

**Economic Solvency Ratio Report of The
Phoenix Insurance Company Ltd.
As of December 31, 2021**



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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 Economic Solvency Requirement of The Phoenix Insurance Company Ltd. (hereinafter - the “Company”) as of December 31, 2021

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, 2021 (hereinafter - the “**Information**”), included in the Company’s Economic Solvency Ratio Report attached hereby and carries our office’s seal for identification purposes (hereinafter - the “**Report**”).

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

The calculations, forecasts and guidelines 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 the Transitional Period as of December 31 2021 as presented in Section 2 to the Report, 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 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 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 30, 2022

**Kost Forer Gabbay &
Kasierer
Certified Public
Accountants**

Overview and Disclosure Requirements

Solvency II-based Economic Solvency Regime

The information provided below was calculated in accordance with the provisions of Circular 2020-1-15 of the Commissioner of the Capital Market, Insurance and Savings (hereinafter - the "**Commissioner**") - "Amendment to the Consolidated Circular concerning Implementation of a Solvency II-Based Economic Solvency Regime for Insurance Companies" (hereinafter - the "**Economic Solvency Regime Directives**"), was prepared and presented in accordance with Chapter 1, Part 4 Section 5 of the Consolidated Circular as revised in Circular 2022-1-8 (hereinafter - the "**Disclosure Provisions**").

The Economic Solvency Regime provisions set a standard model for calculating eligible capital and the regulatory solvency capital requirement (SCR), with the aim of bringing insurance companies to hold buffers to absorb losses arising from the materialization of unexpected risks to which they are exposed.

The solvency ratio is the ratio between the eligible equity and the regulatory solvency capital requirement.

The eligible equity is composed of Tier 1 Capital and Tier 2 Capital. Tier 1 Capital includes equity calculated through assessing the economic value of an insurance company's assets and liabilities in accordance with the circular's provisions, and Additional Tier 1 Capital. Additional Tier 1 Capital and Tier 2 Capital include equity instruments with loss absorption mechanisms, including Subordinated Tier 2 Capital, Hybrid Tier 2 Capital and Tier 3 Capital, which were issued prior to the circular's effective date. The circular places restrictions on the composition of eligible equity for SCR and MCR purposes (see below), such that the rate of Additional Tier 1 capital shall not exceed 20% of the Tier 1 capital, and such that the rate of components included in Tier 2 Capital shall not exceed 40% of the SCR without taking into account the transitional provisions and the equity scenario adjustment, and shall not exceed 50% of the SCR under the transitional provisions and taking into account the equity scenario adjustment.

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

- The capital required to maintain an insurance company's solvency (hereinafter - "**SCR**"). The SCR is 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 highest of the amount of the minimum Tier 1 capital required under the "Requirements of the Previous Capital Regime" and an amount derived from insurance reserves and premiums (as defined in the Solvency Circular), with a floor of 25% and a cap of 45% of the SCR.

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

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

A. Selecting on 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").

The Company opted for the second alternative of using the Deduction During the Transitional Period, after receiving the Commissioner's approval.

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, cancellations, expenses, uptake 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.

A. Definitions

The 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 (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 written on a similar technical basis as property and casualty insurance.
Basic solvency capital requirement (BSCR)	- The capital required from an insurance company to maintain its solvency, calculated in accordance with the 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 recognized capital of an insurance company and the solvency capital requirement.
Symmetric Adjustment (SA)	- Anti-cyclical component designed to adjust the capital required in respect of the equity risk to the changes in share prices, as set out in the provisions in Part C in the Economic Solvency Regime directives.
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 (hereinafter - the "Deduction Amount")	- The amount deducted from insurance reserves during the Transitional Period, as described in Section 2a (2) above, and in accordance with the Economic Solvency Regime Directives.
Minimum capital requirement (MCR)	- 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)	- A component reflecting the margin implicit in a representative debt assets portfolio of insurance companies and added to the adjusted interest-rate curve in accordance with Economic Solvency Regime Directives.
Audited	- The term refers to an audit held by an independent auditor in accordance International Standard on Assurance Engagement (ISAE) 3400 – "The Examination of Prospective Financial Information".
Investment Rules Regulations	- Supervision of Financial Services Regulations (Provident Funds) (Investment Rules Applicable to Institutional Entities), 2012.

Calculation Methodology

The Economic Solvency Ratio Report as of December 31, 2021, and December 31, 2020, 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 attributes zero value to intangible assets and deferred acquisition costs other than investment in "Insurtech" as defined in the Economic Solvency Regime Directives, and the Commissioner's approval in that respect was obtained, as required.

Increasing economic capital according to the transitional provisions

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

The Company 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 expedients during the Transitional Period.

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 accordance with the provisions of Subsection (a) above, the Deduction during the Transitional Period as of December 31, 2021, was recalculated two years after it was calculated for the first time. The Company obtained the Commissioner's approval to recalculate the Deduction Amount as of December 31, 2021. For further details, please see Section 2A (2) below.

