments, net and finance income	4,641,250	7,896,293
Income from management fees	1,106,546	1,259,191
Income from fees and commissions	39,119	28,919
Other income	22,936	12,460
Total income	10,476,209	14,307,994
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	8,517,055	13,302,668
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	49,450	52,295
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	8,467,605	13,250,373
Fees and commissions and other purchase expenses	728,085	698,131
General and administrative expenses	548,029	529,304
Other expenses	26,303	(7,044)
Finance expenses	2,185	13,507
Total expenses	9,772,207	14,484,272
Company's share in the net results of investees	12,006	35,694
Net income (loss) before taxes on income	716,008	(140,584)
Other comprehensive income (loss) before taxes on income	6,732	99,004
Total comprehensive income (loss) before taxes on income	722,740	(41,580)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

Health insurance segment	For the year ended December 31 2020	For the year ended December 31 2019
	Audited	
	In NIS thousand	
Premiums earned, gross	2,781,698	3,257,486
Premiums earned by reinsurers	286,671	376,915
Premiums earned - retention	2,495,027	2,880,571
Gains on investments, net and finance income	473,843	761,512
Income from fees and commissions	44,170	34,477
Other income	12,736	10,968
Total income	3,025,776	3,687,528
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	2,371,630	3,602,386
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	234,439	368,236
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	2,137,191	3,234,150
Fees and commissions and other purchase expenses	497,769	668,519
General and administrative expenses	157,523	177,823
Finance expenses	(1,112)	1,487
Total expenses	2,791,371	4,081,978
Company's share in the net results of investees	2,055	-
Net income (loss) before taxes on income	236,460	(394,450)
Other comprehensive income (loss) before taxes on income	(33,485)	53,570
Total comprehensive income (loss) before taxes on income	202,975	(340,880)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

	Other segment	Adjustments and offsets
	For the year ended December 31 2019	
	Audited	
	In NIS thousand	
Gains on investments, net and finance income	1,682	(11,086)
Income from management fees	46,787	(46,603)
Income from fees and commissions	-	(108,131)
Other income	646	(824)
Total income	49,115	(166,644)
Fees and commissions and other purchase expenses	-	(96,899)
General and administrative expenses	35,149	(51,208)
Other expenses	-	-
Finance expenses	520	(8,856)
Total expenses	35,669	(156,963)
Company's share in the net results of investees	16,273	-
Net income before taxes on income	29,719	(9,681)
Other comprehensive loss before taxes on income	2,383	-
Total comprehensive income (loss) before taxes on income	32,102	(9,681)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**DD. Accounting policy change - first-time application of new financial reporting standards and amendments to existing accounting standards****1. Amendment to IFRS 3 - Business Combinations**

In October 2018, the IASB issued an amendment to the definition of a “business” in IFRS 3, Business Combinations (hereinafter - the “Amendment”). The amendment includes a clarification whereby to be considered a “business”, an acquired set of activities and assets shall include at least a material input and process that, together, significantly contribute to creating outputs. In addition, the amendment clarifies that a business can exist even without all the inputs and processes required to generate outputs. The amendment includes an optional test for a company to determine that there is no acquisition of a business, without further testing. The amendment was applied for the first time to business combinations and asset acquisition transactions for which the acquisition date took place from January 1 2020 and thereafter.

The first-time application of the amendment had no material effect on the financial statements of the Company.

2. Retrospective application following a proactive policy change regarding LAT in life insurance and health insurance

On March 29 2020, Insurance Circular 2020-1-5, Amendment of the Provisions of the Consolidated Circular regarding Measurement of Liabilities - Liability Adequacy Test (LAT) was published, hereinafter – the “LAT Circular”. In accordance with the circular, the Company adjusted, by way of retrospective application, its financial statements as of December 31 2018 and 2019 and for the two years ended on these dates, in order to retrospectively reflect the effect of the change in accounting for LAT in life insurance and health insurance reserves, by retrospective application.

According to the circular, the LAT shall be calculated while combining life insurance products (excluding long-term care products) instead of calculating for each life insurance product separately, as was the case so far. This change also allows to take into account in the test the types of policies that generate profit, rather than only those that generate loss.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

The change is expected to lead to a better economic reflection of capital in the financial statements, along with reducing excess volatility in the financial statements of insurance companies, which makes it difficult to analyze their results from the perspective of policyholders, savers, investors, reinsurers and other users of financial statements. The excess volatility is largely due to the effect of volatility in the interest rate curve against the background of the low interest rate environment.

The effect of the said change on the Company's financial statements is as follows:

In the Consolidated Statements of Financial Position:

	As reported previously	Change	As presented in the financial statements
	In NIS thousand		
<u>As of December 31 2019</u>			
(audited)			
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts	23,574,090	(381,900)	23,192,190
Liabilities in respect of deferred taxes	664,874	130,572	795,446
Retained earnings	4,516,933	251,328	4,768,261
<u>As of December 31 2018</u>			
(audited)			
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts	21,479,765	(204,500)	21,275,265
Liabilities in respect of deferred taxes	548,079	69,919	617,998
Retained earnings	2,924,478	134,581	3,059,059

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the consolidated statements of income

	As reported previously	Change	As presented in the financial statements
	NIS thousands	(excluding net earnings per share data)	
<u>For the year ended December 31 2019 (audited)</u>			
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	18,745,224	(177,400)	18,567,824
Taxes on income	47,165	60,653	107,818
Total net income	191,529	116,747	308,276
Basic net earnings per share (in NIS)	0.6	0.46	1.06
Diluted net earnings per share (in NIS)	0.6	0.46	1.06
<u>For the year ended December 31 2018 (audited)</u>			
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	8,479,712	41,900	8,521,612
Taxes on income	224,458	(14,326)	237,507
Total net income	696,850	(27,574)	669,276
Basic net earnings per share (in NIS)	2.69	(0.11)	2.58
Diluted net earnings per share (in NIS)	2.69	(0.11)	2.58

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**EE. Disclosure of the new IFRSs in the period prior to their application****1. IFRS 17 - Insurance Contracts**

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17 - Leases (hereinafter - the "New Standard").

The New Standard sets rules for the recognition, measurement, presentation and disclosure of insurance contracts and replaces the current guidance on this issue. The New Standard is expected to cause significant changes in the financial reporting of insurance companies.

According to the New Standard, the insurance liability should be measured as the present value of the expected cash flows from insurance contracts, taking into account the uncertainty inherent in these forecasts (the risk margin). In addition, the profit expected from the insurance contracts arising from the said calculations will be recognized over the coverage period, and the effect of changes in the assumptions (excluding interest) will also be spread over the coverage period. A loss will be recognized as incurred if a group of insurance contracts is not expected to be profitable or incurs losses.

For certain insurance contracts (usually property and casualty insurance contracts with insurance coverage of up to one year), a simpler measurement model that is not very different from the current measurement may be applied.

The New Standard will be applied as from January 1 2023. Early adoption is permitted, as long as IFRS 9 - Financial Instruments - is applied concurrently.

In accordance with the "Roadmap for the Adoption of International Financial Reporting Standard (IFRS) 17 - *Insurance Contracts*" published by the Commissioner in June 2020, the first-time application of the Standard in Israel will apply to the quarterly and annual periods beginning on January 1 2023.

The New Standard will be applied retrospectively. If retrospective application is impracticable, one of the following approaches may be selected:

1. The modified retrospective approach.
2. The fair value approach.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Company is assessing the effects of adopting the New Standard on the financial statements.

2. Amendments to IFRS 10 and IAS 28 - sale or transfer of assets between a holding company and an associate or its joint venture

In September 2014, the IASB published amendments to IFRS 10 and IAS 28 (hereinafter - the "Amendments"), dealing with the accounting treatment applied to sale or transfer of assets (asset, class of assets or subsidiary) between the holding company and an associate or its joint venture.

The Amendments stipulate that when the holding company loses control over a subsidiary or class of assets which does not constitute a business in a transaction with an associate or its joint venture, the profit will be partially eliminated, such that any gain on the sale or contribution of assets that does not constitute a business will be recognized only in respect of unrelated investors' interests in the associate or joint venture. The Amendments add that, to the extent the interests retained by the holding company constitute a financial asset as defined in IFRS 9, the profit will be recognized in full.

If control has been lost over a subsidiary or class of assets constituting a business in a transaction with an associate or its joint venture, profit will be recognized in full.

The Amendments will be applied prospectively. The Standard's mandatory effective date has not yet been set by the IASB, but early adoption is permitted.

3. IFRS 9 - *Financial Instruments*

In January 2018 IFRS 9 - *Financial Instruments* came into force; the standard replaces IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9 (hereinafter - the "New Standard") mainly amends the provisions for the classification and measurement of financial assets and is applicable to all financial assets under IAS 39.

An amendment to IFRS 4 allows an entity issuing insurance contracts to adopt IFRS 9 with adjustments (hereinafter: the "Overlay Approach") or to postpone the adoption of IFRS 9 to January 1 2023 (hereinafter: the "Deferral Approach" or "Temporary Exemption").

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)

According to the New Standard, upon initial recognition, all financial assets shall be measured at fair value. In subsequent periods, debt instruments should be measured at amortized cost only if both of the following cumulative conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows arising therefrom.
- The contractual terms and conditions of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent measurement of all other debt instruments and financial assets shall be made at fair value. The New Standard distinguishes between debt instruments measured at fair value through profit or loss and debt instruments measured at fair value through other comprehensive income.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in the income statement or in other comprehensive income (loss), as elected by the Company on an instrument-by-instrument basis. Nevertheless, if equity instruments are held for trading, it is mandatory to measure them at fair value through profit or loss.

In addition, the New Standard includes a new model consisting of three stages for measuring the impairment of financial debt instruments that are not measured at fair value through profit or loss, based on the expected credit loss model.

The New Standard includes new requirements for hedge accounting.

The Company applies the Temporary Exemption under IFRS 9 as made possible by IFRS 4, since it has not previously applied any version of IFRS 9 and its activities are mainly related to insurance; as of December 31 2015, the carrying amount of the Company's liabilities arising from IFRS 4 is approx. 94% of the total carrying amount of the Company's liabilities. Since that date, there have been no changes in the Company's activity that require an updated assessment.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**4. Amendment to IAS 37, Provisions, Contingent Liabilities and Contingent Assets**

In May 2020, the IASB issued an amendment to IAS 37 regarding costs that a company must include in assessing whether a contract is a onerous contract (hereinafter - the "Amendment").

According to the amendment, the testing should include both incremental costs (such as raw materials and direct working hours) and the allocation of other costs directly related to the fulfillment of the contract (such as amortization of property, plant, and equipment used to fulfill the contract).

The Amendment shall be applied as from annual periods beginning on January 1 2022. The Amendment will apply to contracts for which the obligations have not yet been fulfilled as of January 1 2022. Earlier application is allowed.

The Company believes that the above amendments are not expected to have a material effect on the financial statements.

5. Amendment to IAS 16, Property, Plant, and Equipment

In May 2020, the IASB published an amendment to IAS 16 (hereinafter - the "Amendment"). The amendment prohibits the deduction of proceeds received from the sale of items manufactured while a company is preparing its property, plant and equipment for its designated use from its cost. Rather, the company should recognize the proceeds from the sale and the related costs in profit and loss.

The Amendment shall be applied as from annual periods beginning on January 1 2022. Earlier application is allowed. The Amendment is applied retrospectively, but only to property, plant, and equipment items that are brought to the location and condition necessary for them to operate in the manner intended by management at the earliest annual reporting period presented in the financial statements to which the Company first applies the Amendment or thereafter. The Company shall recognize the cumulative effect of the first-time application of the Amendment as an adjustment to the opening balance of the retained earnings at the beginning of the period of the first-time application date.

The Company believes that the above amendment is not expected to have a material effect on the financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)**6. Amendment to IAS 1, *Presentation of Financial Statements***

In January 2020, the IASB issued an amendment to IAS 1 regarding the requirements for classifying liabilities as current or non-current (hereinafter - the “Amendment”).

The Amendment clarifies the following matters:

- That which is meant by unconditional right to defer settlement;
- The right to defer must exist as of the end of the reporting date;
- Classification is not affected by the likelihood that an entity will exercise the right to defer;
- Only if a derivative embedded in the convertible liability is an equity instrument, the terms and conditions of the liability will not affect its classification.

The Amendment shall be applied as from annual periods beginning on January 1 2023. The Amendment shall be applied retrospectively.

The Company is examining the effect of the Amendment on its current loan agreements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (cont.)
FF. The following table presents information on the change in the CPI and US dollar exchange rate:

	<u>Consumer price index</u>		<u>Representative exchange rate of the US dollar</u>
	<u>In lieu CPI</u>	<u>Known CPI</u>	
	<u>%</u>	<u>%</u>	<u>%</u>
For the year ended December 31 2020	(0.7)	(0.6)	(7.0)
For the year ended December 31 2019	0.6	0.3	(7.8)
For the year ended December 31 2018	0.8	1.2	8.1

NOTE 3 - OPERATING SEGMENTS

The Company operates in the following operating segments:

1. The life insurance and long-term savings segment

The life insurance and long-term savings segment includes the following subsegments: life insurance, related coverages and pension and provident funds management. The segment includes long-term savings (under various categories of insurance policies, pension funds and provident funds), as well insurance coverages in respect of various risks such as: death, disability, permanent health insurance, and more. In accordance with the Commissioner's directives, the long-term savings segment is broken down into life insurance, pension funds and provident funds. For information regarding the allocation of operating results of Ad 120 as a result of the application of the circular regarding the procedure for allocating non-marketable assets, please see Notes 2.CC.

2. Health insurance segment

The health insurance segment includes the Group's health insurance activity. The segment includes long-term care, medical expenses, surgery and transplants, dental, travel and foreign workers insurance and more.

As from June 30 2019 and after the manner of reporting to operational decision makers in the Company was changed, the assisted living activity of Ad 120 is presented as part of the results of the health segment. For further details, please see Note 2.CC above.

NOTE 3 – OPERATING SEGMENTS (cont.)**3. Property and casualty insurance segment**

The property and casualty insurance segment includes the liability and property subsegments. In accordance with the Commissioner's directives, the property and casualty insurance segment is broken down into compulsory motor insurance, motor property, other property and other liability subsegments.

- Compulsory motor insurance subsegment

The compulsory motor subsegment focuses on coverage, the purchase of which by the vehicle owner or driver is mandatory, in respect of bodily injury caused as a result of the use of a motor vehicle (to the driver, passengers, or pedestrians).

- Motor property subsegment

The motor property subsegment focuses on coverage against property damage to the policyholder's vehicle and third-party property damage caused by the insured vehicle.

- Other liability subsegments

The liability subsegments provide coverage in respect of the policyholder's liability for any third-party damage he/she may cause. These subsegments include: third-party liability, employers' liability, professional liability and product liability.

- Property and other subsegments

Property subsegments other than motor and liability as well as other insurance subsegments.

4. Financial services segment

The financial services segment includes Excellence's results. The segment includes investment management activity, including provident funds, ETFs, brokerage services, underwriting services, marketing making in various securities and other services.

In addition, the results of this segment include the operations of The Phoenix's investment funds.

NOTE 3 – OPERATING SEGMENTS (cont.)**5. Insurance agencies segment**

As of the fourth quarter of 2019, the Company has been presenting the activity of the pension arrangement agencies and the other consolidated insurance agencies as a reportable segment. The comparative figures in the operating segments note were revised retrospectively as required under accounting standards.

6. Other segment

Includes operating segments that do not meet the quantitative threshold for reporting, mainly the assisted living activity (net of revaluation gains plus depreciation expenses in respect of investment property), and the activity of other consolidated companies engaged in various areas.

As of June 30 2019 and after the manner of reporting to operational decision makers in the Company was changed, the assisted living activity of Ad 120 is presented as part of the results of the health segment. For more information, see Note 2.CC.

7. The activity is not attributed to operating segments

This activity includes part of the Group's HQ function that is not attributed to the operating segments, activities which are ancillary/overlapping with the Group's activity and holding assets and liabilities against the Company's share capital in accordance with the Capital Regulations. For further details on the presentation of Ad 120's activity under the health segment, please see Note 2.CC.

NOTE 3 - OPERATING SEGMENTS (cont.)**A. Reportable segment**

	For the year ended December 31 2020								
	Life insurance and long-term savings	Health	P&C insurance	Financial services	Insurance agencies	Other	Not attributed to operating segments	Adjustments and offsets	Total
	In NIS thousand								
Premiums earned, gross	4,765,553	2,781,698	2,835,401	-	-	-	-	-	10,382,652
Premiums earned by reinsurers	99,195	286,671	943,112	-	-	-	-	-	1,328,978
Premiums earned - retention	4,666,358	2,495,027	1,892,289	-	-	-	-	-	9,053,674
Gains on investments, net and finance income	4,632,824	482,269	130,873	(91)	37	127	239,167	(5,500)	5,479,706
Income from management fees	1,106,546	-	-	248,930	1,361	44,915	3,084	(47,647)	1,357,189
Income from fees and commissions (1)	39,119	44,170	214,717	-	389,025	-	-	(130,980) (1)	556,051
Income from financial services	-	-	-	159,000	-	-	-	-	159,000
Other income	11,673	23,999	-	9,000	89,102	1,137	19	(3,084)	131,846
Total income	10,456,520	3,045,464	2,237,879	416,839	479,525	46,179	242,270	(187,211)	16,737,466
Increase in insurance liabilities and payments in respect of insurance contracts	8,517,055	2,371,630	1,640,879	-	-	-	-	-	12,529,564
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	49,450	234,439	542,801	-	-	-	-	-	826,690
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	8,467,605	2,137,191	1,098,078	-	-	-	-	-	11,702,874
Fees and commissions and other purchase expenses	727,330	498,524	597,354	40,000	-	-	-	(113,105)	1,750,103
General and administrative expenses	543,566	161,986	144,083	222,078	237,974	39,466	66,210	(55,335)	1,360,028
Other expenses	26,303	-	-	12,000	9,123	409	7,505	(455)	54,885
Finance expenses (income)	3,397	(2,324)	(8,021)	5,000	3,314	402	147,191	(2,450)	146,509
Total expenses	9,768,201	2,795,377	1,831,494	279,078	250,411	40,277	220,906	(171,345)	15,014,399
Company's share in the net results of investees	12,006	2,055	(3,592)	3,159	8,670	17,399	-	-	39,697
Net income (loss) before taxes on income	700,325	252,143	402,793	140,920	237,784	23,301	21,364	(15,866)	1,762,764
Other comprehensive income (loss) before taxes on income	6,732	(33,485)	121,690	-	(332)	1,467	181,489	-	277,561
Comprehensive income (loss) before taxes on income	707,057	218,658	524,483	140,920	237,452	24,768	202,853	(15,866)	2,040,325

(1) Arises from commission income received from agencies owned by the Group, mainly from activities in the life insurance and long-term savings segment.

NOTE 3 - OPERATING SEGMENTS (cont.)

	For the year ended December 31 2019								
	Life insurance and long-term savings	Health	P&C insurance	Financial services	Insurance agencies	Other	Not attributed to operating segments	Adjustments and offsets	Total
	In NIS thousand								
Premiums earned, gross	5,209,366	3,257,486	2,858,593	-	-	-	-	-	11,325,445
Premiums earned by reinsurers	98,235	376,915	927,006	-	-	-	-	-	1,402,156
Premiums earned - retention	5,111,131	2,880,571	1,931,587	-	-	-	-	-	9,923,289
Gains on investments, net and finance income	7,829,382	786,483	172,872	-	10,944	28,598	277,478	3,938	9,109,695
Income from management fees	1,259,191	-	-	224,000	968	46,787	3,141	(46,603)	1,487,484
Income from fees and commissions (1)	28,919	34,477	219,547	-	366,827	-	-	(108,131) (1)	541,639
Income from financial and other services				143,000	-	-	-		143,000
Other income	-	12,922	-	38,000	27,508	11,152	(2,662)	(824)	86,096
Total income	14,228,623	3,714,453	2,324,006	405,000	406,247	86,537	277,957	(151,620)	21,291,203
Increase in insurance liabilities and payments in respect of insurance contracts	13,302,668 (*)	3,602,386	1,662,770	-	-	-	-	-	18,567,824
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	52,295	368,236	533,561	-	-	-	-	-	954,092
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	13,250,373	3,234,150	1,129,209	-	-	-	-	-	17,613,732
Fees and commissions and other purchase expenses	695,285	669,196	612,688	36,000	-	2,169	-	(96,899)	1,918,439
General and administrative expenses	512,088	181,452	117,362	203,000	236,333	56,297	33,445	(58,769)	1,281,208
Other expenses	(7,044)	-	-	9,000	9,010	-	5,086	-	16,052
Finance expenses (income)	11,278	(5,451)	(9,775)	1,000	2,423	9,687	142,292	(8,856)	142,598
Total expenses	14,461,980	4,079,347	1,849,484	249,000	247,766	68,153	180,823	(164,524)	20,972,029
Company's share in the net results of investees	35,694	-	3,406	11,477	12,289	16,273	17,781	-	96,920
Net income (loss) before taxes on income	(197,663)	(364,894)	477,928	167,477	170,770	34,657	114,915	12,904	416,094
Other comprehensive income (loss) before taxes on income	99,004	53,570	202,597	-	(120)	2,383	246,554	-	603,988
Comprehensive income (loss) before taxes on income	(98,659)	(311,324)	680,525	167,477	170,650	37,040	361,469	12,904	1,020,082

(1) Arises from commission income received from agencies owned by the Group, mainly from activities in the life insurance and long-term savings segment.

(*) Applied retrospectively; for further details, please see Note 2.DD(2) above.

NOTE 3 - OPERATING SEGMENTS (cont.)

	For the year ended December 31 2018								
	Life insurance and long-term savings	Health	P&C insurance	Financial services	Insurance agencies	Other	Not attributed to operating segments	Adjustments and offsets	Total
	In NIS thousand								
Premiums earned, gross	5,082,493	2,231,352	2,790,342	-	-	-	-	-	10,104,187
Premiums earned by reinsurers	65,533	279,750	832,700	-	-	-	-	-	1,177,983
Premiums earned - retention	5,016,960	1,951,602	1,957,642	-	-	-	-	-	8,926,204
Gains on investments, net and finance income	709,378	77,947	155,218	3,300	4,884	45,131	112,793	8,982	1,117,633
Income from management fees	729,841	-	-	90,000	1,314	50,174	3,149	(47,808)	826,670
Income from fees and commissions (1)	21,459	21,982	196,828	-	343,239	-	-	(100,075) (1)	483,433
Income from financial and other services				164,558	-	-	-		164,558
Other income	-	-	-	-	15,291	23,127	-	(592)	37,826
Total income	6,477,638	2,051,531	2,309,688	257,858	364,728	118,432	115,942	(139,493)	11,556,324
Increase in insurance liabilities and payments in respect of insurance contracts	5,174,234 (*)	1,478,146	1,869,232	-	-	-	-	-	8,521,612
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	44,092	227,550	668,315	-	-	-	-	-	939,957
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	5,130,142	1,250,596	1,200,917	-	-	-	-	-	7,581,655
Fees and commissions and other purchase expenses	622,164	602,568	583,346	30,000	-	4,535	-	(89,274)	1,753,339
General and administrative expenses	525,127	116,421	138,135	173,000	216,526	85,322	25,185	(69,059)	1,210,657
Other expenses	(13,766)	-	-	-	8,730	-	-	-	(5,036)
Finance expenses (income)	6,963	-	11,113	1,300	21,791	2,846	139,117	(3,604)	179,526
Total expenses	6,270,630	1,969,585	1,933,511	204,300	247,047	92,703	164,302	(161,937)	10,720,141
Company's share in the net results of investees	23,002	-	1,948	6,000	8,067	31,583	-	-	70,600
Net income (loss) before taxes on income	230,010	81,946	378,125	59,558	125,748	57,312	(48,360)	22,444	906,783
Other comprehensive income (loss) before taxes on income	664	(3,391)	(109,382)	-	(327)	(429)	(104,491)	-	(217,356)
Comprehensive income (loss) before taxes on income	230,674	78,555	268,743	59,558	125,421	56,883	(152,851)	22,444	689,427

(1) Arises from commission income received from agencies owned by the Group, mainly from activities in the life insurance and long-term savings segment.

(*) Applied retrospectively; for further details, please see Note 2.DD(2) above.

NOTE 3 - OPERATING SEGMENTS (cont.)**B. Additional data regarding the life insurance and long-term savings segment**

	For the year ended December 31 2020			
	Life insurance	Provident funds	Pension	Total
	In NIS thousand			
Premiums earned, gross	4,765,553	-	-	4,765,553
Premiums earned by reinsurers	99,195	-	-	99,195
Premiums earned - retention	4,666,358	-	-	4,666,358
Gains on investments, net and finance income	4,592,667	37,459	2,698	4,632,824
Income from management fees	736,673	199,220	170,653	1,106,546
Income from fees and commissions	39,119	-	-	39,119
Other income	11,673	-	-	11,673
Total income	10,046,490	236,679	173,351	10,456,520
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	8,478,358	38,697	-	8,517,055
Share of reinsurers in payments and changes in liabilities in respect of insurance contracts	49,450	-	-	49,450
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	8,428,908	38,697	-	8,467,605
Fees and commissions, marketing expenses and other purchase expenses	554,421	85,389	87,520	727,330
General and administrative expenses	378,758	80,118	84,690	543,566
Other expenses	20,762	733	4,808	26,303
Finance expenses (income)	3,393	21	(17)	3,397
Total expenses	9,386,242	204,958	177,001	9,768,201
Company's share in the net results of investees	12,006	-	-	12,006
Net income (loss) before taxes on income	672,254	31,721	(3,650)	700,325
Other comprehensive income before taxes on income	6,732	-	-	6,732
Comprehensive income (loss) for the year before taxes on income	678,986	31,721	(3,650)	707,057

NOTE 3 - OPERATING SEGMENTS (cont.)

	For the year ended December 31 2019			
	Life insurance	Provident funds	Pension	Total
	In NIS thousand			
Premiums earned, gross	5,209,366	-	-	5,209,366
Premiums earned by reinsurers	98,235	-	-	98,235
Premiums earned - retention	5,111,131	-	-	5,111,131
Gains on investments, net and finance income	7,771,515	47,875	9,992	7,829,382
Income from management fees	889,431	204,535	165,225	1,259,191
Income from fees and commissions	28,919	-	-	28,919
Total income	13,800,996	252,410	175,217	14,228,623
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	13,260,289 (*)	42,379	-	13,302,668
Share of reinsurers in payments and changes in liabilities in respect of insurance contracts	52,295	-	-	52,295
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	13,207,994	42,379	-	13,250,373
Fees and commissions, marketing expenses and other purchase expenses	521,283	89,257	84,745	695,285
General and administrative expenses	352,413	81,070	78,605	512,088
Other expenses (income)	(7,464)	44	376	(7,044)
Finance expenses	11,135	88	55	11,278
Total expenses	14,085,361	212,838	163,781	14,461,980
Company's share in the net results of investees	35,694	-	-	35,694
Net income (loss) before taxes on income	(248,671)	39,572	11,436	(197,663)
Other comprehensive income before taxes on income	99,004	-	-	99,004
Comprehensive income (loss) for the year before taxes on income	(149,667)	39,572	11,436	(98,659)

(*) Applied retrospectively; for further details, please see Note 2.DD(2) above.

NOTE 3 - OPERATING SEGMENTS (cont.)

	For the year ended December 31 2018			
	Life insurance	Provident funds	Pension	Total
	In NIS thousand			
Premiums earned, gross	5,082,493	-	-	5,082,493
Premiums earned by reinsurers	65,533	-	-	65,533
Premiums earned - retention	5,016,960	-	-	5,016,960
Gains on investments, net and finance income	657,370	50,271	1,737	709,378
Income from management fees	377,890	189,064	162,887	729,841
Income from fees and commissions	21,459	-	-	21,459
Total income	6,073,679	239,335	164,624	6,477,638
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	5,125,242	-	-	5,125,242
Share of reinsurers in payments and changes in liabilities in respect of insurance contracts	(*)	48,992	-	5,174,234
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	44,092	-	-	44,092
Fees and commissions, marketing expenses and other purchase expenses	5,081,150	48,992	-	5,130,142
General and administrative expenses	491,994	52,670	77,500	622,164
Other expenses (income)	357,462	108,878	58,787	525,127
Finance expenses	(14,187)	45	376	(13,766)
Total expenses	5,920,268	213,690	136,672	6,270,630
Company's share in the net results of investees	23,002	-	-	23,002
Net income before taxes on income	176,413	25,645	27,952	230,010
Other comprehensive income before taxes on income	664	-	-	664
Comprehensive income before taxes on income	177,077	25,645	27,952	230,674

(*) Applied retrospectively; for further details, please see Note 2.DD(2) above.

NOTE 3 - OPERATING SEGMENTS (cont.)**c. Additional data regarding the property and casualty insurance segment**

	For the year ended December 31 2020				
	Compulsory motor insurance	Motor property	Property and other subsegments (*)	Other liability subsegments (**)	Total
	In NIS thousand				
Gross premiums	584,123	1,031,838	772,728	486,363	2,875,052
Reinsurance premiums	288,266	135	527,646	164,581	980,628
Premiums - retention	295,857	1,031,703	245,082	321,782	1,894,424
Change in unearned premium balance, retention	19,988	(15,965)	(6,996)	5,108	2,135
Premiums earned - retention	275,869	1,047,668	252,078	316,674	1,892,289
Gains on investments, net and finance income	46,101	22,236	6,334	56,202	130,873
Income from fees and commissions	86,229	-	111,679	16,809	214,717
Total income	408,199	1,069,904	370,091	389,685	2,237,879
Payments and change in liabilities in respect of insurance contracts, gross	405,449	700,372	302,746	232,312	1,640,879
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	271,132	(7)	207,374	64,302	542,801
Payments and change in liabilities for insurance contracts - retention	134,317	700,379	95,372	168,010	1,098,078
Fees and commissions, marketing expenses and other purchase expenses	66,377	255,818	176,843	98,316	597,354
General and administrative expenses	30,616	54,182	32,096	27,189	144,083
Finance income	(3,964)	-	(411)	(3,646)	(8,021)
Total expenses	227,346	1,010,379	303,900	289,869	1,831,494
Company's share in the net results of investees	(1,519)	(519)	(157)	(1,397)	(3,592)
Net income before taxes on income	179,334	59,006	66,034	98,419	402,793
Other comprehensive income before taxes on income	51,449	17,583	5,334	47,324	121,690
Comprehensive income before taxes on income	230,783	76,589	71,368	145,743	524,483
Liabilities in respect of insurance contracts, gross, as of December 31 2020	<u>2,731,581</u>	<u>717,570</u>	<u>677,415</u>	<u>2,058,158</u>	<u>6,184,724</u>
Liabilities in respect of insurance contracts - retention - as of December 31 2020	<u>1,725,755</u>	<u>717,570</u>	<u>190,626</u>	<u>1,710,351</u>	<u>4,344,302</u>

(*) Property and other insurance subsegments mainly include data from the comprehensive home insurance, comprehensive business insurance and property loss insurance subsegments, whose activity constitutes 81% of total premiums in these subsegments.

(**) Other liability insurance subsegments mainly include data from the following segments: third-party insurance, professional liability insurance and employers' liability insurance, the activity of which constitutes 84% of total premiums in these subsegments.

NOTE 3 - OPERATING SEGMENTS (cont.)

	For the year ended December 31 2019				
	Compulsory motor insurance	Motor property	Property and other subsegments (*)	Other liability subsegments (**)	Total
	In NIS thousand				
Gross premiums	571,163	1,055,924	758,410	429,509	2,815,006
Reinsurance premiums	320,773	210	485,953	114,228	921,164
Premiums - retention	250,390	1,055,714	272,457	315,281	1,893,842
Change in unearned premium balance, retention	(1,753)	(30,723)	(1,345)	(3,924)	(37,745)
Premiums earned - retention	252,143	1,086,437	273,802	319,205	1,931,587
Gains on investments, net and finance income	76,176	25,577	8,304	62,815	172,872
Income from fees and commissions	89,086	-	114,222	16,239	219,547
Total income	417,405	1,112,014	396,328	398,259	2,324,006
Payments and change in liabilities in respect of insurance contracts, gross	404,689	726,950	251,015	280,116	1,662,770
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	298,747	2	179,911	54,901	533,561
Payments and change in liabilities for insurance contracts - retention	105,942	726,948	71,104	225,215	1,129,209
Fees and commissions, marketing expenses and other purchase expenses	63,279	268,914	188,075	92,420	612,688
General and administrative expenses	24,460	47,408	24,939	20,555	117,362
Finance income	(5,055)	-	(551)	(4,169)	(9,775)
Total expenses	188,626	1,043,270	283,567	334,021	1,849,484
Company's share in the net results of investees	1,515	476	165	1,250	3,406
Net income before taxes on income	230,294	69,220	112,926	65,488	477,928
Other comprehensive income before taxes on income	90,103	28,371	9,822	74,301	202,597
Comprehensive income before taxes on income	320,397	97,591	122,748	139,789	680,525
Liabilities in respect of insurance contracts, gross, as of December 31 2019	2,672,967	731,498	677,935	2,066,230	6,148,630
Liabilities in respect of insurance contracts - retention - as of December 31 2019	1,840,915	731,498	195,097	1,725,821	4,493,331

(*) Property and other insurance subsegments mainly include data from the comprehensive home insurance, comprehensive business insurance and property loss insurance subsegments, whose activity constitutes 78% of total premiums in these subsegments.

(**) Other liability insurance subsegments mainly include data from the following segments: third-party insurance, professional liability insurance and employers' liability insurance, the activity of which constitutes 83% of total premiums in these subsegments.

NOTE 3 - OPERATING SEGMENTS (cont.)

	For the year ended December 31 2018				
	Compulsory motor insurance	Motor property	Property and other subsegments (*)	Other liability subsegments (**)	Total
	In NIS thousand				
Gross premiums	565,261	1,108,819	719,274	428,765	2,822,119
Reinsurance premiums	313,242	90	449,835	102,300	865,467
Premiums - retention	252,019	1,108,729	269,439	326,465	1,956,652
Change in unearned premium balance, retention	(14,715)	19,847	(14,103)	7,981	(990)
Premiums earned - retention	266,734	1,088,882	283,542	318,484	1,957,642
Gains on investments, net and finance income	72,842	20,615	7,914	53,847	155,218
Income from fees and commissions	78,367	-	110,635	7,826	196,828
Total income	417,943	1,109,497	402,091	380,157	2,309,688
Payments and change in liabilities in respect of insurance contracts, gross	494,799	658,627	379,779	336,027	1,869,232
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	293,623	92	285,992	88,608	668,315
Payments and change in liabilities for insurance contracts - retention	201,176	658,535	93,787	247,419	1,200,917
Fees and commissions, marketing expenses and other purchase expenses	58,498	263,469	175,591	85,788	583,346
General and administrative expenses	28,875	56,431	30,753	22,076	138,135
Finance expenses	6,014	-	653	4,446	11,113
Total expenses	294,563	978,435	300,784	359,729	1,933,511
Company's share in the net results of investees	903	279	98	668	1,948
Net income before taxes on income	124,283	131,341	101,405	21,096	378,125
Other comprehensive loss before taxes on income	(50,725)	(15,648)	(5,511)	(37,498)	(109,382)
Comprehensive income (loss) for the year before taxes on income	73,558	115,693	95,894	(16,402)	268,743
Liabilities in respect of insurance contracts, gross, as of December 31 2018	2,638,189	739,574	747,248	2,035,844	6,160,855
Liabilities in respect of insurance contracts - retention - as of December 31 2018	2,057,751	739,574	208,867	1,690,555	4,696,747

(*) Property and other insurance subsegments mainly include data from the following subsegments: comprehensive home insurance, comprehensive business insurance and property loss insurance, the activity of which constitutes 77% of total premiums in these subsegments.

(**) Other liability insurance subsegments mainly include data from the following segments: third-party insurance, professional liability insurance and employers' liability insurance, the activity of which constitutes 86% of total premiums in these subsegments.

NOTE 3 - OPERATING SEGMENTS (cont.)**D. Information about the segment's assets and liabilities**

	As of December 31 2020							
	Life insurance and long-term savings	Health	Property and casualty insurance	Financial services	Insurance agencies	Other	Not attributed to operating segments	Adjustments and offsets
	In NIS thousand							
Assets:								
Intangible assets	364,559	-	-	473,420	483,925	-	694,764	-
Deferred acquisition costs	1,157,424	377,756	240,040	-	-	-	-	(62,590)
Investments in associates	107,112	368,964	27,051	4,000	54,823	194,919	-	-
Investment property for yield-dependent contracts	1,839,576	-	-	-	-	-	-	-
Investment property - other	2,349,575	195,356	183,779	-	-	-	-	-
Financial investments in respect of yield-dependent contracts	61,013,644	4,556,803	-	-	-	-	-	-
Financial investments for holders of bonds, ETFs, short ETNs, composite ETNs, and deposit certificates	-	-	-	239,000	-	-	-	-
Other financial investments								
Marketable debt assets	1,384,696	468,525	2,673,632	13,000	19,622	893	3,535,100	-
Non-marketable debt assets	8,703,806	2,748,313	1,048,047	768,000	3,366	-	770,295	(34,638)
Shares	239,550	81,335	649,455	36,000	1,964	788	890,901	-
Other	1,355,336	466,404	479,114	36,000	3,802	-	906,813	-
Total other financial investments	11,683,388	3,764,577	4,850,248	853,000	28,754	1,681	6,103,109	(34,638)
Cash and cash equivalents in respect of yield-dependent contracts	9,740,741	723,475	-	-	-	-	-	-
Other cash and cash equivalents	258,836	74,636	340,080	205,000	323,818	14,667	328,866	-
Reinsurance assets	183,229	508,008	1,840,422	-	-	-	-	-
Premiums collectible	42,167	101,394	508,264	-	-	-	-	-
Other assets	253,825	10,174	110,875	671,000	37,049	45,045	2,342,067	(1,613,852)
Total assets	88,994,076	10,681,143	8,100,759	2,445,420	928,369	256,312	9,468,806	(1,711,080)
Total assets in respect of yield-dependent contracts	72,717,525	5,316,559	-	-	-	-	-	-
Liabilities:								
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts	13,113,389	4,171,774	6,184,724	-	-	-	-	-
Liabilities in respect of insurance contracts and yield-dependent investment contracts	71,540,354	5,316,559	-	-	-	-	-	-
Liabilities for bonds, ETFs, short ETNs and composite ETNs	-	-	-	238,000	-	-	-	-
Financial liabilities	1,070,212	257,382	11,492	1,008,000	59,100	-	4,672,165	(34,637)
Other liabilities	2,138,721	30,949	1,658,930	159,000	165,294	31,098	900,230	(1,610,761)
Total liabilities	87,862,676	9,776,664	7,855,146	1,405,000	224,394	31,098	5,572,395	(1,645,398)

NOTE 3 - OPERATING SEGMENTS (cont.)

	As of December 31 2019								
	Life insurance and long-term savings	Health	Property and casualty insurance	Financial services	Insurance agencies	Other	Not attributed to operating segments	Adjustments and offsets	Total
	In NIS thousand								
Assets:									
Intangible assets	318,727	-	-	342,420	284,361	-	814,890	-	1,760,398
Deferred acquisition costs	1,140,673	401,631	239,779	-	-	-	-	(48,536)	1,733,547
Investments in associates	79,268	364,000	41,574	4,000	55,065	174,023	-	-	717,930
Investment property for yield-dependent contracts	1,452,802	101,263	-	-	-	-	-	-	1,554,065
Investment property - other	745,479	1,616,015	185,862	-	-	-	-	-	2,547,356
Financial investments in respect of yield-dependent contracts	60,171,695	4,133,220	-	-	-	-	-	-	64,304,915
Financial investments for holders of bonds, ETFs, short ETNs, composite ETNs, and deposit certificates	-	-	-	284,000	-	-	-	-	284,000
Other financial investments									
Marketable debt assets	1,472,623	454,468	2,581,462	24,000	126,969	1,380	3,418,377	-	8,079,279
Non-marketable debt assets	8,580,191	2,509,865	891,157	269,000	31,927	-	766,940	(73,370)	12,975,710
Shares	270,926	86,476	526,259	53,000	2,569	798	643,926	-	1,583,954
Other	1,057,800	335,930	243,930	6,000	483	-	525,440	-	2,169,583
Total other financial investments	11,381,540	3,386,739	4,242,808	352,000	161,948	2,178	5,354,683	(73,370)	24,808,526
Cash and cash equivalents in respect of yield-dependent contracts	5,246,726	365,709	-	-	-	-	-	-	5,612,435
Other cash and cash equivalents	248,349	87,189	460,113	138,000	100,819	12,967	684,272	-	1,731,709
Reinsurance assets	170,032	522,390	1,655,299	-	-	-	-	-	2,347,721
Premiums collectible	85,838	144,920	490,819	-	-	-	-	-	721,577
Other assets	877,054	74,847	160,363	566,000	111,626	27,932	311,053	(189,334)	1,939,541
Total assets	81,918,183	11,197,923	7,476,617	1,686,420	713,819	217,100	7,164,898	(311,240)	110,063,720
Total assets in respect of yield-dependent contracts	67,027,963	4,634,113	-	-	-	-	-	-	71,662,076
Liabilities:									
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts	13,053,215 (*)	3,990,345	6,148,630	-	-	-	-	-	23,192,190
Liabilities in respect of insurance contracts and yield-dependent investment contracts	66,456,764	4,634,113	-	-	-	-	-	-	71,090,877
Liabilities for bonds, ETFs, short ETNs and composite ETNs	-	-	-	282,000	-	-	-	-	282,000
Financial liabilities	125,009	667,094	6,333	468,000	63,059	-	4,502,427	(74,475)	5,757,447
Other liabilities	1,001,558 (*)	247,446	1,065,458	116,000	90,028	28,196	634,567	(184,571)	2,998,682
Total liabilities	80,636,546	9,538,998	7,220,421	866,000	153,087	28,196	5,136,994	(259,046)	103,321,196

(*) Applied retrospectively; for further details, please see Note 2.DD(2) above.

NOTE 4 - INTANGIBLE ASSETS**A. Composition and changes**

	Goodwill	Original differences attributed to fees and commissions portfolios and future management fees	Non-competition	Brand	Computer software	Total
	In NIS thousand					
Cost						
Balance as of January 1 2019	1,158,500	316,105	49,177	45,915	2,274,728	3,844,425
Additions (see Section C below)	659	17,681	122	-	239,294 (*)	257,756
Company consolidated for the first time (see Section D below)	43,063	42,853	6,000	-	6,423	98,339
Balance as of December 31 2019	1,202,222	376,639	55,299	45,915	2,520,445	4,200,520
					231,708	
Additions	202	1,343	177	-	(*)	233,430
First-time consolidation (see Section E below)	154,549	76,471	4,777	-	6,066	241,863
Balance as of December 31 2020	1,356,973	454,453	60,253	45,915	2,758,219	4,675,813
Accumulated amortization and accumulated impairment losses						
Balance as of January 1 2019	258,202	252,788	41,964	45,915	1,615,308	2,214,177
Amortization recognized during the year (***)	-	14,024	4,406	-	205,615	224,045
First-time consolidation (see Section D below)	828	214	-	-	858	1,900
Balance as of December 31 2019	259,030	267,026	46,370	45,915	1,821,781	2,440,122
Amortization recognized during the year (***)	-	17,707	4,003	-	193,796	215,506
First-time consolidation (see Section E below)	-	-	-	-	3,517	3,517
Balance as of December 31 2020	259,030	284,733	50,373	45,915	2,019,094	2,659,145
Net carrying amount						
As of December 31 2020	1,097,943	169,720	9,880	-	739,125	2,016,668
As of December 31 2019	943,192	109,613	8,929	-	698,664	1,760,398

(*) Additions in respect of computer software include additions in respect of internal-use software in 2020 and 2019 amounting to NIS 167 thousand and NIS 169 thousand, respectively.

(**) The amortization recognized during the year (except for computer software) was carried to the other expenses line item.

NOTE 4 - INTANGIBLE ASSETS (cont.)**B. Testing the recoverability of intangible assets with indefinite useful lives (goodwill)**

In order to test the recoverability of goodwill, it was allocated to the following cash-generating units:

- Provident and pension funds - management of provident funds for retirement benefits, advanced education funds, central severance pay provident fund and management of pension funds.
- Financial services - management of mutual funds, ETFs, stock exchange services, portfolio management, operation and management of employee options, and underwriting.
- Insurance agencies and retirement consulting.
- Assisted living.

Set forth below is the carrying amount of the goodwill allocated to each of following cash-generating units:

	As of December 31	
	2020	2019
	In NIS thousand	
Provident and pension funds	324,871	324,871
Financial services	399,130	375,130
Pension arrangement agencies	350,094	219,343
Senior housing	23,848	23,848
Total	<u>1,097,943</u>	<u>943,192</u>

Provident and pension funds

On March 31 2019, the Board of Directors of The Phoenix Insurance decided to merge The Phoenix Pension and Excellence Gemel. The merger was completed on June 30 2019. For further details, please see 1.D.

In order to test the recoverability of goodwill, the recoverable amount of the cash-generating unit to which the goodwill was allocated was compared to its carrying amount. To the extent that the recoverable amount of the cash-generating unit exceeds its carrying amount, value of the unit and the assets allocated to it shall not be considered to have been impaired.

NOTE 4 - INTANGIBLE ASSETS (cont.)

The recoverable amount of the pension and provident funds cash-generating unit is determined based on an appraisal conducted by Mr. Uri Cohen of Cognum Financial Consulting Ltd.

The appraisal of the pension and provident funds cash-generating unit based on value in use. The value in use was calculated using the representative projected EV/EBITDA multiple method, which is an approximation of the discounted cash flow method; the value in use of the pension funds management activity was not calculated using this method; rather, it was calculated using the discounted cash flow method over a forecast period of the next 15 years, and estimating the exit value and discounting them by a discount rate that reflects the risk inherent in the Company's activity.

For the purpose of estimating the value in use of the provident funds management activity, a post-tax operating ratio of 10.5-11.5 was assumed, which reflects discount rates of 9.7%-11.9% after tax and a long-term growth rate of 1.5%-2.5%. The rate of management fees assumed is 0.59%-0.61%.

It should be noted that the appraiser took into account the draft regulations regarding reduction of management fees for retirees.

Set forth below is an analysis of the sensitivity of the average value of the activity to changes in the amount of the assets under management in the provident funds activity and to the average multiple:

	Assets under management by provident funds				
	In NIS million				
Multiplier	36,218	35,718	35,218	34,718	34,218
10.0	326	313	300	286	273
10.5	343	329	315	301	287
11.0	359	344	330	315	300
11.5	375	360	345	329	314
12.0	392	376	360	344	328

NOTE 4 - INTANGIBLE ASSETS (cont.)

For the purpose of estimating the value in use of the pension funds management activity a post-tax cost of capital of approximately 10% was assumed. The long-term growth rate of approximately 2%. The long-term rate of management fees assumed out of total contributions into the comprehensive fund is approximately 2%; and the long-term weighted rate of management fees assumed out of the total amount of accrual is 0.19% of total assets.

Set forth below is a sensitivity analysis of the enterprise value of the new pension funds, including the old fund, to changes in the long-term discount rate and growth rate:

The discount rate				
In NIS million				
Growth rate	9.0%	9.5%	10.0%	10.5%
1.0%	837	764	700	644
1.5%	871	792	724	663
2.0%	910	824	750	685
2.5%	954	860	780	710
3.0%	1,006	902	814	738

In 2020 and 2019, the recoverable amount of the provident and pension funds cash-generating unit is higher than its carrying amount.

Insurance agencies and pension advice

The recoverable amount of the goodwill in respect of insurance agencies and pension advice cash-generating unit is determined based on individual appraisals of the various agencies and in accordance with the projected cash flow method. The recoverability of goodwill is tested at individual agency level. The recoverability testing showed that the recoverable amount of the goodwill of each of the agencies exceeds its carrying amount.

NOTE 4 - INTANGIBLE ASSETS (cont.)**Financial services**

The appraisal of the financial services cash-generating unit is based on fair value. For the purpose of estimating the fair value of the financial services activity, each activity included in this cash-generating unit was assessed separately, mainly by using the multiple method. The EV/EBITDA multiple is in the range of 9 to 10 depending on the type of the activity, which reflects a post-tax discount rate of 12%-13%, and a growth rate of 1.5%-2.5%. The average rate of management fees assumed for the activity of the active funds is 0.77%-0.78%; the average rate of management fees assumed for the activity of the passive funds is 0.39%-0.40%.

The recoverable amount of the financial services cash-generating unit is determined based on an appraisal conducted by Mr. Uri Cohen of Cognum Financial Consulting Ltd.

Set forth below is an analysis of the sensitivity of the value of the funds activity (including the value of the tax shield in respect of carry forward losses) to the average amount of asset under management in both scenarios:

Sensitivity of analysis to average amount of assets under management					
In NIS million					
Multiplier	48,700	48,500	48,300	48,100	47,900
8.5	499	494	490	485	480
9.0	523	518	513	508	504
9.5	547	542	537	532	527
10.0	571	566	560	555	550
10.5	595	590	584	579	573

In 2020 and 2019, the recoverable amount of the provident and pension funds cash-generating unit is higher than its carrying amount.

- C.** In 2019, consolidated companies acquired shares of agencies providing pension insurance services, for a total of approximately NIS 16.5 million. Furthermore, in 2019, Excellence recorded approximately NIS 2 million as an intangible asset allocated to rights in respect of future management fees.
- D.** During the first quarter of 2019, Excellence Investments entered into an agreement for the acquisition of 42.89% of ESOP Management & Trust Services Ltd., in consideration for NIS 28 million. For further details, please see Note 7.D.10.

NOTE 4 - INTANGIBLE ASSETS (cont.)

In addition, in 2019, consolidated companies acquired shares of agencies providing pension insurance services, as described below:

- a) 70% of the issued and paid-up share capital of Orot Maya Insurance Agency (2013) Ltd. in consideration for approximately NIS 5 million.
- b) 70% of the issued and paid-up share capital of Eshkol 4 U Insurance Agency (2006) Ltd. in consideration for a total of approximately NIS 9 million; the buyer also has the option to acquire, and the minority shareholders have the option to sell the remaining shares; a liability of approximately NIS 3.7 million was recorded in the books of accounts in respect of the option.
- c) 100% of the share capital of My Pensya Pension Insurance Agency Ltd. in consideration for NIS 5 million. Furthermore, as a result of the acquisition, a negative goodwill totaling approximately NIS 3 million was recognized.

In accordance with the appraisers, the excesses of cost as above were allocated to insurance portfolios, software and goodwill.

E. Companies consolidated for the first time

- a) In December 2020, The Phoenix Agencies acquired additional shares of the Oren Mizrach Group directly and indirectly, such that after the acquisition, The Phoenix directly and indirectly holds approximately 70% of the share capital of the Oren Mizrach Group. The Phoenix Agencies recognized the fair value of the assets acquired and the liabilities assumed as part of the business combination according to a temporary appraisal from an external appraiser. For further details, please see 7.D.3 below.
- b) In February 2020, Excellence completed the acquisition of 100% of the shares of Alumot Portfolio Management Ltd. and Alumot Mutual Fund Management Ltd. Excellence recognized the fair value of the assets acquired and the liabilities assumed as part of the business combination according to an appraisal from an external appraiser. For further details, please see 7.D.11 below.
- c) During the third quarter of 2020, a company wholly owned by The Phoenix Agencies acquired additional shares in Lev Hadekel Insurance Agency (2004) Ltd. and Eshel Insurance Agency (1999) Ltd. Upon completion of the transaction, the acquirer wholly owns these companies. Accordingly, the acquirer recorded approximately NIS 21 million in goodwill.

NOTE 5 - DEFERRED ACQUISITION COSTS
A. Composition:

	December 31	
	2020	2019
	In NIS thousand	
Life insurance and long-term savings	751,191	796,940
Pension funds and provident funds	343,641	295,192
Health insurance	377,758	401,636
Property and casualty insurance (Note 18)	240,040	239,779
	<u>1,712,630</u>	<u>1,733,547</u>

B. Change in deferred acquisition costs in life insurance, pension funds, provident funds and health insurance:

	Life insurance and long-term savings (*)	Pension funds and provident funds	Health	Total
	In NIS thousand			
Balance as of January 1 2019	783,637	258,727	399,131	1,441,495
Additions:				
Purchase fees	104,098	75,625	104,523	284,246
Other purchase expenses	132,696	12,712	106,115	251,523
Total additions	236,794	88,337	210,638	535,769
Current amortization	(87,392)	(51,872)	(115,780)	(255,044)
Deduction for cancellations	(136,099)	-	(92,353)	(228,452)
Balance as of December 31 2019	796,940	295,192	401,636	1,493,768
Additions:				
Purchase fees	74,544	94,369	85,945	254,858
Other purchase expenses	124,926	16,179	89,537	230,642
Total additions	199,470	110,548	175,482	485,500
Current amortization	(88,044)	(62,099)	(113,711)	(263,854)
Deduction for cancellations	(157,175)	-	(85,649)	(242,824)
Balance as of December 31 2020	<u>751,191</u>	<u>343,641</u>	<u>377,758</u>	<u>1,472,590</u>

(*) The amount of deferred acquisition costs in respect of an investment contract is non-material. The balance as of December 31 2020 and December 31 2019 includes a deduction of intra-group acquisition costs in the amount of NIS 62,590 thousand and NIS 48,536 thousand.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

A. Composition and changes:

2020

	Land and buildings (b)	Computers	Vehicles	Office furniture and equipment	Leasehold improvements	Works of art	Right of use assets for buildings	Right of use assets for vehicles	Total
In NIS thousand									
<u>Cost</u>									
Balance as of January 1 2020	465,692	359,201	1,782	210,551	43,906	74,379	128,231	33,035	1,316,777
First-time consolidation (see Note 7(d)(3) below)	-	2,318	266	3,365	1,050	-	8,699	-	15,698
Additions during the year	88,771	37,666	-	2,809	8,305	-	3,669	4,714	145,934
Revaluation recognized in other comprehensive income (see B.2 below)	15,134	-	-	-	-	-	-	-	15,382
Derecognitions during the year	-	(3,898)	(248)	(2,162)	(6)	-	(5,480)	(10,164)	(21,958)
Balance as of December 31 2020	<u>569,597</u>	<u>395,287</u>	<u>1,800</u>	<u>214,563</u>	<u>53,255</u>	<u>74,379</u>	<u>135,119</u>	<u>27,585</u>	<u>1,471,585</u>
<u>Accumulated depreciation</u>									
Balance as of January 1 2020	-	297,002	748	163,127	29,558	-	21,621	12,962	525,018
First-time consolidation	-	1,957	266	2,233	532	-	-	-	4,988
Additions during the year	9,005	28,962	192	5,260	2,581	-	27,341	11,292	84,633
Revaluation recognized in other comprehensive income (see B.2 below)	(2,180)	-	-	-	-	-	-	-	(2,180)
Derecognitions during the year	-	(3,934)	(225)	(1,033)	-	-	(2,426)	(9,259)	(16,844)
Balance as of December 31 2020	<u>6,825</u>	<u>323,987</u>	<u>981</u>	<u>169,587</u>	<u>32,671</u>	<u>-</u>	<u>46,536</u>	<u>14,995</u>	<u>595,582</u>
Balance of amortized cost	562,772	71,300	819	44,976	20,584	74,379	88,583	12,590	876,003
Provision for impairment	-	-	-	-	-	(14,138)	-	-	(14,138)
Balance as of December 31 2020	<u>562,772</u>	<u>71,300</u>	<u>819</u>	<u>44,976</u>	<u>20,584</u>	<u>60,241</u>	<u>88,583</u>	<u>12,590</u>	<u>861,865</u>

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (cont.)**A. Composition and changes (cont.)****2019**

	Land and buildings (b)	Compu- ters	Vehi- cles	Office furni- ture and equip- ment	Lease- hold impro- ve- ments	Works of art	Right of use assets for build- ings	Works of art	Total
In NIS thousand									
<u>Cost</u>									
Balance as of January 1 2019	400,080	329,489	1,566	207,919	39,216	74,379	-	-	1,052,649
Additions during the year	63,813	27,365	386	4,198	4,539	-	25,144	5,476	130,921
Effect of first-time application of IFRS 16	-	-	-	-	-	-	103,345	27,617	130,962
Revaluation recognized in other comprehensive income (see B.2 below)	1,799	-	-	-	-	-	-	-	1,799
First-time consolidation	-	3,058	163	271	157	-	-	-	3,649
Derecognitions during the year	-	(711)	(333)	(1,837)	(6)	-	(258)	(58)	(3,203)
Balance as of December 31 2019	465,692	359,201	1,782	210,551	43,906	74,379	128,231	33,035	1,316,777
<u>Accumulated depreciation</u>									
Balance as of January 1 2019	-	270,932	644	157,188	27,632	-	-	-	456,396
Additions during the year	8,389	24,870	200	7,407	1,783	-	21,735	13,020	77,404
First-time consolidation	-	1,901	67	117	149	-	-	-	2,234
Revaluation recognized in other comprehensive income (see B.2 below)	(8,389)	-	-	-	-	-	-	-	(8,389)
Derecognitions during the year	-	(701)	(163)	(1,585)	(6)	-	(114)	(58)	(2,627)
Balance as of December 31 2019	-	297,002	748	163,127	29,558	-	21,621	12,962	525,018
Balance of amortized cost	465,692 (14,533)	62,199	1,034	47,424	14,348	74,379	106,610	20,073	791,759
Provision for impairment	(*)	-	-	-	-	(7,561)	-	-	(22,094)
Balance as of December 31 2019	451,159	62,199	1,034	47,424	14,348	66,818	106,610	20,073	769,665

(*) In respect of long-term care and assisted living facilities.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (cont.)**B. Land and buildings:**

1. Phoenix Insurance and Hadar Green Company Properties and Investments Ltd. - A company wholly owned by The Phoenix Insurance Company (hereinafter - "Hadar Green") are the owners and hold the rights to be registered as owners of 22 floors of offices, warehouses, parking lots and ancillary areas in an office and commercial high-rise building located in plot 923, block 6154 in Givatayim (hereinafter - "Beit Havered"). The sellers, in whose name the plot is registered with the Real Estate Registration Bureau in Tel Aviv-Yafo, undertook to register the plot in the name of the Company within 36 months of handing over the property to the Company. Procedures for registering the building as a condominium have begun and drafts have been submitted to the Supervisor of Registration of Condominiums. The Supervisor demanded that the full plans be approved by the local planning and construction committee. The completion of the registration was delayed for reasons involving the sellers.

In another agreement for the acquisition of an investment property dated September 27 2011, signed between The Phoenix Insurance Company Ltd. and several of the registered owners of the property who held the remaining rights to the property - Isralom Properties Ltd. and Isralom Building Company (1989) Ltd. (hereinafter - the "Seller ") - under which The Phoenix Insurance acquired additional space in Beit Havered - the Seller undertook to complete the registration of the building as a condominium, including registration of the registration rights in the building within five years of the date of signing the agreement, and even deposited financial deposits to guarantee compliance with these dates.

In 2017, The Phoenix Insurance forfeited the deposit, which totaled approximately NIS 5 million, deposited to guarantee the registration. On December 23 2018, the Seller filed a claim for a declaratory and monetary relief against the Company and against Hadar Green. In view of the fact that the receipt of the certificate of completion is under review by the Appeals Committee, the parties reached a hearing agreement, according to which the claim will be frozen at this stage until the completion of the proceedings in the Appeals Committee.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (cont.)

On September 10 2019, the court announced the dismissal of the lawsuit, pursuant to Regulation 153 (a) to the Civil Procedure Regulations, allowing Isralom to re-submit the claim. At the same time, the parties are collaborating to obtain the certificate of completion from the authorities; the parties agreed that Isralom would not re-submit the claim.

All the rights to the land and buildings are owned by the Company, with the exception of a property valued at approximately NIS 11 million as of the balance sheet date, which is a capitalized lease from the Israel Lands Administration.

2. Revaluation of land and buildings:

- (a) As of December 31 2015, the Company measures land and buildings using a revaluation model.
- (b) The revaluation of the land and buildings in respect of Beit Havered (which constitutes the bulk of the land and buildings), was carried out by the firm of Adi Naor - Real Estate Appraisal & Management, who are independent certified appraisers. The fair value was determined using market-based evidence, in December 2020.
- (c) Due to the use of the revaluation model, a revaluation reserve has been created with a balance as of December 31 2020 of approximately NIS 115 million, net of tax (December 31 2019 - NIS 103 million).
- (d) The fair value of the land and buildings was determined using the income capitalization approach (in relation to rental income data) and the comparison approach for similar properties. The valuation performed by the appraiser is based on active market prices, adjusted for differences in the nature, location or conditions of the specific asset.
- (e) A 5% increase in the price per square meter will result in an appreciation of approximately NIS 15 million. A 5% decrease in the price per square meter will result in a depreciation of approximately NIS 13 million.
- (f) Land and buildings are measured at fair value and are classified to Level 3 of the fair value hierarchy.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (cont.)
B. Land and buildings (cont.)

- (g) Had the land and buildings been measured using the cost model, their value in the financial statements would have been as follows:

	As of December 31	
	2020	2019
	In NIS thousand	
Cost	540,791	449,294
Accumulated depreciation	(111,926)	(107,577)
Provision for impairment	-	(14,533)
Total	<u>428,865</u>	<u>327,184</u>

NOTE 7 - INVESTMENT IN INVESTEEES
A. Equity-accounted investees

1. Details regarding equity-accounted investees:

	Please see Section D below	Country of incorporation	Loans and capital notes	Total investment	Total
In NIS thousand					
<u>December</u>					
<u>31 2020</u>					
Gama Management and Clearing Ltd.	(13)	Israel	50,000	107,601	157,601
Haphen-Tao Holdings Limited Partnership Ltd.	(7)	Israel	-	77,233	77,233
Real estate investments	(15)		-	374,163	374,163
Other			52,809	95,063	147,872
			<u>102,809</u>	<u>654,060</u>	<u>756,869</u>
<u>December</u>					
<u>31 2019</u>					
Gama Management and Clearing Ltd.	(13)	Israel	50,000	91,563	141,563
Haphen-Tao Holdings Limited Partnership Ltd.	(7)	Israel	-	83,423	83,423
Real estate investments	(15)		-	346,651	346,651
Other			34,717	111,576	146,293
			<u>84,717</u>	<u>633,213</u>	<u>717,930</u>

For further details regarding the ownership stake, please see Section C below.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)**A. Equity-accounted investees (cont.)**2. Composition of investments:

	As of December 31	
	2020	2019
	In NIS thousand	
Shares	663,922	643,075
Loans	102,809	84,717
	766,731	727,792
Less - provision for impairment	(9,862)	(9,862)
	<u>756,869</u>	<u>717,930</u>
Goodwill and intangible assets included in the investment	<u>58,581</u>	<u>60,109</u>

3. The Group's share in the results of operations of the equity-accounted investees according to the holding stake therein during the period:

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Revenues (*)	<u>387,101</u>	<u>730,008</u>	<u>836,715</u>
Net income for the period	<u>39,697</u>	<u>96,920</u>	<u>70,600</u>
Other comprehensive income (loss)	<u>(3,412)</u>	<u>(17,850)</u>	<u>12,984</u>

(*) The decrease in revenues in 2020 compared to 2019 is mainly due to the dispute regarding Mehadrin as dividend in kind; for further details, please see Section D(12) above.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)
B. Consolidated companies held directly by the Company

Composition of investment:

	Loans and capital notes provided by the Company to consolidated companies	Total investment in investees
	In NIS thousand	
2020		
The Phoenix Insurance Company Ltd. (*)	853,967	6,361,520
The Phoenix Investments and Finances Ltd. (**)	332,878	888,245
The Phoenix Insurance Agency 1989 Ltd. (***)	-	612,741
Other	5,262	(1,240)
	<u>1,192,107</u>	<u>7,861,266</u>
2019		
The Phoenix Insurance Company Ltd.	635,966	5,264,672
The Phoenix Investments and Finances Ltd.	344,878	753,121
The Phoenix Insurance Agency 1989 Ltd. (***)	-	448,249
Other	5,683	(2,051)
	<u>986,527</u>	<u>6,463,991</u>

(*) In January 2020, the Board of Directors of the Company approved an investment in The Phoenix Insurance against the issue of another Tier 1 capital instrument in the amount of NIS 220 million, with the aim of reinforcing the equity capital of The Phoenix Insurance. The capital instrument was issued at an annual interest rate of 4.53%. In March 2020, the Commissioner of the Capital Market, Insurance and Savings Authority approved the inclusion of additional Tier 1 capital in The Phoenix Insurance's equity calculation. This capital is included in the calculation of the economic solvency ratio of The Phoenix Insurance as of December 31 2019. For further details, please see Note 26.

(**) In 2020, The Phoenix Investments repaid capital notes totaling approx. NIS 12 million.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)
C. Breakdown of holdings in main investees

			As of December 31	
			2020	2019
			Shares conferring voting rights and rights to profits	Shares conferring voting rights and rights to profits
	See Section D below	Country of incorporation	Rate of ownership in %	
<u>The Company's investees</u>				
The Phoenix Insurance Company Ltd.		Israel	100	100
The Phoenix Investments and Finances Ltd.		Israel	100	100
The Phoenix Insurance Agency 1989 Ltd.	(1)	Israel	100	100
<u>The Phoenix Insurance's investees</u>				
The Phoenix Excellence Pension and Provident Funds Ltd.	(4)	Israel	100	100
The Phoenix Capital Raising (2009) Ltd.	(5)	Israel	100	100
Ad 120 Residence Centers for Senior Citizens Ltd.	(6)	Israel	100	100
Haphen-Tao Holdings Limited Partnership Ltd. (*)	(7)	Israel	29	29
<u>Investees of The Phoenix Investments and Finances Ltd.</u>				
Excellence Investments Ltd.	(8)	Israel	100	100
Gama Management and Clearing Ltd.	(13)	Israel	49	49
Phoeniclass Ltd.	(14)	Israel	67	67
<u>Major investees of The Phoenix Insurance Agency 1989 Ltd.</u>				
Shekel Insurance Agency (2008) Ltd.		Israel	100	100
Agam Liderim Holdings (2001) Ltd. (hereinafter - "Agam Liderim") (**)		Israel	60	60
Agam Liderim Insurance Agency (2003) Ltd. (hereinafter: "Agam") (**)	(2)	Israel	25	25
Oren Mizrach Ltd.	(3)	Israel	70	50

(*) An additional ownership interest of 20% is accounted for as a financial investment for yield-dependent contracts, and another 1% ownership interest - through The Phoenix Mul Hayam - is a limited partnership management company held by The Phoenix Investments.

(**) Agam Liderim holds an ownership interest of 75% in Agam, such that the effective ownership interest of The Phoenix Agencies in Agam is approximately 70%. For details regarding the put option for non-controlling interests, please see Section D below.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)**D. Additional information regarding investees**1. The Phoenix Insurance Agency 1989 Ltd.

On April 18, 2019, the Board of Directors of The Phoenix Insurance approved the distribution of shares of The Phoenix Insurance as dividend in-kind to the Company. For further details, please see the immediate report of The Phoenix Capital Raising dated April 18 2019 (Ref. No. 2019-01-036039).

2. Agam Liderim - put option for non-controlling interests in The Phoenix Agencies

On March 28 2019, an agreement was signed between the Company and Yitzhak Oz (hereinafter - "Oz") and Hagoz 2015 Ltd., which he owns (hereinafter - "Hagoz"); under the agreement, Hagoz was granted a put option - valid from January 1 2020 to December 31 2020 (hereinafter - the "Options Period") - for the sale of his entire shares in Agam Liderim to the Company, and the Company was given a call option for the duration of the Options Period to acquire all of Hagoz's shares in Agam Liderim. The Phoenix Agencies indirectly owns 70% of Agam, and Hagoz indirectly owns 30% of the company by holding 40% of Agam Liderim, for which the put and call options had been granted. According to the terms and conditions of the agreement, if the put option or the call option is exercised, the purchase of the shares will be made as of December 31 2020, according to the value of Agam Liderim as of that date, as determined by an agreed-upon appraiser. As to 26.8% of Agam Holdings' shares, a minimum price of NIS 26.8 million will be set (according to a company value of NIS 100 million). As for the remaining shares (13.2% of Agam Liderim's shares) there will be no minimum price. In the event of an exercise of the options, the Company will be entitled, at its sole discretion, to pay the consideration in cash or allocate shares in the company to Hagoz, at a 5% discount of their price on the stock exchange (hereinafter - the "New Agreement").

Furthermore, the exercise of the options will be subject to regulatory approvals. For further details, please see the immediate report dated October 31 2018 (Ref. No. 2018-01-098497).

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

On December 31 2019, an amendment to the agreement between the Company and Oz and Hagoz was signed, amending some of the terms and conditions of the agreement signed between the parties on March 28 2019, as detailed above. Under the amendment to the agreement, the Options Period shall be postponed by 4 years, such that the options will be exercisable between January 1 2024 and January 3 2025, and the record date for the transaction value will be postponed from December 31 2020 to January 1 2025, respectively.

As part of the changes, a minimum price was set for all the shares that shall be held by Hagoz on the option exercise date at a company value of NIS 350 million. The following additional changes were also approved: an additional 2% interest as of October 1 2019 on the additional amounts (additional amounts to be paid to Oz in case the option is exercised, in accordance with previous agreements between the parties), and extension of Oz's non-compete commitment period. For further details, please see the immediate report dated December 31 2019 (Ref. No. 2019-01-1265657).

3. Oren Mizrach

In December 2020, an agreement was signed between the Company, The Phoenix Agencies and Oren Cohen for the acquisition of an additional 20% of the share capital of the Oren Mizrach Group directly and indirectly, such that after the acquisition, The Phoenix directly and indirectly holds approximately 70% of the share capital of the Oren Mizrach Group. The transaction was completed based on company value of NIS 160 million, and is subject to the consideration adjustment mechanism set in the agreement. The mechanism shall be activated after the approval of Oren Mizrach Group's 2022 financial statements.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

The agreement includes put options and call options to oblige the other party to purchase or sell (respectively) the remaining shares of the Oren Mizrach Group, in 3 tranches. The options will be effective from December 31 2027 to December 31 2029. Under the provisions of the agreement, if the put options or the call options are exercised, the shares will be purchased according to the valuation of the Oren Mizrach Group in accordance with the principles set forth in the agreement. The Company was given the right to determine that the proceeds on the exercise of the options will be paid to Oren Cohen in shares allotted to it by the Company at a 5% discount on the price of the Company's shares as of the transaction closing date.

Following the completion of the transaction and as a result of acquiring control of the Oren Mizrach Group, The Phoenix Agencies recorded a NIS 63 million gain before and after tax.

The Phoenix Agencies recognized the fair value of the assets acquired and the liabilities taken as part of the business combination according to a provisional measurement. As of the date of approval of the financial statements, a final valuation has not yet been received by an external appraiser in relation to the fair value of the identified assets acquired and the liabilities assumed. A final adjustment of the consideration for the purchase as well as the fair value of the assets and liabilities purchased can be carried out up to 12 months from the date of purchase. At the time of the final measurement, the adjustments are made by way of a restating the comparison figures previously reported according to the provisional measurement. Accordingly, The Phoenix Agencies recorded intangible assets, which include insurance portfolios in the amount of NIS 67 million, a non-compete agreement in the amount of NIS 5 million, software in the amount of NIS 2.5 million, and goodwill in the amount of NIS 107 million, net of the NIS 15 million tax reserve.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)4. The Phoenix Excellence Pension and Provident Funds Ltd.

On March 31, 2019, the Board of Directors of The Phoenix decided on the merger of its subsidiaries The Phoenix Pension Ltd. ("The Phoenix Pension") and Excellence Gemel & Hishtalmut Ltd. ("Excellence Gemel"), such that the receiving company will be Excellence Gemel. The merger was completed on June 30 2019. According to the outline of the merger, the pension funds managed by The Phoenix Pension were transferred to the management of Excellence Gemel, making Excellence Gemel the management company for all of The Phoenix Group's provident and pension funds.

On December 30 2019, the Board of Directors of The Phoenix Insurance approved the distribution of the shares of The Phoenix Excellence Pension and Provident Funds Ltd., constituting approximately 100% of the issued and paid-up share capital of Phoenix Excellence Pension and Provident Funds as dividend in kind to the Company. The actual distribution of the dividend is subject to approval by the Israel Tax Authority and the Capital Market, Insurance and Savings Authority. As of the report publication date, the Capital Market, Insurance and Savings Authority has given approval to execute the distribution, but no such approval has been received as yet from the Israel Tax Authority.

For additional details, please see the immediate report of the Company dated December 31 2019 (Ref. No. 2019-01-126166).

For details regarding the transfer of the obligation to complete the share capital of Phoenix Excellence Pension and Provident Funds to the amount specified in the Income Tax Regulations, please see Section 5(e) below.

5. The Phoenix Capital Raising (2009) Ltd.

During 2009, The Phoenix Insurance established The Phoenix Capital Raising. The only area of activity of The Phoenix Capital Raising is raising funds in Israel for The Phoenix Insurance, through (public and private) offerings of promissory notes and/or bonds and/or promissory notes, the proceeds of which are deposited with The Phoenix Insurance, for its use, at its discretion and at its responsibility.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)**D. Additional information regarding investees (cont.)**

Capital raising is affected by The Phoenix Insurance's capital needs. The terms and conditions of the issued bonds are affected by the state of the capital market and the level of demand and supply of marketable bonds in Israel.

The Phoenix Capital Raising deposits the proceeds of the offerings in deferred deposits with The Phoenix Insurance on the same terms and conditions as those of the bonds issued to the public.

6. Ad 120 Residence Centers for Senior Citizens Ltd.

Ad 120 operates on its own and through limited partnerships in which it serves as the main partner in the field of development, construction and operation of assisted living facilities for the elderly population. Ad 120 has three assisted living facilities - in Rishon Lezion, Hod Hasharon, and Tel Aviv. The Company is also in the process of establishing two additional assisted living facilities in Modi'in and Kiryat Motzkin.

On October 8 2018, the Board of Directors of the Company and The Phoenix Insurance approved the transfer of all the Company's holdings in Ad 120 to The Phoenix Insurance, as part of the plan for reinforcing the equity of The Phoenix Insurance and increasing surplus capital for Solvency II (hereinafter: the "Transfer").

For details regarding changes in the Group's operating segments and presentation of AD 120 as part of the life and health insurance segment, please see Note 2.DD.

As of the report publication date, and as part of the implementation of its multi-year strategic plan, the Company's Board of Directors has decided to consider the possibility of selling its controlling stake in Ad 120. The Phoenix Insurance has procured the services of an investment bank that has approached potential buyers in Israel and around the world, and is conducting an orderly procedure to consider the sale options, by way of a competitive procedure or otherwise, aimed at maximizing the value of the Company's stake in Ad 120.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

Accordingly, as of the balance sheet date, The Phoenix has created a tax reserve in the amount of approximately NIS 34 million in respect of its intended sale of Ad 120.

7. Haphen-Tao Holdings Limited Partnership

The Company holds - through The Phoenix Insurance and The Phoenix Investments - 50% of the rights in Haphen-Tao Holdings Limited Partnership (hereinafter: the "Partnership"). The Partnership is the owner of 50% of the rights and liabilities in the "Mall Hayam" shopping center in Eilat, such that, effectively, the Company holds 25% of the mall. The Partnership is entitled to receive its share of Mall Hayam's profits, after repayment of bonds in respect of which a charge was placed on Mall Hayam.

8. Excellence Investments Ltd.

The Phoenix operates in the financial services segment primarily through Excellence.

The Phoenix Investments wholly owns Excellence.

Excellence operates through companies under its control in a variety of activities in the capital market sector, primarily: investment marketing and management for customers; management of mutual funds; underwriting and investment banking; stock exchange and trading services; as well as mortgage consulting and sale of related products through an insurance agency it has established.

Restructuring in the Excellence Group

In December 2019, the Excellence Group decided to change the structure of the Group. The change includes the merger of a number of different companies and activities, the levelling of the holding structure (so that it will be concentrated mainly in direct holding of Excellence Investments in the various subsidiaries) and the liquidation of various inactive companies. Among other things, as part of the change in the aforesaid structure, the Excellence Group decided to merge a number of areas of activity, such as the activities of the TASE member, portfolio management activities and other related activities through the merger of the companies engaged in the aforesaid areas of activity.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

The goals of the structural change are, among others things, simplification of the holding structure, cost savings, creating a business synergy between the merging companies and as a result also a competitive advantage over competitors, reducing the risks arising from splitting holdings in companies and holding companies that are no longer active.

As of the date of the report, approval has been received from the Tax Authority for the structural change as aforesaid. The Company is awaiting regulatory approvals from additional authorities.

In light of the aforesaid, in 2020, the Company recognized a tax asset in the amount of approximately NIS 18 million in respect of carryforward losses that are expected to be utilized in the foreseeable future against taxable income.

Acquisition of minority shares

On October 14 2020, Excellence reported that Mr. Sharon Yeager, CEO and Chairman of the Board of Excellence Nessuah Underwriting (1993) Ltd. gave notice of his wish to terminate the engagement with Excellence Nessuah Underwriting (1993) Ltd. and his tenure as CEO and Chairman of the Board of Directors, as well as the termination of the cooperation agreement between a private company owned by him and Excellence, the controlling shareholder of Excellence Nessuah Underwriting (1993) Ltd., including the sale of Excellence shares held by the private company, to Excellence.

9. Option granting agreement - KSM ETF Holdings Ltd.

On November 1, 2020, the Company entered into an agreement with Boaz Nagar and S.L.H Tal Services and Investments Ltd., which he owns and controls (hereinafter, jointly - "Boaz"), which hold 3% of the shares of KSM ETF Holdings Ltd. (hereinafter - "KSM"), and with Avner Hadad (hereinafter - "Avner") who holds 6.55% of KSM's shares, in an agreement to grant put options to Boaz and Avner, and call options (hereinafter – the "Purchase Options") for the Company, as described below:

The Company indirectly holds 84% of KSM's shares, and Boaz and Avner serve as office holders in this company.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

The agreement grants Boaz and Avner put options that oblige the Company to purchase their KSM shares on the dates and maximum rates as follows: 1) in the 6-month period beginning on September 1 2025 - 40% of their shares; 2) in the 6-month period beginning on September 1 2027 - additional 40% of their shares; 3) In a one-year period beginning on September 1 2030 – the remaining balance of the shares that they will hold at that time.

The agreement grants the Company a purchase option to purchase all of Boaz and Avner's KSM shares for a period of one year beginning 10 years after the date of signing the agreement. The Company shall have such a purchase option even in the event that Boaz or Avner (or both) cease to serve as office holders in KSM, for 6 months from the date of termination of their service.

According to the provisions of the agreement, if the put options or purchase options are realized, the value will be determined by an agreed appraiser in accordance with the mechanism set forth in the agreement.

The Company has the right to determine that in the event of the exercise of an option, the consideration for the shares will be paid to Boaz and/or Avner in the form of Company shares (according to the share price as of the closing date of the transaction).

10. ESOP Management and Trust Services Ltd.

During the first quarter of 2019, Excellence Investments entered into an agreement for the acquisition of and additional 42.89% of ESOP Management & Trust Services Ltd. (hereinafter: "ESOP"), in consideration for NIS 28 million, such that after the transaction will have been completed, Excellence Investments shall hold 91.64% of ESOP's sharers. The transaction was completed on January 30 2019; upon completion, Excellence Investments recorded intangible assets, which include customer relations in the amount of NIS 35 million, a non-competition agreement in the amount of NIS 6 million, and goodwill in the amount of NIS 31 million; it also recognized a NIS 29 million gain due to assuming control, which was recorded under other income.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)**11. Alumot Investment Portfolio Management Ltd.**

In February 2020, Excellence completed the acquisition of 100% of the shares of Alumot Portfolio Management Ltd. (hereinafter - "Alumot Portfolio Management") and Alumot Mutual Fund Management Ltd. (hereinafter - "Alumot Mutual Funds") for a total consideration of approximately NIS 35 million. Excellence merged the acquired companies as aforesaid into the portfolio management company and KSM Funds, and transferred all mutual funds managed by Alumot Mutual Funds to the management of KSM Funds. As of the date of the report, Alumot Mutual Funds has managed assets of approximately NIS 2.3 billion, and for Alumot Portfolio Management has managed assets of approximately NIS 0.9 billion.

Excellence recognized the fair value of the assets acquired and the liabilities assumed as part of the business combination according to an appraisal from an external appraiser. Accordingly, Excellence recorded goodwill in the amount of NIS 24 million, management fee rights in the amount of NIS 4 million, customer relations in the amount of NIS 6 million, retained earnings in the amount of NIS 2 million less a tax reserve of NIS 1 million.

12. Mehadrin Ltd.

The Phoenix Investments held approximately 41.42% of the issued share capital of Mehadrin, a publicly-traded company whose securities are listed on the Tel Aviv Stock Exchange.

On September 18 2019, the Company distributed all of the shares of Mehadrin it held as dividend in kind to the Company's shareholders.

In view of the above, the Company reduced its retained earnings balance in 2019 by approx. NIS 230 million, in accordance with the balance of the asset held for distribution to owners, and recorded tax expenses of approx. NIS 10 million. For further details, please see the Company's immediate report dated September 18 2019 (Ref. No. 2019-01-081090).

NOTE 7 - INVESTMENT IN INVESTEES (cont.)**13. Gama Management and Clearing Ltd.**

Gama is engaged in financing, factoring, clearing and management of credit card transactions, providing various types of credit, factoring receivables and check clearing services. Gama's main activity is the provision of credit card factoring services. The factoring services involve bringing forward the payment to businesses against the businesses' assigning the credit card transactions to the factoring company. Among other things, this service allows businesses - Gama customers - to enter into sale transactions with their own customers allowing those customers to pay the transaction proceeds in installments; Gama brings forward the payment of the entire transaction consideration for its customers. The company is examining the possibility of expanding its activity to related areas.

The Phoenix Investments holds 49% of Gama's share capital. Under the acquisition agreement, The Phoenix Investments was granted an option to acquire an additional 2% of Gama at the same value. The option exercise period was 3 years from the acquisition completion date, until April 2011 (hereinafter: the "Phoenix Option").

As part of the acquisition agreement, The Phoenix Investments provided Gama with a NIS 50 million shareholders' loan, which is subordinate to Gama's bank credit. Furthermore, during 2010, the shareholders reached an agreement with The Phoenix Investments, according to which The Phoenix Investments forfeited all its holdings in Gama shares; in turn, it was agreed that each party wishing to sell all of its Gama shares shall have the right to obligate the other party to sell its Gama shares at the same time, in accordance with a mechanism agreed upon between the parties.

On July 6 2017, Gama signed an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL"). As part of the agreement, Gama shall become a "payment facilitator" (a business aggregating debits and credits through debit cards in points of sale of businesses) in order to make it possible for customers of those businesses to use credit cards by using Gama and CAL's services.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

In January 2021, Gama informed the Israel Securities Authority of its intention to apply for a prospectus publication permit. The Phoenix Investments intends to acquire additional Gama shares as part of an issuance, such that following the issuance, The Phoenix Investments will hold at least 50% of Gama's shares, fully diluted. To the extent that the issuance will indeed proceed and the Company will gain control over Gama, the Company is expected to record a one-off capital gain, depending on the issuance proceeds. It shall be clarified that the information stated in this section is forward-looking information, and there is no certainty that Gama will indeed complete the issuance and become a publicly-traded company.

14. Phoeniclass Ltd.

The Phoenix Investments holds 67% of Phoeniclass's share capital, under joint control.

Phoeniclass and the Kibbutzim College of Education entered into a combination transaction agreement in respect of land in northern Tel Aviv, owned by Kibbutzim College of Education, on which the Kibbutzim College of Education's existing buildings are built.

As part of the transaction, and in exchange for paying the Kibbutzim College of Education for the rights to build 450 residential units on the land, Phoeniclass will execute the project, which includes - in addition to the said residential project - adjacent areas as well as public areas which shall be handed over to the Tel Aviv municipality for commercial and public use.

Phoeniclass is working to promote the licensing and planning procedures of the project, alongside negotiations with the Kibbutzim College of Education (and anyone acting on its behalf) to finalize the transaction's principles and its execution. As part of the steps taken to promote the licensing procedures, in February 2021 Phoeniclass filed to the local planning committee an application for a building permit in respect of the first residential tower.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)15. Real estate investments

The Company's investments in real estate properties abroad are usually made through investee companies that invest directly in the properties. The Company holds several such investee companies that invest in real estate properties in Israel, the United States and Europe. The real estate properties are diverse and include office buildings, commercial centers, residential areas and land for construction. During 2020, the Company invested NIS 49 million in investee companies holding real estate properties.

16. Acquisition of Halman-Aldubi Investment House Ltd.

On December 7 2020, the Company entered into a merger agreement with Halman-Aldubi Investment House Ltd. (hereinafter: "Halman-Aldubi"). Under the merger agreement, a reverse triple merger was carried out, with Halman Aldubi becoming a private company wholly owned by the Company. The consideration of the transaction for Halman Aldubi is NIS 275 million. On February 28 2021, upon meeting the conditions precedent, the merger was completed.

Total assets under management by Halman Aldubi as of December 31 2020 is approximately NIS 64 billion.

Sale of default pension fund - Meitav-Dash transaction

On February 22 2021, the Company entered into an agreement with Meitav Dash Provident Funds and Pension Ltd. (hereinafter: "Meitav Dash Provident"), according to which following the completion of the agreement with Halman Aldubi, as aforesaid, the Company will exercise its influence as Halman Aldubi's sole shareholder, such that Halman Provident will sign an agreement for the sale to Meitav Dash Provident of the new pension funds managed by Halman Provident for NIS 45 million, to be paid in one lump sum on the completion date. On March 10 2021, Halman Provident signed the said agreement. The completion of the sale is subject to meeting accepted conditions precedent, and the last date for the completion of the funds sale agreement is scheduled for May 31 2021, unless the parties agree to extend the date.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)
Loan extended to Halman Aldubi Provident and Pension Funds

On February 18 2021, the Company entered into an agreement with Halman-Aldubi Provident and Pension Funds Ltd., a company wholly owned by Halman-Aldubi (hereinafter: "Halman Provident"), according to which the Company will extend Halman Provident a loan to finance full early redemption of all bonds (Series A) issued by Halman Provident, in the amount of NIS 73.6 million (hereinafter, respectively: the "Bonds" and the "Early Redemption"), as well as to finance the early and full repayment of a loan totaling NIS 15 million (hereinafter: the "Bank Loan Amount"), taken by Halman Provident from a local banking corporation.

On March 8 2021, the early redemption of the bonds was executed and the Bank Loan Amount was transferred to the local banking corporation.

