This English translation from the Hebrew version of the report (published on May 27th 2021) 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.

Solvency Report
of The Phoenix Insurance Company Ltd.
as of December 31, 2020

Phoenix
Insurance, investment and finance

Table of Contents

Page

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

Re: **Examination of the Application of Certain Instructions of the Commissioner of the Capital Market, Insurance and Savings regarding the Solvency II-Based Economic Solvency Requirement of The Phoenix Insurance Company Ltd. (hereinafter - the "Company") as of December 31, 2020**

We examined the capital required to maintain the solvency capital requirement (hereinafter - "**SCR**") and the economic capital of The Phoenix Insurance Company Ltd. of December 31 2020 (hereinafter – the "**Information**"), included in the Company's Solvency Report attached hereby and carries our office's seal for identification purposes (hereinafter - the "**Report**").

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

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

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

We did not examine the appropriateness of the deduction during amount the transitional period as of December 31 2020 as presented in Section 2 to the Report, except for examination that the deduction amount does not exceed the expected discounted amount of the risk margin and the capital required for solvency in respect of life and health insurance risks arising from existing businesses during the transitional period in accordance with the pattern of future development of the required capital, which affects both the calculation of the expected capital release and the release of the expected risk margin as described in the provisions on calculation of risk margin.

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

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

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

Respectfully,

Tel Aviv,
May 26, 2021

Kost Forer Gabbay & Kasierer
Certified Public Accountants

A. Overview and Disclosure Requirements

Solvency II-based Economic Solvency Regime

The information provided below was calculated in accordance with the provisions of Circular 2020-1-15 of the Commissioner of the Capital Market, Insurance and Savings (hereinafter - the "**Commissioner**") - "Amendment to the Consolidated Circular concerning Implementation of a Solvency II-Based Economic Solvency Regime for Insurance Companies" (hereinafter - the "**Economic Solvency Regime Directives**"), was prepared and presented in accordance with Chapter 1, Part 4 Section 5 of the Consolidated Circular as recently revised in Circular 2020-1-17 (hereinafter - the "**Disclosure Provisions**").

The Economic Solvency Regime provisions set a standard model for calculating eligible capital and the regulatory solvency capital requirement, with the aim of bringing insurance companies to hold buffers to absorb losses arising from the materialization of unexpected risks to which they are exposed. **The solvency ratio is the ratio between an insurance company's eligible capital to its regulatory solvency capital requirement.**

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

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

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

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

The Economic Solvency Regime Directives include, among other things, transitional provisions and adjustment for equity scenario, as follows:

A. Selecting one of the following alternatives:

1. Gradual transition to the required capital until 2024 (hereinafter - the "Transitional Period"), such that the required capital shall increase gradually by 5% per year, starting with 60% of the SCR up to the full SCR amount.

2. Increasing the eligible capital by deducting from the insurance reserves an amount that will be calculated in accordance with Section c below. The deduction amount will decrease gradually until 2032 (hereinafter: the "Deduction During the Transitional Period" or "Transitional Measures on Technical Provisions – TMTP").

The Company opted for the second alternative - of using the Deduction During the Transitional Period.

B. In addition to Section A above, the Economic Solvency Regime includes a reduced capital requirement, that will increase gradually until 2023, in respect of certain investment types.

Forward-looking information

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

B. Definitions

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

diversification between risks, the greater is the effect of the correlation, which reduces the overall risk.

Solvency ratio - The ratio between the eligible equity of an insurance company and the solvency capital requirement.

Equity scenario adjustment - A reduced capital requirement for certain types of investments that will gradually increase until 2023, when the capital requirement in respect of these investments will reach its maximum rate.

Economic balance sheet - The Company's balance sheet with the value of assets and liabilities adjusted in accordance with the provisions of Part A of the Solvency Circular.

Risk margin (RM) - An amount that reflects the total cost of capital that is expected to be required from another insurance company or reinsurer in order to assume the Company's insurance liabilities.

Deduction During the Transitional Period/ Transitional Measures on Technical Provisions/ TMTP - The amount deducted from insurance reserves during the Transitional Period, as described in Section 2a(2) above, and in accordance with the Economic Solvency Regime Directives.

Minimum capital requirement - The minimum capital required from an insurance company, calculated in accordance with Chapter C of the Solvency Circular.

EPIFP - Expected Profit in Future Premiums; the future profit from liabilities in respect of existing life and health insurance contracts arises from future premiums.

Transitional Period - Under the transitional provisions for the implementation of an Economic Solvency Regime - a period running until December 31 2032.

UFR - Ultimate Forward Rate - the latest forward interest rate derived from the expected long-term real interest rate and the long-term inflation expectations to which the adjusted interest-rate curve converges, in accordance with the Economic Solvency Regime Directives.

Volatility Adjustment (VA) - Acomponent reflecting the margin implicit in a representative debt assets portfolio of insurance companies and added to the adjusted interest-rate curve in accordance with Economic Solvency Regime Directives.

Audited - The term refers to an audit held in accordance International Standard on Assurance Engagement (ISAE) 3400 – "The Examination of Prospective Financial Information."

Investment Rules Regulations - Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012.

C. Calculation Methodology

The Economic Solvency Ratio Report as of December 31 2020 and December 31 2019 was calculated and prepared in accordance with the Economic Solvency Regime Directives.