Solvency capital requirement (SCR)

The calculation of the solvency capital requirement is based on an assessment of the economic equity'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 (where relevant).

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

Loss absorption adjustment due to deferred tax asset

In accordance with the 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 Not Similar to Life Techniques (NSLT) (short term health insurance) only.

C. Comments and clarifications**1. General**

The economic solvency ratio report includes, among other things, forecasts based on assumptions and parameters based on past experience, as they arise from actuarial studies conducted from time to time, and on Company's assessments regarding the future, to the extent that it has relevant and concrete information which can be relied upon. The information and studies are similar to those used as the basis for the Company's annual 2021 report. Any information or studies obtained or completed after the Company's 2021 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.

It should be emphasized that the results of the models used in the calculation of the eligible equity and the solvency required capital are highly sensitive to the forecasts and assumptions included therein, as well as to the manner by which the Directives are implemented. The economic solvency ratio is highly sensitive to market variables and other variables, and accordingly may be volatile.

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

- a) The field of insurance is subject to frequent changes in relevant legislation and regulatory directives. For more information, see Sections 2.1.2 and 2.3.1. In Part B and Section 4.1 in Part D of the Description of the Corporation Business chapter in the 2021 Periodic Report and in Section 2.2 to the Report of the Board of Directors for the period ended March 31, 2022.

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. With regard to this matter, it should be noted that there is significant uncertainty in the context of the effect of the application of IFRS 17 and its various components; the standard is due to come into effect in Israel starting in the financial statements as of January 1, 2024. The manner by which this standard will be applied in the financial statements may affect the results of the calculation of the solvency ratio, and at this stage the Company is unable to assess this effect.

- b) In accordance with the 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 as at December 31, 2021, please see Note 39 to the financial statements as at December 31, 2021. For an update as to developments in this exposure after reporting date, see Note 6 to the financial statements as of March 31, 2022.

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

A. Economic solvency ratio

	As of December 31	
	2021	2020
	Audited*	
	In NIS thousand	
Recognized own funds in respect of SCR - please see Section 3	14,212,110	12,770,842
Solvency capital requirement (SCR) - please see Section 4	7,666,458	6,661,640
Surplus	6,545,652	6,109,203
Economic solvency ratio (in %)	185%	192%

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

Raising of capital instruments**	346,133	-
Recognized own funds in respect of SCR	14,558,243	12,770,842
Surplus	6,891,784	6,109,203
Economic solvency ratio (in %)	190%	192%

* Any reference made in this report to the term "audited", shall be construed as an audit held by an independent auditor in accordance with International Standard on Assurance Engagements No. 3400 - The Examination of Prospective Financial Information.

** Composed of raising of Tier 2 capital at the total amount of NIS 270 million, of which NIS 8 million were not recognized, since they were in excess of the quantitative cap under the transitional provisions, and a capital injection at the total amount of NIS 84 million, which arises from the transfer of Phoenixclass Ltd. from The Phoenix Holdings to The Phoenix Insurance, net of the capital requirements. For further details in connection with the transfer of Phoenixclass Ltd., see immediate report dated May 17, 2022 (Ref. No. 2022-02-048480).

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

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

- A decrease in the risk-free interest rate curve in combination with the increase in the Consumer Price Index had a substantial negative effect on the Company's capital surplus and solvency ratio.
- Positive returns above risk-free interest in planholders' portfolios (which have a positive effect on Company's management fees income from these portfolios) and in the nostro portfolio caused an increase in the Company's Tier 1 Capital, and on the other hand increased the capital requirement, in view of the increase in the exposure to risk weighted assets and an increase in the equity scenario (increase in the symmetric adjustment component ("SA") in the scenario derived from fluctuations in the Tel Aviv 125 Index). On a cumulative basis, these returns have had a significant positive effect on the Company's economic solvency ratio.