For further details, please see the immediate reports from the following dates: December 8 2020, January 28 2021, February 3 2021, February 23 2021, February 24 2021, and February 28 2021 Ref. Nos.: 2020-01-133119, 2021-01-011467, 2021-01-013942, 2021-01-022078, 2021-01-021813 and 2021-01-023697, respectively.

E. Capital requirements from institutional entities in the Group

1. The Phoenix Insurance's policy is to have a solid capital base to ensure its solvency and ability to meet its liabilities to policyholders, to preserve The Phoenix Insurance's ability to continue its business activity such that it is able to provide returns to its shareholders. The Phoenix Insurance and its subsidiaries that are institutional entities are subject to capital requirements set by the Commissioner of the Capital Market, Insurance and Savings.

In October 2020, The Phoenix Insurance's Board of Directors set a minimum economic solvency ratio target and target range based on Solvency II. The minimum economic solvency ratio target, taking into account the deployment provisions, is set at 135% while the minimum solvency ratio target without taking into account the provisions during the deployment period is set at 105%, set to reach 135% at the end of the deployment period according to The Phoenix Insurance's capital plan.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)

Furthermore, The Phoenix Insurance's Board of Directors approved an economic solvency ratio target range of 150%-170%, within which The Phoenix Insurance aspires to be during and at the end of the deployment period, taking into account the deduction during the deployment period and its gradual reduction.

As of December 31 2019, the date of the last audited calculation, The Phoenix Insurance meets the set targets. As to the estimate of the solvency ratio as of December 31 2020, see Section 3 below. It is hereby clarified that the aforesaid does not guarantee that The Phoenix Insurance will meet the set targets at all times.

2. Principles of the Solvency II-based Economic Solvency Regime

The Phoenix Insurance is subject to the Solvency II-based Economic Solvency Regime in accordance with implementation provisions as published in June 2017 and revised in October 2020 (hereinafter - the "Solvency Circular").

Risk-based solvency ratio

A risk-based solvency ratio is calculated as the ratio between the insurance company's economic equity and the capital required for solvency purposes.

The economic equity is determined as the sum of the core tier 1 capital derived from the economic balance sheet and debt instruments that include loss absorption mechanisms (Additional Tier 1 capital, Tier 2 capital instruments, Subordinated Tier 2 capital, Tier 2 capital and Tier 3 capital).

Economic balance sheet items are calculated based on economic value, with insurance liabilities calculated on the basis of a best estimate of all expected future cash flows from existing businesses, without conservatism margins, and plus a risk margin.

The capital required for solvency (SCR) is designed to estimate the economic equity's exposure to a series of scenarios set out in the Solvency Circular, and which reflect insurance, market and credit risks as well as operating risks.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

The Solvency Circular includes, among other things, transition provisions in connection with compliance with capital requirements, and which allow increasing the economic equity by deducting from the insurance reserves an amount calculated in accordance with the Solvency Circular (hereinafter: the "Deduction"). The Deduction will decrease gradually until 2032 (hereinafter: the "Deployment Period"). In addition to a reduced capital requirement, that will increase gradually until 2023, in respect of certain investment types.

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 after the calculation date. However, letters sent by the Commissioner to insurance companies' executives in 2020 (hereinafter: the "Letter"), set out that despite the provisions of the Consolidated Circular, the deadline for publication of the economic solvency ratio report and the filing to the Commissioner of the solvency report files as of December 31 2019, will be October 29 2020 (instead of May 31 2020). The Letter also exempts the companies from the requirement to calculate and publish a solvency ratio report as of June 30 2020.

In addition, on March 14 2021, a letter from the Commissioner was published, Ref. No. 2021-423, stating that the deadline for publication of the economic solvency ratio report as of December 31 2020, as well as the accompanying files reported to the Commissioner, shall be filed no later than June 30 2021 (in lieu of May 31 2021). In addition, the letter states that an insurance company may refrain from publishing an economic solvency ratio report as of June 30 2021.

In accordance with the solvency ratio report as of December 31 2019, which was published on October 28 2020, The Phoenix Insurance has surplus capital, both when calculation is made having no regard to the transition provisions and when it is made taking into account the transition provisions.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)

The calculation made by The Phoenix Insurance as described above, was reviewed by The Phoenix Insurance's independent auditors, in accordance with International Standard on Assurance Engagements (ISAE 3400) - the Examination of Prospective Financial Information. This standard is relevant to audits of solvency calculations and does not constitute part of the auditing standards that apply to financial statements. It should be emphasized that the projections and assumptions on the basis of which the economic solvency report was prepared 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 calculation 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 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.

In their special report, the independent auditors noted that they did not review the appropriateness of the Deduction amount during the Deployment Period as of December 31 2019, except for verifying that the Deduction amount does not exceed the expected discounted amount of the risk margin and the capital required for solvency in respect of life and health insurance risks arising from existing businesses during the Deployment 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. Furthermore, attention is drawn to what is stated in the economic solvency ratio report regarding the uncertainty derived from regulatory changes and exposure to contingent liabilities, the effect of which on the solvency ratio cannot be estimated.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)

For more information that has not been unaudited or reviewed, please see Section 2.1 to the Report of the Board of Directors, and the economic solvency ratio report as of December 31 2019 published on The Phoenix Insurance's website.

For more information on the estimate of the solvency ratio as of December 31 2020, see below.

3. 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 Solvency Circular) of at least 100%, calculated without taking into account the transitional provisions and subject to the economic 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.

On October 27 2020, The Phoenix Insurance's Board of Directors approval of the dividend distribution whereby, as from 2021, The Phoenix Insurance shall distribute an annual dividend at a rate of 30% to 50% of its distributable comprehensive income as per its audited annual consolidated financial statements for the relevant year, so long as The Phoenix Insurance meets the minimum economic solvency ratio targets in accordance with Solvency II.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

The minimum economic solvency ratio target, taking into account the deployment provisions, is set at 135% while the minimum solvency ratio without taking into account the provisions during the deployment period is set at 105%,¹ set to reach 135% at the end of the deployment period according to The Phoenix Insurance's capital plan.

It is hereby clarified that this policy should not be viewed as an undertaking by The Phoenix Insurance to distribute dividends, and that any actual distribution shall be individually subject to the Board of Directors' approval, at its sole discretion; the Board of Directors of The Phoenix Insurance may decide on actual distribution at different (higher or lower) rates, or not to distribute any dividend. Furthermore, the execution of any actual distribution shall be subject to compliance with the provisions of the law applicable to any dividend distribution, including, among other things, the provisions of the Companies Law, 1999, and to compliance with the financial covenants The Phoenix Insurance has undertaken or/or will undertake to comply with, to the The Phoenix Insurance's having sufficient distributable profits on the relevant dates, to the condition that the distribution shall not adversely affect the terms of the The Phoenix Insurance's bonds and/or its cash flows, and to the extent to which the The Phoenix Insurance needs cash to finance its activities, including future investments, as shall be from time to time, and/or its expected and/or planned future activities.

The Board of Directors of The Phoenix Insurance may review the dividend distribution policy from time to time and decide, at any given time, taking into account business considerations and the legal and regulatory provisions applicable to The Phoenix Insurance, to change the dividend distribution policy, including the rate of dividend to be distributed.

¹ On December 30 2019, the Board of Directors of The Phoenix Insurance approved the transfer of Excellence Pension and Provident Funds to the Company as distribution of a dividend in kind. The transfer was approved by the Commissioner; however, the Israel Tax Authority's approval for the execution of the transfer has not yet been received, and therefore the transfer has not yet been made. In view of the above, on October 27 2020, The Phoenix Insurance's Board of Directors passed a resolution whereby the target is inapplicable to the transfer. Upon receipt of the Israel Tax Authority's approval, the execution of the abovementioned transfer shall be assessed subject to the provisions of the Solvency Circular and letter. It should also be noted that this transfer is expected to reduce The Phoenix Insurance's capital surplus.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

On March 24 2021, The Phoenix Insurance's Board of Directors approved a dividend distribution in the amount of NIS 200 million.

During the first quarter of 2021, The Phoenix Insurance performed an estimate to calculate the Solvency II-based economic solvency ratio as of December 31 2020 (hereinafter, the "Estimate"). The estimate is based on the results of complete runs of actuarial calculations, market risk calculations, credit risks and economic balance sheet as of December 31 2020. During the second quarter of 2021, The Phoenix Insurance will finalize its calculations and publish the results, according to the Commissioner's requirements. It should be noted that the said calculated Estimate is not reviewed or audited by the independent auditor.

The latest solvency ratio that was audited by the independent auditor, which is the solvency ratio as of December 31 2019, as published by The Phoenix Insurance to the public, without applying the transition provisions for the Deployment Period, and excluding the share scenario adjustment, is higher than 100% even after the dividend distribution² as described above. The results of the Estimate as of December 31 2020 after the distribution of the dividend as described above, including the results of the economic solvency ratio without applying the transition provisions for the Deployment Period, and excluding the share scenario adjustment, meet the capital target set by The Phoenix Insurance's Board of Directors as the dividend distribution threshold, which is set at 105%, as well as the target range of 150%-170%, within which The Phoenix Insurance seeks to be during and at the end of the Deployment Period, taking into account the amount of Deduction during the Deployment Period and its gradual reduction; therefore, the Company meets the requirements of the letter published by the Commissioner in October 2017 regarding the dividend distribution restrictions, as aforesaid.

² The dividend distribution amount takes into account the transfer of Excellence Pension and Provident Funds Ltd. to the Company, although as of the report publication date, this transfer has not yet been made since the Israel Tax Authority has yet to grant its approval.

NOTE 7 - INVESTMENT IN INVESTEES (cont.)

The Estimate of the solvency ratio as of December 31 2020 does not include the effect of the business activity of The Phoenix Insurance subsequent to December 31 2020 until the report publication date, changes in the mix and amounts of insurance investments and liabilities, exogenous effects - including changes in the risk-free interest rate curve, and regulatory changes affecting the business environment. It should be noted that from December 31 2020 to the report publication date, there was an increase in the risk-free interest rate curve, that may have a positive effect on The Phoenix Insurance's solvency ratio.

4. The Phoenix Insurance has undertaken to supplement, at any given time, The Phoenix Excellence Pension and Provident Funds' equity to the amount set in the Income Tax (Rules for the Authorization and Management of Provident Funds) Regulations, 1964. This commitment shall be in effect so long as The Phoenix Insurance controls The Phoenix Excellence Pension and Provident Funds, whether directly or indirectly. The Phoenix Insurance will be required to fulfill this commitment only when The Phoenix Excellence Pension and Provident Funds Ltd.'s equity will be negative, provided that the supplement amount does not exceed the liabilities limit as aforesaid; the commitment will be in effect so long as The Phoenix Insurance is the controlling shareholder of this entity. Further to what is stated in Note 1C about the transfer of control in The Phoenix Excellence Pension and Provident Funds to the Company, the Company will be committed, at any given time, to supplement Excellence Pension and Provident Funds' equity to the amount set in the Income Tax (Rules for the Authorization and Management of Provident Funds) Regulations, 1964.
5. Phoenix Excellence Pension and Provident Funds Ltd. is required to maintain minimum equity in accordance with the Regulations Concerning Supervision of Financial Services (Provident Funds) (Minimum Equity Required from a Provident Fund or a Pension Fund's Management Company), 2012, and the Commissioner's directives, the directives of the Israel Securities Authority and/or the TASE Rules and Regulations. As of December 31 2020, the Phoenix Excellence Pension and Provident Funds Ltd. meets those requirements.

NOTE 7 - INVESTMENT IN INVESTEEES (cont.)

6. In July 2020, The Phoenix Insurance's Board of Directors approved engagements with agencies constituting related parties of The Phoenix Insurance, to purchase future fees and commissions for a total of up to NIS 262 million. It is expected that the completion of the aforesaid transactions (to the extent that they are, indeed, completed) shall improve The Phoenix Insurance's solvency ratio. As of the report date, transactions totaling NIS 108 million were carried out; this effect was included in the calculation of the estimated economic solvency ratio as of December 31 2020.
7. In December 2020, The Phoenix insurance and a reinsurer rated AA by an international rating agency, entered into a mass lapse reinsurance agreement, the objective of which is to provide The Phoenix Insurance with partial protection against a mass cancellation scenario in its life and health insurance business; this effect was included in estimating the economic solvency ratio as of December 31 2020.
8. The Phoenix Insurance is considering the issuance of an additional Tier 1 capital instrument, recognized as regulatory capital under the Economic Solvency Regime, in order to strengthen its capital and improve its solvency ratio. In March 2021, the Board of Directors approved continuing the issuance procedure. The recognition of the instrument as an Additional Tier 1 capital instrument is subject to the approval of the Commissioner of the Capital Market, Insurance and Savings. The issuance amount is expected to be approx. NIS 300 million. The terms and conditions of the instrument, including the redemption period, are in accordance with the provisions of Part B ("Provisions in respect of Equity Capital of Insurance Companies") to Insurance Circular 2020-1-15, "Provisions for Applying Economic Solvency Regime Based on Solvency II for Insurance Companies".

NOTE 8 - INVESTMENT PROPERTY**A. Composition and change:**

	Investment property for yield-dependent contracts					
	Leased as commercial space		Leased as offices and other (1)		Total	
	2020	2019	2020	2019	2020	2019
In NIS thousand						
Balance as of January 1	1,062,607	990,388	491,458	449,248	1,554,065	1,439,636
Acquisitions and additions to existing properties	6,874	29,966	252,780	22,098	259,654	52,064
Derecognitions	-	(14,351)	-	-	-	(14,351)
Fair value adjustment	(19,264)	56,604	45,121	20,112	25,857	76,716
Balance as of December 31	1,050,217	1,062,607	789,359	491,458	1,839,576	1,554,065
Discount rate ranges	7.5%-6.5%	7.5%-6.25%	8%-6.25%	7.5%-6.25%	8%-6.25%	7.5%-6.25%

(1) In 2020, including real estate properties under construction in the amount of NIS 482,770 thousand (in 2019, NIS 120,852 thousand)

	Investment property - other							
	Leased as commercial space		Leased as offices and other (2)		Senior housing		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
In NIS thousand								
Balance as of January 1	531,393	494,412	399,948	321,422	1,616,015	1,464,960	2,547,356	2,280,794
Acquisitions and additions to existing properties	5,389	15,469	100,564	65,461	22,397	89,595	128,350	170,525
Derecognitions	-	(6,149)	-	-	-	-	-	(6,149)
Carried to a property, plant and equipment	-	-	-	-	-	-	-	-
Fair value adjustment	(10,995)	27,661	24,098	13,065	39,901	61,460	53,004	102,186
Balance as of December 31	525,787	531,393	524,610	399,948	1,678,313	1,616,015	2,728,710	2,547,356
Discount rate ranges	7.5%-6.5%	7.5%-6.25%	8%-6.25%	7.5%-6.25%	8.00%	8.00%	8%-6.25%	8%-6.25%
Tenant turnover rate					10%	10%		

(2) In 2020, including real estate properties under construction in the amount of NIS 225,100 thousand (in 2019, NIS 68,940 thousand)

NOTE 8 - INVESTMENT PROPERTY (cont.)**B. Fair value measurement of investment property**

Investment property is measured at fair value as determined by an appraisal performed by an external independent appraiser, whose skills and ample experience regarding the location and type of property appraised is widely acknowledged. The fair value is determined based on recent market transactions involving similar real estate properties in a location similar to that of the Group's real estate properties, and based on the estimated inflow of future cash flows from the property. When estimating cash flows, their inherent risk was taken into account. A decrease in the discount rate or an increase in rent have a positive effect on the fair value of investment property.

When evaluating an investment property under construction, the discounted cash flow method is used, as the appraiser deems fit. Fair value is determined based on the estimated future revenues from the completed project, using returns adjusted to reflect the significant risks relevant to the construction process, including construction and rental risks, which are higher than present returns on similar completed investment properties. Expected costs to complete plus developer's profits are deducted from the estimated future revenues as aforesaid. Furthermore, the sales comparison approach of similar assets is used. In this method, the appraiser relies on active market prices, adjusted for differences in the nature, location or conditions of the specific asset.

When evaluating the senior housing facilities, the Company assesses and presents the fair value of the investment property including tenants' deposits (as detailed in Note 26), since the deposits are an integral part of the fair value component of the property. The key assumptions used in determining the fair value of senior housing facilities included application of the discount period of revenues arising from tenants' future turnover, taking into account specific tenants who stay in the facilities for periods longer than the contractual erosion period, and grossing-up of the growth rate of the general population and, in particular, the senior citizen population.

Investment properties are measured at fair value and are classified to Level 3 of the fair value hierarchy.

NOTE 8 - INVESTMENT PROPERTY (cont.)**C. Sensitivity analysis**

The discount rate constitutes a critical estimate in determining the fair value, since a change in the discount rate will have a material effect on the investment property's fair value. Change in fair value of investment property in respect of yield-dependent contracts does not fully affect the Company's profit and loss.

The following sensitivity analysis reflects the effect of a change in the discount rate by the rates listed below:

	Increase (decrease) in the fair value as of December 31		Increase (decrease) in profit and loss before tax	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	In NIS thousand			
0.5% increase	(150,662)	(122,720)	(92,075)	(68,645)
Decrease of 0.5%	163,661	148,024	98,120	87,153

(*) The effect is on investment properties for yield-dependent contracts and other real estate properties (indirect effect on management fees).

NOTE 8 - INVESTMENT PROPERTY (cont.)**D. Details regarding interests in real estate properties used by the Group as yield-dependent investment property and other**

	As of December 31	
	2020	2019
	In NIS thousand	
Owned	2,169,922	1,735,720
Capitalized lease	2,398,364	2,365,701
Total	<u>4,568,286</u>	<u>4,101,421</u>

Capitalized leased assets in the amount of NIS 2,212,766 thousand (in 2019 - NIS 2,176,962 thousand) are leased for a period of 25-49 years.

Capitalized leased assets in the amount of NIS 87,898 thousand (in 2019 - NIS 90,239 thousand) are leased for a period of 68-75 years.

Capitalized leased assets in the amount of NIS 97,700 thousand (in 2019 - NIS 98,500 thousand) are leased for a period of 978 years.

Some of the ownership and lease rights in Israel have not yet been registered in the name of Group companies with the Land Registry, mostly due to technical registration arrangements.

- E.** As part of an investment property purchase agreement of September 27 2011 between The Phoenix Insurance, Isralom Properties Ltd. and Isralom Building Company (1989) Ltd. (hereinafter: the "Seller"), the Seller did not meet its obligation to complete the registration of the condominium within the dates set in the signed agreement. For further details, please see Note 6.
- F.** For further details about commitments to acquire investment property, see Note 42.C.
- G.** For further details regarding income from investment property, please see Note 28.

NOTE 9 - CREDIT FOR PURCHASE OF SECURITIES

	As of December 31	
	2020	2019
	In NIS thousand	
Open debts	409,000	312,000
Less provision for doubtful debts	<u>(6,000)</u>	<u>(5,000)</u>
Outstanding receivables - net	<u>403,000</u>	<u>307,000</u>

The credit extended to customers of a consolidated company was granted in respect of purchase of securities by the customers. The credit is non-linked and bears Prime interest rate plus spread. The credit is mainly secured by a pledge placed on the customers' securities portfolios; a significant decrease in the market value of the securities may expose the Company to collection difficulties; impairment of customer balances accounted for by recording a provision for doubtful debts.

Following is the change in provision for doubtful debts:

	2020	2019
	In NIS thousand	
Balance on January 1	5,000	5,000
Change in provision for one year	<u>1,000</u>	<u>-</u>
Balance as of December 31	<u>6,000</u>	<u>5,000</u>

NOTE 10 - RECEIVABLES AND DEBIT BALANCES

A. Composition

	As of December 31	
	2020	2019
	In NIS thousand	
Government institutions and authorities	23,379	21,227
Receivables	61,813	70,566
Prepaid expenses	61,045	47,199
Employees	2,753	639
Related parties - see Note 41	24,237	24,596
Advances on account of fees and commissions to agents	50,954	13,382
Insurance companies and insurance brokers - other accounts	97,905	91,557
Debts - agents	4,578	5,516
Insurance fees and commissions receivable	36,573	29,804
Receivables for securities	10,000	55,000
TASE Clearing House - Excellence	69,000	9,000
Other	88,712	107,726
	530,949	476,212
Less provision for doubtful debts	(1,157)	(964)
Total receivables and debit balances	<u>529,792</u>	<u>475,248</u>

B. Set forth below are the changes in the provision for doubtful debts which mainly relates to reinsurers and agents' debts

	2020	2019
	In NIS thousand	
Balance on January 1	964	1,646
Change in provision for one year	193	(682)
Balance as of December 31	<u>1,157</u>	<u>964</u>

NOTE 11 - PREMIUMS COLLECTIBLE
A. Composition:

	As of December 31	
	2020	2019
	In NIS thousand	
Collectible premiums (*)	653,305	723,467
Less provision for doubtful debts	(1,480)	(1,890)
Total collectible premiums (**)	651,825	721,577
Including checks collectible and direct debits	404,002	400,791

(*) Regarding the collectible premium from related parties and interested parties, please see Note 41.

(**) The Group's exposure to currency risks in connection with premiums collectible is described in Note 40, Risk Management. For the linkage terms of premiums collectible, please see Note 40.

B. Aging:

	As of December 31	
	2020	2019
	In NIS thousand	
Unimpaired collectible premium not in arrears	489,491	466,773
In arrears (*):		
Under 90 days	109,750	223,733
Between 90 and 180 days	19,336	11,703
Over 180 days	27,776	14,468
Total unimpaired collectible premium in arrears	156,862	249,904
Impaired collectible premium in arrears	5,472	4,900
Total premium	651,825	721,577

(*) Includes debts in arrears in the life insurance segment of approx. NIS 42 million (December 31 2019 - approx. NIS 86 million); these debts are mostly backed by the policies' cash surrender value.

C. Following is the change in provision for doubtful debts in respect of premiums collectible:

	2020	2019
	In NIS thousand	
Balance on January 1	1,890	3,850
Change in provision for one year - stated in profit and loss	(410)	(1,960)
Balance as of December 31	1,480	1,890

NOTE 12 - ASSETS FOR YIELD-DEPENDENT CONTRACTS

A. Breakdown of assets presented at fair value through profit and loss:

	As of December 31	
	2020	2019
	In NIS thousand	
Investment property	1,839,576	1,554,065
Financial investments		
Marketable debt assets	21,761,391	22,500,106
Non-marketable debt assets	7,119,613	8,898,752
Shares	18,045,043	17,683,118
Other financial investments	18,644,400	15,222,939
Total financial investments	65,570,447	64,304,915
Cash and cash equivalents	10,464,216	5,612,435
Other	159,845	190,661
Total assets for yield-dependent contracts	78,034,084	71,662,076

For further details on financial investments for yield-dependent contracts, please see Note 40, Risk Management.

B. Fair value of financial assets by level:

The following table presents an analysis of assets held against insurance contracts and investment contracts presented at fair value through profit and loss. The different levels were defined as follows:

- Level 1 - fair value measured using quoted prices (unadjusted) in an active market for identical instruments.
- Level 2 - fair value measured using observable inputs, either directly or indirectly, that are not included in Level 1 above.
- Level 3 - fair value measured using inputs that are not based on observable market inputs.

NOTE 12 - ASSETS FOR YIELD-DEPENDENT CONTRACTS (cont.)

	As of December 31 2020			
	Level 1	Level 2	Level 3	Total
	In NIS thousand			
Marketable debt assets	16,507,724	5,253,667	-	21,761,391
Non-marketable debt assets	-	5,427,432	1,692,181	7,119,613
Shares	16,277,954	518,085	1,249,004	18,045,043
Other financial investments	7,395,216	1,101,059	10,148,125	18,644,400
Total	40,180,894	12,300,243	13,089,310	65,570,447

	As of December 31 2019			
	Level 1	Level 2	Level 3	Total
	In NIS thousand			
Marketable debt assets (*)	17,879,025	4,621,081	-	22,500,106
Non-marketable debt assets	-	8,298,937	599,815	8,898,752
Shares (*)	16,560,597	177,519	945,002	17,683,118
Other financial investments	6,307,890	832,332	8,082,717	15,222,939
Total	40,747,512	13,929,869	9,627,534	64,304,915

During the reporting periods, there were no material transfers between Level 1 and Level 2.

As to the methods and assumptions used to determine the fair value of financial assets, please see Note 13.G.

(*) Reclassified.

NOTE 12 - ASSETS FOR YIELD-DEPENDENT CONTRACTS (cont.)
C. Changes in financial assets measured at fair value and classified to Level 3:

	Measurement of fair value at the reporting date				
	Financial assets at fair value through profit and loss				
	Marketable debt assets	Non-marketable debt assets	Other financial investments		
			Shares		Total
	In NIS thousand				
Balance as of January 1 2020	-	599,815	945,002	8,082,717	9,627,534
Total gains recognized in profit and loss (*)	-	87,999	149,858	1,072,694	1,310,551
Purchases	-	1,274,640	285,357	2,804,880	4,364,877
Proceeds from interest and dividend	-	(21,774)	(20,877)	(439,476)	(482,127)
Redemptions / sales	-	(373,618)	(51,059)	(1,390,789)	(1,815,466)
Transfers to Level 3 (**)	-	125,119	-	18,099	143,218
Transfers from Level 3 (**)	-	-	(59,277)	-	(59,277)
Balance on December 31 2020	-	1,692,181	1,249,004	10,148,125	13,089,310

(*) Of which:

Total gains (losses) for the period included in profit and loss in respect of assets held as of December 31 2020

-	54,547	119,291	606,432	780,270

(**) Transfers to Level 3 stem mainly from securities the rating of which was revised. Transfers from Level 3 stem from a security issued for the first time.

	Measurement of fair value at the reporting date				
	Financial assets at fair value through profit and loss				
	Marketable debt assets	Non-marketable debt assets		Other financial investments	Total
			Shares		
In NIS thousand					
Balance as of January 1 2019	-	355,402	572,010	6,895,381	7,822,793
Total gains recognized in profit and loss (*)	-	5,164	117,085	269,692	391,941
Purchases	-	674,827	291,787	2,476,241	3,442,855
Proceeds from interest and dividend	-	(12,073)	(36,031)	(345,967)	(394,071)
Redemptions / sales	-	(248,821)	-	(1,212,630)	(1,461,451)
Transfers from Level 3 (**)	-	-	151	-	151
Transfers out of Level 3 (**)	-	(174,684)	-	-	(174,684)
Balance on December 31 2019	-	599,815	945,002	8,082,717	9,627,534

(*) Of which:

Total gains for the period included in profit and loss in respect of assets held as of December 31 2019

-	8,061	117,085	289,366	414,512

(**) Primarily in respect of securities the rating of which has changed.

NOTE 12A - FINANCIAL INVESTMENTS FOR HOLDERS OF CERTIFICATES OF DEPOSITS AND STRUCTURED BONDS

	December 31	
	2020	2019
	In NIS thousand	
<u>Held-for-trading securities in series accounts:</u>		
Non-marketable bonds	216,000	259,000
Amounts receivable in respect of securities	<u>23,000</u>	<u>25,000</u>
	239,000	284,000

NOTE 13 - OTHER FINANCIAL INVESTMENTS

A. Composition:

	As of December 31 2020			
	Presented at fair value through profit and loss	Available-for-sale	Loans and receivables	Total
	In NIS thousand			
Marketable debt assets	142,323	7,953,145	-	8,095,468
Non-marketable debt assets	-	-	14,007,189	14,007,189
Shares	43,824	1,856,169	-	1,899,993
Other	644,374	2,603,095	-	3,247,469
Total	<u>830,521</u>	<u>12,412,409</u>	<u>14,007,189</u>	<u>27,250,119</u>

	As of December 31 2019			
	Presented at fair value through profit and loss	Available-for-sale	Loans and receivables	Total
	In NIS thousand			
Marketable debt assets	237,899	7,841,380	-	8,079,279
Non-marketable debt assets	-	-	12,975,710	12,975,710
Shares	62,280	1,521,674	-	1,583,954
Other	182,854	1,986,729	-	2,169,583
Total	<u>483,033</u>	<u>11,349,783</u>	<u>12,975,710</u>	<u>24,808,526</u>

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)
B. Marketable debt assets

Composition:

	As of December 31	
	2020	2019
	In NIS thousand	
<u>Government bonds</u>		
Presented at fair value through profit and loss	12,627	121,805
Available for sale	<u>4,967,084</u>	<u>4,807,328</u>
Total government bonds	<u>4,979,711</u>	<u>4,929,133</u>
<u>Other debt assets:</u>		
<u>Non-convertible</u>		
Presented at fair value through profit and loss	60,847	93,016
Available-for-sale	<u>2,986,061</u>	<u>3,034,052</u>
Total other non-convertible debt assets	<u>3,046,908</u>	<u>3,127,068</u>
<u>Convertible</u>		
Presented at fair value through profit or loss	<u>68,849</u>	<u>23,078</u>
Total other convertible debt assets	<u>68,849</u>	<u>23,078</u>
Total marketable debt assets	<u>8,095,468</u>	<u>8,079,279</u>
Regular impairments carried to profit and loss (cumulative)	<u>98,984</u>	<u>92,872</u>

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)
C. Non-marketable debt assets

Composition:

	As of December 31			
	Carrying amount		Fair value	
	2020	2019	2020	2019
	In NIS thousand			
<u>Government bonds</u>				
Presented as loans and receivables:				
Designated bonds and treasury deposits (*)	<u>8,190,398</u>	<u>8,034,902</u>	<u>12,193,361</u>	<u>11,875,435</u>
<u>Other non-convertible debt assets</u>				
Presented as loans and receivables, excluding deposits with banks				
	<u>4,708,119</u>	<u>4,291,008</u>	<u>5,039,280</u>	<u>4,630,943</u>
Deposits with banks	<u>1,108,672</u>	<u>649,800</u>	<u>1,153,929</u>	<u>712,297</u>
Total other non-convertible debt assets	<u>5,816,791</u>	<u>4,940,808</u>	<u>6,193,209</u>	<u>5,343,240</u>
Total non-marketable debt assets	<u>14,007,189</u>	<u>12,975,710</u>	<u>18,386,570</u>	<u>17,218,675</u>
Regular impairments carried to profit and loss (cumulative)	60,343	21,587		

(*) The fair value of designated bonds and treasury deposits was calculated in accordance with the contractual (expected) repayment date.

D. Details on paid interest and linkage in respect of debt assets

	Effective interest rate	
	As of December 31	
	2020	2019
	%	
<u>Marketable debt assets</u>		
Linkage base		
CPI-linked	0.15%	(0.02%)
NIS	3.26%	1.62%
Linked to foreign currency	4.54%	5.81%

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)

	Effective interest rate	
	As of December 31	
	2020	2019
	%	

Non-marketable debt assets

Linkage base

CPI-linked	4.67%	4.67%
NIS	2.81%	3.62%
Linked to foreign currency	3.34%	4.67%

E. Shares

	As of December 31	
	2020	2019
	In NIS thousand	

Marketable

Presented at fair value through profit and loss	28,824	47,442
Available for sale	<u>1,541,161</u>	<u>1,294,943</u>
Total marketable shares	<u>1,569,985</u>	<u>1,342,385</u>

Non-marketable

Presented at fair value through profit and loss	15,000	14,838
Available for sale	<u>315,008</u>	<u>226,731</u>
Total non-marketable shares	<u>330,008</u>	<u>241,569</u>
Total shares	<u>1,899,993</u>	<u>1,583,954</u>
Regular impairments carried to profit and loss (cumulative)	<u>213,615</u>	<u>105,324</u>

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)**F.(1) Other financial investments**

	As of December 31	
	2020	2019
	In NIS thousand	
<u>Marketable</u>		
Presented at fair value through profit and loss	46,025	6,484
Available for sale	533,369	446,271
Derivative instruments F(2)	<u>107,972</u>	<u>43,847</u>
Total marketable financial investments	<u>687,366</u>	<u>496,602</u>
<u>Non-marketable</u>		
Presented at fair value through profit and loss	259,761	30,559
Available for sale	2,069,726	1,540,458
Derivative instruments F(2)	<u>230,616</u>	<u>101,964</u>
Total non-marketable financial investments	<u>2,560,103</u>	<u>1,672,981</u>
Total other financial investments	<u>3,247,469</u>	<u>2,169,583</u>
Regular impairments carried to profit and loss (cumulative)	<u>116,453</u>	<u>67,680</u>

Other financial investments mainly include investments in ETFs, participation certificates in mutual funds, investment funds, financial derivatives, futures, options and structured products.

As to engagement in connection with an undertaking to invest in funds, please see Note 42.C.

F.(2) Derivative instruments

Set forth below is the amount of net exposure to the underlying asset, presented in delta terms of financial transactions carried out as of the financial report date: (*)

	As of December 31	
	2020	2019
	In NIS thousand	
Foreign currency	(4,085,063)	(2,721,720)
Shares	78,152	221,185
Interest (**)	(228,058)	85,216
CPI	424,088	32,183

The Company has other derivative instruments which are not included in the above table.

(*) The underlying assets are affected by intra-group exposures. The balances do not include shorts on securities.

(**) Includes mainly contracts and options for bonds.

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)
G. The methods and assumptions used to determine fair value

The fair value of investments traded actively in regulated financial markets is determined based on market prices as of the reporting date. The value of investments that are not traded in an active market is determined as follows:

1. Non-marketable debt assets

The fair value of non-marketable debt assets, which are measured at fair value through profit and loss, and the fair value of non-marketable financial debt assets, for which fair value information is provided solely for disclosure purposes, is determined by discounting the estimated future cash flows from those assets. The discount rates are based primarily on yields on government bonds and spreads of corporate bonds as measured on the TASE. The quoted prices and interest rates used for discounting purposes are determined by a company which won the tender, published by the Ministry of Finance, for the setting up and operating a database of quoted prices and interest rates for institutional entities.

Set forth below are the weighted average interest rates for non-marketable debt assets included in other financial investments, by rating:

	As of December 31	
	2020	2019
	%	
For non-marketable debt assets - in Israel, by local rating: (*)		
AA and above	(0.35%)	(0.51%)
A	1.79%	1.20%
BBB	3.29%	2.98%
Less than BBB	3.20%	2.88%
Unrated	14.80%	14.57%

(*) The sources for the ratings in Israel are Maalot and Midroog rating agencies. Midroog's data were converted to the rating symbols according to generally acceptable conversion coefficients. Each rating includes all ranges, for example: A rating includes A- up to A+. Regarding internal rating, please see Note 40, Section 6.3.

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)**2. Non-marketable shares**

The fair value of the investment in non-marketable shares was estimated using the discounted cash flow model (DCF). The estimate requires management to make certain assumptions regarding the model's data, including expected cash flows, discount rates, credit risk and volatility. The probabilities in respect of the estimates in the range can be measured reliably, and management uses them to determine and evaluate the fair value of these investments in non-marketable shares.

3. Derivatives

The Company enters into transactions involving derivative financial instruments with financial institutions. The derivatives were valued using valuation models with observable market inputs are mainly interest rate swap contracts and foreign currency forwards. The most frequently used valuation techniques include prices of forwards and swap models using present value calculations. The models combine a number of inputs, including the credit rating of the parties to the financial transaction, spot/forward exchange rates, prices of forward contracts and interest rate curves. All derivative contracts are fully back against cash; therefore, there is no counterparty credit risk and non-performance risk of the Company itself in respect thereof.

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)
H. Fair value of financial assets by level

	As of December 31 2020			
	Level 1	Level 2	Level 3	Total
	In NIS thousand			
Marketable debt assets	6,732,438	1,363,030	-	8,095,468
Shares	1,414,649	155,336	330,008	1,899,993
Other	716,580	493,072	2,037,817	3,247,469
Total	<u>8,863,667</u>	<u>2,011,438</u>	<u>2,367,825</u>	<u>13,242,930</u>
Non-marketable debt assets disclosed at fair value (13C above)	<u>-</u>	<u>16,347,431</u>	<u>2,039,139</u>	<u>18,386,570</u>

	As of December 31 2019			
	Level 1	Level 2	Level 3	Total
	In NIS thousand			
Marketable debt assets (*)	6,928,065	1,151,214	-	8,079,279
Shares (*)	1,300,818	41,567	241,569	1,583,954
Other	484,123	186,966	1,498,494	2,169,583
Total	<u>8,713,006</u>	<u>1,379,747</u>	<u>1,740,063</u>	<u>11,832,816</u>
Non-marketable debt assets disclosed at fair value (13C above)	<u>-</u>	<u>15,941,833</u>	<u>1,276,842</u>	<u>17,218,675</u>

During the reporting periods there were no material transfers between Level 1 and Level 2.

(*) Reclassified.

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)
I. Changes in assets measured at fair value - Level 3

	Measurement of fair value at the reporting date				
	Financial assets at fair value through profit and loss and available-for-sale financial assets				
	Marketable debt assets	Non-marketable debt assets	Shares	Other financial investments	Total
	In NIS thousand				
Balance as of January 1 2020	-	-	241,569	1,498,494	1,740,063
Total profits recognized:					
In profit and loss (*)	-	-	15,954	65,621	81,575
In other comprehensive income	-	-	30,695	90,028	120,723
Purchases	-	-	98,720	619,384	718,104
Proceeds from interest and dividend	-	-	(6,250)	(81,452)	(87,702)
Redemptions / sales	-	-	(33,570)	(163,976)	(197,546)
Transfers into Level 3 (**)	-	-	-	9,718	9,718
Transfers from Level 3 (**)	-	-	(17,110)	-	(17,110)
Balance on December 31 2020	<u>-</u>	<u>-</u>	<u>330,008</u>	<u>2,037,817</u>	<u>2,367,825</u>
(*) Of which:					
Total gains (losses) for the period included in profit and loss in respect of assets held as of December 31 2020	<u>-</u>	<u>-</u>	<u>(6,574)</u>	<u>(13,350)</u>	<u>(19,924)</u>

(**) Securities issued for the first time and securities classified from investment in an associate.

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)

	Measurement of fair value at the reporting date				
	Financial assets at fair value through profit and loss and available-for-sale financial assets				
	Marketable debt assets	Non-marketable debt assets	Shares	Other financial investments	Total
	In NIS thousand				
Balance as of January 1 2019	-	-	161,036	1,119,053	1,280,089
Gains (losses) recognized:					
In profit and loss (*)	-	-	5,565	17,240	22,805
In other comprehensive income	-	-	51,726	12,053	63,779
Purchases	-	-	53,418	453,323	506,741
Proceeds from interest and dividend	-	-	(328)	(36,811)	(37,139)
Redemptions / sales	-	-	-	(66,364)	(66,364)
Transfers from Level 3 (**)	-	-	(29,848)	-	(29,848)
Balance on December 31 2019	<u>-</u>	<u>-</u>	<u>241,569</u>	<u>1,498,494</u>	<u>1,740,063</u>
(*) Of which:					
Total gains for the period included in profit and loss in respect of assets held as of December 31 2019	<u>-</u>	<u>-</u>	<u>5,237</u>	<u>12,610</u>	<u>17,847</u>

(**)Securities issued for the first time and securities classified for investment in an associate.

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)**J. Aging of investments in non-marketable financial debt assets**

	As of December 31	
	2020	2019
	In NIS thousand	
Unimpaired debt assets		
No arrears	13,983,478	12,951,626
In arrears (*):		
Under 90 days	175	104
Between 90 and 180 days	2	4
Over 180 days	19	37
Total unimpaired debt assets	13,983,674	12,951,771
Impaired debt assets:		
Impaired assets, gross	83,858	45,526
Provision for loss	(60,343)	(21,587)
Impaired debt assets, net	23,515	23,939
Total non-marketable debt assets	14,007,189	12,975,710

It should be noted that the above amounts do not constitute the actual amount in arrears, but rather the portion of the debt balance involved in arrears.

(*) Mainly loans to agents secured by a mortgage on real estate properties.

K. Disclosure required in connection with the temporary exemption due to application of IFRS 9

The following table presents the fair value of the financial assets divided into two classes:

- Assets that are subject to the principal and interest test only (excluding assets that are held-for-trading or managed on a fair value basis through profit and loss (hereinafter: "Class A")).
- All other financial assets (hereinafter: "Class B").

NOTE 13 - OTHER FINANCIAL INVESTMENTS (cont.)

	Class A		Class B	
	As of December 31		As of December 31	
	2020	2019	2020	2019
	In NIS thousand			
<u>Financial investments for yield-dependent contracts</u>				
Total financial investments	-	-	65,570,447	64,304,915
Cash and cash equivalents	-	-	10,464,216	5,612,435
<u>Financial investments for non-yield-dependent contracts</u>				
Marketable debt assets	7,255,530	7,111,746	839,938	967,533
Non-marketable debt assets in terms of fair value	17,997,671	17,005,426 (*)	388,899	213,249 (*)
Shares	-	-	1,899,993	1,583,954
Other financial investments	-	-	3,247,469	2,169,583
Total financial investments	25,253,201	24,117,172	6,376,299	4,934,319
Cash and cash equivalents	1,545,903	1,731,709	-	-

(*) Reclassified.

NOTE 14 – CASH AND CASH EQUIVALENTS

A. Cash and cash equivalents in respect of yield-dependent contracts

	December 31	
	2020	2019
	In NIS thousand	
Cash and deposits with banks available for immediate withdrawal	4,130,143	2,212,851
Short-term deposits	6,334,073	3,399,584
Cash and cash equivalents	<u>10,464,216</u>	<u>5,612,435</u>

As of balance sheet date, the cash with banks bear current interest of 0%-0.2% based on nominal interest rates applicable to daily deposits with banks (December 31 2019 - 0%-0.22%).

Short-term deposits deposited with banking corporations are for periods ranging between one week and three months. The deposits bear a nominal interest rate of 0% -0.55% (December 31 2019 - 0%-0.67%).

For the terms and conditions of linkage of cash and short-term deposits, please see Note 40.

B. Other cash and cash equivalents

	December 31	
	2020	2019
	In NIS thousand	
Cash and deposits with banks available for immediate withdrawal	673,202	664,019
Short-term deposits	872,701	1,067,690
Cash and cash equivalents	<u>1,545,903</u>	<u>1,731,709</u>

As of balance sheet date, the cash with banks bear current interest of 0%-0.2% based on nominal interest rates applicable to daily deposits with banks (December 31 2019 - 0%-0.22%).

Short-term deposits deposited with banking corporations are for periods ranging between one week and three months. The deposits bear a nominal interest rate of 0% -0.55% (December 31 2019 - 0%-0.67%).

For the terms and conditions of linkage of cash and short-term deposits, please see Note 40.

NOTE 15 - EQUITY AND CAPITAL RESERVES

A. Composition of share capital

	December 31 2020		December 31 2019	
	Authorized	Issued and paid up	Authorized	Issued and paid up
	In NIS thousand			
Ordinary shares of NIS 1 p.v. each	<u>300,000</u>	<u>256,154 (*)</u>	<u>300,000</u>	<u>256,154</u>

On August 15 2019, the Company published a shelf prospectus by virtue of which is may issue various securities such as: ordinary Company shares of NIS 1 par value each (hereinafter in this section: "Company shares"), preferred shares, non-controvertible bonds (including by way of expansion of existing series of Company's bonds as may be from time to time), bonds convertible into Company shares (including by way of expansion of existing series of bonds convertible into Company's shares as may be from time to time), option warrants exercisable into Company shares, option warrants exercisable into bonds, option warrants exercisable into bonds convertible into Company shares, marketable securities and any other security that may be lawfully issued by virtue of the shelf prospectus on the relevant date.

(*)Excluding treasury shares. For further details regarding treasury shares, please see Section D below.

B. Changes in share capital

	No. of shares in thousands	Total par value in NIS thousand
Balance as of January 1 2019	256,095	256,095
Issuance of shares	<u>59</u>	<u>59</u>
Balance as of December 31 2019 and 2020	<u>256,154 (*)</u>	<u>256,154 (*)</u>

(*)Excluding treasury shares. For further details regarding treasury shares, please see Section D below.

NOTE 15 - EQUITY AND CAPITAL RESERVES (cont.)
C. Rights attached to shares

1. Voting rights in the general meeting, rights to receive dividends, rights upon liquidation of the Company and rights to appoint directors in the Company.
2. Company's shares are listed on the TASE.

D. Treasury shares - Company shares held by the Company

	As of December 31	
	2020	2019
<u>Shares</u>		
Rate of issued capital (in %)	<u>0.60%</u>	<u>-</u>
Cost (in NIS thousand)	<u>26,411</u>	<u>-</u>

On October 1 2020, the Company's Board of Directors approved a buyback plan for the purchase of Company shares at a total amount of up to NIS 100 million. The plan shall be executed from time to time by Company's management, which was authorized by the Company's Board of Directors to buy the securities at its discretion during the period set for the execution of the plan. For further details, please see the Company's immediate report dated October 1 2020 (Ref. No. 2020-01-106773). As of the report publication date, the Company purchased approximately 1,497 thousand shares at a total cost of approximately NIS 26 million.

E. Adjustments arising from translation of financial statements

Capital reserve from translation differences stems from changes in exchange rates of foreign currency arising from translation of the financial statements of investees which constitute foreign operations, and from changes in the exchange rates of foreign currency stemming from translation of financial statements from the functional currency to the presentation currency.

NOTE 15 - EQUITY AND CAPITAL RESERVES (cont.)**F. Capital management**

It is management's policy to maintain a strong capital base in order to retain Company's ability to continue its activities such that it will be able to generate returns to its shareholders and support future business activities.

This capital is also designed to support the risks inherent in the Group's business, such as market and credit risks, operational risks, catastrophe risks and more.

The Phoenix Insurance, Excellence and other institutional entities consolidated in the financial statements are subject to external capital requirements set by the Commissioner. For further details, please see Note 7(5) to the financial statements.

G. Capital reserve in respect of transaction with controlling shareholder

Assets and liabilities, which are the subject matter of a transaction between the Company and its controlling shareholder or between companies under common control, are recognized at fair value on the transaction date. The difference between the fair value and the transaction's consideration is carried to equity. A negative difference is essentially a dividend and therefore reduces the balance of retained earnings. A positive difference is essentially a shareholders' investment and is therefore presented as a separate line item, under equity: "Reserve in respect of a transaction with controlling shareholder".

Dividend

1. On March 24 2021, the Company's Board of Directors approved a dividend distribution in the amount of NIS 380 million. The dividend per share of NIS 1 par value is NIS 1.4922. The dividend will be paid in April.
2. On March 31 2019, the Company's Board of Directors approved a dividend distribution in the amount of NIS 250 million. The dividend per share of NIS 1 par value is NIS 0.976. The dividend was paid in April 2019.
3. Dividend in kind - On September 18 2019, the Company distributed all of the shares of Mehadrin it held as dividend in kind to the Company's shareholders. As a result of the distribution, the Company reduced its retained earnings balance by approx. NIS 230 million. The dividend per share of NIS 1 par value is NIS 0.81461. For further details, please see the Company's immediate report dated September 18 2019 (Ref. No. 2019-01-081090).

NOTE 15 - EQUITY AND CAPITAL RESERVES (cont.)**H. Dividend (cont.)****4. Dividend distribution policy**

On October 27 2020, the Company's Board of Directors approved a new dividend distribution policy as described below:

The Company intends to distribute an annual dividend at a minimum rate of 30% of the Company's distributable comprehensive income as per its audited annual consolidated financial statements for the relevant year. It should be clarified that such distribution shall include buybacks to be executed by the Company from time to time.

The distribution of dividend by the Company may be affected, among other things, by The Phoenix Insurance's ability to distribute dividends in practice.

It is hereby clarified that this policy should not be viewed as an undertaking by the Company to distribute dividends, and that any actual distribution shall be individually subject to the Board of Directors' approval, at its sole discretion; the Board of Directors may decide on actual distribution at different (higher or lower) rates, or not to distribute any dividend. Furthermore, the execution of any actual distribution shall be subject to compliance with the provisions of the law applicable to any dividend distribution, including, among other things, the provisions of the Companies Law, 1999, and to compliance with the financial covenants the Company has undertaken or/or will undertake to comply with, to the Company's having sufficient distributable profits on the relevant dates, to the condition that the distribution shall not adversely affect the terms of the Company's bonds and/or its cash flows, and to the extent to which the Company needs cash to finance its activities, including future investments, as shall be from time to time, and/or its expected and/or planned future activities. The Board of Director may review the dividend distribution policy from time to time and decide, at any given time, taking into account business considerations and the legal and regulatory provisions applicable to the Company, to change the dividend distribution policy, including the rate of dividend to be distributed.

I. Revaluation reserve

Revaluation reserve is used to record fair value adjustments (net of the tax effect) of property, plant and equipment and impairment up to the amount of appreciation recorded in respect of that asset in capital reserves.

NOTE 16 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND NON-YIELD-DEPENDENT INVESTMENT CONTRACTS

	As of December 31					
	2020	2019	2020	2019	2020	2019
	Gross		Reinsurance		Retention	
	In NIS thousand					
<u>Life insurance and long-term savings</u>						
Insurance contracts (see Note 19)	12,196,972	12,155,887	98,535	95,624	12,098,437	12,060,263
Less amounts deposited to the Company as part of a defined benefit plan for the Group's employees	4,822	4,529	-	-	4,822	4,529
Total life insurance	12,192,150	12,151,358	98,535	95,624	12,093,615	12,055,734
Provident fund management companies	921,239	901,857	-	-	921,239	901,857
Total life insurance and long-term savings	13,113,389	13,053,215	98,535	95,624	13,014,854	12,957,591
Insurance contracts included in the health insurance segment (see Note 20)	4,171,774	3,990,345	471,726	488,469	3,700,048	3,501,876
Insurance contracts included in the property and casualty insurance segment (see Note 18)	6,184,724	6,148,630	1,840,422	1,655,299	4,344,302	4,493,331
Total liabilities for insurance contracts and non-yield-dependent investment contracts	23,469,887	23,192,190	2,410,683	2,239,392	21,059,204	20,952,798

NOTE 17 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND YIELD-DEPENDENT INVESTMENT CONTRACTS

	As of December 31					
	2020	2019	2020	2019	2020	2019
	Gross		Reinsurance		Retention	
	In NIS thousand					
<u>Life insurance and long-term savings</u>						
Insurance contracts	61,663,718	57,584,133	84,695	74,408	61,579,023	57,509,725
Investment contracts	<u>9,891,066</u>	<u>8,886,419</u>	-	-	<u>9,891,066</u>	<u>8,886,419</u>
Total life insurance (see Note 19)	71,554,784	66,470,552	84,695	74,408	71,470,089	66,396,144
Less amounts deposited to the Company as part of a defined benefit plan for the Group's employees	<u>14,430</u>	<u>13,788</u>	-	-	<u>14,430</u>	<u>13,788</u>
Total life insurance and long-term savings	71,540,354	66,456,764	84,695	74,408	71,455,659	66,382,356
Insurance contracts included in the health insurance segment (see Note 20)	<u>5,316,559</u>	<u>4,634,113</u>	<u>36,281</u>	<u>33,921</u>	<u>5,280,278</u>	<u>4,600,192</u>
Total liabilities for insurance contracts and yield-dependent investment contracts	<u>76,856,913</u>	<u>71,090,877</u>	<u>120,976</u>	<u>108,329</u>	<u>76,735,937</u>	<u>70,982,548</u>

In yield-dependent insurance contracts, the insurance benefits payable to the beneficiary are dependent on or linked to the yield on certain investments of the Company, net of management fees. These contracts include, among other things, bonus-malus insurance plans in which the policyholder is credited/debited in accordance with the investment results of the Company's participating policies portfolio. In non-yield-dependent insurance contracts, the insurance benefits to which the policyholder is entitled are not dependent on the profit or loss from investments made by the Company.

The distinction between yield-dependent contracts and non-yield-dependent contracts is made at the individual coverage level, such that there are insurance policies with several coverages, some of which are yield-dependent contracts and some are non-yield-dependent contracts.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT

A(1) Liabilities in respect of insurance contracts included in the property and casualty insurance segment by type:

	As of December 31					
	2020	2019	2020	2019	2020	2019
	Gross		Reinsurance		Retention	
	In NIS thousand					
<u>Compulsory motor and liability subsegments:</u>						
Provision for unearned premium	431,720	405,702	176,400	175,479	255,320	230,223
Contingent claims and provision for premium deficiency	4,358,019	4,333,495	1,177,233	996,982	3,180,786	3,336,513
Total compulsory motor and liability subsegments	4,789,739	4,739,197	1,353,633	1,172,461	3,436,106	3,566,736
Of which - total liability in respect of the compulsory motor subsegment	2,731,581	2,672,967	1,005,826	832,052	1,725,755	1,840,915
<u>Property and other subsegments:</u>						
Provision for unearned premium	762,932	749,300	218,739	182,145	544,193	567,155
Contingent claims	608,653	641,879	268,050	300,693	340,603	341,186
Provision for underpaid premium	23,400	18,254	-	-	23,400	18,254
Total property and other subsegments	1,394,985	1,409,433	486,789	482,838	908,196	926,595
Total liabilities in respect of insurance contracts included in the property and casualty insurance segment	6,184,724	6,148,630	1,840,422	1,655,299	4,344,302	4,493,331
<u>Deferred acquisition costs</u>						
Compulsory motor and liability subsegments	65,565	62,270	41,417	42,961	24,148	19,309
Property and other subsegments	174,475	177,509	38,631	36,218	135,844	141,291
Total deferred acquisition costs	240,040	239,779	80,048	79,179	159,992	160,600
<u>Liabilities in respect of property and casualty insurance contracts, net of deferred acquisition costs</u>						
Compulsory motor and liability subsegments	4,724,174	4,676,927	1,312,216	1,129,500	3,411,958	3,547,427
Property and other subsegments	1,220,510	1,231,924	448,158	446,620	772,352	785,304
Total liabilities in respect of property and casualty insurance contracts, net of deferred acquisition costs	5,944,684	5,908,851	1,760,374	1,576,120	4,184,310	4,332,731

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

A(2) Liabilities in respect of insurance contracts included in the property and casualty insurance segment by calculation methods:

	As of December 31					
	2020	2019	2020	2019	2020	2019
	Gross		Reinsurance		Retention	
	In NIS thousand					
<u>Actuarial estimates:</u>						
Total actuarial estimates by Ms. Anna Nachum, Property and Casualty Insurance Actuary	4,913,137	4,935,656	1,411,677	1,269,015	3,501,460	3,666,641
Total actuarial estimates by Mr. Michael Yarmish, Health Insurance Actuary	-	15,903	-	1,051	-	14,852
Total actuarial estimates by Ms. Luba Sharapov, Health Insurance Actuary	15,061	-	814	-	14,247	-
Total actuarial estimates	4,928,198	4,951,559	1,412,491	1,270,066	3,515,707	3,681,493
<u>Provisions based on other estimates</u>						
Claims Department's estimates in respect of known contingent claims	28,115	21,603	18,442	17,817	9,673	3,786
Addition for contingent claims in respect of claims incurred but not yet reported (IBNR)	33,759	20,466	14,350	9,792	19,409	10,674
Provision for unearned premium	1,194,652	1,155,002	395,139	357,624	799,513	797,378
Total liabilities in respect of insurance contracts included in the property and casualty insurance segment	6,184,724	6,148,630	1,840,422	1,655,299	4,344,302	4,493,331

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

B. Change in liabilities in respect of insurance contracts included in the property and casualty subsegment, net of deferred acquisition costs:

1. Compulsory motor and liability subsegments

	For the year ended December 31					
	2020	2019	2020	2019	2020	2019
	Gross		Reinsurance		Retention	
	In NIS thousand					
Balance at beginning of year	4,676,927	4,612,869	1,129,500	883,325	3,547,427	3,729,544
Ultimate cost of claims in respect of current underwriting year	920,063	894,983	363,228	380,053	556,835	514,930
Change in balances at beginning of year as a result of linkage to the CPI and investment gains						
In accordance with the discount rate embodied in the liabilities	(27,755)	20,237	(6,675)	4,338	(21,080)	15,899
Change in ultimate cost of claims in respect of previous underwriting years (5)	(231,824)	(240,391)	(18,651)	(34,495)	(213,173)	(205,896)
Total change in ultimate cost of claims	660,484	674,829	337,902	349,896	322,582	324,933
Payments to settle claims during the year:						
In respect of current underwriting year	(7,679)	(9,024)	(1,066)	(1,165)	(6,613)	(7,859)
In respect of previous underwriting years	(605,558)	(601,747)	(154,120)	(102,556)	(451,438)	(499,191)
Total payments for the period	(613,237)	(610,771)	(155,186)	(103,721)	(458,051)	(507,050)
Balance at end of year	4,724,174	4,676,927	1,312,216	1,129,500	3,411,958	3,547,427

1. The opening and closing balances include: contingent claims, provision for underpaid premium, unearned premium net of deferred acquisition costs.
2. The ultimate cost of claims is: the balance of contingent claims, provision for underpaid premium, unearned premium net of deferred acquisition costs plus total payments in respect of claims including direct and indirect expenses associated with the settlement of claims.
3. The payments include indirect costs associated with the settlement of claims (general and administrative expenses recorded in respect of the claims) attributed to the relevant underwriting year.
4. The ultimate cost of claims is revised based on the model in accordance with the actual development of claims.
5. The change in the ultimate cost of claims in respect of previous underwriting years in 2020 and 2019 is mainly affected by the decrease in insurance liabilities following the ruling on the Discounting Regulations. An effect of approx. NIS 74 million (retention) and NIS 151 million (retention), respectively. In addition, there was no negative development in the third-party insurance subsegment unlike in the corresponding period last year. See note 40 Section 5.2.2.5.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

2. Property and other subsegments

	For the year ended December 31					
	2020	2019	2020	2019	2020	2019
	Gross		Reinsurance		Retention	
	In NIS thousand					
Balance at beginning of year	1,231,924	1,298,315	446,620	498,241	785,304	800,074
Ultimate cost of claims in respect of events in the reported year (5)	1,086,144	1,075,141	262,645	232,025	823,499	843,116
Change in the ultimate cost of claims in respect of events prior to the reported year (6)	(88,172)	(115,431)	(55,280)	(52,112)	(32,892)	(63,319)
Payments to settle claims during the year:						
In respect of events in the reported year	(727,648)	(719,446)	(136,513)	(117,992)	(591,135)	(601,454)
In respect of events prior to the reported year	(303,551)	(301,191)	(103,495)	(114,817)	(200,056)	(186,374)
Total payments	(1,031,199)	(1,020,637)	(240,008)	(232,809)	(791,191)	(787,828)
Change in provision for unearned premium, net of deferred acquisition costs	16,667	(23,718)	34,181	1,275	(17,514)	(24,993)
Change in provision for underpaid premium (7)	5,146	18,254	-	-	5,146	18,254
Balance at end of year	1,220,510	1,231,924	448,158	446,620	772,352	785,304

1. The opening and closing balances include: contingent claims, provision for underpaid premium, unearned premium net of deferred acquisition costs.
2. The ultimate cost of claims in respect of events in the reporting year includes the balance of contingent claims as of the end of the reported year plus total payments in respect of claims in the reported year, including direct and indirect expenses associated with the settlement of claims.
3. Payments to settle claims during the year include payments in respect of events prior to the reported year.
4. Payments to settle claims include direct and indirect expenses associated with the settlement of claims (general and administrative expenses recorded in respect of the claims) attributed to the damage years.
5. The increase in ultimate cost of claims in reinsurance in respect of events in the reported year compared to last year stems mainly from the property loss, home and engineering insurance subsegments.
6. The change in the gross ultimate cost of claims in respect of events prior to the reported year in 2020 compared with 2019 is mainly attributed to change in forecast used in the actuarial model applied to cost of claims in the motor property, engineering, property loss and home insurance subsegments.
7. Following the change in the procedure for allocation of non-marketable assets, in 2020 the Company offset NIS 22 million from the premium deficiency amount in respect of excess of value of non-marketable assets in the motor property insurance subsegment; see Note 40, Section 5.2.2.5.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(1) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, gross, in the compulsory motor and liability insurance subsegments:

	December 31 2020										
	Underwriting year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
In NIS thousands, adjusted to the November 2020 CPI (1)											
<u>Claims paid (cumulative) as of the end of the year</u>											
After the first year	7,682	8,792	8,119	7,251	7,451	10,317	12,375	17,968	8,891	7,687	
After two years	39,403	47,088	39,077	34,064	41,096	44,697	64,299	55,992	46,941		
After three years	86,175	95,408	90,104	83,744	98,841	112,893	150,110	140,065			
After four years	151,491	157,839	150,333	160,211	173,187	187,873	261,018				
After five years	198,136	218,436	212,132	242,489	250,427	258,528					
After six years	248,222	291,030	286,778	311,373	320,660						
After seven years	300,708	346,995	363,399	360,535							
After eight years	333,383	408,091	450,172								
After nine years	359,681	436,584									
After ten years	378,162										
<u>Estimated cumulative claims (including payments) as of the end of the year:</u>											
After the first year (2)	628,380	618,528	667,438	715,206	708,627	797,386	833,731	919,383	889,576	920,071	
After two years	670,103	643,191	704,092	659,972	722,682	794,290	838,196	866,470	841,891		
After three years	686,459	679,262	716,069	684,945	728,895	794,789	823,247	842,743			
After four years	579,230	612,083	725,934	678,843	711,846	757,802	811,416				
After five years	551,635	592,455	716,924	679,662	697,647	736,724					
After six years	537,091	611,778	726,164	666,884	666,299						
After seven years	509,100	589,905	725,010	655,548							
After eight years	494,622	587,346	690,595								

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(1) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, gross, in the compulsory motor and liability insurance subsegments (cont.)

	December 31 2020										
	Underwriting year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	In NIS thousands, adjusted to the November 2020 CPI (1)										
After nine years	469,285	586,284									
After ten years	464,046										
Surplus relating to the first year that does not involve accrual (3)	115,184	25,799	25,474	4,424	42,328	60,662	22,315	76,640	47,685		420,511
Deviation rate in respect of the first year that does not involve accrual, in % (4)	19.9%	4.2%	3.6%	0.7%	6.0%	7.6%	2.7%	8.3%	5.4%		5.5%
The cost of cumulative claims as of December 31 2020	464,046	586,284	690,595	655,548	666,299	736,724	811,416	842,743	841,891	920,071	7,215,617
Cumulative payments through December 31 2020	<u>378,162</u>	<u>436,584</u>	<u>450,172</u>	<u>360,535</u>	<u>320,660</u>	<u>258,528</u>	<u>261,018</u>	<u>140,065</u>	<u>46,941</u>	<u>7,687</u>	<u>2,660,352</u>
Contingent claims as of end of the period	85,884	149,700	240,423	295,013	345,639	478,196	550,398	702,678	794,950	912,384	4,555,265
For years up to and including the underwriting year 2010											<u>168,909</u>
Total gross liability in respect of insurance contracts in compulsory motor insurance and liability subsegments less deferred acquisition costs as of December 31 2020											<u>4,724,174</u>

(1) The amounts presented above are adjusted to reflect the effect of inflation in order to allow examination of development in real values.

(2) The estimated ultimate claims as of the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

(3) The surplus in respect of the first year that does not include accumulation is also affected from the decrease in insurance liabilities due to the implementation of the ruling on the Discounting Regulations, see note 40, Section 5.2.2.5.

(4) The significance of the actuarial models is higher when the development of the claims is assessed together for all underwriting years. Accordingly, it will be more appropriate to assess the development of the estimates together for all underwriting years rather than separately for each underwriting year.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(2) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, retention, in the compulsory motor and liability insurance subsegments:

	December 31 2020										
	Underwriting year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
In NIS thousands, adjusted to the November 2020 CPI (1)											
Claims paid (cumulative) as of the end of the year											
After the first year	6,801	7,536	7,901	6,689	7,292	8,792	10,018	9,053	7,744	6,622	
After two years	35,111	38,575	35,780	32,242	35,756	38,441	38,224	32,715	30,371		
After three years	79,453	85,003	83,848	78,826	91,117	102,664	91,349	77,195			
After four years	140,612	132,429	139,344	151,923	164,537	174,964	153,825				
After five years	186,994	191,948	198,437	233,851	239,569	244,651					
After six years	236,599	264,495	266,922	301,956	304,526						
After seven years	288,340	320,436	320,080	350,301							
After eight years	320,634	377,078	367,111								
After nine years	346,732	405,085									
After ten years	363,830										
Estimated cumulative claims (including payments) as of the end of the year:											
After the first year (2)	533,117	538,973	583,185	625,929	668,824	762,353	556,749	550,190	511,796	556,842	
After two years	546,970	549,537	603,237	631,563	695,276	765,702	550,718	513,947	472,051		
After three years	563,849	567,739	618,789	654,508	704,884	756,534	544,880	492,938			
After four years	557,550	572,809	623,008	653,173	686,993	722,852	529,820				
After five years	529,878	552,051	609,968	648,584	671,681	703,349					
After six years	514,864	571,728	597,024	639,935	635,730						
After seven years	489,096	543,102	581,814	629,990							
After eight years	475,125	537,772	563,264								
After nine years	450,763	533,513									
After ten years	447,140										

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(2) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, retention, in the compulsory motor and liability insurance subsegments (cont.)

	December 31 2020										
	Underwriting year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
In NIS thousands, adjusted to the November 2020 CPI (1)											
Surplus relating to the first year that does not involve accrual (3)	110,410	39,296	55,525	1,573	33,094	59,004	26,929	57,252	39,745		422,828
Deviation rate in respect of the first year that does not involve accrual, in % (4)	19.8%	6.9%	9.0%	0.2%	4.9%	7.7%	4.8%	10.4%	7.8%		7.1%
The cost of cumulative claims as of December 31 2020	447,140	533,513	563,264	629,990	635,730	703,349	529,820	492,938	472,051	556,842	5,564,637
Cumulative payments through December 31 2020	<u>363,830</u>	<u>405,085</u>	<u>367,111</u>	<u>350,301</u>	<u>304,526</u>	<u>244,651</u>	<u>153,825</u>	<u>77,195</u>	<u>30,371</u>	<u>6,622</u>	<u>2,303,517</u>
Contingent claims as of end of the period	83,310	128,428	196,153	279,689	331,204	458,698	375,995	415,743	441,680	550,220	3,261,120
For years up to and including the underwriting year 2010											<u>150,838</u>
Total liability (retention) in respect of insurance contracts in the compulsory motor and liability subsegments, net of deferred acquisition costs as of December 31 2020.											<u>3,411,958</u>

(1) The amounts presented above are adjusted to reflect the effect of inflation in order to allow examination of development in real values.

(2) The estimated ultimate claims as of the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

(3) The surplus in respect of the first year that does not include accumulation is also affected from the decrease in insurance liabilities due to the implementation of the ruling on the Discounting Regulations, see note 40, Section 5.2.2.5.

(4) The significance of the actuarial models is higher when the development of the claims is assessed together for all underwriting years. Accordingly, it will be more appropriate to assess the development of the estimates together for all underwriting years rather than separately for each underwriting year.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(3) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, gross, in the compulsory motor insurance subsegment:

	December 31 2020										
	Underwriting year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
In NIS thousands, adjusted to the November 2020 CPI (1)											
<u>Claims paid (cumulative) as of the end of the year</u>											
After the first year	3,899	4,284	4,831	4,248	4,668	5,735	8,113	6,716	5,761		4,197
After two years	21,022	21,027	21,222	19,071	20,091	23,885	35,626	31,387	30,438		
After three years	49,318	50,749	51,281	53,459	61,107	71,461	97,674	96,670			
After four years	83,877	80,246	92,666	107,349	114,690	124,900	168,331				
After five years	114,841	125,911	135,966	169,040	166,574	176,904					
After six years	148,468	171,327	180,538	220,173	208,068						
After seven years	186,980	202,095	210,621	250,881							
After eight years	206,194	235,827	235,507								
After nine years	218,533	247,422									
After ten years	226,905										
<u>Estimated cumulative claims (including payments) as of the end of the year:</u>											
After the first year (2)	347,042	346,033	383,507	411,444	439,925	509,887	544,591	588,049	583,308		585,730
After two years	350,111	353,760	393,187	408,125	449,767	491,445	529,389	546,710	554,851		
After three years	358,785	365,108	385,770	422,913	447,340	481,240	499,744	529,825			
After four years	334,887	349,182	389,391	418,259	426,919	451,032	484,289				
After five years	319,945	338,193	367,609	409,564	413,501	436,656					
After six years	315,777	330,846	358,526	405,229	381,331						
After seven years	295,709	317,289	339,645	405,660							
After eight years	285,101	308,490	324,371								
After nine years	267,163	300,879									
After ten years	263,943										

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(3) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, gross, in the compulsory motor insurance subsegment (cont.)

	December 31 2020										
	Underwriting year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
In NIS thousands, adjusted to the November 2020 CPI (1)											
Surplus relating to the first year that does not involve accrual (3)	70,944	48,303	61,399	2,465	58,594	73,231	60,302	58,224	28,457		461,919
Deviation rate in respect of the first year that does not involve accrual, in % (4)	21.2%	13.8%	15.9%	0.6%	13.3%	14.4%	11.1%	9.9%	4.9%		9.8%
The cost of cumulative claims as of December 31 2020	263,943	300,879	324,371	405,660	381,331	436,656	484,289	529,825	554,851	585,730	4,267,535
Cumulative payments through December 31 2020	<u>226,905</u>	<u>247,422</u>	<u>235,507</u>	<u>250,881</u>	<u>208,068</u>	<u>176,904</u>	<u>168,331</u>	<u>96,670</u>	<u>30,438</u>	<u>4,197</u>	<u>1,645,323</u>
Contingent claims as of end of the period	37,038	53,457	88,864	154,779	173,263	259,752	315,958	433,155	524,413	581,533	2,622,212
For years up to and including the underwriting year 2010											<u>81,388</u>
Total gross liability in respect of insurance contracts in compulsory motor insurance less deferred acquisition costs as of December 31 2020											<u>2,703,600</u>

- (1) The amounts presented above are adjusted to reflect the effect of inflation in order to allow examination of development in real values.
- (2) The estimated ultimate claims as of the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.
- (3) The surplus in respect of the first year that does not include accumulation is also affected from the decrease in insurance liabilities due to the implementation of the ruling on the Discounting Regulations, see note 40, Section 5.2.2.5.
- (4) The significance of the actuarial models is higher when the development of the claims is assessed together for all underwriting years. Accordingly, it will be more appropriate to assess the development of the estimates together for all underwriting years rather than separately for each underwriting year.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(4) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, retention, in the compulsory motor insurance subsegment:

	December 31 2020										
	Underwriting year										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
In NIS thousands, adjusted to the November 2020 CPI (1)											
<u>Claims paid (cumulative) as of the end of the year</u>											
After the first year	3,899	4,284	4,831	4,248	4,668	5,735	7,321	5,809	4,713		3,478
After two years	21,022	21,027	21,222	19,071	20,091	23,885	24,038	18,001	16,971		
After three years	49,318	50,749	51,281	53,459	61,107	71,461	57,680	45,814			
After four years	83,877	80,246	92,666	107,349	114,690	124,900	95,549				
After five years	114,841	125,911	135,966	169,040	166,574	176,904					
After six years	148,468	171,327	180,538	220,173	208,068						
After seven years	187,020	202,095	210,621	250,881							
After eight years	206,234	235,827	235,507								
After nine years	218,574	247,422									
After ten years	226,945										
<u>Estimated cumulative claims (including payments) as of the end of the year:</u>											
After the first year (2)	338,289	336,673	376,995	404,860	438,808	509,230	310,211	280,461	266,627		303,288
After two years	336,354	342,521	384,335	407,646	449,283	490,960	290,795	245,033	242,054		
After three years	345,292	353,860	385,707	422,848	447,277	481,156	276,285	236,121			
After four years	334,887	349,182	389,391	418,259	426,919	451,032	266,448				
After five years	319,945	337,237	367,609	409,564	413,501	436,656					
After six years	315,777	329,883	358,526	405,229	381,331						
After seven years	295,749	316,338	339,645	405,660							
After eight years	285,141	308,490	324,371								
After nine years	267,203	300,879									
After ten years	263,983										

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

c(4) Examination of development in estimated liabilities in respect of insurance contracts, net of deferred acquisition costs, retention, in the compulsory motor insurance subsegment (cont.)

	December 31 2020										
	Underwriting year										Total
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
In NIS thousands, adjusted to the November 2020 CPI (1)											
Surplus relating to the first year that does not involve accrual (3)	70,904	48,303	61,336	1,986	57,477	72,574	43,763	44,340	24,573		425,256
Deviation rate in respect of the first year that does not involve accrual, in % (4)	21%	14%	16%	0%	13%	14%	14%	16%	9%		12%
The cost of cumulative claims as of December 31 2020	263,983	300,879	324,371	405,660	381,331	436,656	266,448	236,121	242,054	303,288	3,160,791
Cumulative payments through December 31 2020	<u>226,945</u>	<u>247,422</u>	<u>235,507</u>	<u>250,881</u>	<u>208,068</u>	<u>176,904</u>	<u>95,549</u>	<u>45,814</u>	<u>16,971</u>	<u>3,478</u>	<u>1,507,539</u>
Contingent claims as of end of the period	37,038	53,457	88,864	154,779	173,263	259,752	170,899	190,307	225,083	299,810	1,653,252
For years up to and including the underwriting year 2010											<u>79,066</u>
Total gross liability in respect of insurance contracts in compulsory motor insurance less deferred acquisition costs as of December 31 2020 - retention											<u>1,732,318</u>

(1) The amounts presented above are adjusted to reflect the effect of inflation in order to allow examination of development in real values.

(2) The estimated ultimate claims as of the end of the first year includes the reserve for unearned premium net of deferred acquisition costs.

(3) The surplus in respect of the first year that does not include accumulation is also affected from the decrease in insurance liabilities due to the implementation of the ruling on the Discounting Regulations, see note 40, Section 5.2.2.5.

(4) The significance of the actuarial models is higher when the development of the claims is assessed together for all underwriting years. Accordingly, it will be more appropriate to assess the development of the estimates together for all underwriting years rather than separately for each underwriting year.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

D(1) Accumulated data regarding underwriting years in the compulsory motor insurance subsegment:

	Underwriting year						
	2020	2019	2018	2017	2016	2015	2014
	In NIS thousand						

For the year ended
December 31 2020:

Gross premiums (1)	<u>590,754</u>	<u>570,654</u>	<u>566,882</u>	<u>527,447</u>	<u>478,703</u>	<u>463,438</u>	<u>448,410</u>
Comprehensive income (loss) - retention - in respect of the underwriting year (2), (3), (4)	<u>(8,706)</u>	<u>30,362</u>	<u>50,227</u>	<u>45,013</u>	<u>45,958</u>	<u>86,127</u>	<u>42,750</u>
Accumulated effect of investment income over accumulated comprehensive income - retention - in respect of underwriting year (4)	<u>7,676</u>	<u>24,119</u>	<u>35,328</u>	<u>41,808</u>	<u>87,284</u>	<u>82,388</u>	<u>73,131</u>

1. The increase in premiums during the periods stems mainly from increase in scope of Company's sales.
2. In 2015, the Company did not carry to retained earnings any retention surplus due to the losses accrued in underwriting years 2014 and 2015.
3. A new "quota share treaty" reinsurance agreement, which came into effect in underwriting year 2017.
4. The decrease in investment income over the underwriting years stems mainly from the fact that investment gains have not yet accumulated in the reporting year and in adjacent years.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

D(2) Accumulated data regarding underwriting years in the other liability insurance subsegment:

	Underwriting year						
	2020	2019	2018	2017	2016	2015	2014
	In NIS thousand						
For the year ended December 31 2020:							
Gross premiums	<u>437,126</u>	<u>420,526</u>	<u>427,794</u>	<u>398,812</u>	<u>394,918</u>	<u>385,549</u>	<u>390,108</u>
Comprehensive income (loss) - retention - in respect of the underwriting year (1), (2), (*)	<u>(38,059)</u>	<u>(1,529)</u>	<u>2,161</u>	<u>(4,543)</u>	<u>7,284</u>	<u>18,089</u>	<u>22,433</u>
(*) Including the balance of excess of income over expenses - retention - which were carried directly to retained earnings in 2015.						<u>5,138</u>	<u>8,129</u>
Accumulated effect of investment income over accumulated comprehensive income - retention - in respect of underwriting year (2)	<u>6,377</u>	<u>23,315</u>	<u>38,710</u>	<u>41,628</u>	<u>53,119</u>	<u>52,707</u>	<u>48,845</u>

1. The increase in losses in underwriting year 2020 compared to underwriting year 2019 stems mainly from a decline in the profitability of the professional liability and third-party insurance subsegments.
2. The decrease in investment income over the underwriting years stems mainly from the fact that investment gains have not yet accumulated in the reporting year and in adjacent years.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

E(1) Composition of comprehensive income (loss) in the compulsory motor insurance subsegment:

	Compreh- ensive loss in respect of current underwriting year	Compreh- ensive income in respect of previous underwriting years (1)	Total comprehe nsive income (loss), gross	Comprehe nsive loss in respect of current underwrit ing year (2)	Compreh- ensive income in respect of previous underwriting years (1)	Total compreh- ensive income for the year - retention
	Gross			Retention		
	In NIS thousand					
For the year ended December 31						
2020	(84,634)	260,085	175,451	(8,706)	239,489	230,783
2019	(89,016)	343,473	254,457	(4,245)	324,642	320,397
2018	(106,639)	91,990	(14,649)	(26,043)	99,601	73,558

1. The decrease in gross comprehensive income and retention in respect of previous underwriting years in 2020 compared with 2019 stems mainly from a decrease in investment income and a decrease in insurance liabilities following the application of the ruling on the Discounting Regulations; in 2020 - a decrease in gross comprehensive income of approx. NIS 81 million (2019 - approx. NIS 141 million), and a decrease in retention of approx. NIS 61 million (2019 - approx. NIS 109 million). The increase in gross and retention comprehensive income in respect of previous underwriting years in 2019 compared with 2018 stems mainly from an increase in investment income and from a decrease in insurance liabilities following the application of the ruling on the Discounting Regulations, see Note 40, as mentioned above. For further details, please see Note 40, Section 5.2.2.5.
2. The decrease in retention comprehensive loss in respect of the current underwriting year in 2020 and 2019 compared with 2018 stems from an increase in investment income.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)

E(2). Composition of comprehensive income (loss) in other liability insurance subsegments:

	Compreh- ensive loss in respect of current underwriting year (1)	Compreh- ensive income in respect of previous underwriting years (2)	Total compreh- ensive income (loss), gross	Compreh- ensive loss in respect of current underwriting year (1)	Compreh- ensive income in respect of previous underwriting years (2)	Total compreh- ensive income (loss) - retention
	Gross			Retention		
	In NIS thousand					

For the year ended December 31

2020	(3,674)	218,201	214,527	(38,059)	183,802	145,743
2019	(14,330)	199,280	184,950	(30,903)	170,692	139,789
2018	(43,710)	22,179	(21,531)	(57,607)	41,205	(16,402)

1. The change in comprehensive loss - gross and retention - in respect of the current underwriting year in 2020 compared with 2019 and 2018 stems mainly from a decrease in losses in respect of the employers' liability and third-party insurance subsegments.
2. The increase in gross and retention comprehensive income in respect of previous underwriting years in 2020 compared with 2019 stems mainly from the third-party insurance subsegment, and on the other hand - from a decrease in insurance liabilities following the application of the ruling on the Discounting Regulations; in 2020 - a decrease in gross and retention comprehensive income totaling approx. NIS 13 million (2019 - approx. NIS 42 million). The increase in gross and retention comprehensive income in respect of previous underwriting years in 2019 compared with 2018 stems mainly from an increase in investment income and from a decrease in insurance liabilities following the application of the ruling on the Discounting Regulations, see Note 40, as mentioned above. For further details, please see Note 40.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)
F(1) Examination of development in estimated contingent claims, gross in the property and other insurance subsegments:

	As of December 31 2020										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	In NIS thousands, adjusted to the November 2020 CPI (*)										
Claims paid (cumulative) as of the end of the year:											
After the first year	619,619	575,044	577,151	580,746	699,381	650,036	668,414	705,349	708,835	728,374	
After two years	806,818	770,857	865,950	751,378	954,450	858,496	863,738	933,059	935,213		
After three years	826,738	802,733	940,577	785,697	978,746	887,558	887,886	970,293			
After four years	835,370	863,723	961,152	802,123	988,684	900,022	906,837				
After five years	849,331	867,822	967,341	807,428	994,266	902,805					
After six years	854,449	874,215	971,735	809,245	996,211						
After seven years	861,832	877,746	974,815	812,690							
After eight years	864,869	881,276	980,989								
After nine years	864,802	883,878									
After ten years	865,830										
Cumulative claims (including payments):											
After the first year	875,756	868,941	993,804	842,157	1,022,933	970,887	996,334	1,091,982	1,062,413	1,086,871	
After two years	884,863	855,718	1,033,669	841,835	1,030,358	952,940	956,231	1,035,384	1,024,091		
After three years	874,259	900,984	1,010,163	836,414	1,019,587	944,953	926,788	1,016,227			
After four years	872,840	908,981	993,218	836,555	1,011,416	915,265	927,208				
After five years	880,165	908,102	1,003,634	838,489	1,011,900	919,263					
After six years	885,380	909,113	1,010,060	838,756	1,006,611						
After seven years	880,161	903,056	995,900	826,595							
After eight years	876,217	904,737	994,150								
After nine years	872,896	904,614									
After ten years	871,807										
Estimated cumulative costs, as of December 31 2020	871,807	904,614	994,150	826,595	1,006,611	919,263	927,208	1,016,227	1,024,091	1,086,871	9,577,437
Cumulative payments through December 31 2020	865,830	883,878	980,989	812,690	996,211	902,805	906,837	970,293	935,213	728,374	8,983,120
Outstanding contingent claims	5,977	20,736	13,161	13,905	10,400	16,458	20,371	45,934	88,878	358,497	594,317
Contingent claims for the years up to and including damage year 2010											14,336
Total gross contingent claims in the subsegment as of December 31 2020											608,653

(*) The amounts presented above are adjusted to reflect the effect of inflation in order to allow examination of development in real values.

NOTE 18 - LIABILITIES IN RESPECT OF INSURANCE CONTRACTS INCLUDED IN THE PROPERTY AND CASUALTY INSURANCE SEGMENT (cont.)
F(2) Examination of development in estimated contingent claims - retention - in the property and other insurance subsegments:

	As of December 31 2020										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	In NIS thousands, adjusted to the November 2020 CPI (*)										
Claims paid (cumulative) as of the end of the year:											
After the first year	465,875	493,401	496,962	505,261	587,673	585,519	571,512	575,365	592,585	591,724	
After two years	611,478	645,571	649,794	633,573	759,469	750,475	720,071	714,906	754,896		
After three years	623,827	663,502	666,955	650,086	776,793	771,961	742,089	734,125			
After four years	630,954	662,573	674,711	657,101	783,862	781,230	751,090				
After five years	635,645	664,020	678,659	659,148	786,719	784,274					
After six years	636,804	667,329	680,982	660,979	787,911						
After seven years	639,913	667,839	682,489	663,059							
After eight years	640,917	668,926	683,237								
After nine years	639,872	669,560									
After ten years	640,069										
Cumulative claims (including payments):											
After the first year	644,656	703,333	725,450	692,006	798,334	815,157	813,046	809,042	832,807	824,090	
After two years	650,535	688,565	705,847	672,324	804,194	800,178	768,110	762,652	808,190		
After three years	646,796	678,339	693,520	669,772	798,139	795,077	758,900	757,684			
After four years	645,471	677,124	688,785	666,890	794,685	789,568	761,439				
After five years	646,088	673,558	692,169	665,755	793,782	792,384					
After six years	648,937	679,443	694,897	665,773	790,170						
After seven years	642,285	672,250	684,509	664,852							
After eight years	641,821	674,048	684,621								
After nine years	641,172	674,681									
After ten years	640,907										
Estimated cumulative costs, as of December 31 2020	640,907	674,681	684,621	664,852	790,170	792,384	761,439	757,684	808,190	824,090	7,399,018
Cumulative payments through December 31 2020	640,069	669,560	683,237	663,059	787,911	784,274	751,090	734,125	754,896	591,724	7,059,945
Outstanding contingent claims	838	5,121	1,384	1,793	2,259	8,110	10,349	23,559	53,294	232,366	339,073
Contingent claims for the years up to and including damage year 2010											1,530
Total contingent claims in the subsegment as of December 31 2020 - retention											340,603

(*) The amounts presented above are adjusted to reflect the effect of inflation in order to allow examination of development in real values.

NOTE 19 - ADDITIONAL DATA ABOUT THE LIFE INSURANCE AND LONG TERM SAVINGS SEGMENTS

A. Breakdown of liabilities in respect of insurance contracts and investment contracts by exposures

Data as at December 31 2020

	Policies including a savings component (including appendices) by policy issuance date				Policies without a savings component		
	Until 1990 (*)	Until 2003	Since 2004		Life insurance sold as a single policy		Total
			Non yield-dependent	Yield-dependent	Individual	Group	
In NIS thousand							
1. By insurance exposure:							
Liabilities in respect of insurance contracts							
Annuity without guaranteed coefficients	386,035	19,762	-	514,802	-	-	920,599
Annuity with guaranteed coefficients:	-	-	-	-	-	-	
Until May 2001	2,869,142	20,626,256	-	-	-	-	23,495,398
From June 2001	-	3,511,396	-	24,842,438	-	-	28,353,834
Annuity paid	2,180,019	2,414,455	-	734,284	22,700	-	5,351,458
Equity (without an option for annuity)	4,409,806	4,926,491	-	2,143,825	-	-	11,480,122
Supplementary reserve for pension (**)	1,006,223	1,164,084	-	25,545	-	-	2,195,852
Other risk factors	61,473	560,330	-	445,141	889,203	107,280	2,063,427
Total in respect of insurance contracts	10,912,698	33,222,774	-	28,706,035	911,903	107,280	73,860,690
Liabilities in respect of investment contracts	-	-	-	9,891,066	-	-	9,891,066
Total	10,912,698	33,222,774	-	38,597,101	911,903	107,280	83,751,756
Liability in respect of consolidated provident fund tracks							921,239
Total							84,672,995
2. By financial exposure:							
Yield-dependent	136,689	32,844,845	-	38,293,277	272,580	7,393	71,554,784
Non yield-dependent	10,776,009	377,929	-	303,824	639,323	99,887	12,196,972
Total	10,912,698	33,222,774	-	38,597,101	911,903	107,280	83,751,756
Guaranteed return liabilities in respect of consolidated provident fund tracks							921,239
Total							84,672,995

(*) Products issued until 1990 (including increases in respect thereof) were mainly guaranteed return policies that were backed mainly by designated bonds.

(**) In addition to supplementary reserve for pension, which is included in the liabilities in respect of insurance contracts, there is a NIS 1,426 million reserve that will be carried to profit and loss over the remaining life of the policy until policyholders reach retirement age. For further details, see Note 40, Section 5.1.2(4).

NOTE 19 - ADDITIONAL DATA ABOUT THE LIFE INSURANCE AND LONG TERM SAVINGS SEGMENTS (cont.)