Economic balance sheet

The economic balance sheet is calculated in accordance with the detailed rules and directives published by the Commissioner, which are based on the European Solvency II rules, with adjustments to reflect the characteristics of the economic environment and products in Israel. The purpose of the rules is to reflect the economic value of the balance sheet items in accordance with the Commissioner’s approach. In accordance with the Directives, the insurance liabilities are calculated based on the best estimate of all expected future cash flows from existing businesses, without conservatism margins and plus a risk margin, which represents the addition to the insurance liabilities that is expected to be required from another insurance company to assume the insurance company's insurance liabilities. In accordance with the Directives, the risk margin is calculated using the cost of capital method, at a rate of 6% per year of the expected required capital in respect of insurance risks over the life of the existing businesses as described below. The economic balance sheet is prepared based on the Company’s standalone financial statements plus investees, whose main occupation is holding rights in real estate. The economic balance sheet does not include the economic value of the provident funds and pension funds activities held by the insurance company and assumes zero value of intangible assets and deferred acquisition costs.

Increasing economic capital according to the transitional provisions

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

The Company should ensure that the deduction balance at each reporting date (hereinafter - the “Deduction Value During the Transitional Period”) shall be proportionate to the expected increase in the solvency ratio calculated excluding the Transitional Measures.

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

(a) Every two years, after obtaining the Commissioner’s approval.

(b) If a material change occurred in the risk profile or the business structure of the insurance company;

(c) At the request of the Commissioner, if he/she believed that circumstances have changed since approval was given.

In March 2020, the Commissioner published an amendment to the provisions of the Consolidated Circular regarding the Liability Adequacy Testing (hereinafter - the "LAT Circular"). The amendment included changes in the way insurance liabilities are calculated as part of the Liability Adequacy Test (LAT), and determined that these changes would apply from the financial statements as of March 31 2020 as a change in accounting policies by way of retrospective application. In accordance with the Commissioner's Directives, the said amendment is not reflected in the calculation of the Deduction During the Transitional Period as of December 31 2019 and is not reflected in the Balance sheet according to accounting standards shown in section 2 below.

In March 2021, the Commissioner published a clarification in connection with this issue, stipulating that the calculation of the LAT Circular's effect on the Deduction During the Transitional Period as of December 31 2020 shall be carried out retrospectively, as follows:

The Deduction During the Transitional Period will be calculated as of December 31 2019 using the same method as the one used to calculate the Solvency Report for that date; the accounting-based insurance liabilities include the effect of the LAT Circular, and the economic-based insurance liabilities (best estimate plus risk margin) and added fair value of the designated bonds include the effect derived therefrom. The Deduction During the Transitional Period as of December 31 2020 shall be based on the Deduction During the Transitional Period that was calculated retrospectively and will be deducted as described above. For further details as to the effect of this change, see Section 1a below.

Solvency capital requirement (SCR)

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

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

Loss absorption adjustment due to deferred tax asset

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

- The insurance company is able to demonstrate to the Commissioner that it is probable that it will have future taxable income against which the tax assets may be utilized.
- The future profits shall arise only from property and casualty insurance or from NSLT health insurance (short term health insurance) only.

D. Comments and clarifications

1. General

The economic solvency ratio report includes, among other things, forecasts based on assumptions and parameters based on past experience, as they arise from actuarial studies conducted from time to time, and on Company's assessments regarding the future, to the extent that it has relevant and concrete information which can be relied upon. The information and studies are similar to those used as the basis for the Company's annual 2020 report. Any information or studies obtained or completed after the Company's 2020 annual report publication date were not taken into account.

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

The model, in its present form, is highly sensitive to changes in market variable and other variables; therefore, the status of capital reflected therefrom may be very volatile.

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

a) The field of insurance has been subject to frequent changes in relevant legislation and regulatory directives. For further details, see Sections 2.1.2 and 2.3.1 in Part B and Section 4.1 in Part D of the Description of the Corporation Business chapter in the 2020 Periodic Report.

Legislation and regulatory measures impact the Company's profits and cash flows and consequently also its economic solvency ratio.

The calculation of the solvency ratio does not reflect all potential effects of the aforesaid legislation and regulatory measures and of other developments that are not yet reflected in practice in the data; this is since to date the Company is unable to assess their entire effect on its business results and solvency ratio.

b) In accordance with the Economic Solvency Regime Directives, the value of contingent liabilities in the economic balance sheet is determined based on their value in the accounting balance sheet in accordance with the provisions of IAS 37; this measurement does not reflect their economic value. It is not possible to assess the effect of the uncertainty arising from the exposure to contingent liabilities, including such exposure's effect on the Company's future profits and economic solvency ratio. For further information regarding the exposure to contingent liabilities, please see Note 39 to the financial statements as at December 31 2020. For an update as to developments in this exposure after reporting date, see Note 7 to the financial statements as of March 31 2021.

c) On May 13 2021, the Commissioner published a revised version of the Q&A file regarding the application and disclosure of Economic Solvency Regime of insurance companies (hereinafter - the "Q&A File"). The Q&A File provides a clarification as to the contract boundary in savings policies without a guaranteed conversion factor which were marketed after 2013. The clarification stipulates that the contract's boundary is the date on which the guaranteed conversion factor is secured; furthermore, it was noted that for the calculation as of December 31 2020 it is possible to continue using the contract's boundary that was used by the Company in its calculation for these policies as of December 31 2019. This clarification was not yet implemented in the current report and its implementation is expected to cause a non-material decrease the Company's economics solvency ratio.