- The expiry of the capital requirement in respect of existing life and health insurance products reduces the solvency capital requirement and the risk margin (RM), and accordingly has a positive effect on capital surplus and on the Company's solvency ratio.
- In 2021 and in the first quarter of 2022, the Company distributed cash dividend at the total amount of NIS 1,000 million (of which NIS 500 million were distributed in 2022, and according to the directives they were deducted from the balance of the economic capital as of December 31, 2021). Furthermore, The Phoenix Insurance completed the distribution of the dividend in kind from The Phoenix Pension and Provident Ltd. These actions caused a decrease in capital surplus and in the Company's solvency ratios.
- During 2021, the Company applied for the first time the Commissioner's directives published on May 13, 2021, as part of a revised version of the QA file regarding the application and disclosure of Economic Solvency Regime of insurance companies (hereinafter - the "QA File") Q&A 2021-532. The QA 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 boundary is a date on which the conversion factor is guaranteed, such that the option to receive a guaranteed conversion factor and the cash flows stemming from the exercise of that option shall not be reflected in the policy's contract boundary. This application caused a decrease in capital surplus and in the Company's solvency ratio.
- In August 2021, The Company issued an Additional Tier 1 capital instrument totaling approximately NIS 200 million; this issuance increased the Company's surplus capital and had a positive effect on the Company's solvency ratio. For further details, please see Section 1.2.19 to the Company's Report of the Board of Directors as of December 31, 2021.
- In February 2022, the Company completed the conditions required for recognizing a proportional reinsurance transaction involving an existing portfolio of permanent health insurance businesses (PHI); the transaction was signed with a reinsurer rated AA by an international rating agency. The transaction, which came into effect on December 31, 2021, decreased the Company's capital requirements and risk margin (RM), and had a material cumulative positive effect on the Company's capital surplus and solvency ratio.
- In accordance with the directives, the Company recalculated the value of the Deduction Amount in respect of the Transitional Provision as of December 31, 2021 (two years after the latest Calculation Date), and obtained its approval by the Commissioner. As a result of the recalculation as stated above, the entire Deduction Amount in respect of the Transitional Period has increased (before the linear deduction) mainly due to the effect of the decline of the risk-free interest curve. Most of the increase in the Deduction Amount was offset against the linear deduction of the Deduction Amount in respect of the Transitional Period, which stems from the passage of one year of the Transitional Period, such that the Deduction Amount as of December 31 2021 is slightly higher than the Deduction Amount as of December 31 2020, in contrast to the expected decrease in the Deduction Amount in respect of the Transitional Period in view of the linear deduction. Accordingly, the recalculation of the Deduction Amount in respect of the Transitional Period had a positive effect on the Company's capital surplus and solvency ratio. For more information about the recalculation of the Deduction Amount in respect of the Transitional Period, see Section 2.2. below. below.
- For details regarding capital-related measures subsequent to balance sheet date, see footnote in the above table.

Developments that took place in the period between the calculation date and the publication date of the solvency ratio report:

- During the period between the calculation date and the publication date of the solvency ratio report there was a significant increase in risk-free interest, which is expected to have a positive effect on the Company's capital surplus and solvency ratio. On the other hand, during this period there were significant slumps in equity markets in Israel and across the world, and increase in the CPI, which are expected to have a negative effect on the Company's capital surplus and solvency ratio.

B. Minimum capital requirement (MCR)

	As of December 31	
	2021	2020
	Audited	
	In NIS thousand	
Minimum capital requirement (MCR) - see Section 5.A	1,916,615	1,665,410
Shareholders equity for MCR - please see Section 5.B	11,024,131	9,773,104

Section 2 - Economic Balance Sheet

Information about economic balance sheet		As of December 31			
		2021		2020	
		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	737,837	182,549	718,735	-
Deferred acquisition costs	4	1,546,640	-	1,431,579	-
Property, plant & equipment		664,260	664,260	720,269	720,269
Investments in investees that are not insurance companies					
Management companies	5	-	-	642,402	229,233
Other investees	5	1,218,919	1,050,901	503,127	481,831
Total investments in investees that are not insurance companies		1,218,919	1,050,901	1,145,529	711,064
Investment property in respect of yield-dependent contracts		2,062,862	2,062,862	1,839,576	1,839,576
Investment property - other		1,163,326	1,163,326	2,728,710	2,728,710
Reinsurance assets - see Section 2b.	1	2,806,547	2,854,776	2,531,660	2,113,529
Receivables and debit balances	10	1,296,998	1,208,197	1,055,024	949,619
Financial investments in respect of yield-dependent contracts		81,098,659	81,098,659	65,570,447	65,570,447
Other financial investments					
Marketable debt assets		7,373,137	7,373,137	7,993,914	7,993,914
Non-marketable debt assets, excluding designated bonds	6	5,063,042	5,381,798	4,979,180	5,294,740
Designated bonds	7	7,283,101	10,508,179	7,369,589	10,250,891
Shares		2,602,173	2,602,173	1,851,347	1,851,347
Other		4,401,363	4,401,363	3,166,061	3,166,061
Total other financial investments		26,722,816	30,266,650	25,360,091	28,556,953
Cash and cash equivalents in respect of yield-dependent contracts		13,785,593	13,785,593	10,464,216	10,464,216
Other cash and cash equivalents		1,701,538	1,701,538	943,183	943,183
Other assets		68,796	68,796	196	196
Total assets		134,874,791	136,108,107	114,509,215	114,597,762
Total assets in respect of yield-dependent contracts		97,116,663	97,359,035	78,034,084	78,148,171