Data as at December 31 2019

	Policies including a savings component (including appendices) by policy issuance date				Policies without a savings component		Total
	Until 1990 (*)	Until 2003	Since 2004		Risk insurance sold as a single policy		
			Non yield-dependent	Yield-dependent	Individual	Group	
1. By insurance exposure:							
Liabilities in respect of insurance contracts							
Annuity without guaranteed coefficients	384,616	20,763	-	502,915	-	-	908,294
Annuity with guaranteed coefficients:	-	-	-	-	-	-	
Until May 2001	2,963,681 (**)	19,546,370	-	-	-	-	22,510,051
From June 2001	-	3,280,960	-	20,080,499	-	-	23,361,459
Annuity paid	1,997,336	2,086,685	-	572,317	18,491	-	4,674,829
Equity (without an option for annuity)	4,493,166 (**)	5,004,702	-	4,434,852	-	-	13,932,720
Supplementary reserve for pension (***)	1,004,874	1,312,002	-	23,482	-	-	2,340,358
Other risk factors	69,565	586,227	-	412,566	847,494	96,457	2,012,309
Total in respect of insurance contracts	10,913,238	31,837,709	-	26,026,631	865,985	96,457	69,740,020
Liabilities in respect of investment contracts	-	-	-	8,886,419	-	-	8,886,419
Total	10,913,238	31,837,709	-	34,913,050	865,985	96,457	78,626,439
Liability in respect of consolidated provident fund tracks							901,857
Total							79,528,296
2. By financial exposure:							
Yield-dependent	130,883	31,461,992	-	34,614,263	256,201	7,213	66,470,552
Non yield-dependent	10,782,355	375,717	-	298,787	609,784	89,244	12,155,887
Total	10,913,238	31,837,709	-	34,913,050	865,985	96,457	78,626,439
Guaranteed return liabilities in respect of consolidated provident fund tracks							901,857
Total							79,528,296

(*) Products issued until 1990 (including increases in respect thereof) were mainly guaranteed return policies that were backed mainly by designated bonds.

(*) Applied retrospectively; for further details, please see Note 2.DD(2).

(***) In addition to supplementary reserve for pension, which is included in the liabilities in respect of insurance contracts, there is a NIS 1,161 million reserve that will be carried to profit and loss over the remaining life of the policy until policyholders reach retirement age. For further details, see Note 40, Section 5.1.2(4).

NOTE 19 - ADDITIONAL DATA ABOUT THE LIFE INSURANCE AND LONG TERM SAVINGS SEGMENTS (cont.)

B. Breakdown of results by type of policy

Data for the year ended December 31 2020:

	Policies including a savings component (including appendices) by policy issuance date				Policies without a savings component		
	Until 1990 (1)	Until 2003	Since 2004		Risk insurance sold as a single policy		
			Non yield-dependent	Yield-dependent	Individual	Group	Total
In NIS thousand							
Gross premiums							
Traditional/ mixed	25,548	14,429	-	-	-	-	39,977
Savings component	39,999	959,499	-	2,682,021	-	-	3,681,519
Other	7,473	159,504	-	188,620	563,776	124,684	1,044,057
Total	73,020	1,133,432	-	2,870,641	563,776	124,684	4,765,553
Financial margin including management fees (2)	185,503	466,855 (3)	-	269,041	-	-	921,399
Payments and change in liabilities in respect of insurance contracts, gross	439,848	2,783,738	-	4,457,267	261,625	112,290	8,054,768
Payments and change in liabilities for investment contracts	-	-	-	423,590	-	-	423,590
Payments and change in liabilities of provident fund management companies							38,697
Total liabilities from life insurance and long-term savings							8,517,055
Profit (loss) from life insurance business	95,404	565,412	-	(75,475)	73,978	12,935	672,254
Other comprehensive income (loss) from life insurance business	12,786	(4,755)	-	573	(2,412)	540	6,732
Comprehensive income (loss) from life insurance business	108,190 (5)	560,657 (4) (5)	-	(74,902)	71,566	13,475	678,986
Profit from pension and provident funds							28,071
Total profit from life insurance and long-term savings							707,057
Proceeds in respect of investment contracts credited directly to insurance reserves	-	-	-	1,945,751	-	-	1,945,751
Annualized premium for insurance contracts - new business	-	469	-	96,997	77,765	-	175,231
One-off premium for insurance contracts	-	2,605	-	776,407	-	-	779,012
Annualized premium for investment contracts - new business	-	-	-	31,623	-	-	31,623
One-off premium for investment contracts	-	-	-	1,703,162	-	-	1,703,162
Transfers to the Company in respect of insurance contracts and investment contracts	-	-	-	720,983	-	-	720,983
Transfers from the Company in respect of insurance contracts and investment contracts	13,949	297,149	-	1,186,039	-	-	1,497,137

- Products issued until 1990 (including increases in respect thereof) were mainly guaranteed return policies that were backed mainly by designated bonds.
- The financial margin does not include additional income of the Company collected as a percentage of the premium and is calculated before deducting investment management expenses. The financial margin in guaranteed return policies is based on actual investment income less the product of the annual guaranteed rate of return, multiplied by the average reserve per year in the various insurance reserves. In this matter, investment income also includes the change in the fair value of available-for-sale financial assets that is charged to the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees calculated on the basis of the yield and average balance of insurance reserves.
- As of September 30 2020, the estimated management fees which were not collected due to negative yield in respect of participating policies amounted to approx. NIS 101 million; this amount was offset against management fees in the fourth quarter of 2020.
- The profit includes a profit in respect of a change in the K value, amounting to approx. NIS 261 million, before tax.
- The profit includes a profit in respect of the effect of the changes in assumptions and the effect of the change in the discount rate in the calculation of the supplementary retirement pension reserve and paid pensions totaling approx. NIS 41 million. For further details, see Note 40, Section 5.1.8.

NOTE 19 - ADDITIONAL DATA ABOUT THE LIFE INSURANCE AND LONG TERM SAVINGS SEGMENTS (cont.)

Data for the year ended December 31 2019:

	Policies including a savings component (including appendices) by policy issuance date				Policies without a savings component		
			Since 2004		Risk insurance sold as a single policy		
	Until 1990 (1)	Until 2003	Non yield-dependent	Yield-dependent	Individual	Group	Total
	In NIS thousand						
Gross premiums							
Traditional/ mixed	30,448	16,675	-	-	-	-	47,123
Savings component	44,725	1,001,683	-	3,058,255	-	-	4,104,663
Other	8,895	170,844	-	204,407	549,923	123,511	1,057,580
Total	84,068	1,189,202	-	3,262,662	549,923	123,511	5,209,366
Financial margin including management fees (2)	285,436	647,014 (3)	-	249,652	-	-	1,182,102
Payments and change in liabilities in respect of insurance contracts, gross	918,582 (*)	5,482,625	-	5,693,554	245,494	117,575	12,457,830
Payments and change in liabilities for investment contracts	-	-	-	802,459	-	-	802,459
Payments and change in liabilities of provident fund management companies							42,379
Total liabilities from life insurance and long-term savings							13,302,668
Profit (loss) from life insurance business	(221,758)	(13,465)	-	(134,571)	118,058	3,065	(248,671)
Other comprehensive income (loss) from life insurance business	74,309	8,008	-	4,876	9,741	2,070	99,004
Comprehensive income (loss) from life insurance business	(147,449) (5)	(5,457) (4)	-	(129,695)	127,799	5,135	(149,667)
Profit from pension and provident funds							51,008
Total loss on life insurance and long-term savings							(98,659)
Proceeds in respect of investment contracts credited directly to insurance reserves	-	-	-	3,183,601	-	-	3,183,601
Annualized premium for insurance contracts - new business	4	737	-	210,955	71,485	-	283,181
One-off premium for insurance contracts	-	3,027	-	991,361	-	-	994,388
Annualized premium for investment contracts - new business	-	-	-	49,582	-	-	49,582
One-off premium for investment contracts	-	-	-	2,920,300	-	-	2,920,300
Transfers to the Company in respect of insurance contracts and investment contracts	-	-	-	1,009,552	-	-	1,009,552
Transfers from the Company in respect of insurance contracts and investment contracts	17,403	212,905	-	655,652	-	-	885,960

1. Products issued until 1990 (including increases in respect thereof) were mainly guaranteed return policies that were backed mainly by designated bonds.
2. The financial margin does not include additional income of the Company collected as a percentage of the premium and is calculated before deducting investment management expenses. The financial margin in guaranteed return policies is based on actual investment income less the product of the annual guaranteed rate of return, multiplied by the average reserve per year in the various insurance reserves. In this matter, investment income also includes the change in the fair value of available-for-sale financial assets that is charged to the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees calculated on the basis of the yield and average balance of insurance reserves.
3. In the first quarter of 2019, estimated management fees amounting to approx. NIS 62 million - which were not collected in 2018 due to negative yield in respect of participating policies - were offset against management fees income in the first quarter of 2019.
4. The loss includes a loss in respect of a change in the K value, amounting to approx. NIS 210 million.
5. The loss includes a loss in respect of changes in assumptions, the effect of changes in life expectancy and the effect of the change in the discount rate in the calculation of the supplementary retirement pension reserve and paid pensions totaling approx. NIS 644 million. For further details, see Note 40, Section 5.1.8 and Section 5.1.10.

(*) Applied retrospectively; for further details, please see Note 2.DD(2).

NOTE 19 - ADDITIONAL DATA ABOUT THE LIFE INSURANCE AND LONG TERM SAVINGS SEGMENTS (cont.)

Data for the year ended December 31 2018:

	Policies including a savings component (including appendices) by policy issuance date				Policies without a savings component		
	Until 1990 (1)	Until 2003	Since 2004		Risk insurance sold as a single policy		Total
			Non yield-dependent	Yield-dependent	Individual	Group	
In NIS thousand							
Gross premiums							
Traditional/ mixed	34,772	18,911	-	-	-	-	53,683
Savings component	51,042	1,014,562	-	2,930,791	-	-	3,996,395
Other	10,167	178,883	-	189,867	531,090	122,408	1,032,415
Total	95,981	1,212,356	-	3,120,658	531,090	122,408	5,082,493
Financial margin including management fees (2)	99,775	165,738 (3)	-	211,425	-	-	476,938
Payments and change in liabilities in respect of insurance contracts, gross	472,662 (*)	1,354,925	-	2,832,060	222,167	111,680	4,993,494
Payments and change in liabilities for investment contracts	-	-	-	131,748	-	-	131,748
Payments and change in liabilities of provident fund management companies							48,992
Total liabilities from life insurance and long-term savings							5,174,234
Profit (loss) from life insurance business	209,849	(11,978)	-	(129,827)	103,842	4,527	176,413
Other comprehensive income (loss) from life insurance business	664	-	-	-	-	-	664
Comprehensive income (loss) from life insurance business	210,513 (*) (4)	(11,978) (4)	-	(129,827)	103,842	4,527	177,077
Profit from pension and provident funds							53,597
Total profit from life insurance and long-term savings							230,674
Proceeds in respect of investment contracts credited directly to insurance reserves	-	-	-	2,035,667	-	-	2,035,667
Annualized premium for insurance contracts - new business	5	824	-	452,543	64,809	-	518,181
One-off premium for insurance contracts	-	3,483	-	992,269	-	-	995,752
Annualized premium for investment contracts - new business	-	-	-	47,310	-	-	47,310
One-off premium for investment contracts	-	-	-	1,779,865	-	-	1,779,865
Transfers to the Company in respect of insurance contracts and investment contracts	-	-	-	914,175	-	-	914,175
Transfers from the Company in respect of insurance contracts and investment contracts	19,504	155,558	-	420,359	-	-	595,421

1. Products issued until 1990 (including increases in respect thereof) were mainly guaranteed return policies that were backed mainly by designated bonds.

2. The financial margin does not include additional income of the Company collected as a percentage of the premium and is calculated before deducting investment management expenses. The financial margin in guaranteed return policies is based on actual investment income less the product of the annual guaranteed rate of return, multiplied by the average reserve per year in the various insurance reserves. In this matter, investment income also includes the change in the fair value of available-for-sale financial assets that is charged to the statement of comprehensive income. In yield-dependent contracts, the financial margin is the total fixed and variable management fees calculated on the basis of the yield and average balance of insurance reserves.

3. As of December 31 2018, the estimated management fees which were not collected due to negative yield in respect of participating policies amounted to approx. NIS 62 million. This amount was offset against management fees income in the first quarter of 2019.

4. The profit (loss) includes a profit in respect of changes in assumptions and the effect of changes in the discount rate used to calculate the supplementary retirement pension reserve totaling approx. NIS 124 million. For further details, please see Note 40, Section 5.1.8 and Section 5.1.10.

(*) Applied retrospectively; for further details, please see Note 2.DD(2).

NOTE 20 - BREAKDOWN OF INSURANCE LIABILITIES INCLUDED IN THE HEALTH INSURANCE SEGMENT

H. Breakdown of insurance liabilities by financial exposure

	Data as at December 31 2020				
	Long-term care		Other (4)		Total
	Individual	Group	Long-term	Short-term	
	In NIS thousand				
Yield-dependent	491,446	4,825,113	-	-	5,316,559
Other	1,771,629	1,139,027	1,236,415	24,703	4,171,774
Total	2,263,075	5,964,140	1,236,415	24,703	9,488,333

	Data as at December 31 2019				
	Long-term care		Other (4)		Total
	Individual	Group	Long-term	Short-term	
	In NIS thousand				
Yield-dependent	453,955	4,180,158	-	-	4,634,113
Other	1,644,338	1,003,056	1,273,581	69,370	3,990,345
Total	2,098,293	5,183,214	1,273,581	69,370	8,624,458

I. Breakdown of liabilities in respect of insurance contracts by insurance exposure

	Data as at December 31 2020				Total
	Long-term care		Other (4)		
	Individual	Group	Long-term	Short-term	
	In NIS thousand				
Annuity paid	261,279	998,253	-	-	1,259,532
Other risk factors	2,001,796	4,965,887	1,236,415	24,703	8,228,801
Total	2,263,075	5,964,140	1,236,415	24,703	9,488,333

NOTE 20 - BREAKDOWN OF INSURANCE LIABILITIES INCLUDED IN THE HEALTH INSURANCE SEGMENT (cont.)

B. Breakdown of liabilities in respect of insurance contracts by insurance exposure (cont.)

	Data as at December 31 2019				Total
	Long-term care		Other (4)		
	Individual	Group	Long-term	Short-term	
	In NIS thousand				
Annuity paid	246,383	715,558	-	-	961,941
Other risk factors	<u>1,851,910</u>	<u>4,467,656</u>	<u>1,273,581</u>	<u>69,370</u>	<u>7,662,517</u>
Total	2,098,293	5,183,214	1,273,581	69,370	8,624,458

J. Breakdown of results by type of policy

	Data for the year ended December 31 2020				
	Long-term care		Other (4)		Total
	Individual	Group (5)	Long-term	Short-term	
	In NIS thousand				
Gross premiums	259,764	891,730	1,521,350 (1)	83,378 (1)	
Payments and change in liabilities in respect of insurance contracts, gross	271,231 (3)	1,224,983	796,511	78,905	
Profit (loss) from health insurance business	65,851	(22,396)	227,792	(19,104)	
Other comprehensive income (loss) from health insurance business	(24,121)	(10,620)	1,094	162	
Comprehensive income (loss) from health insurance business	41,730 (3)	(33,016)	228,886	(18,942)	
Annualized individual premium - new business	1,259	-	109,106	-	

- (1) Of this, individual premiums in the amount of NIS 1,001,573 thousand and collective premiums in the amount of NIS 603,155 thousand.

NOTE 20 - BREAKDOWN OF INSURANCE LIABILITIES INCLUDED IN THE HEALTH INSURANCE SEGMENT (cont.)

C. Breakdown of results by type of policy (cont.)

	Data for the year ended December 31 2019				
	Long-term care		Other (4)		
	Individual	Group (5)	Long-term	Short-term	Total
	In NIS thousand				
Gross premiums	<u>254,489</u>	<u>1,078,123</u>	<u>1,507,251 (1)</u>	<u>422,452 (1)</u>	<u>3,262,315</u>
Payments and change in liabilities in respect of insurance contracts, gross	<u>934,529 (3)</u>	<u>1,532,520</u>	<u>961,006</u>	<u>174,331</u>	<u>3,602,386</u>
Profit (loss) from health insurance business	(505,351)	18,237	95,991	26,229	(364,894)
Other comprehensive income (loss) from health insurance business	<u>20,601</u>	<u>16,599</u>	<u>14,760</u>	<u>1,610</u>	<u>53,570</u>
Comprehensive income (loss) from health insurance business	<u>(484,750) (3)</u>	<u>34,836</u>	<u>110,751</u>	<u>27,839</u>	<u>(311,324)</u>
Annualized individual premium - new business	<u>18,715</u>	<u>-</u>	<u>117,965</u>	<u>-</u>	<u>136,680</u>

- (1) Of this, individual premiums in the amount of NIS 1,341,068 thousand and collective premiums in the amount of NIS 588,635 thousand.

NOTE 20 - BREAKDOWN OF INSURANCE LIABILITIES INCLUDED IN THE HEALTH INSURANCE SEGMENT (cont.)

C. Breakdown of results by type of policy (cont.)

	Data for the year ended December 31 2018				
	Long-term care		Other (4)		Total
	Individual	Group (5)	Long-term	Short-term	
	In NIS thousand				
Gross premiums	238,680	251,771	1,402,831 (1)	347,233 (1)	2,240,515
Payments and change in liabilities in respect of insurance contracts, gross	325,163 (3)	173,871	839,668	139,444	1,478,146
Profit (loss) from health insurance business	(106,175)	90,422	75,487	22,212	81,946
Other comprehensive income (loss) from health insurance business	(765)	349	(2,144)	(831)	(3,391)
Comprehensive income (loss) from health insurance business	(106,940) (3)	90,771 (2)	73,343	21,381	78,555
Annualized individual premium - new business	52,454	-	114,638	-	167,092

- (1) Of this, individual premiums in the amount of NIS 1,200,979 thousand and collective premiums in the amount of NIS 548,085 thousand.
- (2) During 2018, policyholders insured under collective long-term care insurance exercised the option to join individual insurance policies (insurance continuity option); as a result, the reserve for insurance continuity totaling approx. NIS 74 million was classified from collective long-term care insurance to individual long-term care insurance.
- (3) The income (loss) in 2020, 2019 and 2018 includes an increase in the insurance reserve (LAT) totaling approx. NIS 48 million, approx. NIS 665 million and approx. NIS 32 million, respectively. For further details, please see Note 40, Section 5.1.8.
- (4) The most material coverage included in other long-term health insurance in each of the years 2018-2020 is medical expenses; in short-term health insurance - dental treatment expenses in 2020, and travel insurance in 2018-2019. For details on the impact of the coronavirus, please see Note 1.
- (5) On January 1 2019, the agreement for provision of collective long-term care insurance to members of Maccabi Healthcare Services came into effect; therefore, the premiums and the changes in liabilities in respect of insurance contracts, gross were included the said activity.
On December 31 2019, the agreement for the provision of collective long-term care insurance for the Meuhedet HMO was terminated.

NOTE 21 - CHANGE IN GROSS LIABILITIES IN RESPECT OF YIELD-DEPENDENT AND NON-YIELD-DEPENDENT LIFE INSURANCE CONTRACTS, INVESTMENT CONTRACTS AND HEALTH INSURANCE CONTRACTS

	Life insurance			Health insurance	Reinsurance assets in health insurance
	Insurance contracts	Investment contracts	Total		
			In NIS thousand		
Balance as of January 1 2019	59,107,398	7,797,405	66,904,803	3,061,317	422,238
Interest, linkage differences and investment gains (1)	6,419,644	802,459	7,222,103	586,861	-
Increase in premiums charged to liabilities (2)	6,138,902	1,158,374	7,297,276	858,107	-
Decrease in respect of management fees on accruals	(840,517)	(52,367)	(892,884)	-	-
Decrease in respect of claims, redemptions and end of term	(2,026,445)	(819,452)	(2,845,897)	(4,374)	-
Changes due to change in assumptions (3)	130,670	-	130,670	548,031	41,430
Other changes (4)	810,368	-	810,368	3,574,516	58,722
Balance on December 31 2019	69,740,020	8,886,419	78,626,439	8,624,458	522,390
Interest, linkage differences and investment gains (1)	3,826,862	423,590	4,250,452	341,531	-
Increase in premiums charged to liabilities (2)	3,835,114	1,788,707	5,623,821	928,760	-
Decrease in respect of management fees on accruals	(679,724)	(59,984)	(739,708)	-	-
Decrease in respect of claims, redemptions and end of term	(2,548,785)	(1,147,666)	(3,696,451)	(3,197)	-
Changes due to change in assumptions (3)	(84,410)	-	(84,410)	(162,637)	(29,399)
Other changes (4)	(228,387)	-	(228,387)	(240,582)	15,016
Balance on December 31 2020	73,860,690	9,891,066	83,751,756	9,488,333	508,007

- (1) Interest, linkage differences and investment gains - this line item includes interest, linkage differences and investment gains in respect of the balance as of the beginning of the year, plus interest, linkage differences and investment gains in respect of premiums paid solely for savings, which were recorded in the reporting period.
- (2) Increase in respect of premiums recorded under liabilities - this premium does not include all premiums recognized as revenues by the Company. The premium includes the premiums in respect of savings and some of the premiums in fixed-premium products, net of management fees collected as a percentage of the premium.
- (3) Changes in assumptions
 Life insurance - in 2020, the changes in assumptions stem from revising the assumptions as to the Company's expenses; in 2019, the change in assumptions stems from revising the assumptions as to the rate of policyholders opting for annuity, Company's expenses and assumptions regarding cancellations and mortality.
 Health insurance - in 2020, the changes in assumptions stem from revising of assumptions as to cancellations and Company's expenses.
 In 2019, the changes in assumptions stem from revising of assumptions as to cancellations and Company's expenses. For further details regarding the change in liabilities (retention), please see Note 40, Section 5.1.10.
- (4) Other changes - the line item includes changes in the contingent claims reserve, reserve for periodic claims, IBNR, paid annuities etc. (in accordance with the assumptions used at the end of the previous year). The line item also includes the effect of interest, linkage differences and investment gains not included under the "interest, linkage differences and investment gains" item, such as: interest, linkage differences and investment gains on claim payments and non-saving premiums. In health insurance, the other changes in 2019 include mainly one-off proceed in respect of agreement for provision of collective long-term care insurance for members of Maccabi Healthcare Services at the total amount of approx. NIS 3,304 million, and change in actuarial estimate stemming from the difference between actual results and estimate as of beginning of year.

NOTE 22 - TAXES ON INCOME**A. Tax laws applicable to the Group companies****1. General**

- a. The income of the Company and all Group companies is subject to corporate tax in accordance with the Income Tax Ordinance (hereinafter: the "Ordinance"). Furthermore, the income of Group companies classified as "Financial Institutions" as defined in the Value Added Tax Law, 1975 is subject to profit tax and payroll tax. It should be noted that the operations of companies classified as financial institutions in the insurance, pension and finance industries constitute most of the Group's operations.
- b. As of 2008, results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the CPI in the period up to December 31 2007. Adjustments relating to capital gains continue to apply until profit realization date.

2. Tax arrangements unique to the insurance industry**a. Agreement with the tax authorities**

Israel Insurance Association and the tax authorities have in place sectoral agreements which address tax issues unique to the industry (hereinafter: the "Tax Agreement"); the agreements are renewed every year. (Hereinafter - the tax agreement) which is renewed and updated every year, which regulates tax issues unique to the industry. The sectoral agreements address, among other things, the following issues:

1. Deferred Acquisition Costs (DAC) - direct expenses incurred by insurance companies to purchase life insurance contracts in respect of underwriting years through 2014 shall be deductible for tax purposes in equal shares over four years, and in respect of underwriting years 2015 through 2020 - over ten years. Such expenses relating to cancelled life insurance contracts shall be deductible for tax purposes in the cancellation year.

NOTE 22 - TAXES ON INCOME (cont.)**A. Tax laws applicable to the Group companies (cont.)**

Purchase expenses in respect of pension and provident funds contracts (as defined in the agreement) in respect of underwriting years 2015 through 2020 shall be deductible for tax purposes in equal shares over 10 years or in accordance with the period over which they are expensed in the books of accounts, as decided by the insurance company. The expense in respect of pension and provident funds contracts cannot be brought forward.

Deferred acquisition costs relating to critical illnesses and hospitalization insurance are amortized over a six-year period, in accordance with their amortization period as per the books of accounts.

2. Attribution of expenses to preferred income - expenses will be attributed to income subject to reduced tax rates and to tax-exempt income earned by insurance companies (hereinafter: "Preferred Income"), which will result with some of the Preferred Income becoming taxable at the full tax rate in accordance with the attribution rate. The attribution rate set in the agreement depends on the source of funds generating the Preferred Income.
3. The method employed to tax income from assets held as investments matches yield-dependent liabilities.
4. Provision for indirect expenses for settling claims - from 2013 to 2020, some of the increase in the provision shall be adjusted, and the adjustment amount shall be recognized for tax purposes over the next three tax years.

NOTE 22 - TAXES ON INCOME (cont.)**A. Tax laws applicable to the Group companies (cont.)**

5. The last agreement signed in November 2020 extends the validity of the last agreement relating to the tax year 2016 by three additional years so that it will also apply to tax years 2017-2019 with the exception of the following issues:
- a. The method of recognition for tax purposes was agreed in respect of provisions made by the insurance companies in the financial statements for the years 2016-2018 in respect of the implementation of the recommendations of the Winograd Committee, which were canceled, in most cases, in 2019 as follows: The agreement stipulates that in 2016 10% of the decrease in the reserves recorded in the year 2019 (hereinafter - the "Adjustment Amount"), or 10% of the increase in the reserve in the year 2016 will be adjusted, whichever is lower. The amount adjusted will be recognized as an expense in 2019. In addition, a provision has been set for adjustment and recognition of any difference between the adjusted amount and the amount to be adjusted in 2016.
 - b. It was agreed that the provision for LAT that was recognized in retained earnings, as stated in Note 2.DD(2) (applied retrospectively due to a proactive policy change regarding LAT in life insurance and health insurance), which originates in respect of 2019, will be included as taxable income as early as 2019, and the remaining amount in respect of the years through 2018 will be included as taxable income only in 2020.
 - c. It was agreed to provide additional details regarding investments of insurance companies in partnerships.

The provisions for taxes in the financial statements is made in accordance with the principles of the above-mentioned agreement.

NOTE 22 - TAXES ON INCOME (cont.)

B. Tax rates applicable to the Group companies

1. The statutory tax applicable to financial institutions, including The Phoenix Insurance Company, which constitutes most of the Group's activities, is composed of corporate tax and profit tax.
2. Set forth below is the statutory tax rates applicable to the Group companies:

	<u>Corporate tax rate</u>	<u>Profit tax rate</u> %	<u>Total tax rate in financial institutions</u>
<u>Year</u>			
From 2018	23	17.00	34.19

C. Tax assessments

The Company and most of the consolidated companies has tax assessments, which are considered to be final through tax year 2015, in accordance with Section 145 of the Income Tax Ordinance.

D. Losses carried forward for tax purposes

The Company has carry forward losses totaling approx. NIS 188,345 thousand and NIS 188,602 thousand as of December 31 2020 and 2019, respectively. In addition, there are carry forward capital losses totaling approx. NIS 26,684 thousand and NIS 26,092 thousand as of December 31 2020 and 2019, respectively. No deferred taxes were created in respect of these loss balances.

The consolidated companies, except as outlined below, have carry forward business losses totaling approx. NIS 107,023 thousand and NIS 101,022 thousand as of December 31 2020 and 2019, respectively. In addition, the consolidated companies have carry forward capital losses totaling approx. NIS 23,337 thousand and NIS 20,836 thousand as of December 31 2020 and 2019, respectively. No deferred taxes were created in respect of these balances.

NOTE 22 - TAXES ON INCOME (cont.)**D. Losses carried forward for tax purposes (cont.)**

The Phoenix Insurance accrued business losses for tax purposes in respect of 2019 amounting to approx. NIS 395 million, after the effect of the LAT Circular, as outlined in Section 2.A(5) above. The balance of the losses in 2019 is NIS 244 million; (this effect was not reflected in the tax return filed in respect of tax year 2019). As of the report publication date, The Phoenix Insurance utilized the full amount of those losses.

Furthermore, in 2019 The Phoenix Insurance recorded payroll tax receivable at the total amount of approx. NIS 29.5 million. Following the effect of the LAT Circular as described in Section 2a(5) above, The Phoenix Insurance reduced the balance of payroll tax receivable to approx. NIS 12.3 million. The payroll tax receivable was recorded against the general and administrative expenses line item.

In addition, The Phoenix Insurance has carryforward capital losses totaling approx. NIS 188 thousand and NIS 254 thousand as of December 31 2020 and 2019, respectively.

KSM Mutual Funds has carry forward business losses totaling approx. NIS 529 million and NIS 562 million as of December 31 2020 and December 31 2019, respectively. As of December 31 2020, the balance of tax asset amounts to approx. NIS 32 million. The tax asset amount is equal to the balance of losses that can be offset in the foreseeable future.

Furthermore, as of December 31 2020, Excellence Investment Managements and Securities Ltd. has carryforward losses totaling approx. NIS 18 million. In respect of these losses, Excellence Investment Management and Securities Ltd. created - for the first time - a deferred tax asset totaling approx. NIS 18 million. For further details, please see Note 7.

E. For further details about the restructuring of Ad 120, please see Note 7.D(6).

NOTE 22 - TAXES ON INCOME (cont.)**F. Taxes on income included in the income statements**

	For the year ended		
	December 31		
	2020	2019	2018
	In NIS thousand		
Current taxes	584,712	101,026	304,101
Deferred taxes in respect of the creation and reversal of temporary differences (see also Section I below)	(33,967)	3,584 (1)	(53,691) (1)
Taxes for previous years (2)	3,084	3,208	(12,903)
Taxes on income	<u>553,829</u>	<u>107,818</u>	<u>237,507</u>

(1) Applied retrospectively; for further details, please see Note 2.DD(2).

(2) The tax income in 2018 is mainly in respect of adjustment of the tax liability for the 2017 tax return between the books of accounts and the tax return filed by The Phoenix Insurance in respect of utilization of the partnerships' losses and the reduction of the profit tax liability in respect of direct interest income from real estate partnerships abroad.

G. Taxes on income relating to other comprehensive income line items

	For the year ended		
	December 31		
	2020	2019	2018
	In NIS thousand		
In respect of available-for-sale financial assets	89,697	209,425	(79,329)
Actuarial gain (loss) in respect of defined benefit plans	207	(509)	(220)
Revaluation of property, plant, and equipment	3,983	2,343	1,934
	<u>93,887</u>	<u>211,259</u>	<u>(77,615)</u>

H. Taxes on income relating to equity line items

	For the year ended		
	December 31		
	2020	2019	2018
	In NIS thousand		
Share-based payment	(3,155)	(2,122)	(7,285)
Reissue of treasury stocks (*)	-	-	19,002
	<u>(3,155)</u>	<u>(2,122)</u>	<u>11,717</u>

(*) Mainly as a result of discontinuing the consolidation of assets and liabilities in respect of ETF activity in view of Amendment 28 entering into force.

NOTE 22 - TAXES ON INCOME (cont.)**I. Deferred taxes**Composition:

	Deferred acquisition costs in life and health insurance	Available- for-sale financial assets	Property, plant & equipment and investment property	Losses for tax purposes (1)	Investees (2)	Other (3)	Total
In NIS thousand							
Balance of deferred tax asset (liability) as of January 1 2019	(124,989)	(22,848)	(396,080)	27,000	-	(23,730)	(540,647)
Changes carried to profit and loss	16,238	(2,949)	(18,527)	85,070	-	(83,416)	(3,584)
Changes carried to other comprehensive income	-	(209,425)	(2,343)	-	-	509	(211,259)
Changes carried to equity	-	-	-	-	-	2,122	2,122
Additions in respect of a company consolidated for the first time (4)	-	-	-	-	-	(10,555)	(10,555)
Balance of deferred tax asset (liability) as of December 31 2019	(108,751)	(235,222)	(416,950)	112,070	-	(115,070)	(763,923)
Changes carried to profit and loss	19,883	50,397	(20,666)	(59,132)	(71,972)	115,457	33,967
Changes carried to other comprehensive income	-	(89,697)	(3,983)	-	-	(207)	(93,887)
Changes carried to equity	-	-	-	-	-	3,155	3,155
Additions in respect of companies consolidated for the first time (4)	-	-	-	-	-	(22,012)	(22,012)
Balance of deferred tax asset (liability) as of December 31 2020	<u>(88,868)</u>	<u>(274,522)</u>	<u>(441,599)</u>	<u>52,938</u>	<u>(71,972)</u>	<u>(18,677)</u>	<u>(842,700)</u>

(1) Please see Section D above.

(2) The balance is mainly in respect of the first-time creation of a tax reserve in respect of the intention to sell Ad 120 (see Note 7.D) and in respect of creating a tax reserve for an expected dividend from The Phoenix Agencies, which is subject to profit tax.

(3) Applied retrospectively; for further details, please see Note 2.DD(2).

The balance is mainly composed of amounts in respect of life and health insurance reserves, provision for doubtful debts, employee benefits, tenants' deposits and other assets.

(4) For further details, please see Note 7.D.

NOTE 22 - TAXES ON INCOME (cont.)**I. Deferred taxes (cont.)**

Deferred taxes are presented in the balance sheet as follows:

	As of December 31	
	2020	2019
	In NIS thousand	
Deferred tax assets	55,104	31,523
Liability in respect of deferred taxes	<u>(897,804)</u>	<u>(795,446) (*)</u>
Deferred taxes, net	<u>(842,700)</u>	<u>(763,923)</u>

(*) Applied retrospectively; for further details, please see Note 2.DD(2).

NOTE 22 - TAXES ON INCOME (cont.)**J. Theoretical tax**

Set forth below is a reconciliation between the tax amount that would have applied had all income and expenses, profits and losses in the income statement been taxed at the statutory tax rate, and the taxes on income amount recognized in the income statement:

	For the year ended December 31		
	2020	(2019) (1)	(2018) (1)
	In NIS thousand		
Profit before taxes on income	1,762,764	416,094	906,783
Statutory tax rate applicable to financial institutions See B(5) above	34.19%	34.19%	34.19%
Tax calculated according to total statutory tax rate	602,689	142,263	310,029
Deduction due to non-application of profit tax to companies which are not financial institutions	(41,134)	(36,239)	(23,307)
Increase (decrease) in taxes on income resulting from the following factors:			
Non-deductible expenses and tax exempt income	1,126	(5,905)	1,908
Group's share in associates' profits	(8,916)	(27,990)	(19,657)
Measurement basis differences	447	(2,254)	12,188
Other losses and differences for which deferred taxes were not created (2)	(60,918)	7,800	(29,875)
Differences in respect of investees (3)	58,190	27,966	-
Tax for previous years	3,084	3,208	(12,903)
Other	(739)	(1,031)	(876)
Taxes on income	553,829	107,818	237,507
Average effective tax rate	31.42%	25.91%	26.19%

- (1) Applied retrospectively; for further details, please see Note 2.DD(2).
- (2) 2020 - mainly in respect of the effect of revising the sectoral insurance agreement with the tax authorities regarding the manner of recognizing the retrospective application of the LAT Circular (for further details, please see Section A(2)(a)(5) above). This difference was recorded against a decrease in payroll tax receivables.
And in respect of the first-time creation of a tax asset by Excellence Investment Management and Securities Ltd. in respect of carry forward losses totaling approx. NIS 18 million (see Section D above), and the creation of an additional tax asset in KSM in respect of carry forward losses totaling approx. NIS 14 million.
2019 - mainly in respect of recording a payroll tax refund by The Phoenix Insurance in respect of carryforward losses for tax purposes for 2019, which were recorded in payroll expenses, offset against deferred tax asset created by KSM Mutual Funds in respect of business losses in previous years.
2018 - mainly in respect of the first-time creation of a tax asset by KSM Mutual Funds totaling approx. NIS 27 million, in respect of business losses were carried forward to future years. For further details, please see Section D above.
- (3) 2020 - first-time creation of a tax reserve in respect of the intention to sell Ad 120, and in respect of creating a tax reserve in respect of an expected dividend from The Phoenix Agencies, which is subject to profit tax, offset against tax-exempt one-off profit from obtaining control in Oren Mizrach; for further details, please see Note 7.D.
2019 - mainly profit tax of an approx. NIS 25 million on dividend received from The Phoenix Agencies.

NOTE 23 - ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS

Employee benefits include short-term benefits, post-employment benefits, other long-term benefits and severance pay benefits.

Post-employment benefits

Under labor laws in Israel and the Israeli Severance Pay Law, the Company is required to pay severance pay to employees upon dismissal or retirement, or to make regular contributions to defined benefit plans in accordance with Section 14 of the Severance Pay Law, as described below. The Company's liability in respect of the above is accounted for as a post-employment benefit. The Company's liability in respect of employee benefits is calculated based on employment agreements in force and the employee's salary and employment period that give rise to the right to receive severance pay.

Post-employment employee benefits are normally funded by contributions classified as a defined benefit plan or as a defined contribution plan as described below.

1. Defined contribution plans

The provisions of Section 14 to the Severance Pay Law, 1963 apply to some of the severance pay payments; pursuant to Section 14, the Group's regular contributions to pension funds and/or insurance policies exempt it from any further obligation to the employees in respect of whom the amounts were deposited as described above. These contributions and contributions in respect of pension constitute defined contribution plans.

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Expenses in respect of defined contribution plan	<u>91,955</u>	<u>85,550</u>	<u>73,074</u>

NOTE 23 - ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (cont.)**2. Defined benefit plan**

The portion of the severance pay payments which is not covered by contributions to defined contribution plans as described above is accounted for by the Group as a defined benefit plan under which a liability is recognized in respect of employee benefits, and the Group deposits amounts with central severance pay funds and qualifying insurance policies in respect of that liability.

	December 31	
	2020	2019
	In NIS thousand	
Liabilities in respect of unfunded defined benefit plan	2,216	2,044
Liability in respect of funded defined benefit plan (see Section A)	44,302	45,713
Total liabilities in respect of defined benefit plan	46,518	47,757
Less fair value of plan assets (please see Section B)	19,577	19,810
Total liability, net for defined benefit plans	26,941	27,947
Short-term benefits	32,421	24,606
Total liability for employee benefits, net	59,362	52,553

A. Changes in the present value of a liability in respect of a defined benefit plan

	As of December 31	
	2020	2019
	In NIS thousand	
Balance on January 1	45,713	49,595
Expenses charged to profit and loss:		
Cost of interest	909	1,451
Cost of current service	1,833	1,987
Cost of past service	-	-
Actuarial gain, net recognized in other comprehensive income:		
Actuarial losses arising from changes in financial assumptions	80	350
Other actuarial losses	(748)	1,064
Additional changes:		
Benefits paid	(3,648)	(8,734)
Commencement of consolidation	163	-
Balance as of December 31	44,302	45,713

NOTE 23 - ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (cont.)
B. Changes in the present value of a assets in respect of a defined benefit plan
1. Plan assets

Plan assets include assets held by the long-term employee benefits fund and by qualifying insurance policies.

2. Change in fair value of plan assets:

	As of December 31	
	2020	2019
	In NIS thousand	
Balance on January 1	19,810	23,457
<u>Expenses charged to profit and loss</u>		
Interest income	298	503
<u>Actuarial loss, net recognized in other comprehensive income:</u>		
Actual yield, less interest income	(171)	(94)
<u>Additional changes:</u>		
Plan contributions by employers	357	1,402
Benefits paid	(841)	(5,458)
Commencement of consolidation	124	-
Balance as of December 31	<u>19,577</u>	<u>19,810</u>

C. Main actuarial assumptions in determining the liability for the defined benefit plan

	2020	2019
	%	
Discount rate on December 31 (*)	<u>0.70</u>	<u>0.60</u>
Rate of expected real wage increase	<u>1.50</u>	<u>1.40</u>
Expected inflation rate	<u>2.00</u>	<u>1.50</u>

(*) The discount rate is based on high-quality CPI-linked corporate bonds.

NOTE 23 - ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (cont.)
D. Amounts, timing and uncertainties of future cash flows

Set forth below are potential changes that are considered to be reasonable as of the end of the reporting period for each actuarial assumption, assuming that all other actuarial assumptions remain unchanged:

	The change in the defined benefit obligation As of December 31	
	2020	2019
	In NIS thousand	
<u>Sensitivity test to the change in the rate of expected real wage increase</u>		
The change is the result of:		
1% increase in salaries	1,718	2,008
<u>Sensitivity test to changes in the liability discount rate:</u>		
The change is the result of:		
1% increase in the discount rate	(1,101)	(1,388)
1% decrease in the discount rate	1,738	2,033

E. Expenses charged to profit and loss

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Cost of current service	1,833	1,987	2,813
Cost of interest	909	1,451	1,461
Cost of past service	-	-	(1)
Interest income in respect of plan assets	(298)	(503)	(679)
	<u>2,444</u>	<u>2,935</u>	<u>3,594</u>

NOTE 23 - ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (cont.)**F. Collective agreement**

On May 6 2019, a new collective agreement, valid through December 31 2021, was signed; the agreement provides for benefits and terms of employment as well as labor relations between The Phoenix Insurance and The Phoenix Pension and their employees. The collective agreement is based on the articles of the first collective agreement, signed in July 2016, insofar as the articles have not been amended or revised under the new agreement. The two collective agreements, severally and jointly, address, among other things, rates and dates of pay raises, entitlement to annual bonuses and other bonuses, welfare budgets and other related benefits, pension insurance and meeting all parties' claims so as to reach agreement; for further details, please see the Company's immediate report dated May 6 2019 (Ref. No.: 2019-01-039201).

On March 25 2020, due to the coronavirus crisis, the Company signed a memorandum of understanding with the National Workers' Committee of Phoenix Workers, which addressed, among other things, reducing the salaries of employees and executives, freezing pay raises for 2020, updating pay raise rates for 2021, paying a pitch-in bonus to all Company employees, establishment of an aid fund to support employees, and a vacation days reserve, as well as agreement on furloughing employees. For further details, please see the Company's immediate report dated March 26 2020 (Ref. No.: 2020-01-026086) as well as Sections 4.6.3 and 4.6.4 to the Report on the Company's Business as of December 31 2019, which was published on March 31 2020 (Ref. No.: 2020- 01-034023).

On June 30 2020, The Phoenix Insurance signed a collective agreement between it and the New General Workers' Federation and the National Workers' Committee of Phoenix Workers, which mainly addressed various issues related to working conditions due to the effect of the coronavirus crisis on the economy as a whole and on the Company in particular. The agreement addressed the acceleration of a restructuring plan designed to improve service and operation for policyholders and agents, reducing expenses for the Company and adjusting to the competitive environment and changing market conditions; the agreement includes, among other things, a voluntary retirement plan for 10% of the Company's employees, reimbursement of the a pay cut carried out in April 2020 and increase of the pay raise rate for 2021 to 4.7% (adjusted for inflation). For further details, please see the Company's immediate report dated June 30 2020 (Ref. No.: 2020-01-069357).

NOTE 23 - ASSETS AND LIABILITIES IN RESPECT OF EMPLOYEE BENEFITS (cont.)

- G. In 2020, the Company revised its Remuneration Policy and the procedure for approval of bonuses thereunder, such that as from the reporting year, bonuses shall be approved prior to the report publication date; therefore, the bonus data that were taken into account were in respect of the reporting year, unlike in previous years, in which the bonus data taken into account were for the previous year.

NOTE 24 - PAYABLES AND CREDIT BALANCES

	As of December 31	
	2020	2019
	In NIS thousand	
Employees and other liabilities in respect of compensation and salaries	120,338	86,677
Accrued expenses	152,690	133,151
Trade payables	138,845	151,527
Government institutions and authorities	97,402	97,417
Liabilities to investees and interested parties	6,272	23,991
Deferred acquisition costs in respect of reinsurance	80,048	79,179
Insurance companies and insurance brokers:		
Deposits by reinsurers	971,363	837,565
Other accounts	<u>154,661</u>	<u>77,914</u>
Total companies and insurance agents	1,126,024	915,479
Insurance agents	251,955	275,133
Prepaid premium	84,470	115,462
Participation in gains in collective insurance	29,325	24,510
Policyholders and planholders	27,046	19,520
Deposits from tenants of assisted living facilities	13,314	6,018
Payable interest	36,045	38,828
Other liabilities	<u>289,077</u>	<u>159,930</u>
Total payables and credit balances	<u>2,452,851</u>	<u>2,126,822</u>

For a breakdown of assets and liabilities by linkage bases, please see Note 40.

For payables and credit balances that constitute related parties, please see Note 41.

NOTE 25 - LIABILITIES IN RESPECT OF STRUCTURED PRODUCTS

A. Set forth below is the composition of liabilities in respect of structured products and liabilities of special purpose consolidated companies:

	See below	December 31	
		2020	2019
		In NIS thousand	
Liability in respect of structured products	C	216,000	259,000
Liability of special purpose consolidated companies	E	22,000	23,000
Total		238,000	282,000

B. As of December 31 2020, the Group has Series 1 of structured bonds, which was issued in a private offering.

C. Additional details on the composition of assets and liabilities of the special purpose companies

	December 31	
	2020	2019
	In NIS thousand	
Backing assets, net	239,000	284,000
Certificates	216,000	259,000
Liabilities	22,000	23,000
	1,000	2,000

D. Details about the designated companies

The Company	December 31 2020	December 31 2019
	Holding rate (%)	
Netivim Debentures Ltd. *)	100	100

*) Non-marketable structured bonds

NOTE 25 - LIABILITIES IN RESPECT OF STRUCTURED PRODUCTS (cont.)
E. Liability of special purpose consolidated companies:

	December 31	
	2020	2019
	In NIS thousand	
<u>Short sale of held-for-trading securities in series accounts:</u>		
Amounts payable in respect of securities	22,000	23,000

F. Legislative changes
Exchange Traded Funds (ETFs)

In August 2017, the Joint Investments in Trust (Amendment No. 28) Law, 2017 (hereinafter: "Amendment No. 28"), was published in the Official Gazette, which regulates and supervises the subordination of the ETFs sector under the supervision regime of the Joint Investments in Trust Law, 1994 laying the legal foundation to convert ETNs into closed tracker mutual funds (ETFs). An ETN is a financial instrument issued as a bond, a product with a liability component, whereas a mutual fund is a financial product based on the management of the funds of others, such that it will be possible to obtain a specific result based on the investment track selected. During the fourth quarter of 2018, ETNs were converted into ETFs. An ETF is a closed-end tracker fund, i.e., a fund aimed at obtaining results derived from the rate of change in the price of an index or commodity; ETF units are traded on the stock exchange, and are similar in nature to the American exchange traded fund instrument used worldwide. This is a passive, liquid investment instrument that is very popular around the world to monitor indices and merchandise. ETF units are offered to the public on every trading day, and the fund manager is required to redeem the units on a daily basis, as is currently the case with open-ended funds. Furthermore, the fund manager is obligated to contact market makers (a financial entity that offers to sell and buy traded securities routinely, thus contributing to a product's liquidity) to make a market for the fund's units. Accordingly, Excellence engaged with KSM Financial Instruments Ltd. in a market making agreement in respect of its ETF units.

NOTE 25 - LIABILITIES IN RESPECT OF STRUCTURED PRODUCTS (cont.)**F. Legislative changes (cont.)**

Accordingly, the law applies to ETFs arrangements which are currently relevant only to open-ended funds, and mechanisms whose aim is to ensure sufficient marketability of the instrument and to ensure that its price on the TASE will not be materially different than the value of its assets under management.

Amendment No. 28 determines transitional provisions aimed at allowing continuity in the management of existing ETNs under the new legal regime of ETFs, including provisions that determine that the conversion of ETNs into ETFs will not constitute a taxable event for the investor and the Company. As from the date on which the amendment came into effect, the Company discontinued the consolidation of the assets and liabilities of ETFs in its financial statements.

NOTE 26 - FINANCIAL LIABILITIES

This note provides information regarding the contractual terms of financial liabilities. Additional information regarding the Group's exposure to interest, foreign currency and liquidity risks is provided in Note 40 regarding risk management.

A. Breakdown of financial liabilities:

	See below	Carrying amount		Fair value	
		As of December 31		As of December 31	
		2020	2019	2020	2019
		In NIS thousand			
<u>1. Financial liabilities presented at amortized cost:</u>					
Short-term credit from banks		80,796	88,000	80,796	88,000
Loans from non-bank entities	D	-	12,024	-	12,024
Bonds	D, E	1,118,538	998,918	1,146,475	1,058,215
Subordinated bonds (1)	D, E	3,374,460	3,371,345	3,675,933	3,684,367
Liability for REPO (2)		389,315	-	389,315	-
Deposits from tenants	J	589,726	626,725	589,726	626,725
Other (4)		24,584	20,949	24,584	20,949
		5,577,419	5,117,961	5,906,829	5,490,280
<u>2. Financial liabilities presented at fair value through profit and loss</u>					
Derivatives (5)		436,818	188,521	436,818	188,521
Liability for short sale of marketable securities		924,088	324,147	924,088	324,147
		1,360,906	512,668	1,360,906	512,668
Lease liability (3)		105,390	126,818	-	-
Total financial liabilities		7,043,715	5,757,447	7,267,735	6,002,948

- (1) The bonds were issued in order to comply with the capital requirements.
- (2) In view of the effect of the coronavirus crisis, in March 2020 the Bank of Israel extended to authorized entities (pension funds, provident funds, mutual funds and insurance companies) a proposal to enter into a repurchase transaction (REPO) – for the sale and repurchase of government bonds and zero-coupon bonds.
- (3) Disclosure of fair value was not required.
- (4) Mainly provision in respect of an option to acquire an investee.
- (5) Including financial liabilities in 2020 and 2019 in respect of yield-dependent contracts totaling approximately NIS 362 million and NIS 149 million, respectively.

NOTE 26 – FINANCIAL LIABILITIES (cont.)**B. Details on paid interest and linkage:**

	<u>Linkage base</u>	<u>As of December 31</u>	
		<u>2020</u>	
		<u>Carrying amount</u> <u>In NIS thousand</u>	<u>Interest rate</u> <u>%</u>

Financial liabilities presented at amortized cost:

Linked to foreign currency	45,500	1.15-2%
NIS	3,728,083	1.53%-3.85%
CPI-linked (*)	<u>1,803,836</u>	0.44%-2.25%
	<u>5,577,419</u>	

	<u>Linkage base</u>	<u>As of December 31</u>	
		<u>2019</u>	
		<u>Carrying amount</u> <u>In NIS thousand</u>	<u>Interest rate</u> <u>%</u>

Financial liabilities presented at amortized cost:

Linked to foreign currency	12,000	1.15-2%
NIS	3,657,648	1.45%-3.85%
CPI-linked (*)	<u>1,448,313</u>	2.25-2.55%
	<u>5,117,961</u>	

(*) Including deposits from tenants (bearing no interest) See Section j below.

NOTE 26 - FINANCIAL LIABILITIES (cont.)
C. Financial liabilities presented at fair value:

Fair value of financial liabilities presented at fair value through profit and loss by levels:

The following table presents an analysis of financial liabilities presented at fair value: The different levels were defined in accordance with what is stated in Note 2.Q.

	As of December 31 2020			
	Level 1	Level 2	Level 3	Total
	In NIS thousand			
Liability for short sale of marketable securities	924,088	-	-	924,088
Derivatives	<u>148,018</u>	<u>283,617</u>	<u>5,183</u>	<u>436,818</u>
Financial liabilities presented at fair value	<u>1,072,106</u>	<u>283,617</u>	<u>5,183</u>	<u>1,360,906</u>
Financial liabilities presented at amortized cost, the fair value of which is disclosed.	<u>5,211,723</u>	<u>80,796</u>	<u>614,310</u>	<u>5,906,829</u>

	As of December 31 2019			
	Level 1	Level 2	Level 3	Total
	In NIS thousand			
Liability for short sale of marketable securities	324,147	-	-	324,147
Derivatives	<u>49,269</u>	<u>139,252</u>	<u>-</u>	<u>188,521</u>
Financial liabilities presented at fair value	<u>373,416</u>	<u>139,252</u>	<u>-</u>	<u>512,668</u>
Financial liabilities presented at amortized cost, the fair value of which is disclosed.	<u>4,742,582</u>	<u>100,024</u>	<u>647,674</u>	<u>5,490,280</u>

NOTE 26 - FINANCIAL LIABILITIES (cont.)**D. Repayment in years subsequent to reporting date:**1. Subordinated bonds: (assuming early redemption)

	As of December 31	
	2020	2019
	In NIS thousand	
First year	-	-
Second year	-	-
Third year	410,672	-
Fourth year	398,831	410,672
Fifth year and onwards	2,583,646	2,984,960
	3,393,149	3,395,632
Less discount and deferred issuance expenses	(18,689)	(24,287)
	<u>3,374,460</u>	<u>3,371,345</u>

2. Bonds

	As of December 31	
	2020	2019
	In NIS thousand	
First year	36,000	124,731
Second year	69,347	124,731
Third year	69,347	134,078
Fourth year	69,347	134,078
Fifth year and onwards	892,150	498,228
	1,136,191	1,015,846
Less discount and deferred issuance expenses	(17,653)	(16,928)
	<u>1,118,538</u>	<u>998,918</u>

NOTE 26 - FINANCIAL LIABILITIES (cont.)**D. Repayment in years subsequent to reporting date (cont.)**Early redemption of Series 2 bonds

On August 27 2020, the Company's Board of Directors decided to make a full conditional early redemption of the bonds (Series 2) at the total amount of NIS 368 million, which was implemented on September 29 2020. The full early redemption was conditional upon the completion of a debt raising considered by the Company, through the issuance of its Series 5 bonds by way of a series expansion (hereinafter: the "Condition Precedent") which were offered by way of a uniform offering to the public pursuant to the Company's shelf prospectus published on August 15 2019 bearing the date August 16 2019 (Ref. No.: 2019-01-070590). On September 7 2020, the Condition Precedent for the full early redemption was met; on September 23 2020, the bonds (Series 2) were removed from the indices on the Tel Aviv Stock Exchange. As a result of the said redemption, the Company recorded a loss from early redemption in the amount of approximately NIS 20 million.

For further details, please see the Company's immediate reports of August 30 2020 and September 7 2020 (Ref. Nos.: 2020-01-095238, 2020-01-098754).

Issue of Series 4 bonds

On May 12 2019, the Company issued NIS 300 million in NIS 1 par value each registered bonds (Series 4), which were issued pursuant to the Company's shelf offering report dated May 7 2019 (Ref. No. 2019-01-039576) in consideration of NIS 297,313 thousand. The Series 4 bonds shall be repayable (principal) in six equal annual instalments, to be paid on July 31st of 2020, 2021 and each of the years 2025 to 2028. The first and the second instalments shall each repay 12% of the principal, and each of the third to the sixth instalments shall repay 19% of the principal. The outstanding balance of the Series 4 bonds' principal will bear a fixed annual interest at the rate set by the Bank of Israel plus an annual margin of 1.28%. The Series 4 bonds were rated by Midroog at Aa3 with a stable outlook. For further details, please see the Company's immediate report of May 12 2019 (Ref. No. 2019-01-040101).

NOTE 26 - FINANCIAL LIABILITIES (cont.)**D. Repayment in years subsequent to reporting date (cont.)**Issue of Series 5 bonds

On February 20 2020, the Company issued 220 million Series 5 registered bonds of NIS 1 par value each (linked to the CPI); the bonds were issued according to the Company's shelf offering report dated August 15 2019 (Ref. No.: 2019-01-070590) in consideration for NIS 220,000 thousands. The bonds (Series 5) will be repaid (principal) in six variable annual payments, which will be paid on May 1 in each of the years 2022 to 2024, on May 1 2028 and May 1 in each of the years 2029 to 2030, with the first payment to be made on May 1 2022, and the sixth and final payment to be made on May 1 2030, with each of the first payments up to and including the third payment repaying 4% of the principal, the fourth payment being repaying 28% of the fund and the fifth and sixth payments repaying 30% of the principal. The outstanding balance of the bonds' principal (Series 5) will bear a fixed annual interest rate of 0.44%. Ma'alot rated the Series 5 bonds at iIAA- with a stable outlook. The proceeds of the issuance were used by the Company to inject Tier 1 capital to The Phoenix Insurance. On March 9 2020, the Commissioner of the Capital Market, Insurance and Savings Authority approved the inclusion of additional Tier 1 capital in The Phoenix Insurance's equity calculation. As to expansions, see Note 26e(2).

Contractual restrictions and financial covenants

As part of the deed of trust of the Company's Series 3 bonds, the Company undertook not to place a general floating charge on its assets as long as Series 3 bonds are not repaid in full, unless it obtained the bondholders' consent in advance and placed on that date a lien of the same rank in favor of Series 3 bondholders. Furthermore, with respect to Series 3 bonds, the Company assumed upon itself restrictions on distribution of dividends and the expansion of the bonds series; the Company has also undertaken to comply with various financial covenants in accordance with the terms described in the shelf offering report. For further details, see the shelf offering report dated January 22 2018.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**D. Repayment in years subsequent to reporting date (cont.)**

As part of the deed of trust of the Company's Series 4 bonds, the Company has undertaken not to place a general floating charge on its assets and/or all its existing and/or future rights in favor of any third party, to secure any debt or liability as long as the Series 4 bonds are not repaid in full, subject to the conditions set out in the shelf offering report. Furthermore, with respect to Series 4 bonds, the Company assumed upon itself restrictions on distribution of dividends and the expansion of the bonds series; the Company has also undertaken to comply with various financial covenants in accordance with the terms described in the shelf offering report. For further details, please see the shelf offering report of May 8 2019.

As part of the deed of trust of the Company's Series 5 bonds, the Company undertook not to place a general floating charge on its assets as long as the Series 5 bonds are not repaid in full, unless it obtained the bondholders' consent in advance and placed on that date a charge of the same rank in favor of Series 5 bondholders. Furthermore, with respect to Series 5 bonds, the Company assumed upon itself restrictions on distribution of dividends and the expansion of the bonds series; the Company has also undertaken to comply with various financial covenants in accordance with the terms described in the shelf offering report. For further details, please see the shelf offering report published on February 20 2020 (Ref. No. 2020-01-014890).

3. Loans from banks

On October 23 2019, Agam took a NIS 12,000 thousand loan to be used in its operating activities. The loan bears interest at a rate of Prime + 0.5%; the loan is repaid and renewed on a monthly basis. During 2020 Agam repaid the loan in full.

NOTE 26 - **FINANCIAL LIABILITIES** (cont.)**E. Material financial liabilities presented at amortized cost – additional details:**

As of December 31 2020										
Series issuance date		Par value on issuance date, in NIS million	Rating and rating agency	Linkage terms	Nominal interest	Carrying amount in NIS million (**)	Fair value in NIS million (*)	Payment dates of principal	Interest payment dates	Type of capital (see F below)
Series D bonds	09.2014	398.8	Midroog Aa2	NIS	3.85%	398	433	One instalment on January 31 2026	Semi-annual interest on January 31 and July 31 of each of the years 2015 through 2026	Hybrid Tier 3
Series E bonds	4.2015 (4)	409.12 (Including expansion of May 5 2016)	Midroog Aa3	Linked	2.25%	392	471	One instalment on October 31 2029	Semi-annual interest on April 30 and October 31 of each of the years 2015 through 2029	Hybrid Tier 2
Series F bonds	11.2015 (4)	410.7 (Including expansion of June 7 2016)	Midroog Aa3	NIS	3.05%	403	428	One instalment on January 31 2026	Semi-annual interest on January 31 and July 31 of each of the years 2016 through 2025	Hybrid Tier 2
Series H bonds	01.2017 (4)	767.5 (Including expansion of July 3 2017)	Midroog Aa3	NIS	3.61%	771	851	One instalment on July 31 2028	Semi-annual interest on January 31 and July 31 of each of the years 2017 through 2028	Hybrid Tier 2
Series I bonds	11.2018	308.3	Midroog Aa3	NIS	3.3%	306	344	One instalment on August 31 2029	Semi-annual interest on February 28 and August 31 of each of the years 2019 through 2029	Tier 2 Capital
Series J bonds	11.2018 (4)	293.3 (Including expansion of April 10 2019)	Midroog Aa3	NIS	Bank of Israel's variable quarterly interest rate plus a 1.34% margin.	291	295	One instalment on January 31 2028	Quarterly interest on January 31, April 30, July 31 and October 31 of each of the years 2019 through 2027 and on January 31 2028 (the last interest payment date).	Tier 2 Capital
Series K bonds	7.2019 (4)	800 (Including expansion of December 22 2019)	Midroog Aa3	NIS	2.62%	813	853	One instalment on April 30 2032	Semi-annual interest on April 30 and October 31 of each of the years 2019 through 2032; (the first instalment will be paid on October 31 2019 and the last interest instalment will be paid on April 30 2032).	Tier 2 Capital

NOTE 26 - FINANCIAL LIABILITIES (cont.)E. Material financial liabilities presented at amortized cost - additional details (cont.)

As of December 31 2020									
Series issuance date		Par value on issuance date, in NIS million	Rating and rating agency	Linkage terms	Nominal interest	Carrying amount in NIS million (**)	Fair value in NIS million (*)	Payment dates of principal	Interest payment dates
Series 3 bonds	01.2018	272	Midroog Aa3 Ma'alot ilAA-	NIS	2.22%	271	284	5 equal instalments of 16.66% in each of the years 2022 through 2026, and an instalment of 16.7% on July 31 2027.	Semi-annual interest on January 31 and July 31
Series 4 bonds	05.2019	300	Midroog Aa3 Ma'alot ilAA-	NIS	The Bank of Israel's variable quarterly interest rate plus a 1.28% spread	262	267	2 equal instalments of 12% in each of the years 2020 through 2021 and 4 instalments of 19% each in 2025 through 2028.	Quarterly interest on January 31, April 30, July 31 and October 31 of each of the years 2019 through 2028 (with the first payment paid on July 31 2019 and the last interest payment paid on July 31 2028)
Series 5 bonds	02.2020	600 Including expansions as from September 7 2020	Midroog Aa3 Ma'alot ilAA-	Linked	0.44%	586	595	6 variable annual payments, which will be paid on May 1 in each of the years 2022 to 2024, on May 1 2028 and May 1 in each of the years 2029 to 2030, with each of the first payments up to and including the third payment repaying 4% of the principal, the fourth payment being repaying 28% of the fund and the fifth and sixth payments repaying 30% of the principal.	Semi-annual interest rates on November 1 and May 1.

NOTE 26 - FINANCIAL LIABILITIES (cont.)
E. Material financial liabilities presented at amortized cost - additional details (cont.)

As of December 31 2019										
Series issuance date		Par value on issuance date, in NIS million	Rating and rating agency	Linkage terms	Nominal interest	Carrying amount in NIS million (**)	Fair value in NIS million (*)	Payment dates of principal	Interest payment dates	Type of capital (see F below)
Series D bonds	09.2014	398.8	Midroog Aa2	NIS	3.85%	397	442	One instalment on January 31 2026	Semi-annual interest on January 31 and July 31 of each of the years 2015 through 2026	Hybrid Tier 3
Series E bonds	4.2015 (4)	409.12 (Including expansion of May 5 2016)	Midroog Aa3	Linked	2.25%	390	471	One instalment on October 31 2029	Semi-annual interest on April 30 and October 31 of each of the years 2015 through 2029	Hybrid Tier 2
Series F bonds	11.2015 (4)	410.7 (Including expansion of June 7 2016)	Midroog Aa3	NIS	3.05%	400	439	One instalment on January 31 2026	Semi-annual interest on January 31 and July 31 of each of the years 2016 through 2025	Hybrid Tier 2
Series H bonds	01.2017 (4)	767.5 (Including expansion of July 3 2017)	Midroog Aa3	NIS	3.61%	772	861	One instalment on July 31 2028	Semi-annual interest on January 31 and July 31 of each of the years 2017 through 2028	Hybrid Tier 2
Series I bonds	11.2018	308.3	Midroog Aa3	NIS	3.3%	306	341	One instalment on August 31 2029	Semi-annual interest on February 28 and August 31 of each of the years 2019 through 2029	Tier 2 Capital
Series J bonds	11.2018 (4)	293.3 (Including expansion of April 10 2019)	Midroog Aa3	NIS	Bank of Israel's variable quarterly interest rate plus a 1.34% margin.	291	297	One instalment on January 31 2028	Quarterly interest on January 31, April 30, July 31 and October 31 of each of the years 2019 through 2027 and on January 31 2028 (the last interest payment date).	Tier 2 Capital
Series K bonds	7.2019 (4)	800 (Including expansion of December 22 2019)	Midroog Aa3	NIS	2.62%	815	834	One instalment on April 30 2032	Semi-annual interest on April 30 and October 31 of each of the years 2019 through 2032; (the first instalment will be paid on October 31 2019 and the	Tier 2 Capital

last interest instalment will be paid on April 30 2032).

NOTE 26 - FINANCIAL LIABILITIES (cont.)

E. Material financial liabilities presented at amortized cost - additional details (cont.)

As of December 31 2019									
Series	Issuance date	Par value on issuance date, in NIS million	Rating and rating agency	Linkage terms	Nominal interest	Carrying amount in NIS million (**)	Fair value in NIS million (*)	Payment dates of principal	Interest payment dates
Series 2 bonds	03.2013	620	Midroog Aa3	Linked	2.55%	431	470	6 equal instalments of 5% each in each of the years 2014 through 2019, and 5 equal instalments of 14% on March 26 of each of the years 2020 through 2024.	Semi-annual interest on March 26 and September 26
Series 3 bonds	01.2018	272	Midroog Aa3	NIS	2.22%	270	285	5 equal instalments of 16.66% in each of the years 2022 through 2026, and an instalment of 16.7% on July 31 2027.	Semi-annual interest on January 31 and July 31
Series 4 bonds	05.2019	300	Midroog Aa3	NIS	The Bank of Israel's variable quarterly interest rate plus a 1.28% spread	298	303	2 equal instalments of 12% in each of the years 2020 through 2021 and 4 instalments of 19% each in 2025 through 2028.	Quarterly interest on January 31, April 30, July 31 and October 31 of each of the years 2019 through 2028; (the first interest payment will be made on July 31 2019 and the last interest payment will be made on July 31 2028).

(*) Net of interest accrued since the date of the last instalment.

(**) The carrying amount of bonds' balances, net of discount and deferred issuance expenses.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**E. Material financial liabilities presented at amortized cost - additional details (cont.)**

1. The Phoenix Capital Raising - a wholly-owned company of The Phoenix Insurance - issued Series D-K bonds.
Bond Series 3, 4 and 5 were issued by the Company.
2. All series are listed on the TASE and bear fixed interest, except for Series J, K and 4 which bear variable interest.
3. The series are classified to level 1 for the purpose of determining fair value.
4. Exchange offer and expansion of series

Bonds Series E

In April 2015, The Phoenix Capital Raising exchanged NIS 320,262,789 par value of Series A bonds in consideration for issuance of NIS 385,276,135 par value of Series E bonds by way of exchange offer.

In May 2016, further NIS 23,840,000 par value of bonds were issued for a net consideration of NIS 23,635 thousand. The terms of the additional bonds are identical to the terms of the existing bonds.

Bonds Series F

In November 2015, The Phoenix Capital Raising exchanged NIS 186,718,570 par value of Series C bonds in consideration for issuance of NIS 210,058,391 par value of Series F bonds by way of exchange offer.

In May 2016 and June 2016, further NIS 156,114,000 and NIS 44,500,000 par value of Series F bonds were issued for a net consideration of NIS 158,867 thousand and NIS 45,760 thousand, respectively. The terms of the additional bonds are identical to the terms of the existing bonds.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**E. Material financial liabilities presented at amortized cost - additional details (cont.)**Bonds Series H

In January 2017, NIS 460,000 thousand par value of Series H bonds of NIS 1 par value each were issued for a net consideration of approximately NIS 456 million; the bonds are not linked to the CPI (principal and interest) and bear annual non-linked interest of 3.61%, which is paid every year in two semi-annual instalments, in January and July of each calendar year between the years 2017-2028 (provided that no early redemption of the bonds is carried out). The bonds are repayable (principal) in one instalment on July 31 2028, unless the Company had previously exercised its right to repay the bonds as part of early redemption on July 31 2025. The Series H bonds (hybrid Tier 2 capital) were rated by Midroog at Aa3 with a stable outlook. In July 2017, the Company expanded its Series H bonds by issuing 307,500 bonds of NIS 1 par value each for a net consideration of approximately NIS 317 million. The terms of those bonds are identical to the terms of the existing bonds.

Bonds Series J

In November 4 2018, the Company issued NIS 193,349 thousand par value of Series J bonds. The bonds bear the Bank of Israel's variable annual (and non-linked) interest plus a 1.34% margin. The interest shall be paid on a quarterly basis (non-linked) on January 31, April 30, July 31 and October 31 of each of the years 2019 through 2027; the last interest instalment shall be paid on January 31 2028, in accordance with the conditions set out in the shelf offering report. These bonds shall be recognized as a Tier 2 capital instrument by The Phoenix Insurance, subject to the Commissioner's directives on restricting recognized capital. In April 2019, NIS 100,000 thousand par value of Series J bonds of NIS 1 par value each were issued as part of a private offering to classified investors. The terms of those bonds are identical to the terms of the existing bonds. The bonds were rated by Midroog at Aa3 with a stable outlook.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**E. Material financial liabilities presented at amortized cost - additional details (cont.)****Bonds Series K**

On July 23 2019, the Company issued NIS 300 million in NIS 1 par value each registered bonds (Series K), which were issued pursuant to the Company's shelf offering report dated July 21 2019 (Ref. No. 2019-01-063015) in consideration of NIS 296,604 thousand. The Series K bonds are repayable (principal) in one instalment on April 30 2032 (unless the Company had previously exercised its right to repay the Series K bonds as part of early redemption as set out in Section 10.2 to the deed of trust). The outstanding balance of the bonds' principal (Series K) will bear a fixed annual interest of 2.62%. The bonds (Series K) were rated by Midroog at Aa3 with a stable outlook. (For further details, please see the immediate report dated July 23 2019, Ref. No. 2019-01-063015). In December 2019, the Company expanded its Series K bonds by issuing 500,000 bonds of NIS 1 par value each. The terms of those bonds are identical to the terms of the existing bonds. These bonds shall be recognized as a Tier 2 capital instrument by The Phoenix Insurance, subject to the Commissioner's directives on restricting recognized capital.

In December 2019, the Company expanded its Series K bonds by issuing 500,000 bonds of NIS 1 par value each. The terms of those bonds are identical to the terms of the existing bonds. These bonds shall be recognized as a Tier 2 capital instrument by The Phoenix Insurance, subject to the Commissioner's directives on restricting recognized capital.

Bonds Series 5

On September 7 2020, the Company issued, as part of an expansion, 380 million registered Series 5 bonds CPI of NIS 1 par value each, which were issued according to the Company's shelf offering report dated August 15 2019 (Ref. No.: 2019-01-070590) in consideration for 373 NIS million. The discount rate in the offering is 1.32%. The terms of the bonds (Series 5) are the same as the terms of the existing bonds (Series 5). Ma'alot rated the Series 5 bonds at iIAA- with a stable outlook.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**E. Material financial liabilities presented at amortized cost - additional details (cont.)****5. Expansions after the balance sheet date:****Bonds Series 4**

On February 3 2021, the Company expanded its Series 4 bonds by issuing 127.3 million registered bonds (linked to the CPI) of NIS 1 par value each, which were issued according to the Company's shelf offering report dated February 3 2021 (Ref. No.: 2021-01-013684) in consideration for NIS 127.3 million. The terms of those bonds are the identical to the terms of the existing Series 4 bonds. Ma'alot rated the Series 4 bonds at iIAA- with a stable outlook.

Bonds Series 5

On February 3 2021, the Company expanded its Series 5 bonds by issuing 222.6 million registered bonds (linked to the CPI) of NIS 1 par value each, which were issued according to the Company's shelf offering report dated February 3 2021 (Ref. No.: 2021-01-013684) in consideration for NIS 222.6 million. The discount rate in the offering is 0.981%; the terms of those bonds are the identical to the terms of the existing Series 5 bonds. Ma'alot rated the Series 5 bonds at iIAA- with a stable outlook.

F. Subordinated bonds - hybrid Tier 2 capital and Tier 3 capital

In accordance with the Series E - H prospectuses, when delaying circumstances take place as defined below, the payments of principal and/or interest in respect of Series E, F and H bonds, which shall be recognized by the Commissioner as hybrid Tier 2 capital of The Phoenix Insurance, and principal payments in respect of Series D bonds, which shall be recognized by the Commissioner as hybrid Tier 3 capital of The Phoenix Insurance for the reported periods, shall be deferred as described in the prospectus.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**F. Subordinated bonds - hybrid Tier 2 capital and Tier 3 capital (cont.)**

In accordance with the Series I - K prospectuses, when delaying circumstances take place as defined below, the payments of principal and/or interest in respect of Series I - K bonds, which shall be recognized by the Commissioner as hybrid Tier 2 capital of The Phoenix Insurance for the reported periods, shall be deferred as described in Section 6 of the bonds' deeds of trust.

"Delaying circumstances in respect of hybrid Tier 2 and Tier 3 capital" -

in accordance with the Commissioner's directives mean the existence of one or more of the following circumstances:

- (1) The Phoenix Insurance's not having distributable profits, as this term is defined in the Companies Law, in accordance with the latest (annual or quarterly) financial statements issued before the relevant interest and/or principal repayment date.
- (2) The recognized amount of The Phoenix Insurance's equity declined below the equity amount it is required to maintain (in accordance with the legal provisions applicable thereto and/or in accordance with the Commissioner's directives), in accordance with the latest (annual or quarterly) financial statements issued before the relevant interest and/or principal repayment date.
- (3) The Phoenix Insurance's Board of Directors ordered the deferral of interest or principal payments, to the extent that it decided that there is a real concern as to The Phoenix Insurance's ability to meet the capital requirements applicable thereto (in accordance with the legal provisions applicable thereto and/or in accordance with the Commissioner's directives), provided that it obtained the Commissioner's advance approval to do so.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**F. Subordinated bonds - hybrid Tier 2 capital and Tier 3 capital (cont.)**

- (4) The Phoenix Insurance's Board of Directors ordered the deferral of interest or principal payments, to the extent that it decided that there is a real concern as to The Phoenix Insurance's ability to repay on time liabilities which are ranked higher than the bonds in terms of the repayment priority, provided that it obtained the Commissioner's advance approval to do so.
- (5) The Commissioner ordered the deferral of interest or principal payments due to a significant decrease in The Phoenix Insurance's recognized equity, or if it realized that there is real concern as to Phoenix Insurance's ability to meet the capital requirements applicable thereto in accordance with the legal provisions applicable thereto and/or in accordance with the Commissioner's directives. For that purpose, "recognized equity" means the recognized equity of an Israeli insurer as defined in the legal provisions applicable to insurers and/or in the Commissioner's directives.

Principal or interest payments that were delayed as described above, shall be delayed until the delaying circumstances no longer exist, and under no circumstances for more than three years from the original repayment date of the principal of bonds.

Furthermore, in 2018 the Commissioner published its position - Definition of Recognized Capital and Required Capital in Hybrid Capital Instruments. This position clarifies the appropriate interpretation of the terms "required capital" and "recognized capital" in the terms of hybrid capital instruments with regard to delaying circumstances while distinguishing between insurers that obtained the Commissioner's approval as to the performance of an initial audit of the solvency ratio report by an auditor, and insurers that have not yet obtained such approval. With regard to insurers that received such approval from the Commissioner, the term "required capital" shall be interpreted in accordance with the definition of the term "minimum capital requirement" (MCR), and the term "equity" shall be interpreted in accordance with the definition of the term "equity" in the Solvency Circular. As to insurers

NOTE 26 - FINANCIAL LIABILITIES (cont.)**F. Subordinated bonds - hybrid Tier 2 capital and Tier 3 capital (cont.)**

that have not yet obtained the Commissioner's approval, the terms "equity" and "equity required for solvency purposes" shall be interpreted in accordance with their definition in the Insurer's Solvency Equity Requirement circular.

"Delaying circumstances in respect of Tier 2 capital" - in accordance with the Commissioner's directives mean the existence of one or more of the following circumstances:

With regard to deferral of interest payments:

As per the latest financial statements published by The Phoenix Insurance prior to payment date, The Phoenix Insurance does not have distributable profits as defined in the Companies Law.

With regard to deferral of principal and/or interest payments:

- (1) As per the latest financial statements published by The Phoenix Insurance prior to payment date, The Phoenix Insurance's equity is lower than the equity required to establish delaying circumstances, and as of the report publication date, The Phoenix Insurance did not supplement its equity.
- (2) The Phoenix Insurance's Board of Directors ordered the deferral of interest or principal payments, to the extent that it decided that there is a real concern as to The Phoenix Insurance's ability maintain the required capital or repay on time liabilities which are ranked higher than the bonds in terms of the repayment priority, provided that it obtained the Commissioner's advance approval to do so.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**F. Subordinated bonds - hybrid Tier 2 capital and Tier 3 capital (cont.)**

(3) The Commissioner ordered the deferral of interest or principal payments, to the extent that it realized that there is a decrease in The Phoenix Insurance's solvency ratio, or that there is a real concern as to The Phoenix Insurance ability to meet the equity requirements for solvency purposes.

G. Early redemption**Bonds Series D:**

The Phoenix Capital Raising shall have the right to execute full or partial early redemption of the bonds when certain conditions set out in the deed of trust are met, without giving bondholders and/or the trustee a right of choice.

The first date on which The Phoenix Capital Raising may execute full or partial early redemption of the Series D bonds shall be January 31 2024 (hereinafter: the "First Early Redemption Date"). Subsequent to the First Early Redemption Date, The Phoenix Capital Raising will be allowed to execute full or partial early redemption of the bonds on each interest payment date. To the extent that The Phoenix Capital Raising does not exercise its right to execute early redemption of any of the bonds on the First Early Redemption Date, the relevant bondholders will be paid additional interest in addition to the interest which the relevant bonds bear at that time in respect of the remaining period (from the First Early Repayment Date on which the early redemption right was not exercised through the actual repayment date); the additional interest rate will be equal to 50% of the original risk margin set in relation to the relevant series of bonds as defined in the shelf prospectus.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**G. Early redemption (cont.)**Bonds Series E and H:

The Phoenix Capital Raising shall have the right to execute full or partial early redemption of the bonds (Series E, F and H) when certain conditions set out in the deed of trust are met, without giving bondholders and/or the trustee a right of choice. If early redemption of the Series E, F and H bonds will not be executed on October 31 2026, January 31 2023 and July 31 2025, respectively (hereinafter: the "Record Date for Additional Interest"), then the bonds shall bear additional interest at a rate of 50% of the original risk margin set in relation to the relevant series of bonds as defined in the shelf prospectus, for a period starting on the Record Date for Additional Interest through the repayment date of Series E, F and H. It should be clarified that the First Early Redemption Date for a full or partial redemption of the Series E, F and H bonds shall be May 1 2020, January 1 2021 and July 31 2022, respectively, in accordance the terms set out in the deed of trust, and if early redemption will take place as from that date until the Record Date for Additional Interest (excluding early redemption on the Record Date for Additional Interest), the provisions set out overleaf in the deed of trust shall apply, whereby The Phoenix Capital Raising shall pay Series E, F and H bondholders the higher of the following amounts: (1) the market value of the outstanding balance of Series E, F and H bonds in circulation that will be determined based on the bonds' average closing price during the thirty trading days prior to the date on which the Board of Directors passed the resolution to execute early redemption. (2) The theoretical economic value of the Series E, F and H bonds in circulation which will be repaid early, i.e., the principal amount plus interest and linkage differences, through the actual early redemption date. (3) The balance of cash flows of the Series E, F and H bonds in respect of which early redemption is executed (principal amount plus interest (and in the case of Series E bonds also linkage), discounted by a discount rate and at the terms listed overleaf in the deed of trust.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**G. Early redemption (cont.)**Bonds Series I and J:

The Phoenix Capital Raising shall have the right to execute full or partial early redemption of the Series I and J bonds when certain conditions set out in the deed of trust are met, without giving bondholders and/or the trustee a right of choice. If early redemption of the Series I and J bonds will not be executed on August 31 2026 and January 31 2025, respectively (hereinafter: the "Record Date for Additional Interest"), then the bonds shall bear additional interest at a rate of 50% of the original risk margin set in relation to the relevant series of bonds as defined in the shelf prospectus, for a period starting on the Record Date for Additional Interest through the Series I and J's repayment date.

It should be clarified that the First Early Redemption Date for a full or partial redemption of the Series I and J bonds shall be October 31 2023, in accordance the terms set out in the deed of trust, and if early redemption will take place as from that date until the Record Date for Additional Interest (excluding early redemption on the Record Date for Additional Interest), the provisions set out overleaf in the deed of trust shall apply, whereby The Phoenix Capital Raising shall pay Series I and J bondholders the higher of the following amounts: (1) the market value of the outstanding balance of Series I and J bonds in circulation that will be determined based on the bonds' average closing price during the thirty trading days prior to the date on which the Board of Directors passed the resolution to execute early redemption. (2) The theoretical economic value of the Series I and J bonds in circulation which will be repaid early, i.e., the principal amount plus interest and linkage differences, through the actual early redemption date. (3) The balance of cash flows of the Series I and J bonds in respect of which early redemption is executed (principal amount plus interest) discounted by a discount rate and at the terms listed overleaf in the deed of trust.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**G. Early redemption (cont.)**Bonds Series K

The Company shall have the right to execute full or partial early redemption of the Series K bonds when certain conditions set out in the deed of trust are met, without giving bondholders and/or the trustee a right of choice.

If early redemption of the Series K bonds will not be executed on April 30 2029 (hereinafter: the "Record Date for Additional Interest"), then the bonds shall bear additional interest at a rate of 50% of the original risk margin set in relation to the relevant series of bonds as defined in the shelf prospectus, for a period starting on the Record Date for Additional Interest through the Series K's repayment date.

It should be clarified that the First Early Redemption Date for a full or partial redemption of the Series K bonds shall be July 30 2024, in accordance the terms set out in the deed of trust, and if early redemption will take place as from that date until the Record Date for Additional Interest (excluding early redemption on the Record Date for Additional Interest), the provisions set out overleaf in the deed of trust shall apply, whereby the Company shall pay Series K bondholders the higher of the following amounts: (1) the market value of the outstanding balance of Series K bonds in circulation that will be determined based on the bonds' average closing price during the thirty trading days prior to the date on which the Board of Directors passed the resolution to execute early redemption. (2) The theoretical economic value of the Series K bonds in circulation which will be repaid early, i.e., the principal amount plus interest and linkage differences, through the actual early redemption date. (3) The balance of cash flows of the Series K bonds in respect of which early redemption is executed (principal amount plus interest) discounted by a discount rate and at the terms listed overleaf in the deed of trust.

NOTE 26 - FINANCIAL LIABILITIES (cont.)**H. The Company's rating****Midroog**

On January 29 2020, Midroog reiterated the rating of the Series 3 and Series 4 bonds at Aa3.il, with a stable outlook.

On January 11 2021, Midroog announced it was reiterating the rating of Series 3 and 4 bonds at Aa3.il, with a stable outlook.

On January 31 2021, Midroog reiterated the rating of the expansion of Series 4 and Series 5 bonds by up to NIS 350 million at Aa3.il, with a stable outlook. For further details, please see the Company's immediate reports dated January 29 2020 (Ref. No. 2020-01-009604), January 11 2021 (Ref. No. 2021-15-004746), and January 31 2021 (Ref. No. 2021-15-012981).

The Phoenix Capital Raising and The Phoenix Insurance

On December 27 2020 Midroog reiterated The Phoenix Insurance's rating at Aa1.il, with a stable outlook.

On December 27 2020 Midroog reiterated the rating of The Phoenix Capital Raising's Series E, F, H, I, J and K bonds at Aa3.il, and the rating of the Company's Series D bonds at Aa2.il. For further details, please see the Company's immediate report of December 27 2020 (Ref. No.: 2020-01-132718).

Maalot S&P

On October 21 2020, Ma'alot S&P reiterated The Phoenix Insurance's rating at ilAA+ with a positive outlook, and upgraded the Company's rating to ilAA- with a stable outlook. For further details, please see the Company's immediate report of October 21 2020 (Ref. No. 2020-15-106000).

On September 1 2020, Ma'alot S&P reiterated the rating of the expansion of the Series 5 bonds by up to NIS 380 million at ilAA-; on February 3, Ma'alot S&P affirmed the rating of the Series 3 and 4 and the issuance of Series 5 bonds at a total amount of up to NIS 220 million at ilAA- (Ref. Nos.: 2020-15-087466 and 2020-01-010801, respectively).

NOTE 26 - FINANCIAL LIABILITIES (cont.)**J. Shelf prospectuses**

On August 16 2019, The Phoenix Capital Raising published a shelf prospectus pursuant to which it will be able to issue various types of securities in accordance with the provisions of law – nonconvertible bonds (including by expanding existing series of bonds of The Phoenix Capital Raising as they will be from time to time) and option warrants exercisable into bonds of The Phoenix Capital Raising. The issuance proceeds in respect of the above securities will be deposited with The Phoenix Insurance for its use at its own discretion and responsibility.

K. Deposits from tenants

The balance includes deposits received from tenants under tenancy agreements in respect of rights-of-use of residential units. When they leave the assisted living centers, tenants (or their heirs if the tenants had passed away) are entitled to partial refund of their deposit, net of a defined annual rate as set out in the tenancy agreements, in accordance with the period during which they lived at the centers. The deposits are linked to the CPI and do not bear interest. For further details about the amendment to the Assisted Living Law, see note 42.B(4).

NOTE 26 - FINANCIAL LIABILITIES (cont.)**L. Changes in liabilities stemming from financing activity**

	Credit from banks	Bonds	Subordinate d bonds	Liabilit y for REPO	Other (*)	Total liabilities stemmin g from financing activity
Balance as of January 1 2019	110,497	790,178	2,890,730	-	6,037	3,797,442
First-time application of IFRS 16	-	-	-		131,847	131,847
Cash flow	(10,526)	202,514	469,047	-	(31,808)	629,227
Effect of changes in the Consumer Price CPI	(105)	1,441	3,484	-	1,240	6,060
Other changes	158	4,785	8,084	-	13,213	26,240
Recognition of lease liabilities	-	-	-	-	27,238	27,238
Balance as of December 31 2019	100,024	998,918	3,371,345	-	147,767	4,618,054
Cash flow	(19,224)	108,332	-	388,837	(41,646)	436,299
Effect of changes in the Consumer Price CPI	(4)	(2,553)	(2,483)	478	3,225	8,166
Effect of changes in fair value	-	-	-	-	(3,108)	(3,108)
Other changes	-	13,841	5,598	-	15,353	25,289
Recognition of lease liabilities	-	-	-	-	8,383	8,383
Balance as of December 31 2020	<u>80,796</u>	<u>1,118,538</u>	<u>3,374,460</u>	<u>389,315</u>	<u>129,974</u>	<u>5,093,083</u>

(*) Mainly in respect of a lease liability and put option to non-controlling interests.