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

A. Economic solvency ratio:

	As of December 31	
	2020	2019
	Audited	
	In NIS thousand	
Own Funds in respect of SCR - please see Section 3	12,770,842	12,086,505
Solvency capital requirement (SCR) - please see Section 4	6,661,640	7,455,885
Surplus	6,109,203	4,630,620
Economic solvency ratio (in %)	**192%**	**162%**
<u>Effect of material capital-related measures taken in the period between the calculation date and the publication date of the solvency ratio report:</u>		
Raising of own funds	-	220,000
Total Own Funds in respect of SCR	12,770,842	12,306,505
Surplus	6,109,203	4,850,620
Economic solvency ratio (in %)	**192%**	**165%**

* The term refers to an audit held in accordance International Standard on Assurance Engagement (ISAE) 3400 – "The Examination of Prospective Financial Information."

For details regarding the economic solvency ratio without TMTP and without adjustment of equity scenario, and regarding the economic solvency ratio and restrictions applicable to the Company in connection with dividend distribution, see Section 7 below.

Main Changes in relation to previous year:

- Positive returns in planholders' portfolios (which have a positive effect on Company's management fees income from these portfolios) and in the nostro portfolio increased in the Company's Tier 1 Capital, and on the other hand increased the capital requirement. On a cumulative basis, these returns have had a significant positive effect on the Company's economic solvency ratio.

- During 2020, the Company conducted studies and revised parameters in its actuarial model and the expenditure model, which had a positive effect on the solvency ratio.

- Significant positive effect on the solvency ratio as a result of an increase in the loss absorption adjustment due to a deferred tax asset, which reduced the capital requirement and accordingly increased the capital surplus.

- A decrease in the risk free rate (medium and long terms) had a negative impact on the excess capital and the solvency ratio of the company.

- In December 2020, the Company and a reinsurer rated AA entered into an agreement aimed at providing the Company with partial protection against a mass lapse scenario in its life and health insurance business. The effect of the transaction on the capital surplus is an increase of approximately NIS 290 million, which increases the solvency ratio by approximately 7% (taking into account the transitional provisions and the adjustment of the equity scenario). For further details regarding the transaction, please see the Company's immediate report dated December 27 2020.

- In March 2021, the Company's Board of Directors approved a dividend distribution in the amount of NIS 200 million, which reduced the capital surplus by this amount (according to the directive, this dividend distribution was taken into account in the calculation of the economic capital and solvency ratio as of December 31 2020). For further details, see Section 8 below and the Company's immediate report dated March 25 2021.

- The effect of the LAT circular's application is to increase the amount of the Deduction During the Transitional Period by approximately NIS 382 million. Were it not for the capital surplus circular as of December 31 2020, it would have been NIS 5,816 million and the solvency ratio - 186%, after the Deduction as stated in the Letter of Principles.

B. Minimum capital requirement (MCR)

	As of December 31	
	2020	2019
	Audited	
	In NIS thousand	
Minimum capital requirement (MCR) - see Section 5.A	1,665,410	1,863,971
Own Funds for MCR - please see Section 5.B	9,773,104	8,919,336

Section 2 - Economic Balance Sheet

	Information about economic balance sheet	As of December 31			
		2020		2019	
		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		Audited			
		In NIS thousand			
Assets					
Intangible assets	3	718,735	-	692,345	-
Deferred acquisition costs	4	1,431,579	-	1,486,891	-
Property, plant & equipment		720,269	720,269	624,348	624,348
Investments in investees that are not insurance companies					
Management companies	5	642,402	229,233	625,797	247,135
Other investees	5	503,127	481,831	484,843	466,288
Total investments in investees that are not insurance companies		1,145,529	711,064	1,110,640	713,423
Investment property in respect of yield-dependent contracts		1,839,576	1,839,576	1,554,065	1,554,065
Investment property - other		2,728,710	2,728,710	2,547,356	2,547,356
Reinsurance assets	1	2,531,660	2,113,529	2,347,721	2,170,939
Receivables and debit balances	10	1,055,024	949,619	1,010,520	1,010,520
Financial investments in respect of yield-dependent contracts		65,570,447	65,570,447	64,304,915	64,304,915
Other financial investments					
Marketable debt assets		7,993,914	7,993,914	7,742,370	7,742,370
Non-marketable debt assets, excluding designated bonds.	6	4,979,180	5,294,740	4,583,938	4,982,991
Designated bonds	7	7,369,589	10,250,891	7,246,299	10,235,938
Shares		1,851,347	1,851,347	1,520,099	1,520,099
Other		3,166,061	3,166,061	2,131,610	2,131,610
Total other financial investments		25,360,091	28,556,953	23,224,316	26,613,008
Cash and cash equivalents in respect of yield-dependent contracts		10,464,216	10,464,216	5,612,435	5,612,435
Other cash and cash equivalents		943,183	943,183	1,357,883	1,357,883
Other assets		196	196	335,058	335,058
Total assets		**114,509,215**	**114,597,762**	**106,208,493**	**106,843,950**
Total assets in respect of yield-dependent contracts		**78,034,084**	**78,148,171**	**71,662,076**	**71,765,970**
EQUITY					
Basic Tier 1 capital		6,191,958	8,754,738	4,877,009	7,855,814
Total equity		**6,191,958**	**8,754,738**	**4,877,009**	**7,855,814**