Information about economic balance sheet		As of December 31			
		2021		2020	
		Balance sheet according to accounting standards	Economic balance sheet	Balance sheet according to accounting standards	Economic balance sheet
Audited					
In NIS thousand					
<u>EQUITY</u>					
Basic Tier 1 capital		6,591,521	9,912,145	6,191,958	8,754,738
Total equity		6,591,521	9,912,145	6,191,958	8,754,738
<u>Liabilities</u>					
Liabilities in respect of insurance contracts and non-yield-dependent investment contracts - see Section 2B	1, 8	24,244,035	19,160,551	22,619,606	17,486,165
Liabilities in respect of insurance contracts and yield-dependent investment contracts - see Section 2.B	1, 8	95,691,151	93,633,187	76,912,239	74,813,744
Risk margin (RM)	1	-	7,741,372	-	7,516,682
Deduction During the Transitional Period	2		(4,710,468)	-	(4,455,219)
Liabilities in respect of deferred taxes, net	9	740,115	2,553,079	783,599	2,344,248
Payables and credit balances	4,10	2,544,900	2,414,757	2,255,326	2,131,341
Financial liabilities	11	5,063,068	5,403,484	5,746,487	6,006,064
Total liabilities		128,283,269	126,195,962	108,317,257	105,843,024
Total equity and liabilities		134,874,790	136,108,107	114,509,215	114,597,762

Main Changes in relation to previous year

- The holdings in management companies were derecognized from the balance sheet as of December 31, 2021, in accordance with the transfer of the shares of the pension and provident company from the insurance company to the holding company. For further details, see Section 1.2.7 in the Report of the Board of Directors as of December 31, 2021.
- An increase in the other investees item and the decrease in other investment property stem mainly from the sale of the control stake in "Ad 120", which was previously reflected as part of the Company's assets and liabilities, and subsequent to the sale is classified among other investees. For further details, see Section 1.2.4 in the Report of the Board of Directors of The Phoenix Insurance as of December 31, 2021.
- In the balance sheet as of December 31, 2021, the Company recognizes for the first-time intangible assets classified as "Insurtech" as defined in the Economic Solvency Regime Directives, after obtaining the Commissioner's approval to do so.
- For explanations about key changes in Tier 1 Capital, see Section 3 above.
- For further details about changes in the Deduction During the Transitional Period and about other significant effects on the economic solvency ratio's components, including the effect of the reinsurance transaction involving permanent health insurance businesses 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, risk margin (RM) and investment contracts and reinsurance assets

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

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

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

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

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

As stated above, the measurement of the insurance liabilities in the economic balance sheet is carried out by discounting the projected cash flows, including future profit, by a risk-free interest plus VAT and taking the UFR into consideration, on the basis of a best estimate that does not include conservatism margins, where the risk is reflected in the RM component, which is a separate liability. This measurement differs from the measurement applied in the financial statements, where insurance liabilities are estimated with conservatism margins using the discounting methods and rates described in Note 37 to the 2021 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 reservations with regard to calculation of the best estimate

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

Limitations and reservations with regard to calculation of the RM

The risk margin is calculated using the cost of capital method, at a rate of 6% in accordance with the guidance of the Economic Solvency Regime, and this rate does not necessarily reflect the cost of capital that is expected to be required from another insurance company or reinsurer in order to assume the Company's insurance liabilities. In this context, it should be emphasized that the capital requirements are based on the model used to calculate the best estimate, despite its limitations as described above.

Assumptions underlying the insurance liabilities calculation**Demographic and operating assumptions**

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

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

Set forth below are the key assumptions on which the Company relied in the calculations:**A) Economic assumptions**

- Discount rate - risk-free interest curve based on the yield to maturity of bonds of the Government of Israel (hereinafter - "risk-free interest") plus a margin (VA), with convergence in the long-term to a fixed real rate of 2.6% (UFR) as set by the Commissioner (hereinafter - the "Discount Rate").
- The yield on the assets backing the life and long-term health insurance products is identical to the Discount Rate (except for the assumed yield in respect of designated bonds).

The yield on designated bonds takes into account their interest rate and the best estimate as to the Company's future entitlement to purchase them. In that context, it should be noted that in February 2022, the Commissioner published a draft for insurance companies' managers, whose aim is to assess the manner of allocating the designated bonds, in accordance with the future implementation IFRS 17. Since the said draft is merely a preliminary draft and the directives are not final, it is not yet possible to assess those effects on the solvency ratio and the economic balance sheet.

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, withdrawals).
- Mortality of pensioners and planholders.
- Morbidity (rate and length of claims) in long-term care, income protection and health products.
- Take up rates in pension tracks.

D) Insurance liabilities in property and casualty insurance

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

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

(2) Deduction Value during the Transitional Period

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

The deduction is calculated as the total amount of the positive differences between insurance reserves (retention) as per the economic balance sheet including the risk margin (net of adjustment to the fair value of designated bonds) and the insurance reserves (retention) as of that date in accordance with the Financial Statements. These differences are calculated at homogeneous product group level in accordance with the provisions included in the Letter of Principles. This difference is deducted on a linear basis over 13 years until December 31, 2032.