NOTE 27 - PREMIUMS EARNED

	For the year ended December 31 2020		
	Gross	Reinsurance	Retention
	In NIS thousand		
Life insurance premiums	4,765,553	99,195	4,666,358
Health insurance premiums	2,756,223	278,506	2,477,717
Property and casualty insurance premiums	<u>2,875,052</u>	<u>980,628</u>	<u>1,894,424</u>
Total premiums	10,396,828	1,358,329	9,038,499
Less change in unearned premium balance (*)	<u>14,176</u>	<u>29,351</u>	<u>(15,175)</u>
Total premiums earned	<u><u>10,382,652</u></u>	<u><u>1,328,978</u></u>	<u><u>9,053,674</u></u>

	For the year ended December 31 2019		
	Gross	Reinsurance	Retention
	In NIS thousand		
Life insurance premiums	5,209,366	98,235	5,111,131
Health insurance premiums	3,262,315	377,869	2,884,446
Property and casualty insurance premiums	<u>2,815,006</u>	<u>921,164</u>	<u>1,893,842</u>
Total premiums	11,286,687	1,397,268	9,889,419
Change in unearned premium balance (*)	<u>(38,758)</u>	<u>(4,888)</u>	<u>(33,870)</u>
Total premiums earned	<u><u>11,325,445</u></u>	<u><u>1,402,156</u></u>	<u><u>9,923,289</u></u>

	For the year ended December 31 2018		
	Gross	Reinsurance	Retention
	In NIS thousand		
Life insurance premiums	5,082,493	65,533	5,016,960
Health insurance premiums	2,240,514	281,475	1,959,039
Property and casualty insurance premiums	<u>2,822,119</u>	<u>865,467</u>	<u>1,956,652</u>
Total premiums	10,145,126	1,212,475	8,932,651
Change in unearned premium balance (*)	<u>40,939</u>	<u>34,492</u>	<u>6,447</u>
Total premiums earned	<u><u>10,104,187</u></u>	<u><u>1,177,983</u></u>	<u><u>8,926,204</u></u>

In principle, in property and casualty insurance; please see Note 18.

NOTE 28 - GAINS (LOSSES) ON INVESTMENTS, NET AND FINANCE INCOME

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
<u>Gains (losses) on assets held against yield-dependent liabilities</u>			
Investment property	88,982	156,015	128,731
Financial investments:			
Marketable debt assets	391,598	1,715,604	(83,693)
Non-marketable debt assets	185,994	429,400	103,488
Shares	1,090,502	3,088,841	(310,670)
Other investments	2,688,463	2,312,491	166,317
Cash and cash equivalents	(23,094)	(16,383)	37,764
Total gains (losses) on assets held against yield-dependent liabilities, net	<u>4,422,445</u>	<u>7,685,968</u>	<u>41,937</u>
<u>Gains on assets held against non yield-dependent liabilities, capital and other</u>			
Income from investment property:			
Revaluation of investment property	53,004	102,186	42,045
Current income in respect of investment property	<u>90,965</u>	<u>99,225</u>	<u>92,507</u>
Total income from investment property	<u>143,969</u>	<u>201,411</u>	<u>134,552</u>
<u>Gains (losses) on financial investments, excluding interest, linkage differences, exchange rate differences and dividend in respect of:</u>			
Available-for-sale assets (a)	125,118	182,495	(261,580)
Assets presented at fair value through profit or loss (B)	(5,448)	96,160	199,061
Assets presented as loans and receivables (C)	<u>7,512</u>	<u>11,643</u>	<u>48,750</u>
	127,182	290,298	(13,769)
Interest income (*) and linkage differences on financial assets not accounted for at fair value through profit and loss	569,391	603,672	682,209
Interest income (*) and linkage differences on financial assets accounted for at fair value through profit and loss and on other assets	223,768	273,159	217,390
Gains on exchange rate differences on investments not accounted for at fair value through profit and loss and on other assets (**)	(39,270)	15,237	18,058
Dividend income	<u>32,221</u>	<u>39,950</u>	<u>37,256</u>
Total investment income, net and finance income	<u>5,479,706</u>	<u>9,109,695</u>	<u>1,117,633</u>
(*) The above revenues includes interest in respect of impaired financial assets which are not presented at fair value through profit and loss	<u>5,341</u>	<u>2,062</u>	<u>2,830</u>

(**) Regarding exchange rate differences in respect of financial liabilities, please see Note 38.

NOTE 28 - GAINS (LOSSES) ON INVESTMENTS, NET AND FINANCE INCOME (cont.)
A. Gains (losses), net on investments for available-for-sale assets

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Net gains (losses) on realized securities	501,813	258,243	(189,489)
Net impairments carried to profit and loss	(376,695)	(75,748)	(72,091)
Total gains (losses) on investments for assets presented as available-for-sale assets	<u>125,118</u>	<u>182,495</u>	<u>(261,580)</u>

B. Gains (losses) on investments in respect of assets presented at fair value through profit or loss

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Changes in net fair value, including realization gains:			
In respect of held-for-trading assets	(1,779)	79,430	187,862
In respect of assets designated on initial recognition	(3,669)	16,730	11,199
Total gains (losses) on investments for assets presented at fair value through profit or loss	<u>(5,448)</u>	<u>96,160</u>	<u>199,061</u>

C. Gains (losses) on investments for assets presented as loans and receivables:

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Net gains (losses) on realization of assets presented as loans and receivables	10,937	20,904	52,610
Net impairments carried to profit and loss	(3,425)	(9,261)	(3,860)
Total gains (losses) on investments for assets presented as loans and receivables	<u>7,512</u>	<u>11,643</u>	<u>48,750</u>

NOTE 29 – INCOME FROM MANAGEMENT FEES

Composition

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Management fees in the pension and provident industries	369,873	369,757	351,951
Management fees from financial services	248,930	224,000	90,000
Variable management fees for life insurance contracts (*)	293,036	477,484	-
Fixed management fees for life insurance contracts	383,653	359,583	333,739
Management fees for investment contracts	59,984	52,367	44,151
Total management fees from planholders and policyholders	1,355,476	1,483,191	819,841
Other management fees	1,713	4,293	6,829
Total income from management fees	1,357,189	1,487,484	826,670

(*) As of December 31 2018, the estimated management fees not collected due to negative yield until investment losses are covered in respect of participating policies amounted to approx. NIS 62 million. As of the end of February 2019, the Company covered the full amount of accumulated real investment losses debited to policyholders and began charging variable management fees.

(*) As of September 30 2020, the estimated management fees which were not collected due to negative yield until covering investment losses in respect of participating policies amounted to approx. NIS 101 million. The Company covered the full amount of the losses in the last quarter of the year and began charging variable management fees.

NOTE 30 – INCOME FROM FEES AND COMMISSIONS

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Insurance agency fees and commissions	258,045	258,696	243,164
Reinsurance fees and commissions, net of change in deferred acquisition costs in respect of reinsurance	298,006	282,943	240,269
Total income from fees and commissions	556,051	541,639	483,433

NOTE 31 - INCOME FROM FINANCIAL AND OTHER SERVICES

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Income from ETFs and deposit, net (*)	-	-	67,558
Income from stock exchange and trading services, net	120,000	108,000	87,000
Income from investment banking and underwriting	39,000	35,000	10,000
	<u>159,000</u>	<u>143,000</u>	<u>164,558</u>

(*) For information regarding Amendment 28, please see Note 25.

NOTE 32 – OTHER INCOME

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Providing consulting services	15,541	22,462	13,116
Rent	3,558	2,788	3,047
Capital gain on disposal of property, plant & equipment	-	5	-
Provision of services	18,521	18,106	17,188
Gain on reversal of provision for impairment of property, plant and equipment	13,883	-	-
Other income (*)	<u>80,343</u>	<u>42,735</u>	<u>4,475</u>
Total other income	<u>131,846</u>	<u>86,096</u>	<u>37,826</u>

(*) In 2019-2020, other income includes gain from obtaining control in an investee; for further details, please see Note 7(d).

NOTE 33 - PAYMENTS AND CHANGE IN LIABILITIES IN RESPECT OF INSURANCE CONTRACTS AND INVESTMENT CONTRACTS - RETENTION

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
For life insurance contracts			
Paid and contingent claims - death, disability and other	632,752	620,581	612,648
Less - reinsurance	<u>36,393</u>	<u>33,907</u>	<u>36,460</u>
	596,359	586,674	576,188
Redeemed policies	2,228,493	1,705,517	1,343,317
Expired policies	194,489	199,787	234,396
Pension	<u>366,932</u>	<u>316,714</u>	<u>264,819</u>
Total claims	3,386,273	2,808,692	2,418,720
Increase in liabilities in respect of life insurance contracts (except for a change in contingencies) - retention	4,619,045	9,596,843	2,530,682
Increase in liabilities in respect of investment contracts due to the yield component	423,590	802,459	131,748
Increase in liabilities of guaranteed return provident fund tracks	<u>38,697</u>	<u>42,379</u>	<u>48,992</u>
Total payments and change in liabilities in respect of life insurance contracts and investment contracts - retention	<u>8,467,605</u>	<u>13,250,373</u>	<u>5,130,142</u>
Total payments and change in liabilities in respect of property and casualty insurance contracts:			
Gross	1,640,879	1,662,770	1,869,232
Reinsurance	<u>542,801</u>	<u>533,561</u>	<u>668,315</u>
Retention	<u>1,098,078</u>	<u>1,129,209</u>	<u>1,200,917</u>
Total payments and change in liability in respect of health insurance contracts:			
Gross	2,371,630	3,602,386	1,478,146
Reinsurance	<u>234,439</u>	<u>368,236</u>	<u>227,550</u>
Retention	<u>2,137,191</u>	<u>3,234,150</u>	<u>1,250,596</u>
Total payments and change in liabilities in respect of insurance contracts and investment contracts - retention	<u><u>11,702,874</u></u>	<u><u>17,613,732</u></u>	<u><u>7,581,655</u></u>

NOTE 34 - FEES AND COMMISSIONS, MARKETING EXPENSES AND OTHER PURCHASE EXPENSES

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Purchase costs:			
Purchase fees	682,370	873,918	815,929
Other purchase expenses	422,234	430,329	384,292
Change in deferred acquisition costs	<u>20,918</u>	<u>(42,379)</u>	<u>(72,787)</u>
Total purchase expenses	<u>1,125,522</u>	<u>1,261,868</u>	<u>1,127,434</u>
Other fees and commissions	566,133	586,674	571,522
Other marketing expenses	<u>58,448</u>	<u>69,897</u>	<u>54,383</u>
Total fees and commissions, marketing expenses and other purchase expenses	<u>1,750,103</u>	<u>1,918,439</u>	<u>1,753,339</u>

NOTE 35 - GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Salaries and related expenses (**)	1,144,783	1,062,708	991,358
Depreciation and amortization	278,429	283,019	252,730
Office maintenance and communications	78,433	80,416	101,104
IT services	106,078	90,875	84,391
Marketing and advertising	65,306	61,087	41,689
Legal and professional advice	78,229	61,854	64,664
Other	<u>182,931</u>	<u>175,766</u>	<u>184,393</u>
Total (*)	1,934,188	1,815,725	1,720,329
Less:			
Amounts classified under change in liabilities and payments in respect of insurance contracts	(107,376)	(104,461)	(91,252)
Amounts classified under fees and commissions, marketing expenses and other purchase expenses	<u>(466,784)</u>	<u>(430,056)</u>	<u>(418,420)</u>
General and administrative expenses	<u>1,360,028</u>	<u>1,281,208</u>	<u>1,210,657</u>
(*) General and administrative expenses include automation expenses totaling	<u>365,224</u>	<u>348,935</u>	<u>343,074</u>

(**) Salaries and related expenses in 2020 include expenses in respect of revision of the provision for payroll tax receivable by approx. NIS 17 million (2019 - including a decrease of approx. NIS 29 million in the expense) as a result of the loss for tax purposes of The Phoenix Insurance in 2019. Salaries and related expenses were also affected by the revisions to the collective agreement; for further details regarding the collective agreement, please see Note 23(f).

NOTE 36 - SHARE-BASED PAYMENT

A. Expense recognized in books of accounts

The expense recognized in the financial statements for services received from employees is presented in the following table:

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
In respect of equity-settled bonuses			
Total expense recognized from share-based payment transactions	<u>4,896</u>	<u>3,270</u>	<u>4</u>

B. Plans attributed to employees and officers

1. 2013 plan

On March 27 2016 (hereinafter: the "Award Date"), the Company's Board of Directors approved the allotment of 600,000 options, of which 450,000 were actually allotted. The options were allotted to a senior Company officer (who is also an officer in a subsidiary), and to two officers in Company's subsidiaries, in accordance with the Company's employee option plan of 2013. The shares that will be issued as a result of the exercise of the said options, are ordinary Company shares of NIS 1 par value each (conversion ratio 1:1).

The options shall vest in three equal tranches, subject to the fulfillment of the performance conditions (as described below) and the employee's continued employment by the Company. The sale of the shares (subsequent to the exercise of the options) is subject to a deferral arrangement in accordance with the Company's remuneration policy and the resolution of the Board of Directors, except in relation to a subsidiary's officer, who was allotted 150,000 options, and who is not subject to the Company's remuneration plan and is therefore not subject to the performance conditions and the deferral arrangement.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

The exercise price of each option is NIS 11.2 (adjusted to reflect dividends). On exercise date, the Company shall allot the shares arising from exercise in accordance with the number of options exercised multiplied by the difference between the stock exchange price of the share on exercise date and the exercise price divided by the stock exchange price.

Performance conditions

The options shall vest subject to the offeree's meeting the following performance conditions, on a cumulative basis:

- (1) Return on equity target - annual average of the return of comprehensive income on the Company's weighted equity.
- (2) The capital surplus metric - the capital surplus shall be calculated as the difference between (1) the accounting equity (as recorded in the Company's annual consolidated financial statements) net of investments in investees; and (2) the regulatory capital requirements; divided by (3) the capital requirement.
- (3) Yield on savers' funds - risk-adjusted yield on savers' (planholders) funds achieved by The Phoenix compared to its principal competitors in this subsegment. This target will also take in to account the level of risk as reflected in the Sharpe index compared to principal competitors in this subsegment.

If the Company's Board of Directors will change the definitions of the metrics described above as part of the annual remuneration plan, these changes shall also apply to the terms of the options.

It should be clarified that for each vesting year the Company's Board of Directors shall set the grades and scores in connection with compliance with the targets described above. The fulfillment of the performance conditions described above shall be calculated as of publication date of the annual

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

consolidated financial statements for each of the vesting years. That is to say, in connection with the first tranche, the performance conditions shall be measured in respect of the 2016 results; in connection with the second tranche, the performance conditions will be measured in respect of the 2017 results, and so on and so forth. The weight of each metric is 33.33%

An offeree's eligibility for all options vested on a specific vesting date shall be conditional upon meeting a weighted score of all three metrics listed above. In the event of failure to achieve the score required to be eligible for all options that vested as described above, the number of options for which the offeree will be eligible shall be determined on a linear basis. Furthermore, failure to achieve the minimum weighted score will result with the offeree's not being eligible for options.

The fair value at the Award Date is calculated based on an appraisal received from an external appraiser who used the binomial model. The average value per one option was estimated at approximately NIS 1.07 and the total value of options allotted was estimated at approximately NIS 482 thousand as of that date.

Set forth below are the assumptions used in the measurement of the fair value of the share options settled with Company's equity instruments in respect of the 2013 plan:

Tranche	Expected volatility of share price (a)	Risk-free interest rate (b)	Vesting date	Expiry date
1	24.09%	0.50%	31.3.2017	30.3.2019
2	24.09%	0.50%	31.3.2018	30.3.2019
3	26.79%	0.74%	31.3.2019	30.3.2020

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)****a. Expected volatility of share price**

The expected volatility (standard deviation) is based on the historical volatility of the share price (based on daily margins). The expected volatility of the share price reflects the assumption that the historical volatility of the share price constitutes a good indication of future volatility.

c. Risk-free interest rate

The interest rate used to calculate the value of the options to offerees was calculated based on a risk-free nominal yield to maturity curve, which is based on the yield of non-linked "Shahar" government bonds.

d. Attrition rate (after the vesting period)

A certain attrition rate of approximately 5% was assumed between the vesting date and the expiry of the option. No attrition rate was assumed by the model for the vesting period.

e. Dividend

The exercise price of the options allotted under this plan is adjusted to reflect dividends. Therefore, the calculation of the value of the options does not take into account future distribution of dividends.

2. 2019 plan

On December 27 2018, the Company's Board of Directors approved the allotment of 4,531,559 options. On February 3 2019 (hereinafter: the "Award Date"), the Company's Board of Directors allotted 3,876,000 options to 79 employees of the Company and its subsidiaries.

The shares that will be issued as a result of the exercise of the said options, are ordinary Company shares of NIS 1 par value each (conversion ratio 1:1).

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

The options shall vest in three equal tranches, subject to the fulfillment of the performance conditions (as described below) and the employee's continued employment by the Company. The 2019 plan was approved under the work income track pursuant to Section 102 of the Income Tax Ordinance.

The exercise price of each option as of Award Date (adjusted to reflect dividends) is NIS 21.35 in respect of the first tranche, NIS 21.99 in respect of the second tranche, and NIS 22.63 in respect of the third tranche.

On exercise date, the Company shall allot the shares arising from exercise in accordance with the number of options exercised multiplied by the difference between the stock exchange price of the share on exercise date and the exercise price divided by the stock exchange price.

The options include a benefit limit, whereby the maximum benefit arising to offerees from the exercise of each option shall not exceed 200% of the price of Company's share on the last trading day before the Award Date (maximum share price of NIS 57.51).

The fair value at the Award Date is calculated based on a appraisal received from an external appraiser who used the binomial model. The average value per one option was estimated at approximately NIS 3.92 and the total value of options allotted was estimated at approximately NIS 15.2 million as of that date.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

Set forth below are the assumptions used in the measurement of the fair value of the share options settled with Company's equity instruments:

Tranche	Expected volatility of share price (a)	Risk-free interest rate (b)	Vesting date	Expiry date
1	24.51%	1.03%	31.3.2021	31.3.2023
2	23.86%	1.29%	31.3.2022	31.3.2024
3	24.56%	1.53%	31.3.2023	31.3.2025

a. Expected volatility of share price

The expected volatility (standard deviation) was based on the historical volatility of the parent company's share price (based on daily margins). The expected volatility of the share price reflects the assumption that the historical volatility of the share price constitutes a good indication of future volatility.

b. Risk-free interest rate

The interest rate used to calculate the value of the options to offerees was calculated based on a risk-free nominal yield to maturity curve, which is based on the yield of non-linked "Shahar" government bonds.

c. Attrition rate (after the vesting period)

A certain attrition rate of approximately 10% was assumed by the model between the vesting date and the expiry of the option. No attrition rate was assumed by the model for the vesting period.

d. Dividend

The exercise price of the options allotted under this plan is adjusted to reflect dividends. Therefore, the calculation of the value of the options does not take into account future distribution of dividends.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**Performance conditions

The options shall vest subject to the offeree's meeting the following performance conditions, on a cumulative basis:

- (1) At least 90% of the return on equity target - return on equity shall be calculated as the annual average of the return of comprehensive income on the Company's weighted equity.

The yield target shall be set as part of the annual work plan set by the Company's Board of Directors by March 31 of each calendar year.

The fulfillment of the performance conditions described above shall be calculated as of publication date of the annual consolidated financial statements for each of the vesting years. That is to say, in connection with the first tranche, the performance conditions shall be measured in respect of the 2020 results; in connection with the second tranche, the performance conditions will be measured in respect of the 2021 results; and in connection with the third tranche, the performance conditions will be measured in respect of the 2022 results

If the performance conditions were not fulfilled in a specific year, fulfillment will be measured for each subsequent year after the relevant year until the option's expiry date.

- (2) The economic solvency ratio metric - meeting the capital requirements taking into account the deployment period in accordance with the Commissioner's circular of June 2017 regarding provisions for the implementation of Solvency II-based economic solvency regime of insurance companies (hereinafter: the "Solvency Circular"). Compliance with the capital requirements to be published in the financial statements will be assessed on vesting date in respect of the three calendar years preceding the vesting date.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

An offeree's eligibility for all options vested on a specific vesting date shall be conditional upon cumulatively meeting requirements of the above two metrics. Failure to meet the requirements will result with the offeree's not being eligible for options.

If the Company's Board of Directors will change the definitions of the metrics described above as part of the annual remuneration plan, these changes shall also apply to the terms of the options.

Additional awards from the 2019 plan:

- a. On April 30 2019 (hereinafter: the "Award Date"), the Company's Board of Directors approved the allotment of 556,000 options. The options were allotted to 12 Company employees (hereinafter: "Group B").

The exercise price of each option as of Award Date (adjusted to reflect dividends) is NIS 22.49 in respect of the first tranche, NIS 23.11 in respect of the second tranche, and NIS 23.72 in respect of the third tranche. On exercise date, the Company shall allot the shares arising from exercise in accordance with the number of options exercised multiplied by the difference between the stock exchange price of the share on exercise date and the exercise price divided by the stock exchange price.

The fair value at the Award Date is calculated based on a appraisal received from an external appraiser who used the binomial model. The average value per one option was estimated at approximately NIS 3.82 and the total value of options allotted was estimated at approximately NIS 2.1 million as of that date.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

The options include a benefit limit, whereby the maximum benefit arising to offerees from the exercise of each option shall not exceed 200% of the price of Company's share on the last trading day before the Award Date (maximum share price of NIS 62.49).

Except for the exercise price and the benefit limit, the other terms of the option are identical to the terms of the 2019 plan.

- b. On October 30 2019 (hereinafter: the "Award Date"), the Company's Board of Directors approved the allotment of 200,000 options. The options were allotted to two Company officers (hereinafter: "Group C").

The exercise price of each option as of Award Date (adjusted to reflect dividends) is NIS 23.68 in respect of the first tranche, NIS 24.33 in respect of the second tranche, and NIS 24.99 in respect of the third tranche. On exercise date, the Company shall allot the shares arising from exercise in accordance with the number of options exercised multiplied by the difference between the stock exchange price of the share on exercise date and the exercise price divided by the stock exchange price.

The fair value at the Award Date is calculated based on a appraisal received from an external appraiser who used the binomial model. The average value per one option was estimated at approximately NIS 3.31 and the total value of options allotted was estimated at approximately NIS 0.66 million as of that date.

The options include a benefit limit, whereby the maximum benefit arising to offerees from the exercise of each option shall not exceed 200% of the price of Company's share on the last trading day before the Award Date (maximum share price of NIS 63.84).

Except for the exercise price and the benefit limit, the other terms of the option are identical to the terms of the 2019 plan.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

- c. On September 15 2020, the Company's Board of Directors approved the allotment of 5,228,000 options to 76 of the Group's employees, as well as to service providers of the Company. The shares that will be issued as a result of the exercise of the said options, are ordinary Company shares of NIS 1 par value each (conversion ratio 1:1). The options shall vest in three equal tranches, subject to the fulfillment of the performance conditions (as described below) and the employee's continued employment by the Company.

The exercise price of each option as of Award Date (adjusted to reflect dividends) is NIS 17 in respect of the first tranche, NIS 18 in respect of the second tranche, and NIS 19 in respect of the third tranche. On exercise date, the Company shall allot the shares arising from exercise in accordance with the number of options exercised multiplied by the difference between the stock exchange price of the share on exercise date and the exercise price divided by the stock exchange price.

The options include a benefit limit, whereby the maximum benefit arising to offerees from the exercise of each option shall not exceed the price of Company's share on the day before the allotment (NIS 15.17). Therefore, the maximum share price for the purpose of calculating the benefit is NIS 32.17 for the first tranche, NIS 33.17 for the second tranche, and NIS 34.17 for the third tranche.

The fair value at the Award Date is calculated based on a appraisal received from an external appraiser who used the binomial model. The average value of one option was estimated at approximately NIS 2.12, and the total value of the options allotted was estimated at that date at approximately NIS 11 million.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

Set forth below are the assumptions used in the measurement of the fair value of the share options settled with Company's equity instruments:

Tranche	Expected volatility of share price (a)	Risk-free interest rate (b)	Vesting date	Expiry date
1	30.31%	0.13%	7.4.2022	7.4.2023
2	28.82%	0.21%	7.4.2023	7.4.2024
3	27.78%	0.32%	7.4.2024	7.4.2025

1. Expected volatility of share price

The expected volatility (standard deviation) was based on the historical volatility of the Company's share price (based on daily margins). The expected volatility of the share price reflects the assumption that the historical volatility of the share price constitutes a good indication of future volatility.

However, due to the coronavirus crisis, the standard deviation of the yield in March 2020 was approx. 80% and in April - approx. 59%; as a result, the appraiser estimated that the aforesaid measurement includes one-off components relating to the coronavirus crisis, in respect of which the calculation of standard deviation should be adjusted.

The adjustment of the yield's standard deviation was carried out by giving low weight to the observations (daily change rates) from March 2020 and April 2020. Observations from March were given a weight of 33.3% and observations from April were given weight of 66.7%, while all other observations in the entire relevant period were given a weight of 100%.

The resulting standard deviation rates are lower by approx. 1.49%-2.35% than the standard deviation rates prior to the adjustments.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)****2. Risk-free interest rate**

The interest rate used to calculate the value of the options to offerees was calculated based on a risk-free nominal yield to maturity curve, which is based on the yield of non-linked "Shahar" government bonds.

3. Attrition rate (after the vesting period)

A certain attrition rate of approximately 10% was assumed by the model between the vesting date and the expiry of the option. No attrition rate was assumed by the model for the vesting period.

4. Dividend

The exercise price of the options allotted under this plan is adjusted to reflect dividends. Therefore, the calculation of the value of the options does not take into account future distribution of dividends.

Except for the aforesaid, the other terms of the option are identical to the terms of the 2019 plan.

d. Options granted to the Company's CEO

On September 15 2020, the Company's Board of Directors approved the allotment of 350,000 options to the Company's CEO. On October 22 2020, the Company's general meeting approved the said allotment of options.

The exercise price of each option as of Award Date (adjusted to reflect dividends) is NIS 17 in respect of the first tranche, NIS 18 in respect of the second tranche, and NIS 19 in respect of the third tranche. On exercise date, the Company shall allot the shares arising from exercise in accordance with the number of options exercised multiplied by the difference between the stock exchange price of the share on exercise date and the exercise price divided by the stock exchange price.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**B. Plans attributed to employees and officers (cont.)**

The options include a benefit limit, whereby the maximum benefit arising to offeree from the exercise of each option shall not exceed the price of Company's share on the day before the allotment (NIS 17.69). Therefore, the maximum share price for the purpose of calculating the benefit is NIS 34.69 for the first tranche, NIS 35.69 for the second tranche, and NIS 36.69 for the third tranche.

The fair value at the Award Date is calculated based on a appraisal received from an external appraiser who used the binomial model. The average value per one option was estimated at approximately NIS 3.37 and the total value of options allotted was estimated at approximately NIS 1.2 million.

Set forth below are the assumptions used in the measurement of the fair value of the share options settled with Company's equity instruments:

Tranche	Expected volatility of share price (a)	Risk-free interest rate (b)	Vesting date	Expiry date
1	30.74%	0.11%	7.4.2022	7.4.2023
2	28.73%	0.20%	7.4.2023	7.4.2024
3	28.19%	0.29%	7.4.2024	7.4.2025

All other assumptions used in measuring the fair value of the share options settled using the Company's equity instruments, and the performance terms applicable to the options' vesting are identical to the terms of the 2019 Plan.

NOTE 36 - SHARE-BASED PAYMENT (cont.)**c. Change during the year**

Set forth below is a table presenting the number of share options, the weighted average of their exercise price, and the changes made in the employee option plans during the current year:

	2020		2019		2018	
	Number of Options	Weighted Average of Adjusted Exercise Price	Number of Options	Weighted Average of Adjusted Exercise Price	Number of Options	Weighted Average of Adjusted Exercise Price
Share options as of beginning of year	3,997,500	20.70	108,333	11.20	300,000	11.67
Share options granted during the year	5,578,000	18.00	4,632,000	22.23	-	-
Share options exercised during the year	-	-	(108,333)	9.79	(150,000)	11.20
Share options forfeited during the year	(297,000)	20.70	(634,500)	20.20	(41,667)	11.20
Share options as of end of year	<u>9,278,500</u>	<u>19.07</u>	<u>3,997,500</u>	<u>20.70</u>	<u>108,333</u>	<u>11.20</u>
Exercisable share options as of end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- d. The weighted average of the remaining contractual life of the share options as of December 31 2020 is 3.26 years (2019 - 4.25 years, 2018 - 1.25 years).
- e. The average exercise price of the share options as of December 31 2020 is NIS 19.07 (2019 - NIS 20.7, 2018 - NIS 11.2).
- f. As to the Company's Board of Directors' approval of the distribution of dividend subsequent to balance sheet date, please see Note 15.H.

NOTE 37 - OTHER EXPENSES

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Amortization of intangible assets	21,710	18,430	9,143
Results of Modified-Re reinsurance	20,760	(7,461) (*)	(14,189) (*)
Impairment of property, plant & equipment and other losses	12,415	5,083	10
Total other expenses	54,885	16,052	(5,036)

(*) Mainly in respect of settlement for previous years.

NOTE 38 - FINANCE EXPENSES

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Interest and linkage difference costs in respect of:			
Subordinated bonds	103,531	106,590	102,510
Bonds and loans	40,972	26,768	35,016
Revaluation of liability to purchase shares in consolidated companies	3,369	2,093	14,398
Deposits from tenants	(2,454)	3,715	2,019
Interest expenses for reinsurers	4,833	11,745	4,581
Exchange rate differences, net in respect of liabilities (*)	(10,194)	(10,956)	10,065
Fees and commissions and other finance expenses	6,452	2,643	10,937
Total finance expenses	146,509	142,598	179,526

(*) Regarding exchange rate differences in respect of financial investments, please see Note 28.

NOTE 39 - EARNINGS PER SHARE**Diluted basic earnings per share**

Calculation of the basic diluted earnings per share was based on the net income attributable to the shareholders divided by the weighted average of the number of the outstanding ordinary shares, as follows:

	For the year ended December 31		
	2020	2019	2018
	In NIS thousand		
Profit attributed to Company's shareholders	<u>1,169,023</u>	<u>271,466</u>	<u>651,459</u>

<u>Weighted average of the number of ordinary shares</u>	For the year ended December 31		
	2020	2019	2018
	No. of shares (in thousands)		
	NIS 1 p.v.		
Balance on January 1	256,153	256,096	247,500
Effect of Company's shares held by the Group	187 (*)	-	119
Effect of shares issued during the year	<u>-</u>	<u>20</u>	<u>5,117</u>
Weighted average number of ordinary shares used in calculation of basic earnings per share as of December 31	<u>255,966</u>	<u>256,116</u>	<u>252,736</u>
Effect of potential dilutive shares	<u>-</u>	<u>37</u>	<u>125</u>
Weighted average number of ordinary shares used in calculation of diluted earnings per share as of December 31	<u>255,966</u>	<u>256,153</u>	<u>252,861</u>

* For further details, see Note 15D

NOTE 40 - RISK MANAGEMENT

The Group operates in the following main operating segments: life insurance and long-term savings - including pension and provident fund management, health insurance, property and casualty insurance and finance. In addition, the Group operates in the area of insurance agencies, as well as in the areas of financial services, ETFs, mutual funds, portfolio management, stock exchange member, management and marketing of alternative products.

The Group's activities in the above areas expose it to the following main risks:

- Macroeconomic risks, including the state of the economy and employment levels.
- Market risks, including ALM risk.
- Liquidity risks.
- Credit risks including credit risks of reinsurers.
- Cyber risks.
- Operational risks including IT systems, outsourcing, and embezzlement and fraud risks.
- Insurance risks including pricing and underwriting risks and catastrophe risk (including epidemic).
- Legal risks arising from legal precedents, class actions and lawsuits.
- Regulatory and compliance risks.
- Reputational risk.
- Business risks, including competitive, change in public preferences and portfolio retention level risks.

Macroeconomic risks - risks arising from the state of the economy and employment levels. A recession and a decline in the level of employment may lead to a decrease in amounts deposited into the different long-term savings channels, as well as to withdrawal of pension and mid-term savings (advanced education funds) for the purpose of consumption in the present, increase in bad debts, reduction in insurance coverage purchased through insurance policies and increase in the number of insurance events and claims (due to increased prevalence of theft and fraud), filing claims at an earlier date and fiercer competition in the various areas of activity.

NOTE 40 - RISK MANAGEMENT (cont.)

Market risks - the risk that the fair value or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among other things, risks arising from changes in interest rates, share prices, the Consumer Price Index and foreign currency, as well as asset liability management risk (ALM).

Liquidity risks - the risk of loss as a result of a possible need to dispose of assets at below-market prices, and raising resources unexpectedly and within a short time, or difficulty in meeting commitments, which may result from uncertainty regarding the date on which the Group will meet its commitments.

Credit risks - risk of loss as a result of non-compliance of a borrower/reinsurer with its commitments or as a result of changes in credit spreads in the capital market.

Operational risks - the risk of loss or harm to the Group's reputation due to inadequacy or failure of internal processes, people and systems or as a result of external events.

Cyber risks - risk of loss, reputational damage to the Group, damage to the privacy of policyholders and planholders, and additional risks which may arise from unauthorized use of identity, disruption of activity by impairing network activity or shutdown of services, damage to systems, theft of digital assets, infecting systems with malicious codes or malware, penetrating systems or disclosure of information.

Insurance risks - life and health insurance risks and actuarial risk in a pension fund (the actuarial risks in the pension fund apply to the planholders when their impact on the management company concerns management fees) arising from the uncertainty as to the payment of expected future claims with respect to assumptions concerning mortality rates/longevity, morbidity/disability rates, expenses, cancellations or redemptions. Property and casualty insurance risks stem primarily from uncertainty as to pricing, models and assessment of reserves and catastrophe.

NOTE 40 - RISK MANAGEMENT (cont.)

Legal risks - the Group is exposed to judicial decisions that may constitute a binding legal precedent with respect to its insurance activity, change the scope of its liabilities, and incur costs that were not anticipated when entering into the insurance policies or in prior assessments of insurance liabilities. In addition, the Group is exposed to lawsuits that have the potential to become class actions, with exposure to high amounts.

Regulatory and compliance risks - risks arising from the effect of regulatory changes on financial reporting, business operations and profitability. In addition, failure to comply with regulatory requirements may result in the imposition of sanctions and fines on the Group.

Reputational risk - the reputation of the Group, its financial strength and its good name constitute an important factor in the scope of its operations and profitability, in engaging new customers and in retaining existing customers. This risk may be a consequential risk of the materialization of other risks.

Business risks - risk of harm to the Group's profitability as a result of changes in the business environment, including an increase in the intensity of competition in the Group's areas of activity. Competition may be intensified by, among other things, fiercer competition between existing competitors, new competitors, and introduction of new distribution channels. Activity in the life insurance, provident and pension subsegments is exposed to policy cancellations and redemptions during the contract period. The Group's ability to maintain its existing portfolio depends, among other things, on its ability to achieve attractive yields relative to its competitors. The public's tendency to choose alternative products within the various areas or the public's tendency not to take out insurance may affect the demand for the Group's products and profitability in the various areas of activity.

This note provides information on the Group's exposure to each of the above risks, the Group's objectives, policies and processes regarding risk measurement and management. Further quantitative disclosure is included throughout the consolidated financial statements.

NOTE 40 - RISK MANAGEMENT (cont.)**1. Description of risk management procedures and methods**

In The Phoenix Holdings, risk management is carried out at the Group level, by the Chief Risk Officer, who is charged with The Phoenix Insurance's risk management and receives reports about the risks embodied in the Group's financial activity from Excellence Nessuah's Chief Risk Officer, and manages The Phoenix Holdings' direct risks, including the Group's liquidity risks. Excellence Nessuah's activities include the areas of ETFs, mutual funds, portfolio management, stock exchange member, management and marketing of alternative products. These areas of activity have different risk characteristics than insurance operations and therefore risk management procedures and methods therein are different, as specified in Section 1.2. In some of Excellence Nessuah's areas of activity, dedicated functions responsible for risk management and control have been appointed, in accordance with the specific regulatory guidance applicable to each company.

1.1. The insurance activity

Risk Management at The Phoenix Insurance Company (hereinafter - "The Phoenix Insurance") aims to support and protect the Company against unexpected losses that may prevent it from achieving its business objectives, while complying with regulatory requirements.

The Phoenix Insurance's risk management policy is based on a firm-wide risk management concept. According to this concept, the risk management processes (identification, measurement and evaluation, monitoring and mitigation, monitoring and reporting) for each material type of risk, are carried out across the Company's activities. The key elements of this approach are overall, forward-looking and dynamic risk management.

The risk management unit works to implement a risk management culture in The Phoenix Insurance that reflects an understanding of the business activities and the risks involved, while constantly challenging the various business lines by the control and risk management functions.

NOTE 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)**

The risk management process is carried out in collaboration with supporting units that include the actuarial, investment, reinsurance and comptroller functions.

At least once a year, the Board of Directors and the investment committees are presented with an identification and mapping of the risks that are material to the financial strength of the corporation, a description of the level of exposure to identified risks, a description of the control measures for these risks and recommendations for improvement of controls, as needed.

The Group attaches great importance to the involvement of the Board of Directors and the investment committees in the risk management process. The Board of Directors has appointed a Risk Management Committee, which discusses issues related to risk management and the economic solvency regime and makes risk management policy recommendations to the Board of Directors. The Phoenix Insurance's Board of Directors has set risk limits such as the ALM limit, CPI linkage limit, interest rate sensitivity and liquidity limit, for exposure to market risks as well as limits for aggregate exposures due to investment activity.

Liquidity risks are managed as part of a model developed by the Risk Management Department. The calculations are based on accepted methodologies in the field and examine the effect of a stress scenario on the Company's ability to liquidate the assets. During the reporting year, regular reports were produced, which concentrated the analyses as stated. The results of the model are also reported to the Board of Directors and Investment Committee.

The Board of Directors and investment committees approve the investment policy in both participating and nostro portfolios, as well as the credit granting policies and procedures.

In April 2020, the Company's Board of Directors and The Phoenix Insurance's Board of Directors approved the establishment of Strategy Committees, which will advise the Boards on strategies and corporate development.

NOTE 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)**

The following are the processes and methods for managing the various risks:

The Phoenix Insurance's Board of Directors has set a risk management policy, including with regard to The Phoenix Insurance's risk appetite as to the various risk categories; The Phoenix Insurance operates in accordance with this policy.

1.1.1. Market and liquidity risks

The Group carries out its investments in accordance with the policy set by the Board of Directors and implemented by the various investment committees, subject to the Investment Regulations.

The Group has implemented various systems for monitoring the market risks it faces. The controls are based on VaR (Value at Risk) calculations and various stress scenarios defined by the Company, using accepted methods to perform them. Risk measurement is performed on both assets and liabilities (ALM) using conventional methodologies based on VaR calculations and stress scenarios, which are performed according to a scenario defined as the result of extreme simultaneous changes in major market risks including interest rates, exchange rates and inflation rates, while taking into consideration the correlations between the various risk factors.

Furthermore, sensitivity tests and calculations are carried out to measure the effect of changes in economic parameters, both on the Group's balance sheet and on The Phoenix Insurance's economic solvency ratio. The Board of Directors has set limits to risk values under the risk management policy as described above, and receives a report on compliance therewith. Ongoing reports that carry out such analyses are submitted to the investment committees, which meet regularly.

NOTE 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)**

As part of the ALM policy, the Board of Directors has set sensitivity scenarios for the various risk factors, the maximum percentage of non-linked assets and a minimum percentage of liquid assets.

In addition, the Investment Department holds regular discussions on position data and developments and changes in the markets. There are also ongoing controls in the back office unit as to data integrity and reliability. In addition, there are controls over compliance with the limits set by the Board of Directors, investment committees and Investment Regulations, which are regularly reviewed by the Investment Control Unit.

The Board of Directors has set overall exposure limits (including: bonds, loans, shares, etc.), with the limits referring to a single issuer, Group, industry, geographical distribution and rating. Reports regarding the exposures and compliance with the limits are presented to the investment committees and the Board of Directors.

The investment committees review The Phoenix Insurance's cash balances, taking into account the Company's total liquidity needs and the state of the financial markets.

For more information on exposure to market risks and liquidity risks, see Section 3 and 4 below.

1.1.2 Credit risks in exposure to investment assets and reinsurers**Credit risks in exposure to investment assets**

The Group has a credit policy, under which procedures for approving and granting loans are established, ranging from approval powers through the borrower's rating and analysis, to senior level approval or the relevant investment or credit committee, as required, all subject to the type of loan, rating and amount. The Company's credit policy is based, inter alia, on the borrower's debt service capabilities, the quality of the collaterals, financial strength, diversification of the credit portfolio among a large number of borrowers, etc.

NOTE 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)**

Detailed reports regarding the overall exposure in the nostro and the participating portfolios are generated frequently, using various cross-sections, such as: exposure to an issuer, Group, industry, geographical exposure, exposure to credit ratings, etc. The Board of Directors has set limits for the maximum exposure rate for each of the cross-sections mentioned above and any "irregularities" are reported to the investment committees and to the Board of Directors based on the reports generated. The Phoenix has developed and implemented a business credit rating model, which was approved by the Commissioner. In addition, the VaR calculations combine the spread risk to quantify the credit risk.

The Risk Management Division assesses and challenges the rating of new non-marketable borrowings by the finance function.

The Phoenix has appointed a "debt forum" that includes investment, finance and risk management personnel, which aims to carry out a process of controlling and classifying troubled debts and reporting to the Board of Directors about such debts.

Credit risks in exposure to reinsurers

The Phoenix Insurance purchases reinsurance policies in international markets. The Company's ability to purchase reinsurance under good conditions is influenced by the Group's performance in particular and the global reinsurance capacity in general (which depends, inter alia, on the reinsurers' stability, the occurrence of catastrophe events in the world, and more). Changes in the prices and scope of reinsurance offered in these markets have an impact on the Group's profitability and ability to increase the volume of insurance and to undertake certain insurance liabilities. In addition, reinsurance does not exempt the Group from its obligations towards its policyholders according to the insurance policies and therefore the financial stability and credit rating of reinsurers may affect the business results of the insurance companies.

Note 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)**

Therefore, failure of a reinsurer to meet its obligations to the Group may have a material impact on the Company's ability to meet its obligations to customers (e.g., upon the occurrence of a catastrophe event).

At least once a year, the Board of Directors of the insurance company discusses the policy of exposure to reinsurers and the insurer's assessments as to the management of the exposure and the controls. The exposure policy for reinsurers includes, among other things, the exposure management policy with reinsurers in the life, P&C and health segments, as well as defining a maximum exposure framework for reinsurers, according to parameters set by the Board of Directors.

The Board of Directors approved a set of limits designed to ensure proper diversification among reinsurers as a function of their rating and exposure to them, both upon the occurrence of a catastrophe event and in the ordinary course of business.

For further details regarding exposure to credit risks of investment assets and reinsurers, see Section 6 below.

1.1.3 Operational risk

As part of its business operations, the Group is exposed to numerous operational risks such as: internal system failure, IT systems failure, including information security, human errors (employees, agents and suppliers), embezzlement, fraud, cyber crimes and external damage to the Company such as due to an earthquake. The materialization of one or more of these risks can cause significant damage.

Operational risk management includes a variety of controls at various levels. These include controls such as: Audit Committee activity and audit discussions by management, as well as controls embedded in the business process itself and controls in apps and IT systems. The control array is based both on procedures and work practices defined by the managers responsible for the

Note 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)**

relevant activity and based on regulatory requirements such as the circular on embezzlement and fraud, information security, cyber, SOX 302 and SOX 404. There are also additional control entities in the business units.

The Group's internal audit system performs additional controls on a variety of areas of activity and, among other things, examines the existence and effectiveness of controls against operational risks while making recommendations for enhancing and improving controls.

The Group has an information security policy which determines, among other things, the Group's and management's commitment to the subject. It defines the principles for secure development, which serve as the basis for the development and implementation of the Group's websites, and for the implementation and maintenance of controls, procedures and information security mechanisms in the Group's IT systems. Principles are in place that address detecting, alerting, preventing and documenting exposures and materialization of events that impair availability, reliability, accuracy and confidentiality of the Group's IT systems. Guidelines, areas of responsibility and applicability have been established in the process of incorporating and integrating information security guidelines into business aspects and ongoing operations. Appropriate administrative infrastructure has been put in place in order to define and implement the full range of required information security activities.

The Phoenix has in place a regular process of assessing information security risks in IT systems and interfaces. The risk assessment defines the level of sensitivity of the systems and refers to the range of potential information security risks arising from the IT systems and current business conduct. Management directs appropriate resources to mitigate the risk based on the results of the risk assessment.

Note 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)**

The Company operates dynamically to enhance and improve its cyber protection in accordance with the development of this risk. With a view to ensuring compliance with the IT systems' external and internal compliance requirements and internationally accepted standards, and to assess the risk management's effectiveness and safeguards applied in assessing the risks, information security risk audits and controlled penetration tests into the Company's IT systems are conducted periodically, and before any significant changes are made to the system or before introducing these systems to operational use.

The Group has a business continuity plan (BCP) in place, which includes the Emergency Response Procedure, strategy papers and business continuity policies. The emergency response file defines the resources and time-lines needed to recover critical processes in the various units under reference scenarios the established. The Phoenix Insurance prepared BCP sites, designated an emergency management team, dedicated teams to address the emergency situation, as well as business emergency teams. In February 2020, the Company held a business continuity exercise in accordance with the directives of the Capital Market, Insurance and Savings Authority. For further details on how to deal with the spread of the coronavirus, see Note 1.

In 2020, the activities of the cyber defense department focused on further enhancing corporate protections. Among other things, the following key activities were carried out: introducing a system to enhance employees' passwords, expanding the cyber event response plan, filtering sensitive content and preventing access to sensitive information, improving the control path logging capabilities in the enterprise core systems, improving the transfer of data about events to the control center, upgrading workstation protection mechanisms, increasing control over access to enterprise production environments, reviewing access authorizations for company employees and agents, implementing a database protection system and managing access to information, increasing employee awareness of cyber risks, introducing a system for filtering content (files) entering the enterprise, and responding to privacy protection requirements.

Note 40 - RISK MANAGEMENT (cont.)**1.1 The insurance activity (cont.)****1.1.4 Insurance risks**

Controls in this area are carried out on several levels: at the Board of Directors, senior management, actuarial department, reinsurance department and control department. Controls include generating current reports and holding discussions on, among other things, exposure, adequacy of reserves, launch of insurance plans and/or new products.

To the extent possible, significant life, health, and property and casualty insurance risks are estimated by applying a set of stress scenarios to the various portfolios in accordance with the Economic Solvency Regime.

New products launched by the Company are approved by the Chief Risk Officer, the Supervising Actuary and the IT systems manager. The above assess the risks and exposures associated with the product.

The risks embodied in insurance products are mitigated by the high diversification of insurance contracts. Risks are mitigated through the selection and implementation of underwriting strategies and diversification by industries, geographies, risk types, coverage level, etc.

The assessment of the Company's exposure to an earthquake risk in Israel, which is the major catastrophe event to which it is exposed, is conducted using international models, and the Company acquires protection for this risk based on this assessment.

For more information on exposure to insurance risks, see Section 5 below.

1.2. Financial services activity

Excellence's activities expose it to various risks, such as market risk (including currency risk and fair value risk with respect to interest rate and index risk), credit risk and liquidity risk, operational risk and regulatory risk. The following are details of risk factors involved in Excellence's activities and risk management procedures and methods:

Note 40 - RISK MANAGEMENT (cont.)**1.2. Financial services activity (cont.)****1.2.1 Market risk**

Excellence Group companies operate directly and indirectly in the areas of investment management, portfolio management, financial products, ETF and mutual fund management as well as management and marketing of alternative products. The capital market is characterized by volatility, due to, among other things, the effect of political, security and economic factors in Israel and globally, which the Group companies have no control over. Such volatility has an effect on the extent of the public's activity in the capital market and on securities' prices. A change in the total amount and value of the investment portfolios, fund assets and ETFs managed by the Group, as well as the number of Group customers, affects the income of the Group's companies. Therefore, adverse trends in securities' prices and volume of capital market activity may adversely affect the Group's results. The Group has implemented various systems for monitoring the market risks it faces. The controls are based, among other things, on various stress scenarios defined by Excellence or on calculations of exposures to sectors, borrower groups, and the like, using generally accepted methods. In addition, the various boards of directors and committees of subsidiaries have set limits on risk metrics that are reviewed on a regular basis. Regular reports which summarize the analyses as aforesaid are accordingly submitted for review by the various committees.

a) Exposure to the capital market

Excellence operates in various areas of the capital market, characterized by high volatility. The volatility has an impact on the volume of the public's activity in the capital market and on securities' prices, and as a result, on the business results of Excellence. Excellence regularly monitors developments and changes in the markets through the investment and analysis departments of the relevant companies.

Note 40 - RISK MANAGEMENT (cont.)**1.2 The financial services activity (cont.)**

In 2018, Amendment 28 to the 1994 Joint Investment Trust Law came into effect, transforming ETNs into ETFs. The amendment allowed tracking funds (including ETFs) to set variable management fees, which meant that fund managers would benefit from profits if the fund achieved excess return compared to the relevant index, and on the other hand - pay holders if the fund underperforms compared to the said index, up to 0.1%, 0.2% or 0.3% (depending on the type of the tracking fund's tracked asset).

As a result, Excellence is exposed to losses in a number of ETFs with variable management fees. Accordingly, the ETF manager operates in accordance with the market risk management policies (including interest rate risk), credit risks, liquidity risks and operational risks, which aim to ensure maximum correlation between the ETF's liability and the backing assets, including investment restrictions set in the funds' prospectuses and the provisions of the law, and the establishment of an investment policy approved by the Board of Directors of fund manager, which is reported to the public. In addition, as part of this amendment, a subsidiary of Excellence began providing market making services for the ETFs. The company provides market-making quotes for ETFs on the TASE and originates and redeems the units at the end trading for the fund manager. The market making company has exposures to the coverage required to originate and redeem the ETFs for the fund manager. The market making company has in place exposure limits for the purpose of restricting the exposure that will apply in respect of its activities as determined by the company's board of directors.

b) Exchange rate risks

Excellence is exposed to foreign currency changes, mainly in the activities of the ETFs, for which variable management fees have been set, which include, among other things, issuing foreign currency linked bonds and/or

Note 40 - RISK MANAGEMENT (cont.)**1.2 The financial services activity (cont.)**

issuing ETFs that are linked to a foreign index and, as a result may, may also be affected by foreign currency fluctuations, all up to 0.1%, 0.2% or 0.3%, depending on the type of the tracking fund's tracked asset. However, since Excellence invests the issuance proceeds of the above products in backing assets that track the index, including in the foreign currency and/or with linkage similar to that of the issued products, any net foreign exchange exposure has no material effect on Excellence's operating results. Some of the revenue of Excellence Group companies, mainly those of the TASE member, are denominated in foreign currency, mainly due to customers' transactions involving foreign securities. These revenues are subject to exchange rate changes.

c) Interest rate risk

As part of the ETF activity, Excellence invests in short-term deposits against the derivatives activity. Changes in the interest rate curves can cause a loss of income in funds with variable management fees, up to 0.1%, 0.2% or 0.3%, depending on the tracking fund's type of tracked asset. In addition, as part of the management of the customer deposits of Excellence's TASE member, customer funds are deposited for different periods (up to one year) and changes in short-term interest rate curves may cause a loss.

1.2.2 Credit risk

The credit risks, handled at the Excellence group level, stem mainly from cash and cash equivalents, deposits (including customer deposits held in trust), deposited with banks and other financial institutions in Israel and abroad. Termination of contracts with the aforementioned parties for reasons of lack of financial strength and/or financial stability and/or insolvency events by these third parties and/or for any other reason, could result in significant losses to Excellence and impair the scope of its activities.

Note 40 - RISK MANAGEMENT (cont.)**1.2 The financial services activity (cont.)**

In addition, as part of its business activities, Excellence's TASE Member provides credit and guarantees to activities involving its customers' securities. The credit is backed in accordance with the TASE Regulations by the collateral of marketable securities, the prices of which may fall to such an extent that the collateral will not be sufficient to cover the credit. In the event of high volatility in the prices of the assets included in the said collaterals, customers' collateral may be eroded such that the credit risk will increase. In addition, the TASE Member provided guarantees for the lending. As part of Excellence's membership with the Tel Aviv Stock Exchange, a total of approximately NIS 38 million (after the weights applied by the TASE) was deposited as of December 31 2020 in favor of the TASE's risk reserve, in accordance with Excellence's proportionate share in trading on the TASE.

Excellence's investments in non-recourse back-to-back bonds is the sole source of financing for payments to structured bond holders issued by subsidiaries, and therefore Excellence is not exposed to credit risk in respect of them.

As a rule, each company's board of directors defined its credit risk appetite using designated limits that are regularly audited and reported to the relevant committees.

1.2.3 Liquidity risk

The mutual funds and the TASE member deposit balances from funds and securities under their management with banks and TASE members. Significant withdrawals by the customers could impair the financial assets.

Additional liquidity risks in Excellence may arise from a situation in which the TASE member may find it difficult to meet its financial obligations in market situations such as: unexpected customer withdrawals, unexpected demand for credit, and uncertainty about the availability of sources. To reduce exposure, procedures and/or policies were put in place to manage this risk; the procedures and policies are monitored regularly and reported to relevant forums. During the past few years, The Phoenix Insurance issued insurance for Excellence Guarantee in respect of liquidity risks.

Note 40 - RISK MANAGEMENT (cont.)**1.2 The financial services activity (cont.)****1.2.4 Settlement risk**

Excellence carries out brokerage activities for customers, including the acquisition of Israeli and foreign securities, characterized by a time gap of up to t+3 between the purchase of the securities and receipt of the proceeds for the said purchase. Until the purchase proceeds are received, they are guaranteed by the securities purchased. As a result of the aforementioned time gap, in the event of non-payment of the consideration by the customers, Excellence is exposed to volatility in relation to the securities purchased and used as collateral for the purchase proceeds. Exposure controls have been set to mitigate this risk; controls are monitored regularly and reported to the relevant forums.

1.2.5 Risk of lending (short sale)

Excellence's exposure to securities with low marketability increases when short sales are carried out (lending), when trading is suspended or when there are trading difficulties, and may lead to a situation where Excellence Group companies are unable to close the lending transaction in the quantities and dates required to carry out the covering activity in accordance with the terms and conditions of the lending transactions. However, in this context, it should be emphasized that the companies are careful to carry out the lending and selling activities in securities which have sufficient marketability.

1.2.6 Operational risk

In the course of its business operations, Excellence is exposed to numerous operational risks, including IT and cyber risks, such as: internal systems failure, information and IT and computer systems failure, including information security, human errors (employees, agents and suppliers), fraud, cyber crimes and external damages such as earthquake. The materialization of one or more of these risks can cause significant damage.

Note 40 - RISK MANAGEMENT (cont.)**1.2 The financial services activity (cont.)**

KSM Mutual Funds has developed an internal system for revaluing all ETFs independently of the operating bank. Damage to and/or shutdown of the system can adversely affect both the funds' management and their reputation.

Accordingly, Excellence has drafted a business continuity plan designed to ensure the continued functioning of its business.

Operational risk management includes a variety of controls at various levels as well as enforcement mechanisms. These include controls such as: audit committees' activity as well as controls embedded in the business process itself and controls in apps and IT systems. The control array is based both on the procedures and work practices defined by the managers responsible for each activity, and on various regulatory requirements.

In addition, the companies periodically carry out operational risk surveys, including improvement of mitigation programs, to minimize the risks. Moreover, each company has defined business continuity plans that are reviewed at least once a year across all investment house companies.

1.2.7 Risk due to regulatory changes

The Group's many areas of activity expose it to various regulators, who maintain a tight regulatory environment that is constantly evolving. Changes in legislation and regulations in the securities field in general, and in the field of financial products in particular, may adversely affect the ability of Group's companies to operate in their respective areas of activity and the Group's profitability in this area, reduce revenues and require them to have additional equity capital.

Note 40 - RISK MANAGEMENT (cont.)**2. Legal requirements**

The Group operates within the existing regulatory requirements and is in compliance with the various implementation schedules. Various regulatory requirements regarding risk management have been published in recent years; the main ones are as follows:

2.1. The consolidated circular dealing with the risk management function

In January 2014, the Commissioner released Chapter 10 of the consolidated circular dealing with the risk management function of financial entities. The circular includes general guidelines that specify the qualifications required of the chief risk officer and the establishment of a risk management unit, which shall be separate from the lines of business whose operations it examines on a regular basis; the unit will cover at least market risks, counter-party risks and insurance risks. In addition, the circular lists the authority of the chief risk officer to obtain information and access to the data needed to perform the unit's functions as well as the resources required for that purpose. The circular also specifies the duties and work practices of the chief risk officer, which include, among others: identifying the material risks, quantifying and assessing the material risks and reporting to the relevant organs.

2.2. Provisions regarding credit risk management, their assessment and controls

Provisions regarding ensuring the existence of proper management, supervision and control mechanisms for credit risk management have been established in Chapter 4 of the consolidated circular.

2.3. Provisions regarding management of the exposure to reinsurers

The Commissioner's Circular on the Management of Exposure to Reinsurers established provisions and guidelines on how to manage exposure to reinsurers, a requirement for setting policies and exposure caps for reinsurers, and establishing instructions on reporting to the Commissioner. At least once a year, the Board of Directors shall discuss the exposure policy and the insurer's

Note 40 - RISK MANAGEMENT (cont.)**2.3 Provisions regarding management of the exposure to reinsurers (cont.)**

assessments as to the management and controls relating to the exposure to a single reinsurer and to a group of reinsurers with economic affiliation; the Board of Directors shall assess the quality of the insurer's existing management of and controls over the exposure to the reinsurers.

The Phoenix Insurance has set a policy for managing reinsurance exposure, which includes, among other things, management policy regarding exposure to reinsurers in life, P&C and health insurance, as well as setting a maximum exposure cap for reinsurers, according to parameters set by the Board of Directors.

In January 2019, draft circular 2019-1105 was published amending the provisions of the consolidated circular regarding the transfer of funds to reinsurers outside Israel, which aims to set guidelines on how insurance companies are to retain collaterals in order to reduce their exposure to credit risk with reinsurers. In accordance with the principles set out in Regulation 25 of the Financial Services Supervision (Insurance) Regulations (Manner of Investing the Capital and Funds of an Insurer and Managing its Liabilities), 2001, which were repealed in 2012.

2.4. Provisions on handling specific categories of operational risks: embezzlement and fraud, information security and financial reporting controls (SOX)

The Group operates in accordance with the requirements of circulars issued by the Commissioner, which pertain to management of operational risks arising from embezzlement and fraud, information security risk management, management of IT and risks embodied therein, as well as financial reporting controls (SOX). For further details, please see Section 1.1.3 above.

Note 40 - RISK MANAGEMENT (cont.)**2.5. Commissioner's provisions regarding capital requirements**

The Group is subject to the Commissioner's directives regarding capital requirements. On June 30 2017, a risk-based economic solvency regime implemented by the Group came into effect. For further details, see Note 7.E.2.

2.6. The Investment Regulations

The Company manages assets in accordance with the Investment Regulations.

3. Market risks

Market risk is, as stated, the risk that the fair value and/or future cash flows of financial assets, financial liabilities or insurance liabilities will change as a result of changes in market prices. Market risks include, among other things, risks arising from changes in interest rates, share prices, the consumer price index and foreign currency. The main market risks the Group faces are as follows:

Interest rate risk - the risk that the value of a financial asset and/or liability will change as a result of changes in market interest rates. In most of the Company's areas of activity, the average duration of assets does not match the average duration of liabilities, especially life insurance liabilities, the average duration of which is significantly longer than that of the assets. As a result, low interest rates and a further decline in interest rates have the effect of reducing future returns on assets against liabilities and reducing the value embodied in life insurance portfolio.

Equity and non-financial assets risk - a risk arising from changes in stock prices or the fair value of non-financial assets.

Credit spread risk - the loss that may be caused by changes in the credit spread risk between corporate bonds and (risk-free) government bonds. Changes in credit spreads should reflect the changes in the borrower's probability of default (PD) and the changes derived from the "market" fluctuations. The Company invests in shekel-denominated corporate bonds, CPI-linked and forex-linked bonds and is exposed to increase in credit spreads.

Note 40 - RISK MANAGEMENT (cont.)**3. Market risks (cont.)**

Risks related to the Consumer Price Index - a real loss due to the erosion of the value of shekel-denominated assets as a result of rising inflation beyond the inflation expectations implicit in the capital market, against the insurance liabilities, most of which are CPI-linked. In life insurance (in respect of that portion of the life insurance portfolio that is not backed by designated bonds), in property and casualty insurance in the equity portfolio, the linkage of assets does not fully correspond to the linkage of the liabilities. This risk is material, especially in *nostro* portfolios, where almost all liabilities are linked to the CPI, while not all assets are CPI-linked.

Currency risk - the risk that the fair value or future cash flows arising from an asset or liability will change as a result of changes in foreign exchange rates.

The value of the Group's assets and liabilities is exposed to the risks outlined above. Therefore, the income from the investments against the insurance and equity reserves has a material effect on profit. A significant portion of the Group's asset portfolio is invested in marketable securities and financial derivatives, which are characterized by volatility as a result of political and economic events in Israel and around the world. Marketable securities are recorded in accordance with their prices as of the reporting date. As a result, the volatility of these investments may have a material effect on the Group's profitability and equity capital.

The extent of the effect on earnings depends on the characteristics of the insurance liabilities (*nostro*, yield-dependent) and the terms and conditions of the management fees for the products against which the relevant reserve is held.

3.1 Yield-dependent contracts

Yield-dependent liabilities are liabilities in respect of contracts in which the beneficiary's insurance benefits depend on the yield generated by investments that are recorded against the liabilities in respect of these policies, net of management fees as follows:

Note 40 - RISK MANAGEMENT (cont.)**3.1 Yield-dependent contracts (cont.)**

- In participating policies issued from 2004 onwards - the return on investments is credited to the policyholders while the insurer is entitled to fixed management fees. In accordance with the Knesset Finance Committee's decision, as of January 2014, the maximum annual management fees were limited to 1.05% of the accumulated balance and up to 4% of current contributions, with the recipients of old-age and dependents allowances paying up to 0.6% of the assets against the fund's obligations towards them. It should be noted that for insurance policies, the management fees cap will not apply to insurance policies issued before January 1 2013. In these products, the effect of the returns on the insurance company's profits is reduced to the exposure derived from the total amount of the reserve from which the insurer's management fees are derived.
- In participating policies issued until December 31 2003, the return on investments is credited to the policyholders, while the insurer is entitled to a fixed management fees of 0.6% of the accrual, and to variable management fees of 15% of the real profit obtained after deduction of the fixed management fees. In these policies, when the return is negative, the Company may not charge variable management fees as long as a positive return has not been achieved that will cover the accumulated negative return. In the case of these products, in addition to the accrual-derived exposure, the Company's profits are affected by the variable management fees derived in accordance with the real return credited to the policyholders.
- In the pension and provident funds business, the return on investments (net of fixed management fees) is credited to the planholders and therefore, the effect of the investment results on the profits of the pension fund's management company or the provident funds is derived from the management fees paid to the management company, based on total assets under management.

Note 40 - RISK MANAGEMENT (cont.)**3.1 Yield-dependent contracts (cont.)**

With regard to the assets and liabilities in respect of these products, the insurance company does not have direct exposure to changes in the interest rates, fair value of the investments or CPI, except for the potential effect on the K factor and the reserve to deferred annuity in participating policies. The effect of the financial results on the insurance company's profits is reduced to exposure derived from the management fees, which vary according to the volatility of the return credited to the policyholders, only for policies issued until 2004 and from the total liabilities from which the insurer's fixed management fees are derived for all yield-dependent products.

In view of the above, the sensitivity tests and the repayment dates of the liabilities as listed in the tables below do not include yield-dependent contracts, except through the effect of the interest rate on the K factor, and the liability for deferred annuity in respect of these contracts.

The following is a sensitivity test for yield-dependent contracts and the manner by which profit (loss) is affected by any change in yields:

Any 1% change in the real return on investments under yield-dependent contracts in respect of policies issued until 2004, the liability amount of which as of December 31 2020 is NIS 33 billion (NIS 32 billion at December 31 2019) affects the variable management fees by NIS 49 million (in 2019 - a total of NIS 48 million); such a 1% change affects the fixed management fees by NIS 2 million (there was no significant change in this effect over last year). The effect of such a change on policies issued from 2004 onwards is immaterial. For more information on variable management fees, see Note 29.

3.2 Sensitivity tests regarding market risks for non-yield dependent contracts

In non-participating life insurance policies - most of the life insurance portfolio is for guaranteed-return policies, which are mainly backed by designated bonds (linked life insurance bonds, hereinafter - "Hetz") issued by the Bank of Israel

Note 40 - RISK MANAGEMENT (cont.)**3.2 Sensitivity tests regarding market risks for non-yield dependent contracts (cont.)**

throughout the policy period. Therefore, the Company has overlapping financial coverage in respect of most of its interest and linkage liabilities for the entire life of the policies. As of December 31 2020, the designated bonds covered approximately 68.39% (as of December 31 2019 - approximately 67.21%) of total life insurance liabilities in these plans. Thus, changes in the capital markets, the consumer price index and exchange rates may have a material effect on the Group's results of operations.

For other investments in the life insurance business, there is exposure to interest rates that will prevail upon recycling the investments whose duration may be less than the average duration of insurance liabilities. For these products, as well as for ongoing payment claims, long-term care insurance and income protection insurance, the calculation of the insurance liability is based on the policy's calculative interest rate.

The following are sensitivity tests that show the change in the income (loss) for the period and total comprehensive income (loss) for financial assets, financial liabilities and liabilities in respect of insurance contracts and investment contracts, for the relevant risk variable at each reporting date and assuming that all other variables remain constant. For example, the change in interest rate is taken into account assuming that all other parameters remain constant. As mentioned above, the sensitivity tests do not include the effect of yield-dependent contracts as specified in Section 3.1 above. The changes in variables are in relation to the carrying amount of the assets and liabilities. It has also been assumed that the aforementioned changes do not reflect a permanent impairment of assets presented at amortized cost or of available-for-sale assets and, therefore, in the above sensitivity tests, no impairment losses were included for these assets. Sensitivity tests reflect only direct effects; they do not reflect secondary effects. It should also be noted that the sensitivities are not linear, such that greater or more minor changes relative to the changes described below are not necessarily a straightforward extrapolation of the effect of these changes.

NOTE 40 - RISK MANAGEMENT (cont.)**3. Market risks (cont.)****As of December 31 2020:**

	Interest rates (1) (2)		Investments in equity instruments (3)		% of change in the Consumer Price Index (5)		% of change in foreign currency exchange rates	
	1%+	1%	10%+	10%-	1%+	1%	10%+	10%-
In NIS thousand								
Profit (loss)	548,137	(643,804)	12,258	(12,258)	(44,294)	44,294	(91,600)	91,600
Comprehensive income (loss) (4)	79,281	(76,624)	305,731	(305,731)	(44,294)	44,294	93,430	(93,430)

As of December 31 2019:

	Interest rates (1) (2) (*)		Investments in equity instruments (3)		% of change in the Consumer Price Index (5)		% of change in foreign currency exchange rates	
	1%+	1%	10%+	10%-	1%+	1%	10%+	10%-
In NIS thousand								
Profit (loss)	748,155	(1,146,415)	27,372	(27,372)	(42,861)	42,861	(25,420)	25,420
Comprehensive income (loss) (4)	464,317	(825,395)	258,267	(258,267)	(42,861)	42,861	119,664	(119,664)

(*) Restated. For further details, please see Note 2.DD(2).

- (1) The interest rate change sensitivity analysis applies to both fixed interest rate instruments and variable interest rate instruments. The exposure related to fixed interest rates instruments is calculated in relation to the instruments' carrying amount, and the exposure in relation to variable interest rate instruments is calculated in relation to the interest income. Out of assets with direct interest rate risk, the sensitivity tests did not take into account non-marketable debt assets classified as loans and receivables, which are not taken into account in liability adequacy testing, and in testing cash and cash equivalents, reinsurance assets, assets against participating policies, financial liabilities and reinsurers' deposits and balances. The assets to which the sensitivity analysis was applied constitute approximately 20% of total assets for non-yield dependent contracts (December 31 2019 - 21%).
- (2) The sensitivity analysis includes the effect on the insurance liabilities, including the effect of the liability adequacy testing for life insurance and long-term care reserves, as well as income protection and long-term care insurance policies against the value of the portfolio as described in Note 2.J. The effect of a 1% decrease in the interest rate on the profit and comprehensive income in respect of insurance liabilities included in the sensitivity analysis is estimated at a NIS 674 million profit (approximately NIS 1,136 million as of December 31 2019). The effect of a 1% increase in the interest rate on the profit and comprehensive income in respect of insurance liabilities included in the sensitivity analysis is estimated at a NIS 565 million increase (NIS 746 million as of December 31 2019). The changes in the sensitivity to the risk-free interest rate curve in the Company are affected mainly by regulatory changes and by the revision of the manner of estimating the expected yield in relation to the Company's investment mix; the above data do not include the effect of changes in the interest rate on the special reserve due to discounting of allowances in the compulsory motor and liability insurance subsegments, as described in Section 5.2.2.5.
The interest rate sensitivity tests presented above as of December 31 2019 do not account for the effect of the amendment to the Consolidated Circular on Measurement of Liability - Liability Adequacy Testing (LAT) published in March 2020. See Section 5.1.8.
- (3) Investments in instruments with no fixed cash flows, or alternatively, where the Company has no information about this cash flow (in accordance with the definitions in IFRS 7 - do not include investments in associates). Sensitivity analyses are based on carrying amount rather than on economic value. As to derivatives, the effect on exposure was calculated in delta terms.
- (4) The sensitivity analyses in relation to the comprehensive income (loss) also reflect the effect on the income (loss) for the period. The calculation takes into account the relevant tax rate for each period.
- (5) Non-monetary items were also included in the sensitivity tests for the CPI and currencies.

NOTE 40 - RISK MANAGEMENT (cont.)**3. Market risks (cont.)**

Direct interest rate risk is the risk that a change in the market interest rate will cause a change in the fair value or cash flow resulting from the asset or liability. This risk relates to assets that are cleared in cash. The addition of the word "direct" highlights the fact that the change in interest rates can also affect other types of assets, but not directly, such as the effect of the change in interest rates on stock prices.

The following is a breakdown of assets and liabilities according to exposure to interest rate risks:

	As of December 31 2020		
	Non yield- dependent	Yield- dependent	Total
	In NIS thousand	In NIS thousand	In NIS thousand
Assets with direct interest rate risk			
Marketable debt assets	8,095,468	21,761,391	29,856,859
Non-marketable debt assets:			
Hetz bonds and treasury deposits	8,190,398	358,783	8,549,181
Other	5,816,791	6,760,830	12,577,621
Other financial investments	494,836	1,271,513	1,766,349
Cash and cash equivalents	1,545,903	10,464,216	12,010,119
Reinsurance assets	2,410,683	120,976	2,531,659
Total assets with direct interest rate risk	26,554,079	40,737,709	67,291,788
Assets without direct interest rate risk (*)	14,575,642	37,296,375	51,872,017
Total assets	41,129,721	78,034,084	119,163,805
Liabilities with direct interest rate risk			
Financial liabilities	6,681,442	362,272	7,043,714
Liabilities in respect to insurance contracts and investment contracts	23,469,887	76,856,913	100,326,800
Total liabilities with direct interest rate risk	30,151,329	77,219,185	107,370,514
Liabilities without direct interest rate risk (**)	3,584,707	126,754	3,711,461
Equity capital	8,081,830	-	8,081,830
Total capital and liabilities	41,817,866	77,345,939	119,163,805
Total assets less liabilities	7,393,685	688,145	8,081,830
Off-balance sheet risk (commitments to provide credit)	1,350,247	393,205	1,743,452

(*) Assets that do not have a direct interest rate risk include: shares, property, plant and equipment and rental property, deferred acquisition expenses and other assets, as well as balance sheet classes of financial assets (collectible premiums current account balances of insurance companies and receivables and debit balances), the average duration of which is up to six months and therefore, the interest rate risk they represent is relatively low.

(**) Liabilities that do not have a direct interest rate risk include: tax reserves, various types of debt balances, etc.

NOTE 40 - RISK MANAGEMENT (cont.)**3. Market risks (cont.)**

	As of December 31 2019		
	Non yield- dependent	Yield- dependent	Total
	In NIS thousand	In NIS thousand	In NIS thousand
Assets with direct interest rate risk			
Marketable debt assets	8,079,279	22,500,106	30,579,385
Non-marketable debt assets:			
Hetz bonds and treasury deposits	8,034,902	325,145	8,360,047
Other	4,940,808	8,573,607	13,514,415
Other financial investments (*)	111,026	463,289	574,315
Cash and cash equivalents	1,731,709	5,612,435	7,344,144
Reinsurance assets	<u>2,239,392</u>	<u>108,329</u>	<u>2,347,721</u>
Total assets with direct interest rate risk	25,137,116	37,582,911	62,720,027
Assets without direct interest rate risk (**)	<u>13,264,528</u>	<u>34,079,165</u>	<u>47,343,693</u>
Total assets	<u>38,401,644</u>	<u>71,662,076</u>	<u>110,063,720</u>
Liabilities with direct interest rate risk			
Financial liabilities	5,608,218	149,229	5,757,447
Liabilities in respect to insurance contracts and investment contracts (see Section 2.DD above)	<u>23,192,190</u>	<u>71,090,877</u>	<u>94,283,067</u>
Total liabilities with direct interest rate risk	28,800,408	71,240,106	100,040,514
Liabilities without direct interest rate risk (***)	<u>3,143,446</u>	<u>137,236</u>	<u>3,280,682</u>
Equity capital	<u>6,742,524</u>	<u>-</u>	<u>6,742,524</u>
Total capital and liabilities	<u>38,686,378</u>	<u>71,377,342</u>	<u>110,063,720</u>
Total assets less liabilities	<u>6,457,790</u>	<u>284,734</u>	<u>6,742,524</u>
Off-balance sheet risk (commitments to provide credit)	<u>1,328,456</u>	<u>574,360</u>	<u>1,902,816</u>

(*) Reclassified.

(**) Assets that do not have a direct interest rate risk include: shares, property, plant and equipment and rental property, deferred acquisition expenses and other assets, as well as balance sheet classes of financial assets (collectible premiums current account balances of insurance companies and receivables and debit balances), the average duration of which is up to six months and therefore, the interest rate risk they represent is relatively low.

(***) Liabilities that do not have a direct interest rate risk include: tax reserves, various types of debt balances, etc.

NOTE 40 - RISK MANAGEMENT (cont.)**3.3 Breakdown of assets and liabilities by linkage bases (*)**

	As of December 31 2020							Total
	In NIS - non-linked	In NIS - CPI-linked	In USD or USD-linked	In EUR or EUR-linked	In foreign currency or linked thereto	Non- financial and other items	Liabilities for yield- dependent contracts	
	In NIS thousand							
Intangible assets	-	-	-	-	-	2,016,668	-	2,016,668
Deferred tax assets	-	-	-	-	-	55,104	-	55,104
Deferred acquisition costs	-	-	-	-	-	1,711,169	1,461	1,712,630
Property, plant & equipment	-	-	-	-	-	861,865	-	861,865
Investments in associates	81,320	15,319	-	6,170	-	654,060	-	756,869
Investment property in respect of yield-dependent contracts	-	-	-	-	-	-	1,839,576	1,839,576
Investment property - other	-	-	-	-	-	2,728,710	-	2,728,710
Reinsurance assets	771,635	1,604,929	34,119	-	-	-	120,976	2,531,659
Receivables and debit balances	424,737	69,481	30,540	-	-	-	5,034	529,792
Credit for purchase of securities	374,000	-	29,000	-	-	-	-	403,000
Current tax assets	-	6,422	-	-	-	-	-	6,422
Premiums collectible	146,008	348,940	124,503	-	-	-	32,374	651,825
Financial investments for holders of deposit certificates and structured bonds	-	-	239,000	-	-	-	-	239,000
Financial investments in respect of yield-dependent contracts	-	-	-	-	-	-	65,570,447	65,570,447
Other financial investments:								
Marketable debt assets	2,112,408	4,527,008	971,625	286,163	198,264	-	-	8,095,468
Non-marketable debt assets	2,039,382	11,067,829	354,835	405,333	139,810	-	-	14,007,189
Shares	-	-	-	-	-	1,899,993	-	1,899,993
Other	421,820	11,168	32,676	75	2,482	2,779,248	-	3,247,469
Total other financial investments	4,573,610	15,606,005	1,359,136	691,571	340,556	4,679,241	-	27,250,119
Cash and cash equivalents for yield-dependent contracts	-	-	-	-	-	-	10,464,216	10,464,216
Other cash and cash equivalents	1,314,532	-	144,249	30,690	56,432	-	-	1,545,903
Total assets	7,685,842	17,651,096	1,960,547	728,431	396,988	12,706,817	78,034,084	119,163,805

(*) The data presented in the table are presented according to accounting classification rules and do not necessarily reflect actual foreign exchange exposure. For details on foreign exchange exposure, please see the sensitivity table in Section 3.2 to this note.

NOTE 40 - RISK MANAGEMENT (cont.)**3.3 Breakdown of assets and liabilities by linkage bases (*) (cont.)**

	As of December 31 2020							
	In NIS - non- linked	In NIS - CPI-linked	In USD or USD- linked	In EUR or EUR- linked	In foreign currency or linked thereto	Non- monetary items	Liabilities for yield- dependent contracts	Total
	In NIS thousand							
Total equity	-	-	-	-	-	8,081,830	-	8,081,830
Liabilities								
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts	692,494	22,734,856	42,537	-	-	-	-	23,469,887
Liabilities in respect of insurance contracts and yield-dependent investment contracts	-	-	-	-	-	-	76,856,913	76,856,913
Deferred tax liabilities	-	-	-	-	-	897,804	-	897,804
Liability for employee benefits, net	59,362	-	-	-	-	-	-	59,362
Liability for current taxes	-	63,444	-	-	-	-	-	63,444
Payables and credit balances	1,879,969	105,593	337,535	3,000	-	-	126,754	2,452,851
Liabilities in respect of structured products	-	-	238,000	-	-	-	-	238,000
Financial liabilities	4,636,131	1,901,646	59,201	1,394	6,723	76,347	362,272	7,043,714
Total liabilities	7,267,956	24,805,539	677,273	4,394	6,723	974,151	77,345,939	111,081,975
Total equity and liabilities	7,267,956	24,805,539	677,273	4,394	6,723	9,055,981	77,345,939	119,163,805
Total balance sheet exposure	417,886	(7,154,443)	1,283,274	724,037	390,265	3,650,836	688,145	-
Exposure to underlying assets through derivatives in delta terms	3,785,705	424,088	(2,527,204)	(1,055,936)	(602,498)	(24,155)	-	-
Total exposure	4,203,591	(6,730,355)	(1,243,930)	(331,899)	(212,233)	3,626,681	688,145	-

Most of the insurances provided by the Company are denominated in NIS and their exposure to changes in foreign exchange rates is immaterial. Where there is exposure to exchange rates it is mainly due to exposure to the USD and EUR.

(*) The data presented in the table are presented according to accounting classification rules and do not necessarily reflect actual foreign exchange exposure. For details on foreign exchange exposure, please see the sensitivity table in Section 3.2 to this note.

NOTE 40 - RISK MANAGEMENT (cont.)**3.3 Breakdown of assets and liabilities by linkage bases (*) (cont.)**

	As of December 31 2019							
	In NIS - non- linked	In NIS - CPI- linked	In USD or USD- linked	In EUR or EUR- linked	In foreign currency or linked thereto	Non- financial and other items	Liabilities for yield- dependent contracts	Total
	In NIS thousand							
Intangible assets	-	-	-	-	-	1,760,398	-	1,760,398
Deferred tax assets	-	-	-	-	-	31,523	-	31,523
Deferred acquisition costs	-	-	-	-	-	1,731,802	1,745	1,733,547
Property, plant & equipment	-	-	-	-	-	769,665	-	769,665
Investments in associates	63,573	14,957	-	6,170	-	633,230	-	717,930
Investment property in respect of yield-dependent contracts	-	-	-	-	-	-	1,554,065	1,554,065
Investment property - other	-	-	-	-	-	2,547,356	-	2,547,356
Reinsurance assets	731,275	1,479,947	28,170	-	-	-	108,329	2,347,721
Receivables and debit balances	300,068	81,371	91,555	-	-	-	2,254	475,248
Credit for purchase of securities	297,000	-	10,000	-	-	-	-	307,000
Current tax assets	-	353,554	-	-	-	-	2,551	356,105
Premiums collectible	279,129	298,638	68,028	-	-	-	75,782	721,577
Financial investments for holders of deposit certificates and structured bonds	-	-	284,000	-	-	-	-	284,000
Financial investments in respect of yield-dependent contracts	-	-	-	-	-	-	64,304,915	64,304,915
Other financial investments:								
Marketable debt assets	2,343,805	4,395,387	839,088	278,205	222,794	-	-	8,079,279
Non-marketable debt assets	991,835	11,281,713	411,883	190,641	99,638	-	-	12,975,710
Shares	-	-	-	-	-	1,583,954	-	1,583,954
Other	108,877	-	57,985	328	1,533	2,000,860	-	2,169,583
Total other financial investments	3,444,517	15,677,100	1,308,956	469,174	323,965	3,584,814	-	24,808,526
Cash and cash equivalents in respect of yield-dependent contracts	-	-	-	-	-	-	5,612,435	5,612,435
Other cash and cash equivalents	1,494,665	-	162,836	38,803	35,405	-	-	1,731,709
Total assets	6,610,227	17,905,567	1,953,545	514,147	359,370	11,058,788	71,662,076	110,063,720

(*) The data presented in the table are presented according to accounting classification rules and do not necessarily reflect actual foreign exchange exposure. For details on foreign exchange exposure, please see the sensitivity table in Section 3.2 to this note.

NOTE 40 - RISK MANAGEMENT (cont.)**3.3 Breakdown of assets and liabilities by linkage bases (*) (cont.)**

	As of December 31 2019							
	In NIS - non-linked	In NIS - CPI-linked	In USD or USD-linked	In EUR or EUR-linked	In foreign currency or linked thereto	Non- monetary items	Liabilities for yield- dependent contracts	Total
	In NIS thousand							
Total equity (**)	-	-	-	-	-	6,742,524	-	6,742,524
Liabilities								
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts (**)	749,218	22,407,177	35,795	-	-	-	-	23,192,190
Liabilities in respect of insurance contracts and yield-dependent investment contracts	-	-	-	-	-	-	71,090,877	71,090,877
Deferred tax liabilities (**)	-	-	-	-	-	795,446	-	795,446
Liability for employee benefits, net	52,553	-	-	-	-	-	-	52,553
Liability for current taxes	-	23,861	-	-	-	-	-	23,861
Payables and credit balances	1,279,385	574,350	135,851	-	-	-	137,236	2,126,822
Liabilities in respect of structured products	-	-	282,000	-	-	-	-	282,000
Financial liabilities	4,139,906	1,412,873	55,439	-	-	-	149,229	5,757,447
Total liabilities	6,221,062	24,418,261	509,085	-	-	795,446	71,377,342	103,321,196
Total equity and liabilities	6,221,062	24,418,261	509,085	-	-	7,537,970	71,377,342	110,063,720
Total balance sheet exposure	389,165	(6,512,694)	1,444,460	514,147	359,370	3,520,818	284,734	-
Exposure to underlying assets through derivatives in delta terms	2,794,747	-	(1,804,352)	(654,033)	(507,145)	170,783	-	-
Total exposure	3,183,912	(6,512,694)	(359,892)	(139,886)	(147,775)	3,691,601	284,734	-

Most of the insurances provided by the Company are denominated in NIS and their exposure to changes in foreign exchange rates is immaterial. Where there is exchange rate exposure, it is mainly due to exposure to the USD and EUR.

(*) The data in the table are presented according to accounting classification rules and do not reflect actual foreign exchange exposure. For details on foreign exchange exposure, please see the sensitivity table in Section 3.2 to this note.

(**) Applied retrospectively; for further details, please see Note 2.DD(2).

NOTE 40 - RISK MANAGEMENT (cont.)**3.4 Details of exposure to economic sectors for investments in shares:**

As of December 31 2020						
	Traded on the Tel Aviv 125 Index	Included in the Yeter - Rest of Shares Index	Non- marketable	Overseas	Total	% of total
In NIS thousand						
Economic sector						
Manufacturing	138,555	81,000	30,266	535,680	785,501	41.2%
Construction & real estate	140,641	30,587	-	141,461	312,689	16.5%
Electricity and water	83,731	17,527	40,910	10,816	152,984	8.1%
Commerce	15,880	21,184	-	-	37,064	2.0%
Communications and IT services	46,595	16,727	-	87,812	151,134	8.0%
Banks	186,236	-	1,757	-	187,993	9.9%
Financial services	46,657	14,313	15,837	39,812	116,619	6.1%
Other business services	61,306	46,593	36,932	11,178	156,009	8.2%
Total	<u>719,601</u>	<u>227,931</u>	<u>125,702</u>	<u>826,759</u>	<u>1,899,993</u>	<u>100%</u>

As of December 31 2019						
	Traded on the Tel Aviv 125 Index	Included in the Yeter - Rest of Shares Index	Non- marketable	Overseas	Total	% of total
In NIS thousand						
Economic sector						
Manufacturing	142,395	44,165	85,911	305,417	577,888	36.4%
Construction & real estate	129,980	45,105	-	68,853	243,938	15.4%
Electricity and water	57,569	20,589	20,817	74,659	173,634	11.0%
Commerce	12,357	29,053	-	40,234	81,644	5.2%
Communications and IT services	42,911	10,646	-	24,369	77,926	4.9%
Banks	156,123	-	1,824	-	157,947	10.0%
Financial services	49,696	8,108	15,767	64,770	138,341	8.7%
Other business services	61,099	30,657	40,880	-	132,636	8.4%
Total	<u>652,130</u>	<u>188,323</u>	<u>165,199</u>	<u>578,302</u>	<u>1,583,954</u>	<u>100%</u>

NOTE 40 - RISK MANAGEMENT (cont.)**4. Liquidity risks**

A possible need to dispose of assets at below-market prices, and raising resources unexpectedly and within a short time may lead to losses. The Company owns, among other things, non-marketable assets as well as assets with low marketability. These holdings include corporate bonds, loans, non-marketable stocks, stocks with low marketability and alternative investments. The marketability issue is aggravated in times of crisis when the deterioration in the markets adversely affects the ability to liquidate assets.