	Information about economic balance sheet	As of December 31			
		2020		2019	
		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
		Audited			
		In NIS thousand			
Liabilities					
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts - see Section 2B	1, 8	22,619,606	17,486,165	22,710,165	17,309,370
Liabilities in respect of insurance contracts and yield-dependent investment contracts - see Section 2.B	1, 8	76,912,239	74,813,744	71,132,337	68,836,613
Risk margin (RM)	1	-	7,516,682	-	7,918,800
Deduction During the Transitional Period	2	-	(4,455,219)	-	(4,444,588)
Liabilities in respect of deferred taxes, net	9	783,599	2,344,248	623,967	2,381,244
Payables and credit balances	4,10	2,255,326	2,131,341	1,930,402	1,809,740
Financial liabilities	11	5,746,487	6,006,064	4,934,613	5,176,957
Total liabilities		**108,317,257**	**105,843,024**	**101,331,484**	**98,988,136**
Total equity and liabilities		**114,509,215**	**114,597,762**	**106,208,493**	**106,843,950**

Main Changes in relation to previous year:

- For further changes in Tier 1 Capital see section 3 below. For further details about changes in the Deduction During the Transitional Period and about other significant effects on the economic solvency ratio's components, see Section 1 above.

Section 2.A Information about economic balance sheet

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

(1) Liabilities in respect to insurance contracts and investment contracts and reinsurance assets

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

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

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

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

It is likely that the actual cash flows will vary to some degree from the estimates made on a best estimate basis, even if the underlying parameters of the calculation will not change in any way. See also Section d1 above - comments and clarifications.

As stated above, the measurement of the insurance liabilities in the economic balance sheet is carried out by discounting the projected cash flows, including future profit, by a risk-free interest plus VA and taking the UFR into consideration, on the basis of a best estimate that does not include conservatism margins, where the risk is reflected in the RM component, which is a separate liability. This measurement differs from the measurement applied in the financial statements, where insurance liabilities are estimated with conservatism margins using the discounting methods and rates described in Note 37 to the 2020 financial statements.

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

Limitations and qualifications with regard to calculation of the best estimate:

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

- In many cases, the projected cash flows refer to periods of tens of years into the future. The studies on which the underlying cash flow assumptions rely are based on management’s best knowledge, mainly recent years’ experience. It is highly uncertain whether the underlying cash flow assumptions will, indeed, materialize.

Limitations and qualifications with regard to calculation of the RM

- The risk margin is calculated using the cost of capital method, at a rate of 6% per year of the expected required capital in respect of insurance risks over the life of the existing businesses. This calculation method was defined by the Commissioner and does not necessarily reflect the overall cost of capital that is expected to be required from another insurance company or reinsurer in order to assume the Company’s insurance liabilities.

In that context, it should be emphasized that the stress scenario calculated as part of the Economic Solvency Regime (capital requirements) are based on a set of scenarios and assumptions defined by the Commissioner, and which do not reflect any actual experience of the Company

Assumptions underlying the insurance liabilities calculation

Demographic and operating assumptions

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

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

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

(a) Economic assumptions

- Discount rate - risk-free interest curve based on the yield to maturity of bonds of the Government of Israel ("risk-free interest") plus a margin (VA), with convergence in the long-term to a fixed real rate of 2.6% (UFR) as set by the Commissioner (hereinafter – "the discount rate").
- The yield on the assets backing the life and long term health insurance products is identical to the discount interest rate (without taking into account the yield on designated bonds).
- The yield on designated bonds takes into account their interest rate and the best estimate as to the Company's future entitlement to purchase them.

(b) Operational assumptions (for life and health insurance)

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

(c) Demographic assumptions

- Lapses (discontinuation of premium payment, settlement of policies, withdrawal).
- Mortality of pensioners and planholders.
- Morbidity (rate and length of claims) in long-term care, income protection and health products.
- Take up rates of pension and pension tracks.

(d) Insurance liabilities in property and casualty insurance

The estimate of the insurance liabilities in the different subsegments in respect of earned premium is based on the provision for the December 2020 balance sheet. The estimate includes Unallocated Loss Adjustment Expenses (ULAE) and does not include RM and other non-specific margins that were taken into account for reserve adequacy testing for the said balance sheet.

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

(2) TMTP - Deduction Value during the Transitional Period as of December 31 2020

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

The Deduction, which amounted to NIS 4,445 million as of December 31 2019 and to NIS 4,455 million as of December 31 2020 after an amortization of one year plus the effect of the implementation of the LAT Circular (as described in Section 1a above) was calculated as the amount of the positive differences between insurance reserves (retention) as per the economic balance sheet including the risk margin including the RM (net of fair value adjustment of the designated bonds) and the insurance reserves (retention) as per the financial statements as of December 31 2019. These differences were calculated at product group level in accordance with the provisions included in the Letter of Principles.