In accordance with the directives of the Economic Solvency Regime, including the Letter of Principles, the Company recalculated the value of the Deduction Amount in respect of the Transitional Provision as of December 31, 2021 (two years after the latest Calculation Date), and obtained its approval by the Commissioner. Furthermore, the Company assessed the need to reduce the value of the reduced Deduction balance, which is deducted to reflect the expected increase in the solvency ratio, calculated without the Deduction and the stock scenario adjustment, and did not find it necessary to reduce the value of the reduced Deduction value as of December 31, 2021.

As stated above, the Company obtained the Commissioner's approval to include the full amount of the Deduction During the Transitional Period (that was recalculated) in its calculation of the solvency ratio as of December 31, 2021, such that its reduced value as of December 31, 2021, amounted to NIS 4,710 million.

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, except for investment in Insurtech as defined in the solvency circular, for which it obtained the Commissioner's approval, as required.
- (4) Deferred acquisition costs - in accordance with Part A Chapter 2 Appendix A, 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 in accordance with their economic value that takes into account their interest rate and the best estimate as to the Company's future entitlement to purchase them. See also Section 2a1a above.
- (8) Contingent liabilities - as to the value of contingent liabilities in the economic balance sheet, see Section d.2.b above.
- (9) Liabilities in respect of deferred taxes, net - in accordance with Part A Chapter 2 Appendix C, the calculation is based on the difference between the value attributed to assets and liabilities in the economic balance sheet (taking into account the Deduction Amount) and the value attributed to those assets and liabilities for tax purposes, in accordance with the recognition, measurement and presentation provisions of IAS 12. Deferred 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, accounts receivable - 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 margin on issuance date.

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

	As of December 31 2021		
	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)	13,138,785	610,284	12,528,501
Property & casualty and NSLT health insurance contracts	6,021,766	1,869,275	4,152,491
Total liabilities for insurance contracts and non-yield-dependent investment contracts	19,160,551	2,479,559	16,680,992
Liabilities in respect of insurance contracts and yield-dependent investment contracts - life insurance contracts and long-term health insurance (SLT)	93,633,187	375,217	93,257,970
Total liabilities in respect of insurance contracts and investment contracts	112,793,738	2,854,776	109,938,962

	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

Main Changes in relation to previous year:

- Most of the increase in total of liabilities in respect of insurance and investment contracts during 2021 stems from positive yields beyond the discount rate, decrease in risk-free interest and current contributions into planholders' portfolios in respect of yield-dependent insurance and investment contracts.
- Actuarial researches that were conducted in the reporting year had contrasting effects, and cumulatively the effect of the researches on insurance liabilities is immaterial. For further details regarding researches conducted in the reporting year, please see Section 5.1.10 to Note 37 to the Company's financial statements as of December 31, 2021.

Section 3 - Recognized own funds in respect of SCR

	As of December 31 2021				
	Tier 1 capital		Tier 2 capital	Total	
	Basic	Additional			
	Audited				
	In NIS thousand				
Equity capital	9,912,145	1,296,569	3,571,301	14,780,015	
Deductions from Tier 1 capital (a)	(567,905)	-	-	(567,905)	
Deductions (b)	-	-	-	-	
Deviation from quantitative limitations (c)	-	-	-	-	
Recognized own funds in respect of SCR (d)	9,344,240	1,296,569	3,571,301	14,212,110	
Of which - expected profit amount in respect of future premiums (EPIFP) after tax	6,787,011			6,787,011	

	As of December 31, 2020			
	Tier 1 capital		Tier 2 capital	Total
	Basic	Additional		
	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)
Recognized own funds in respect of SCR (d)	8,534,308	905,714	3,330,820	12,770,842
Of which - expected profit amount in respect of future premiums (EPIFP) after tax	5,918,943			5,918,943

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). 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. Furthermore, the Tier 1 capital was impacted by the distribution of a cash dividend of NIS 1 billion (of which NIS 500 million were distributed subsequent to the report date and are included in the "Deductions from Tier 1 capital" row in the table), and by a dividend in kind involving the pension and provident company.
- Additional Tier 1 Capital was affected by a further issuance at the total amount of approximately NIS 200 million in 202, and by an exchange of additional Tier 1 capital notes that were issued to the Phoenix Holdings. For further details, please see Section 1.2.19 to the Company's Report of the Board of Directors as of December 31, 2021.
- Tier 2 Capital increased in view of the increase in the capital requirements that allowed full recognition of the Tier 2 Capital balances, and in view of the decrease in interest.
- For further details regarding these changes, see Section 1a above.