The Phoenix Insurance is exposed to risks arising from uncertainty as to when the Company will be required to pay claims and other benefits to policyholders in relation to the amount of funds available for that purpose at that date. The need for unexpected and short-term borrowing may require the disposal of assets within very short notice at prices that will not necessarily reflect their market value. However, much of its insurance liabilities in the life insurance sector are not exposed to liquidity risk due to the nature of the insurance contracts as described below:

1. Yield-dependent contracts in life insurance - under the terms and conditions of the contracts, policyholders are entitled to receive only the value of the said investments, beyond which The Phoenix Insurance has no obligations. Therefore, if investments are impaired for any reason, there would be a corresponding decline in the Company's liabilities.
2. About 14.56% (15.46% in 2019) of the life insurance portfolio is in respect of contracts that are not yield-dependent but guarantee an agreed return. These contracts are mainly backed by designated bonds (Hetz) issued by the Bank of Israel. The Company is entitled to sell these bonds when the said policies are redeemed.

The liquidity risk of the Group stems therefore mainly from the balance of assets other than designated bonds and not against yield-dependent contracts. These assets constitute 28% (which constitute approximately NIS 33 billion) of the Group's total assets (in 2019 - approximately 28%, which amounted to approximately NIS 31 billion). Of the balance of the said assets, a total of approximately NIS 10.4 billion (in 2019 - approximately NIS 9.9 billion) are marketable assets.

Under the Investment Regulations, The Phoenix Insurance must hold liquid assets, as defined in the Investment Rules, against equity and liabilities not arising from its insurance business. The Phoenix meets the liquidity requirements.

NOTE 40 - RISK MANAGEMENT (cont.)**4. Liquidity risks (cont.)**Asset and Liability Management (ALM)

The Company manages its assets and liabilities in accordance with the requirements of the Supervision Law and the regulations promulgated thereunder, and in accordance with the Board of Directors' guidelines. The tables below summarize the estimated repayment dates of the Company's uncapitalized insurance and financial liabilities. Since these amounts are not capitalized, there is no adjustment between them and the balance of insurance and financial liabilities as per the balance sheet.

- 1) The estimated maturity dates for life and health insurance liabilities are included in the tables as follows:

Saving funds - contractual repayment dates, i.e. retirement age, excluding cancellation assumptions, assuming that all savings will be withdrawn as capital rather than as annuity.

Paid pension, paid income protection and paid long-term care - based on an actuarial estimate.

Other - reported under the column "no defined repayment date".

- 2) The estimated repayment dates of the gross property and casualty insurance liabilities are calculated on the basis of an actuarial estimate that allocates and estimated date to total non-capitalized liabilities, based on past experience regarding claims payment.

Total liabilities also include a reserve for unexpected deviations and a reserve for unearned premium less deferred acquisition expenses and premium deficiency.

Liabilities are subject to reserve risk. The actuarial models are based on the fact that behavior pattern of past claims represents that which will happen in the future, and the estimated cash flow is exposed to model risk and parameter risk, including the risk that the amount paid for the settlement of the Company's insurance liabilities or the date of settlement of the insurance liabilities will be other than expected.

- 3) The repayment dates of financial liabilities and liabilities in respect of investment contracts were included based on the contractual repayment dates. In contracts where the counter-party may select the timing of payment, the liability is presented on the earliest date on which the Company may be required to pay the liabilities.

NOTE 40 - RISK MANAGEMENT (cont.)

4. Liquidity risks (cont.)

- 4) The table of financial liabilities and liabilities for investment contracts presents an analysis of its financial liabilities, classified according to their remaining term to contractual maturity as of December 31 2020 (2019 - for the comparative results). Derivative financial liabilities are included in the analysis with their contractual maturity dates that are essential for understanding the timing of cash flows. The amounts shown in the table are non-discounted contractual cash flows. The Group has various sources for repayment of the liabilities shown in the table.

Liabilities in respect of life and health insurance contracts (*)

	Up to one year	Over one year and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Over 15 years	No defined repayment date	Total
In NIS thousand							
As of December 31 2020	<u>2,937,372</u>	<u>6,085,188</u>	<u>1,996,165</u>	<u>1,001,847</u>	<u>993,038</u>	<u>3,520,477</u>	<u>16,534,087</u>
As of December 31 2019	<u>2,878,991</u>	<u>5,998,113</u>	<u>2,184,296</u>	<u>1,072,411</u>	<u>940,387</u>	<u>3,422,017</u>	<u>16,496,215</u>

(*) Excludes liabilities in respect of yield-dependent contracts and liabilities of provident fund management companies.

Liabilities in respect of property and casualty insurance contracts

	Over one year and up to 3 years	Over 3 years and up to 5 years	Over 5 years	No defined repayment date	Total
In NIS thousand					
As of December 31 2020	<u>3,360,779</u>	<u>1,117,950</u>	<u>1,413,461</u>	<u>-</u>	<u>5,892,190</u>
As of December 31 2019	<u>3,214,259</u>	<u>1,162,565</u>	<u>1,489,918</u>	<u>-</u>	<u>5,866,742</u>

NOTE 40 - RISK MANAGEMENT (cont.)**4. Liquidity risks (cont.)**Financial liabilities and liabilities in respect of investment contracts

	Up to one year	Over one year and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Total
In NIS thousand					
As of December 31 2020:					
Marketable bonds	48,192	350,745	805,061	-	1,203,998
Short-term credit from banking corporations	80,796	-	-	-	80,796
Loans from non-bank entities	-	-	-	-	-
Short sales	924,088	-	-	-	924,088
Subordinated bonds	100,183	2,214,046	1,615,572	-	3,929,801
Deposits by tenants (*)	589,726	-	-	-	589,726
Derivatives	461,402	-	-	-	461,402
Liability for REPO	389,315	-	-	-	389,315
Lease liability	33,042	60,674	22,133	-	115,849
Total financial liabilities	2,626,744	2,625,465	2,442,766	-	7,694,975
Liabilities in respect of yield-dependent investment contracts (*)	9,891,066	-	-	-	9,891,066

	Up to one year	Over one year and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 15 years	Total
In NIS thousand					
As of December 31 2019:					
Marketable bonds	145,418	580,593	377,976	-	1,103,987
Short-term credit from banking corporations	88,000	-	-	-	88,000
Loans from non-bank entities	12,024	-	-	-	12,024
Short sales	324,147	-	-	-	324,147
Subordinated bonds	99,170	1,186,188	2,748,300	-	4,033,658
Deposits by tenants (*)	626,725	-	-	-	626,725
Derivatives	209,470	-	-	-	209,470
Other	48,541	50,691	27,586	-	126,818
Total financial liabilities	1,553,495	1,817,472	3,153,862	-	6,524,829
Liabilities in respect of yield-dependent investment contracts (*)	8,886,419	-	-	-	8,886,419

(*) These liabilities were classified as repayable within up to one year, although actual repayment dates may be in later years.

NOTE 40 - RISK MANAGEMENT (cont.)**5. Insurance risks**

The Group is exposed to risks associated with insurance policy pricing and insurance liabilities assessment. The insurance policies sold by The Phoenix Insurance cover various risks such as life expectancy, morbidity, natural disasters and theft. Pricing of policies and assessment of insurance liabilities is based on past experience, assessment of the current legal situation and evaluation of the change in other risk factors. Insurance risk includes, inter alia:

Underwriting risks: The risk of using incorrect prices due to deficiencies in the underwriting process and the gap between the risk when pricing and setting the premium, and the actual realization, such that the premiums collected are insufficient to cover future claims and expenses. The discrepancies may be due to accidental changes in business results and changes in average claim costs and/or **the incidence of claims as a result of various factors.**

Reserve risks: The risk of inadequate assessment of insurance liabilities which may result in actuarial reserves being insufficient to cover all liabilities and claims. The actuarial models according to which, among other things, the Company assesses its insurance liabilities, are based on the fact that the pattern of behavior and claims in the past represents that which is to happen in the future. The Company's exposure is composed of the following risks:

- 1) Model risk - the risk of selecting the wrong model for pricing and/or assessing the insurance liabilities.
- 2) Parameter risk - the risk of using incorrect parameters, including the risk that the amount to be paid for the settlement of the Company's insurance liabilities or the date of settlement will be different than expected.

Catastrophe risk: Exposure to the risk that a single event of major impact (catastrophe) such as natural disaster, epidemic, war, terror, or earthquake will result in significant damage. The material catastrophe event to which the Company is exposed is an earthquake occurring in Israel.

As of December 31 2020, total expected loss in the property and casualty insurance business (other property subsegments) as a result of exposure to a single unusual substantial damage or an accumulation of damages in respect of a particularly large event in terms of the expected maximum possible loss (MPL) constitutes 2.0% of the exposure - approximately NIS 8,413 million (gross) and approximately NIS 51 million in retention.

NOTE 40 - RISK MANAGEMENT (cont.)**5. Insurance risks (cont.)**

The Phoenix Insurance acquires a non-proportional reinsurance contract that protects against death and disability from a catastrophe event. The contract purchased is an excess loss-type contract that protects the accumulation of The Phoenix Insurance's self-insured retention from life insurance, personal accidents and travel insurance policies. The coverage purchased in 2020 is NIS 450 million after deductibles of NIS 18 million.

For further information regarding the various insurance subsegments in respect of which the insurer is exposed to insurance risk, please see the breakdown of the insurance liabilities by insurance risk in Note 3.

5.1. Insurance risk in life and health insurance contracts**5.1.1. General**

The following is a description of the various insurance products, methods and assumptions used to calculate the liabilities in respect thereof according to the product type.

In general, according to the Commissioner's directives, the insurance liabilities are calculated by an actuary according to generally accepted actuarial methods and consistently with the previous year. The liabilities are calculated according to the relevant coverage data, such as: age and gender of the policyholder, the insurance term, the policy commencement date, type of insurance, periodic premium and insurance amount.

5.1.2. The actuarial methods for calculating insurance liabilities (cont.)**1) "Adif" and "Investment Tracks" type of insurance plans:**

There is an identified savings component in "Adif" and "Investment Tracks" type insurance plans. The basic and principal reserve is the amount of savings accrued plus the return according to the policy's terms and conditions as follows:

- Principal linked to investment portfolio's yield (for yield-dependent contracts).

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.2. The actuarial methods for calculating insurance liabilities (cont.)**

- Principal linked to the CPI plus a guaranteed fixed interest rate or guaranteed return against adjusted assets (for guaranteed return contracts).

For insurance components attached to these policies (income protection, life, long-term care, etc.), an insurance liability is calculated separately, as stated below.

2) "Mixed" and similar ("Traditional") insurance plans:

"Mixed" insurance plans and the like combine a component of a savings amount in the event that the policyholder is alive at the end of the term of the plan with a life insurance component during the term of the plan. For these products, an insurance liability is calculated for each cover as discount of the cash flow in respect of the expected claims, including payment at the end of the period, less expected future premiums. This calculation is based on the assumptions on which the products are priced and/or the assumptions derived from past claims, including interest rates (hereinafter - "calculative interest rate"), mortality or morbidity table. The calculation is done using a method known as net premium reserve, which does not include in the expected revenue the component included in the premium rate to cover fees and expenses, but on the other hand - does not deduct the expected expenses and fees.

For traditional yield-dependent products, the reserve is calculated in accordance with the actual yield minus management fees.

- 3) Liabilities for paid allowances are calculated in accordance with the expected life expectancy on the basis of the most recent mortality tables published by the Ministry of Finance Actuary.
- 4) Liabilities for lifetime annuities in respect of policies that have not yet reached the stage of actual retirement benefit payment or have not reached retirement age are calculated in accordance with the probability of withdrawal of the retirement benefit and the expected life expectancy as well as the cancellation rates expected in the benefit portfolio until retirement date.

NOTE 40 - RISK MANAGEMENT (cont.)

5.1.2. The actuarial methods for calculating insurance liabilities (cont.)

Provision for a supplementary retirement pension reserve is made gradually, for policies the saving component of which depends solely on yield ("yield-dependent policies"), in accordance with the Commissioner's directives, given the expected earnings from the policies until the policyholders' retirement date.

The gradual provision is made by using the K value in which the K is limited to the expected future revenue from the management fees arising from the investments held against the insurance reserves or from premium payments less claims and expenses relating to said policies. The K is set to result in a proper gradual accumulation of the reserve until the expected retirement age.

K factor values used by the Company

	As of December 30 2020	As of December 30 2019
	Audited	
	%	
In respect of yield-dependent insurance policies	-	-
In respect of yield-dependent insurance policies	0.85	0.66

The supplementary retirement pension reserve included in The Phoenix Insurance's books totaled as of December 31 2020 and 2019, NIS 2,196 million and NIS 2,340 million, respectively. The balance of reserves that will be carried to profit and loss by using the discounting factors K as mentioned above, on a gradual basis until the policyholders reach retirement age, amounted to NIS 1,426 million and NIS 1,161 million as of December 31 2020 and 2019, respectively.

During 2020, changes were made to several estimates and assumptions used to calculate the reserves. For further details, please see Section 5.1.10.

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.2. The actuarial methods for calculating insurance liabilities (cont.)**

- 5) Other life insurance plans include pure risk products (PHI, life, critical illness, disability, etc.) that are sold as standalone policies or are attached to policies with a base plan such as "Adif", "Investment Tracks" or "Traditional" policy. For some of these plans, an actuarial liability is calculated. The calculation is done using a method known as the gross premium reserve, which includes in the expected revenue all the components of the premiums and deducts the expected expenses, fees and commissions; no negative reserves were offset against positive reserves. Some of the plans use a method known as the net premium reserve described above.
- 6) In health insurance plans, an actuarial liability is calculated using the gross premium reserve method, which includes in the expected revenue all premium components and deducts the expected expenses, fees and commissions; negative provisions were not offset against positive provisions.
- 7) Liability in respect of ongoing claims, long-term care insurance and PHI is calculated in accordance with the expected payment period.
- 8) Liability in respect of contingent life and health insurance claims are calculated based on the Company's experience.
- 9) Liability for claims incurred but not reported (IBNR) in life and health insurance is calculated based on the Company's experience.
- 10) The insurance liability for group insurance consists of a reserve for paid claims, a reserve for IBNR (claims incurred but not reported) and a reserve for future losses, as required.
- 11) In group life and health insurance, including dental and sick leave insurance, an actuarial liability is calculated on the basis of the specific collective experience.

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.3. The discount rate**

For "Mixed" and the like ("Traditional") insurance plans (see 5.1.2 (2) above) and pure risk products with a fixed premium, the interest rate used for discount purposes is as follows:

1. In insurance plans which are backed mainly by designated bonds, calculative interest is set at rates ranging between 3% and 5% (linked);
2. For yield-dependent products issued in 1991 and thereafter, a calculative interest rate of 2.5% was set (linked). According to the policy terms and conditions, changes in interest rates will be credited to policyholders.
3. For liabilities in respect of payment of future paid pension annuities in insurance plans which are backed mainly by designated bonds, and in liabilities in respect of some of the long-term care products, the Company uses risk-free interest plus illiquidity premium weighted by the nominal interest rates of the designated bonds where relevant, in accordance with the liabilities' average duration. In addition, a decrease in the long-term interest rate may cause an increase in the insurance reserves.
4. In insurance plans that are not backed by designated bonds, the calculative interest rate, or expected return, is used in relation to the mix of portfolio of assets backing these liabilities.
5. See also Section 5.1.8 below.

5.1.4. Mortality and morbidity rates

1. The mortality rates used to calculate insurance liabilities in respect of policyholders who die before reaching retirement age (i.e., excluding the death of policyholders receiving pension annuities and of recipients of monthly income protection or long-term care compensation) are generally identical to the rates used in determining the rate under the net premium reserve method compared to gross premium reserve method, which are based on the Company's experience.

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.4. Mortality and morbidity rates (cont.)**

2. The liability for lifetime annuities is calculated in accordance with up-to-date mortality schedules published by the Capital Market, Insurance and Savings Authority. A fall in the mortality rate will increase insurance liabilities for lifetime annuities. It should be noted that in recent decades, life expectancy has increased and mortality rates have declined. The mortality assumption used to calculate the pension annuity also takes into account an expected future increase in life expectancy.
3. Morbidity rates refer to the prevalence of claims for morbidity from critical illnesses, PHI, long-term care, surgery and hospitalization, accident disability, etc. These rates are determined based on the Company's experience or studies by reinsurers. In addition, in the long-term care and PHI subsegments, an assumption is made as to duration of allowances payment based on Company's experience or studies of reinsurers.
The higher the discount rate assumption and the longer the duration of the annuity payment, the higher the insurance liability for critical illness, PHI, long-term care, surgery and hospitalization and disability due to accident.

5.1.5. Rate of policyholders opting for annuity

In respect of funds deposited through 2008, life insurance contracts, which include a savings component, were managed under two tracks: equity or annuity. In some of the contracts, the policyholder may select the track at the time of retirement. Since the insurance liability amount differs in each of these two tracks, the Company must determine the rate of policies in which the policyholders will select the annuity track. This rate is determined in accordance with the Commissioner's guidelines, in line with the Company's experience. As from 2008, all plans are for annuities.

5.1.6. Cancellation rates

The cancellation rate affects insurance liabilities in respect of some health insurance policies, as well as lifetime annuities in the period before the commencement of payments. Cancellation of insurance contracts can also stem

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.6. Cancellation rates (cont.)**

from the cancellation of policies initiated by the Company due to termination of premium payments or policy redemptions at the request of the policyholders. The cancellation rates assumptions are based on the Company's experience and on the product type, product life and sales trends.

During 2020, the cancellation rates were updated, in accordance with a study. For further details, please see Section 5.1.10 below.

5.1.7. Continuity rates

The Phoenix Insurance has group insurance where the policyholder is entitled to continue to be insured under the same terms and conditions even if the collective contract is not renewed. In respect of this option available to the policyholder, The Phoenix Insurance has a liability based on assumptions regarding the continuity rates of the collective insurance, and the continuity rates of the contracts with the policyholders after the termination of the collective contract. The greater the probability that the collective contract will not be renewed, the greater the insurance liability due to continued insurance under previous terms and conditions, without adjusting the underwriting to the change in the policyholder's health.

5.1.8 Liability adequacy testing (LAT)**a) Life insurance**

The Phoenix Insurance tests the adequacy of the reserves in life insurance as detailed in Note 2.I.1(e). As of December 31 2020 and December 31 2019, the LAT results do not indicate a deficiency in existing reserves (the testing as of December 31 2019 accounts for the effect of the amendment to the Consolidated Circular on Measurement of Liability - Liability Adequacy Testing (LAT) published in March 2020).

b) Health insurance (long-term care)

The Phoenix Insurance periodically tests the adequacy of the reserves in health and LTC insurance as detailed in Note 2.I.3c. The insurance liabilities in health insurance (LTC) in respect of the adequacy of the reserves (LAT) amounted to

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.8 Liability adequacy testing (LAT) (cont.)**

NIS 714 million and NIS 683 million, respectively, on December 31 2020 and December 31 2019, respectively. This test is calculated by discounting cash flows based on risk-free interest, plus the illiquidity premium calculated by an external consultant. The change in the liability balance includes the effect of changes in the interest rate curves, data and model improvement and effects in respect of actuarial studies. For further details on the changes in the interest rate curve and actuarial assumptions, please see Section 5.1.10 below.

c) Amendment to the provisions of the Consolidated Circular regarding measurement of liabilities - Liability Adequacy Testing (LAT) -

On March 29 2020, the Commissioner issued an amendment to the Consolidated Circular, Provisions on Measurement of Liabilities - Liability Adequacy Testing (LAT). As part of this amendment, the LAT is to be calculated while aggregating life insurance products (excluding LTC products) instead of calculating for each life insurance product separately. This change also allows for the types of policies that embody profit rather than only those that embody loss.

In addition, in accordance with the amendment to the LAT Circular, in order to maintain the principle of adjusting assets to liabilities, the Company must first address the value of the assets by using the latest fair value of the assets (which are not included in the statement of financial position at fair value).

In accordance with the above, The Phoenix Insurance allocates the excess value of non-marketable assets to LAT reserves for life and health insurance proportionally to total LAT reserves.

d) Offsetting excess value of non-marketable assets against LAT reserves

Excess value is defined as the positive difference between assets' fair value and their carrying amounts.

NOTE 40 - RISK MANAGEMENT (cont.)

5.1.8 Liability adequacy testing (LAT) (cont.)

Set forth below is a table describing the excess value of assets used to offset the LAT reserves by segment; the excess value stems mainly from non-marketable debt assets.

The Phoenix Insurance is not subject to any external or internal restrictions on asset allocation.

	As of December 31 2020	
	Health (*)	Property and casualty insurance
	In NIS million	
Total fair value	348	24
Amount offset from the LAT reserves	348	24
Balance of excess value that has not yet been offset	-	-

(*) In the health segment, there is no other retained earnings other than those allocated to long-term care insurance.

The Phoenix Insurance has formulated an asset allocation procedure with excess value against the LAT reserves; set forth below are the key points of the procedure:

- a) The investment with the highest excess fair value shall be used to offset LAT reserves.
- b) All other investments shall be allocated pro rata in accordance with the reserve amounts.
- c) The excess value shall in no event exceed the LAT reserves.
- d) Assets for which the difference between the fair value and the carrying amount is negative shall not be offset against the LAT reserves.

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.9. Risk management - life and health insurance sensitivity analyses**

As of December 31 2020:

	Rate of cancellations (redemptions, settlements, and reductions)		Morbidity rate		Mortality rate		Rate of policyholders opting for annuity	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
In NIS thousand								
Compre- hensive income (loss)	<u>58,687</u>	<u>(64,659)</u>	<u>(382,050)</u>	<u>330,489</u>	<u>429,002</u>	<u>(476,039)</u>	<u>(96,223)</u>	<u>96,223</u>

As of December 31 2019:

	Rate of cancellations (redemptions, settlements, and reductions)		Morbidity rate		Mortality rate		Rate of policyholders opting for annuity	
	10%+	10%-	10%+	10%-	10%+	10%-	5%+	5%-
In NIS thousand								
Compre- hensive income (loss)	<u>48,538</u>	<u>(53,498)</u>	<u>(383,704)</u>	<u>315,889</u>	<u>483,571</u>	<u>(540,451)</u>	<u>(178,814)</u>	<u>178,814</u>

* For the purpose of calculating the sensitivity analyses, the assumptions used to calculate the liabilities were multiplied by the rates stated in the cancellation, morbidity and mortality scenarios. For the purpose of calculating a sensitivity analysis for the rate of pensioners opting for annuity, the Company added and deducted the rate of pensioners opting for annuity used to calculate the liabilities at a stated rate of 5%. The 2020 tax rate was used in the calculation.

5.1.10 Changes to the main assumptions used in the calculation of insurance liabilities for life and health insurance contracts, as well as a change in the risk-free interest rate and illiquidity premium:

- a. The Phoenix Insurance tests the adequacy of its reserves, including the supplementary retirement pension reserve. The assumptions used for the above tests include assumptions for cancellations, operating expenses, mortality, pension uptake and morbidity rates and are determined by the actuary based on tests, past experience and other relevant studies. During the reporting year, some of the assumptions were updated, in accordance with the experience gained by the Company.

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.10 Changes to the main assumptions used in the calculation of insurance liabilities for life and health insurance contracts, as well as a change in the risk-free interest rate and illiquidity premium (cont.)****b. A change to the provisions relating to life insurance plans is incorporated into savings that include "annuity coefficients taking into account guaranteed life expectancy".**

In November 2019, the Commissioner published a circular titled "Amendment of the Consolidated Circular Provisions on Measuring Liabilities - Updating the Demographic Assumptions in Life Insurance and Updating Mortality Improvements Model for Insurance Companies and Pension Funds" and a position paper discussing this issue.

In 2019, The Phoenix Insurance updated its estimates of liabilities for annuities based on the new mortality table and future improvements in life expectancy included in the circular.

As a result, in 2019 The Phoenix Insurance increased the provision in respect of the supplementary pension reserve and reduced the comprehensive income by NIS 85 million before tax.

c. Updating of the illiquidity premium:

On June 7 2020, the Commissioner published an amendment to the provisions of Consolidated Circular, Measurement of Liabilities - the Illiquidity Premium (hereinafter - the "Amendment"). As a rule, the provisions of Consolidated Circular, Measurement of Liabilities, stipulate that an illiquidity premium at various rates may be added to the risk-free interest rate used in the liability adequacy test, illiquidity premium at various rates. The illiquidity premium may be added both for the purpose of assuming a return and for the purpose of assuming a discount rate, as the case may be. The amendment changed the illiquidity premium rate from 50% to 80%. The amendment entered into force on June 30 2020 and its first-time application was made by way of an accounting estimate change in accordance with IAS 8. The Amendment affects individual long-term care insurance, compulsory motor insurance and liability insurance policies. As to the effect of the Amendment on the long-term care insurance reserves, please see Section 5.1.8(b) above. The impact on motor insurance and liability insurance reserves is negligible.

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.10 Changes to the main assumptions used in the calculation of insurance liabilities for life and health insurance contracts, as well as a change in the risk-free interest rate and illiquidity premium (cont.)**

As a result of the changes to the illiquidity premium as aforesaid, in the reporting period, The Phoenix Insurance reduced the LAT reserve for the health segment by approximately NIS 110 million (pre-tax).

d. Circular on allocation of non-marketable assets:

In June 2020, the Commissioner published a Circular titled "Revision of the Provisions of the Consolidated Circular - Allocation of Assets that are not Measured at Fair Value when Performing LAT", which addresses the difference between amortized cost and fair value of assets which are not measured at fair value in the financial statements, for purposes of assessing the adequacy of the reserve. The purpose of the circular is to provide clarifications regarding the manner of applying the excess value provision for the purpose of improving comparability between companies and the regulatory certainty, while revising the disclosure provisions in this matter and adequately matching assets and liabilities. In accordance with the circular, an insurance company may allocate assets to the various liabilities in accordance with the following principles: where assets for which there are external or internal administrative restrictions are concerned, entities must act in accordance with these restrictions.

In the case of other assets, for which there are no such clear restrictions, such assets may be allocated in accordance with a documented procedure to be set by the Company for that purpose.

As a result of the changes to the allocation of assets as aforesaid, in the reporting period, The Phoenix Insurance reduced the LAT reserve in the health segment by approximately NIS 47 million (pre-tax). For more information about the offsetting of excess value of non-marketable assets against LAT reserves, see Section 5.1.8(d) above.

NOTE 40 - RISK MANAGEMENT (cont.)**5.1.10 Changes to the main assumptions used in the calculation of insurance liabilities for life and health insurance contracts, as well as a change in the risk-free interest rate and illiquidity premium (cont.)****e. Following is the effect of the main changes described above on retention insurance liabilities in the life and health segments:**

	For the year ended December 31		
	2020	2019	2018
	In NIS million		
Life insurance segment:			
Effect of updating assumption regarding rates of annuity uptake	-	- (*)	39 (*)
Effect of updating other assumptions on the supplementary pension reserve and paid pensions	(12)	-	-
Effect of updating of assumptions on the cancellation rates	-	22	- (*)
Effect of updating assumptions on the expense rates	(54)	23 (*)	- (*)
Effect of updating assumptions on the mortality rates	-	85	- (*)
Change in the discount rate used in the calculation of the supplementary retirement pension reserve and paid pensions.	25	514	(163)
Change in discount rate for the LAT reserve	-	- (*)	- (*)
Change in K value	(261)	210	-
Total increase (decrease) in liabilities on retention in the life insurance segment	(302)	854	(124)
Health insurance segment:			
<u>Effect of updating of assumptions on the cancellation rates:</u>			
LAT	(24)	233	-
Other	(43)	30	(10)
<u>Effect of updating assumptions on the expense rates:</u>			
LAT	(54)	(47)	-
Other	(12)	(7)	(4)
<u>Effect of updating assumptions on the mortality and morbidity rates:</u>			
LAT	-	270	128
Other	-	30	23
Change in LAT reserve following a change in the discount rate	173 (**)	226	(96)
Change in the LAT reserve following application of the illiquidity premium circular (***)	(110)	-	-
Total increase (decrease) in liabilities on retention in health insurance segment	(70)	735	41.
Total increase (decrease) in liabilities on retention before tax in life insurance and health segments	(372)	1,589	(83)
Total increase (decrease) in liabilities on retention after tax in life insurance and health segments	(245)	1,046	(55)

(*) Applied retrospectively; for further details, please see Note 2.DD(2).

(**) This effect includes the effect of classifying the excess value of assets from the life insurance segment to the health insurance segment in the amount of approximately NIS 121 million, with the addition of approximately NIS 47 million from excess value of other non-marketable assets as a result of the amendment of the LAT Circular and the amendment of the Circular on Allocation of Non-Marketable Assets. For details regarding first-time application, please see Note 2.DD(2).

(***) For further details, please see Section C below.

f. For details on the impact of the coronavirus on insurance liabilities, please see Note 1.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2 Insurance risk in property and casualty insurance contracts****5.2.1. Summary description of the main insurance subsegments in which the Company operates**

The Phoenix Insurance underwrites insurance contracts in the property and casualty insurance segments, mainly in compulsory motor, liability, motor property and property subsegments.

A compulsory motor insurance policy covers the policyholder and driver for any liability they may incur under the Road Accident Victims Compensation Law, 1975 for bodily harm caused by the use of a motor vehicle to the driver, passengers or pedestrians injured by the vehicle. Compulsory motor claims are characterized by a "long tail", which means that often a long time elapses from the date of the incident until the claim's final settlement date.

Liability insurance is intended to cover a policyholder's liability for damage that he/she may cause to a third party. The main types of insurance are: third party liability insurance, employers' liability insurance, other liability insurance such as professional liability, product liability and directors' and officers' liability. The timing of claims' filing and settlement is influenced by a number of factors, such as the type of coverage, policy terms and conditions, as well as legislation and legal precedents. Liability claims are typically characterized by a "long tail", that is, sometimes a long time elapses from the date of the incident to the final settlement date of the claim.

Motor damage insurance policies and motor property damage third-party policies provide policyholders with coverage for property damage. Coverage is usually limited to the value of the damaged vehicle. The motor property insurance rate and the policy as a whole require approval by the Insurance Commissioner and is a differential actuarial rate (non-uniform for all policyholders and risk-adjusted). The said rate is based on a number of parameters, both those related to the vehicle insured under the policy (such as vehicle type, year of manufacture, etc.) and those related to characteristics of the policyholder (driver's age, claim history, etc.). The underwriting process is carried out partly through the rate itself and partly through a system of procedures designed to review the policyholder's claims history, including presenting a no claims certificate for the past three years from the previous insurer, presenting evidence of up-to-date protection, etc. In addition,

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.1. Summary description of the main insurance subsegments in which the Company operates (cont.)**

they are automatically integrated into the policy production process. In most cases, motor property insurance policies are issued for a one-year period. In addition, in most cases, claims in respect of these policies are investigated close to the date of the insurance event (short tail).

Property insurance is intended to provide policyholders with coverage against physical damage to his/her property and loss of profit due to damage to the property.

The main risks covered by property policies are fire, explosion, burglary, pipes, earthquake and natural disasters. Property insurance often includes loss-of-profit damage due to the physical damage caused to the property. Property insurance is an important part of home insurance, business insurance, engineering insurance, cargo in transit (marine, land and air), etc. In most cases, claims for these policies are investigated as of the date of the insurance event. The Company is also engaged in the issuance policies covering guarantees under the Sale Law.

5.2.2 Principles of calculating actuarial assessment in property and casualty insurance**5.2.2.1. General**

- a. Liabilities in respect of property and casualty insurance contracts include the following main components:
 - Provision for unearned premium
 - Provision for the difference between the reserve for outstanding risks and the unearned premium.
 - Contingent claims including indirect expenses for their settlementThe provision for unearned premiums and deferred acquisition costs is calculated in a way that does not depend on any assumptions and is therefore not exposed to reserve risk. As to how these provisions are calculated, please see Note 2 on accounting policies.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

- b. In accordance with the Commissioner's instructions, contingent claims are calculated by an actuary, using generally acceptable actuarial methods that are consistent with the previous year. The choice of the appropriate actuarial method for each insurance subsegment and for each event or underwriting year is determined by exercising judgment on the degree of the method's suitability to the subsegment, and sometimes the different methods are combined. The assessments are mainly based on past experience in the development of claim payments and/or development of the amount of specific payments and estimates. The assessments include assumptions about the average claim cost, claims handling costs, and prevalence of claims. Additional assumptions may take into account changes in interest rates, exchange rates and timing of payments. Claim payments include direct and indirect expenses to settle claims, less subrogation and deductibles.
- c. The use of actuarial methods based on the development of claims is particularly appropriate when there is concrete and satisfactory information on claims payments and/or individual assessments to estimate the total expected cost of claims. When the information available in the actual claims history is insufficient, the actuary sometimes uses a calculation that weights a known estimate (in the Company and/or industry) such as LR and the actual claims development. Greater weight can be estimated based on experience as time goes on and more information about the claims accumulates.
- d. In addition, qualitative assessments and judgment are included regarding the extent to which past trends will not continue in the future. For example, due to a one-off event, internal changes such as a change in the portfolio mix, underwriting policies and claims handling procedures, as well as the effect of external factors such as court rulings, legislation, etc. When such changes were not fully reflected in past experience, the actuary updates the models and/or makes specific provisions based on statistical and/or legal assessments, as applicable.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

- e. Actuarial valuation is based on statistical estimates that include a component of uncertainty. The statistical estimate is based on various assumptions, which will not necessarily materialize, such that the actual cost of claims may be higher or lower than the statistical estimate.
- f. In large claims of a non-statistical nature, the reserve is determined (gross and retention) based on the opinion of the Company's experts and in accordance with the recommendations of their legal counsel.
- g. The share of reinsurers in the contingent claims is estimated taking into account the type of agreement (proportional or non-proportional) and the actual claims history.
- h. The assessment of the contingent claims for the Company's share in the Pool, incoming business and joint insurance received from other insurance companies (leading insurers) was based on a calculation made by the Pool or by the leading insurers or the Company.
- i. Liability adequacy testing in respect of property and casualty insurance - the reserves are tested while applying the Commissioner's position regarding best practice for actuaries in calculating property and casualty insurance reserves for the purpose of inclusion in the financial statements such that they adequately reflect the insurance liabilities. The Commissioner's position includes, among others, the following:
 - An "adequate reserve to cover the insurer's liabilities" means that it is fairly likely that the insurance liability set will be sufficient to cover the insurer's liabilities. In the case of contingent claims in the compulsory motor and liability subsegments, the assessment of "fairly likely" shall mean a probability at least 75%. However, to the extent that there are limitations to the statistical analysis, the actuary will exercise discretion and may use acceptable actuarial

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

methods. The following are examples of possible treatment of such limitations:

- For random risk - examining several actuarial methods and using discretion in determining the estimate in relation to the results of the different methods.
 - For systemic risk - identifying significant systemic (internal and external) effects, and using discretion in how to combine them.
-
- The discount rate appropriate for the prudence test is based on a risk-free interest rate curve tailored to the illiquid nature of the liabilities. In addition, this test must take into account the revaluation of the assets in the financial statements against the liabilities.
 - Aggregation - for the purpose of calculating spreads for uncertainty in statistical subsegments (as defined in the circular), each subsegment must be treated separately, but the risks from all underwriting years (or damage) may be aggregated. In non-statistical subsegments, all subsegments may be treated as a single one. In addition, the lack of full correlation between different subsegments may be taken into account in order to reduce the overall spread.
 - Determining the total insurance liabilities for policies sold close to the reporting date and risks subsequent to the reporting date.

5.2.2.2. Details of actuarial methods in the major insurance subsegments**a. Motor property subsegment**

In the motor property segment, most liabilities are calculated on the basis of the development of claims payments and/or the development of payments and contingent claims (link ratio or chain ladder), taking into account the types of cover such as comprehensive or third party, types of vehicles - such as vehicles up to 3.5 tons and above 3.5 tons, and the types of damages such as accident, theft and natural disaster.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

For the last months of damage in respect of which there are insufficient data, the average method is also used to determine the cost per claim in respect of the policy.

The Claims Department's specific assessments are taken into account in cases of long-tail claims and claims stemming from car theft and natural disaster.

In specific assessments, the deductible amount that will be collected from the customer is taken into account.

Subrogations are taken into account, as the actuarial model is based on the development of all payments (positive and negative). In addition, an adequate reserve was calculated for indirect expenses for settling claims.

b. Compulsory motor and liability subsegments

In the compulsory motor and liability subsegments, liabilities are calculated on the basis of the development of claims payments and/or the development of payments and contingent claims (link ratio/chain ladder). For periods in respect of which there are insufficient data, the cost of claims based on the use of *a priori* LR rate is combined with the payment development model and/or the development of payments and contingent claims (Bornhuetter-Ferguson). Sometimes the cost per claim per policy. The "tail" development was calculated using the Sherman model.

The Claims Department's specific assessments are taken into account in cases of long tail contingent claims and large claims.

The contingent claims were estimated on a gross basis and separately at the reinsurance level. The assessment of the reinsurer's share in excess of loss contract claims for the last three underwriting years was calculated on the basis of a distribution adjustment model for the major claims, taking into account the known claims for these years. In previous underwriting years, the assessment is in accordance with the actual claims.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

Assessments for facultative reinsurance were made using a separate model from the other claims (gross and retention). Individual assessments include the portion of the deductible that will be collected from the customer.

Subrogations are taken into account; in addition, the actuarial model is based on the development of all payments (positive and negative). In addition, an adequate reserve was calculated for indirect expenses in respect of settling claims.

The assessment of the contingent claims for companies' share in the Israeli compulsory motor insurance pool of the Israeli Insurance Companies Association (hereinafter - the "Pool") was based on a calculation made by the Pool.

c. Property and other subsegments

In property and other subsegments, liabilities are calculated on the basis of the development of claims payments and/or the development of payments and contingent claims (link ratio or chain ladder). For periods in respect of which there is insufficient data, the averaging method is also used to determine the cost per claim.

The Claims Department's specific assessments are taken into account in cases of long-tail claims and claims that derive from natural disaster. The assessment of contingent claims was made at a gross level, and the reinsurance for quota and surplus contracts is calculated in accordance with actual claims and in accordance with the terms and conditions of the contract.

Assessments for facultative reinsurance were made using a separate model from the other claims in subsegments in which the reinsurer's share constitutes a material proportion. The individual assessments include the deductible amount to be collected from the customer.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

Subrogations are taken into account, as the actuarial model is based on the development of all payments (positive and negative). In addition, an adequate reserve was calculated for indirect expenses for settling claims.

d. Subsegments in which no actuarial valuation has been performed

Within the framework of vessel and aircraft insurance, Sales Law guarantees, other risks and incoming business, the contingent claims were included based on specific assessment of each claim at the discretion of the lawyers and The Phoenix Insurance's experts who handle claims, and according to reporting by companies providing incoming business as well as IBNR, as far as required.

5.2.2.3. The main models for determining insurance liabilities in property and casualty insurance

Chain ladder / Link ratio

These methods are based on the development of historical claims (the development of payments and/or the development of total claims as well as the development of the number of claims), in order to assess the development that is expected of existing and future claims. The use of this method is best suited after a sufficient period has elapsed since an event has occurred or the policy underwritten, where sufficient information is available from past claims in order to estimate the total expected claims. The difference between the two methods stems from the way average development is calculated (simple or weighted average). In subsegments where claims are high, in addition to the average development coefficient, the standard deviation of the development coefficients is calculated.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**BF (Bornhuetter-Ferguson)

This method combines an early (*a priori*) estimate commonly used in the Company or subsegment with an additional estimate based on the claims themselves. The preliminary estimate uses the premiums and the rate of damages to estimate total claims. The second estimate uses actual claim history, based on other methods (such as chain ladder). The combined claims assessment weighs both estimates, giving greater weight to an assessment based on past claims experience based on longer periods of time in which additional information about the claims accumulates. The use of this method is adequate when there is insufficient information.

The averages

Sometimes, such as in the case of the Bornhuetter-Ferguson method, where past claims in recent periods are insufficient, historical averaging is used. This method determines the expected claim amount based on average claims in early periods multiplied by the number of claims forecast (another way of calculating is by multiplying the historical cost of the claim by the number of policies in the relevant period).

The Sherman model

A mathematical model that addresses the adjustment of nonlinear distribution to the development coefficients calculated using the chain ladder or link ratio methods. Through the distribution, the development coefficients can be calculated for periods for which we have no information (the "tail of development").

5.2.2.4 Government decision on changing the settlement mechanism between the National Insurance Institute and the insurance companies regarding road accidents

In March 2018, the 2019 Economic Plan adopted the government's decision to change the accounting mechanism pursuant to Section 328 of the National Insurance Law [Combined Version], 1995 between the National Insurance

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

Institute (hereinafter - the "NII") and the insurance companies regarding road accidents. According to this decision, the individual right of subrogation available to the National Insurance Institution by virtue of Section 328 of the National Insurance Law for road accidents will be revoked and, as a result, the agreements signed to regulate this right will be terminated. In lieu of this right of subrogation, an overall settlement arrangement will be established, under which a fixed amount will be transferred from the insurance companies each year to cover their liability according to parameters determined by law and/or regulations. The amendment's effective date, if any, is January 1 2019.

In addition, the liability of insurance companies will also be regulated in respect of road accidents that occurred between January 1 2014 and December 31 2018 and in respect of which no claims or demands have been filed yet. Following negotiations between the insurance companies and the NII, the parties reached understandings about the manner of transferring the payments to the NII, both in respect of past years and in the future, including changing the regulations applicable to past years, against the transfer of advance payment to be offset in accordance with actual claims to be submitted to each company. In order to anchor the agreements into law, a legislative procedure in the Knesset should be completed; as of the report publication date, such procedure has not yet been completed.

5.2.2.5 Main assumptions used to calculate property and casualty insurance contracts:**a. Reserves due to best practice**

The Phoenix Insurance tests the adequacy of the property and casualty insurance liabilities in accordance with the best practice principles outlined above. As a result of this review, the Company found that it was necessary to supplement reserves in accordance with the principles of best practice in the motor property and third party

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

subsegments in the amount of approximately NIS 25 million before tax (approximately NIS 23 million after offsetting fair value from non-marketable assets). As part of the best practice assessment, the Company discounts future claims payments in these subsegments according to the risk-free interest rate curve, while adjusting to the illiquid nature of the insurance liabilities and taking into account the manner in which the assets against these liabilities are revalued.

In 2020, the allocation of excess fair value was revised, as described in Sections 5.1.10(d) and 5.1.8(d) above - which led to an approximately NIS 23 million decrease in insurance liabilities.

b. The discount rate applied to National Insurance allowances

In October 2017, an amendment to the National Insurance (Discounting) Regulations, 1978, came into force, which provides for the calculation of allowances paid by the National Insurance Institute for those injured in work accidents, and the manner in which those allowances are discounted. Under the regulations, the discount rate will be updated every four years, and the manner of its calculation is determined provided that the rate of change is not higher than 1% (and the interest rate shall not be less than 0%). The current interest rate according to the regulations is 2% (instead of the previous 3% rate).

The regulations address, as stated, the discount rate of payments paid by the National Insurance Institute. These resulted in non-uniformity in court rulings regarding the discount rate in respect of claims for compensation for bodily harm paid by the insurance companies to injured policyholders. In April 2018, an inter-ministerial committee (the Kaminitz Committee) was appointed by the Minister of Justice and the Minister of Finance to examine the desired discount rate and all its economic implications. In June 2019, the committee issued a final

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

report. Accordingly, on August 8 2019, the Supreme Court adopted the recommendations of the Inter-ministerial Committee examining the issue of the discount rate applied to damages and its consequences in the context of Civil Appeal 3751/17, the Compulsory Motor Insurance Pool Administration Corporation (the Pool) v. John Doe case, and determined that the discount rate would be 3% (hereinafter: the "Ruling"). In addition, the Ruling states that until a legislative amendment is made, the discount rate may be changed in accordance with a two-year testing mechanism; the test will be conducted in relation to the yield on investment in AA corporate bonds for a 25-year period. Any deviation of more than one percent in any direction will cause the discount rate to be updated, except in unusual circumstances.

Accordingly, The Phoenix Insurance estimated the effect of the aforesaid Ruling and reduced the provisions in the compulsory motor insurance and liability insurance subsegments in 2019 by a total of approximately NIS 155 million before tax.

In September 2020, the Supreme Court ruled that the provision according to which the discount rate applied to damages for bodily injury will continue to be 3% - unless it is proven that it is necessary to change it in accordance with the mechanism proposed by the Kaminitz Committee – shall also apply to subrogation claims of the National Insurance Institute. Accordingly, and based on the opinion of its legal counsel, The Phoenix Insurance released a reserve of approximately NIS 61 million in respect of compulsory motor insurance and approximately NIS 13 million liabilities in respect of National Insurance Institute claims.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2.5 Main assumptions used to calculate property and casualty insurance contracts (cont.)**

In connection with testing mechanism carried out every two years, it should be noted that as of the report date, it appears that the rate band has decreased by more than one percent. Notwithstanding the foregoing, The Phoenix Insurance did not increase the provision in accordance with the decline in the interest rate, based, inter alia, on a legal opinion, stating that the update mechanism should first be triggered two years after the date of the Kaminitz Commission's final report, i.e. - June 2021, according to the yield averages relevant in the six months prior to that date and that the update was not made automatically except in accordance with the Accountant General's decision, and subject to exercising discretion.

The Phoenix Insurance examined a scenario of a 1% decrease in the discount rate applied to damages in the insurance liabilities portfolio, in the compulsory motor and liability subsegments as of December 31 2020, based on claim payments, as from the said date - June 2021 - and estimated it at approximately NIS 110 million in retention (pre-tax). It should be clarified that there is no certainty as to the behavior of the interest rate curve, as to estimates of the claims flows and as to the Accountant General's discretion and how the mechanism will be implemented.

The Phoenix Insurance will continue to monitor developments in connection with this matter and, if necessary - update its provisions.

- c. Contingent claims in the compulsory motor insurance and liability insurance subsegments are discounted using the risk-free interest rate with a negative interest rate reset. In 2020, the effect of changes in the curve on insurance liabilities in property and casualty insurance was negligible; in 2019 the effect of changes in the curve triggered an approximately NIS 16 million increase in liabilities.

NOTE 40 - RISK MANAGEMENT (cont.)**5.2.2 Principles of calculating actuarial assessment in property and casualty insurance (cont.)**

We note that the discount rate in terms of reserve adequacy according to best practice is a risk-free interest rate adjusted to the illiquid nature of the liabilities.

- d. An increase in risk margin (standard deviation) was included in the reserve base in the compulsory motor and liability insurance subsegments.
- e. In analyzing the development of payments, the Company calculates a claim tail according to the Sherman model if needed.
- f. The basic premise in all calculation methods is that past claims behavior reflects their future behavior.

5.2.2.6 Sensitivity of provisions to changes in assumptions and risk-free interest

Actuarial assessment is subject to significant uncertainty. The actuarial estimates for predicting contingent claims relate to the claims' expected value. Due to the stochastic nature of claims payments, there may be deviations around the calculated expected value. In addition, the statistical estimate is based on various assumptions, which will not necessarily materialize. If there is a change in the manner in which the claims are settled or, alternatively, the total claim amount reported, a difference may arise between the actuarial assessment and actual outcome. In addition, a change in the yield may cause discrepancies between the estimates and the actual outcome.

Since the actuarial model is based on past experience, an unexpected change in the model's assumptions or the claims' behavior will result in a change in the reserve. It should be noted that these risks were taken into account, to the extent possible, under the requirements of the Commissioner's position in the systemic risk estimates.

NOTE 40 - RISK MANAGEMENT (cont.)
6. Credit risk information
6.1. Distribution of debt assets by location

	As of December 31 2020		
	Marketable (*)	Non- marketable	Total
	In NIS thousand		
In Israel	6,836,540	13,388,361	20,224,901
Overseas	1,258,928	618,828	1,877,756
Total debt assets	8,095,468	14,007,189	22,102,657

(*) Marketable debt assets are mainly classified into the available-for-sale category and presented at fair value.

	As of December 31 2019		
	Marketable (*)	Non- marketable	Total
	In NIS thousand		
In Israel	6,859,735	12,564,000	19,423,735
Overseas	1,219,544	411,710	1,631,254
Total debt assets	8,079,279	12,975,710	21,054,989

(*) Marketable debt assets are mainly classified into the available-for-sale category and presented at fair value.

NOTE 40 - RISK MANAGEMENT (cont.)**6.2 Breakdown of assets by rating****6.2.1 Debt assets**

	Local rating (*)				
	As of December 31 2020				
	AA and above	A to BBB	Less than BBB	Unrated	Total
	In NIS thousand				
<u>Debt assets in Israel</u>					
<u>Marketable debt assets</u>					
Government bonds	4,805,042	-	-	-	4,805,042
Corporate bonds	<u>1,099,598</u>	<u>706,388</u>	<u>102,195</u>	<u>123,317</u>	<u>2,031,498</u>
Total marketable debt assets in Israel	<u>5,904,640</u>	<u>706,388</u>	<u>102,195</u>	<u>123,317</u>	<u>6,836,540</u>
<u>Non-marketable debt assets</u>					
Government bonds and treasury deposits	8,190,398	-	-	-	8,190,398
Corporate bonds	404,771	174,751	18,935	1,098	599,555
Deposits with banks and financial institutions	1,108,672	-	-	-	1,108,672
Other debt assets by collateral:					
Mortgages (**)	-	-	-	287,303	287,303
Loans against policies	-	-	-	118,372	118,372
Loans secured by real estate properties	41,798	622,784	61,533	705,758	1,431,873
Loans secured by shares attributable to controlling shareholders	17,300	57,880	-	-	75,180
Other collateral	625,264	468,521	1,252	384,029	1,479,066
Unsecured	<u>10,339</u>	<u>73,659</u>	<u>-</u>	<u>13,944</u>	<u>97,942</u>
Total non-marketable debt assets in Israel	<u>10,398,542</u>	<u>1,397,595</u>	<u>81,720</u>	<u>1,510,504</u>	<u>13,388,361</u>
Total debt assets in Israel	<u>16,303,182</u>	<u>2,103,983</u>	<u>183,915</u>	<u>1,633,821</u>	<u>20,224,901</u>
Of which - internally rated debt assets	185,864	687,791	69,957	-	943,612

(*) Each rating includes all ranges, for example: rating A includes from A- to A+

(**) Mostly mortgages to private individuals purchased from banks.

NOTE 40 - RISK MANAGEMENT (cont.)**6.2.1 Debt Assets (cont.)**

	International ratings (*)				
	As of December 31 2020				
	A and above	BBB	Less than BBB	Unrated	Total
	In NIS thousand				
<u>Debt assets abroad</u>					
<u>Marketable debt assets</u>					
Government bonds	74,323	91,827	8,519	-	174,669
Corporate bonds	42,408	474,598	479,742	87,511	1,084,259
Total marketable debt assets abroad	116,731	566,425	488,261	87,511	1,258,928
<u>Non-marketable debt assets</u>					
Loans secured by real estate properties	118,960	-	-	86,346	205,306
Loans secured by shares attributable to controlling shareholders	-	-	-	64,752	64,752
Loans secured by other collateral	18,667	7,707	-	128,577	154,951
Unsecured loans	16,834	-	-	176,985	193,819
Total non-marketable debt assets abroad	154,461	7,707	-	456,660	618,828
Total debt assets abroad	271,192	574,132	488,261	544,171	1,877,756
Of which - internally rated debt assets	137,627	7,707	-	-	145,334

(*) Each rating includes all ranges, for example: rating A includes from A- to A+

NOTE 40 - RISK MANAGEMENT (cont.)**6.2.1 Debt Assets (cont.)**

	Local rating (*)				
	As of December 31 2019				
	AA and above	A to BBB	Less than BBB	Unrated	Total
	In NIS thousand				
<u>Debt assets in Israel</u>					
<u>Marketable debt assets</u>					
Government bonds	4,816,491	-	-	-	4,816,491
Corporate bonds	<u>1,048,350</u>	<u>801,062</u>	<u>64,969</u>	<u>128,863</u>	<u>2,043,244</u>
Total marketable debt assets in Israel	<u>5,864,841</u>	<u>801,062</u>	<u>64,969</u>	<u>128,863</u>	<u>6,859,735</u>
<u>Non-marketable debt assets</u>					
Government bonds and treasury deposits	8,034,902	-	-	-	8,034,902
Corporate bonds	421,835	162,575	20,522	-	604,932
Deposits with banks and financial institutions	649,800	-	-	-	649,800
Other debt assets by collateral:					
Mortgages (**)	-	-	-	243,494	243,494
Loans against policies	-	-	-	156,247	156,247
Loans secured by real estate properties	-	143,990	-	722,839	866,829
Loans secured by shares attributable to controlling shareholders	-	68,550	-	8,840	77,390
Other collateral	594,748	950,953	-	251,860	1,797,561
Unsecured	<u>27,358</u>	<u>62,791</u>	<u>-</u>	<u>42,696</u>	<u>132,845</u>
Total non-marketable debt assets in Israel	<u>9,728,643</u>	<u>1,388,859</u>	<u>20,522</u>	<u>1,425,976</u>	<u>12,564,000</u>
Total debt assets in Israel	<u>15,593,484</u>	<u>2,189,921</u>	<u>85,491</u>	<u>1,554,839</u>	<u>19,423,735</u>
Of which - internally rated debt assets	<u>193,706</u>	<u>574,745</u>	<u>22,450</u>	<u>-</u>	<u>790,901</u>

(*) Each rating includes all ranges, for example: rating A includes from A- to A+.

(**) Mostly mortgages to private individuals purchased from banks.

NOTE 40 - RISK MANAGEMENT (cont.)**6.2.1 Debt Assets (cont.)**

	International ratings (*)				
	As of December 31 2019				
	A and above	BBB	Less than BBB	Unrated	Total
	In NIS thousand				
<u>Debt assets abroad</u>					
<u>Marketable debt assets</u>					
Government bonds	43,720	56,924	11,998	-	112,642
Corporate bonds	-	372,703	685,656	48,543	1,106,902
Total marketable debt assets abroad	43,720	429,627	697,654	48,543	1,219,544
<u>Non-marketable debt assets</u>					
Loans secured by other collateral	151,730	-	-	93,811	245,541
Unsecured loans	-	-	-	166,169	166,169
Total non-marketable debt assets abroad	151,730	-	-	259,980	411,710
Total debt assets abroad	195,450	429,627	697,654	308,523	1,631,254
Of which - internally rated debt assets	151,730	-	-	-	151,730

(*) Each rating includes all ranges, for example: rating A includes from A- to A+

NOTE 40 - RISK MANAGEMENT (cont.)**6.2.2 Credit risks in respect of other assets (in Israel)**

	Local rating (*)				
	As of December 31 2020				
	AA and above	A to BBB	Less than BBB	Unrated	Total
	In NIS thousand				
Loans to associates (**)	-	-	-	102,809	102,809
Receivables and debit balances, excluding balances for reinsurers	-	-	-	431,887	431,887
Deferred tax assets	-	-	-	55,104	55,104
Other financial investments	162,236	4,482	-	61,707	228,425
Cash and cash equivalents	1,545,903	-	-	-	1,545,903

	Local rating (*)				
	As of December 31 2019				
	AA and above	A to BBB	Less than BBB	Unrated	Total
	In NIS thousand				
Loans to associates (**)	-	-	-	84,700	84,700
Receivables and debit balances, excluding balances for reinsurers	-	-	-	383,691	383,691
Deferred tax assets	-	-	-	31,523	31,523
Other financial investments	63,721	21,301	-	32,695	117,717
Cash and cash equivalents	1,731,709	-	-	-	1,731,709

(*) Each rating includes all ranges, for example: rating A includes from A- to A+

(**) Included in the investment in associates line item.

NOTE 40 - RISK MANAGEMENT (cont.)**6.2.3. Credit risks for off-balance-sheet instruments (in Israel) (***)**

	Local rating (*)				
	As of December 31 2020				
	AA and above	A to BBB	Less than BBB	Unrated	Total
	In NIS thousand				
Financial guarantees provided that are not accounted for as insurance contracts (**)	44,830	-	-	259,145	303,975
Unutilized credit facilities	<u>11,074</u>	<u>324,851</u>	<u>-</u>	<u>710,347</u>	<u>1,046,272</u>
Total credit exposure in respect of financial guarantees and unutilized credit facilities	<u>55,904</u>	<u>324,851</u>	<u>-</u>	<u>969,492</u>	<u>1,350,247</u>

(**) Excludes Sales Law guarantees.

(***) For further information on off-balance sheet liabilities to affiliated companies, please see Note 42.

	Local rating (*)				
	As of December 31 2019				
	AA and above	A to BBB	Less than BBB	Unrated	Total
	In NIS thousand				
Financial guarantees provided that are not accounted for as insurance contracts	69,142	-	-	-	69,142
Unutilized credit facilities	<u>37,127</u>	<u>242,207</u>	<u>-</u>	<u>979,980</u>	<u>1,259,314</u>
Total credit exposure in respect of financial guarantees and unutilized credit facilities	<u>106,269</u>	<u>242,207</u>	<u>-</u>	<u>979,980</u>	<u>1,328,456</u>

(*) Each rating includes all ranges, for example: rating A includes from A- to A+

6.2.4 Credit risks in respect of other assets (abroad)

	International ratings (*)				
	As of December 31 2020				
	A and above	BBB	Less than BBB	Unrated	Total
	In NIS thousand				
Other financial investments	<u>18,988</u>	<u>141,839</u>	<u>132,653</u>	<u>291,787</u>	<u>585,267</u>

	International ratings (*)				
	As of December 31 2019				
	A and above	BBB	Less than BBB	Unrated	Total
	In NIS thousand				
Other financial investments	<u>24,052</u>	<u>150,365</u>	<u>147,958</u>	<u>211,090</u>	<u>533,465</u>

(*) Each rating includes all ranges, for example: rating A includes from A- to A+

NOTE 40 - RISK MANAGEMENT (cont.)**6.3 Additional information about credit risks**1) Internal rating model

The Phoenix has developed and implemented a corporate credit rating model based on quantitative and qualitative tiers:

Quantitative tier - a quantitative score based on the financial statements of the rated company and in accordance with the financial ratios.

Qualitative tier - is based on a subjective questionnaire containing questions regarding parameters such as the nature of the policyholder's competitive position in the industry, etc.

In addition, within the model, distinctions were made between different types of companies such as: income-generating properties, holding companies and ordinary companies. The model was approved by the Insurance Commissioner.

Further to the publication of an Amendment of the Provisions of the Consolidated Circular - Chapter 4 of Title 5 "Management of Investment Assets" internal rating model - in November 2020, The Phoenix Insurance is currently in the process of developing and validating several internal credit rating models.. The internal ratings determined by the model are fully recognized for capital requirements purposes.

- 2) Credit risk information in this note does not include the assets for yield-dependent contracts, which are presented in a separate note.
- 3) Regarding reinsurance assets of NIS 2,531,659 thousand, see Notes 16 and 17 and Section 6.6 below.
- 4) For collectible premium balances, see Note 11.

6.4 Information required in connection with the temporary exemption from the application of IFRS 9 - Credit Risk Disclosure

Further to Note 2 regarding the future application of IFRS 9, the table below shows the carrying amount of the financial assets that are subject to the principal and interest test only, excluding assets held for trading or managed on a fair value basis (hereinafter - "Class A"), by credit risk levels. The carrying amount is measured in accordance with IAS 39 but before provision for impairment.

NOTE 40 - RISK MANAGEMENT (cont.)**6.4.1 Credit risk disclosure**

	Local rating (*)				
	As of December 31 2020				
	AA and above	BBB to A	Lower than BBB	Unrated	Total
Cash and cash equivalents	1,545,903	-	-	-	1,545,903
Marketable debt assets	5,660,235	642,161	93,608	107,947	6,503,951
Non-marketable debt assets	10,243,324	1,387,595	65,447	1,506,327	13,202,693
<u>Disclosure on credit risks - overseas</u>					
	International ratings (*)				
	As of December 31 2020				
	A and above	BBB	Lower than BBB	Unrated	Total
Marketable debt assets	116,731	336,431	257,418	40,999	751,579
Non-marketable debt assets	137,627	7,707	-	279,675	425,009

(*) Each rating includes all ranges, for example: rating A includes from A- to A+.

NOTE 40 - RISK MANAGEMENT (cont.)**6.4.1 Credit risk disclosure (cont.)**

	Local rating (*)				
	As of December 31 2019				
	AA and above	BBB to A	Lower than BBB	Unrated	Total
Cash and cash equivalents	1,731,709	-	-	-	1,731,709
Marketable debt assets	5,538,448	735,729	64,318	104,136	6,442,631
Non-marketable debt assets	9,571,719	1,378,859	3,278	1,429,514	12,383,370

Disclosure on credit risks - overseas

	International ratings (*)				
	As of December 31 2019				
	A and above	BBB	Lower than BBB	Unrated	Total
Marketable debt assets	43,720	189,589	410,920	24,886	669,115
Non-marketable debt assets	151,730	-	-	259,980	411,710

(*) Each rating includes all ranges, for example: rating A includes from A- to A+.

	Carrying amount		Fair value	
	As of December 31		As of December 31	
	2020	2019	2020	2019
In NIS thousand				

Fair value of assets in Class A with high credit risk (*)

Marketable debt assets	499,972	604,260	499,972	604,260
Non-marketable debt assets	1,851,449	1,692,772	2,012,738	1,768,326

(*) Assets with high credit risk are rated lower than BBB or unrated.

6.5 Details of exposure to economic sectors in respect of investments in marketable and non-marketable financial debt assets

	As of December 31 2020		
	On-balance-sheet credit risk		Off-balance sheet risk in NIS thousands
	In NIS thousand	% of total	
<u>Economic sector</u>			
Manufacturing	698,949	3.2%	44,830
Construction and real estate (*)	2,540,226	11.5%	923,695
Electricity and water	1,373,956	6.2%	65,978
Commerce	19,277	0.1%	-
Transportation and storage	34,156	0.2%	-
Communications and IT services	294,032	1.3%	-
Banks	2,225,534	10.1%	-
Financial services	640,672	2.9%	259,595
Holding company	353,032	1.6%	-
Other	752,714	3.4%	56,149
Government bonds and treasury deposits	13,170,109	59.5%	-
Total	22,102,657	100%	1,350,247

NOTE 40 - RISK MANAGEMENT (cont.)**6.5 Details of exposure to economic sectors in respect of investments in marketable and non-marketable financial debt assets (cont.)**

	As of December 31 2019		
	On-balance-sheet credit risk		Off-balance sheet risk in NIS thousands
	In NIS thousand	% of total	
<u>Economic sector</u>			
Manufacturing	267,297	1.3%	69,142
Construction and real estate (*)	2,386,517	11.3%	737,913
Electricity and water	1,539,122	7.3%	227,593
Commerce	115,486	0.5%	-
Transportation and storage	65,219	0.3%	-
Communications and IT services	318,532	1.5%	-
Banks	1,654,259	7.9%	-
Financial services	682,205	3.2%	232,450
Holding company	362,376	1.7%	-
Other	699,941	3.3%	61,358
Government bonds and treasury deposits	<u>12,964,035</u>	<u>61.7%</u>	<u>-</u>
Total	<u>21,054,989</u>	<u>100%</u>	<u>1,328,456</u>

(*) There is another exposure to the real estate subsegment due to the investment in Ad 120. For further details, please see Note 7D(6).

6.6 Reinsurance

The Phoenix Insurance reinsures part of its business - all through foreign reinsurers. However, reinsurance does not release the direct insurers from their obligation to their policyholders under the insurance policies.

The Phoenix Insurance is exposed to risks arising from uncertainty about the ability of reinsurers to pay their share of liabilities in respect of insurance contracts (reinsurance assets) and their debts in respect of claims paid. This exposure is managed by ongoing monitoring of the reinsurer's position in the global market as well as the fulfillment of its financial commitments. The Phoenix Insurance is exposed to concentration of credit risk in respect of a single reinsurer due to the structure of the reinsurance market and the limited number of reinsurers with satisfactory rating.

In accordance with the Commissioner's directive, the Company's Board of Directors determines, once a year, maximum exposure limits for reinsurers, which the Company has contracted, based on their international rating. These exposures are managed by the Company by individually assessing each of the reinsurers. In addition, the Company's exposures are diversified among various reinsurers; the main exposures are in respect of reinsurers who have high international ratings.

NOTE 40 - RISK MANAGEMENT (cont.)**6.6.1 Information on exposure to credit risks of reinsurers****As of December 31, 2020 (NIS thousands):**

Reinsurer	Reinsurance assets								Delinquent debt	
	Total premiums to reinsurers for 2020	Net receivable (payable) balances (b)	Total in life insurance	In health insurance	In property insurance	In liability insurance	Deposits by reinsurers	Total exposure	Between six months and one year	Over one year
Rating group										
AA and above										
Swiss Re	182,794	(6,771)	87,854	197,016	43,357	44,343	149,646	216,153	-	-
General Reinsurance	144,139	(1,217)	31,153	144,716	15,724	189,319	112,241	267,454	-	-
Other	332,185	(52,030)	49,082	100,656	131,520	515,347	351,101	393,474	1,163	636
Total AA and above	<u>659,118</u>	<u>(60,018)</u>	<u>168,089</u>	<u>442,388</u>	<u>190,601</u>	<u>749,009</u>	<u>612,988</u>	<u>877,081</u>	<u>1,163</u>	<u>636</u>
Total A	<u>620,081</u>	<u>(32,109)</u>	<u>11,233</u>	<u>50,231</u>	<u>263,618</u>	<u>548,332</u>	<u>292,347</u>	<u>548,958</u>	<u>756</u>	<u>969</u>
Total BBB +	<u>75,858</u>	<u>10,124</u>	<u>2,496</u>	<u>15,388</u>	<u>29,812</u>	<u>55,093</u>	<u>66,026</u>	<u>46,887</u>	<u>30</u>	<u>92</u>
Less than BBB - or unrated										
	<u>3,272</u>	<u>(811)</u>	<u>1,412</u>	<u>-</u>	<u>2,758</u>	<u>1,199</u>	<u>2</u>	<u>4,556</u>	<u>5</u>	<u>-</u>
Total	<u>1,358,329</u>	<u>(82,814)</u>	<u>183,230</u>	<u>508,007</u>	<u>486,789</u>	<u>1,353,633</u>	<u>971,363</u>	<u>1,477,482</u>	<u>1,954</u>	<u>1,697</u>

NOTE 40 - RISK MANAGEMENT (cont.)**6.6.1 Information regarding exposure to credit risks of reinsurers (cont.)****As of December 31, 2019 (in NIS thousand):**

Reinsurer	Total premiums to reinsurers for 2019	Net receivable (payable) balances (b)	Reinsurance assets					Deposits by reinsurers	Total exposure	Delinquent debt	
			Total in life insurance	In health insurance	In property insurance	In liability insurance	Between six months and one year			Over one year	
Rating group											
AA and above											
Swiss Re	166,351	8,663	81,386	192,663	42,164	45,313	126,535	243,654	-	-	
Munich Reinsurance C	117,029	(12,293)	37,415	51,377	18,483	192,859	151,720	136,121	-	-	
General Reinsurance	138,726	(4,724)	28,906	160,202	14,787	132,783	92,154	239,800	-	-	
Other	253,296	1,481	10,924	36,206	105,127	360,709	187,762	326,685	91	307	
Total AA and above	675,402	(6,873)	158,631	440,448	180,561	731,664	558,171	946,260	91	307	
A											
Allianz Worldwide Ca	202,274	(18,570)	-	49,495	-	-	39,230	(8,305)	-	-	
Other	516,204	19,538	9,893	32,436	301,035	439,834	240,163	562,573	1,106	1,116	
Total A	718,478	968	9,893	81,931	301,035	439,834	279,393	554,268	1,106	1,116	
Less than BBB - or unrated											
	3,388	919	(1,508)	11	1,242	963	1	4,642	781	163	
Total	1,397,268	(4,986)	170,032	522,390	482,838	1,172,461	837,565	1,505,170	1,978	1,586	

NOTE 40 - RISK MANAGEMENT (cont.)**6.6.1 Information regarding exposure to credit risks of reinsurers (cont.)****Comments:**

- (a) Total exposure to reinsurers is: net receivable (payable) balances, reinsurance assets, net of deposits and net of the amount of letters of credit received from the reinsurers as guarantee for their liabilities plus (less) the net receivable (payable) balances.
- (b) As of December 31 2020, a reserve for doubtful accounts in the amount of approximately NIS 0.8 million was made, in respect of the share of reinsurers in contingent claims and reserves, and a total of NIS 1 million as of December 31 2019.
- (c) The rating is mainly determined by the S&P rating agency; in cases where S&P does not issue a rating, it is determined by the lowest rating among other rating agencies and converted according to a formula set in the Investment Methods Regulations. Each rating includes all ranges, for example: A includes from A- to A+.
- (d) Total exposure of the reinsurers to an earthquake event with maximum potential loss (MPL) of 2.0% as of December 31 2020 and December 31 2019 is NIS 8,413 million and NIS 8,037 million, respectively, of which the share of the most significant reinsurer as of December 31 2020 and December 31 2019 is approximately NIS 674 million and approximately NIS 800 million, respectively.
- (e) There are no additional reinsurers in addition to those listed above the exposure to which exceeds 10% of total reinsurance exposure or the premium in respect of which exceeds 10% of total reinsurance premiums for 2020.
- (f) The unrated companies include balances for contingent claims through brokers up to and including 2003 in respect of which there was no exposure as of the report date.
- (g) BBB+ rating: mainly reinsurers whose rating was downgraded from (A-) in the reporting year.

NOTE 40 - RISK MANAGEMENT (cont.)**6.7 Geographical risks**

As of December 31 2020										
	Government bonds and treasury deposits	Corporate bonds	Shares	ETFs	Mutual funds	Investment property	Other investments (*)	Total balance sheet exposure	Derivatives in delta terms	Total
In NIS thousand										
Israel	13,016,655	2,467,758	1,080,759	68,630	2,896	2,728,710	8,729,035	28,094,443	50,817	28,145,260
USA	-	486,824	607,386	85,021	18,313	-	537,422	1,734,966	41,017	1,775,983
UK	-	123,132	57,290	-	-	-	743,605	924,027	-	924,027
Germany	-	97,614	22,666	7,078	-	-	934,637	1,061,995	-	1,061,995
Switzerland	-	25,652	8,669	-	-	-	559,292	593,613	-	593,613
Other	153,454	514,332	123,223	53,466	324,288	-	1,023,729	2,192,492	(370,655)	1,821,837
Total Assets	13,170,109	3,715,312	1,899,993	214,195	345,497	2,728,710	12,527,720	34,601,536	(278,821)	34,322,715

As of December 31 2019										
	Government bonds and treasury deposits	Corporate bonds	Shares	ETFs	Mutual funds	Investment property	Other investments (*)	Total balance sheet exposure	Derivatives in delta terms	Total
In NIS thousand										
Israel	12,851,393	2,659,391	1,142,971	27,724	-	2,547,356	6,962,949	26,191,784	104,022	26,295,806
USA	-	304,199	224,025	7,756	9,957	-	945,001	1,490,938	216,203	1,707,141
UK	-	144,197	46,107	2,134	-	-	419,580	612,018	-	612,018
Germany	-	34,997	15,311	-	-	-	853,178	903,486	1,798	905,284
Switzerland	-	33,883	11,108	-	239	-	522,116	567,346	-	567,346
Other	112,642	578,411	144,432	18,109	386,836	-	995,472	2,235,902	130,134	2,366,036
Total Assets	12,964,035	3,755,078	1,583,954	55,723	397,032	2,547,356	10,698,296	32,001,474	452,157	32,453,631

(*) Other investments include reinsurance assets, investments in associates, cash and other financial investments that were not included in the other columns.

NOTE 40 - RISK MANAGEMENT (cont.)**7. Regulatory risk information**

The Group's activities are subject to extensive regulatory requirements, including supervision of the management fees collected. There is a continuing trend of tightening and boosting regulatory requirements, as well as increasing their enforcement. Failure to comply with regulatory requirements may result in various sanctions and damage to reputation. Changes in regulatory provisions affect the financial reporting, business operations and profitability of the Company.

Some of the Group companies operate in accordance with the permits and licenses granted to them by the Insurance Commissioner. Failure to comply with permits and licenses may result in sanctions and even in licenses and permits being revoked.

In addition, regulation in the insurance sector has a significant impact on the structure of the products sold and the prices charged in respect of the various products. The legal provisions, guidelines and agreements pertaining to the structure of the savings market in Israel, and especially regarding pension savings, including its tax implications, impacts changes in the scope of operations of the industry and the degree to which products can serve as alternatives to one another, including the option of transitioning from one product to another. As a result, these provisions affect both the life insurance portfolio and the long-term savings of the companies. The Group's insurance agencies are subject to regulatory provisions; changes in these provisions may affect their business operations and profitability.

In addition to regulation in the areas of insurance and long-term savings, the Group is subject to regulatory requirements under securities and companies laws, failure to comply with the provisions of which may result in various sanctions and damage to reputation.

The Phoenix Insurance is subject to capital adequacy requirements derived from the Solvency II Directive. Low equity capital (although meeting the capital adequacy requirements) may impair the activity of the insurance company and its ability to insure new businesses. For further details, please see Note 7.

NOTE 40 - RISK MANAGEMENT (cont.)**8. Information on financial investments for yield-dependent contracts****8.1. Breakdown of investments by linkage bases (*)**

As of December 31 2020							
	In NIS - non- linked	In NIS - CPI- linked	In USD or USD- linked	In EUR or EUR- linked	In foreign currency or linked thereto	Non- financial and other items	Total
	In NIS thousand						
Cash and cash equivalents	8,467,935	-	1,670,446	144,715	181,120	-	10,464,216
Marketable assets	7,357,515	9,149,453	3,845,979	1,339,785	406,789	23,838,518	45,938,039
Non-marketable assets	1,991,730	4,542,086	880,043	625,914	304,759	13,287,297	21,631,829
Total Assets	17,817,180	13,691,539	6,396,468	2,110,414	892,668	37,125,815	78,034,084
Exposure to underlying assets through derivatives in delta terms	9,044,814	14,725	(9,398,547)	(3,648,416)	(3,170,882)	7,158,305	-

As of December 31 2019							
	In NIS - non-linked	In NIS - CPI-linked	In USD or USD- linked	In EUR or EUR- linked	In foreign currency or linked thereto	Non- financial and other items	Total
	In NIS thousand						
Cash and cash equivalents	4,421,094	-	1,082,799	68,458	40,084	-	5,612,435
Marketable assets	8,579,525	8,783,192	3,745,152	1,037,436	460,355	23,113,334	45,718,994
Non-marketable assets	3,552,108	4,804,830	857,719	258,160	176,742	10,681,088	20,330,647
Total Assets	16,552,727	13,588,022	5,685,670	1,364,054	677,181	33,794,422	71,662,076
Exposure to underlying assets through derivatives in delta terms	7,330,935	-	(7,132,691)	(2,434,895)	(2,153,615)	4,390,265	-

(*) The data in the table are presented according to accounting classification rules and do not reflect actual foreign exchange exposure.

NOTE 40 - RISK MANAGEMENT (cont.)**8.2. Credit risk for assets in Israel**

	Local ratings (*)				
	As of December 31 2020				
	AA and above	A to BBB	Less than BBB	Unrated	Total (**)
	In NIS thousand				
Debt assets in Israel:					
Government bonds	7,122,224	-	-	-	7,122,224
Other debt assets - marketable	5,787,919	3,497,628	237,008	552,372	10,074,927
Other debt assets - non-marketable	<u>2,320,430</u>	<u>2,112,696</u>	<u>179,005</u>	<u>1,257,717</u>	<u>5,869,848</u>
Total debt assets in Israel	<u>15,230,573</u>	<u>5,610,324</u>	<u>416,013</u>	<u>1,810,089</u>	<u>23,066,999</u>
Of which - internally rated debt assets	<u>620,860</u>	<u>866,793</u>	<u>156,318</u>	<u>-</u>	<u>1,643,971</u>

	Local ratings (*)				
	As of December 31 2019				
	AA and above	A to BBB	Less than BBB	Unrated	Total (**)
	In NIS thousand				
Debt assets in Israel:					
Government bonds	9,121,846	-	-	-	9,121,846
Other debt assets - marketable	5,066,896	3,362,126	131,774	488,187	9,048,983
Other debt assets - non-marketable	<u>4,498,276</u>	<u>2,476,689</u>	<u>47,751</u>	<u>1,032,528</u>	<u>8,055,244</u>
Total debt assets in Israel	<u>18,687,018</u>	<u>5,838,815</u>	<u>179,525</u>	<u>1,520,715</u>	<u>26,226,073</u>
Of which - internally rated debt assets	<u>296,871</u>	<u>1,095,853</u>	<u>40,470</u>	<u>-</u>	<u>1,433,194</u>

(*) The sources for the ratings in Israel are rating agencies Maalot and Midroog. Midroog's data were converted to the rating symbols according to generally acceptable conversion coefficients. Each rating includes the entire range, such as from A- to A+.

(**) The carrying amount is an approximation of the maximum credit risk. Thus, the total column represents maximum credit risk.

NOTE 40 - RISK MANAGEMENT (cont.)**8.3 Credit risk for assets abroad**

	International ratings (*)				
	As of December 31 2020				
	A and above	BBB	Less than BBB	Unrated	Total (**)
	In NIS thousand				
Total debt assets abroad	563,395	1,711,035	2,188,319	1,351,256	5,814,005
Of which - internally rated assets	246,079	20,993	-	-	267,072

	International ratings (*)				
	As of December 31 2019				
	A and above	BBB	Less than BBB	Unrated	Total (**)
	In NIS thousand				
Total debt assets abroad	978,553	1,206,493	2,415,320	572,419	5,172,785
Of which - internally rated assets	284,875	-	-	-	284,875

(*) The sources for the ratings abroad are the rating agencies approved by the Commissioner: S&P, Moody's and Fitch. Each rating includes the entire range, such as from A- to A+.

(**) The carrying amount is an approximation of the maximum credit risk. Thus, the total column represents maximum credit risk.

9. For information on the composition of the assets and liabilities of the special-purpose companies, please see Note 25.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES**a. The Company's main interested parties are as follows:**

Belenus and Leolin are the Group's controlling shareholders. Belenus and Leolin are private companies incorporated in Luxembourg, held indirectly by Centerbridge Partners LP and Gallatin Point Capital LLC (hereinafter: the "Funds"). Mayer's Cars and Trucks Ltd. (hereinafter: the "Mayer Group") is an interested party in the Group.

For information on the sale of some of the holdings in the Mayer Group, please see the Company's immediate report dated January 21 2021 (Ref. No. 2021-01-008341).

b. Benefits for key management personnel (including directors)

In addition to their salaries, the Group's CEO and senior executives are entitled to non-cash benefits (such as cars, medical insurance, etc.). Furthermore, the Group makes contributions on behalf of those officers into a post-employment defined benefit plan and a defined contribution plan.

Senior executives also participate in the Company's share option plan (see Note 36, Share-Based Payment).

In accordance with the provisions of the law, the Company and The Phoenix Insurance have a remuneration policy in place for officers and senior executives. The Remuneration Policy is mainly based on multi-year results, return on equity achieved by the Group, and a series of personal parameters adapted to the various officers, which are based on the work plans to be set by the Board of Directors each year.

In March 2020, the General Meeting of the Company's shareholders approved a remuneration policy for the Company's officers, and in October 2020 the General Meeting of the Company's shareholders approved a new remuneration policy for the Company's officers for 2021-2023. For further details, please see the Company's immediate report dated September 21 2020 (Ref. No. 2020-01-102009) (hereinafter: the "**New Remuneration Policy**").

As to the liability for exemption, indemnification and insurance to directors, officers and other key officers - see Section 7 below.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)
b. Benefits for key management personnel (including directors) (cont.)
1. Benefits in respect of employment of key management personnel include:

	For the year ended December 31					
	2020		2019		2018	
	<u>No. of people</u>	<u>Amount In NIS thousand</u>	<u>No. of people</u>	<u>Amount In NIS thousand</u>	<u>No. of people</u>	<u>Amount In NIS thousand</u>
Short-term benefits	18	33,670	17	29,465	15	23,310
Post-employment benefits	17	1,669	16	4,471	15	1,743
Share-based payment (see Note 36)	16	2,625	10	1,296	1	4
		<u>37,963</u>		<u>35,232</u>		<u>25,057</u>

2. Benefits in respect of employment of key management personnel who are directors not employed by the Company:

	For the year ended December 31					
	2020		2019		2018	
	<u>No. of people</u>	<u>Amount In NIS thousand</u>	<u>No. of people</u>	<u>Amount In NIS thousand</u>	<u>No. of people</u>	<u>Amount In NIS thousand</u>
Fees of directors not employed by the Company	9	2,442	14 (*)	3,465	8 (*)	3,036

(*) The above amounts include management fees paid to the Company's Chairman of the Board of Directors.

During the reporting period, as a result of the effects of the global coronavirus crisis on the financial sector in general, and on the Company in particular, the directors on behalf of the controlling shareholders of the Company and The Phoenix Insurance announced that they will waive the annual directors' salary

(estimated at approximately NIS 1 million) to which they are entitled and transfer it to the employees' financial support fund set up in accordance with the

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)

b. Benefits for key management personnel (including directors) (cont.)

Memorandum of Understanding signed on March 25 2020 between The Phoenix Insurance and the Workers' Committee of Phoenix Workers. For further details, please see the Bank's immediate report dated June 30 2020 (Ref. No.: 2020-01-069357).

3. The Company participates (on its own behalf and on behalf of Group companies) in directors and officers' insurance

	For the year ended December 31		
	In NIS thousand		
	2019	2018	2017
Insurance for board members and officers	1,957	997	568

For information on revision of the insurance coverage of directors and officers, please see Section 7 below.

4. Employment agreement of the Chairman of the Board of Directors

Mr. Benjamin Gabbay has been serving as Chairman of the Board of Directors of The Phoenix Insurance since November 2019, and as the Chairman of the Company's Board of Directors since April 2020.¹ The Company and The Phoenix Insurance's Remuneration Committees and Boards of Directors approved Mr. Gabbay's terms of employment in meetings held in December 2019 (hereinafter: "**Mr. Gabbay**" and/or "**Company Chairman**" and/or "**The Phoenix Insurance's Chairman**").

In respect of his service as Company Chairman, Mr. Gabbay is entitled to an annual compensation and to compensation for participating in meetings (which are not joint meetings of the Company and The Phoenix Insurance) in his capacity as an

¹Through that date, Mr. Gabbay served as the temporary Chairman of the Company's Board of Directors.

expert director (in accordance with his classification as such by the Remuneration Committee), in accordance with the Fourth Addendum to the Companies Regulations (Rules Regarding Remuneration and Expenses for External Director), 2000, in accordance with the Company's rank as it shall be determined from time to time.

Mr. Benjamin Gabbay's gross monthly salary for his service as The Phoenix Insurance's Chairman at an appointment percentage of 70% is NIS 145,500 (hereinafter: the "**Salary**"). The Salary is linked to the Consumer Price Index (hereinafter - the "**CPI**"), and the revision due to changes in the CPI is carried out once a year in the January salary, in accordance with the CPI published on January 15 of that year.

The Salary, as revised from time to time, will serve as the wages on which contributions for severance pay and pension are based.

Related benefits: The Phoenix Insurance's Chairman shall be entitled to reimbursement of expenses he will incur in respect of fulfilling his role, including entertainment expenses and travel expenses (including travel abroad), all in accordance with the Company's Remuneration Policy.

Furthermore, The Phoenix Insurance's Chairman shall be entitled to twenty-one (21) annual leave days per year; any unutilized annual leave shall be deleted once a year. The accrued vacation leave days may not be redeemed except upon termination of employer-employee relationship. In addition, The Phoenix Insurance's Chairman shall be entitled to sick leave in accordance with the law and his employment on a part-time basis; he will have a right to accumulate up to ninety (90) calendar days (66 working days), that cannot be redeemed, neither during the course of employment or after termination.

The Phoenix Insurance's Chairman shall be entitled to be included in the officers' insurance arrangement purchased by the Company, and to receive indemnification and exemption letters in accordance with the terms and conditions normally applied to senior Company officers.

Compensation - variable component: The Phoenix Insurance's Chairman shall not be entitled to a variable compensation component.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**b. Benefits for key management personnel (including directors) (cont.)**

Advance notice and non-competition: The Phoenix Insurance and The Phoenix Insurance's Chairman have the right to terminate the employment agreement at any time and for any reason whatsoever by giving written advance notice in accordance with the law (hereinafter: the "**Advance Notice Period**"). Upon termination of the employment of The Phoenix Insurance's Chairman for any reason whatsoever, The Phoenix Insurance's Chairman shall be subject to a non-competition period of six (6) consecutive months starting at the end of the Advance Notice Period (hereinafter: the "**Non-Competition Period**"). During the Non-Competition Period, The Phoenix Insurance's Chairman shall not serve in an active managerial position in the insurance sector, without obtaining The Phoenix Insurance's written consent in advance.

It should be noted that in accordance with the decisions of the Remuneration Committee and Board of Directors of The Phoenix Insurance and the Company, which approved the remuneration terms of Mr. Benjamin Gabbay, the expected expenditure, as defined in the Remuneration of Officers in Financial Corporations (Special approval and Non-Deductibility for Tax Purposes of Expense in respect of Irregular Remuneration) Law, 2016, in respect of his tenure as Chairman of the Board of the Company and The Phoenix Insurance in total, is not expected to exceed NIS 2.5 million (linked to the Consumer Price Index).

Due to the coronavirus crisis, the remuneration of the Chairman of the Board of Directors was reduced by 10% from the May 2020 salary to the June 2021 salary.

5. CEO's employment agreement

Mr. Eyal Ben Simon has been serving as the Company's CEO since June 2019, and as the CEO of The Phoenix Insurance Company Ltd. since May 2019 (hereinafter: "**Mr. Ben Simon**" and/or the "**Company's CEO**"). The Company's Remuneration Committee and Board of Directors approved Mr. Ben Simon's terms of employment in meetings held in June 2019. In August 2019, the General Meeting approved the employment terms and conditions of the Company's CEO, and in October 2020 the General Meeting (hereinafter: the "**General Meeting**") approved the revision of his terms of service and the remuneration policy for 2021-2023 (hereinafter: the "**New Remuneration Policy**"), as described below:

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**b. Benefits for key management personnel (including directors) (cont.)**

The gross monthly salary paid to Mr. Ben Simon for his service as the Company's CEO is approximately NIS 135 thousand, calculated on an annual basis (hereinafter: the "**Total Salary**"). The Total Salary shall be updated in accordance with the increase in the Consumer Price Index (hereinafter: the "**CPI**") on a monthly basis, and the base index will be the known CPI as of the end of May 2019.