In accordance with the Letter of Principles, the Company assessed the need to reduce the Deduction Value during the Transitional Period to reflect the expected increase in the solvency ratio, calculated without the Deduction During the Transitional Period and the equity scenario adjustment. The Company carried out an assessment in accordance with the transitional provision included in the Letter of Principles, whereby an insurance company may consider reducing the Deduction Value during the Transitional Period based on the expected release of the discounted risk margin and capital required for solvency in respect of life insurance and SLT health insurance risks in respect of existing businesses during the Transitional Period (hereinafter - the "Release"), provided that the Company meets certain conditions as set out in the Letter of Principles. Furthermore, the Company assessed the need to reduce the Deduction Value during the Transitional Period based on a model for forecasting the economic solvency ratio, as developed in the Company in accordance with generally accepted practices.

Accordingly, the Company concluded that there is no need to reduce the Deduction Value during the Transitional Period as of December 31 2020.

It should be noted that the Company is required to recalculate the Deduction During the Transitional Period in the following cases:

(a) Every couple of years at the very least.
(b) If a material change occurred in the Company's risk profile or business structure.
(c) At the request of the Commissioner.

Following such recalculation, the amount of the Deduction During the Transitional Period may be reduced.

The Company obtained the Commissioner's approval to include the full amount of the Deduction During the Transitional Period in its calculation of the solvency ratio as of December 31 2019. The amount of Deduction During the Transitional Period in the future is subject to changes in the above assumptions, business developments and obtaining a periodic approval from the Commissioner.

Other assets and liabilities:

(3) **Intangible assets** - in accordance with Part A Chapter 2 Appendix A, an insurance company shall assess the value of intangible assets at zero.

(4) **Deferred acquisition costs** - in accordance with Part A Chapter 2 Appendix A, an insurance company shall assess the value of acquisition costs at zero. It should be noted that the value of the future profits implicit in the insurance contracts was taken into account in the liability in respect of insurance contracts item.

(5) **Investment in investees which are not insurance companies** - in accordance with Part A Chapter 2 Appendix B, the calculation was carried out using the adjusted equity method, in accordance with the circular on investees which are not insurance companies. In accordance with this method, the Company's stake in investees was included based on its proportionate share in the excess of their assets over their liabilities, calculated in accordance with the economic value of the assets and liabilities in accordance with the circular's provisions, which is calculated based on their financial statements after writing-off intangible assets. In investees where the economic balance sheet reflects an excess of liabilities over assets, the value of the investment will be zero rather than a negative amount, when its value in the accounting balance sheet is a positive amount.

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

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

(6) **Non-marketable debt assets** - in accordance with Part A, Chapter 1, the fair value of non-marketable debt assets is calculated on the basis of a discounted cash flow model; the discount rates are determined by a company providing price and interest rate quotes for institutional entities.

(7) **Designated bonds** - in accordance with Part A Chapter 2 Appendix E, the insurance company adjusts the value of designated bonds to their value as per the economic balance sheet. That takes into account their interest rate and the best estimate as to the Company's future entitlement to purchase them.

(8) **Contingent liabilities** - as to the value of contingent liabilities in the economic balance sheet, see Section d.2.b above.

(9) **Liabilities in respect of deferred taxes, net** - In accordance with Part A Chapter 2 Appendix C, the calculation is based on the difference between the value attributed to assets and liabilities in the economic balance sheet (inlcuding in respect of the Deduction amount) and the value attributed to those assets and liabilities for tax purposes, in accordance with the recognition, measurement and presentation provisions of

IAS 12. Deferred taxes may be recognized only if the Company shall meet the criteria included in the Economic Solvency Regime, in addition to the criteria included in the above-mentioned accounting standard.

(10) **Accounts payable and accruals** - in accordance with Part A Chapter 1 of the Solvency Circular, some of the balances in this item were calculated in accordance with the general principles regarding the economic balance sheet.

(11) **Financial liabilities** - were calculated in accordance with the general principles set in the Solvency Circular and subject to the guidance in Part A Chapter 3, whereby changes in the Company's credit risk may only taken into account in respect of changes in risk-free interest. That is to say, the discount rate is a risk-free interest plus the credit spread on issuance date.

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

	As of December 31 2020		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Audited		
	In NIS thousand		
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts			
Life insurance contracts and long term health insurance (SLT)	12,252,737	362,877	11,889,859
Property & casualty and NSLT health insurance contracts	5,233,428	1,514,126	3,719,302
Total liabilities for insurance contracts and non-yield-dependent investment contracts	**17,486,165**	**1,877,004**	**15,609,161**
Liabilities in respect of insurance contracts and yield-dependent investment contracts - life insurance contracts and long term health insurance (SLT)	74,813,744	236,525	74,577,219
Total liabilities in respect of insurance contracts and investment contracts	**92,299,909**	**2,113,529**	**90,186,380**

	As of December 31 2019		
	Best estimate (BE) of liabilities		
	Gross	Reinsurance	Retention
	Audited		
	In NIS thousand		
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts			
Life insurance contracts and long term health insurance (SLT)	11,962,693	443,200	11,519,493
Property & casualty and NSLT health insurance contracts	5,346,677	1,513,771	3,832,906
Total liabilities for insurance contracts and non-yield-dependent investment contracts	**17,309,370**	**1,956,971**	**15,352,399**
Liabilities in respect of insurance contracts and yield-dependent investment contracts - life insurance contracts and long term health insurance (SLT)	68,836,613	213,967	68,622,646
Total liabilities in respect of insurance contracts and investment contracts	**86,145,983**	**2,170,938**	**83,975,045**

Main Changes in relation to previous year:

- Most of the increase in the total of liabilities in respect of insurance and investment contracts during 2020 stems from positive yields and current contributions into planholders' portfolios in respect of yield-dependent insurance and investment contracts.