- (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 shareholders equity in respect of SCR

	As of December 31	
	2021	2020
	Audited	
	In NIS thousand	
Tier 1 capital		
Basic Tier 1 capital	9,344,240	8,534,308
Additional Tier 1 capital		
Additional Tier 1 capital instruments	1,296,569	905,714
Restricted Tier 1 capital instruments	-	-
Less deduction due to deviation from quantitative limit	-	-
Additional Tier 1 capital	1,296,569	905,714
Total Tier 1 capital	10,640,808	9,440,022
Tier 2 capital		
Tier 2 capital instruments	1,444,620	1,466,420
Restricted Tier 2 capital instruments	1,704,914	1,687,761
Restricted Tier 3 capital instruments	421,767	428,109
Less deduction due to deviation from quantitative limit		(251,470)
Total Tier 2 capital	3,571,301	3,330,820
Total Recognized own funds in respect of SCR	14,212,110	12,770,842

- For an explanation about key changes compared with last year see above.
- For information about equity for purposes of solvency capital requirement without applying the transitional provisions to the Transitional Period and without applying a stock scenario adjustment, see Section 6 "Effect of application of Directives for the Transitional Period", below.

Section 4 - Solvency capital requirement (SCR)

	As of December 31	
	2021	2020
	Capital requirements	
	Audited	
	In NIS thousand	
Basic solvency capital requirement (BSCR)		
Capital required in respect of market risk component*	5,339,168	3,674,610
Capital required in respect of counterparty risk component	461,803	401,319
Capital required in respect of underwriting risk component in life insurance	3,305,793	2,985,997
Required capital in respect of underwriting risk component in health insurance (SLT+NSLT)	5,076,207	5,370,929
Capital required in respect of underwriting risk component in P&C insurance	1,163,279	1,089,137
Effect of diversification of risk components	(5,131,205)	(4,530,968)
Capital required in respect of the intangible assets risk component	91,275	-
Total basic solvency capital requirement (BSCR)	10,306,320	8,991,024
Capital required in respect of operational risk	352,399	350,192
Loss absorption adjustment due to deferred tax asset	(2,992,261)	(2,793,799)
Capital required in respect of management companies:		
The Phoenix Pension and Provident Fund Ltd.	-	114,222
Total capital required in respect of management companies	-	114,222
Total solvency capital requirement (SCR)	7,666,458	6,661,640

* Stock scenario adjustment.

For information about equity for purposes of solvency capital requirement without applying the transitional provisions to the Transitional Period and without applying a stock scenario adjustment, see Section 6 "Effect of application of Directives for the Transitional Period", below.

Key changes in solvency capital requirement compared to last year:

- Changes in solvency capital requirement are affected from the expiry of capital requirement in respect of existing insurance products, which reduce the solvency capital requirements, and, on the other hand, by marketing of new products that increase the solvency capital requirement.
- Increase in solvency capital requirement due to market risk component stems mainly from an increase in assets, among other things, in view of the 2021 yields, the gradual expiry of the effect of the stock scenario adjustment, and from the increase in the intensity of the stock scenario in view of the increase in the symmetric adjustment component (SA), which was at 10% as of December 31 2021 in view of the cap on this component.
- The increase in capital requirements in respect of underwriting risk component in life insurance is mainly impacted by the decrease in the risk-free interest.

- The decrease in the capital requirements in respect of underwriting risk component in health insurance stems, among other things, from the signing of a proportional reinsurance transaction in permanent health insurance products. On the other hand, the decrease in the risk-free interest had an adverse effect on the relevant capital requirements.
- The addition, for the first time, of capital required in respect of the intangible assets risk component stems from initial recognition of “Insurtech” intangibles in the economic balance sheet.
- The deduction in full of the capital requirements in respect of management companies stems from the transfer of the shares of the pension and provident company to the holding company.
- For further details in respect of these changes, see Section 1a above.

Section 5 - Minimum capital requirement (MCR)

(a) Minimum capital requirement (MCR)

	As of December 31	
	2021	2020
	Audited	
	In NIS thousand	
Minimum capital requirement according to MCR formula	1,797,312	1,578,250
Lower boundary (25% of solvency capital requirement in the Transitional Period)	1,916,615	1,665,410
Upper boundary (45% of solvency capital requirement in the Transitional Period)	3,449,906	2,997,738
Minimum capital requirement (MCR)	1,916,615	1,665,410

(b) Shareholders equity for MCR

	As of December 31 2021		
	Tier 1 capital	Tier 2 capital	Total
	Audited		
	In NIS thousand		
Own funds in respect of SCR according to Section 3	10,640,809	3,571,301	14,212,110
Deviation from quantitative limitations due to minimum capital requirement*	-	(3,187,979)	(3,187,979)
Recognized own funds for MCR	10,640,809	383,322	11,024,131

	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)
Recognized own funds for MCR	9,440,022	333,082	9,773,104

(*) 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 2021					
	Including applying the transitional provisions for the Transitional Period and adjusting the stock scenario	Effect of Deduction During the Transitional Period	Effect of stock scenario adjustment	Effect of a 50% rate Tier 2 capital during the Transitional Period	Total excluding applying the transitional provisions for the Transitional Period and adjusting the stock scenario
	Audited				
	In NIS thousand				
Total insurance liabilities, including risk margin (RM)	115,824,642	(4,710,468)	-	-	120,535,110
Basic Tier 1 capital	9,344,240	3,099,959	-	-	6,244,281
Own funds in respect of SCR	14,212,110	3,099,959	-	-	11,112,151
Solvency capital requirement (SCR)	7,666,458	(1,610,509)	(541,921)	-	9,818,889

As of December 31 2020					
	Including applying the transitional provisions for the Transitional Period and adjusting the stock scenario	Effect of Deduction During the Transitional Period	Effect of stock scenario adjustment	Effect of a 50% rate Tier 2 capital during the Transitional Period	Total excluding applying the transitional provisions for the Transitional Period and adjusting the stock scenario
	Audited				
	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.