The Total Salary, as updated from time to time, will serve as the wage on which contributions for severance pay, pension and advanced education fund are based. In accordance with the Remuneration of Officers in Financial Corporations (Special approval and Non-Deductibility for Tax Purposes of Expense in respect of Irregular Remuneration) Law, 2016 (hereinafter: the "Law"), the Company's Remuneration Committee, Board of Directors and General Meeting approved - as part of their approval of the employment agreement - that Mr. Ben Simon's employment terms and conditions are in accordance with Section 2(a) to the Law, such that the projected expense in respect of the offered compensation is expected to exceed NIS 2.5 million per year, but shall not exceed the limit of 35 times the annual expense in respect of the year relevant to the adjustment, based on the cost of a full-time position, paid by the Company to its lowest paid employee, whether directly or indirectly (including an employee of a manpower contractor employed directly by the Company or contract worker employed to provide services at the Company's premises, as defined by law).

It should be clarified that the Company shall bear the tax cost arising from the "excessive expense" in respect of Mr. Ben Simon's cost of employment (i.e., the non-deductibility for tax purposes of the "excessive expense" for the Company, as defined in the Remuneration of Officers in Financial Corporations Law).

Related benefits: the CEO shall be entitled to social benefits, related benefits and reimbursement of expenses, including in respect of meals, entertainment and subsistence as generally accepted in the Company, travel expenses (including travel abroad), car expenses, telephone, internet devices, and other communication expenses. The Company shall provide the CEO a company car

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**b. Benefits for key management personnel (including directors) (cont.)**

(corresponding to Grade 7) for his personal use, and all expenses arising from the car's usage and maintenance shall be incurred by the Company and shall be paid by it, including grossing-up in full of the car's value and use.

Furthermore, the CEO shall be entitled to twenty four (24) annual leave days per year, with an option to accumulate up to two annual leave quotas; any unutilized annual leave in excess of the said two annual quotas shall be deleted once a year. The accrued vacation leave days may not be redeemed except upon termination of employer-employee relationship. Furthermore, the CEO shall be entitled to recreation pay, calculated based on fifteen (15) recreation days per year; he will also be entitled to twenty-two (22) sick leave days, which may be accumulated throughout his service as CEO, up to ninety (90) calendar days (66 working days), that cannot be redeemed, neither during the course of employment nor post employment.

The CEO shall be entitled to be included in the senior officer insurance arrangement purchased by the Company, as well as to receive indemnification and exemption letters in accordance with the terms and conditions normally applied to senior Company officers.

Remuneration - variable component: The CEO may be entitled to an annual bonus in accordance with the New Remuneration Policy and at the discretion of the Remuneration Committee and Board of Directors. The assessment of the CEO's entitlement to an annual bonus is conditional upon the Company's meeting the threshold targets as set in the New Remuneration Policy. For additional details, please see Section 1.3 to the General Meeting summons report dated September 21 2020 (Ref. No. 2020-01-102009).

The cost of the variable annual component shall not exceed 100% of the cost of the fixed annual component. To the extent required, the annual bonus paid to the CEO shall be cut such that it does not exceed the remuneration limit set in law, including in the Remuneration of Officers in Financial Corporations Law, linked to

the CPI (to the extent that this is permitted by law). After the amount of the variable compensation is set, including the annual bonus in respect of a certain

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)

b. Benefits for key management personnel (including directors) (cont.)

year, it shall be paid in accordance with the deferral arrangements set in law and in the Remuneration Policy. The annual bonus shall be subject to the recovery arrangements that were set in relation to variable compensation in the Company's New Remuneration Policy.

Advance notice and non-competition: The Company and Company's CEO have the right to terminate the employment agreement at any time and for any reason whatsoever by giving a six-month (6-month) written advance notice (hereinafter: the "**Advance Notice Period**"). Upon termination of the CEO's employment by the Company for any reason whatsoever, other than under circumstances of immediate termination, the Company may decide on the termination date and inform the CEO no later than 7 days after the Advance Notice Period has begun, that the CEO shall be subject to a non-competition period of six (6) consecutive months from the end of the Advance Notice Period and the period of actual utilization of the accumulated annual leave balances, during which the CEO shall not be required to carry out any work for the Company (hereinafter: the "**Non-Competition Period**"). During the Non-Competition Period, the CEO shall receive from the Company his full salary and all payments, contributions, benefits and rights to which he is entitled under his employment agreement, provided that, during the Non-Competition Period, he will not serve as an employee, advisor, partner, contractor, distributor or shareholder in the insurance and finance sectors (including investment houses) (except holding less than 5% of the issued share capital or voting rights in a publicly-traded company). Payment in respect of the Non-Competition Period is conditional upon the CEO's complying with the non-competition terms as set in the agreement. For more information, see the Company's immediate report dated July 1 2019 (Ref. No. 2019-01-056148). Due to the coronavirus crisis, the remuneration of the CEO was reduced by 10% from the May 2020 salary to the June 2021 salary.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**b. Benefits for key management personnel (including directors) (cont.)****6. Changes in the status of officers**

- a. In January 2020, Mr. Ronny Maliniak ceased to serve as an external director after a 9-year tenure.
- b. In February 2020, Mr. David Onn stopped serving as an external director in The Phoenix Insurance after a 9-year tenure.
- c. In February 2020, the Capital Market, Insurance and Savings Authority approved Ms. Rita Rubinstein's appointment as an independent director in The Phoenix Insurance.
- d. In February 2020, the Company's Board of Directors approved the appointment of Ms. Rachel Levine as an external director in the Company. The appointment was approved by the Company's General Meeting in March 2020.
- e. In March 2020, Mr. Uri Kissos ceased to serve as CEO of The Phoenix Excellence. In May 2020, the Board of Directors of The Phoenix Excellence approved the appointment of Ms. Yifat Mizrahi as CEO.
- f. In April 2020, the Company's Board of Directors and The Phoenix Insurance's Board of Directors approved the appointment of Mr. Eli Yones as a director in the Company and Chairman of the Strategy Committee.
- g. In April 2020, the Company's Board of Directors approved the appointment of Mr. Benjamin Gabbay as the Company's Chairman.
- h. In May 2020, the Board of Directors of The Phoenix Insurance approved the appointment of Ms. Hila Conforti as an independent director in The Phoenix Insurance.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**b. Benefits for key management personnel (including directors) (cont.)**

- i. In July 2020, an annual General Meeting of the Company's shareholders approved the appointment of Mr. Benjamin Gabbay, Mr. Jacques Cohen, Ms. Marilyn Hirsch, Mr. Ben Langworthy, Mr. Roger Abravanel, Mr. Eliezer Yones and Dr. Ehud Shapira as Company directors. The appointment shall be in effect until the date of convening of the second annual meeting following this meeting. For more information, please see the Company's immediate reports dated June 1 2020 and July 8 2020 (Ref Nos.: 2020-01-049126 and 2020-01-072951, respectively), excluding Dr. Ehud Shapira, who serves as an independent director.
- j. In September 2020, Mr. Shmuel Rosenblum ended his term in office as The Phoenix's Chief Internal Auditor. In July 2020, Ms. Michal Leshem was appointed as The Phoenix' Chief Internal Auditor in lieu of Mr. Shmuel Rosenblum.
- k. In December 2021, Mr. Eitan Weisman ended his service as The Phoenix Insurance's VP Marketing.

7. Indemnification agreements and officers' insurance**Insurance, indemnification and exemption**

- a. In March 2020, the General Meeting of the Company's shareholders (hereinafter, in this section: the "**Meeting**") approved, among other things:
 1. The award of waiver letters according to the version attached to the Meeting summons report, to Company officers and directors who serve or will serve in the Company from time to time, including the CEO or the CEO who will serve from time to time, and including Company officers and directors who serve or will serve in the Company from time to time, which the Company's controlling shareholder may be considered as having a vested interest in the award of the waiver letters.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**b. Benefits for key management personnel (including directors) (cont.)**

2. The award of indemnification letters according to the version attached to the Meeting summons report, to Company officers and directors who serve or will serve in the Company from time to time, including the CEO or the CEO who will serve from time to time, and including Company officers and directors who serve or will serve in the Company from time to time, which the Company's controlling shareholder may be considered as having a vested interest in the award of the indemnification letters.
 3. Revising the Company's Remuneration Policy, which included increasing the limit of the insurance coverage to directors, officers and other key officers to USD 220 million (instead of USD 150 million), thereby giving the Company the option to purchase - at its own discretion and in accordance with the approvals required by law - a run off insurance policy to officers for a period of no more than seven years, at the aforesaid coverage limits. For additional details, please see the immediate report of the Company dated September 18 2020 (Ref. No. 2020-01-025789).
- b. The Meeting also approved the payment of expenses arising from participation in meetings of the Board of Directors and its committees by directors residing outside Israel, including directors on behalf of the controlling shareholder, who serve or will serve from time to time in the Company's Board of Directors. Such directors shall be entitled to full refund of expenses. The total amount of the daily expense to be borne by the Company shall not exceed NIS 2,000 plus VAT per director. The directors shall also be entitled to reimbursement of travel expenses in Israel which are directly related to their participation in such meetings.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**C. Balances of related parties and interested parties**

Some of the Company's financial and insurance activities are carried out with related parties and interested parties in the ordinary course of business and under market terms, subject to the approvals required as per the Company's procedures.

According to the Securities (Periodic and Immediate Reports) Regulations, 1970 (hereinafter: the "**Securities Regulations**"). Some of the reporting requirements applicable to public companies in connection with transactions with a controlling shareholder or transactions with another person in which the controlling shareholder has vested interest (hereinafter: "**Controlling Shareholder Transactions**"), also apply to transactions which are not extraordinary transactions, as this term is defined in the Companies Law, except for transactions that were designated in the latest financial statements as negligible. In November 2008, the Company's Board of Directors decided to adopt a negligibility threshold as set out in the Securities Regulations in connection with Controlling Shareholder Transactions.

The Company's Board of Directors has determined that a Controlling Shareholder Transaction shall be considered as a negligible transaction if all of the following terms and conditions are met in respect thereof:

- It is not an extraordinary transaction (as the term is defined in the Companies Law).
- Its effect on the relevant parameter (as described below) amounts to less than one percent (1%).
- For each transaction or engagement assessed in relation to the negligibility threshold, the relevant parameters shall be assessed based on the latest consolidated financial statements issued by the Company prior to the event, as described below:
 - a. Ratio of assets - the total transaction-related assets (acquired or sold assets) divided by total assets.
 - b. Ratio of liabilities - the total transaction-related liabilities divided by total liabilities.
 - c. Equity ratio - the increase or decrease in equity divided by the equity.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**C. Balances of related parties and interested parties (cont.)**

- d. Premium ratio - the total transaction-related premiums divided by the average annual premiums in the relevant segment (life insurance and long-term savings, health insurance, property and casualty insurance) calculated based on the latest 12 quarters for which reviewed or audited financial statements were published.
 - e. Ratio of revenues from various services - the total transaction-related revenues divided by the average annual non-premium revenues in the last three years, calculated based on the latest 12 quarters for which reviewed or audited financial statements were published.
 - f. Ratio of expenses in respect of various services - the total transaction-related expenses divided by the average annual general and administrative expenses, calculated based on the latest 12 quarters for which reviewed or audited financial statements were published.
 - g. Profit ratio - the total transaction-related profit or losses attributed to the event divided by the average annual comprehensive income or loss for the period (including changes in capital reserves) in the last three years, calculated based on the latest 12 quarters for which reviewed or audited financial statements were published.
- Without prejudice to the need to assess for each event assessed for negligibility which of the above parameters are relevant, the following parameters shall be considered as relevant for the transactions listed below:
 - a. Asset purchase - assets ratio.
 - b. Asset sale - profit ratio, asset ratio.
 - c. Purchase or sale of insurance of reinsurance - premium ratio.
 - d. Receiving services (including leasing services, vehicle maintenance, Dalkan, etc.) - ratio of expenses in respect of various services.
 - e. Provision of services (excluding insurance services and including brokerage services in insurance, underwriting, financing transactions, various financial services) - ratio of revenues from various services.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)**C. Balances of related parties and interested parties (cont.)**

- The transaction is also negligible in qualitative terms.

As part of a qualitative assessment of an event, the following aspects will also be assessed:

1. The event involves significant risks or rewards. The Company will examine whether, and to what extent, the risks that the event involves reflect risk factors to which the Company is exposed.
2. The event may impact the Company's compliance with significant regulatory or contractual requirements.

When assessing the negligibility of a future event, the Company should assess, among other things, the probability that the event will indeed materialize, and the risks embodied therein; the Company should also ensure that these risks do not exceed the risks that it normally undertakes in the ordinary course of its business.

In December 2013, the Company's Audit Committee and Board of Directors approved, as part of the internal enforcement plan, a revision to the Company's procedure on transactions with interested parties in the Company. In this framework, the Audit Committee and Board of Directors decided that transactions approved as negligible for purposes of Regulation 41(a)(6)(a) of the Securities (Annual Financial Statements) Regulations, 2010 are also considered negligible transactions in relation to the Company for purposes of Section 117(2a) to the Companies Law, 1999.

As part of this decision, the Audit Committee approved - pursuant to Section 117(1a) to the Companies Law - transactions listed in the appendices to the procedure, which are not extraordinary transactions, under ordinary commercial terms (such as: insurance, management of provident funds and/or pension funds), the execution of which was approved so long as they comply with all cumulative terms and conditions set out in the procedure.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)

C. Balances of related parties and interested parties (cont.)

As of December 31 2020:

	<u>Comment</u>	<u>Controlling shareholder</u>	<u>Mayer Group</u>	<u>Associates</u>	<u>Interested party and other related parties</u>
In NIS thousand					
Financial investments in respect of yield-dependent contracts		19,038	-	431,656	806,585
Financial investments in respect of ETNs		-	-	-	-
Other financial investments:	(1)				
Debt assets		-	-	265,312	42,928
Shares		-	-	-	4,229
Other		4,591	-	74,312	14,488
Receivables and debit balances		-	-	4,494	19,917
Premiums collectible		-	5,263	281	32
Payables and credit balances		-	-	-	7,798
Highest outstanding debt balance during the year					
Financial investments in respect of yield-dependent contracts		-	-	393,945	94,493
Debt assets		-	-	265,312	52,416

For further details, please see Note 1, Section B above, regarding the change of controlling shareholders.

As of December 31 2019:

	<u>Comment</u>	<u>Delek Group</u>	<u>Mayer Group</u>	<u>Associates</u>	<u>Interested party and other related parties</u>
In NIS thousand					
Financial investments in respect of yield-dependent contracts		10,795	-	393,601	1,599,648
Financial investments for EFT holders		-	-	-	-
Other financial investments:	(1)				
Debt assets		-	-	231,883	42,362
Shares		-	-	-	1,846
Other		2,570	-	79,547	8,894
Receivables and debit balances		-	-	8,512	16,084
Premiums collectible		-	5,703	232	189
Payables and credit balances		-	665	-	7,975
Highest outstanding debt balance during the year					
Financial investments in respect of yield-dependent contracts		483,303 (*)	-	350,833	93,766
Debt assets		169,067 (*)	-	241,624	42,362

(*) The said amounts are in respect of Delek Group, which was the controlling shareholder in the Company until November 2019; for further details regarding the sale of control over the Company, please see Note 1A.

(1) Excluding loans granted to officers in the amount of approximately NIS 95 thousand as of December 31 2019. This loan bears shekel interest at the rate set in the Income Tax Regulations (Setting Interest Rate for Purposes of Section 3i), 1986. In 2019, the interest rate is 3.41%. In the reporting year, no loans were extended to officers.

As of December 31 2020 and 2019, the Company did not extend any loans to directors.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)
D. Transactions with interested parties and related parties

For the year ended December 31 2020:

	Controlling shareholder	Mayer Group	Associates	Interested party and other related parties
Gross premiums	-	35,492	2,642	1,037
Income from management fees from pension and provident funds	-	-	-	369,873
Gains (losses) from debt assets and finance income	-	-	32,325	1,173
Payments in respect of insurance contracts	-	13,005	829	33
Expenses in respect of fees and commissions	-	5,864	30,276	-
General and administrative expenses	76.	20,833	-	37,472

For the year ended December 31 2019:

	Delek Group	Mayer Group	Associates	Interested party and other related parties
Gross premiums	-	39,020	2,560	971
Income from management fees from pension and provident funds	-	-	-	369,757
Gains (losses) from debt assets and finance income	(3,429) (*)	-	19,265	6,535
Payments in respect of insurance contracts	-	12,511	140	66.
Expenses in respect of fees and commissions	-	7,893	28,548	-
General and administrative expenses	-	25,098	-	41,222

(*) The said amount is in respect of Delek Group, which was the controlling shareholder in the Company until November 2019; for further details regarding the sale of control over the Company, please see Note 1A.

NOTE 41 - BALANCES AND TRANSACTIONS WITH INTERESTED PARTIES AND RELATED PARTIES (cont.)
D. Transactions with interested parties and related parties

For the year ended December 31 2018:

	Delek Group	Mayer Group	Associates	Interested party and other related parties
Gross premiums	23,438	40,446	1,482	3,640
Income from management fees from pension and provident funds	-	-	-	351,951
Gains (losses) from debt assets and finance income	47,347	-	95,251	15
Payments in respect of insurance contracts	4,683	8,960	144	626
Expenses in respect of fees and commissions	-	6,065	22,475	-
General and administrative expenses	6,832	26,063	-	30,996

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS

א. Contingent liabilities

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions

In recent years, there has been a significant increase in the number of petitions to approve class actions filed against the Group and in the number of lawsuits recognized as class actions. This is part of an overall increase in petitions to approve class actions in general, including against companies engaged in the Group's areas of activity, which stems mainly from the enactment of the Class Actions Law, 2006. This trend substantially increases the Group's potential exposure to losses in the event of a ruling against the Group companies in class actions.

Petitions to approve class actions are filed through the hearing procedure mechanism set forth in the Class Action Law, 2006 (hereinafter: the "Class Actions Law"). The hearings procedure for petitions to approve class actions is divided into two main stages: The first stage is the approval petition (hereinafter: the "approval petition" or the "approval stage", respectively.) If the approval petition is rejected by the court, the hearing stage at the class action level ends. A ruling at the approval stage may be subject to a request for appeal to the appellate courts. In the second stage, if the approval petition is accepted, the class action will be heard (hereinafter: the "class action stage"). A judgment at the class action stage can be appealed to the appellate courts. Within the mechanism of the Class Actions Law, there are, inter alia, specific settlement agreements, both in the approval stage and in the class action stage, as well as arrangements with regard to the plaintiff's withdrawal of the approval petition or class action lawsuit.

In the State of Israel, filing class action lawsuits does not entail payment of a fee derived from the claim amount; therefore the amounts of such claims may be significantly higher than the actual exposure for that claim.

Petitions to approve lawsuits as class actions (including lawsuits approved as class actions and the approval of which is under appeal) are set out in Sections 1-29, 31, 34-41, 45, 48, 54 and 55 to the following table; for such lawsuits, which, in management's opinion - that is based, inter alia, on legal opinions whereby the Group's defense claims are more likely than not to be accepted and the petitions

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS**A. Contingent liabilities (cont.)****1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)**

to approve the lawsuit as class actions will be rejected - no provision was included in the financial statements, except for petitions to approve class actions in which the Group is willing to reach a settlement. For petitions to approve lawsuits as class actions (including lawsuits approved as class actions and the approval of which is under appeal), in which the Group's defense claims - in whole or in part - are more likely than not to be rejected, and in which the Group is willing to reach a compromise, provisions were included in the financial statements to cover the exposure as assessed by the Group or a provision in the amount for which the Group is willing to settle, as the case may be.

Management's assessment, which is based, inter alia, on legal opinions received, is included in the financial statements under adequate provisions, where such provisions were required, to cover the exposure as assessed by the Group or the amount for which the Group is willing to settle, as the case may be.

Many of the petitions to approve lawsuits as class actions have been filed against the Group on various matters related to insurance contracts and the Group's ordinary course of business, for which the Group has allocated insurance reserves. In petitions to approve lawsuits as class actions as set out in Sections 30, 32, 33, 42-44, 46, 47, 49-53, 56-60 in the table below, at this preliminary stage, the chances of the petitions to approve lawsuits as class actions cannot be assessed and therefore no provision is included in respect thereof in the Financial Statements.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

Following is more information about the petitions to approve class actions:

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
1.	January 2008 Tel Aviv District Court The Phoenix Insurance and other insurance companies Approximately NIS 1.67 billion of all defendants, with about NIS 277 million attributed to The Phoenix Insurance.⁴	Unlawful collection of payments known as "sub-annuals" for life insurance policies, in an amount that exceeds the permitted one.	In May 2018, the Supreme Court granted the defendants' motion for leave to appeal and dismissed the plaintiffs' appeal, such that the District Court's judgment was quashed and the motion for approval of the claim as a class action was denied. On July 2 2019, the Supreme Court upheld the plaintiffs' request for a further hearing (before a seven-judge panel) on the question set forth in the Judgment regarding the regulator's position filed with the court regarding its instructions, and on the question of de minimis defense in a monetary class action. On February 2 2020, the Attorney General submitted his position in the additional hearing, according to which he supports the stipulations made in the Judgment as to the weight that should be given to the regulator's position in relation to its guidelines; the Attorney General also stated that in his view there is no room to interfere with the Judgment's adoption of the Capital Market Authority's interpretive position. An additional hearing was held on July 26 2020, and the parties await a judgment.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

⁴ The amounts are the amounts assessed by the plaintiffs in the consolidated class action lawsuit filed in March 2019 against the insurance companies sued in the corresponding case and against The Phoenix. It should be noted that the amounts in the motion for approval of the claim as a class action were different and higher.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
2.	February 2010 Central District Court The Phoenix Insurance (and other insurance companies in a parallel case, in light of filing a consolidated class action statement of claim) Approximately NIS 1.47 billion of all defendants (including the defendants in the corresponding case), of which approximately NIS 238 million is attributed to The Phoenix Insurance.⁴	The cause of the lawsuit, as approved by the District Court (in the corresponding case) was breach of insurance policies due to unlawful collection of handling fees in a manner that reduced the saving amount accrued in favor of the policyholder for a period starting seven years before the claim was filed.	In November 2016, the District Court - in a parallel case filed against several other insurance companies - partially approved motions to approve the claims as class actions. The class action - both in the corresponding case and in the case heard against The Phoenix Insurance - continues to be heard jointly by the District Court. At the same time, the parties conduct a mediation process.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

⁴ The amounts are the amounts assessed by the plaintiffs in the consolidated class action lawsuit filed in March 2019 against the insurance companies sued in the corresponding case and against The Phoenix. It should be noted that the amounts in the motion for approval of the claim as a class action were different and higher.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
3.	April 2010 Central District Court The Phoenix Insurance and other insurance companies NIS 225.2 million from all the defendants	Non-refund of premium for the relative portion of the month in which the insurance ended (due to cancellation by the policyholder) and/or refund of premium (where the premium is refunded) at nominal values (without linkage differences and interest).	In June 2015, the district court partially affirmed the motion to approve the action as a class action lawsuit. In September 2016, the parties filed with the District Court an application for approval of a settlement agreement, at amounts that are immaterial to The Phoenix Insurance, which includes: the appointment of an examining party who will review the collection amounts in respect of which the claim was approved as a class action; consent to a contribution of 80% of the amount of the refund to be determined by the examining party; provisions regarding future conduct in cases of cancellation of policies that are the subject matter of the lawsuit and a recommendation regarding the payment of compensation to the plaintiffs, legal fees, etc. The settlement agreement is subject to the Court's approval. In June 2017, the Court appointed a reviewer to review the settlement agreement; the reviewer filed the review on The Phoenix Insurance in December 2020. The settlement agreement has not yet been approved by the court.
4.	May 2013 Tel Aviv District Court The Phoenix Insurance Approximately NIS 220 million or alternatively NIS 90 million ⁴	Non-payment of interest in respect of insurance benefits from the date of the insurance event, or alternatively from the end of 30 days from the date on which the claim was filed and until actual payment date.	On February 28 2021, the District Court handed down a partial judgment, according to which it has approved the class action, in respect of any entitled party (policyholder, beneficiary or third party), who - during the period starting three years prior to the filing of the lawsuit and ending on judgment date - received insurance benefits from The Phoenix Insurance (not in accordance with a judgment rendered in his case) without being duly paid interest thereon. It was also established that, for the purpose of implementing the judgment, calculation and manner of restitution, an expert will be appointed and that the class plaintiffs will be awarded legal expenses and legal fees.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
5.	July 2014 Central District Court The Phoenix Pension and Gemel Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) and management companies of other pension funds. NIS 48 million from all defendants	Acting in bad faith when using the right - under the pension fund's rules and regulations - to increase management fees paid by pensioners from the accrual to the maximum amount allowed, as from the date they become pensioners.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
6.	June 2015 Beer Sheva District Court The Phoenix Insurance Approximately NIS 125 million	The cause of action, as approved by the District Court, is a violation of the provisions of the policy regarding special compensation (reimbursement) for performing surgery in a private hospital funded by "additional insurance services" (SHABAN) and the questions common to the group members are: what is the value of the commitment form on behalf of a health maintenance organization in respect of a privately-owned hospital (Form 17), according to which the amount to be reimbursed to the policyholder is calculated; how The Phoenix Insurance in effect calculated the amount reimbursed to policyholders who underwent surgeries as part of SHABAN; and whether The Phoenix Insurance violated the provisions of the policy, and did not reimburse the full amount to the policyholders.	In December 2019, the District Court approved the motion to approve the claim as a class action lawsuit. The group on whose behalf the class action will be conducted will include all policyholders who were insured under a health insurance policy with The Phoenix Insurance, which included a reimbursement arrangement for performing surgery at a private hospital funded by Shaban, based on a commitment form/Form 17, and in respect of whom an insurance event occurred from June 25 2012 through June 25 2015. The parties are in a mediation procedure.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
7.	September 2015 Tel Aviv District Court The Phoenix Pension and management companies of additional pension funds Approximately NIS 300 million per year since 2008 of all the defendants	The claim is that the defendants pay agents fees and commissions calculated as a percentage of the management fees charged by them, thus allegedly violating their fiduciary duties, and that, as a result, the management fees that planholders are charged are higher than the appropriate rate.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
8.	December 2015 Tel Aviv District Court The Phoenix Insurance and another insurance company Approximately NIS 100 million from all defendants, of which NIS 50 million is attributed to The Phoenix Insurance.	Alleged unlawful collection of "sub-annuals" in life insurance at a rate that is higher than the permitted one.	On May 27 2020, the court issued a ruling rejecting the motion for approval of the claim as a class action, on the grounds that the plaintiffs do not have a cause of action. In September 2020, the plaintiff filed an <u>appeal</u> with the Supreme Court. An appeal hearing is scheduled for March 7 2022.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
9.	February 2016 Central District Court The Phoenix Insurance NIS 100 million	The plaintiffs argue that The Phoenix Insurance does not link the payments it must pay policyholders under life insurance policies (which it issued until July 19 1984) due to an insurance event or due to the redemption of the policy, to the correct basic CPI in accordance with the linkage terms and conditions set out in the policies; i.e., the latest CPI published before the 1st day of the month in which the insurance term begins; the plaintiffs argue that this has a significant effect on the benefits to which the policyholders will be entitled.	The parties are in a mediation procedure.
10.	February 2016 Tel Aviv Regional Labor Court (the hearing was transferred from the Central District due to substantive jurisdiction) The Phoenix Pension and Gemel Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) and management companies of additional pension funds. Approximately NIS 1 billion of all the defendants	The plaintiffs argue that the defendants are acting inappropriately by charging management fees in respect of disability and survivors benefits, and do not disclose that fact, and that the rate of management fees collected from such benefit recipients is the maximum permitted rate, taking advantage of the fact that benefit recipients cannot transfer their funds and/or entitlement to such benefits elsewhere.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
11.	September 2016 Central District Court The Phoenix Insurance NIS 14.7 million	Collecting investment management expenses in the individual saving policy Excellence Invest in addition to collecting management fees, without a provision in the policy expressly permitting to do so.	In May 2019, the District Court approved the motion to approve as a class action the claim filed against The Phoenix Insurance and three other insurance companies (hereinafter: the "Defendants"), for breaching the provisions of the insurance policy due to unlawful collection of investment management expenses. The class on whose behalf the class action lawsuit against The Phoenix Insurance will be conducted includes all policyholders of the individual savings policy Excellence Invest issued by The Phoenix Insurance at present and in the seven years prior to the date of submission of the motion for approval as class action. The remedies claimed are the reimbursement of the investment management expenses that were overcharged in addition to interest differentials; and an order directing the defendants to stop collecting such fees. In September 2019, The Phoenix Insurance (along with the other defendants) filed a motion for leave to appeal to the Supreme Court against the decision approving the class action lawsuit. At the request of the Supreme Court, on August 13 2020, the Attorney General submitted his position on the proceedings and announced his attendance. According to the position, the Attorney General is of the opinion that the court should accept the motion for leave to appeal and the appeal itself and order the rejection of the motions for approval as class actions, for the reasons set out in the position. A hearing on the request for leave to appeal took place on February 11 2021, and the parties are awaiting the decision of the Supreme Court. At this point, the hearing on the class action in the District Court was postponed. It should be noted that a motion for approval of a claim as a class action dealing with investment management expenses has also been filed against Excellence Gemel (see Section 13 below in the table) and that a motion to approve another claim as class action on this issue is pending against The Phoenix Insurance (see Section 32 below in the table).

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
12.	September 2016 Tel Aviv District Court The Phoenix Insurance and other insurance companies NIS 4.45 billion from all defendants, of which NIS 943 million is attributed to The Phoenix Insurance.	Collection of premiums on health insurance policies, for unnecessary coverages that the policyholders do not need, and alleged sale of health insurance policies despite being aware that they include coverages that the policyholders have no need for, since they have supplementary health insurance from the health maintenance organization they are a member of. In addition, according to the defendants, they also tied services since customers were unable to purchase a reduced-coverage policy that will include only coverages that are not included in the supplementary health insurance of their health maintenance organizations, thus creating "overlapping insurance".	In October 2020, the District Court ruled that the motion for approval of the claim as a class action was denied. In November 2020, the plaintiffs filed an appeal to the Supreme Court. An appeal hearing is scheduled for December 6 2021.

⁴ The class that the plaintiff seeks to represent in the application for approval of the claim as a class action.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
A. Contingent liabilities (cont.)
1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
13.	November 2016 Jerusalem Regional Labor Court Excellence Nessuah Gemel Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) NIS 215 million	The plaintiffs argue that under the rules and regulations of the Excellence Gemel provident fund, which were in effect until January 1 2016, and according to the rules and regulations of the Excellence Advanced Education fund, Excellence Gemel may not collect investment management expenses from planholders, since collection of such expenses had to stipulated clearly and expressly in the rules and regulations of the funds.	The parties filed a motion for a hearing arrangement with the court, according to which the hearings to approve the claim as a class action will be postponed until a decision has been made in connection with the motion for leave to appeal against the May 2019 District Court decision to approve as class actions claims filed for similar causes of action against The Phoenix Insurance, among others (see Section 11 above in the table).
14.	January 2017 Central District Court The Phoenix Insurance and other insurance companies At least approximately NIS 12.25 million in respect of each of the defendants.	According to the plaintiffs, insurance companies overcharge insurance premiums since they do not disclose to policyholders a "practice" in the motor insurance subsegment that allows updating the age of the young driver insured under the policy and/or the years of driving experience when moving into another age bracket and/or years of driving experience bracket which can potentially result in a reduction of the insurance premium. It should be noted that the plaintiffs refer in their claim to a decision approving a motion for approval of a claim as a class action dealing with the same issue and filed against another insurance company, in which the said practice had allegedly been proven.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
15.	April 2017 Tel Aviv Regional Labor Court (the hearing was transferred from the Central District due to substantive jurisdiction) Shekel Insurance Agency (2008) Ltd. (hereinafter: "Shekel"), Agam Liderim (Israel) Insurance Agency (2003) Ltd. (hereinafter: "Agam Liderim"), second-tier companies of The Phoenix Holdings, and other insurance agencies. Approximately NIS 357 million of all defendants, of which NIS 47.81 million is attributed to Agam Liderim and NIS 89.64 million to Shekel.	According to the plaintiffs, until the regulator intervened and legislative changes were made in connection with this issue, managers of pension arrangements in general and the defendants in particular, provided employers with operating services involving preparing and managing pension insurance for employees without the employers paying any consideration in respect thereof to the pension arrangement managers, and that all costs pertaining to the operating services are paid by the employees through management fees they pay for the products marketed to them by the managers of the pension arrangement.	In August 2020, the court issued a ruling rejecting the motion for approval of the claim as a class action. On October 5 2020, the plaintiffs filed an <u>appeal</u> with the National Labor Court. An appeal hearing is scheduled for April 19 2021.
16.	June 2017 Central District Court The Phoenix Insurance The amount of the claim was not estimated	The lawsuit concerns improper and unlawful actions of The Phoenix Insurance in the process of marketing and selling the service contracts it sells as part of comprehensive motor insurance. According to the claim, The Phoenix Insurance markets, either directly or through agents acting on its behalf, comprehensive insurance plans that include service contracts, as an inherent and integral part thereof; these marketing activities are carried out without presenting customers with the price of the service contracts during the marketing process, without allowing them to give up the service contracts in exchange for a lower price that will reflect the cost of the service removed, while tying the purchase of a package of service contracts to the insurance plan, failing to provide reliable information, failing to match the insurance to the needs of the insurance applicant, etc.	The parties are awaiting the court's decision on the application for approval of the claim as a class action. It should be noted that in July 2018, the Capital Market, Insurance and Savings Authority published an amendment to the circular on the introduction of service contracts and the methods employed to market them. The objective of the circular amendment was to prescribe additional provisions regarding marketing of service contracts.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
17.	June 2017 Central District (sitting as administrative court). The National Insurance Institute (hereinafter - the "NII"), The Phoenix Insurance and additional insurance companies (hereinafter, jointly: the "Official Respondents") The amount of the claim was not estimated	According to the plaintiffs, the National Insurance Institute collects national insurance contributions and health insurance contributions illegally from the tax-exempt income of class members as defined below, in addition to collecting the minimum rate of health insurance contributions from class members' disability pension. According to the plaintiffs, the National Insurance Institute overcharges class members for these contributions through the pension fund, the employer or any other third party. The plaintiffs point out that the Official Respondents are entities through which the insurance premiums were collected from the plaintiffs, and clarify that any employer and any entity paying an early pension and any entity paying a PHI benefit in Israel may be in a similar position to that of the Official Respondents. According to the plaintiffs, it is impossible to add all the parties as respondents and the court is asked to consider the Official Respondents that were added and which are related to the plaintiffs' case as class action defendants. The plaintiffs also stated that no operative remedy is requested in the case of the Official Respondents in the framework of the above claim.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
18.	August 2017 Tel Aviv Regional Labor Court (the hearing was transferred from the Central District due to substantive jurisdiction) Excellence Gemel & Hishtalmut Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) The claim amount was not estimated but it was stated as NIS 1 million or more than NIS 2.5 million.	Increasing management fees without sending prior notice as required by law.	The petition for approval of the claim as a class action lawsuit continues to be heard in court. In December 2020, the court rejected the threshold claim of Excellence Gemel regarding a statute of limitations on the petition for approval of the claim as a class action lawsuit. In January 2021, Excellence Gemel filed an application for leave to appeal the decision to the National Labor Court against. The petition for approval of the claim as a class action lawsuit has yet to be heard.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
19.	July 2017 Jerusalem District Court PassportCard Israel General Insurance Agency (2014) (hereinafter: "PassportCard") and The Phoenix Insurance The claim amount was not estimated, but it was stated that it exceeds NIS 2.5 million of all the defendants.	The plaintiff claims that as part of travel insurance it provides PassportCard effectively records confidential medical conversations held between its policyholders and physicians, listens to these conversations and transfers them to The Phoenix Insurance, while breaching policyholders' privacy without their consent and while conducting wiretapping. In addition, the plaintiff claims that the defendants retain the recorded conversations, maintain an illegal database and even use the recordings.	In October 2019, the court issued a judgment rejecting the motion for approval of the claim as a class action lawsuit. On January 6 2020 the plaintiff filed an appeal against the judgment to the Supreme Court. An appeal hearing is scheduled for June 16 2021
20.	September 2017 Jerusalem District Court The Phoenix Insurance and other insurance companies The claim amount was not estimated, but it was stated that it was in the tens of millions of shekels or more.	According to the plaintiffs, the defendants breach the provisions of Section 5(b) of the Adjudication of Interest and Linkage Differentials Law, 1961 (hereinafter: the "Interest and Linkage Differentials Law"), by implementing a policy whereby they do not add any linkage differences and/or interest and/or linked interest to amounts ruled against them by a judicial authority, in cases where the defendants pay such amounts to class members at a later date than the date set for such payment.	On March 4 2021, the parties submitted to the court a motion for approval of a settlement agreement for an amount that is immaterial to The Phoenix Insurance, under which The Phoenix Insurance will amend the settlement deeds as outlined in the settlement agreement; the parties also recommended the payment of compensation to the class action plaintiff and his/her attorneys. The settlement agreement has not yet been approved by the court.
21.	January 2018 Central District Court The Phoenix Insurance and other insurance companies Approximately NIS 82.2 million per year from all the defendants, of which approximately NIS 22.3 million per year is attributed to The Phoenix Insurance.	According to the plaintiff, The Phoenix Insurance unlawfully refrains from paying its policyholders and third parties the VAT component applicable to the cost of damages when the damages have not been effectively repaired.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
22.	February 2018 Tel Aviv District Court The Phoenix Insurance The Group's aggregate damage was not estimated, but it was stated that it can be assumed to exceed NIS 2.5 million.	According to the plaintiffs, The Phoenix Insurance misleads those who purchased health insurance and/or those for whom health insurance was purchased, where such insurance is in effect only, or also, during the policyholder's time in mandatory military service, career military service or reserve military service and/or when the policyholder is a policeman and/or a member of the security forces of the State of Israel; the plaintiffs claim that The Phoenix Insurance sells to the class members in general and IDF soldiers in particular an insurance product that is almost impossible to use due to various reasons as specified in the lawsuit.	The petition for approval of the claim as a class action lawsuit continues to be heard in court. In November 2020, the position of the Capital Market, Insurance and Savings Authority was submitted, which supports the position of The Phoenix Insurance.
23.	February 2018 Jerusalem District Court The Phoenix Insurance The amount of the claim was not estimated	According to the plaintiffs, The Phoenix Insurance continues to charge life insurance premiums from its deceased policyholders.	On January 25 2021, the parties submitted a motion for approval of a settlement agreement for an amount that is immaterial to The Phoenix Insurance, under which The Phoenix Insurance committed to reimburse insurance premiums to the class members, as outlined in the settlement agreement; the parties also recommended the payment of compensation to the class action plaintiff and his/her attorneys. The settlement agreement has yet to be approved by the court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
A. Contingent liabilities (cont.)
1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
24.	February 2018 Tel Aviv District Court Excellence Nessuah Gemel Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) and additional companies NIS 21 million from all defendants, of which NIS 6 million is attributed to Excellence Gemel.	According to the plaintiffs, the claim deals with the unlawful collection of handling fees /collection fees/operating fees/fees and commissions/early repayment fees or any other payment (whatever its name may be) collected by the defendants from planholders thereof to whom they extended loans.	Excellence Gemel has not yet submitted its response to the petition for approval of the claim as a class action lawsuit. A pre-trial hearing is scheduled for May 23 2021. The parties are negotiating. It should be noted that similar motions for approval of claims as class actions filed against The Phoenix Pension and The Phoenix Insurance were concluded with a settlement agreement. See Sections 8 and 9 below in the table of concluded claims, respectively.
25.	March 2018 Tel Aviv Regional Court The Phoenix Pension Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) and additional companies The amount of the claim was not estimated	According to the plaintiffs, the claim deals with collection of insurance premiums in respect of survivors' insurance (life insurance coverage) from policyholders who have no survivors; which results with the policyholders paying insurance premiums without receiving anything in return.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
A. Contingent liabilities (cont.)
1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
26.	May 2018 Haifa Regional Labor Court The Phoenix Pension and Gemel Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) ⁴ NIS 200 million	According to the plaintiffs, contrary to that which is stated in its rules and regulations, The Phoenix Pension has refrained from paying or from paying in full the partial insurance benefits to anyone who does not receive a full disability pension. In any case, The Phoenix Pension refrained from reporting to policyholders - either in pay slips or in annual statements - about the payments it made, to the extent that it did, indeed, make such payments.	The parties are in a mediation procedure.
27.	June 2018 Jerusalem District Court The Phoenix Insurance and another insurance company The amount of the claim was not estimated	According to the plaintiff, the claim deals with the defendants' unjustified refusal to recognize a surgical procedure that had medical justification as an insurance event according to the health policies issued, by claiming that it is a "preventive surgical procedure".	The petition for approval of the claim as a class action lawsuit continues to be heard in court. In February 2021, the position of the Capital Market, Insurance and Savings Authority was submitted. The Phoenix Insurance is preparing a response to the position.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

⁴ The petition for approval of the claim as a class action lawsuit was originally filed against The Phoenix Insurance. The plaintiffs filed an amended petition for approval of the claim as a class action lawsuit, in which they changed the identity of the defendant and also added to their previous allegations and to the definition of the class they seek to represent.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
28.	September 2018 Tel Aviv Regional Labor Court The Phoenix Insurance The amount of the claim was not estimated	According to the plaintiff, The Phoenix Insurance breached its good faith and fiduciary duties towards its policyholders by automatically depositing the additional contributions it received following the expansion order that required an increase in contributions towards benefits for all Israeli workers, for policyholders in managers insurance policies taken out before June 1 2001 (with guaranteed annuity conversion factors) in new policies referred to by the plaintiff as "contribution policies", without carrying out a pension marketing procedure that includes a justification document, and also by determining the management fees in the policy unilaterally at the maximum rate permitted by law.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
29.	December 2018 Tel Aviv District Court The Phoenix Insurance, other insurance companies and banks NIS 280 million from all defendants	According to the plaintiffs, the claim deals with unlawful overcharging of insurance premiums for unnecessary building insurance policies issued to building owners (who took out a mortgage loan and were required to insure the building with a building policy in favor of the lending bank), despite the fact that at the time of issuance of such policies, there was already an insurance policy covering that building, regardless of whether that policy was taken out with the same insurance company or with another insurance company.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
30.	March 2019 Central District Court The Phoenix Insurance Approximately NIS 2.6 million	According to the plaintiff, the claim deals with The Phoenix Insurance's practice to delay the repayment of the relative portion of insurance premiums upon cancellation of compulsory motor and property insurance policies rather than paying it within the period set by law; the plaintiff also claims that The Phoenix Insurance repays the said amount without adding linked interest. The plaintiff also claims that The Phoenix Insurance refrains from repaying full linkage when refunding the relative portion of the insurance premiums.	The parties are in a mediation procedure.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
A. Contingent liabilities (cont.)
1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
31.	May 2019 Tel Aviv District Court The Phoenix Insurance Approximately NIS 766.8 million	According to the plaintiff, the claim deals with The Phoenix Insurance's not paying policyholders in participating life insurance policies which include an Rm formula their full share of the profits and full payments to which they are entitled under the insurance contracts; the plaintiff also claims that The Phoenix Insurance does not fulfill its reporting and disclosure obligations towards policyholders regarding their policies and rights.	The petition for approval of the claim as a class action lawsuit continues to be heard in court. It should be noted that the plaintiff stated that a similar motion for approval of a claim as class action, which was filed against another insurance company, had recently been approved.
32.	June 2019 Tel Aviv Regional Labor Court The Phoenix Insurance Approximately NIS 351 million	According to the plaintiff, The Phoenix Insurance charges policyholders of insurance policies which combine a life insurance component and a pension saving component (managers insurance) for investment management expenses without such charges being included in the terms and conditions of the policy.	The Phoenix Insurance has not yet submitted its response to the motion to approve the claim as a class action, and on October 2019, it submitted a motion for stay of proceedings until a decision is made in connection with the motion for leave to appeal against the May 2019 District Court decision to approve as class actions claims filed for similar causes of action (see Section 11 above in the table). A final decision has yet to be made in connection with the stay of proceedings motion.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
33.	July 2019 Tel Aviv District Court The Phoenix Insurance and other insurance companies Approximately NIS 264.5 million from all the defendants, of which approximately NIS 67.5 million is attributed to The Phoenix Insurance.	The plaintiffs claim that the defendants do not pay their policyholders interest as required by law in respect of insurance benefits for the period starting 30 days after the date of delivery of the claim until the date of actual payment.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. It should be noted that according to the plaintiffs, this claim is based on the same cause of action as the class action described in Section 4 above in the table; however, it was nevertheless decided to file this claim for the sake of caution only, given the doubt as to whether the class of plaintiffs seeking the approval of this motion is included in the previous class action. In light of this, at the request of The Phoenix Insurance, in July 2020 the proceedings in this claim were delayed until a judgment will have been rendered in the previous claim.
34.	May 2019 Nazareth Magistrate Court The Phoenix Insurance The amount of the claim was not estimated	According to the plaintiff, this claim deals with The Phoenix Insurance's failure to pay in full insurance benefits under the insurance policy in respect of damage caused to a vehicle, on the grounds that the ownership class of the vehicle is "leasing - sale of a new vehicle with 0 km or formerly" even though the ownership of the vehicle is not and/or never was of such ownership class, and the permanent owner of the vehicle's license as "Owner 00" was the first purchaser, who is not the leasing company.	The plaintiff filed a motion to approve a claim as an amended class action lawsuit. The Phoenix Insurance has not yet responded to this amended motion. A pre-trial hearing is scheduled for March 16 2021. The petition for approval of the claim as a class action lawsuit continues to be heard in court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
35.	August 2019 Central District Court The Phoenix Insurance and other insurance companies The claim amount was not estimated, but it was stated that it was NIS 1 million or more.	The claim is that in insurance policies covering mechanical engineering equipment the defendants determine the value of the equipment for the purpose of determining the premium according to the value of new equipment, disregarding the age of the equipment; however, in the event of total loss of equipment the defendants pay the policyholders insurance benefits in accordance with the equipment's actual value upon the occurrence of the insurance event, taking into consideration the age of the equipment.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
36.	August 2019 Central District Court The Phoenix Insurance and other insurance companies The claim amount was not estimated, but it was stated that it was in the tens of millions of shekels or more.	The plaintiffs claim that in case of vehicle theft or total loss as a result of an accident, the defendants refuse to reimburse policyholders for the proportionate share of the insurance premiums (the premium) paid for service contracts (road recovery services, windscreen repair, towing, etc.) in respect of the period subsequent to the theft or total loss, despite the fact that the service contract is cancelled and the risk it covers no longer exists.	The petition for approval of the claim as a class action lawsuit continues to be heard in court. A pre-trial hearing date has not yet been scheduled. In February 2020, the position of the Capital Market, Insurance and Savings Authority was submitted, which is not in line with the plaintiffs' position.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**A. Contingent liabilities (cont.)****1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)**

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
37.	December 2019 Central District Court PassportCard Israel General Insurance Agency (2014) (hereinafter: "PassportCard") and The Phoenix Insurance The amount of the claim was not estimated	According to the plaintiff, the defendants sell travel insurance without informing their customers - at the time of issuing the insurance policy - about the fact that the "search and rescue" component can be excluded if it is not required by the customers; the plaintiff also claims that the defendants do not inform customers about price changes they make in insurance policies' components; furthermore, the defendants do not inform customers in a clear manner about the right to reimbursement of a proportionate share of the insurance premiums in the event that the actual trip is shorter than planned, and in the event that the insurance period is shortened for any reason whatsoever (including due to cancellation of the insurance policy). The plaintiff also claims that even when the defendants reimburse insurance premiums to policyholders who shortened their travel period and at the same time also shortened the insurance period for any reason whatsoever, they do not reimburse the full insurance premium for the shortened insurance period, contrary to law and the insurance policy.	The parties are in a mediation procedure

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
38.	January 2020 Central District Court The Phoenix Insurance, other insurance companies and a road recovery and towing services company. The claim amount was not estimated but it was stated that it significantly exceeds NIS 2.5 million.	The plaintiff claims that, in cases where vehicles' windscreens broke, the defendants had provided and still provide alternative windscreens, which do not meet Israeli standards and are not manufactured by the same maker as the car; by doing so, the defendants allegedly breach their obligations under the insurance policies and coverage contracts.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
39.	February 2020 Central District Court The Phoenix Insurance The claim amount was not estimated, but it was stated that it is in the millions of shekels or more.	The plaintiff claims that starting in early 2016 or thereabouts, The Phoenix Insurance ceased to fulfill its obligation in health insurance policies marketed prior to February 1 2016, in which it undertook to provide insurance coverage, at no additional cost, to all children born to the principal policyholder (starting with the fourth child), until they reach the age of 21.	The parties are in a mediation procedure.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
A. Contingent liabilities (cont.)
1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
40.	February 2020 Tel Aviv Regional Labor Court The Phoenix Insurance Not less than 25 million	The claim is that The Phoenix Insurance refuses to pay its life insurance policyholders the benefit they are entitled to in respect of the first month after the end of the insurance period (the first month of their retirement).	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
41.	February 2020 Central District Court PassportCard Israel General Insurance Agency (2014) (hereinafter: "PassportCard") and The Phoenix Insurance NIS 6.125 million	The claim is that the defendants violate the provisions of the travel insurance policy, since when an insurance event occurs to a policyholder and insurance benefits are claimed in respect of expenses of a person who travelled with the policyholder or accompanied him/her on their trip, the defendants deduct from the insurance benefits double the deductible - one for the policyholder and the other for another person covered by the insurance, i.e. the policyholder or person who travelled with the policyholder or the person who accompanied him/her. The plaintiff also claims that the defendants violate various provisions of insurance circulars regarding the claim filing form, the data included therein, receiving a copy thereof; the plaintiff further claims that the defendants refrain from informing policyholders who file claims of their right to obtain a copy of the decision made regarding their claim and/or appeal against the decision to various parties, nor do they inform policyholders of the period of time they have to do so.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
The four motions to approve a claim as a class action listed in Sections 42-45 below were filed following the coronavirus pandemic that broke out in March 2020. The motions were submitted in the fields of motor, home and business (employers' liability and third parties) insurance; the plaintiffs argue in these motions that insurance companies in general and The Phoenix Insurance in particular should reimburse policyholders for premiums paid during the period in which restrictions were in place due to the coronavirus pandemic in view of the reduced insurance risk in these fields during that period.			
42.	April 2020 Tel Aviv District Court The Phoenix Insurance and other insurance companies Approximately NIS 1.2 billion from all defendants, of which approximately NIS 145 million is attributed to The Phoenix Insurance.	The claim is that the defendants overcharge insurance premiums in compulsory, comprehensive and third-party motor insurance, despite the decline in trips in Israel due to the spread of the coronavirus, which constitutes a material reduction in the level of risk to which the defendants are exposed.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. On February 22 2021, the court ruled that the petition to approve the claim as a class action and the petition to approve the claim as a class action set forth in Section 44 below would be consolidated into one claim.
43.	April 2020 Tel Aviv District Court The Phoenix Insurance and other insurance companies Approximately NIS 886 million of all the defendants, approximately NIS 107 million is attributed to The Phoenix Insurance.	The argument is that the defendants must reimburse premiums they overcharged policyholders in motor and home insurance, due to a decrease in the risk they are exposed to as a result of the restrictions imposed following the coronavirus pandemic, which led to a decline in trips and a decline in bodily harm and damage to property.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. On February 22, 2021, the court ruled that the petition to approve the claim as a class action in relation to motor insurance was dismissed and will continue to be heard in relation to home insurance.
44.	April 2020 Tel Aviv District Court The Phoenix Insurance, other insurance companies and the managing corporation of the Compulsory Motor Insurance Pool (the "Pool") Ltd. Approximately NIS 719 million of all the defendants, of approximately NIS 113 million is attributed to The Phoenix Insurance.	The plaintiff claims the defendants should reimburse insurance premiums they overcharged their policyholders in motor insurance, due to the decrease in the volume of traffic and road accidents, which reduced the risk to which the defendants were exposed during this period.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. On February 22 2021, the court ruled that the petition to approve the claim as a class action and the petition to approve the claim as a class action set forth in Section 42 below would be consolidated into one claim.
45.	April 2020 Haifa District Court The Phoenix Insurance and other insurance companies Approximately NIS 81 million of all the defendants, of which approximately NIS 13 million is attributed to The Phoenix Insurance.	The plaintiff claims that the defendants overcharged insurance premiums in their employer liability insurance and third-party insurance (as part of business insurance policies), despite the drop in the number of employees, suppliers, customers, etc. who attend businesses due to the coronavirus pandemic and the restrictions imposed as a result thereof, which constitutes a material decrease in the risk to which the defendants are exposed.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
46.	May 2020 Tel Aviv District Court Excellence Gemel & Hishtalmut Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) and additional insurance companies The amount of the claim was not estimated	The claim is that the Law Enforcement and Collection Authority overcharges those who submit foreclosure applications in respect of financial instruments managed by the defendants; overcharging is allegedly carried out through an automated system and amounts overcharged are transferred to the defendants.	The petition for approval of the claim as a class action lawsuit continues to be heard in court.
47.	May 2020 Tel Aviv District Court Phoenix Excellence Pension and Provident Funds Ltd. and other management companies The claim amount was not estimated, but it was stated that it is estimated, at a minimum, in the hundreds of millions of shekels.	According to the plaintiffs, the claim deals with the defendants' classifying some of the contributions transferred to an advanced education fund on behalf of their customers as taxable provisions, even though they are not taxable.	Phoenix Excellence has not yet filed its response to the motion to approve the claim as a class action. A pre-trial hearing is scheduled for July 11 2021.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
48.	June 2020 Tel Aviv District Court PassportCard Israel General Insurance Agency (2014) (hereinafter: "PassportCard") and The Phoenix Insurance At least NIS 10 million	According to the plaintiff, the claim deals with non-payment of insurance benefits in respect of cancellation of a trip due to a pandemic (the coronavirus pandemic) under travel insurance that the plaintiff purchased through PassportCard.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit.
49.	June 2020 Tel Aviv Regional Labor Court The Phoenix Insurance The amount of the claim was not estimated	According to the claim, after a policyholder passes away, The Phoenix Insurance links the funds accrued in the policy to the consumer price index, instead of linking them to the investment track selected by the policyholder, as it previously did.	The Phoenix Insurance filed its response to the motion to approve the claim as a class action. A pre-trial hearing is scheduled for May 3 2021.
50.	June 2020 Central District Court The Phoenix Insurance and another insurance company Approximately NIS 10.5 million for each defendant.	According to the claim, the defendants overcharge customers in loan agreements they enter into with their customers; overcharging takes place due to a one-way linkage mechanism, which is in place under those agreements, whereby if the CPI increases above the base CPI, the defendants collect the linkage differences due to the increase; however, if the CPI decreases below the base index, they do not credit their customers for the said decrease.	The Phoenix Insurance filed its response to the motion to approve the claim as a class action. A pre-trial hearing is scheduled for May 9 2021.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
51.	July 2020 Haifa Magistrate Court PassportCard Israel General Insurance Agency (2014) (hereinafter: "PassportCard") and The Phoenix Insurance NIS 1.84 million	According to the claim, when travel insurance benefits are paid late, the defendants do not pay interest in respect of the delay; the plaintiff also claims that the defendants usually pay the insurance benefits according to the exchange rate on the day of the insurance event rather than the exchange rate on repayment date. In addition, it was argued that the disclosure duty regarding the deductible and the limitation of the insurer's liability with regard to the "winter sports" component is violated as part of a representation made prior to entering into the insurance contract.	The Phoenix Insurance has not yet submitted its response to the motion to approve the claim as a class action, and on January 10 2021, it submitted a motion for stay of proceedings until a final decision has been made in connection with the class action outlined in Section 4 above in the table. A decision has not yet been made in connection with the stay of proceedings motion and a hearing was scheduled for June 6 2021.
52.	July 2020 Central District Court The Phoenix Insurance and other insurance companies Approximately NIS 1.9 billion from all defendants, with the share of each of the defendants matching its market share, which in the case of The Phoenix is claimed by the plaintiffs to be approximately 19%.	The plaintiffs claim that the defendants should charge reduced insurance premiums in cases of exclusions from insurance policies due to an existing medical condition compared to policies from which not exclusions were made, since where exclusions were made the defendants' insurance risk is reduced.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. A pre-trial hearing is scheduled for July 1 2021.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
53.	September 2020 Tel Aviv District Court (the hearing was transferred from Tel Aviv Regional Labor Court) Phoenix Excellence Pension and Provident Funds Ltd. The amount of the claim was not estimated	According to the plaintiff, the claim deals with the defendants' providing incorrect reports and/or incorrect calculations as to linkage differences that were imputed to planholders' accounts; incorrect calculation and presentation of real profits; incorrect recording of contributions such that profits derived therefrom will be unduly subject to tax; causing financial damage to planholders as a result of failure to monitor a deficiency in employers' contributions and failure to supplement the differences, either by sending appropriate notices to employers and planholders or by supplementing the deficiency by the fund itself; and recording contribution dates which are different from the dates on which contributions were actually made.	Excellence Gemel has not yet submitted its response to the petition for approval of the claim as a class action lawsuit. At the request of Excellence Gemel, on March 3 2020, the court forwarded the hearing of the Petition for approval of the claim as a class action lawsuit to the Tel Aviv District Court and to the panel which heard a similar motion for approval as a class action lawsuit filed against it (see Section 47 above in the table).
54.	September 2020 Tel Aviv District Court The Phoenix Insurance NIS 92.7 million	According to the claim, The Phoenix Insurance does not pay policyholders insured under a long-term care policies the full amount due to them under their policies, since it offsets these amounts against proceeds received from the National Insurance Institute; it is also claimed that The Phoenix Insurance does not indemnify policyholders for certain medical treatments.	The Phoenix Insurance filed its response to the motion to approve the claim as a class action. A pre-trial hearing is scheduled for May 13 2021.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
55.	September 2020 Central District Court The Phoenix Insurance and another insurance company NIS 84 million from all the defendants, of which NIS 67.2 million is attributed to The Phoenix Insurance (a total of NIS 16.8 million in respect of critical illness insurance and a total of NIS 50.4 million in respect of permanent health insurance).	According to the claim, the defendants acted in violation of the provisions of critical illness insurance policies when they continued to charge policyholders the full amount of the monthly premium even after the first insurance event had occurred. It was also alleged against The Phoenix Insurance that contrary to its obligations, it charges its policyholders a monthly PHI insurance premium, even after the period of insurance coverage has ended.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. A hearing date has not yet been scheduled.
56.	October 2020 Tel Aviv District Court The Phoenix Insurance It is noted that the amount of the claim cannot be estimated accurately for all groups as defined in the claim; however, it is noted that the amount of the claim in relation to the cosmetic surgery cause of action is NIS 7.53 million.	According to the plaintiff, The Phoenix Insurance does not link the liability limits in its health insurance policies to the Consumer Price Index, thereby preventing policyholders from obtaining full recovery of their damages; the plaintiff also claims that The Phoenix Insurance does not provide insurance coverage to policyholders, claiming that the procedure in question is a cosmetic surgery, thereby breaching the provisions of the insurance contract; the plaintiff further claims that The Phoenix Insurance does not provide fair disclosure of the definition of cosmetic surgery and of the fact that it is excluded from the policy.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. A hearing date has not yet been scheduled.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

1. Class actions - petitions to approve lawsuits as class actions and lawsuits approved as class actions (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
57.	November 2020 Tel Aviv District Court PassportCard Israel General Insurance Agency (2014) (hereinafter: "PassportCard") and The Phoenix Insurance The amount of the claim was not estimated	According to the plaintiff, in the event of a flight cancellation, The Phoenix Insurance conditions the payment of insurance benefits upon a onerous condition whereby the policyholder is required to present an official confirmation on the flight cancellation from the airline; the plaintiff claims that insurance benefits are not paid due to a concealed, unlawful reason, whereby the policy only covers the cancellation of scheduled flights. By doing so, The Phoenix Insurance allegedly sold a product that has no value and does not cover the flight cancellation risk.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. A pre-trial hearing is scheduled for June 1 2021.
58.	December 2020 Haifa Magistrate Court The Phoenix Insurance NIS 1.75 million	According to the plaintiff, who is insured in a health insurance policy comprising of a list of surgical procedures, The Phoenix Insurance does not pay insurance benefits in respect of invasive surgical procedure involving a further medical procedure to policyholders who took out the insurance before 2014.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. A pre-trial hearing is scheduled for July 8 2021.
59.	December 2020 Central District Court The Phoenix Insurance The aggregate claim amount was not estimated but it was stated that it exceeds NIS 2.5 million.	According to the plaintiff, The Phoenix Insurance allegedly does not indemnify its policyholders in motor insurance policies relating to vehicles other than private and commercial cars weighing up to 3.5 tons (such as trucks, taxis, etc.), in respect of the damage caused to their vehicle due to the insurance event - which, the plaintiff claims, is in breach of the policy and the law. It is further claimed that The Phoenix Insurance does not provide its policyholders with an appraiser's report, which includes an estimate of the impairment to the vehicle's value due to the insurance event nor its manner of calculation.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. A pre-trial hearing is scheduled for October 4 2021.
60.	February 2021 Central District Court The Phoenix Insurance The claim amount was not estimated, but it was stated that the damage exceeds NIS 2.5 million.	According to the plaintiff, the claim deals with the increasing of insurance premiums by more than 75% than the agreed premiums in life, long-term care, and PHI insurance policies taken out as part of a special deal for members of the Israel Bar Association in 2016 (and potentially in other insurance policies), without informing policyholders, obtaining their consent and providing them with any explanations.	The Phoenix Insurance has yet to submit its response to the petition to approve the class action lawsuit. A hearing date has not yet been scheduled.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

2. Concluded claims*

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
1.	December 2018 Jerusalem District Court The Phoenix Insurance and other insurance companies The claim amount was not estimated, but it was stated that it was NIS 1 million and over NIS 2.5 million.	According to the plaintiff, the claim deals with the defendants' unlawfully holding funds stemming from checks which were sent to the policyholders whose entitlement to insurance benefits or reimbursement of insurance premiums was recognized by the defendants, but these checks have not been deposited by policyholders.	In April 2020, the court issued a ruling confirming the plaintiff's withdrawal from the motion to approve the claim as a class action, following the court's recommendation that the plaintiff do so.
2.	June 2018 Tel Aviv Regional Labor Court (the hearing was transferred from the Central District due to substantive jurisdiction) Agam Liderim (Israel) Insurance Agency (2003) Ltd. (hereinafter: "Agam Liderim") - a subsidiary of The Phoenix Holdings. NIS 3,045,000	According to the plaintiff, Agam Liderim - which provides pension marketing services and operating services - charged employers clearing fees for operating services in respect of their employees, but did not ensure that the management fees paid by the employee to the institutional entity was reduced by the amount of the clearing fee paid by the employer to Agam Liderim.	In April 2020, the court issued a ruling confirming the plaintiff's withdrawal from the motion to approve the claim as a class action.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

* For additional claims concluded between January 1 2020 and March 31 2020, please see Note 42(b), Section 6 of the table of concluded claims in the Company's financial statements as of December 31 2019, published on March 31 2020 (Ref. No. 2020-01-034023).

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

2. Concluded claims* (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
3.	September 2015 Central District Court The Phoenix Insurance and other insurance companies Tens and even hundreds of millions of shekels from all defendants	According to the claim, as part of dealing with a claim for insurance benefits under long-term care insurance, the defendants allegedly adopted an interpretive position, according to which in order to recognize the group members' claim regarding the "incontinence" component, the incontinence should be a result of a urological or gastroenterological disease or deficiency only, contrary to the provisions of the insurance policies.	In April 2020, the court issued a ruling dismissing the motion to approve the claim as class action against The Phoenix Insurance. The ruling states that the manner in which The Phoenix Insurance conducts itself is consistent with its interpretation of the policy, and accordingly ruled that no sufficient evidence was provided that contradicts this; the ruling also states that there is no reasonable possibility that the plaintiffs' claim will be decided with a result that favors the class members.
4.	January 2014 Tel Aviv District Court The Phoenix Insurance and other insurance companies NIS 200 million from all defendants	Collection of a premium in comprehensive motor insurance calculated according to a vehicle value which is higher than the actual value as calculated when an insurance event occurs (total loss of the vehicle) due to various deductions in respect of "special variables" or "special components".	In December 2017, the District Court issued a ruling dismissing the motion to approve the claim as a class action, since the motion does not disclose a cause of action against the defendants, nor does it meet the threshold requirements for filing a class action. In February 2018, the plaintiffs filed an appeal against the judgment with the Supreme Court, and in June 2020, a judgment was rendered by the Supreme Court dismissing the appeal.

¹ The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

² The date on which the petition for approval of the claim as a class action was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

2. Concluded claims* (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
5.	May 2018 Tel Aviv District Court The Phoenix Insurance Approximately NIS 3.9 million	According to the plaintiffs, The Phoenix Insurance violates the provisions of the law by tying the reimbursement of insurance premiums for the period after the cancellation of a travel insurance policy when the policyholder returned to Israel earlier than intended to waiver of insurance benefits to which the policyholder is entitled by virtue of the policy due to an insurance event that occurred while he stayed abroad; according to the plaintiffs, such violation also occurs when The Phoenix Insurance ties the reimbursement of insurance benefits to which the policyholder is entitled due to an insurance event that occurred abroad to waiver of reimbursement of insurance premiums for the period after the cancellation of the policy when the insured returned to Israel earlier than planned.	In July 2020, the District Court issued a judgment approving the plaintiff's withdrawal from the motion to approve the claim as class action, and it was decided that the motion be struck and the plaintiff's personal claim was denied.
6.	September 2014 Haifa Regional Labor Court The Phoenix Insurance Approximately NIS 55 million	The plaintiffs claim that The Phoenix Insurance has stipulated in managers insurance policies that the annuity conversion factor (the amount of the monthly benefit for every NIS 10,000 accrued in the policy over the years) according to which insurance benefits will be paid to policyholders who are women when they reach retirement age will be lower than that of policyholders who are men, due to higher life expectancy of women. However, on the other hand, The Phoenix Insurance collected from women policyholders a life insurance premium that is identical to that collected from men policyholders, despite the fact that women's mortality rates are much lower than men's.	In February 2020, a decision was issued according to which the motion to approve the claim as a class action was denied. This is based on the ruling handed down in December 2019 by the National Labor Court in a similar case (hereinafter: the "corresponding case"). In March 2020, the plaintiff appealed against the decision to the National Labor Court, and in July 2020, a the National Labor Court ruled that the appeal filed by the plaintiff be struck. It should be noted that the plaintiffs in the corresponding case submitted a petition to the High Court of Justice in relation to the ruling, and the petition was dismissed in limine; the plaintiffs also submitted a request for a further hearing in connection with the dismissal of the petition. On November 24 2020, the Supreme Court denied the request for further hearing.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

2. Concluded claims* (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
7.	December 2019 Tel Aviv District Court The Phoenix Insurance At least NIS 19.25 million	According to the plaintiff, The Phoenix Insurance usually sends warning letters through a law firm representing it to customers who are indebted to it; the amount of the debt includes collection expenses accrued in respect of such a warning letter, which amounts to hundreds of shekels added to the original debt principal.	On November 25 2020, the District Court handed down a judgement approving the plaintiff's withdrawal from the petition to approve the claim as a class action and instructing the dismissal of the plaintiff's personal claim. It should be noted that a similar motion for approval of a claim as class action, which was filed in September 2017 against The Phoenix Insurance, also resulted in withdrawal in July 2018.
8.	February 2017 Tel Aviv District Court (Department of Economic Affairs) The Phoenix Pension and Gemel Ltd. (currently: Phoenix Excellence Pension and Provident Funds Ltd.) NIS 7.5 million	Unlawful collection of file preparation fees, handling fees, collection fees, operating fees or fees and commissions or any other similar payment (however it is called) by The Phoenix Pension from its planholders who took out loans from the Company.	In January 2020, the parties submitted to the court a motion for approval of a settlement agreement for an amount that is immaterial to The Phoenix Pension, under which The Phoenix Pension will refund 75% of the handling fees it collected, as defined in the settlement agreement, plus interest and linkage differences; the parties also recommended the payment of compensation to the class action plaintiff and his/her attorneys. On December 3 2020, a judgment was rendered by the District Court confirming the settlement agreement.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

2. Concluded claims* (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
9.	February 2017 Tel Aviv District Court The Phoenix Insurance and additional companies Approximately NIS 9.66 million is claimed from all defendants, of which approximately NIS 2.86 million is attributed to The Phoenix Insurance; the handling fees collected by The Phoenix Insurance from borrowers who are not planholders (the amount of which was not assessed) are to be added to this amount.	According to the plaintiff, the defendants collect unlawfully, from planholders or third parties to which they extended loans, various payments in respect of setting up the loan and/or handling the loan (handling fees), in addition to the management fees and expenses paid to them as remuneration for managing and investing funds.	In January 2020, the parties submitted to the court a motion for approval of a settlement agreement for an amount that is immaterial to The Phoenix Insurance, under which The Phoenix Insurance will refund 75% of the handling fees it had collected, as defined in the settlement agreement, plus interest and linkage differences. The parties also recommended the payment of compensation to the class action plaintiff and his/her attorneys. On December 3 2020, a judgment was rendered by the District Court <u>confirming</u> the settlement agreement. It should be noted that a similar motion for approval of a claim as class action was filed and concluded against The Phoenix Pension - see Section 8 above in the table.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

A. Contingent liabilities (cont.)

2. Concluded claims* (cont.)

No.	Date, ¹ court, ² defendants and claim amount ³	Main arguments	Details
10.	September 2015 Tel Aviv District Court (Department of Economic Affairs) Excellence, Excellence Nessuah Financial Products Ltd., Excellence Nessuah Stock Exchange Services Ltd., Mr. Gil Deutsch, Mr. Aharon Biram, Mr. Eran Fox (hereinafter: "Defendants 1"), Excellence Gemel (currently: Phoenix Excellence Pension and Provident Funds Ltd.), Mr. Noam Deutsch and Mr. Gili Cohen (hereinafter: "Defendants 2"). Approximately NIS 78 million	The claim relates to asset-backed bonds, which were issued to the public by special purpose companies (SPCs) in the Excellence Group, with the (only) backing assets for these bonds being notes issued by foreign banks. The lawsuit is directed at bond buybacks made by Excellence Group companies from the investing public, while at the same time selling the notes backing the bonds back to the foreign banks that issued them in the first place. The plaintiffs allege that various employees of the Excellence Group conspired to carry out an alleged fraud, unlawfully using insider information they had. With regard to Excellence Gemel, it was alleged that it held such bonds during the relevant period (defined as the period between October 1 2008 and December 31 2009), and sold them to Excellence Nessuah Financial Products Ltd. at a price lower than their fair value.	At a hearing held in June 2017, the court upheld the plaintiffs' withdrawal from the motion to approve the claim as a class action against Defendants 2. In February 2019, the District Court rendered a judgment denying the motion for approval of the claim as a class action against Defendants 1. In April 2019, the plaintiffs filed an appeal against the judgment, and on February 23 2021, a judgment was rendered by the Supreme Court dismissing the appeal.
11.	In February 2019, the Tel Aviv Regional Labor Court (the hearing was transferred from the Central District due to substantive jurisdiction); The Phoenix Insurance NIS 93.8 million	According to the plaintiff, the claim deals with The Phoenix Insurance's allegedly, automatically, and without seeking prior written consent to do so, added teachers who are members of the Israel Teachers Union to its life and group disability insurance plans, while charging the premium on a mandatory basis.	On March 10 2021, the court issued a ruling confirming the plaintiff's withdrawal from the motion to approve the claim as a class action.

¹ The date on which the petition for approval of the claim as a class action was originally filed.

² The court with which the petition for approval of the claim as a class action lawsuit was originally filed.

³ The claim amount as assessed (if assessed) by the claimant(s) in the petition for approval of the claim as a class action lawsuit.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**A. Contingent liabilities (cont.)****3. Legal proceedings**

Set forth below is a description of legal and other proceedings against the Group. For proceedings where, in the opinion of management - which is based, among other things, on the legal opinion it has received - it is more likely than not that the Group's defense claims will be allowed and the proceeding will be dismissed, no provision was included in the financial statements.

For proceedings where it is more likely than not that the Group's defense claims will be dismissed, in whole or in part, the financial statements include provisions to cover the exposure estimated by the Group. In management's opinion, which is based, among other things, on legal opinions it received, the financial statements include adequate provisions, where provisions were required, to cover the exposure estimated by the Group.

1. On November 11 2020, an insurance agency filed a lawsuit in the amount of approximately NIS 17.6 million against The Phoenix Insurance and nine other defendants, including an agency which is part of The Phoenix Group, alleging misuse of the plaintiff's trade secrets and list of customers. It should be noted that the plaintiff had previously filed a motion for a temporary injunction in respect of the subject matter of the claim - and the motion was dismissed. The lawsuit continues to be heard in court.
2. The Group is a party to legal and other proceedings, which are not insurance claims, including, among other things, claims made by customers, former customers, agents and various third parties in immaterial amounts and for a total amount of approximately NIS 35.8 million. The causes of action against the Group in these proceedings are different.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**A. Contingent liabilities (cont.)****4. Other proceedings**

- a. On July 13 2020, following an audit conducted by the Capital Market Authority regarding marketing phone calls held in respect of personal accident insurance, taking place between September 1 2016 and November 30 2017, The Phoenix Insurance received a notice from the Capital Market Insurance and Savings Authority to the effect that it intends to impose a NIS 8 million monetary sanction on the Company due to alleged violations identified in the audit (hereinafter: the "Notice"). The Phoenix Insurance submitted its written response to said Notice, and on October 28 2020, a hearing was held before the Authority. The Authority's decision has yet to be issued.
- b. An administrative enforcement procedure of the Israel Securities Authority took place in Excellence Nessuah Brokerage Services Ltd., in connection with the failure to declare coordinated transactions between the years 2011-2014. On December 13 2020, the Administrative Enforcement Committee approved an administrative enforcement arrangement with the Company, according to which a monetary sanction in the amount of NIS 1 million would be imposed on it; the sanction was paid in January 2021.
- c. On October 13 2020, the Israel Securities Authority (hereinafter: the "ISA") notified Excellence Nessuah Brokerage Services Ltd. that a request to impose a monetary sanction on Excellence Nessuah had been submitted to the Monetary Sanctions Committee following an audit conducted by the ISA from November 2018 to May 2019 in connection with issues related to the prohibition of money laundering. In January 2021, Excellence Nessuah submitted its written position to the ISA. The committee has yet to discuss the position.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**A. Contingent liabilities (cont.)****5. Complaints**

Complaints are filed against the Group from time to time, including complaints to the Commissioner of the Capital Market, Insurance and Savings (hereinafter: the "Commissioner") in relation to policyholders' rights under insurance policies and/or the law. These complaints are handled on an ongoing basis by the Group's Public Complaints Department. The Commissioner's decisions with regard to these complaints, to the extent that a decision has been made in respect thereof, are sometimes issued as sweeping decisions relating to a group of policyholders. Before issuing a final version of his decisions, the Commissioner usually issues a draft decision.

Furthermore, as part of the Commissioner's inquiries with the group, following complaints and/or audits on his behalf, demands are made from time to time to receive various data regarding the Group's handling of insurance policies in the past and/or a demand to reimburse funds to groups of policyholders and/or other guidelines. In addition, the Commissioner has the power, among other things, to impose monetary sanctions on the Group in accordance with the data that was and/or will be transferred thereto following inquiries as described above. In addition to the motions for approval of claims as class actions filed against the Group and the legal and other proceedings, there is a general exposure, which cannot be assessed and/or quantified, due to, among other things, the complexity of the services provided by the Group to its policyholders. The complexity of these services inevitably leads to interpretive claims and other claims due to information gaps between the Group and third parties to the insurance contracts in connection with a long list of commercial and regulatory terms. This exposure is reflected, among other things, in the areas of pension savings and long-term insurance, including health and long-term care insurance, in which the Group operates. Insurance policies in these areas of activity are assessed over many years in which policies, regulation and

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**A. Contingent liabilities (cont.)****5. Complaints (cont.)**

legislation change and new court rulings are issued. These changes are implemented by automated systems that undergo frequent changes and adjustments. The complexity of these changes and the application of the changes over many years lead to an increased operational exposure. In addition, allowing new interpretations for the provisions of insurance policies and long-term pension products sometimes affects the Group's future profits in respect of its existing portfolio, in addition to the exposure embodied in claims for compensation for customers in respect of past activity.

It is impossible to anticipate the types of claims that will be raised in this area or the exposure arising from these and other claims in connection with insurance contracts - claims which are raised through, among other things, the procedural mechanism set forth in the Class Actions Law.

In addition, some of the Group's products have long terms and are particularly complex in light of the various legislative arrangements both in the field of product management and in the field of taxation, attribution of contributions, investment management, the policyholder's employment status, his contributions and more.

The Wage Protection Law, 1958 imposes a liability on the Group's institutional entities, in accordance with the circumstances specified in the law, in respect of employers' debts to the institutional bodies, where such debts have not been repaid on time. The Group is in the process of improving the data on employers' debts and policyholders' rights, during the course of which lawsuits were filed against employers and the debts of other employers were rescheduled. Once this process is completed, the Group will complete the handling of employers' debts in accordance with the provisions of the law.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
A. Contingent liabilities (cont.)
6. Summary table

The following table summarizes the amounts claimed in pending motions for approval of claims as class actions, claims approved as class actions and other material claims against the Group, as noted by the plaintiffs in the statements of claim filed on their behalf. It is hereby clarified that the amounts claimed do not necessarily reflect the amounts of exposure assessed by the Group, since these are assessments on behalf of the plaintiffs which will be resolved as part of the legal proceedings. It is further clarified that the table below does not include proceedings that have been concluded, including proceedings that concluded after a compromise agreement was approved in respect thereof.

Type	No. of claims	Amount claimed in NIS thousand (unaudited)
<u>Claims approved as a class actions:</u>		
A specific amount was attributed to the Company	4	597,700
The claim pertains to several companies and no specific amount was attributed to the Company	1	225,200
The amount of the claim was not specified	-	-
<u>Pending petitions to approve lawsuits as class actions:</u>		
A specific amount was attributed to the Company	25	4,123,832
The claim pertains to several companies and no specific amount was attributed to the Company	7	3,745,965
The amount of the claim was not specified	23	-
<u>Other material claims:</u>		
A specific amount was attributed to the Company	-	-
The claim pertains to several companies and no specific amount was attributed to the Company	-	-
The amount of the claim was not specified	-	-
<u>Claims and other requirements</u>	24	35,843

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**A. Contingent liabilities (cont.)****6. Summary table (cont.)**

against the Group as specified above as of December 31 2020 and December 31 2019, amounted to approximately NIS 185,444 thousand (of which a total of approximately NIS 7,480 thousand is in respect of concluded class actions) and approximately NIS 108,866 thousand, respectively.

B. Guarantees and pledges provided

- 1) The Phoenix Insurance provides a guarantee for planholders of Excellence Merkazit LePitzuim and planholders of Excellence Gemel, such that the amount repaid to them will in no case fall below the amounts they deposited in the funds. The value of the assets of the aforesaid funds as of balance sheet date significantly exceeds the amounts guaranteed by The Phoenix Insurance.
- 2) To secure the repayment of the principal, interest and linkage differences, which special purpose companies operating in the field of issuance of Excellence's structured instruments have undertaken to pay bondholders, and to secure full and accurate fulfillment of all of their other obligations under the terms of the bonds and deed of trust, the said companies placed a first ranking fixed charge on all their rights in non-marketable bonds issued to them, and a first ranking floating charge on their rights in bank accounts, with which the consideration of the issuance and the proceeds received on the non-marketable bonds were deposited.
- 3) The Phoenix Insurance provided a bank guarantee to some of Ad 120's tenants. As of December 31 2020, the balance of deposits against which bank guarantees were provided is approximately NIS 2.5 million. Ad 120 and the partnerships it holds registered caveats in favor of tenants living in the senior housing facilities.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**B. Guarantees and pledges provided (cont.)**

- 4) On January 24 2020, an amendment to the Assisted Living Law, 2012 came into effect, whereby an operator of a senior housing facility may only receive from tenants amounts on account of the deposit in excess of seven percent of the deposit or NIS 70,000 (the lower of the two) if the operator provided to the tenant one of the collateral listed in the law to secure the repayment of the balance of the deposit which the tenant is entitled to recover under the agreement. Accordingly, The Phoenix Insurance provided guarantees to tenants of Ad 120. As of December 31 2020, the guarantees total NIS 607 million.
- 5) In February 2016, Ad 120 provided a financial guarantee of approximately NIS 1.3 million in favor of the Modi'in municipality, as part of an infrastructure agreement that constituted part of the terms and conditions of the tender for acquiring the rights to the land. In March 2019, Ad 120 provided a financial guarantee of approximately NIS 2.2 million to the Ministry of Housing as part of a construction and development contract that constituted part of the terms and conditions of the tender for acquiring the rights to the land in Kiryat Motzkin.
- 6) The Anchor fund started operating in February 2018; the general partner of this fund is the Phoenix Capital Ltd., 65% of which is held by The Phoenix Investments. The Anchor fund invests in financial debt instruments outside Israel. As part of the agreement for the establishment of the fund, The Phoenix Insurance provided a guarantee in respect of a credit line of up to USD 45 million, which the fund received from a banking corporation. Furthermore, nostro funds and funds of The Phoenix's planholders - totaling approximately USD 25 million - were invested. Subsequent to the balance sheet date, it was decided to reduce the amount of the guarantee provided in respect of a credit facility which the fund received from a banking corporation, to USD 40 million.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**B. Guarantees and pledges provided (cont.)**

- 7) In June 2019, Phoenix Invest Varied Debt Strategies Limited Partnership (hereinafter: "Invest") - an investment fund open only to institutional entities - commenced operations; Invest's general partner is The Phoenix Capital Ltd. As part of the establishment of the fund, the Company's Audit Committee and Board of Directors approved the engagement with Invest in a liquidity and holding agreement in connection with the nostro funds for the activity of debt funds. The scope of the holding services agreement is up to NIS 200 million. The agreement is designed to enable Invest to purchase assets at times when it does not have sufficient liquidity, and money is called for by funds in which it has invested. Invest, on the other hand, has an undertaking to purchase the assets acquired using nostro funds immediately after it raises additional funding sources in accordance with the account settling mechanism set out in the agreement. Furthermore, an agreement is in place to secure up to NIS 300 million in liquidity, to be used in the event of redemptions from Invest against an undertaking by Invest to repay the funds immediately after raising funding sources, all subject to the restrictions set out in the agreement.
- 8) In January 2020, The Phoenix Capital became a 50% partner in The Phoenix Financial Technologies Funds Ltd. - the managing partner of the Phoenix RE Senior Debt partnership. The Phoenix Financial Technologies Funds Ltd. invests in financial debt instruments outside Israel in the field of real estate. In December 2020 The Phoenix Insurance provided a guarantee in respect of a credit line of up to USD 5 million, which the fund received from a banking corporation. Subsequent to the balance sheet date, it was decided to allocate further USD 5 million in respect of said guarantee, which increased the total amount of the guarantee to USD 10 million.
- 9) In 2002, the TASE's Board of Directors decided to establish a risk reserve for its clearing house to secure members' undertakings to the clearing house. The share of each TASE member in the fund shall be determined in accordance

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**B. Guarantees and pledges provided (cont.)**

with its share in the volume of trade taking place on the TASE based on its general daily average clearing volume. Accordingly, Excellence deposited its share with the TASE risk reserve - amounting to approximately NIS 38 million as of December 31 2020 (December 31 2019 - NIS 12 million).

- 10) As of the date on which Amendment No. 28 came into effect, fund managers who opt to do so will be allowed, in accordance with the provisions and conditions set out in the tracker funds regulations, to set variable management fees, which under certain circumstances will allow fund managers to cancel or reduce the difference between the fund's yield and the change in the price of the underlying asset during the calculation period, by increasing the management fees if the fund's yield exceeded the yield on the underlying asset (positive management fees), and by refunding management fees when the difference between the fund's yield and the yield on the underlying asset is negative (negative management fees), by a rate of 0.1%, 0.2% or 0.3%, as a function of the fund's exposure to the indexes listed on the tracker funds regulations. To secure the payment of the variable management fees, fund managers are required to provide a deposit, whose amount will be determined in accordance to a mechanism set in the tracker funds regulations; alternatively, fund managers can provide a bank guarantee. The deposit will be deposited with an account, which is free from any charge, foreclosure, lien or any other third-party right; the trustee shall have exclusive signatory rights in such an account. KSM Mututal Funds decided that some of the tracker funds under its management shall have variable management fees; therefore, KSM Funds provided a bank guarantee in favor of the trustees of the ETFs; the guarantee was issued by Bank Hapoalim Ltd. as collateral for payment of the variable management fees. The amount of the guarantee is calculated by multiplying the rate of variable management fees by total assets under management in the ETF in respect of which variable management fees were determined in accordance with the Joint Investment Trust Regulations (Tracker Funds), 2018.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**B. Guarantees and pledges provided (cont.)**

This, with the exception of a dedicated deposit at the total amount of NIS 150 thousand (in lieu of a bank guarantee as aforesaid) in favor of the trustee of U-Bank.

- 11) Excellence Brokerage Services placed charges - unlimited in amount - on its securities account in favor of Mizrahi Tefahot Bank Ltd. and in favor of the TASE Clearing House. The charge in favor of Mizrahi Tefahot Bank Ltd. is designed to secure liabilities in respect of writing MAOF options of Excellence Brokerage Services and its customers. The charge in favor of the TASE Clearing House is required under the directives of the TASE. As of December 31 2020, the amount of the liability is approximately NIS 11,020 thousand (2019 - approximately NIS 10,237 thousand). Furthermore, a guarantee was provided by Mizrahi Tefahot Bank Ltd. in respect of the bank's obligation to the TASE Clearing House for daily monetary clearing purposes. The maximum guarantee amount is NIS 30 million, and it varies in accordance with the TASE Clearing House's directives regarding a minimum debit ceiling.

C. Commitments

- 1) As of December 31 2020, The Phoenix Insurance has commitments to acquire investment property and property, plant and equipment at the total amount of approximately 2,070 million, of which approximately NIS 838 million are in respect of yield-dependent contracts; most of the amount is in respect of the 1000 Complex, see also Section 4 below; (as of December 31 2019, the Company had such commitments at the total amount of approximately NIS 51 million, of which NIS 36 million were in respect of yield-dependent contracts).

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
C. Commitments (cont.)