Section 3 - Own Funds in respect of SCR

	As of December 31 2020			
	Tier 1 capital			
	Basic	Additional	Tier 2 capital	Total
	Audited			
	In NIS thousand			
Equity capital	8,754,738	905,714	3,582,290	13,242,742
Deductions from Tier 1 capital (a)	(220,430)	-	-	(220,430)
Deductions (b)	-	-	-	-
Deviation from quantitative limitations (c)	-	-	(251,470)	(251,470)
Own Funds in respect of SCR (d)	**8,534,308**	**905,714**	**3,330,820**	**12,770,842**
Out of which - expected profit amount in respect of future premiums Post-tax EPIFP	5,918,943			5,918,943

	As of December 31 2019			
	Tier 1 capital			
	Basic	Additional	Tier 2 capital	Total
	Audited			
	In NIS thousand			
Equity capital	7,855,814	709,692	3,539,963	12,105,469
Deductions from Tier 1 capital (a)	(18,964)	-	-	(18,964)
Deductions (b)	-	-	-	-
Deviation from quantitative limitations (c)	-	-	-	-
Own Funds in respect of SCR (d)	**7,836,850**	**709,692**	**3,539,963**	**12,086,505**
Out of which - expected profit amount in respect of future premiums Post-tax EPIFP	5,936,821			5,936,821

Main Changes in relation to previous year:

- The Tier 1 Capital was positively affected by positive yields that were higher than the discount rate in the planholders' portfolios and nostro portfolio during the reporting year, sales of a new business, expiry of underwriting capital requirements for an existing business (which reduces the RM component), studies and updating of parameters in the actuarial model and expense model. These effects were partially offset by the adverse effect of a decrease in the risk-free interest rate curve (in the medium to long term) as well as deviations from operating and demographic assumptions. The aggregate amount of those changes caused an approximately NIS 1 billion increase in the Company's Tier 1 Capital. According to the Economic Solvency Regime Directives, as of December 31 2020, a NIS 200 dividend - which was declared and distributed subsequent to the report date - was deducted from the Tier 1 capital.

- During 2020, the Company issued additional Tier 1 Capital at the total amount of approximately NIS 220 million.

- In view of a decrease in the capital requirement, the Company exceeded the quantitative limit of Tier 2 Capital by approximately NIS 251 million. For further details on the change in capital requirement, see Section 4 below.

(a) Amounts deducted from Tier 1 Capital - in accordance with the definitions of "Basic Tier 1 Capital" in Appendix B, Chapter 2, Part 2 of Section 5 in the Consolidated Circular - "Economic Solvency Regime" (hereinafter - "the Economic Solvency Regime Appendix"), these deductions include the amount of assets held against liabilities in respect of non-yield dependent insurance and investment contracts in breach of the investment rules regulations, amount invested by the Company in purchasing Company ordinary shares, and the amount of dividend declared subsequent to the report date and through the publication of the report for the first time.

(b) Deductions - in accordance with the provisions of Chapter 6 in Part B - "Directives regarding Insurance Companies' Equity" to the Economic Solvency Regime Appendix.

(c) Exceeding quantitative restrictions - in accordance with the provisions of Chapter 2 in Part B - "Directives regarding Insurance Companies' Equity" to the Economic Solvency Regime Appendix.

(d) Composition of own funds in respect of SCR

	As of December 31	
	2020	**2019**
	Audited	
	In NIS thousand	
Tier 1 capital		
Basic Tier 1 capital	**8,534,308**	**7,836,850**
Additional Tier 1 capital		
Additional Tier 1 capital instruments	905,714	709,692
Restricted Tier 1 capital instruments	-	-
Less deduction due to deviation from quantitative limit	-	-
Additional Tier 1 capital	**905,714**	**709,692**
Total Tier 1 capital	**9,440,022**	**8,546,542**
Tier 2 capital		
Tier 2 capital instruments	1,466,420	1,430,875
Restricted Tier 2 capital instruments	1,687,761	1,679,901
Restricted Tier 3 capital instruments	428,109	429,187
Less deduction due to deviation from quantitative limit	(251,470)	-
Total Tier 2 capital	**3,330,820**	**3,539,963**
Total own funds in respect of SCR	**12,770,842**	**12,086,505**

- For an explanation about key changes compared with last year see Section 2 above.

- For information about own funds without transitional measures, see Section 6 "Effect of application of Directives for the Transitional Period", below

Section 4 - Solvency capital requirement (SCR)

	As of December 31	
	2020	2019
	Capital requirements	
	Audited	
	In NIS thousand	
Basic solvency capital requirement (BSCR)		
Capital required in respect of market risk component*	3,674,610	3,479,504
Capital required in respect of counterparty risk component	401,319	368,366
Capital required in respect of underwriting risk component in life insurance	2,985,997	3,456,963
Required capital in respect of underwriting risk component in health insurance (SLT+NSLT)	5,370,929	5,627,919
Capital required in respect of underwriting risk component in P&C insurance	1,089,137	1,105,217
Effect of diversification of risk components	(4,530,968)	(4,696,538)
Total basic solvency capital requirement (BSCR)	**8,991,024**	**9,341,432**
Capital required in respect of operational risk	350,192	392,692
Loss absorption adjustment due to deferred tax asset	(2,793,799)	(2,376,483)
Capital required in respect of management companies:		
Phoenix Excellence Pension and Provident Funds Ltd.	114,222	98,244
Total capital required in respect of management companies:	**114,222**	**98,244**
Total solvency capital requirement (SCR)	**6,661,640**	**7,455,885**

* equity scenario adjustment.