Key changes compared with last year regarding the effect of the implementation of the provisions for the Transitional Period:

- A recalculation of the Deduction Amount during the Transitional Period led to an increase of the effect of the inclusion of the Deduction Amount During the Transitional Period. For further details, please see Section 1 and Section 2a (2) above.
- The effect of the stock scenario adjustment increased due to the increase in exposure to stocks in view of yields in 2021, and on the other hand this effect decreased in view of the expiry of its effect in accordance with the transitional provisions. When calculated cumulatively, the effect of stock scenario adjustment has increased.
- For an explanation about other key changes compared with last year see Section 1a above.

Section 7 - Changes in Capital Surplus

Set forth below is a table that describes the changes during the reporting period in the capital required for purpose of the solvency capital requirement, the capital required for the purpose of solvency, and finally in the capital surplus (deficiency) by main effect items. The data included in this section were calculated and reported in accordance with the Commissioner's guidance. The Commissioner determined the order of the presentation of the items in the above table; the Commissioner also determined that the order of the items in the table does not necessarily represent the order by which the various items will be calculated. It should be noted that the order by which the items are calculated may impact the results of the calculation.

	Own funds in respect of SCR	Solvency capital requirement (SCR)	Capital surplus (deficiency)
	Audited		
	In NIS thousand		
As at January 1 2021	12,770,842	6,661,640	6,109,203
adjusting the transitional provisions for the Transitional Period and adjusting the stock scenario	(2,839,835)	1,895,766	(4,735,601)
As of January 1, 2021, excluding applying the transitional provisions for the Transitional Period and adjusting the stock scenario	9,931,007	8,557,405	1,373,602
The effect of operating activities (a)	(374,571)	(874,507)	499,936
Effect of economic activity (b)	2,306,817	1,921,576	385,241
New businesses (c)	272,172	449,977	(177,805)
Effect of the issuance of capital instruments (net of redemptions) and a declared dividend (d)	(1,050,050)	(114,000)	(936,050)
Effect of changes in deferred tax, Tier 1 capital and Tier 2 capital	26,777	(121,562)	148,339
As of December 31, 2021, total without applying the transitional provisions for the Transitional Period and adjusting the stock scenario	11,112,151	9,818,889	1,293,263
Effect of the transitional provisions for the Transitional Period and adjusting the stock scenario	3,099,958	(2,152,430)	5,252,388
As of December 31, 2021	14,212,109	7,666,458	6,545,651

- For further details about significant effects on the economic solvency ratio's components, see Section 1a above.
 - (a) This section includes the effect of:
 1. The projected cash flow that was embedded in the opening balance and which was expected to be released in the reporting year;
 2. Deviations from demographic and operating assumptions in the reporting year;
 3. Changes in regulatory rules;
 4. Changes in demographic and operating assumptions compared with those used on the date of the previous report;
 5. Model updates;
 6. New insurance contracts (P&C Insurance and NSLT health insurance) signed in the reporting year, and insurance portfolios in those subsegments, purchased or sold in the reporting year;
 7. Investment in intangible assets;
 8. Other changes not included in the other items, including reinsurance transaction regarding the permanent health insurance businesses. For further details, see Section 1a above.
 - (b) This section includes the effect of the current operating activity, including:
 1. Changes in the value of investment assets;

2. Changes in capital required in respect of market risk component, including change in the symmetric adjustment component (SA);
 3. Effect of inflation;
 4. Effect of changes in the risk-free interest curve on solvency.
- (c) This item includes new insurance contracts (P&C Insurance and NSLT health insurance) signed in the reporting year, and insurance portfolios in those subsegments, purchased or sold in the reporting year, excluding/including their effect on market risks, counterparty risk and operational risk.
- (d) This item includes capital-related measures, including issuance and redemption of Tier 1 capital and Tier 2 capital instruments that were carried out through the report date, and a dividend declared subsequent to the publication date of the solvency ratio report as of December 31, 2020, and through the publication date of the solvency ratio report as of December 31, 2021.

Section 8 - Sensitivity Tests

Set forth below is a sensitivity analysis of the economic solvency ratio to various risk factors as of the report date. This analysis reflects the effects of various risk factors both on equity, including the effect of the quantitative restrictions that apply to equity, and on the capital required for solvency purposes. The sensitivity tests only reflect direct effects, holding all other risk factors constant, and do not include secondary effects or derived changes on other risk factors or effects on the Deduction Amount.