- 2) The Group has commitments to pay rent and maintenance in respect of offices in future years (excluding VAT), as follows:

Dec. 31 2019	Dec. 31 2020	Year
NIS thousands (*)		
28,442	28,609	2021
26,709	27,058	2022
20,262	20,637	2023
8,852	10,187	From 2024
84,226	86,491	

(*) The rent is linked in part to the exchange rate of the US dollar and in part to the CPI. The above amounts do not reflect the effect of future changes in the CPI and/or the exchange rate of foreign currency on the amounts of commitments, and they are presented in nominal values.

- 3) The Phoenix Insurance has commitments for future investments in investment and venture capital funds totaling approximately NIS 5,619 million as of December 31 2020, of which NIS 4,136 million is in respect of yield-dependent contracts. (As of December 31 2019 - approximately NIS 2,813 million, of which NIS 2,360 million is in respect of yield-dependent contracts). Furthermore, The Phoenix Insurance has commitments to extend credit at the total amount of approximately NIS 1,662 million as of December 31 2020, of which NIS 393 is in respect of yield-dependent contracts.

(as of December 31 2019 - approximately NIS 2,070 million, of which approximately NIS 1,066 million are in respect of yield-dependent contracts). Furthermore, The Phoenix Insurance has commitments to purchase shares totaling approximately NIS 458 million as of December 31 2020, of which NIS 365 is in respect of yield-dependent contracts; (as of December 31 2019 there were no such commitments).

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**C. Commitments (cont.)**

- 4) On December 17 2019, The Phoenix Insurance Company Ltd. won a tender that relates to an area measuring about 15 acres located in the "1000 Complex" in Rishon Lezion, where the construction rights in the tender pursuant to the present urban planning scheme amount to a total of about 355 square meters. In accordance with the terms of the tender, the winner undertook to construct about half of the building area within a period of about eight years from the signing date of the agreement with the City of Rishon Lezion, where an obligation for self use exists for an area measuring about 50 thousand square meters within 5 years. With respect to the remaining land, a joint bid submitted by The Phoenix Insurance Company Ltd. and Acro Landscape Limited Partnership (held by Arabov Investments Ltd.) won the tender (hereinafter: "Acro", "Arabov" and the "Joint Land", respectively). Acro - through its subsidiaries - is engaged in the development of real estate; The Phoenix Insurance Company Ltd. holds 29.12% in Arabov. Arabov's share in the Joint Land is 10%, and The Phoenix Insurance Company Ltd. and Acro have a collaboration agreement which regulates the relationship between the companies, including generally accepted separation mechanisms and options, whereby Acro can reach a share of 20% of the Joint Land; the consideration paid to the City of Rishon Lezion in respect of the purchased land was NIS 338 million. The estimated cost of construction work with respect of half of the building rights, which the Company undertook to construct within 8 years, is approximately NIS 1.9 billion, of which approximately NIS 648 million is attributed to the construction of the building designated for own use. This winning in the tender was subject to approval of the Rishon Lezion City Council. On February 27, 2020, the Rishon Lezion City Council approved the winning of The Phoenix Insurance in a tender for the purchase and execution of construction work in the "1000 Complex" in Rishon Lezion.
- 5) Phoenix Excellence Pension and Provident Funds Ltd. has an agreement with Malam Provident Fund Operation Ltd., whereby Malam Provident Fund Operation Ltd. renders Phoenix Excellence Pension and Provident Funds Ltd. operating

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)**C. Commitments (cont.)**

services for planholders' accounts with the provident fund and the personally managed advanced education fund under its management, in consideration for tiered monthly operating fees derived from the planholders' total assets. The agreement is for an unlimited period; it includes a termination mechanism whereby the parties may terminate it by giving advance notice in accordance with the terms of the agreement.

- 6) Phoenix Excellence Pension and Provident Funds Ltd. and Mizrahi Tefahot Bank Ltd. entered into an agreement for the operating of planholders' accounts with provident funds under its management. In 2019, the term of the agreement was extended until the end of 2023; the agreement has in place a termination and/or extension mechanism subject to the parties' consent.
- 7) As of the report date, Phoenix Excellence Pension and Provident Funds Ltd. entered into distribution agreements with most Israeli banking corporations for the distribution of the provident and pension funds under its management
- 8) On June 27 2013, The Phoenix Insurance and The Phoenix Pension Ltd. signed a reinsurance agreement as part of adding and operating the insurance tracks in the supplementary pension fund, in view of the amendment of its bylaws. The Capital Market, Insurance and Savings Authority approved the agreement on December 31 2013. Under the said agreement, The Phoenix Insurance insures The Phoenix Pension for the comprehensive pension fund under its management. The insurance coverage includes dependents insurance and permanent health insurance. On June 30 2019, the agreement was assigned to Phoenix Excellence Pension and Provident Funds Ltd. as part of the merger of The Phoenix Pension into Phoenix Excellence Pension and Provident Funds Ltd., and in parallel to the assignment of all The Phoenix Pension's agreements on the date of the said merger. In 2020, a reinsurance agreement was signed with

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

C. Commitments (cont.)

Swiss Re, which replaces the former agreement signed with that company in early 2020. As in the case of the previous agreement, this agreement includes a mechanism whereby the pension fund bears 10% of the exposure amount, and the remaining balance (approximately 90%) is ceded to the reinsurer.

- 9) On May 6 2019, The Phoenix Insurance and The Phoenix Pension Ltd. signed a new collective agreement with the New General Workers' Federation and the National Workers' Committee of Phoenix Workers, which extended the term of the collective agreement that was in place until that date, except for some changes that were made in the new collective agreement. The term of the agreement is three years starting on January 1 2019 through December 31 2021; the agreement applies to all The Phoenix Group employees in the said companies, except for managers at a rank defined in the agreement and employees working in specific positions who were excluded from the agreement. For additional details, please see Note 23 (f) and the Company's immediate report dated May 6 2019 (Ref. No. 2019-01-039201).
- 10) Excellence Investments Ltd. has taken out professional liability insurance and fidelity insurance with The Phoenix Insurance; the insurance covers the employees of Excellence Investments and its subsidiaries for a 12-month period beginning in May 2020. Furthermore, Excellence has taken out crime insurance, which covers it directly, and is also insured - as of October 2018 - under the officers and directors liability insurance of The Phoenix Group.
- 11) Excellence Nessuah Brokerage Services Ltd. has an agreement with FMR Computers and Software Ltd. ("FMR"), according to which the consolidated company receives software development services, computer-assisted data processing, including generation of reports, and computer processing based on information received directly from the TASE. The agreement is extended from time to time. In July 2019, the consolidated company signed an agreement

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

C. Commitments (cont.)

extending the term of the revised services agreement through June 30 2021; among other things, the mechanism for determining the consideration payable to FMR was revised. As of the reporting date, no agreement for renewal or extending the term of the existing services agreement has been signed yet due to disagreements between the parties.

- 12) The Phoenix Insurance and Excellence Nessuah Services Ltd. have an agreement with Danel Financial Solutions Ltd., whereby the company has a license to use the Danel FC software for management of financial assets and for provision of software maintenance services.

The agreement was signed on June 13 2018. The agreement expires on December 31 2020. As of the reporting date, the agreement was extended by another 5 years.

- 13) As to agreements for investment in investees, and agreements of investees with others, please see Note 7.

NOTE 42 – CONTINGENT LIABILITIES AND COMMITMENTS (cont.)
D. Leases
a. Leases in which the Group is a lessee under an operating lease

The Group is a party to operating lease agreements in respect of vehicles. The average duration of the leases is 3 years, and the leases do not have an extension option. Set forth below is a breakdown of the minimum future lease fees receivable in respect of non-cancellable operating lease contracts as of December 31:

	For the year ended December 31	
	2019	2018
	In NIS thousand	
Up to one year	14,687	16,023
From one year to five years	10,623	11,109
	<u>25,310</u>	<u>27,132</u>

b. Leases in which the Company is the lessor:

The Phoenix Insurance Company leases several commercial buildings (investment property) to external entities. The lease agreements are for variable periods that cannot be cancelled; the rent is linked to the CPI. Renewal of the lease contracts at the end of their term is subject to the consent of the Company and the lessees.

Set forth below is a breakdown of the minimum future lease fees receivable in respect of non-cancellable lease contracts (without options):

	For the year ended December 31	
	2019	2018
	In NIS thousand	
Up to one year	132,944	121,718
From one year to five years	352,206	312,723
Over five years	194,535	120,684
	<u>679,686</u>	<u>555,125</u>

NOTE 43 - SUBSEQUENT EVENTS

- A. As to the effect of the coronavirus on the Group's activity, please see Note 1.
- B. On January 11 2021, Midroog announced it is reiterating the rating of Series 3 and 4 bonds at Aa3.il, with a stable outlook. For additional details see the Company's immediate report dated January 11 2021 (Ref. No. 2021-01-004732).
- C. On January 20 2021, Universal Motors Israel Ltd. (hereinafter: "UMI") purchased from a third party and as part of an off-floor transaction 12,478,168 ordinary Company shares in consideration for NIS 26 per share - for a total of approximately NIS 324.43 million. Subsequent to the acquisition, UMI will hold 4.9% of the Company's share capital. For additional details see the Company's immediate report dated January 20 2021 (Ref. No. 2021-01-009007).
- D. Regarding the acquisition of Halman Aldubi, please see Note 7d(16) above.
- E. Regarding the possibility of selling Ad 120, please see Note 1 above.
- F. On January 31 2021, Ma'alot S&P reiterated The Phoenix Insurance's rating at -ilAA and ilAA+, respectively, with a stable outlook; it rated the extension of Series 4 and 5 bonds in the amount of up to NIS 350 million at -ilAA. For additional details see the Company's immediate report dated January 31 2021 (Ref. No. 2021-15-012963).
- G. On January 31 2021, Midroog announced it has rated the extension of up to NIS 350 million of Series 4 and 5 bonds issued by the Company at Aa3.il, with a stable outlook. For additional details see the Company's immediate report dated January 31 2021 (Ref. No. 2021-01-013065).
- H. For further details regarding the expansion of the Series 4 and 5 bonds after the balance sheet date, please see Note 26.

NOTE 43 - SUBSEQUENT EVENTS (cont.)

- I. On March 10 2021, the Company announced that the agreement for the acquisition of the new pension funds by Meitav Dash Provident was signed; for further details, please see Note 7d(16). For further details, see the Company's immediate reports dated February 23 2021 and March 11 2021 (Ref. Nos. 2021-01-022078 and 2021-01-031812).
- J. For information concerning events after the balance sheet date, see Note 41 to the financial statement.
- K. In connection with class actions filed and developments in lawsuits after the balance sheet date, see Note 42.
- L. For information concerning approval of dividend distribution after the balance sheet date, see Note 15 to the financial statement.
- M. Regarding the issuance of Restricted Tier 1 capital (RT1), please see Note 7.

Additional information on other financial investments

A. Marketable debt assets

Composition:

	As of December 31 2020		As of December 31 2019	
	Carrying amount	Amortized cost	Carrying amount	Amortized cost
In NIS thousand				
<u>Government bonds</u>				
Presented at fair value through profit and loss	7,186	7,352	8,278	8,376
Available for sale	4,967,084	4,809,927	4,732,235	4,404,114
Total government bonds	4,974,270	4,817,279	4,740,513	4,412,490
<u>Other debt assets:</u>				
<u>Non-convertible</u>				
Presented at fair value through profit and loss	32,774	33,900	54,230	53,993
Available-for-sale	2,975,373	2,563,470	3,008,987	2,735,948
Total other non-convertible debt assets	3,008,147	2,597,370	3,063,217	2,789,941
<u>Convertible</u>				
Presented at fair value through profit and loss	68,849	49,863	22,755	19,820
Total other convertible debt assets	68,849	49,863	22,755	19,820
Total marketable debt assets	8,051,266	7,464,512	7,826,485	7,222,251
Regular impairments carried to profit and loss (cumulative)	98,984		92,898	

Additional information on other financial investments (cont.)

B. Shares

Composition:

	As of December 31 2020		As of December 31 2019	
	Carrying amount	Cost	Carrying amount	Cost
In NIS thousand				
<u>Marketable</u>				
Presented at fair value through profit and loss	5,860	5,217	6,347	4,079
Available for sale	<u>1,539,625</u>	<u>1,172,470</u>	<u>1,293,757</u>	<u>1,050,456</u>
	<u>1,545,485</u>	<u>1,177,687</u>	<u>1,300,104</u>	<u>1,054,535</u>
<u>Non-marketable</u>				
Available for sale	<u>314,988</u>	<u>185,520</u>	<u>226,717</u>	<u>119,815</u>
Total shares	<u>1,860,473</u>	<u>1,363,207</u>	<u>1,526,821</u>	<u>1,174,350</u>
Regular impairments carried to profit and loss (cumulative)	<u>213,115</u>		<u>104,322</u>	

C. Other financial investments

Composition:

	As of December 31 2020		As of December 31 2019	
	Carrying amount	Cost	Carrying amount	Cost
In NIS thousand				
<u>Marketable</u>				
Presented at fair value through profit and loss	27,821	19,793	-	-
Available for sale	525,765	364,099	446,271	394,001
Derivative instruments	<u>106,592</u>	<u>119,343</u>	<u>43,847</u>	<u>42,695</u>
Total marketable financial investments	<u>660,178</u>	<u>503,235</u>	<u>490,118</u>	<u>436,696</u>
<u>Non-marketable</u>				
Presented at fair value through profit and loss	259,761	272,360	30,559	32,871
Available for sale	2,069,726	1,607,484	1,540,458	1,303,250
Derivative instruments	<u>210,399</u>	<u>893</u>	<u>101,931</u>	<u>4,398</u>
Total non-marketable financial investments	<u>2,539,886</u>	<u>1,880,737</u>	<u>1,672,948</u>	<u>1,340,519</u>
Total other financial investments	<u>3,200,064</u>	<u>2,383,972</u>	<u>2,163,066</u>	<u>1,777,215</u>
Regular impairments carried to profit and loss (cumulative)	<u>116,453</u>		<u>67,680</u>	

Part 4

**Special Report according
to Regulation 9C**

**Separate Financial
Information**



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To:
The shareholders of The Phoenix Holdings Ltd.

Dear Madam/Sir,

Re: Special report of the independent auditor on separate financial information in accordance with Regulation 9C to the Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the separate financial information disclosed in accordance with Regulation 9C to the Securities Regulations (Periodic and Immediate Reports), 1970 of The Phoenix Holdings Ltd. (hereinafter – "the Company") as of December 31 2020 and 2019, and for each of the three years the last of which ended on December 31 2020; this separate financial information is included in Chapter 4 of the Company's periodic report. The separate financial information is the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on this separate financial information based on our audit.

We did not audit the separate financial information from the financial statements of equity-accounted investees the investment in which totaled NIS 1,535,827 thousand and NIS 1,390,425 thousand as of December 31 2020 and 2019, respectively, and the Company's share in the profits of these companies, which totaled NIS 146,698 thousand, NIS 105,007 thousand and NIS 88,589 thousand for the years ended December 31 2020, 2019 and 2018, respectively. The financial statements of the above companies were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other independent auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel. These standards require that we plan and perform the audit in order to obtain a reasonable degree of assurance that the separate financial information does not contain material misstatement. An audit involves examining, on a sample basis, evidence supporting the amounts and details included in the separate financial information. An audit also involves examining the accounting principles used in preparing the separate financial information and the significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall presentation of financial information. We believe that our audits and the reports of other independent auditors provide an adequate basis for our opinion.

In our opinion, based on our audit and the reports of other independent auditors, the separate financial information has been prepared, in all material respects, in accordance with the provisions of Regulation 9C of the Securities Regulations (Periodic and Immediate Reports), 1970.

Tel Aviv,
March 24 2021

Kost Forer Gabbay & Kasier
Certified Public Accountant

		as of December 31	
		2020	2019
	Note	In NIS thousand	
Assets			
Investments in investees		7,861,266	6,463,991 (*)
Loans and capital notes to investees	9	1,192,107	986,527
Total non-current assets		9,053,373	7,450,518
Other financial investments	4	22,986	107,201
Current tax assets		1,159	1,163
Receivables and debit balances	5	14,482	9,025
Cash and cash equivalents	3	40,270	78,094
Total current assets		78,897	195,483
Total assets		9,132,270	7,646,001
Equity attributed to Company's shareholders			
Share capital		309,951	309,951
Premium on shares and capital reserves		833,592	830,437
Treasury shares		(26,411)	-
Capital reserves		913,036	726,936
Surplus		5,939,754	4,768,261 (*)
Total equity		7,969,922	6,635,585
Liabilities			
Non-current liabilities			
Bonds	7	1,082,538	875,179
Current liabilities			
Liability in respect of deferred taxes	8	37,855	-
Payables and credit balances	6	5,955	11,498
Bonds	7	36,000	123,739
Total current liabilities		79,810	135,237
Total liabilities		1,162,348	1,010,416
Total equity and liabilities		9,132,270	7,646,001

(*) Applied retrospectively; for further details, please see Note 2.DD(2) to the consolidated financial statements.

The attached additional information is an integral part of the Company's separate financial information.

Eli Schwartz
Executive Vice President, CFO

Eyal Ben Simon
Chief Executive Officer

Benjamin Gabbay
Chairman of the Board of Directors

Date of approval of the financial statements - March 24, 2021

	Note	For the year ended		
		December 31		
		2020	2019	2018
		In NIS thousand		
Company's share in the profits of investees, net of tax		1,210,661	275,816 (*)	659,695 (*)
Gains on investments, net and finance income		42,353	28,890	25,731
Income from management fees of investees	9	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
Total revenue		<u>1,256,014</u>	<u>307,706</u>	<u>688,426</u>
General and administrative expenses		8,164	8,876	3,593
Finance expenses		<u>40,972</u>	<u>27,364</u>	<u>33,374</u>
Total expenses		<u>49,136</u>	<u>36,240</u>	<u>36,967</u>
Profit before income tax		<u>1,206,878</u>	<u>271,466</u>	<u>651,459</u>
Taxes on income	8	<u>37,855</u>	-	-
Profit for the year, attributed to the Company's owner		<u>1,169,023</u>	<u>271,466</u>	<u>651,459</u>

(*) Applied retrospectively; for further details, please see Note 2.DD(2) to the consolidated financial statements.

The attached additional information is an integral part of the Company's separate financial information.

	For the year ended		
	December 31		
	2020	2019	2018
	In NIS thousand		
Profit for the year, attributed to the Company's owner	1,169,023	271,466	651,459
Other comprehensive income (loss):			
<u>Amounts that will be or that have been reclassified to profit or loss when specific conditions are met</u>			
Net change in fair value of financial assets classified as available for sale, carried to capital reserves	(1,307)	1,631	(631)
Net change in fair value of financial assets classified as available for sale, carried to the income statement	585	(954)	(4,735)
Profit (loss) on impairment of financial assets classified as available for sale, carried to the income statement	937	165	(42)
The Group's share in other comprehensive income (loss) of investees	169,838	385,041	(140,584)
Total components of income (loss) items, subsequently reclassified to profit or loss	170,053	385,883	(145,992)
<u>Amounts that shall not be subsequently reclassified to profit or loss</u>			
The Group's share in other comprehensive income of equity-accounted investees	13,621	6,866	6,274
Other comprehensive income (loss) for the year, net	183,674	392,749	(139,718)
Total comprehensive income for the year	1,352,697	664,215	511,741

The attached additional information is an integral part of the Company's separate financial information.

	Attributed to Company's shareholders										
	Share capital	Premium on shares and capital reserves	Treasury shares	Retained earnings	Capital reserve from transaction s with non-controlling interests	Capital reserve from transaction with controlling shareholder	Capital reserve from share-based payment	Revaluation reserve	Reserve from translation differences	Capital reserve in respect of available-for-sale financial assets	Total shareholders equity
Audited											
In NIS thousand											
Balance as of January 1 2020	309,951	830,437	-	4,768,261 (*)	(43,622)	11,000	40,047	103,463	(19,926)	635,974	6,635,585
Net income for the year	-	-	-	1,169,023	-	-	-	-	-	-	1,169,023
Other comprehensive income (loss)	-	-	-	290	-	-	-	13,331	(3,412)	173,465	183,674
Total comprehensive income (loss) for the year	-	-	-	1,169,313	-	-	-	13,331	(3,412)	173,465	1,352,697
Acquisition of treasury shares	-	-	(26,411)	-	-	-	-	-	-	-	(26,411)
Share-based payment	-	3,155	-	-	-	-	4,896	-	-	-	8,051
Transfer from revaluation reserve in respect of revaluation of property, plant, and equipment, at the depreciation amount	-	-	-	2,180	-	-	-	(2,180)	-	-	-
Balance as of December 31 2020	309,951	833,592	(26,411)	5,939,754	(43,622)	11,000	44,943	114,614	(23,338)	809,439	7,969,922

(*) Applied retrospectively; for further details, please see Note 2.DD(2) to the consolidated financial statements.

The attached additional information is an integral part of the Company's separate financial information.

	Attributed to Company's shareholders									
	Share capital	Premium on shares and capital reserves	Retained earnings	Capital reserve from transactions with non-controlling interests	Capital reserve from transaction with controlling shareholder	Capital reserve from share-based payment	Revaluation reserve	Reserve from translation differences	Capital reserve in respect of available-for-sale financial assets	Total shareholders equity
	Audited									
	In NIS thousand									
Balance as of January 1 2019	309,892	828,221	4,976,239 (*)	(43,622)	11,000	36,931	97,441	(2,076)	232,241	6,446,267
Net income for the year	-	-	271,466 (*)	-	-	-	-	-	-	271,466
Other comprehensive income (loss)	-	-	(979)	-	-	-	7,845	(17,850)	403,733	392,749
Total comprehensive income (loss) for the year	-	-	270,487	-	-	-	7,845	(17,850)	403,733	664,215
Share-based payment	-	2,122	-	-	-	3,269	-	-	-	5,391
Transfer from revaluation reserve in respect of revaluation of property, plant, and equipment, at the depreciation amount	-	-	1,823	-	-	-	(1,823)	-	-	-
Exercise of employee options	59	94.	-	-	-	(153)	-	-	-	-
Distribution of shares of Mehadrin Ltd. as dividend in kind	-	-	(230,288)	-	-	-	-	-	-	(230,288)
Dividend	-	-	(250,000)	-	-	-	-	-	-	(250,000)
Balance as of December 31 2019	309,951	830,437	4,768,261	(43,622)	11,000	40,047	103,463	(19,926)	635,974	6,635,585

(*) Applied retrospectively; for further details, please see Note 2.DD(2) to the consolidated financial statements.

The attached additional information is an integral part of the Company's separate financial information.

	Attributed to Company's shareholders										
	Share capital	Premium on shares and capital reserves	Treasury shares	Retained earnings	Capital reserve from transactions with non-controlling interests	Capital reserve from transaction with controlling shareholder	Capital reserve from share-based payment	Revaluation reserve	Reserve from translation differences	Capital reserve in respect of available-for-sale financial assets	Total shareholders equity
Audited											
In NIS thousand											
Balance as of January 1 2018	304,574	689,753	(24,669)	4,442,215 (*)	(57,274)	11,000	37,065	92,740	(15,108)	391,265	5,871,561
Net income for the year	-	-	-	651,459 (*)	-	-	-	-	-	-	651,459
Other comprehensive income	-	-	-	(199)	-	-	-	6,473	13,032	(159,024)	(139,718)
Total comprehensive income for the year	-	-	-	651,260	-	-	-	6,473	13,032	(159,024)	511,741
Issuance of shares	5,250	98,101	-	-	-	-	-	-	-	-	103,351
Share-based payment	-	7,285	-	-	-	-	4	-	-	-	7,289
Exercise of employee options	68	70	-	-	-	-	(138)	-	-	-	-
Acquisition of treasury shares	-	-	(19,476)	-	-	-	-	-	-	-	(19,476)
Reissue of treasury shares	-	33,012	44,145	-	-	-	-	-	-	-	77,157
Effect of first-time application of IFRS 15	-	-	-	992	-	-	-	-	-	-	992
Dividend	-	-	-	(120,000)	-	-	-	-	-	-	(120,000)
Transfer from revaluation reserve in respect of revaluation of property, plant, and equipment, at the depreciation amount	-	-	-	1,772	-	-	-	(1,772)	-	-	-
Expiry of a put option for non-controlling interests	-	-	-	-	13,652	-	-	-	-	-	13,652
Balance as of December 31 2018	309,892	828,221	-	4,976,239	(43,622)	11,000	36,931	97,441	(2,076)	232,241	6,446,267

(*) Applied retrospectively; for further details, please see Note 2.DD(2) to the consolidated financial statements.

The attached additional information is an integral part of the Company's separate financial information.

		For the year ended		
		December 31		
		2020	2019	2018
Appendix		In NIS thousand		
<u>Cash flows for operating activities</u>				
		1,169,023	271,466 (*)	651,459 (*)
			(271,895)	(687,795)
	(a)	(1,163,853)	(*)	(*)
		5,170	(429)	(36,336)
<u>Cash flows from (for) investing activities</u>				
		12,000	132,708	218,000
		-	250,000	55
		(220,000)	(300,000)	(330,000)
		83,085	(41,709)	17,209
		(124,915)	40,999	(94,736)
<u>Cash flows for financing activities</u>				
		-	-	103,351
		-	(250,000)	(120,000)
		(26,411)	-	-
		(477,101)	(94,799)	(93,672)
		585,433	297,313	269,753
		81,921	(47,486)	159,432
<u>Increase (decrease) in cash and cash equivalents</u>				
<u>Balance of cash and cash equivalents at beginning of period</u>				
		40,270	78,094	85,010

(*) Applied retrospectively; for further details, please see Note 2.DD(2) to the consolidated financial statements.

The attached additional information is an integral part of the Company's separate financial information.

	For the year ended		
	December 31		
	2020	2019	2018
	In NIS thousand		
(a) <u>Adjustments required to present cash flows for operating activities:</u>			
<u>Items not involving cash flows:</u>			
Net (gains) losses on financial investments	1,346	(1,269)	(25,731)
<u>Income and expense items not involving cash flows:</u>			
Accrued interest and appreciation of bonds	11,289	6,183	11,910
Income tax expenses	37,859	-	-
Company's share in investees' profits, net	(1,210,661)	(275,816) (*)	(659,695) (*)
<u>Changes in other balance sheet line items, net:</u>			
Change in receivables and debit balances	(562)	(2,332)	(4,544)
Change in payables and credit balances	(5,543)	2,169	(5,375)
Changes in loans to investees	2,419	(830)	(4,360)
Total cash flows for operating activities	<u>(1,163,853)</u>	<u>(271,895)</u>	<u>(687,795)</u>

(*) Applied retrospectively; for further details, please see Note 2.DD(2) to the consolidated financial statements.

The attached additional information is an integral part of the Company's separate financial information.

NOTE 1 - GENERAL

Set forth below are financial data taken from the Group's consolidated financial statements as of December 31 2020 (hereinafter: "Consolidated Financial Statements") attributed to the Company itself and published as part of the periodic report (hereinafter - "Separate Financial Information").

The separate financial information should be read in conjunction with the Consolidated Financial Statements.

A. Definitions

- (1) **The Company** - The Phoenix Holdings Ltd.
- (2) **Investees** - consolidated companies and companies, the Company's investment therein is included in the financial statements using the equity method, whether directly or indirectly.
- (3) **Report date** - the date of the Statement of Financial Position.
- (4) **"The Phoenix Insurance"** - The Phoenix Insurance Company Ltd.
- (5) **"Ad 120"** - Ad 120 Residence for Senior Citizens Ltd.
- (6) **Platinum** - Platinum Finance and Factoring Ltd.
- (7) **"The Phoenix Investments"** - The Phoenix Investments and Finances Ltd.
- (8) **"The Phoenix Agencies"** - The Phoenix Insurance Agency (1989) Ltd.
- (9) **Regulation 9C** of the Securities Regulations (Periodic and Immediate Reports), 1970.

B. Spread of the coronavirus

During January 2020, the coronavirus - which was first detected in China - started spreading, causing morbidity and death among populations all over the world. The effect of the spread led various countries - including Israel - to take measures to contain the spread of the virus and the implications thereof. The spread of the coronavirus has had a material impact on the Group's operations and results.

For further details regarding the impact of the Event on the Group, please see Note 1 to the consolidated financial statements.

NOTE 1 - GENERAL (cont.)**C. Transfer of shares of The Phoenix Excellence Pension and Provident Funds Ltd.**

On December 30 2019, the Board of Board of Directors of The Phoenix Insurance Ltd. approved the distribution of the shares of The Phoenix Excellence Pension and Provident Funds Ltd., constituting approximately 100% of the issued and paid-up share capital of The Phoenix Excellence as dividend in kind to the Company. The actual distribution of the dividend is subject to approval by the Israel Tax Authority and the Capital Market, Insurance and Savings Authority. As of the report publication date, the Capital Market, Insurance and Savings Authority has given approval to execute the distribution, but no such approval has been received as yet from the Israel Tax Authority. For further details, please see the immediate report of the Company dated December 31 2019 (Ref. No. 2019-01-126166).

- D. The Phoenix Insurance has undertaken to supplement, at any given time, The Phoenix Excellence Pension and Provident Funds' equity to the amount set in the Income Tax (Rules for the Authorization and Management of Provident Funds) Regulations, 1964. This undertaking shall be in effect so long as The Phoenix Insurance controls The Phoenix Excellence Pension and Provident Funds, whether directly or indirectly. The Phoenix Insurance will be required to fulfill this commitment only when The Phoenix Excellence Pension and Provident Funds Ltd.'s equity will be negative, provided that the supplement amount does not exceed the liabilities limit as aforesaid; the commitment will be in effect so long as The Phoenix Insurance is the controlling shareholder of this entity. Further to what is stated above about the transfer of control in The Phoenix Excellence Pension and Provident Funds to the Company, the Company will undertake to supplement, at any given time, Excellence Pension and Provident Funds' equity to the amount set in the Income Tax (Rules for the Authorization and Management of Provident Funds) Regulations, 1964.

NOTE 1 - GENERAL (cont.)**E. Acquisition of Halman-Aldubi Investment House Ltd.**

On December 7 2020, the Company entered into a merger agreement with Halman-Aldubi Investment House Ltd. (hereinafter: "Halman-Aldubi"). Under the merger agreement, a reverse triple merger was carried out, with Halman Aldubi becoming a private company wholly owned by the Company. The consideration of the transaction is NIS 275 million. On February 28 2021, upon meeting the conditions precedent, the merger was completed.

Total assets under management by Halman Aldubi as of December 31 2020 is approximately NIS 64 billion.

For further details, please see Note 7 to the consolidated financial statements.

NOTE 2 - THE PRINCIPLES FOR PREPARATION OF THE FINANCIAL DATA USED IN THE SEPARATE FINANCIAL INFORMATION

- A. The separate financial information has been prepared in conformity with Regulation 9C to the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: "Regulation 9C") including all the particulars specified in the Tenth Addendum to the said regulations (hereinafter: "the Addendum"), and subject to the clarifications specified in "Clarification Regarding the Corporation's Separate Financial Statements", which was published on the website of the Israel Securities Authority on January 24, 2010, and which addresses the manner of application of the said Regulation and Addendum (hereinafter: "the ISA Staff Clarification")

The separate financial information does not constitute financial statements, including separate financial statements, which are prepared and presented in conformity with International Financial Reporting Standards (hereinafter: "IFRS") in general, and the provisions of IAS 27 - "Consolidated and Separate Financial Statements" in particular. Nevertheless, the accounting policy specified in Note 2 to the Consolidated Financial Statements regarding the significant accounting policies and the method by which the financial data were classified in the Consolidated Financial Statements, were applied for the purpose of presenting the separate financial information, with the required changes as stated below.

NOTE 2 - THE PRINCIPLES FOR PREPARATION OF THE FINANCIAL DATA USED IN THE SEPARATE FINANCIAL INFORMATION (cont.)

The additional information presented below also includes disclosures regarding additional material information, in conformity with the disclosure requirements specified in Regulation 9C and as specified in the Addendum and subject to the ISA Staff Clarification, to the extent that such information was not included in the Consolidated Financial Statements in a way expressly referring to the Company itself.

1. Assets and liabilities included in the consolidated statements of financial position attributed to the Company:

The separate financial information includes the amounts of the assets and liabilities included in the consolidated statements of financial position which are attributed to the Company itself - classified according to types of assets and liabilities. The classification of these data is consistent with their classification in the consolidated statements of financial position. In addition, a net amount is presented, based on the Consolidated Financial Statements, which is attributed to shareholders of the Company itself, of total assets less total liabilities, which present financial information regarding investees (including goodwill) in the consolidated statements of financial position.

Such presentation results with the equity attributed to shareholders of the Company on the basis of the Consolidated Financial Statements being identical to the Company's equity as derived from the separate financial information.

2. Income and expenses included in the consolidated statements of other comprehensive income attributed to the Company itself:

The financial data includes amounts of income and expenses, which are included in the Consolidated Financial Statements, categorized in the separate financial information to profit or loss or to other comprehensive income, which are attributed to the Company itself; those income and expenses are categorized according to the type of income or expense. The classification of these data is consistent with their classification in the consolidated statements of comprehensive income.

NOTE 2 - THE PRINCIPLES FOR PREPARATION OF THE FINANCIAL DATA USED IN THE SEPARATE FINANCIAL INFORMATION (cont.)

The separate financial information also includes – based on the Consolidated Financial Statements - the net amount attributed to shareholders of the Company itself, of total income net of total expenses which reflect the operating results of investees in the Consolidated Financial Statements, including impairment of goodwill, impairment of investment in associate or reversal thereof, and impairment of investment in a jointly controlled company accounted for by the equity method, or reversal thereof.

Such presentation results with the total income for the year attributed to Company's owners and the total comprehensive income for the year attributed to Company's owners, on the basis of the Consolidated Financial Statements, being identical to total income for the year attributed to Company's owners and total comprehensive income for the year attributed to the Company's owners, respectively, as derived from the separate financial information.

3. Cash flows included in the Consolidated Financial Statements attributed to the Company itself:

Separate financial information amounts which represent cash flows included in the Consolidated Financial Statements attributed to the Company itself are derived from the consolidated statements of cash flows; cash flow amounts are classified into cash flows from operating activities, investing activities and financing activities, and their composition is also disclosed. The classification of these data is consistent with their classification in the consolidated statements of cash flows.

B. Company's transactions with investees

1. Intra-group balances and income and expenses arising from intra-group transactions, which were eliminated in the preparation of the Consolidated Financial Statements, were presented separately from the balance in respect of investees and the income in respect of investees, together with similar balances with third parties.
2. Transactions between the Company and its investees were measured in accordance with the measurement principles set in the relevant IFRSs outlining the accounting treatment applicable to such transactions with third parties.

NOTE 3 – CASH AND CASH EQUIVALENTS

	December 31	
	2020	2019
	In NIS thousand	
Cash and deposits with banks available for immediate withdrawal in NIS	<u>40,270</u>	<u>78,094</u>

As of balance sheet date, the cash with banking corporations bear current interest of 0.05% based on nominal interest rates applicable to daily deposits with banks (December 31 2019 - 0.2%).

NOTE 4 - OTHER FINANCIAL INVESTMENTS

- Set forth below is a breakdown of the investments in financial assets attributed to the parent company in accordance with IAS 39:

	As of December 31 2020			
	Presented at fair value through profit and loss	Available-for-sale	Loans and receivables	Total
	In NIS thousand			
Marketable debt assets	-	10,688	-	10,688
Non-marketable debt assets	-	-	3,926	3,926
Shares	-	768	-	768
Other	-	7,604	-	7,604
Total	-	<u>19,060</u>	<u>3,926</u>	<u>22,986</u>

	As of December 31 2019			
	Presented at fair value through profit and loss	Available-for-sale	Loans and receivables	Total
	In NIS thousand			
Marketable debt assets	287	100,158	-	100,445
Non-marketable debt assets	-	-	5,957	5,957
Shares	-	766	-	766
Other	33	-	-	33
Total	<u>320</u>	<u>100,924</u>	<u>5,957</u>	<u>107,201</u>

NOTE 4 - OTHER FINANCIAL INVESTMENTS (cont.)
2. Fair value of financial investments by level:

	As of December 31 2020			
	Level 1	Level 2	Level 3	Total
Marketable debt assets	10,688	-	-	10,688
Shares	748	-	20.	768
Other	7,604	-	-	7,604
Total	<u>19,040</u>	<u>-</u>	<u>20.</u>	<u>19,060</u>
Fair value of non-marketable debt assets	<u>-</u>	<u>2,889</u>	<u>1,594</u>	<u>4,483</u>

	As of December 31 2019			
	Level 1	Level 2	Level 3	Total
Marketable debt assets	100,445	-	-	100,445
Shares	752	-	14.	766
Other	-	33	-	33
Total	<u>101,197</u>	<u>33</u>	<u>14.</u>	<u>101,244</u>
Fair value of non-marketable debt assets	<u>-</u>	<u>2,695</u>	<u>3,262</u>	<u>5,957</u>

NOTE 5 - RECEIVABLES AND DEBIT BALANCES

	December 31	
	2020	2019
	In NIS thousand	
Investees (*)	13,693	9,013
Other	789	12
	<u>14,482</u>	<u>9,025</u>

(*) Mainly interest receivable from capital note

NOTE 6 - PAYABLES AND CREDIT BALANCES

	December 31	
	2020	2019
	In NIS thousand	
Interest payable - in respect of bonds	3,576	6,276
Government authorities	-	1
Investees	-	2,180
Accounts payable	2,370	1,577
Other payables and credit balances	9	1,464
	<u>5,955</u>	<u>11,498</u>

NOTE 7 - BONDS

1. Repayment in years subsequent to the reporting date:

	As of December 31	
	2020	2019
	In NIS thousand	
First year	36,000	124,731
Second year	69,347	124,731
Third year	69,347	134,078
Fourth year	69,347	134,078
Fifth year and onwards	892,150	498,228
	1,136,191	1,015,846
Less current maturities	(36,000)	(123,739)
Less - discount and deferred acquisition costs	(17,653)	(16,928)
	<u>1,082,538</u>	<u>875,179</u>

For further details about the issuance of Series 5 bonds in 2020, the early repayment of Series 2 bonds and the expansion of Series 4 and Series 5 bonds after reporting date, the terms and conditions of the bonds and the financial covenants, see Note 26 to the Consolidated Financial Statements.

2. Changes in liabilities stemming from financing activity:

	Bonds In NIS thousand
Balance as of January 31 2019	790,227
Cash flow	202,514
Effect of changes in the Consumer Price Index	867
Other changes	5,310
Balance as of December 31 2019	998,918
Cash flow	108,332
Effect of changes in the Consumer Price Index	(2,553)
Other changes	13,841
Balance as of December 31 2020	<u>1,118,538</u>

NOTE 8 - INCOME TAXES**A. Tax Assessments**

The Company has tax assessments, which are considered to be final through tax year 2015, in accordance with Section 145 of the Income Tax Ordinance.

B. Liability in respect of deferred taxes

In 2020, the Company recognized deferred a tax liability in respect of expected dividend from The Phoenix Agencies, which is subject to profit tax. For further details, please see Note 7(4)A to the consolidated financial statements.

C. Losses are carried forward for tax purposes and other temporary differences

The Company has carry forward business losses totaling approximately NIS 188,345 thousand and NIS 188,602 thousand as of December 31 2020 and 2019, respectively. The Company also has carry forward capital losses totaling approximately NIS 29,010 thousand and NIS 26,092 thousand as of December 31 2020 and 2019, respectively. No deferred taxes were created in respect of those loss balances.

NOTE 9 - LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEEES

A. Balances with investees

	As of	
	December 31	
	2020	2019
	In NIS thousand	
<u>Current assets</u>		
Receivables and debit balances	13,693	9,013
<u>Non-current assets</u>		
Loans to investees (see Section E below)	1,192,107	986,527

B. Transactions with investees

	For the year ended		
	December 31		
	2020	2019	2018
	In NIS thousand		
Management fees income from investees (see d. below)	3,000	3,000	3,000

C. Finance income from investees

	For the year ended		
	December 31		
	2020	2019	2018
	In NIS thousand		
Finance income	43,725	28,976	20,447

D. Commitments

The Company and subsidiaries entered into an agreement for the provision of management services in exchange for annual consideration of NIS 3,000 thousand.

NOTE 9 - LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEEES (cont.)
E. Loans and capital notes
The Phoenix Investments and Finances Ltd. - a consolidated company

	Interest rate	As of December 31	
		2020	2019
	----	In NIS thousand	
	%		
Non-linked capital notes (1)	0%	250,000	262,000
CPI-linked loan (2)	2.62%	82,878	82,878
		<u>332,878</u>	<u>344,878</u>

- (1) In 2009-2016 The Phoenix Investments issued capital notes to the Company totaling NIS 610 million. The capital notes are non-linked, do not bear interest and have no set repayment date. The Phoenix Investments may repay the capital notes at any given time but not before 5 years have elapsed since the date on which they were signed. In 2020, The Phoenix Investments repaid capital notes at the total amount of approximately NIS 12 million.
- (2) The loan is linked to the Consumer Price Index and bears linked annual interest of 4%. The interest is payable at the end of every quarter, and the loan's principal shall be repaid on September 30 2019. On December 28 2017, the parties signed a revised loan agreement; according to the agreement, linkage differences that have accrued through the signing date - totaling approximately NIS 32,373 thousand - were repaid. As from the signing date, the linkage differences in respect of the loan's principal and interest shall be repaid on a quarterly basis, starting in the first quarter of 2018. On March 31 2018, The Phoenix Investments repaid a principal balance of approximately NIS 82 million, and the terms of the loan were changed such that the loan does not bear linkage differences and the interest was set in accordance with Section 3(j) of the Income Tax Ordinance.

Platinum - a consolidated company

	Interest rate	As of December 31	
		2020	2019
	----	In NIS thousand	
	%		
Loan in NIS	2.6%	1,262	1,683
Non-linked capital note	0%	4,000	4,000
		<u>5,262</u>	<u>5,683</u>

NOTE 9 - LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEEES (cont.)

On February 1 2007, Platinum issued a NIS 4 million capital note to the Company. The capital note is non-linked and does not bear interest. The capital note is scheduled to be repaid on December 31 2099.

In December 2012, the Company gave Platinum a loan bearing NIS interest at the rate set in the Income Tax (Setting Interest Rate for Purposes of Section 3(j)) Regulations, 1986. This loan is repayable in 44 equal payments (principal) as from March 31 2013.

The Phoenix Insurance - consolidated company

On March 26, 2018, the Board of Directors of the Company approved an investment in The Phoenix Insurance against the issue of another Tier 1 capital instrument (capital note) in the amount of NIS 330 million, with the aim of reinforcing the equity capital of The Phoenix Insurance. The Additional Tier-1 capital instrument was issued at an annual interest rate of 4.8% linked to the CPI. The remaining terms and conditions of the instrument, including the redemption period, are in accordance with Part B of the Solvency Circular "Provisions Regarding the Equity of an Insurance Company". On March 29 2018, The Phoenix Insurance issued another Tier 1 capital instrument in accordance with the above conditions. On May 15 2018, the Company received the Commissioner's approval to include the aforesaid instrument in the calculation of the capital recognized as Additional Tier 1 capital instrument.

In May 2019, the Board of Directors of the Company approved an investment in The Phoenix Insurance against the issue of a Tier 1 capital instrument in the amount of NIS 300 million, with the aim of reinforcing the equity capital of The Phoenix Insurance. The Additional Tier 1 capital instrument was issued at an annual interest rate of 6.5%. The remaining terms and conditions of the instrument, including the redemption period, are in accordance with Part B of the Solvency Circular "Provisions Regarding the Equity of an Insurance Company". On July 2 2019, the Company received the Commissioner's approval to include the aforesaid instrument in the calculation of the capital recognized as Additional Tier 1 capital instrument.

NOTE 9 - LOANS, BALANCES AND MATERIAL COMMITMENTS WITH INVESTEES (cont.)

On February 20 2020, the Company issued 220 million Series 5 registered bonds of NIS 1 par value each (registered and linked to the Consumer Price Index) for NIS 220 million. The proceeds of the issuance were used by the Company to inject Tier 1 capital to The Phoenix Insurance. On March 9, 2020, the Supervisor of the Capital Market, Insurance and Savings Authority approved the inclusion of Additional Tier 1 capital in The Phoenix Insurance's equity calculation. The Additional Tier-1 capital instrument was issued at an annual interest rate of 4.53% linked to the CPI. This capital was included in the calculation of the economic solvency ratio of The Phoenix Insurance as of December 31 2019.

For further details, please see Note 26 to the consolidated financial statements.

NOTE 10 - SUBSEQUENT EVENTS

(*) For further details regarding subsequent events, please see Note 43 to the consolidated financial statements.

March 24 2021

To:
The Board of Directors of The Phoenix Holdings Ltd. (hereinafter: the "Company")

Dear Madam/Sir,

Re: Shelf Prospectus of The Phoenix Holdings Ltd.
 (hereinafter: the "Shelf Prospectus") published on August 15 2019

We hereby inform you that we agree to the inclusion (including by way of reference) of our reports outlined below in a shelf offering based on the Shelf Prospectus:

1. The independent auditor's report, dated March 24 2021, in respect of the Consolidated Financial Statements of The Phoenix Holdings Ltd. as of December 31 2020 and 2019 and for each of the three years in the period ended December 31 2020.
2. The independent auditor's report, dated March 24 2021, in respect of the Audit of Internal Control Components on Financial Reporting of Phoenix Holdings Ltd. as of December 31 2020.
3. Special Report dated March 24 2021 on Separate Interim Financial Information pursuant to Regulation 9C of the Regulations (Periodic and Immediate Reports), 1970 of The Phoenix Holdings Ltd. as of December 31 2020 and 2019 and for each of the three years in the period ended December 31 2020.

Kost Forer Gabbay & Kasierer
Certified Public Accountants



Part 5

Additional Details about the Corporation

Regulation 9D –**Report of the Status of Liabilities according to Repayment Dates, as of December 31 2020**

For further details regarding the status of the Company's liabilities according to repayment dates, please see the Company's immediate report dated March 25 2021.

Regulation 10A -**Condensed (Consolidated) Quarterly Income Statements for 2020**

	<u>Q1 1-3.20</u>	<u>Q2 4-6.20</u>	<u>Q2 7-9.20</u>	<u>Q1 10-12.20</u>	<u>Total for 2020</u>
Premiums earned, gross	2,719,613	2,528,587	2,551,986	2,582,466	10,382,652
Premiums earned by reinsurers	<u>346,381</u>	<u>331,826</u>	<u>324,262</u>	<u>326,509</u>	<u>1,328,978</u>
Premiums earned - retention	2,373,232	2,196,761	2,227,724	2,255,957	9,053,674
Investment income, net and finance income	(8,153,568)	3,972,927	3,333,706	6,326,641	5,479,706
Income from management fees	274,397	252,585	260,024	570,183	1,357,189
Income from fees and commissions	140,371	134,867	140,825	139,988	556,051
Income from financial and other services	46,000	44,000	35,000	34,000	159,000
Other income	<u>25,952</u>	<u>7,343</u>	<u>9,487</u>	<u>89,064</u>	<u>131,846</u>
Total income	<u>(5,293,616)</u>	<u>6,608,483</u>	<u>6,006,766</u>	<u>9,415,833</u>	<u>16,737,466</u>
Payments and change in liabilities in respect of insurance contracts and investment contracts, gross	(5,583,282)	5,366,722	4,996,650	7,749,474	12,529,564
Reinsurers' share in payments and in changes in liabilities in respect of insurance contracts	<u>256,732</u>	<u>229,013</u>	<u>158,802</u>	<u>182,143</u>	<u>826,690</u>
Payments and change in liabilities in respect of insurance contracts and investment contracts - retention	(5,840,014)	5,137,709	4,837,848	7,567,331	11,702,874
Fees and commissions, marketing expenses and other purchase expenses	458,538	428,659	434,243	428,663	1,750,103
General and administrative expenses	323,975	323,553	323,771	388,729	1,360,028
Other expenses	832	20,318	5,530	28,205	54,885
Finance expenses	<u>26,360</u>	<u>28,566</u>	<u>60,651</u>	<u>30,932</u>	<u>146,509</u>
Total expenses	<u>(5,030,309)</u>	<u>5,938,805</u>	<u>5,662,043</u>	<u>8,443,860</u>	<u>15,014,399</u>
Share in profits (losses) of equity-accounted investees	<u>15,304</u>	<u>5,578</u>	<u>(276)</u>	<u>19,091</u>	<u>39,697</u>
Profit (loss) before income taxes	(248,003)	675,256	344,447	991,064	1,762,764
Taxes on income	<u>(94,798)</u>	<u>218,406</u>	<u>96,552</u>	<u>333,669</u>	<u>553,829</u>
Profit (loss) for the period	<u>(153,205)</u>	<u>456,850</u>	<u>247,895</u>	<u>657,395</u>	<u>1,208,935</u>
Profit (loss) for the period attributed to:					
Company's shareholders	(166,067)	448,716	238,275	648,099	1,169,023
Non-controlling interests	<u>12,862</u>	<u>8,134</u>	<u>9,620</u>	<u>9,296</u>	<u>39,912</u>
	<u>(153,205)</u>	<u>456,850</u>	<u>247,895</u>	<u>657,395</u>	<u>1,208,935</u>

Regulation 10A -**Condensed (Consolidated) Quarterly Income Statements for 2020 (cont.)**

	Q1 1-3.20	Q2 4-6.20	Q2 7-9.20	Q1 10-12.20	Total for 2020
Profit (loss) for the period	<u>(153,205)</u>	<u>456,850</u>	<u>247,895</u>	<u>657,395</u>	<u>1,208,935</u>
Other comprehensive income (loss):					
Net change in fair value of financial assets classified as available for sale, carried to capital reserves	(806,319)	533,745	217,048	511,229	455,703
Gains and losses, net from disposal of financial assets classified as available for sale, carried to the income statement	(86,071)	(101,875)	(117,448)	(211,367)	(516,761)
Impairment loss of financial assets classified as available for sale, carried to the income statement	260,323	27,274	21,083	15,540	324,220
Adjustments arising from translation of financial statements of a foreign operation	5,185	(3,651)	5,177	(10,123)	(3,412)
Taxes on income relating to components of other comprehensive income	<u>215,048</u>	<u>(156,471)</u>	<u>(41,139)</u>	<u>(107,135)</u>	<u>(89,697)</u>
Other comprehensive income for the period, net of tax	<u>(411,834)</u>	<u>299,022</u>	<u>84,721</u>	<u>198,144</u>	<u>170,053</u>
Revaluation of property, plant, and equipment	1,621	-	-	15,693	17,314
Actuarial gain (loss) in respect of defined benefit plans	-	-	-	497	497
Company's share in other comprehensive income (loss), net of equity-accounted companies	-	-	-	-	-
Tax effect	<u>(373)</u>	-	-	<u>(3,817)</u>	<u>(4,190)</u>
Total net income components that will not be subsequently reclassified to profit or loss	<u>1,248</u>	-	-	<u>12,373</u>	<u>13,621</u>
Total other comprehensive income, net	(410,586)	299,022	84,721	210,517	183,674
Total comprehensive income (loss) for the period	<u>(563,791)</u>	<u>755,872</u>	<u>332,616</u>	<u>867,912</u>	<u>1,392,609</u>
				-	-
Attributed to:					
Company's shareholders	(576,653)	747,738	322,996	858,616	1,352,697
Non-controlling interests	<u>12,862</u>	<u>8,134</u>	<u>9,620</u>	<u>9,296</u>	<u>39,912</u>
Comprehensive income (loss) for the period	<u>(563,791)</u>	<u>755,872</u>	<u>332,616</u>	<u>867,912</u>	<u>1,392,609</u>

Regulation 10C - Use of Proceeds for Securities

The proceeds of the issuance of Bonds (Series 5), which took place in February 2020, were used by the Company to strengthen the Tier 1 capital of The Phoenix Insurance under the Solvency II Regime.
Expansion of bonds (Series 5) and early redemption of bonds (Series 2)

The proceeds of the expansion of Bonds (Series 5), which took place in September 2020, were used for early redemption of Bonds (Series 2) at the Company's initiative.

The proceeds of the expansion of Bonds (Series 4 and 5) (issued after the report date) were used by the Company for its current needs and the needs of its subsidiaries, including the acquisition of the entire share capital of the Halman Aldubi investment house; as part of the acquisition - the proceeds were also used to fund the full early redemption of all Bonds (Series A) of Halman Aldubi Provident and Pension Funds Ltd. and to discontinue Halman Aldubi's status as a reporting entity.

Regulation 11 –**List of Investments in Subsidiaries and Related Companies as of the Balance Sheet Date**

	Share class in p.v.	Total p.v. in NIS	Value in the standalone financial statements in NIS thousand (1)	Holdings rate out of the issued capital, by percentage	
				In voting and in right to appoint directors (2)	In equity (2)
<u>The Company's Subsidiaries and Related Companies</u>					
The Phoenix Insurance Company Ltd.	NIS 1	157,773,522	6,361,520	100	100
The Phoenix Insurance Company Ltd.	NIS 5	1,699,452	-	100	100
The Phoenix Investments and Finances Ltd.	NIS 0.001	12,741	904,609	100	100
The Phoenix Insurance Agency 1989 Ltd.	NIS 1	10,017,345	614,202	100	100
Platinum Finance and Factoring Ltd.	NIS 1	100	(1,232)	100	100
Platinum Finance and Factoring C.A. 2006 Ltd.	NIS 1	100	(3,216)	100	100
The Phoenix Holdings International Ltd.	NIS 1	2,000	-	100	100
Phoenix Global Ltd.	NIS 1	100	-	55	55
<u>Subsidiaries and Related Companies of The Phoenix Insurance Company Ltd.</u>					
Ad 120 Residence Centers for Senior Citizens Ltd.	NIS 1	600	780,815	100	100
Phoenix Excellence Pension and Provident Funds Ltd.	NIS 1	6,507,447	598,666	100	100
Hadar Green Company Properties and Investments Ltd.	NIS 1	8,580,490	159,645	100	100
Haphen-Tao Holdings Limited Partnership (3)	-	-	128,000	29	29
The Phoenix Capital Raising (2009) Ltd.	NIS 1	1,000	1	100	100
OPCTN S.A	CHF 1000	33,905	165,322	14.47	14.47
GAIA JOURNAL SQUARE, LP	-	-	16,786	14.76	14.76
HUNTINGTON CENTER	-	-	(5,408)	5.98	5.98
IVC-GFI, LLC	-	-	518,727	7.2	7.2
FPG CLONNADE INVESTORS, LLC,	-	-	172,150	14.7	14.7
GAIA 200 PLAZA DRIVE, LLC	-	-	71,807	12	12
OCEAN 5 HOLDINGS, LP	-	-	384,231	12	12
LRC	-	-	925,696	12.25	12.25
Rishon Lezion's Winery Real Estate Site, Limited Partnership	-	-	184,092	9	9
Global Sun Israel L.P.	-	-	141,119	12.69	12.69
Al-Mashhadawi King Store Ltd.	NIS 1	12,500	49,749	5	5
Hassan Arafa Complex (adjacent to Acro) Complex B	-	-	81,018	4.17	4.17
ARGO	-	-	914,377	5.84	5.84
Reindeer	-	-	26,756	10	10
LRC RE - 1	EUR 1	2,426,000	925,696	12.25	12.25
Acro L.P. 05, Limited Partnership	-	-	92,617	6.25	6.25
Arbov Investments Ltd.	NIS 1	1,743,000	400,383	7.28	7.28
Taavura	-	-	1,058,008	1.99	1.99
<u>Subsidiaries and Related Companies of The Phoenix Investments and Finances Ltd.</u>					
Adach Holdings Ltd.	NIS 1	500	12,593	33.33	33.33
Atara Partnerships Management Ltd.	NIS 1	100	6,405	100	100
The Phoenix L.P. Trust Company Ltd.	NIS 1	100	286	100	100
Phoenixclass Ltd.	NIS 1	200	(19,353)	67	67
Excellence Investments Ltd.	NIS 1	17,024,278	1,014,015	100	100

Regulation 11 -**List of Investments in Subsidiaries and Related Companies as of the Balance Sheet Date (cont.)**

	Share class in p.v.	Total p.v. in NIS	Value in the standalone financial statements in NIS thousand (1)	Holdings rate out of the issued capital, by percentage	
				In voting and in right to appoint directors (2)	In equity (2)
<u>Subsidiaries and Related Companies of The Phoenix Investments and Finances Ltd. (cont.)</u>					
The Phoenix Capital Ltd.	NIS 0.01	2,308	(6,442)	65	65
KYC Investments (50% held by The Phoenix Capital)	NIS 1	1,000	615	100	100
Phoenix Investment Funds Ltd.	NIS 0.01	2,400	1,041	50	50
Gama Management and Clearing Ltd.	NIS 1	2,450	107,601	49	49
Progress	NIS 1	656	12,631	17.6	17.6
<u>Major Investees and Related Companies of The Phoenix Insurance Agencies 1989 Ltd.</u>					
Omri Insurance Agency Ltd.	NIS 1	20,000	4,808	33.33	33.33
Cohen-Givon Insurance Agency Ltd.	NIS 1	12,376	1,672	52	52
T.A.I.S. Shades Life Insurance Agency (1997) Ltd.	NIS 1	100	12,080	50	50
Agam Liderim Ltd.	NIS 1	7,500	132,105	70	70
Ramon-Granit Insurance Agency (1994) Ltd.	NIS 1	310	27,688	90	90
Shekel Insurance Agency (2008) Ltd.	NIS 1	100	127,089	100	100
The Employee Benefit Experts, Benefit Ltd.	NIS 1	25,000	25,672	100	100
Oren Mizrach Insurance Agency Ltd.	NIS 1	500,000	101,470	70	70
Webprice Insurance Agency (2017) Ltd.	NIS 1	500,000	4,302	70	70
<u>Subsidiaries and Related Companies of Excellence Investments Ltd. (the table below does not include companies which were inactive during the reporting year)</u>					
Excellence Nessuah Underwriting (1993) Ltd.	NIS 1	9,339	15,676	100	100
Excellence - Zmiha Securities & Investments Ltd.	NIS 1	66,668	437,605	100	100
Excellence Nessuah Services	NIS 1	1	39,529	100	100
Excellence Financial Ltd.	NIS 1	23,191,912	-1,870	100	100
REIT Management Services Ltd.	NIS 1	525	3,696	47.5	47.5
World Currencies Ltd.	NIS 1	1,000	-15	100	100
ESOP Management and Trust Services Ltd.	NIS 1	6,410	4,693	91.64	91.64
Excellence Nessuah International Research Services Ltd.	NIS 1	1,000	4,527	100	100

All shares are not listed for trading on the TASE.

1. Excluding loans and capital notes.
2. Refers to the nostro portion alone.
3. An additional ownership interest of 1% is held by Phoenix Mull HaYam Limited Partnership Management Ltd.

Regulation 11 -**Breakdown of Loans and Capital Notes to Subsidiaries and Related Companies**

The Company's subsidiaries and related companies	Balance of loans, bonds and capital notes in NIS thousand	Repayment date
The Phoenix Investments and Finances Ltd.	82,676	Interest-bearing loan 3(j), repayment date - Sep. 30 2022
The Phoenix Investments and Finances Ltd.	262,000	Non-linked interest-free capital notes, with no repayment date, but will not be repaid before five years will have elapsed from the signing date of the capital notes.
The Phoenix Insurance Company Ltd.	333,967	CPI-linked capital note, bearing a 4.8% interest rate, repayment date - March 31 2067.
The Phoenix Insurance Company Ltd.	300,000	Non-linked capital note, bearing a 6.5% interest rate, repayment date - July 4 2068
The Phoenix Insurance Company Ltd.	220,000	CPI-linked capital note, bearing a 4.53% interest rate, repayment date - March 11 2069
<u>The Company's Subsidiaries and Related Companies</u>		
Platinum Finance and Factoring Ltd.	5,262	Including a capital note in the amount of approximately NIS 4 million. The capital note is non-linked and does not bear interest. The repayment date is December 31 2099 or an earlier date with the consent of the parties. The loans carry annual interest rates that vary in accordance with Income Tax Regulations 3(j).
<u>Subsidiaries and Related Companies of The Phoenix Insurance Company Ltd.</u>		
Hadar Green Company Properties and Investments Ltd.	26,426	Non-linked interest-free capital notes, with no repayment date, but will not be repaid before five years will have elapsed from the signing date of the capital notes.
<u>Subsidiaries and Related Companies of The Phoenix Investments and Finances Ltd.</u>		
Phoeniclass Ltd.	38,130	The amount includes a CPI-linked loan in the amount of NIS 15,319 thousand that bears an interest rate of approximately 5%. The outstanding amount bears a 2.56% interest.
The Phoenix Capital Ltd.	11,055	Non-linked interest-free capital notes, with no repayment date, but will not be repaid before five years will have elapsed from the signing date of the capital notes.
Gama Management and Clearing Ltd.	50,000	A loan in the amount of NIS 50 million at an interest rate of Prime + 0.5% with no repayment date.
Progress D.S. (Investments and Finance 1992) Ltd.	8,141	A loan in the amount of NIS 8 million at a non-linked interest rate of 8.25% for a period of 5 years, which includes a conversion component in the amount of up to NIS 2.5 million, up to 10% of the issued and allocated share capital of Progress.

Regulation 11 -**Breakdown of Loans and Capital Notes to Subsidiaries and Related Companies (cont.)**

The Company's subsidiaries and related companies	Balance of loans, bonds and capital notes in NIS thousand	Repayment date
<u>Subsidiaries and Related Companies of The Phoenix Insurance Agencies 1989 Ltd.</u>		
Oren Mizrach Insurance Agency Ltd.	44,687	Non-linked loans with an interest rate of 3.1%-5%, which are repaid in installments until January 2028 and include a 5% interest rate linked loan which is repaid in installments until July 2023.
Webprice Insurance Agency (2017) Ltd.	2,072	Non-linked loans with 5% interest that are repaid in installments by 2022, and one loan which will be repaid in installments by July 2023.
T.A.I.S. Shades Life Insurance Agency (1997) Ltd.	1,211	A non-linked loan with an interest rate of 5% which is repaid in installments until September 2022.

Regulation 12 -**Changes in Investments in Subsidiaries and Related Companies in the Reporting Period****Transfer of Phoenix Excellence Pension and Provident Funds Ltd. to the Company**

In January 2021, the Board of The Phoenix Insurance approved the transfer of the shares of Phoenix Excellence Pension and Provident Funds Ltd. (hereinafter: "Phoenix Excellence" to the Company by way of a dividend in kind. For further details - including the Board of Directors' explanations for the distribution – please see the Company's immediate report dated December 31 2019 (Ref. No.: 2019-01-126166).

Acquisition of Gama shares as part of its issuance -

In January 2021, Gama informed the Israel Securities Authority of its intention to apply for a prospectus publication permit. The Phoenix Investments, a subsidiary of the Company, holds 49% of Gama shares as of the report publication date. The Phoenix Investments intends to acquire additional Gama shares as part of an issuance, such that following the issuance, The Phoenix Investments will hold at least 50% of Gama's shares, fully diluted. It shall be clarified that the information stated in this section is forward-looking information, and there is no certainty that Gama will indeed complete the issuance and become a publicly-traded company.

Examining the possibility of selling Ad 120

In January 2021, The Phoenix Insurance's Board of Directors decided to examine the possibility of selling its control stake (and up to 100% of The Phoenix Insurance's holdings) in Ad 120 - Residence for Senior Citizens Ltd. As of the report date, the Company is acting to implement the aforesaid with the assistance of an investment bank with which the Company has entered into an agreement in this matter. For further details, please see the Bank's immediate report dated January 28 2021 (Ref. No.: 2021-01-011200).

Regulation 13 -**Income of Subsidiaries and Related Companies and Income of the Corporation Therefrom as of the Balance Sheet Date, in NIS thousand**

	Profit (loss) for the period (*)	Other compre- hensive income (loss) for the period (*)	Compre- hensive income (loss) for the period (*)	Divi- dend	Mana- ge- ment fees	Inte- rest
The Phoenix Insurance Company Ltd.	877,971	182,495	1,060,466	200,000	-	41,514
The Phoenix Investments and Finances Ltd.	135,770	872	136,642	-	500	2,171
Platinum Finance and Factoring Ltd.	835	-	835	-	-	-
Ad 120 Residence Centers for Senior Citizens Ltd.	72,334	1,248	73,582	-	-	-
Phoenix Global Ltd.	(1)	-	(1)	-	-	-
Phoenix Excellence Gemel Ltd.	14,621	-	14,621	-	84	2,410
The Phoenix Insurance Agency 1989 Ltd.	174,599	-	174,599	-	-	-
The Phoenix Capital Raising (2009) Ltd.	(9)	-	(9)	-	-	-
Hadar Green Company Properties and Investments Ltd.	6,799	(341)	6,458	-	-	-
Excellence Investments Ltd.	114,000	-	114,000	-	-	-
Gama Management and Clearing Ltd.	37,730	-	37,730	2,450	-	1,073
The Phoenix Capital Ltd.	1,905	-	1,905	-	-	-
Phoeniclass Ltd.	(2,467)	-	(2,467)	-	-	2,403
Adach Holdings Ltd.	849	-	849	-	-	-
Atara Partnerships Management Ltd.	(21)	-	(21)	-	-	-
The Phoenix L.P. Trust Company Ltd.	17	-	17	-	-	-
Tene Kibbutz Investment Management Ltd.	9	-	9	-	-	-
Progress	2,639	-	2,639	-	-	-
OPCTN S.A	19,570	-	19,570	-	-	-
GAIA JOURNAL SQUARE, LP	(26,829)	-	(26,829)	-	-	-
HUNTINGTON CENTER INVESTMENT	945	-	945	-	-	-
IVC-GFI, LLC	17,794	-	17,194	-	-	-
FPG CLONNADE INVESTORS, LLC,	(81,266)	-	(81,266)	-	-	-
GAIA 200 PLAZA DRIVE, LLC	10,553	-	10,553	-	-	-
OCEAN 5 HOLDINGS, LP	57,330	-	57,330	-	-	-
LRC	61,879	-	61,879	-	-	-
Rishon Lezion's Winery Real Estate Site, Limited Partnership	(236)	-	(236)	-	-	-
Global Sun Israel L.P.	32,269	-	32,029	-	-	-
Al-Mashhadawi King Store Ltd.	10,444	(736)	9,708	-	-	-
Haphen-Tao Holdings Limited Partnership	(6,300)	-	(6,300)	-	-	-
Hassan Arafa Complex (adjacent to Acro)	3,464	5	3,469	-	-	-
Hassan Arafa Complex (adjacent to Acro) Complex B	(4,265)	-	(4,265)	-	-	-
Investment in Arbov Investments	60,911	(794)	60,117	-	-	-
ARGO	89,379	-	89,379	-	-	-
Taavura	100,824	-	100,824	-	-	-
Cohen-Givon Insurance Agency Ltd.	6,626	(142)	6,484	8,000	449	-
T.A.I.S. Shades Life Insurance Agency (1997) Ltd.	2,232	-	2,232	1,000	-	-
Agam Liderim Ltd.	68,286	(489)	67,797	43,000	1,459	-
Ramon-Granit Insurance Agency (1994) Ltd.	884	-	884	-	-	-
Shekel Insurance Agency (2008) Ltd.	51,161	14	51,175	36,500	-	-
The Employee Benefit Experts, Benefit Ltd.	5,422	-	5,422	13	-	-
Oren Mizrach Insurance Agency Ltd.	8,986	-	8,986	5,000	-	-
Webprice Insurance Agency (2017) Ltd.	(1,093)	-	(1,093)	-	-	-

Regulation 13 (cont.)**Income of Subsidiaries and Related Companies and Income of the Corporation Therefrom as of the Balance Sheet Date, in NIS thousand**

	Profit (loss) for the period (*)	Other compre- hensive income (loss) for the period (*)	Compre- hensive income (loss) for the period (*)	Divi- dend	Mana- ge- ment fees	Inte- rest
Excellence Nessuah Underwriting (1993) Ltd.	2,521	-	2,521	-	400	-
Excellence - Zmiha Securities & Investments Ltd.	102,719	-	102,719	37,700	4,919	(3)
Excellence Financial Ltd.	(238)	-	(238)	-	-	-
REIT Management Services Ltd.	2,004	-	2,004	1,713	-	-

(*) Fully reflects the profits (losses) of the corporation.

Regulation 14 -**List of Classes of Loan Balances Granted as of Dec. 31 2020**

Amount	Balance in NIS thousand	No. of borrowers
NIS 1-100 thousand	358,305	424,603
NIS 100-500 thousand	146,601	747
NIS 500-1,000 thousand	62,581	92
NIS 1,000-5,000 thousand	78,580	44
NIS 5,000-12,000 thousand	143,768	18
Over NIS 12,000 thousand	8,413,940	100

Regulation 20 -**Trading on the TASE - Securities Listed for Trading - Dates and Reason for Delisting**

The following are the Company's securities as recorded during the reporting period:

- (1) On February 20, 2020, the Company issued NIS 220 million in NIS 1 par value each registered bonds (Series 5), which were issued pursuant to the Company's shelf offering report dated February 20 2020 (Ref. No. 2020-01-014890). For further details – please see the Company's immediate report dated February 23 2020 (Ref. No. 2020-01-015433).
- (2) On August 27 2020, the Company's Board of Directors decided on full conditional early redemption of Bonds (Series 2) in the total amount of NIS 368,375,636, which was implemented on September 29 2020. For further details, please see Note 5(f) to the financial statements and the Company's immediate reports dated August 30 2020 and September 7 2020 (Ref. Nos.: 2020-01-095238 2020-01-098754).
In order to implement the aforesaid early redemption, on September 7 2020, the Company expanded its Series 5 bonds by issuing 380 million registered CPI-linked Series 5 bonds of NIS 1 par value each; the bonds were issued according to the Company's shelf offering report dated August 15 2019 (Ref. No.: 2019-01-070590).

Regulation 20 (cont.)

Trading on the TASE - Securities Listed for Trading - Dates and Reason for Delisting

- (3) In February 2021, the Company issued - by way of expanding the bonds series - NIS 127,384 thousand in NIS 1 par value each registered bonds (Series 4) and NIS 222,616 thousand in NIS 1 par value each registered bonds (Series 5), which were issued pursuant to the Company's shelf offering report dated February 3 2021 (Ref. No. 2021-01-013684). The proceeds of the offering were used by the Company for its ongoing needs and those of its subsidiaries, including the acquisition of Halman Aldubi's entire share capital.

During the reporting year, the following securities were delisted from the TASE:

On September 30 2020, the Company's Bonds (Series 2) were delisted due to full early redemption of the principal balance and outstanding Bonds (Series 2) (and the interest thereon). For further details, please see the Company's immediate reports dated August 30 2020 and September 7 2020 (Ref. Nos.: 2020-01-095238 2020-01-098754).

Regulation 21

Compensation of Interested Parties and Senior Officers

Following is a breakdown of the compensation granted to interested parties and officers (in NIS thousand), as specified in the Sixth Schedule to the Securities Regulations (Periodic and Immediate Reports), 1970, and as recognized in the financial statements for the reporting year:

1. For each of the five highest paid senior executives of the Company or companies under its control (the compensation amounts are in NIS thousand and in terms of cost to the corporation, excluding payroll tax and VAT):
2. Each of the three highest paid senior executives in the Company not included in Paragraph 1 above.
3. Any interested party in the Company not listed in Paragraphs 1 and 2 above.

Details of compensation recipients					Compensation for services (1)				Total	Of which: Total in respect of the Compensation for Officers in Financial Corporations Law (***)
Name	Title	Appointment percentage	Percentage of holding in corporation's share capital	Salary (*)	Bonus (**)	Share-based payment	Management fees	Rent		
Benjamin Gabbay (2)	Chairman of the Board of Directors of the Company and of subsidiary The Phoenix Insurance Company Ltd.	Part-time	0.02%	2,239	-	-	-	-	2,239	1,997
Eyal Ben Simon (3)	Chief Executive Officer of the Company of subsidiary The Phoenix Insurance Company Ltd.	Full-time	0%	2,203	825	441	-	-	3,469	3,243
Eli Schwartz (4)	Executive Vice President, Chief Financial Officer of the Company and of The Phoenix Group	Full-time	0.01%	1,194	775	267	-	-	2,236	2,100
Yitzhak Oz (5)	Co-CEO of Agam Liderim (Israel) Insurance Agency (2003) Ltd.	Full-time	0.05%	109	5,521	-	2,879	86	8,325	-
Ran Givon (6)	Chief Executive Officer of Cohen Givon Insurance Agency (1994) Ltd.	Full-time	0%	1,492	4,756	-	409	-	6,657	-
Moni Feller (7)	Co-CEO of The Phoenix Capital Ltd.	Full-time	0%	130	5,611	-	-	-	5,741	-
Stu Shapira (7)	Co-CEO of The Phoenix Capital Ltd.	Full-time	0%	130	5,611	-	-	-	5,741	-

(*) The salary includes a payment charged in accordance with the employment agreement that does not depend on targets and/or subject to discretion. It should be noted that from May 2020 to June 2021, the salaries of Mr. Eyal Ben Simon and Mr. Benjamin Gabbay were reduced by 10%. As for Mr. Eli Schwartz - from May 2020 to December 2020, his salary was reduced by 9%. The salary cuts were made due to the coronavirus crisis.

The salary shown in the above table constitutes 100% of the salary paid to the officer in respect of his functions in The Phoenix Group and does not constitute the salary paid by the Company alone.

(**) In 2020, the Company revised its Compensation Policy and the procedure for approval of bonuses thereunder, such that as from the reporting year, bonuses shall be approved prior to the report publication date; therefore, under this regulation, the bonus data that were taken into account were in respect of the reporting year, unlike in previous years, in which the bonus data taken into account were for the previous year. It should be noted that the bonus granted to Mr. Eyal Ben Simon in 2019 amounted to NIS 700 thousand and is not reflected in the bonus data in the table or in the data in the 2019 financial statements.

(***) Compensation as defined in the Compensation for Officers in Financial Corporations Law (Special Approval and Non-Authorization of Expense for Tax Purposes due to Extraordinary Compensation), 2016. I.e., total compensation excluding contributions for severance pay and benefits (including permanent health insurance) pursuant to the law (or contributions to funds as a substitute for these components for those not employed as "employees") and excluding the employer's supplementary contributions for benefits accrued until the law's effective date.

Regulation 21 - Compensation of Interested Parties and Senior Officers (cont.)

Comments regarding the data in the table:

1. The salary component includes all of the following components: monthly salary, social benefits, social security contributions and related benefits as is customary, and any income credited to the salary due to a component granted to the employee. The expense in respect of share-based payment is based on the valuation of the options as of the grant date, recorded as an expense in the Company's books of accounts in the reporting year.
2. Mr. Benjamin Gabbay has been serving as Chairman of the Board of Directors of the Company¹ and The Phoenix Insurance since November 2019. For further details regarding Mr. Benjamin Gabbay's terms of employment, please see Note 41 to the Financial Statements.
3. Mr. Eyal Ben Simon has been serving as the Company's CEO since June 2019, and as the CEO of The Phoenix Insurance Company Ltd. since May 2019. For further details regarding Mr. Eyal Ben Simon's terms of employment, please see Note 41 to the Financial Statements.
4. Mr. Eli Schwartz has been serving as Executive Vice President of the Company and Parent Company and Chief Financial Officer of the Company and Parent Company since April 2017 (hereinafter: "**Mr. Schwartz**"). Mr. Schwartz is entitled to an annual bonus in accordance with the CEO's recommendation and the Company's compensation policy. Upon the end of Mr. Schwartz's employment with the Company, he will be entitled to a specified notice period of 3 months. During the specified notice period, Mr. Schwartz will be entitled to a salary, including all the benefits and related terms and conditions included in the agreement. Mr. Schwartz is also entitled to social security contributions, related benefits and reimbursement of expenses as is customary for senior executives in his position.
5. Yitzhak Oz serves as Co-CEO of Agam Liderim (Israel) Insurance Agency (2003) Ltd. (hereinafter: "**Agam**"). Mr. Yitzhak Oz holds 34% of the share capital of Agam Liderim Holdings (2001) Ltd., which is the controlling shareholder of Agam. The management fees and bonus listed in connection with Mr. Yitzhak Oz are management fees paid to NAR Holdings Ltd. (hereinafter: "**Oz**"), a privately-held company wholly owned by Yitzhak Oz. The management fee includes a fixed management fee of approximately NIS 240 thousand linked to the consumer price index for November 2019. The bonus to which Mr. Yitzhak Oz is entitled is an annual bonus derived from the joint profits of Agam Holdings and Agam Israel (hereinafter: "**Profit in respect of the Bonus**"). The annual bonus is 12.7% of the Profit in respect of the Bonus that is in excess of NIS 50 million, provided that the total annual amount of the monthly management fees and bonus does not exceed NIS 8.13 million plus VAT (excluding rent and the abovementioned salary component); the amount is linked to the "in lieu CPI" for September 2019.
6. Mr. Ran Givon (hereinafter: "**Mr. Givon**") serves as the CEO of Cohen Givon Insurance Agency (1994) Ltd. (hereinafter: "**the Agency**"). Mr. Givon holds 48% of the Agency's share capital. According to the employment agreement between the Agency and Mr. Givon, the latter will serve as the Agency's CEO with the total annual cost of his salary to the Company being approximately NIS 964 thousand, linked to the consumer price index, with the base index being for November 2006. In addition, Mr. Givon is entitled to annual vehicle maintenance in the amount of NIS 228 thousand linked to the consumer price index. The bonus to which Mr. Givon is entitled is 40% of the annual profit before tax and before management fees, less a total of NIS 1.9 million linked to the consumer price index, with the base index being for January 2003.

¹ Until April 2020, he served as interim Chairman of the Company's Board of Directors.

Regulation 21 - Compensation of Interested Parties and Senior Officers (cont.)

7. As of March 2018, Mr. Moni Gil Feller and Mr. Stuart Shapira (hereinafter: the "**Managers**") serve as Co-CEOs of The Phoenix Capital Ltd. (hereinafter: "**Capital**"), which develops and manages investment funds. The Managers jointly hold, indirectly (through Safra Consulting and Investment Company Ltd.) (hereinafter: "**Safra**"), 35% of the share capital of Capital, with an additional 65% of the share capital of Capital held by The Phoenix Investments and Finances Ltd.; the Managers are entitled - through Safra - to the Company's profits - ranging between 35% and 40% - depending on Capital's performance. In the reporting year, no Capital profits were distributed. In addition, each of the Managers is entitled to a salary for his work in Capital in the amount of NIS 4,000 per month. In addition, the Managers, through Saifa Management Services (2013) Ltd. (hereinafter: "**Saifa**"), are partners of The Phoenix Insurance in FNX Private, a unit which provides investment solutions and financial services to customers with self-directed policies and provident funds. The Managers - through Saifa - are entitled to 50% of profits of the abovementioned operation. In addition, each of the Managers is entitled to a salary for his work in The Phoenix Insurance in the amount of NIS 4,000 per month.

Following is a breakdown of the directors' compensation:

In 2020, the Company paid its directors for their service on the Company's Board of Directors a total of approximately NIS 2,618 thousand (the amounts do not include payroll tax or VAT). The compensation given to the directors of the Company is the maximum compensation allowed in accordance with Regulations 1A - 1B of the Companies Regulations (Reliefs in Transactions with Interested Parties), 2000 (hereinafter: the "**Relief Regulations**") and Regulations 5A and 7 of the Companies Regulations (Rules regarding Compensation and Expenses for External Directors), 2000.

During the reporting period, as a result of the effects of the global coronavirus crisis on the financial sector in general, and on the Company in particular, the directors on behalf of the controlling shareholders of the Company and The Phoenix Insurance announced that they will waive the annual directors' salary for 2020 (estimated at approximately NIS 1 million) to which they are entitled and transfer it to the employees' financial support fund set up in accordance with the Memorandum of Understanding signed on March 25 2020 between The Phoenix Insurance and the Workers' Committee of Phoenix Workers. For further details, please see the Bank's immediate report dated June 30 2020 (Ref. No.: 2020-01-069357).

No compensation was granted to the officers subsequent to the reporting year and prior to the reporting date in connection with their service or employment in the reporting year which were not recognized in the financial statements for 2020.

Regulation 21A - Control of the corporation

The controlling shareholders of the Company are Belenus Lux S.a.r.l jointly with Leolin Lux S.a.r.l, which is a sister company of Belenus (hereinafter: "**Belenus**"), held by Centerbridge Partners LP and Gallatin Point Capital LLC (hereinafter: the "**Funds**"). As of the report date, Belenus holds approximately 33.02% of the Company's issued and paid-up share capital.

**Regulation 22 -
Transactions with controlling shareholders or in which a controlling shareholder has a vested interest**

Some of the Company's financial and insurance activities are carried out with related parties and interested parties in the ordinary course of business and under market terms, subject to the approvals required as per the law and the Company's procedures. In August 2008, the Securities Regulations Amendment (Periodic and Immediate Reports), 1970 came into force (hereinafter: the "**Securities Regulations**"). Pursuant to the amendment, the Company's Board of Directors decided to adopt, for the first time, a negligibility threshold as set out in the Securities Regulations in connection with Controlling Shareholder Transactions.

The Company's Board of Directors has determined that a Controlling Shareholder Transaction shall be considered as a negligible transaction if all of the following terms and conditions are met in respect thereof:

- a. It is not an extraordinary transaction (as the term is defined in the Companies Law).
- b. Its effect on the relevant parameter is less than one percent (1%).

For each transaction or engagement assessed in relation to the negligibility threshold, the relevant parameters shall be assessed based on the latest consolidated financial statements issued by the Company prior to the event.

For further details regarding the Company's policy on negligible transactions, please see Note 41 to the Company's Financial Statements.

Additionally, as of the report publication date, the Company or its related companies have no engagements with Belenus or the Funds.

Regulation 22 -

Transactions with controlling shareholders or in which a controlling shareholder has a vested interest (cont.)

Transactions listed in Section 270(4) of the Companies Law

Insurance policy, exemption and indemnification letters for board members and officers

Insurance, exemption and indemnification for officers

- a. In March 2020, the General Meeting approved the Company's revised Compensation Policy, which included increasing the limit of the insurance coverage for directors, senior officers and other key officers to USD 220 million (instead of USD 150 million), with an annual premium of no more than USD 2 million and a deductible of up to USD 1 million. In addition, the General Meeting approved the award of indemnification and exemption letters, in an amended version, to Company officers and directors who serve or will serve in the Company from time to time, including the CEO or the CEO who will serve from time to time, and including Company officers and directors who serve or will serve in the Company from time to time, which the Company's controlling shareholder may be considered as having a vested interest in the award of the indemnification and exemption letters. For further details, please see the immediate report of the Company dated February 18 2020 (Ref. No. 2020-01-014290).
- b. Reimbursement of travel expenses to directors residing overseas
As outlined in subsection (b) above, the Meeting also approved the payment of expenses arising from participation in meetings of the Board of Directors and its committees by directors residing outside Israel, including directors on behalf of the controlling shareholder, who serve or will serve from time to time in the Company's Board of Directors. Such directors shall be entitled to full reimbursement of their expenses in respect of a business-class flight and a three-night stay at the hotel. In addition, the directors will be entitled to reimbursement of food, beverage and hospitality expenses during their stay in Israel. The total amount of expense for the daily stay at a hotel, food, beverage and hospitality to be paid by the Company shall not exceed NIS 2,000 plus VAT per director. The directors shall also be entitled to reimbursement of travel expenses in Israel which are directly related to their participation in such meetings.

It shall be clarified that, as of the report publication date, the Company or its related companies have no engagements with Belenus or the Funds.

Regulation 24 -**Shares and Other Securities Held by Interested Parties and Senior Officers in the Corporation, Subsidiary or Related Company, as Close as Possible to the Report Date, to the Best of the Corporation's Knowledge**

For details regarding holdings of interested parties and senior officers in the Company's shares and other securities as close as possible to the report date, please see the Company's immediate report dated January 7 2021 (Ref. No.: 2021-01-002689).

Dormant shares of the corporation held by the corporation or a subsidiary of the corporation:

	The Phoenix Shares NIS 1 p.v.	Total no. of shares	Holding rate - voting rights and authority to appoint directors	Holding rate - equity	Holding rate - equity (fully diluted)	Holding rate - voting rights and authority to appoint directors (fully diluted)
The Phoenix Holdings Ltd. (dormant shares)	1,496,810	1,496,810	0%	0%	0%	0%
The Phoenix Investments and Finances (Dormant voting shares)	31	31	0%	0.00%	0.00%	0%

Regulation 24A –**Registered Capital, Issued Capital and Convertible Securities of the Corporation**

The registered capital of the Company immediately prior to the report publication date is NIS 300,000,000, composed of 300,000,000 shares of NIS 1 par value each. The issued capital of the Company is NIS 256,153,308, composed of 256,153,308 ordinary shares of NIS 1 par value each.

The number of dormant shares of the Company that do not confer voting rights is 31 ordinary shares of NIS 1 par value each. In addition, the number of dormant shares of the Company that do not confer any rights is 1,496,810 ordinary shares of NIS 1 par value each.

The Company's issued capital less the dormant shares that do not confer voting rights is 254,656,498 ordinary shares of NIS 1 par value each.

The Company's issued capital less the dormant shares that do not confer any rights is 254,656,467 ordinary shares of NIS 1 par value each.

In addition, in accordance with the options plan for officers and employees of the Company and The Phoenix Group, immediately prior to the report publication date, the convertible securities issued by the Corporation include 9,160,500 options of The Phoenix Up Employees Security No. 7670235.² For further details regarding the Company's securities that were listed for trading during the reporting period, please see Regulation 20 above.

² For further details, please see the immediate reports dated December 27 2018 (Ref. No. 2018-01-119905) and February 3 2019 (Ref. No. 2019-01-009838).

Regulation 24B – The Corporation's Shareholder Register

For the most recent register of the Company's shareholders, please see the immediate report dated February 4 2021 (Ref. No. 2021-01-014281), which is included by way of reference.

Regulation 25A – Registered Address of the Corporation

The registered address of the Corporation is 53 Derech Hashalom Street, Givatayim. Tel.: +972-3-7332997.
Fax.: +972-3-5734516
E-MAIL: menin@fnx.co.il

Regulation 26 - The Corporation's Directors

1) Name	- Benjamin Gabbay, ID No. 022973606 (Chairman of the Board)
2) Date of birth	- March 16 1967
3) Address	- Omri 24A, Tel Aviv
4) Citizenship	- Israeli
5) Membership in Board committees	- No
6) ED	- No
7) Is he an employee of the Company, a subsidiary, a related company or of an interested party	- Yes. Chairman of the Board of The Phoenix Insurance.
8) The date on which he began his term as a director	- November 3 2019.
9) Education and occupation in the past five years and a list of the corporations in which he serves as a director	- Education - B.A. in Accounting and Economics and L.L.M from Tel Aviv University. Occupation - Co-CEO of Universal Transportation Solutions Ltd. and Universal Motors Israel Ltd. Previously: Provided consulting services in B.G.N.Y. Management Services Ltd. and CEO of Eliyahu Issues Ltd. The corporations in which he serves as a director - The Phoenix Insurance: Chairman, Member of the Nostro Investment Committee, Member of the Risk Management Committee and Chairman of the IT Committee. Universal Transportation Solutions Ltd. (Chairman), Universal Mobility Technology Ltd., Universal Mobility Electric (2015) Ltd., G.M. - U.M.I - Technologies Research and Development Ltd. and Kahan Properties Ltd.
10) Is he a relative of another interested party in the Company	- No
11) Does he have accounting and financial skills or professional qualifications	- Yes

Regulation 26 - The Corporation's Directors (cont.)