For information about capital requirements without Transitional measures, see Section 6 "Effect of application of Directives for the Transitional Period", below

Key changes in solvency capital requirement compared to last year:

- Changes in solvency capital requirement compared to last year are affected from the expiry of capital requirement in respect of existing insurance products, which reduces the solvency capital requirements, and, on the other hand, by sales of new products that increase the solvency capital requirement.

- In the reported year, the capital requirement decreased due to underwriting risk component in life and health insurance (SLT) as a result of mass lapse reinsurance transaction as described in Section 1a above and as a result of studies and revised parameters in actuarial model and the expenditure model,

- Increase in solvency capital requirement due to market risk component stems from an increase in assets in view of the 2020 yields and from the gradual expiry of the effect of the equity scenario adjustment.

- In accordance with the clarification included in the Q&A file, the tax rate for the purpose of calculating the loss absorption adjustment due to a deferred tax asset shall be determined as follows: As a rule, it should be assumed that the event from which the loss embodied in the calculation of the SCR arises occurs in the 12 months subsequent to the calculation date. In calculating the loss absorption adjustment in respect of a deferred tax asset, all material considerations that will affect the company's tax credit or debit should be taken into account - including the relevant tax base, the corporate structure and the timing on which losses or gains arose, against which the recorded loss can be offset for tax purposes. Among other things, the following should be taken into account: the rules for offsetting payroll tax, the probability that the losses included in the scenario will be reflected in the tax return and expected tax rates for losses that will be recognized for tax purposes only on disposal of assets. To the extent that there is no reason to assume that the tax rate in calculating the loss absorption adjustment due to deferred tax asset is substantially different from the tax rate for calculating the net tax reserve in an economic balance sheet, it can be assumed - for the sake of practicality - that the rates are identical. The Company considered the implications of the clarification. The increase in the loss absorption adjustment due to deferred tax asset stemmed mainly from Company's estimate as to the amount of deferred tax asset that may be utilized, which caused a decrease is the SCR.

Section 5 - Minimum capital requirement (MCR)

(a) Minimum capital requirement (MCR)

	As of December 31	
	2020	2019
	Audited	
	In NIS thousand	
Minimum capital requirement according to MCR formula	1,578,250	(*) 1,540,972
Lower boundary (25% of solvency capital requirement in the Transitional Period)	1,665,410	1,863,971
Upper boundary (45% of solvency capital requirement in the Transitional Period)	2,997,738	3,355,148
Minimum capital requirement (MCR)	**1,665,410**	**1,863,971**

(*) Represented

(b) Own Funds for MCR

	As of December 31 2020		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	In NIS thousand		
Own funds in respect of SCR according to Section 3	9,440,022	3,330,820	12,770,842
Deviation from quantitative limitations due to minimum capital requirement*	-	(2,997,738)	(2,997,738)
Own funds for MCR	**9,440,022**	**333,082**	**9,773,104**

	As of December 31 2019		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	In NIS thousand		
Own funds in respect of SCR according to Section 3	8,546,542	3,539,963	12,086,505
Deviation from quantitative limitations due to minimum capital requirement*	-	(3,167,169)	(3,167,169)
Own funds for MCR	**8,546,542**	**372,794**	**8,919,336**

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

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

	As of December 31 2020				
	Including applying the TMTP and adjustment of the equity scenario	**Effect of TMTP**	**Effect of equity scenario adjustment**	**Effect of a 50% rate Tier 2 capital during the Transitional Period**	**Total excluding applying the TMTP and adjustment of the equity scenario**
	Audited				
	In NIS thousand				
Total insurance liabilities, including risk margin (RM)	95,361,372	(4,455,219)	-	-	99,816,591
Basic Tier 1 capital	8,534,308	2,931,980	-	-	5,602,328
Own funds in respect of SCR	12,770,842	2,680,509	-	159,326	9,931,007
Solvency capital requirement (SCR)	6,661,640	(1,523,239)	(372,526)	-	8,557,405

See description of the transitional provisions applicable to the Company during the Transitional Period in Section 2a - information about economic balance sheet, Subsection 2- the value of the Deduction During the Transitional Period as of December 31 2020.

	As of December 31 2019				
	Including applying the TMTP and adjustment to the equity scenario	**Effect of Deduction During the Transitional Period**	**Effect of equity scenario adjustment**	**Effect of a 50% rate Tier 2 capital during the Transitional Period**	**Total excluding applying the TMTP and adjustment to the equity scenario**
	Audited				
	In NIS thousand				
Total insurance liabilities, including risk margin (RM)	89,620,195	(4,444,588)	-	-	94,064,783
Basic Tier 1 capital	7,836,850	2,924,983	-	-	4,911,867
Own funds in respect of SCR	12,086,505	2,924,983	-	-	9,161,522
Solvency capital requirement (SCR)	7,455,885	(1,027,001)	(413,669)	-	8,896,554

Main Changes in relation to previous year:

- For an explanation on key changes compared to last year, including a reference to the effect of the implementation of the LAT Circular on the Deduction amount, see Section 1a above.