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

	As of December 31 2021	As of December 31 2020
	Audited	
	Effect on the economic solvency ratio (in %)	
A 50-basepoint decrease in risk-free interest (a)	(18%)	(13%)
A 25% decrease in the value of equity assets (b)	(15%)	
A 5% increase in morbidity rate (c)	(12%)	
A 5% decrease in mortality rates (c)	(14%)	

- (a) The sensitivity to a 50-base-point decrease in interest was calculated by creating a risk-free interest curve for a new solvency that includes a corresponding 50-base-point decrease compared with the basic curve up to the 10th year, and subsequent to that year an extrapolation according to the Smith Wilson model with convergence to a UFR of 2.6% as required in the solvency circular.

The sensitivity test was implemented to all debt assets and insurance liabilities which are exposed to changes in the risk-free interest for solvency, including recalculation of indirect effects on variable management fees.

- (b) Sensitivity to a 25% decrease in the value of equity assets applies to all shares accounted for in the shares sub-risk component, including all Israeli shares and foreign shares, investment funds and illiquid equity investments. For the purpose of the sensitivity test, the SA was recalculated in line with a 25% slump in the TA 125 Index, that is used to calculate the SA.
- (c) Sensitivity to an increase in morbidity rates and a decrease in mortality rates was calculated for all insurance products which are sensitive to those changes, where relevant.

Section 9 - 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 target range and minimum economic solvency ratio targets based on Solvency II. The 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. 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% set to reach 135% at the end of the Transitional Period according to the Company's capital plan. On November 29, 2021, the Company's Board of Directors increased the minimum economic solvency ratio target without taking into account the provisions during the Transitional Period by 3 percentage points - from the 105% rate a 108% rate as of June 30, 2021.

As of December 31, 2021, the date of the last calculation, the Company has capital surplus in relation to the targets that were set, as described in the table set forth below

It is hereby clarified that the aforesaid does not guarantee that the Company will meet the set targets at all times.

Dividend

According to the letter published by the Commissioner, in October 2017, (hereinafter - the "**Letter**") an insurance company shall be entitled to distribute a dividend only if, following the distribution, the company has a solvency ratio - according to the Economic Solvency Regime - of at least 100%, calculated without taking into account the transitional provisions and subject to the solvency ratio target set by the Company's Board of Directors. The aforesaid ratio shall be calculated without the relief granted in respect of the original difference attributed to the acquisition of the provident funds and management companies. In addition, the letter set out provisions for reporting to the Commissioner.

Dividend distribution

During the first quarter of 2022, The Phoenix Insurance distributed a dividend in the amount of NIS 500 million, in accordance with the audited results as of December 31 2020, and in accordance with the results of an estimate to calculate the Solvency II-based economic solvency ratio as of December 31 2021; for more information regarding the said dividend distribution, see immediate report of March 29 2022.

According to the audited results as of December 31, 2021, following the dividend distribution, as stated above, the economic solvency ratio of The Phoenix Insurance is 190%, and the economic solvency ratio net of the transitional provisions for the Transitional Period and without adjusting the stock scenario is 117%. These results meet the minimum economic solvency target that does not take into account the directives in the Transitional Period, as set by the Board of Directors at a rate of 108% 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.

Economic Solvency Ratio Report as of December 31 2021



The following are data on the Company's economic solvency ratio, calculated without taking into account the transitional provisions and the solvency ratio target set by the Company's Board of Directors with respect to the solvency ratio calculated without taking into account the provisions during the Transitional Period and adjusting the stock scenario, as required by the letter. The ratio is higher than the solvency ratio required by the letter.

Solvency ratio without applying the transitional provisions for the deployment period, and without adjusting the shares scenario:

	As of December 31	
	2021	2020
	Audited	
	In NIS thousand	
Recognized own funds in respect of SCR - please see Section 6	11,112,151	9,931,007
Solvency capital requirement (SCR) - please see Section 6	9,818,889	8,557,405
Surplus	1,293,262	1,373,602
Economic solvency ratio (in %)	113%	116%

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

Raising of capital instruments*	354,205	-
Recognized own funds in respect of SCR	11,466,356	9,931,007
Surplus	1,647,467	1,373,602
Economic solvency ratio (in %)	117%	116%

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

Minimum solvency ratio target without applying the transitional provisions	108%	105%
Capital surplus over target	861,956	945,731

* Composed of raising of Tier 2 capital at the total amount of NIS 270 million, and a capital injection at the total amount of NIS 84 million, which arises from the transfer of Phoenixclass Ltd. from The Phoenix Holdings to The Phoenix Insurance, net of the capital requirements; for more information regarding the transfer of Phoenixclass Ltd. see immediate report of May 17 2022 (Ref. No.: 2022-02-048480).

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

May 30, 2022

Date

Benjamin Gabbay
Chairman of the
Board

Eyal Ben Simon
CEO

Eli Schwartz
Deputy CEO, CFO

Amit Netanel
VP, CRO