1)	Name	-	Roger Abravanel, Passport No. YA3660247
2)	Date of birth	-	July 27 1946
3)	Address	-	Via Fiori Chiari 24/A, 20121 Milan, Italy
4)	Citizenship	-	Italian
5)	Membership in Board committees	-	Strategy Committee
6)	ED	-	No
7)	Is he an employee of the Company, a subsidiary, a related company or of an interested party	-	No.
8)	The date on which he began his term as a director	-	November 3 2019
9)	Education and occupation in the past five years and a list of the corporations in which he serves as a director	-	<u>Education</u> - B.Sc in Chemical Engineering from Polytechnic Milan and MBA from INSEAD. <u>Occupation</u> - director as described below. <u>Corporations in which he serves as a director</u> - McKinsey & Co (Director Emeritus), Even Caesar Ltd. and BNL. Formerly: LUXOTTICA, Admiral, Pianoforte, Esselunga, Teva
10)	Is he a relative of another interested party in the Company	-	No
11)	Does he have accounting and financial skills or professional qualifications	-	Yes
-
1)	Name	-	Itzhak Shukrie (Zhak) Cohen, ID No. 039348776
2)	Date of birth	-	May 2 1984
3)	Address	-	660 Steamboat Rd, Greenwich, CT 06830 U.S.A
4)	Citizenship	-	Israeli and American
5)	Membership in Board committees	-	No.
6)	ED	-	No
7)	Is he an employee of the Company, a subsidiary, a related company or of an interested party	-	Investment Manager at Gallatin Point LLC (one of the Company's controlling shareholders).
8)	The date on which he began his term as a director	-	November 3 2019
9)	Education and occupation in the past five years and a list of the corporations in which he serves as a director	-	Education - B.A. of Philosophy from Brandeis University Waltham, and L.L.M. from the University of Pennsylvania Law School. Occupation: Managing Director at Gallatin Point LLC, VP at XL Catlin. The corporations in which he serves as a director - The Phoenix Insurance: director, member of the Risk Management Committee; Bowhead Specialty.
10)	Is he a relative of another interested party in the Company	-	No
11)	Does he have accounting and financial skills or professional qualifications	-	Yes

Regulation 26 - The Corporation's Directors (cont.)

1)	Name	-	Marilyn Victoria Hirsch, ID No. 328767926
2)	Date of birth	-	May 29 1968
3)	Address	-	455 Hazel Ave. Highland Park, IL 60035, U.S.A
4)	Citizenship	-	Israeli and American
5)	Membership in Board committees	-	Financial Statements Review Committee and Strategy Committee.
6)	ED	-	No
7)	Is she an employee of the Company, a subsidiary, a related company or an interested party	-	No
8)	The date on which she began her term as a director	-	November 3 2019
9)	Education and occupation in the past five years and a list of the corporations in which she serves as a director	-	<u>Education</u> - B.Sc in Civil Engineering and Economics from the University of Pennsylvania; M.A in Finance and Real Estate from the University of Berkley; Ph.D. in Finance and Real Estate from the University of Berkley. <u>Occupation</u> - Senior Vice President at The Allstate Corporation and Strategy Management at AIG Property Casualty. <u>The corporations in which she serves as a director</u> - The Phoenix Insurance - director, member of the IT Committee, member of the Strategy Committee, member of the Financial Statement Review Committee.
10)	Is she a relative of another interested party in the Company	-	No
11)	Does she have accounting and financial skills or professional qualifications	-	Yes

Regulation 26 - The Corporation's Directors (cont.)

1) Name	- Dr. Ehud Shapira, ID No. 008370991
2) Date of birth	- October 5 1944
3) Address	- Belkind 1, Tel Aviv
4) Citizenship	- Israeli
5) Membership in Board committees	- Audit Committee, Compensation Committee, Strategy Committee and the Financial Statements Review Committee.
6) ED	- No, an independent director.
7) Is he an employee of the Company, a subsidiary, a related company or of an interested party	- No.
8) The date on which he began his term as a director	- November 7 2019
9) Education and occupation in the past five years and a list of the corporations in which he serves as a director	- <u>Education</u> - B.Sc in Economics and Statistics from Tel Aviv University, M.Sc in Economics and Performance Research from the Technion, M.Sc. in Economics and Ph.D in Economics and Finance - from New York University. <u>Occupation</u> - director of various companies, as detailed below. <u>Corporations in which he serves as a director</u> - Bar Ilan Research and Development Ltd. and SAMLAT Ltd. Previously - Psagot Investment House Ltd. (Chairman and board member) and GODM Investments Ltd. (Chairman).
10) Is he a relative of another interested party in the Company	- No
11) Does he have accounting and financial skills or professional qualifications	- Yes

Regulation 26 - The Corporation's Directors (cont.)

1)	Name	-	Ben Carlton Langworthy, Passport No. 565490779
2)	Date of birth	-	August 12 1978
3)	Address	-	10 New Burlington Street, 2nd Floor, London W1S 3BE, United Kingdom
4)	Citizenship	-	American
5)	Membership in Board committees	-	No
6)	ED	-	No
7)	Is he an employee of the Company, a subsidiary, a related company or of an interested party	-	Managing Director of Centerbridge Partners Europe LLP (one of the Company's controlling shareholders).
8)	The date on which he began his term as a director	-	December 12 2019
9)	Education and occupation in the past five years and a list of the corporations in which he serves as a director	-	<u>Education</u> - B.A. in Economics from Yale University and MBA from Harvard Business School. <u>Occupation</u> : Managing Director at Centerbridge Partners Europe LLP. <u>Corporations in which he serves as a director</u> - Fortuna Holdings Limited, Fortuna Topco Limited, Auxmoney Europe Holding Limited.
10)	Is he a relative of another interested party in the Company	-	No
11)	Does he have accounting and financial skills or professional qualifications	-	Yes

Regulation 26 - The Corporation's Directors (cont.)

1)	Name	- Zohar Tal, ID No. 54993076
2)	Date of birth	- December 18 1957
3)	Address	- Shahaf 22, Hod Hasharon
4)	Citizenship	- Israeli
5)	Membership in Board committees	- Chairman of the Audit Committee, Chairman of the Financial Statements Review Committee, and Chairman of the Compensation Committee.
6)	ED	- Yes
7)	Is he an employee of the Company, a subsidiary, a related company or of an interested party	- No.
8)	The date on which he began his term as a director	- January 1 2019
9)	Education and occupation in the past five years and a list of the corporations in which he serves as a director	- <u>Education</u> - B.A. in Economics and Labor Studies (Extended Track) from Tel Aviv University. MSc in Business Management Imperial Collage of Science and Technology Diploma in Business studies, city of London polytechnic, London <u>Occupation</u> - CEO and owner of Netra Economic Consulting Ltd. Corporations in which he serves as a director - Netra Economic Consulting Ltd., Tal Nemtal Ltd., the Shoshana and Pinchas Sapir Scholarship Fund, The Phoenix Insurance: ED, Member of the Audit Committee, member of the Financial Statements Review Committee, Chairman of the Compensation Committee, Member of the Nostro Investment Committee. ED at Adika Style Ltd., formerly - an independent director at Orad Ltd. (from 2007 to 2016);
10)	Is he a relative of another interested party in the Company	- No
11)	Does he have accounting and financial skills or professional qualifications	- Yes

Regulation 26 - The Corporation's Directors (cont.)

1)	Name	- Rachel (Rucha) Levine, ID No. 54993076
2)	Date of birth	- December 9 1965
3)	Address	- Yeffe Nof 3, Givatayim
4)	Citizenship	- Israeli
5)	Membership in Board committees	- Member of the Audit Committee, Financial Statements Review Committee and Compensation Committee.
6)	ED	- Yes
7)	Is she an employee of the Company, a subsidiary, a related company or an interested party	- No.
8)	The date on which she began her term as a director	- February 24 2020
9)	Education and occupation in the past five years and a list of the corporations in which she serves as a director	- <u>Education</u> - BA in Business with specialization in Accounting - College of Management, Tel Aviv. MBA from Kellogg School of Management, Northwestern University, Chicago. CPA license Occupation - CEO and director at Gazit Globe Ltd.; Chairman of the Board of Directors of Gazit Globe Israel Ltd.; Director, Citicon of the Gazit Globe Group (Finland); Deputy Chairman - Atrium European Real Estate Ltd. Professional consultant for real estate companies. <u>The corporations in which she serves as a director</u> - Hadera Paper Ltd.; EFI Properties Ltd.
10)	Is she a relative of another interested party in the Company	- No
11)	Does she have accounting and financial skills or professional qualifications	- Yes.

Regulation 26 - The Corporation's Directors (cont.)

1)	Name	-	Eliezer Yones, ID No. 050934637
2)	Date of birth	-	October 7 1951
3)	Address	-	Jabotinsky 60A, Tel Aviv.
4)	Citizenship	-	Israeli
5)	Membership in Board committees	-	Chairman of the Strategy Committee.
6)	ED	-	No.
	Is he an employee of the Company,	-	No.
7)	a subsidiary, a related company or	-	
	of an interested party		
8)	The date on which he began his	-	April 22 2020
	term as a director		
9)	Education and occupation in the	-	<u>Education</u> - BA in Economics and Sociology - The
	past five years and a list of the		Hebrew University, Jerusalem.
	corporations in which he serves as a		MBA from The Hebrew University, Jerusalem.
	director		<u>Occupation</u> - provides private consulting and mediation
			services.
			<u>The corporations in which he serves as a director</u> - The
			Phoenix Insurance: Director, Chairman of the Strategy
			Committee.
10)	Is he a relative of another	-	No
	interested party in the Company		
	Does he have accounting and	-	Yes
11)	financial skills or professional		
	qualifications		

Directors who ceased to serve in the Company during the reporting period

- (1) On January 13 2020, Mr. Ronny Maliniak ceased to serve as an external director in the Company. For further details about the end of his term, please see the immediate report dated January 13 2020 (Ref. No.: 2020-01-004927).

Regulation 26A - Officers in the Corporation

1.	Name	-	Eyal Ben Simon, ID No. 025173782
2.	Date of birth	-	March 12 1973
3.	Position in the Company	-	The Company's CEO.
4.	Position in a subsidiary of the Company or an interested party therein	-	<u>The Company's CEO.</u> CEO of a subsidiary The Phoenix Insurance Company Ltd.; director in companies of the Phoenix Group, the main ones being: The Phoenix Investments and Finances Ltd., Gama Management and Clearing Ltd., Excellence Investments Ltd., The Phoenix Capital Raising (2009) Ltd., The Phoenix Insurance Agencies 1989 Ltd., Agam Liderim Holdings (2001) Ltd., Agam Liderim (Israel) Insurance Agency (2003) Ltd., Shekel Insurance Agency (2008) Ltd., Oren Mizrach Insurance Agency Ltd., Ad 120 Residence Centers for Senior Citizens and its subsidiaries. In addition, he serves as a member of the Nostro Investment Committee at The Phoenix Insurance.
5.	Is he a relative of another senior officer or of an interested party	-	No
6.	The officer's education and business experience in the past five years	-	<u>Education</u> - B.A. in Economics and Accounting and MBA (Finance); CPA, from the Hebrew University of Jerusalem. <u>Business experience</u> - CEO of the Company and CEO of The Phoenix Insurance Company Ltd. Formerly - Executive Vice President of The Phoenix - Head of Property and Casualty Insurance and Claims.
7.	The date on which he began his term	-	November 7 2019

1.	Name	-	Haggai Schreiber, ID No. 037626546
2.	Date of birth	-	August 15 1975
3.	Position in the Company	-	Executive Vice President, the Company's Chief Investment Officer.
4.	Position in a subsidiary of the Company or an interested party therein	-	Executive Vice President, Chief Investment Officer of the following the Phoenix Group companies: The Phoenix Insurance Company Ltd., Phoenix Excellence Pension and Provident Funds Ltd. CEO of The Phoenix Investments and Finances Ltd. and The Phoenix Capital Raising (2009) Ltd. Director of companies in The Phoenix Group, the main one being Excellence Investments Ltd.
5.	Is he a relative of another senior officer or of an interested party	-	No
6.	The officer's education and business experience in the past five years	-	<u>Education</u> - B.A. in Economics and M.A. in Management Sciences, Tel Aviv University. <u>Business experience</u> - Chief Investment Officer of The Phoenix Group. Previously - manager of planholders' funds, manager of the nostro portfolio and international markets strategist at The Phoenix Investments and Finances Ltd.
7.	The date on which he began his term	-	December 5 2019

Regulation 26A - Officers in the Corporation (cont.)

1.	Name	-	Eli Schwartz, ID no. 032315517
2.	Date of birth	-	June 10 1975
3.	Position in the Company	-	Executive Vice President, CFO.
4.	Position in a subsidiary of the Company or an interested party therein	-	Executive Vice President, CFO of subsidiary The Phoenix Insurance Ltd. and other companies in The Phoenix Group; Director in companies in The Phoenix Group, the main ones being: The Phoenix Investments and Finances Ltd., Ad 120 Residence Centers for Senior Citizens Ltd., The Phoenix Insurance Agencies 1989 Ltd., Phoenix Excellence Pension and Provident Funds Ltd., KSM Sal Indices Certificates Ltd., Gama Management and Clearing Ltd., KSM Mutual Funds Ltd., The Phoenix Capital Raising (2009) Ltd., and Excellence Investments Ltd.; member of the Nostro Investment Committee at The Phoenix Insurance.
5.	Is he a relative of another senior officer or of an interested party	-	No
6.	The officer's education and business experience in the past five years	-	<u>Education</u> - CPA, B.A. in Accounting and Economics from Ben Gurion University of the Negev and MBA from Bar Ilan University. <u>Business experience</u> - CFO at the Company and at The Phoenix Insurance. <u>Previously</u> : Investment controller and CFO of subsidiaries of The Phoenix Group, Head of Enterprise Applications in the IT Division of The Phoenix Insurance.
7.	The date on which he began his term	-	August 15 2016.

1.	Name	-	Amit Netanel, ID No. 028722213
2.	Date of birth	-	June 2 1971
3.	Position in the Company	-	Chief Risk Officer.
4.	Position in a subsidiary of the Company or an interested party therein	-	Chief Risk Officer at the Company and subsidiaries of The Phoenix Group.
5.	Is he a relative of another senior officer or of an interested party	-	No
6.	The officer's education and business experience in the past five years	-	<u>Education</u> - Economics and Management, Open University; M.A. in Finance - Accounting, Tel Aviv University. <u>Business experience</u> - Chief Risk Officer at the Company and at The Phoenix Insurance.
7.	The date on which he began his term	-	September 24 2012

Regulation 26A - Officers in the Corporation (cont.)

1.	Name	-	Menachem (Meni) Neeman, ID No. 028017523
2.	Date of birth	-	August 25 1970
3.	Position in the Company	-	Executive Vice President, Chief Legal Counsel and Company's Secretary.
4.	Position in a subsidiary of the Company or an interested party therein	-	Executive Vice President, Chief Legal Counsel, Company Secretary and Chief Compliance Officer at The Phoenix Insurance Company Ltd. He also serves as a director of companies in The Phoenix Group, the main ones being: Excellence Investments Ltd., Gama Management and Clearing Ltd., Phoenix Excellence Pension and Provident Funds Ltd., chairman of Ad 120 Residence Centers for Senior Citizens Ltd., and chairman of ESOP Management and Trust Services Ltd. During the reporting year, he served as member of the Nostro Investment Committee of The Phoenix Insurance until August 4 2020.
5.	Is he a relative of another senior officer or of an interested party	-	No
6.	The officer's education and business experience in the past five years	-	<u>Education</u> - Adv. LL.B with honors and LL.M from Bar Ilan University. <u>Employment experience</u> - Chief Legal Counsel and Secretary of the Company and The Phoenix Insurance Company Ltd.; formerly: partner in the law firm of Herzog Fox Ne'eman.
7.	The date on which he began his term	-	August 1 2015

1.	Name	-	Michal Leshem, ID No. 027862721
2.	Date of birth	-	July 30 1970
3.	Position in the Company	-	Chief Internal Auditor.
4.	Position in a subsidiary of the Company or an interested party therein	-	Chief Internal Auditor at The Phoenix Insurance Company Ltd. and several other companies in The Phoenix Group.
5.	Is she a relative of another senior officer or of an interested party	-	No
6.	Education and business experience over the past five years	-	<u>Education</u> - CPA, B.A in Business Administration and Accounting, College of Management; <u>Business experience</u> - Chief Internal Auditor at The Phoenix Insurance Company Ltd. and other companies in The Phoenix Group. <u>Previously</u> : Chief Financial Officer in the Paz Group, Chief Internal Auditor in the Migdal Group, ED at Matrix ET Ltd., ED at weSure Ltd.
7.	The date on which he began his term	-	September 1 2020

Regulation 26A -

Officers in the Corporation (cont.)

Officers who ceased to serve during the reporting period

- (1) On September 1 2020, Mr. Shmuel Rosenblum ceased to serve as the Company's Chief Internal Auditor.
(For further details, please see the immediate report dated July 28 2020 (Ref. No. 2020-01-080460).

Regulation 26B -

Authorized Signatory of the Corporation

The Corporation does not have independent signatories.

Regulation 27 -

The Insurer's Independent Auditor

Kost Forer Gabbay & Kasierer, 144 Menachem Begin Road, Tel Aviv.

Regulation 28 -

Change in the Memorandum or Articles of Association of the Corporation

In the reporting year, a change was made to the Company's Articles of Association. For further details, please see the immediate report dated August 24 2020. Ref. No. 2020-01-092733.

Regulation 29 -

Recommendations and Resolutions of the Board of Directors

The Board of Directors' recommendations to the General Meeting and their resolutions that do not require the approval of the General Meeting regarding:

- 1. Dividend payment (final and interim) and distribution of bonus shares:**

No dividend distributions were made during the reporting year

- 2. Changes in the registered or issued share capital of the corporation:**

For details regarding changes in the registered or issued share capital of the corporation, please see Regulation 20 to this report.

- 3. Change in the memorandum or articles of association of the corporation:**

On March 24 2020, a revision to the exemption and indemnity clauses in the Company's Articles of Association was approved. For further details regarding the change in the Articles of Association of the Corporation, please see Section 6(c) below.

- 4. Redemption of shares:**

None

Regulation 29 -

Recommendations and Resolutions of the Board of Directors (cont.)

5. Early redemption of bonds:

On September 30 2020, the Company's Bonds (Series 2) were delisted due to full early redemption of the principal balance and outstanding Bonds (Series 2) (and the interest thereon). For further details, please see Note 26 to the Financial Statements and the Company's immediate reports dated August 30 2020 and September 7 2020 (Ref. Nos.: 2020-01-095238 2020-01-098754).

6. (A) **A transaction that is not in accordance with market conditions between the corporation and an interested party therein:**

None

(B) **Resolutions of the General Meeting in the matters listed above that were made other than in accordance with the recommendations of the Board of Directors:**

(C) **Resolutions by Extraordinary General Meeting:**

General Meeting dated March 24 2020

On March 24 2020, the General Meeting approved the following: (1) A revised compensation policy of the Company for 2020-2022; (2) Reimbursement of expenses to directors residing abroad who attend board meetings; (3) Granting of amended letters of exemption and indemnification to directors (including directors on behalf of the controlling shareholder) and officers of the Company; (4) Amendment of the Company's Articles of Association as a result of the resolution to grant exemption and indemnification letters; (5) Approval of the appointment of Ms. Rachel (Rucha) Levine as an external director of the Company for a first three-year term.

For further details about the Meeting and the Company's compensation policy, please see the immediate report dated February 18 2020 (Ref. No.: 2020-01-014290).

General Meeting of July 7 2020

On July 7 2020, the General Meeting approved the following: (1) Reappointment of Kost Forer Gabbay & Kasierer, CPAs, as the Company's independent auditors and authorization of the Company's Board of Directors to determine their fees for the said period; (2) Appointment of Mr. Benjamin Gabbay as a director in the Company; (3) Appointment of Mr. Yitzhak Shuki Cohen as a director in the Company; (4) Appointment of Ms. Marilyn Victoria Hirsch as a director in the Company; (5) Appointment of Mr. Roger Abravanel as director in the Company; (6) Appointment of Mr. Ehud Shapira as an independent director in the Company; (7) Appointment of Mr. Ben Carlton Langworthy as a director in the Company; and (8) Appointment of Mr. Eliezer Yones as a director in the Company.

For further details concerning the Meeting of the Company, please see the Company's immediate report dated June 1 2020 (Ref. No. 2020-01-049126)

Regulation 29 -

Recommendations and Resolutions of the Board of Directors (cont.)

General Meeting of October 22 2020

On October 22 2020, the General Meeting approved the following: (1) A new compensation policy of the Company for 2021-2023; (2) Allocation of 350,000 unlisted options exercisable into up to 350,000 shares of NIS 1 par value each of the Company, constituting approximately 0.1% of the issued and paid-up share capital of the Company; and (3) Revision of the terms of office and employment for the Company's CEO in accordance with the new compensation policy.

For further details about the Meeting and the Company's new compensation policy, please see the immediate report dated September 16 2020 (Ref. No.: 2020-01-102009).

Corporate Resolutions

1. Approval of transactions under Section 255 to the Companies Law: None.
2. Transaction under Section 254(a) to the Companies Law which has not been approved: None.
3. Exemption from insurance or commitment for indemnification, for an officer effective as of the reporting date:

Under the Company's compensation policy, directors, senior officers and other key officers shall be entitled to exemption and indemnification insurance, subject to the approvals required by law. For further details, please see Regulation 22 above.

Date: March 24 2021.

Names of the signatories

Eyal Ben Simon

- **Chief Executive Officer**

Eli Schwartz

- **EVP, Chief Financial Officer**

**Corporate
Governance
Questionnaire**



CORPORATE GOVERNANCE QUESTIONNAIRE OF THE PHOENIX HOLDINGS LTD.¹

THE BOARD OF DIRECTORS' INDEPENDENCE			Yes	No
1.		In each reporting year, there were at least two external directors serving in the corporation. The question may be answered "yes" if the period during which the corporation had less than two external directors did not exceed 90 days, pursuant to Section 363A.(b)(10) to the Companies Law. However, any answer (yes or no) must include the length of the period (number of days) in which there were less than two external directors serving during the reporting period (including if the tenure was approved retroactively, for each of the different external directors): Director A: <u>Rachel Levin</u>.² Director B: <u>Dr. Ehud Shapira (independent director)</u>. Director C: <u>Zohar Tal</u>. Number of External Directors serving at the corporation as of the date of the publication of this questionnaire: <u>2</u>.	✓	

¹ Published on March 16 2014, as part of legislative proposals for improvement of reporting.

²Mr. Ronny Maliniak served as an external director and completed a 9-year term as an ED in the Company on January 13 2020. On March 24 2020, Rachel (Rucha) Levine was appointed external director of the Company.

2.	Proportion³ of independent directors⁴ serving in the corporation as of the questionnaire's publication date: <u>3/9</u>. The proportion of Independent Directors in the corporation's⁵ Articles of Association:⁶ _____. ☒ N/A (no provision has been made in the Articles of Association).	_____	_____
3.	In the reporting year, the Bank held checks and found that during the reporting period its external directors (and independent directors) fulfilled the provisions of Section 240(b) and (f) to the Companies Law requiring external directors (and independent directors) not to have an interest in the corporation or its controlling shareholder, and the conditions for service as external directors (or independent directors).	✓	
4.	None of the directors who served in the corporation during the reporting year are not subordinate to the President and CEO⁷, either directly or indirectly (inapplicable to a director who serves as a representative of the employees, if such representation exists in the corporation). If your answer is "No" (i.e., the director reports to the CEO as aforesaid) - please indicate the proportion of directors who did not meet the said restriction: _____.	✓	

³ In this questionnaire, "proportion" is a certain number out of the total. For example - 3/8.

⁴ Including "External Directors" within the meaning thereof in the Companies Law.

⁵ Regarding this question - "Articles of Association" include a specific legal provision applicable to the corporation (for example, in a banking corporation - directives issued by the Banking Supervision Department).

⁶ Bonds companies are exempt from answering this section.

⁷ For the purpose of this question - serving as a director in an investee corporation under the Corporation's control shall not be deemed "subordination"; on the other hand, if a director in the Corporation also serves as an officer (excluding as director) and/or is an employee of an investee corporation under the Corporation's control, they shall be deemed "subordinate" for the purpose of this question.

5.	None of the directors who have reported having a vested interest in the approval of a transaction on a meeting's agenda were not present at the discussion or participated in the vote as aforesaid (except for a discussion and/or vote under the circumstances outlined in Section 278(b) to the Companies Law: If your answer is "No" - Was this for the purpose of presenting a specific issue by that director in accordance with the provision of Section 278(A): ☐ Yes ☐ No (please check the appropriate box). It should be noted that the proportion of meetings in which such directors were present in a discussion and/or participated in a vote, except for circumstances outlined as aforesaid in Subsection A, was: ____.	✓	
6.	The controlling shareholder (including a relative and/or representative thereof) who is not a director or other senior officer in the Corporation was not present in the meetings of the Board of Directors held during the reporting year. If your answer is "No" (i.e., the controlling shareholder and/or relative and/or representative who is not a member of the Board of Directors and/or a senior officer of the Corporation was present in the Board of Directors' meetings as aforesaid: Name: Lewis (Lee) Sachs. Position in the corporation (if any): one of the controlling shareholders of the Gallatin Fund (50%), which jointly holds, with the Centerbridge Fund (Gallatin - 30%, Centerbridge - 70%), indirectly, 33.02% of the Company. Information on the relation to the controlling shareholder (if the person present was not the controlling shareholder himself): _____.		✓

	Was this for the purpose of presenting a specific issue: ☐ Yes ☒ No (please check the appropriate box). The proportion of Board meetings in which he/she participated⁸ during the reporting year for the purpose of presenting a specific issue: ____; otherwise present: 28.5%⁹ ☐ N/A (the corporation has no controlling shareholder).		

⁸ Specify separately for each of the controlling shareholders, relative and/or representative.

⁹ At some of the Board meetings, Mr. Lee Sachs was also requested to attend, among other things, when risk management and strategy issues were discussed during the coronavirus crisis, as well as when other issues, in which he has extensive knowledge and experience, were discussed.

THE DIRECTORS' COMPETENCY AND QUALIFICATIONS				Yes	No
7.		The Corporation's Articles of Association do not contain a provision restricting the possibility of immediately terminating the tenure of all directors of the Corporation who are not External Directors (for this purpose - a simple majority does not constitute a restriction).¹⁰ If your answer is "No" (i.e., if there is a restriction as aforesaid), please indicate -			✓
		a.	The period prescribed for a director's tenure by the Articles of Association: <u>two years.</u>		
		b.	The majority required to terminate the tenure of directors by the Articles of Association: <u>A majority of at least 75% (seventy-five percent) of the total number of shareholders present at the meeting.</u>		
		c.	The legal quorum required by the General Meeting to terminate the directors' appointments according to the Articles of Association: <u>3 shareholders holding at least 1/3 (one third) of the total voting rights in the Company.</u>		
		d.	The majority needed to amend these provisions in the Articles of Association: <u>A majority of at least 75% (seventy-five percent) of the total number of shareholders present at the meeting.</u>		

¹⁰ Bonds companies are exempt from answering this section.

8.		The Corporation has established a program for training new directors on the Corporation's business and the rules that apply to the corporation and directors, and also established a follow-up program for training serving directors that is tailored, inter alia, to each director's function in the corporation. If your answer is "Yes" - please indicate if the program was active during the reporting year: ☒ Yes ☐ No (please check the appropriate box).	✓	
9.	a.	The Corporation has a minimum number of directors in the Board of Directors who have accounting and financial expertise. If your answer is "Yes" - please indicate the minimum number set: <u>3</u>.	✓	
	b.	No. of directors who served in the corporation during the reporting year who have accounting and financial expertise:¹¹<u>9</u>. Who have professional qualifications:¹²<u>9</u>. In case of changes in the number of said directors during the reporting year, please provide the lowest number (except within a period of 60 days from the change date) of directors of any type who served during the reporting year.		
10.	a.	In each reporting year, the Board of Directors included members of both genders. If your answer is "No" - please indicate the period (number of days) in which the aforesaid was not met: _____.	✓	

¹¹ Following the Board of Directors' assessment, in accordance with the Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and Director with Professional Qualifications), 2005.

¹² Please see Footnote 9.

			The question may be answered “Yes” if the period during which the corporation did not have members of both genders serving as directors did not exceed 60 days. However, any answer (Yes or No) must include the length of the period (number of days) in which the corporation did not have members of both genders serving as directors: ____.		
		b.	Number of directors of each gender serving on the Board of Directors as of the questionnaire publication date: Male: <u>7</u> , female: <u>2</u> .	_____	_____

BOARD OF DIRECTORS MEETINGS (AND CONVENING OF THE GENERAL MEETING)					
				Yes	No
11.		a.	Number of board meetings held during each quarter in the reporting year: First quarter (2020): <u>9</u> . Second quarter: <u>5</u> . Third quarter: <u>9</u> . Fourth quarter: <u>5</u> .	_____	_____

		b.	Next to each of the names of the directors who served in the Corporation during the reporting year, please indicate the proportion ¹³ of board meetings in which he/she participated (in this Subsection - including meetings of Board of Directors' committees in which he/she is a member, and as indicated below), which took place during the reporting year (during his/her tenure period): (Please add lines according to the number of directors).							
			Director's name	Proportion of the director's participation in board meetings	Proportion of the director's participation in meetings of the Audit Committee . ¹⁴	Rate of participation in meetings of the Financial Statements Review Committee ¹⁵	Rate of participation in meetings of the Compensation Committee . ¹⁶	Proportion of the director's participation in meetings of additional board committees in which he/she is not a member (please indicate which committee)	_____	_____
			Benjamin Gabbay	26/26 (100%)	-	-	-	-		
			Zohar Tal	26/26 (100%)	4/4 (100%)	7/7 (100%)	6/6 (100%)	-		
			Ronny Maliniak ¹⁷	-			1/1 (100%)	-		

¹³ Please see Footnote 2..

¹⁴ For a director who is a member of this committee.

¹⁵ For a director who is a member of this committee.

¹⁶ For a director who is a member of this committee.

¹⁷ Ronny Maliniak ended his term as ED in the Company on January 13 2020 (for further details, please see the immediate report dated January 13 2020 (Ref. No.: 2020-01-004927).

			Marilyn Hirsch	25/26 (96%)	-	6/7 (86%)	-	Strategy Committee - 14/16 (87%)		
			Ben Langworthy	26/26 (100%)	-	-	-	-		
			Dr. Ehud Shapira	25/26 (96%)	4/4 (100%)	7/7 (100%)	6/6 (100%)	Strategy Committee - 15/16 (94%)		
			Zhak Cohen	26/26 (100%)	-	-	-	-		
			Roger Abravanel	26/26 (100%)	-	-		Strategy Committee - 15/16 (94%)		
			Rachel Levine¹⁸	18/18 (100%)	3/3 (100%)	5/5 (100%)	5/5 (100%)			
			Eliezer Yones¹⁹	16/16 (100%)	-	-	-	Strategy Committee - 16/16 (100%)		
12.		During the reporting year, the Board of Directors held at least one discussion about the management of the corporation's business by the chief executive officer and the officers reporting thereto without their presence and allowed them to express their positions.							✓	

¹⁸ Rachel Levine began her tenure as a director in the Company on March 24 2020 (for further details, please see the immediate report dated March 25 2020, Ref. No.: 2020-01-025789).

¹⁹ Eliezer Yones began his tenure as a director in the Company on April 22 2020 (for further details, please see the immediate report dated April 24 2020, Ref. No.: 2020-01-040743).

SEPARATION BETWEEN THE POSITIONS OF CHIEF EXECUTIVE OFFICER AND CHAIRMAN OF THE BOARD				
			Yes	No
13.		In each reporting year, there was a chairman of the board of directors in place. The question may be answered "Yes" if the period during which the corporation had no chairman of the board of directors in place did not exceed 60 days, as prescribed by Section 363A.(2) to the Companies Law. However, any answer (Yes or No) must include the length of the period (number of days) in which the corporation did not have a chairman of the board of directors in place as aforesaid:	✓	
14.		In each reporting year, there was a chief executive officer in place. The question may be answered "Yes" if the period during which the corporation had no chief executive officer in place did not exceed 90 days, as prescribed by Section 363A.(6) to the Companies Law. However, any answer (Yes or No) must include the length of the period (number of days) in which the corporation did not have a chief executive officer in place as aforesaid:	✓	
15.		In a corporation in which the chairman of the board of directors also serves as the corporation's chief executive officer and/or has assumed his/her powers, the dual position has been approved in accordance with the provisions of Section 121(c) to the Companies Law. ²⁰ ☒ N/A (insofar as there is no dual position as aforesaid in the corporation).		
16.		The chief executive officer is not a relative of the chairman of the Board of Directors. If your answer is "No" (i.e., the chief executive officer is a relative of the chairman of the Board of Directors) -	✓	
	a.	Please indicate the nature of the family relationship between the parties: _____.	_____	_____

²⁰ In a bonds company - approval in accordance with Section 121(d) to the Companies Law.

		b. The position was approved in accordance with Section 121(c) of the Companies Law: ²¹ ☐ Yes ☐ No (Please check the appropriate box).	_____	_____
17.		A controlling shareholder or his/her relative does not serve as the chief executive officer or senior officer in the corporation, excluding as a director. ☐ N/A (the Corporation has no controlling shareholder).	✓	

²¹ In a bonds company - approval in accordance with Section 121(d) to the Companies Law.

AUDIT COMMITTEE

			Yes	No
18.		During the reporting year, the following <u>did not serve</u> as a member of the Audit Committee -	_____	_____
	a.	The controlling shareholder or his/her relative. ☐ N/A (the Corporation has no controlling shareholder).	✓	
	b.	The Chairman of the Board.	✓	
	c.	A director employed by the corporation or by the controlling shareholder in the corporation or by a corporation under its control.	✓	
	d.	A director who provides services to the controlling shareholder in the corporation or a corporation under its control, on a regular basis.	✓	
	e.	A director whose main source of income is the controlling shareholder. ☐ N/A (the Corporation has no controlling shareholder).	✓	
19.		A person who may not serve as a member of the Audit Committee, including the controlling shareholder or his/her relative, did not participate, during the reporting year, in meetings of the Audit Committee, other than in accordance with the provisions of Section 115(e) to the Companies Law.	✓	
20.		A legal quorum for discussing and reaching decisions in all meetings of the Audit Committee which took place during the reporting year was a majority of the committee members, with most of the participants being independent directors and at least one - an external director. If your answer is "No" - please indicate the proportion of meetings in which the above requirement was not met: _____.	✓	
21.		During the reporting year, the Audit Committee held at least one meeting in which the internal auditor and independent auditor were present but in which officers of the corporation who are not members		✓

	of the Committee did not participate, on the subject of deficiencies in the corporation's business management. ²²		
22.	In all meetings of the Audit Committee in which there was a participant who may not serve as a member of the Committee, his/her participation was approved by the chairman of the Committee and/or he/she was invited by the Committee (as for the Chief Legal Adviser and the corporation's secretary other than a controlling shareholder or his/her relative).	✓	
23.	During the reporting year, there were arrangements in place, approved by the Audit Committee, regarding the manner of handling complaints filed by employees in relation to deficiencies in the managing the corporation's business and the protection provided to employees filing complaints as aforesaid.	✓	
24.	The Audit Committee (and/or the Financial Statement Review Committee) was convinced that the scope of the independent auditor's work and his/her fees in respect of the financial statements during the reporting year were adequate for the purpose of carrying out the audit and review work in an appropriate manner.	✓	

²²The Audit Committee of The Phoenix Insurance Company Ltd., which is the Company's main asset, held an Audit Committee meeting on January 13 2020, in the format stated in the section.

THE PURVIEW OF THE FINANCIAL STATEMENT REVIEW COMMITTEE (HEREINAFTER - THE "COMMITTEE") IN ITS WORK PRIOR TO APPROVING THE FINANCIAL STATEMENTS

			Yes	No
25.	a.	Please note the length of the period (in days) which the Board of Directors prescribed as a reasonable time for submitting the Committee's recommendations towards discussion by the Board of Directors for approval of the financial statements: <u>Quarterly Report: 2 days. Annual report: 3 days.</u>	_____	_____
	b.	The number of days which elapsed, in effect, from the date of submitting the recommendations to the Board of Directors to the date of discussion of the financial statements towards their approval by the Board: First quarter report <u>4.</u> Second quarter report: <u>3.</u> Third quarter report: <u>5.</u> Annual Report (2020): 2.²³: <u>2.</u>	_____	_____
	c.	The number of days which elapsed from the date of submitting the financial statements' draft to the directors to the date of the financial statements' discussion towards their approval by the Board: First quarter report: <u>4.</u> Second quarter report: <u>3.</u> Third quarter report: <u>5.</u>		

²³ Ahead of the approval of the annual financial statements, the Committee for the Approval of Financial Statements held 3 meetings: on March 16 2021, March 18 2021 and March 22 2021. The Board of Directors approved the financial statements on March 24 2020.

		Annual Report (2020): <u>6.</u>		
26.	The corporation's independent auditor participated in all of the meetings of the Committee and Board of Directors in which the corporation's financial statements relating to the periods included in the reporting year were discussed. If your answer is "No", specify the rate of participation: _____		✓	
27.	During the entire reporting year and until the publication of the annual report, the Committee met all of the terms and conditions outlined below:		_____	_____
	a.	It had no less than three members (on the date of discussion by the Committee and approval of the financial statements as aforesaid).	✓	
	b.	All of the terms and conditions outlined in Section 115(b) and (c) to the Companies Law (regarding tenure of the Audit Committee members).	✓	
	c.	The chairman of the Committee is an external director.	✓	
	d.	All of its members are directors and most of them are independent directors.	✓	
	e.	All of its members have the capacity to read and understand financial statements and at least one of the independent directors has accounting and financial expertise.	✓	
	f.	The members of the Committee gave a statement prior to their appointment.	✓	
	g.	The legal quorum for discussing and reaching decisions by the Committee was a majority of its members, provided that most of the participants were independent directors, including at least one external director.	✓	
	If your answer is "No" on one or more of this question's subsections, please indicate what type of report (annual or quarterly) did not meet the said condition and which condition was not met:		_____	_____

COMPENSATION COMMITTEE

			Yes	No
28.		During the reporting year, the Committee included at least three members, of which the external directors constituted a majority (on the date of discussion by the Committee). ☐ N/A (no discussion was held).	✓	
29.		During the reporting year, the terms of tenure and employment of all members of the Remuneration Committee met the Companies Regulations (Rules on Remuneration and Expenses for an Outside Director), 2000.	✓	
30.		During the reporting year, the following did not serve as a member of the Remuneration Committee -	—	—
	a.	The controlling shareholder or his/her relative. ☐ N/A (the Corporation has no controlling shareholder).	✓	
	b.	The Chairman of the Board.	✓	
	c.	A director employed by the corporation or by the controlling shareholder in the corporation or by a corporation under its control.	✓	

		d.	A director who provides services to the controlling shareholder in the corporation or a corporation under its control, on a regular basis.	✓	
		e.	A director whose main source of income is the controlling shareholder. ☐ N/A (the Corporation has no controlling shareholder).	✓	
31.		During the reporting year, the controlling shareholder or his/her relative did not participate in meetings of the Compensation Committee, unless the chairman of the board determined that one of them was required to participate in order to present a specific topic.		✓	
32.	The Compensation Committee and Board of Directors did not exercise their power under Sections 267A(C), 272(c)(3) and 272(c1)(1)(c) to approve a transaction or compensation policy, despite objection by the General Meeting. If your answer is “No”, please specify - The type of transaction approved as aforesaid: _____ The number of times in which their power was used during the reporting year: ____			✓	

INTERNAL AUDITOR			
		Yes	No
33.	The corporation's internal auditor reports to the corporation's chairman of the board or chief executive officer.	✓	
34.	The chairman of the board or audit committee have approved the work plan during the reporting year. In addition, specify the audit topics that the Chief Internal Auditor dealt with in the reporting year: _____ (check the appropriate box).	✓	
35.	The scope of the internal auditor's position in the corporation during the reporting year (in hours ²⁴): 28,641	_____	_____
	During the reporting year, a discussion was held (by the Audit Committee or Board of Directors) about the internal auditor's findings.	✓	
36.	The internal auditor is not an interested party in the corporation, a relative thereof, an independent auditor or anyone on his/her behalf and therefore has no material business relations with the corporation, its controlling shareholder, his/her relative or corporations under their control.	✓	

²⁴Including the no. of working hours dedicated to investees and audits held outside Israel, if any.

TRANSACTIONS WITH INTERESTED PARTIES			
		Yes	No
37.	The controlling shareholder or his/her relative (including a company under his/her control) is not employed by the corporation or provides it with management services. If your answer is "No" (i.e., the controlling shareholder or his/her relative is employed by the corporation or provides it with management services, please specify - - The number of relatives (including the controlling shareholder) employed by the corporation (including companies under their control and/or through management companies): ____. - Were the employment agreements and/or management services as aforesaid approved by the organs prescribed by law: ☐ Yes ☐ No (Please check the appropriate box). ☐ N/A (the Corporation has no controlling shareholder) ____.	✓	
38.	To the best of the corporation's knowledge, the controlling shareholder has no additional businesses in the corporation's line of business (one or more lines). If your answer is "No - please indicate whether there is an arrangement in place to separate between the activities of the corporation and its controlling shareholder: ☐ Yes ☐ No (Check the appropriate box) ☐ ,) n/a (the corporation has no controlling shareholder).	✓ ²⁵	

Chairman of the Board: Benjamin Gabbay

Chair of the Audit Committee: Zohar Tal

Chairman of Financial Statements Review Committee: Zohar Tal

March 24 2021

²⁵The answer is for the State of Israel.

Part 6

Report and Statements regarding the Internal Controls over Financial Reporting and Disclosure



**Annual Report on the Effectiveness of the Internal Control over
Financial Reporting and Disclosure in accordance with Regulation 9B(a)**

Management, under the supervision of the Board of Directors of The Phoenix Holdings Ltd. (hereinafter: the "Corporation"), and the management of The Phoenix Insurance Company Ltd., are responsible for establishing and maintaining adequate internal control over financial reporting and disclosure in the Corporation.

For that purpose, members of the Corporation and The Phoenix Insurance's managements are as follows:

1. Eyal Ben Simon, CEO of the Company and The Phoenix Insurance.
2. Eli Schwartz, Executive Vice President, Chief Financial Officer of the Company and The Phoenix Insurance.
3. Daniel Cohen, Executive Vice President and Head of Long Term Savings and Life at The Phoenix Insurance
4. Haggai Schreiber, Executive Vice President, Chief Investment Manager, CEO The Phoenix Investments Ltd.
5. Dafna Shapira-Layla, Executive Vice President, Head of Health Insurance at The Phoenix Insurance.
6. Keren Granit, Executive Vice President, Head of Claims System & Head of Customers' Division at The Phoenix Insurance.
7. Moti Mor, Executive Vice President, Head of General Insurance at The Phoenix Insurance.
8. Meni Neeman, Executive Vice President, Chief Legal Counsel and Corporate Secretary of the Company and The Phoenix Insurance.
9. Michal Leshem, Executive Vice President, Chief Internal Auditor. Amit Netanel, Senior Vice President, Chief Risk Officer of the Company and The Phoenix Insurance.
10. Ron Shvili, Executive Vice President of The Phoenix Insurance, Chief Technology, Information Systems and Innovation Officer of The Phoenix Insurance.
11. Raanan Saad, Executive Vice President at The Phoenix Insurance, Head of The Phoenix SMART.
12. Anat Cohen-Toledano, Executive Vice President at The Phoenix Insurance, Chief Actuary - Property and Casualty, The Phoenix Insurance.
13. Roman Reidman, Executive Vice President at The Phoenix Insurance, Chief Actuary - Life and Health.

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure



14. Erez Orly, Executive Vice President, Head of Human Resources at The Phoenix Insurance.

15. Orr Harush, Vice President, Chief Of Staff at The Phoenix Insurance.

The internal control over financial reporting and disclosure consists of the Corporation's existing controls and procedures that have been planned by the chief executive officer and the most senior financial officer or under their supervision, or by the equivalent acting officers, under the supervision of the Corporation's Board of Directors, designed to provide reasonable assurance about the reliability of financial reporting and the preparation of the financial statements in compliance with applicable laws, and ensure that all information that the Company is required to disclose in the financial statements its publishes pursuant to law is collected, processed, summated and reported in a timely manner and according to the format prescribed by law.

Among other things, internal controls include controls and procedures planned to ensure that all information that the Corporation is required to disclose as aforesaid is collected and transferred to the Corporation's management, including the chief executive officer and the most senior financial officer, or the equivalent acting officers, in order to allow decision making on a timely basis with respect to the disclosure requirements.

Due to its inherent limitations, internal control over financial reporting and disclosure is not designed to provide absolute assurance that misstatements or omissions of information in the financial statements shall be prevented or detected.

Management, under the supervision of the Corporation's Board of Directors, performed an examination and assessment of the Corporation's internal control over financial reporting and disclosure and their effectiveness; the assessment of the effectiveness of internal control over financial reporting and disclosure as performed by management under the supervision of the Board of Directors included the following:

Entity-level controls, controls on the process for compiling and closing the financial statements, general information technology controls (ITGC), and controls over processes which are highly material to financial reporting and disclosure (these processes are carried out within The Phoenix Insurance Company Ltd. and its subsidiaries, which is an institutional entity to which the following provisions relating to institutional entities apply):

The Phoenix Insurance Ltd., a subsidiary of the Corporation, is an institutional entity which is subject to the directives of the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance regarding the assessment of the effectiveness of internal controls over financial reporting.

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure



Regarding the said subsidiary, management - under the supervision of the Board of Directors - examined and assessed the internal control over financial reporting and the effectiveness thereof, based on Institutional Entities Circular 2009-9-10, "Management's Responsibility for Internal Controls over Financial Reporting"; Institutional Entities Circular 2010-9-6, "Management's Responsibility for internal control over financial reporting - Amendment"; Circular 2010-9-7, "internal control over financial reporting - Statements, Reports and Disclosures"; Circular 2012-9-5, "internal control over financial reporting - Statements, Reports, Disclosures and Management's Responsibility for internal control over financial reporting - Amendments"; and Circular 2015-9-15, "internal control over financial reporting - Statements, Reports, Disclosures and Management's Responsibility for internal control over financial reporting - Amendments".

Based on this assessment, the Corporation's Board of Directors and management have concluded that the institutional entity's internal control over financial reporting as of December 31 2020 is effective.

Based on the assessment of effectiveness that was performed by management under the supervision of the Board of Directors as described above, the Corporation's Board of Directors and management have concluded that the Corporation's internal control over financial reporting and disclosure as of December 31 2020 is effective.

Certification

Statement of the Chief Executive Officer

I, Eyal Ben Simon, hereby certify that:

- (1) I have reviewed periodic report of The Phoenix Holdings Ltd. (hereinafter: the "The "Corporation") for 2020 (hereinafter – the "Reports");
- (2) To my knowledge, the Reports do not contain any misrepresentation of a material fact, or omit a representation of a material fact that is necessary in order for the representations included therein - under the circumstances in which such representations were included - to be misleading as to the reporting period;
- (3) To my knowledge, the financial statements and other financial information included in the Reports fairly represent, in all material aspects, the Company's financial position, financial performance and cash flows of the Corporation as of the dates and for the periods covered by the Reports;
- (4) I have disclosed to the independent auditor of the Corporation, the Board of Directors, and the Board of Directors' audit committee, based on my most recent evaluation of the internal control over financial reporting and disclosure, the following:
 - (a) All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting and disclosure that may adversely affect, in a reasonable manner, the Corporation's ability to collect, process, summate or report financial information in a manner that may give rise to doubt as to the reliability of financial reporting and preparation of the financial statements in accordance with the provisions of the law; and -
 - (b) Any fraud, whether material or not, involving the chief executive officer or anyone directly reporting thereto or involving other employees who have a significant role in the internal control over financial reporting and disclosure;
- (5) I, severally or jointly with others in the Corporation:
 - (a) I have established such controls and procedures, or ensured that such controls and procedures under my supervision be established and in place, designed to ensure that material information relating to the Corporation, including its consolidated companies as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, is brought to my attention by others in the Corporation and the consolidated companies, particularly during the Reports' preparation period; and -
 - (b) I have established controls and procedures, or ensured that such controls and provisions under my supervision be established and in place, designed to ensure, in a reasonable manner, the reliability of

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure



financial reporting and preparation of financial statements in accordance with the provisions of the law, including in accordance with generally accepted accounting principles;

- (c) I have evaluated the effectiveness of internal control over financial reporting and disclosure, and have presented in this report the conclusions of the Board of Directors and management regarding the effectiveness of the said internal control as of the date of the reports.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 24, 2021

Eyal Ben Simon, Chief Executive Officer

Certification

Statement of the Most Senior Financial Officer

I, Eli Schwartz, hereby certify that:

- (1) I have reviewed the financial statements and other financial information included in the reports of The Phoenix Holdings Ltd. (hereinafter: the "Corporation") for 2020 (hereinafter: the "Reports");
- (2) To my knowledge, the financial statements and financial information do not contain any misrepresentation of a material fact, nor omit a representation of a material fact that is necessary in order for the representations included therein - under the circumstances in which such representations were included - to be misleading as to the reporting period;
- (3) To my knowledge, the financial statements and other financial information included in the Reports fairly represent, in all material aspects, the Company's financial position, financial performance and cash flows of the Corporation as of the dates and for the periods covered by the Reports;
- (4) I have disclosed to the independent auditor of the Corporation, the Board of Directors, and the Board of Directors' audit committee, based on my most recent evaluation of the internal control over financial reporting and disclosure, the following:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and disclosure insofar as it relates to the financial statements and other financial information included in the Reports, that could reasonably adversely affect the Corporation's ability to collect, process, summarize or report financial information so as to cast doubt on the reliability of financial reporting and the preparation of the financial statements in accordance with law; and
 - (b) Any fraud, whether material or not, involving the chief executive officer or anyone directly reporting thereto or involving other employees who have a significant role in the internal control over financial reporting and disclosure;
- (5) I, alone or together with others in the Corporation, state that:
 - (a) I designed such controls and procedures, or have ensured that such controls and procedures be designed under my supervision, to ensure that material information relating to the Corporation, including its consolidated companies as defined in the Securities Regulations (Preparation of Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and other financial information included in the Reports, is made known to me by others in the Corporation and the consolidated companies, particularly during the Reports' preparation period; and -
 - (b) I designed such controls and procedures, or have ensured that such controls and procedures be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with provisions of the law, including in accordance with generally accepted accounting principles.
 - (c) My assessment of the effectiveness of internal control over financial reporting and disclosure, insofar as it relates to the financial statements and other financial information included in the

Report on the Effectiveness of Internal Control over Financial Reporting and Disclosure



Reports as of the Reports' date. My conclusions regarding my aforesaid assessment have been presented to the Board of Directors and management and are included in this report.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 24 2021

Eli Schwartz, Executive Vice President, Chief Financial Officer

Part 7

Appendices for The Phoenix Insurance Company Ltd.



The Phoenix Insurance Company Ltd. Certification

I, Eyal Ben Simon, hereby certify that:

1. I have reviewed the annual report of The Phoenix Insurance Company Ltd. (hereinafter: the "**Company**") for the year 2020 (hereinafter: the "**Report**").
2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.
3. To my knowledge, the financial statements and other financial information included in the Report fairly represent, in all material aspects, the Company's financial position, financial performance and changes in equity and cash flows as at the dates and for the periods covered by the report.
4. I and others at the Company signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Company's disclosure and internal control over financial reporting¹ of the Company; and
 - (a) We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Company and its consolidated companies is brought to our attention by others in the Company and these companies, especially during the preparation of the Report;
 - (b) We have established such internal controls over the financial reporting or have overseen the establishment of such controls over financial reporting, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the guidance of the Commissioner of the Capital Market, Insurance and Savings;
 - (c) We have evaluated the effectiveness of the Company's disclosure controls and procedures and presented in the Report our conclusions regarding the effectiveness of the disclosure controls and procedures as of the end of the reporting period according to our evaluation; and
 - (d) The Report discloses any change in the Company's internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Company's internal control over financial reporting; and
5. I and others at the Company signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' audit committee, based on our most recent evaluation of the internal control over financial reporting, the following:
 - (a) All significant deficiencies and material weaknesses in the establishment or implementation of the internal control over financial reporting that may harm the Company's ability to record, process, summarize and report financial information; and

¹As defined in the provisions of the institutional entities circular titled "Internal Control over Financial Reporting - Statements, Reports and Disclosures".

- (b) Any fraud, whether or not material, involving management or other employees who have a significant role in the Company's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 24 2021

Officer

Eyal Ben Simon, Chief Executive

The Phoenix Insurance Company Ltd. Certification

I, Eli Schwartz, hereby certify that:

1. I have reviewed the annual report of The Phoenix Insurance Company Ltd. (hereinafter: the "**Company**") for the year 2020 (hereinafter: the "**Report**").
2. To my knowledge, the Report does not contain any misrepresentation of a material fact, or omit a representation of a material fact, that is necessary in order for the representations included in it - under the circumstances in which such representations were included - to be misleading as to the reporting period.
3. To my knowledge, the financial statements and other financial information included in the Report fairly represent, in all material aspects, the Company's financial position, financial performance and changes in equity and cash flows as at the dates and for the periods covered by the report.
4. I and others at the Company signing this certification are responsible for the establishment and implementation of controls and procedures regarding the Company's disclosure and internal control over financial reporting¹ of the Company; and
 - (a) We have established such controls and procedures, or caused such controls and procedures to be established under our oversight, with the aim of ensuring that material information about the Company and its consolidated companies is brought to our attention by others in the Company and these companies, especially during the preparation of the Report;
 - (b) We have established such internal controls over the financial reporting or have overseen the establishment of such controls over financial reporting, with the aim of providing reasonable assurance as to the reliability of the financial reporting and that the financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the directives of the Commissioner of the Capital Market, Insurance and Savings;
 - (c) We have evaluated the effectiveness of the Company's disclosure controls and procedures and presented in the Report our conclusions regarding the effectiveness of the disclosure controls and procedures as of the end of the reporting period according to our evaluation; and
 - (d) The Report discloses any change in the Company's internal control over financial reporting which occurred during the fourth quarter and has materially affected, or is reasonably expected to affect, the Company's internal control over financial reporting; and
5. I and others at the Company signing this certification have disclosed to the joint independent auditors, the Board of Directors, and the Board of Directors' audit committee, based on our most recent evaluation of the internal control over financial reporting, the following:
 - (a) All significant deficiencies and material weaknesses in the establishment or implementation of the internal controls over financial reporting that may harm the Company's ability to record, process, summarize and report financial information; and -

¹As defined in the provisions of the institutional entities circular titled "Internal Controls over Financial Reporting - Statements, Reports and Disclosures".

- (b) Any fraud, whether or not material, involving management or other employees who have a significant role in the Company's internal control over financial reporting.

Nothing in the foregoing shall derogate from my responsibility or the responsibility of any other person, under any law.

March 24 2021

Eli Schwartz, Deputy CEO, Chief Financial Officer

Report of the Board of Directors and Management on Internal Controls over Financial Reporting

Management, under the supervision of the Board of Directors of The Phoenix Insurance Company Ltd. (hereinafter: the "**Company**"), is responsible for establishing and maintaining adequate internal controls over financial reporting. The internal control system of the Company was designed to provide reasonable assurance to its Board of Directors and management with regard to the adequate preparation and presentation of financial statements published in accordance with International Financial Reporting Standards (IFRSs) and the directives of the Commissioner of the Capital Market, Insurance and Savings. Regardless of the quality of their planning, any internal control systems have inherent limitations. Therefore, even if these systems are found to be effective, they can only provide reasonable assurance as to the preparation and presentation of financial statements.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with management's authorizations that assets are protected, and that accounting records are reliable. Furthermore, management, under the supervision of the Board of Directors, takes measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Company's management, under the supervision of the Board of Directors, assessed the effectiveness of the Company's internal controls over financial reporting as of December 31 2020, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that as of December 31 2020, the Company's internal controls over financial reporting is effective.

Chairman of the Board of Directors	Benjamin Gabbay	_____
Chief Executive Officer:	Eyal Ben Simon	_____
Deputy CEO, Chief Financial Officer:	Eli Schwartz	_____

Date of report's approval: March 24 2021

Actuary's Statement - Life Insurance

Chapter A - Actuary's Identity

I have been asked by The Phoenix Insurance Company Ltd. (hereinafter: the "Insurer") to examine the provisions for life insurance listed in Chapter B below in respect of the Insurer's financial statements (hereinafter: the "Provisions") as of December 31 2020, as described below.

To the best of my knowledge, I am not an interested party of the Insurer or a subsidiary or a related company thereof; I do not have business relations with an interested party of the Insurer nor with a family member thereof, nor with a subsidiary or a related company of the Insurer.

I have been a salaried employee of the Insurer since February 2019. I was appointed Supervising Actuary of the life insurance subsegment in December 2019.

Chapter B - Scope of the Actuarial Opinion

1 . Scope of the Actuarial Opinion

- a. For the purpose of calculating the Insurer's provisions, I relied on data provided to me by the Insurer. My requests for information and data were adequately satisfied to enable me to examine the provisions for financial statements purposes. I examined the data's reasonableness and adequacy; this included comparing the said data to the data of the year to which the report relates and to previous years' data.
- b. Where necessary, my examination also relied on data received from reliable sources. I examined the consistency and adequacy of the data and their relevance.
- c. The actuarial assumptions I used in my work, as well as the methods for assessing the provisions listed below were determined by me, to the best of my professional judgment, and subject to the directives, guidelines and principles listed in Section 1 to Chapter C below.
- d. To calculate the retention, I asked the Insurer's functions charged with reinsurance for information concerning the Insurer's reinsurance arrangements, the ability to collect claims and issues concerning the reinsurers' payment policies. Based on the information provided to me, I reviewed the reinsurance arrangements' implications and effects on the provisions.

- e. The following matters were also taken into account in my opinion:
- 1) The provision calculated in respect of the ceded businesses is based on a calculation carried out by another actuary.
 - 2) I calculated the provision in respect of joint insurance in which the Company does not serve as the lead insurer in accordance with information received from the lead insurer.

2 . Data included in the section on the scope of the actuarial opinion

- a. The amounts of the provisions (gross and retention) are listed in the appendixes below:
- 1) Provision for contingent claims (claims that were incurred but not yet fully paid regardless of whether they were approved or not, excluding claims paid in the form of allowances, such as: long-term care, permanent health insurance and income protection) and the direct expenses stemming therefrom, and excluding indirect expenses in respect of these claims (including IBNR reserve) -

Reserve for Unpaid Losses (Incurred but Unpaid Claims) and Unpaid Allocated and Unallocated Loss Adjustment Expenses (including IBNR)

- 2) Provision (reserve) stemming from the terms of the life insurance contract, separately, including -
 - a. Reserve for plan with accrual;
 - b. Provision required where some of the premium collected in the early years of the contract is designated to provide coverage at a later date, such as: provision in respect of fixed premium, insurability and continuity;
- 3) Reserve's portion in respect of claims being paid, including claims paid in the form of allowances, such as: long-term care, permanent health insurance and income protection).
- 4) Supplement stemming from liability adequacy testing (LAT) - after examining the data, I concluded that a supplement is not required.
- 5) Other - additional provisions in accordance with the Commissioner's directives, such as: supplementing the reserve for policies with a guaranteed annuity conversion factor in accordance with Commissioner Circular 2013-1-2 (supplemental annuity reserve).

- b. The effect of the below listed changes on the amounts of the provisions (gross and retention):
- 1) For policies that came into force after the end of the reporting period of the latest annual financial statements - the adjustment amount of the provisions – arising from the difference between the underlying assumptions for the premium and the underlying assumptions for the provision – no such adjustment was required.
 - 2) For policies that came into force before the end of the reporting period of the latest annual financial statements – the adjustment amount of the provisions – arising from changes in assumptions, methods or premiums expected to be collected: a NIS 84 million and a NIS 74 million decrease in reserves in the life and long-term care insurance subsegments, respectively.

Chapter C - The Opinion

I hereby state and confirm that in the life insurance subsegment:

- 1 . I examined the insurer's provisions listed in Chapter B in accordance with the directives, guidelines and principles set forth below, all in effect as of the financial statements date.
 - a. The Financial Services Supervision Law (Insurance), 1981 and the regulations promulgated thereunder;
 - b. The Commissioner's directives and guidance;
 - c. Generally accepted actuarial principles.
- 2 . After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my examination.
- 3 . I determined the assumptions and methods used to calculate the provisions, to the best of my professional judgment, and in accordance with the directives and guidance and principles specified above.
- 4 . To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve to cover the Insurer's liabilities in respect of life insurance contracts, in effect as of the financial statements date.

Chapter D - Comments and Clarifications

- 1 . Details about reserve types, interest rates, etc. are included in the notes to the financial statements.
- 2 . Exposure to future developments and changes.

Changes and developments may occur in the environment in which the Israeli life insurance industry operates due to regulatory changes, judicial decisions, technological developments and changes in social and environmental conditions. These factors cannot be predicted and may impact the final cost of the claims and consequently the actuarial assessment of the provisions.
- 3 . Statistical and actuarial uncertainty

The reserves calculated in respect of the insurance coverages are partly based on assumptions as to mortality and morbidity rates, which reflect the Company or reinsurers' past experience. The calculations and models, including the work assumptions, were developed based on my understanding of the Company's current business environment, and in accordance with my assessment of the development of the Company's business environment and policyholders' future behavior. Therefore, it should be acknowledged that

it is highly probable that the future business results will vary from those projected by the actuarial models for calculation of reserves.

4 . Consistency between data in the appendices and financial statements data:

The tables in the following appendixes were prepared in accordance with the Commissioner's directives, and the composition of the data presented therein is not necessarily consistent with the composition of the data presented in the Company's financial statements and the notes thereto.

5 . The provisions for the individual and group long-term care subsegments (gross and retention) were calculated by the Supervising Actuary of the health insurance subsegment, Ms. Luba Sharapov.

6 . Changes and developments may occur in the environment in which the Israeli long-term care insurance industry operates due to regulatory changes, judicial decisions, revisions to long-term care plans sold by providers of supplementary health insurance, technological developments, changes in social and environmental conditions etc.; these factors cannot be predicted and may impact the final cost of the claims and consequently - the actuarial assessment of the provisions.

7 . Material changes in actuarial assumptions and methods:

The following changes took place in the reporting period:

- a. During the reporting year, the discount rate changed, which triggered a NIS 219 million decrease in life insurance reserves (excluding long-term care).
- b. On March 29, 2020, the Commissioner issued an amendment to the Consolidated Circular Provisions on Measurement of Liabilities - Liability Adequacy Testing (LAT). As part of this amendment, the LAT is to be calculated while aggregating life insurance products (excluding LTC products) instead of calculating for each life insurance product separately.

As a result of the publication of the circular, liability adequacy tests (LAT) showed that there is no need to supplement the reserve in respect of the life insurance portfolio, compared with a NIS 382 million supplement in the previous year.

- c. The Company revised the expenses assumption in the life insurance subsegment (excluding long-term care).

As a result, the reserves decreased by NIS 72 million.

- d. In the long-term care subsegment, the Company recorded a LAT reserve of NIS 753 million in 2020 - a NIS 48 million increase in the reserve compared with the previous year. The increase in reserve stems mainly from a decrease in the interest rates (NIS 66

million) and revision to the actuarial model (NIS 128 million), which are offset against a revision to the expenses assumption (a NIS 54 million decrease), and a revision in the cancellation assumption (a NIS 24 million decrease).

Attached

Form 12A: Contingent Claims, Reserve and Reserve for Extraordinary Risks - Gross

Form 12B: Contingent Claims, Reserve and Reserve for Extraordinary Risks - Retention

**March 24
2021**

**Supervising
Actuary - Life
Insurance**

Mark Rabaev

Date

Title

**Actuary's
name**

Signature

			Total	Savings and mortality risk (classic, traditional)		Pure savings or the savings component in policies (Preferred, Track)		Pure mortality risk or mortality risk component in policy		Paid income protection	Long-term care		Other covers 1)
				Yield-dependent	Participating	Yield-dependent	Participating	Individual	Group		Individual	Group	
			1a	1b	2a	2b	3a	3b	4		5a	5b	6
1	Contingent claims		468,919	10,386	2,635	12,020	46,747	207,179	86,657	9,275	0	0	94,020
2	Reserve (total of lines 2a 1 to 6)		91,589,408	3,502,933	1,137,944	7,200,404	69,865,815	38,136	10,025	1,567,493	2,301,543	5,964,140	973
2a1	Policies which include a savings component (including appendices) by policy issuance date:	Policies issued until 1990	7,673,359	2,373,579		5,189,341	102,292	205		7,901			41
2a2		Policies issued between 1991 and 2003	29,226,549		1,033,517		28,090,235	4,329		98,371			97
2a3		Policies issued after 2004	37,488,775		1,649		37,391,303	690		95,119			13
2a4		Total (2a1 to 2a3)	74,388,683	2,373,579	1,035,166	5,189,341	65,583,830	5,224	0	201,391	0	0	152
2b	Policies without a savings component		6,513,548					10,212	10,025	248,596	1,308,059	4,935,835	821
3	Percentage of reserve for paid claims		7,738,367	827,527	83,281	1,334,129	3,084,391	22,700		1,117,507	261,279	1,007,552	
4	Participating		0										
5	Supplement resulting from liability adequacy test		752,958								732,206	20,752	
			0										
6	Other		2,195,852	301,827	19,496	676,934	1,197,595						
7	Extraordinary risk reserve		0										

1) Other coverages, including: disabilities, double indemnity, etc.

8a	Effect of adjusting provisions for new businesses		0										
8b1	Effect of adjusting provisions for existing businesses	Changes in assumptions	-158,228	-10,812	-806	-5,873	-66,920				-81,879	8,060	
8b2		Changes in methods	0										
8b3		Differences in premium rates	0										
8b4		Other changes	127,916								119,869	8,048	

Date:

24/03/2021

Title 1:

Supervising Actuary - Life Insurance

Name of actuary 1:

Mark Rabaev

Form 12B: Contingent Claims, Reserve and Reserve for
Risks - Retention Extraordinary
(in NIS thousand)

As of: 31.12.2020

			Total	Savings and mortality risk (classic, traditional)		Pure savings or the savings component in ,policies (Preferred (Track		Pure mortality risk or mortality risk component in policy		Paid income protection	Long-term care		Other covers (1
				Yield-dependent	Participating	Yield-dependent	Participating	Individual	Group		Individual	Group	
					a1	b1	a2	b2	a3	b3	4	a5	b5
1	Contingent claims		455,808	10,323	2,566	12,006	45,926	206,805	82,115	9,275	0	0	86,794
2	Reserve (total of lines 2a 1 to 6)		91,241,210	3,501,630	1,137,887	7,200,256	69,864,787	27,165	10,025	1,410,883	2,229,945	5,857,658	973
2a1	Policies which include a savings component (including appendices) by policy issuance date:	Policies issued until 1990	7,672,772	2,373,579		5,189,341	102,292	205		7,314			41
2a2		Policies issued between 1991 and 2003	29,220,977		1,033,460		28,090,235	4,323		92,861			97
2a3		Policies issued after 2004	37,479,733		1,649		37,391,303	690		86,077			13
2a4		Total (2a1 to 2a3)	74,373,482	2,373,579	1,035,109	5,189,341	65,583,830	5,218	0	186,253	0	0	152
2b	Policies without a savings component		6,468,191					10,205	10,025	233,273	1,290,664	4,923,202	821
3	Percentage of reserve for paid claims		7,450,727	826,224	83,281	1,333,981	3,083,363	11,742		991,357	207,075	913,704	
4	Participating		0										
5	Supplement resulting from liability adequacy test		752,958								732,206	20,752	
			0										
6	Other		2,195,852	301,827	19,496	676,934	1,197,595						
7	Extraordinary risk reserve		0										
1) Other coverages, including: disabilities, double indemnity, etc.													
8a	Effect of adjusting provisions for new businesses		0										
8b1	Effect of adjusting provisions for existing businesses	Changes in assumptions	-158,228	-10,812	-806	-5,873	-66,920				-81,879	8,060	
8b2		Changes in methods	0										
8b3		Differences in premium rates	0										
8b4		Other changes	127,916								119,869	8,048	

Appendix A - Statement of the Health Insurance Actuary

Chapter A - Actuary's Identity

I have been asked by The Phoenix Insurance Company Ltd. (hereinafter: the "Insurer") to examine the provisions for health insurance listed in Chapter B below in respect of the Insurer's financial statements (hereinafter: the "Provisions") as of December 31 2020, as described below.

To the best of my knowledge, I do not have business relations with an interested party of the Insurer or a family member thereof, nor with a related company of the Insurer.

I have been a salaried employee of The Phoenix Group since May 2014 and was appointed Supervising Actuary - Health Insurance on April 6 2020.

Chapter B - Scope of the Actuarial Opinion

1 . Scope of the Actuarial Opinion

- a. To calculate the Insurer's provisions, I relied on data provided to me by the Insurer. My requests for information and data were adequately satisfied to enable me to examine the provisions for financial statements purposes. I examined the data's reasonableness and adequacy; this included comparing the said data to the data of the year to which the report relates and to previous years' data.
- b. Where necessary, my examination also relied on data received from reliable sources. I examined the consistency and adequacy of the data and their relevance.
- c. The actuarial assumptions I used in my work, as well as the methods for assessing the provisions listed below were determined by me, to the best of my professional judgment, and subject to the directives, guidance and principles listed in Section 1 to Chapter C below.
- d. To calculate the retention, I asked the Insurer's functions charged with reinsurance for information concerning the Insurer's reinsurance arrangements, the ability to collect claims and issues concerning the reinsurers' payment policies. Based on the information provided to me, I reviewed the reinsurance arrangements' implications and effects on the provisions.
- e. The following matters were also taken into account in my opinion:

- 1) The Insurer has no ceded businesses in the segments which are the subject matter of this statement.
- 2) The Insurer does not have joint insurance in which the Insurer is not the lead insurer in the segments which are the subject matter of this statement.

2 . Data included in the paragraph on the scope of the actuarial opinion

- a. The provision amount is detailed in the table below; all data are in thousands of shekels.

Type of provision	Businesses reporting in the health insurance segment			
	Individual policies		Group policies	
	Gross	Retention	Gross	Retention
Contingent claims	263,192	215,123	219,837	208,721
Indirect expenses	2,725	2,725	6,169	6,169
Insurance contracts T&C	746,251	475,188	9,475	9,475
Total	1,012,168	693,036	235,481	224,366

* The data do not include an unearned premium of NIS 61,716 thousand - gross and NIS 61,573 thousand - retention.

** The data do not include a provision for participating policies in the health insurance business in the amount of NIS 8,051 thousand.

*** The data include short-term provisions for the personal accident subsegment calculated by the Supervising Actuary of Property and Casualty Insurance, Ms. Anna Nachum.

- b. The effect of the below listed changes on the provisions -

- 1) For individual policies that came into force after the end of the reporting period of the latest annual financial statements - the adjustment amount of the provisions – arising from the difference between the underlying assumptions for the premium and the underlying assumptions for the provision – was NIS 12,258 thousand - gross and NIS 12,192 thousand - retention.

- 2) For individual policies which entered into force prior to the most recent annual financial statements - the provision was reduced following an update of the assumption regarding expenses and cancellations. The amount of the reduction is NIS 88,822 thousand - gross and NIS 59,055 thousand - retention.
- 3) For individual policies which entered into force prior to the most recent annual financial statements - the provision was increased following revision of the actuarial models. The amount of the increase is NIS 18,306 thousand - gross and NIS 16,227 thousand - retention.

Chapter C - The Opinion

I hereby state and confirm that for the following health insurance subsegments: medical expenses, foreign workers, critical illness, personal accidents, sick leave, travel and dental:

- 1 . I examined the Insurer's provisions listed in Chapter B in accordance with the directives, guidance and principles set forth below, all in effect as of the financial statements date.
 - a. The Financial Services Supervision Law (Insurance), 1981;
 - b. Directives and guidance by the Commissioner of the Capital Market, Insurance and Savings;
 - c. Generally accepted actuarial principles.
- 2 . After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my examination.
- 3 . I determined the assumptions and methods used to calculate the provisions, to the best of my professional judgment, and in accordance with the directives and guidance and principles specified above.
- 4 . To the best of my knowledge, the provisions specified in Chapter B form an adequate reserve to cover the Insurer's liabilities in respect of health insurance contracts in the abovementioned health insurance subsegments, in effect as of the financial statements date.

Chapter D - Comments and Clarifications

- 1 . The provisions for the individual long-term care and group long-term care subsegments, which are included in the life insurance segment, were calculated by, and included in the Statement of the Life Insurance Actuary - Mr. Mark Rabaev.
- 2 . Regarding the provisions for the short-term personal accident subsegments included in this statement, I relied on the work of the Property and Casualty Insurance Actuary - Ms. Anna Nachum - who reported the results, which I have checked solely for reasonableness.
- 3 . In any future calculation process related to both premiums and claims, there are statistical and other uncertainties. These uncertainties arise from possible changes in constitutional, legal, demographic or economic matters. I have relied on past experience and accepted actuarial methods and estimates; however, there is no guarantee that the real results will be similar to the forecast.
- 4 . During the reporting period, the following changes took place in the provisions listed in Chapter B above:
 - Revision of the cancellation rates in the medical expenses, critical illness and personal accidents subsegments. As a result, the reserve decreased by NIS 67,673 thousand - gross and by NIS 43,075 thousand - retention.
 - Revision of the expenses in the medical expenses, critical illness and personal accidents subsegments. As a result, the reserve decreased by NIS 21,149 thousand - gross and by NIS 15,980 thousand - retention.
 - Revision of the actuarial model in the medical expenses, critical illness and personal accidents subsegments, including automating reserve management expenses and revising the calculation of expected claims. As a result, the reserve increased by NIS 18,306 thousand - gross and by NIS 16,227 thousand - retention.

March 24 2021	Health Insurance Actuary	Luba Sharapov	
Date	Title	Actuary's name	Signature

Chapter A - Actuary's Statement – Property and Casualty Insurance

Chapter A - Actuary's Identity

I have been asked by The Phoenix Insurance Company Ltd. (hereinafter: the "Insurer" or "The Phoenix") to examine the provisions listed in Chapter B below in the property and casualty insurance subsegments for the Insurer's financial statements (hereinafter: the "Provisions") as of December 31 2020, as described below.

I have been working as a salaried employee of The Phoenix - in the position of property and casualty insurance actuary - since July 10 2013.

To the best of my knowledge, I do not have business relations with an interested party of the Insurer or a family member thereof, nor with a related company of the Insurer.

Chapter B - Scope of the Actuarial Opinion

1. Wording of the scope of the actuarial opinion paragraph

- a. For the purpose of calculating the Insurer's provisions, I relied on data provided to me by the Insurer. My requests for information and data were adequately satisfied to enable me to examine the provisions for the purpose of the financial statements. I examined the data's reasonableness and adequacy; this included comparing the said data to the data of the reporting year and the data for previous years.
- b. Where necessary, my assessment also relied on data received from other reliable sources. I examined the consistency and adequacy of the data and their relevance.
- c. The actuarial assumptions I used in my work, as well as the methods for assessing the provisions listed in Section 2 below were determined by me, to the best of my professional judgment, and subject to the directives, guidelines and principles listed in Section 1 to Chapter C below.
- d. To calculate the retention, I asked the Insurer's functions charged with reinsurance for information concerning the Insurer's reinsurance arrangements, the ability to collect claims and issues concerning the reinsurers'

payment policies. Based on the information provided to me, I reviewed the reinsurance arrangements' implications and effects on the provisions.

- e. The following matters were also taken into account in my opinion:
 - i. The provision calculated in respect of the residual insurance arrangement (the "Pool") is based on a calculation carried out by the Pool.
 - ii. No actuarial reserve was calculated in respect of ceded businesses as defined in the Supervision of Insurance Business Regulations (Method of Calculation of Reserves for Future Claims in Property and Casualty Insurance), 1984.
 - iii. I calculated the provision in respect of joint insurance in which the Company does not serve as the lead insurer in accordance with information received from the lead insurer.
 - iv. I did not take into account the lack of correlation between the various subsegments for the purpose of writing down the total provision in respect of contingent claims for all subsegments included in my assessment. It should be noted that, in our assessment of the best practices, we have taken into account the lack of correlation between the various subsegments. This was done in accordance with Section 3(c) of the Commissioner's position - Best Practice for Calculation of Reserves in Property and Casualty Insurance.

2 . Data included in the paragraph on the scope of the actuarial opinion

Set forth below is a breakdown of the required provisions (in NIS thousand):

		The data are linked to the known index as of December 31 2020	
<u>Contingent claims</u>		Gross	Retention
2.A.1)	Compulsory motor insurance	2,330,304	1,476,653
	Third-party	825,605	734,920
	Employers	432,895	415,078
	Professional liability	422,699	275,544
	Product liability	82,655	67,866
	Motor property	241,744	241,744
	Comprehensive business	55,187	26,474
	Comprehensive home	63,327	11,340
	Total non-aggregated subsegments	4,454,416	3,249,619
	Aggregated subsegments ²	193,345	19,522
	Total non-aggregated and aggregated subsegments¹	4,647,761	3,269,141
2.A.2)	Indirect expenses in respect of all of the Company's property and casualty subsegments	208,919	208,919
2.A.3)	<u>Provision for the difference between the reserve for outstanding risks and the unearned premium at the retention level</u>		
	Compulsory motor insurance	33,057	0
	Motor property	23,400	23,400
	Home	0	0
	Total insurance liabilities in respect of insurance contracts included in the property and casualty segment calculated in accordance with actuarial assessment	4,913,137	3,501,460

¹ In view of the calculation method employed for the liability subsegments, the reserve to contingent claims also includes a provision for premium deficiency, if any.

² Aggregated subsegments - loss of property, mortgage banks, engineering and goods in consignment insurance.

Chapter C - The Opinion

I hereby declare and confirm that in the following subsegments, as defined in the Notice of the Commissioner of Insurance Business (Insurance Subsegments), 1985:

- a. Insurance pursuant to the Motor Insurance Ordinance [New Version], 1970 (Section 1(a)(9))
 - b. Third-party liability insurance (Section 1(a)(14))
 - c. Employers' liability insurance (Section 1(a)(7))
 - d. Professional liability insurance (Section 1(a)(14))
 - e. Product liability insurance (Section 1(a)(22))
 - f. Motor insurance - property (Section 1(a)(9))
 - g. Comprehensive business insurance (Section 1(a)(12)),
 - h. Agricultural insurance, excluding natural hazards insurance in agriculture (Section 1(a)(17))
 - i. Comprehensive home insurance, including mortgage banks (Section 1(a)(12))
 - j. Loss of property insurance (Section 1(a)(15))
 - k. Engineering insurance (Section 1(a)(18))
- 1 . I examined the Insurer's provisions listed in Chapter B in accordance with the directives, guidelines and principles set forth below, all in effect as of the financial statements date.
- a. The Financial Services Supervision Law (Insurance), 1981 and the regulations promulgated thereunder;
 - b. The Commissioner's directives and guidelines;
 - c. The Commissioner's position on calculation of reserves in property and casualty insurance
 - d. Generally accepted actuarial principles
- 2 . After reviewing the data mentioned in Chapter B, I concluded that the data are reasonable and adequate, and that they can be relied on for the purpose of my assessment.

- 3 . I determined the assumptions and methods used to calculate the provisions, to the best of my professional judgment, and in accordance with the directives and guidelines and principles specified above.
- 4 . To the best of my knowledge, the provisions listed in Chapter B, Section 2.a.1)(a) in respect of the non-aggregated subsegments (compulsory motor, third party, employers' liability, professional liability, product liability, motor property, comprehensive businesses and home) form an adequate reserve for covering the Insurer's liabilities in respect of the contingent claims defined above, for each separately-listed subsegment, in effect as of the financial statements date.
- 5 . To the best of my knowledge, the total amount of the provisions specified in Chapter B, Section 2.a.1) form an adequate reserve for covering the Insurer's liabilities in respect of the contingent claims, in all aggregated and non-aggregated subsegments, in effect as of the financial statements date.
- 6 . To the best of my knowledge, the provision specified in Chapter B, Section 2.a.2) forms an adequate reserve for covering the Insurer's liabilities in respect of indirect expenses to settle the claims, in effect as of the financial statements date.
- 7 . To the best of my knowledge, the provisions specified in Chapter B, Section 2.a.3) form an adequate reserve for covering the Insurer's liabilities in respect of any difference between the unexpired risk reserve and the unearned premium (retention), in effect as of the financial statements date.

Chapter D - Comments and Clarifications

- 1 . The calculation of the cost of contingent claims is based on actuarial assessments which are inherently uncertain. Therefore, even if the claims' distribution remains unchanged, the final cost of the claims may differ from the actuarial assessment. Furthermore, unpredictable changes may occur in connection with risks, environmental factors, case law and precedents. The actual cost of the claims may be higher or lower. Therefore, this assessment may increase or decrease over time.
- 2 . When calculating the reserves, we have taken into account the variance of claim payments' development (which is inevitable) as well as the projected payment period (for discounting purposes). The calculation methods and material assumptions are identical to those used in calculations in the previous year.

3 . In October 2017, an amendment to the National Insurance (Discounting) Regulations, 1978, came into force, which provides for the calculation of allowances paid by the National Insurance Institute for those injured in work accidents, and the manner in which these allowances are discounted. Under the regulations, the life expectancy component shall be based on schedules published by the Central Bureau of Statistics; the discount rate will be updated every four years, and the manner of its calculation is determined provided that the rate of change is not higher than 1% (and the interest rate shall not be less than 0%). The interest rate according to the regulations is 2% (instead of the previous rate 3%). The regulations gave rise to a discrepancy in court rulings in connection with the discount rate of claims for compensation for bodily injury paid by insurance companies to injured Policyholders, and an appeal was filed to the Supreme Court on that matter (Civil Appeal 3571/17 Israel Motor Insurance Database (the Pool) vs. John Doe), in order to decide on this issue. On August 8 2019, the Supreme Court issued a judgment in the said appeal to the effect that the discount rate shall be 3% (hereinafter: the "Judgement"). In addition, the Judgment states that until a legislative amendments are made, the discount interest rate may be changed in accordance with a two-year test mechanism as set out in the Judgment.

On September 17 2020, the Supreme Court issued a judgement on an appeal filed by National Insurance Institute against Megilot Dead Sea Regional Council; the said judgement stipulates that the court's Judgment whereby the subrogation claims will be discounted at a rate of 3% rather than 2% supersedes the Discounting Regulations and bind National Insurance Institute.

Accordingly, and based on the opinion of its legal counsel, in the reporting period the Company reduced its insurance liabilities in the compulsory motor subsegment and its insurance liabilities in respect of National Insurance Institute claims. For further details, please see Note 40 to the Financial Statements.

4 . In March 2018, as part of the 2019 Economic Plan, the Government's decision on changing the accounting mechanism pursuant to Section 328 of the National Insurance Law [Combined Version], 1995 between the National Insurance Institute and the insurance companies regarding road accidents was adopted. According to this decision, the individual right of subrogation available to the National Insurance

Institution by virtue of Section 328 of the National Insurance Law for road accidents will be revoked and, as a result, the agreements signed to regulate this right will be terminated. In lieu of this right of subrogation, an overall settlement arrangement will be established, under which a fixed amount will be transferred from the insurance companies each year to cover their liability according to parameters determined by law and/or regulations. The amendment's effective date, if any, is January 1 2019.

In addition, the liability of insurance companies will also be regulated in respect of road accidents that occurred between January 1 2014 through December 31 2018 and in respect of which no claims or demands have been filed yet. As of the report date, regulations have not yet been published governing the statutory amount to be paid as from January 2019 and the amount to be paid for road accidents that occurred between 2014 and 2018 has not yet been determined. Following negotiations between the insurance companies and the National Insurance Institute, the parties reached understandings about the manner of transferring the payments to the National Insurance Institute, both in respect of past years and in the future, including changing the regulations applicable to past years, against the transfer of advance payment to be offset in accordance with actual claims to be submitted to each company. In order to become effective, the said understandings should be enshrined in law as part of a legislative procedure in the Knesset; as of the report publication date, such procedure has not yet been completed.

5. As from its 2015 financial statements, and in line with the Commissioner's directives, The Phoenix adopted the Commissioner's Position - Best Practice for Calculating Insurance Reserves in Property and Casualty Insurance for Financial Reporting Purposes. Under the position, an "adequate reserve to cover the insurer's liabilities" was calculated, which signifies that it is fairly likely that the insurance liability set will be sufficient to cover the Insurer's liabilities. In the case of contingent claims in the compulsory motor and liability subsegments, the position requires that the estimate of "fairly likely" shall mean a probability at least 75%.

The assessment process including establishing both the random risk and the systemic risk. The assessment of the random risk was made using generally accepted stochastic methods and models. On the other hand, systemic risks do not have a clear statistical structure, and therefore, we recognize that analysis of

historical data alone cannot capture future uncertainty; thus, the actuary is required to exercise professional judgement. If the reserve meets the “fairly likely” criterion, the assessments remain unchanged; if the reserve does not meet the said criterion, we would have been required to supplement the reserve.

The discount rate appropriate for the prudence test is based on a risk-free interest rate curve tailored to the illiquid nature of the liabilities. Furthermore, in this valuation we have taken into account the effect of non-marketable assets against the liabilities.

Since a valuation based on best practice is a relatively new method, it should be noted that the model's results may change in the future, based on developments and experience gained.

- 6 . A provision in respect of agricultural insurance, excluding natural hazards insurance, is included in the business subsegment. In the following subsegments: aircraft and marine vessel insurance, including third-party liability insurance, Sale Law guarantees, ceded businesses, other risks and marine freight insurance, no actuarial valuation was carried out in respect of contingent claims due to lack of statistical significance. Total contingent claims in these subsegments constitutes approx. 0.8% of the reserve for contingent claims (retention).

March 24 2021	Actuary for Property and Casualty Insurance	Anna Nachum	
Date	Title	Actuary's name	Signature