Section 7 - Analysis of Sensitivity to Changes in Interest Rates

Set forth below is a sensitivity analysis of the economic solvency ratio to changes in interest as of the report date (under the transitional provisions and a equity scenario adjustment). This analysis reflects the effects of the changes on own funds, including the quantitative restrictions that apply to own funds, and on the capital required for solvency purposes. The sensitivity test only reflects direct effects, holding all other risk factors constant, and do not include secondary effects or derived changes on other risk factors.
It should be noted that the sensitivities are not necessarily linear; i.e., sensitivity at other rates is not necessarily a simple extrapolation of the sensitivity test presented.

	As of December 31 2020
	Effect on the economic solvency ratio (in %)
A 50-base-point decrease in risk-free interest	(13%)

As part of the sensitivity calculation, a new risk-free interest curve was created representing a 50-base-points decrease up to the Last Liquid Point, beyond which the Smith-Wilson extrapolation was implemented with the UFR remaining constant in accordance with the Economic Solvency Regime methodology.
A recalculation of an economic balance sheet was carried out which took into account the effect of the new interest rate curve on all assets and liabilities affected by changes in interest (both yield-dependent ones and non-yield dependent ones). Furthermore, the Company took into account the effect of changes in interest on capital requirements in assets and liabilities and on the risk margin. It should be noted that the sensitivity didn't take into account changes in the amount of the Deduction During the Transitional Period.

Section 8 - Dividend Distribution Restrictions

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

On October 27 2020, the Company'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 provisions, is set at 135% while the minimum solvency ratio target without taking into account the provisions during the Transitional Period is set at 105%[1] set to reach 135% at the end of the Transitional Period according to the Company's capital plan.

Furthermore, The Company's Board of Directors approved an economic solvency ratio target range of 150%-170%, within which the Company 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.

As of December 31 2020, the date of the last 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 Economic Solvency Regime - of at least 100%, calculated without taking into account the transitional provisions and subject to the solvency ratio target set by the Company's Board of Directors. The aforesaid ratio shall be calculated without the relief granted in respect of the original difference attributed to the acquisition of the provident funds and management companies. In addition, the letter set out provisions for reporting to the Commissioner.

Dividend distribution in 2021

During the first quarter of 2021, The Phoenix Insurance distributed a dividend in the amount of NIS 200 million, in accordance with the audited results as of December 31 2019, and in accordance with the results of an estimate to calculate the Solvency II-based economic solvency ratio as of December 31 2020 (hereinafter - the "Estimate"); for further details on the Estimate, see immediate report of March 25 2021.

According to the audited results as of December 31 2020, following the dividend distribution, as stated above, the economic solvency ratio of The Phoenix Insurance is 192%, and the economic solvency ratio net of the transitional provisions for the Transitional Period and without adjusting the equity scenario is 116%. These results 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.

[1] On December 30 2019, the Company's Board of Directors approved the transfer of Excellence Pension and Provident Funds Ltd. to The Phoenix Holdings Ltd. as distribution of a dividend in kind to the Company. 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 Company'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, see Section 1.3.10 in the Report of the Board of Directors as of March 31 2021. It should also be noted that this transfer is expected to reduce The Phoenix Insurance's capital surplus by approximately NIS 160 million (an effect of approximately 2% on the solvency ratio), based on a calculation carried out in respect of December 31 2020, without taking into account the provisions in the Transitional Period.

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 equity scenario, as required by the letter. The ratio is higher than the solvency ratio required by the letter.

Solvency ratio without applying the TMTP, and without adjustment of the equity scenario:

	As of December 31	
	2020	2019
	Audited	
	In NIS thousand	
Own funds in respect of SCR - please see Section 6	9,931,007	9,161,522
Solvency capital requirement (SCR) - please see Section 6	8,557,405	8,896,554
Economic solvency ratio (in %)	**116%**	**103%**
Effect of material capital-related measures taken in the period between the calculation date and the publication date of the solvency ratio report:		
Raising of equity instruments	-	220,000
Total own funds in respect of SCR	9,931,007	9,381,522
Surplus	1,373,602	484,967
Economic solvency ratio (in %)	**116%**	**105%**
Capital surplus after capital-related actions in relation to the Board of Directors' target:		
Minimum solvency ratio target without applying the transitional provisions	**105%**	**105%**[2]
Capital surplus over target*	**945,731**	**40,140**

* 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 2020 and 2019. The difference is not recognized for dividend distribution purposes, as aforesaid.

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

May 26, 2021				
Date	**Benjamin Gabbay** **Chairman of the Board of Directors**	**Eyal Ben Simon** **President and CEO**	**Eli Schwartz** **Deputy CEO, Chief Financial Officer**	**Amit Netanel** **VP Chief Risk Officer**

[2] On December 30 2019, the Company's Board of Directors approved the transfer of Excellence Pension and Provident Funds Ltd. to The Phoenix Holdings Ltd. as distribution of a dividend in kind to the Company. 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 Company'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, see Section 1.3.10 in the Report of the Board of Directors as of March 31 2021. It should also be noted that this transfer is expected to reduce The Phoenix Insurance's capital surplus by approximately NIS 160 million (an effect of approximately 2% on the solvency ratio), based on a calculation carried out in respect of December 31 2020, without taking into account the provisions in the Transitional Period.