Phoenix

Board of Directors Report

Please note that this report is a translation that was made for convenience purposes. The Hebrew version constitutes the binding version, and in any event of discrepancy, the Hebrew version shall prevail.

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Board of Directors Report on the State of the Corporate Affairs as at June 30, 2020

The Directors Report of Phoenix Holdings Ltd. (hereunder, "**Phoenix Holdings**" or "**the Company**" or "**the Corporation**") as of June 30, 2020, outlines the principal changes in the Company's operations in the period January through March 2020 (hereunder, "**the Reporting Period**").

The Report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970. As concerns the Group's insurance, pension, and provident fund operations, the Report was prepared pursuant to the Supervision of Insurance Business Regulations (Reporting Details), 1998, and in accordance with the circulars issued by the Supervisor of the Capital Market, Insurance and Savings ("**the Supervisor**" or "**the Commissioner**"). The Directors' Report was prepared under the assumption that the Periodic Report for the year 2019 (hereunder: "**Periodic Report**") is available to the reader.

1. The Group's Structure, Operating Segments, and Developments

1.1 The Group's Structure

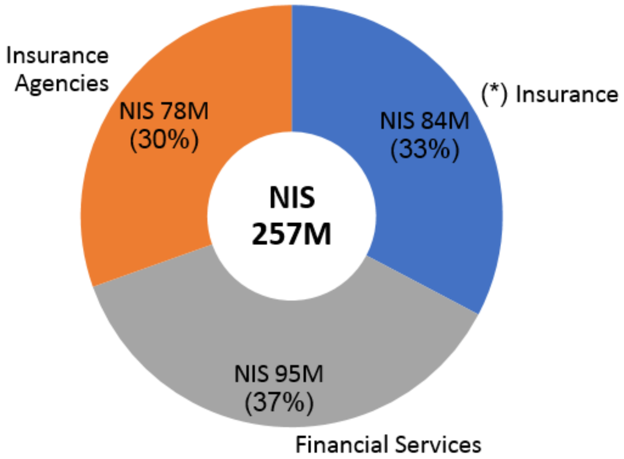
1.1.1 The controlling owner of the Company is Belenus Lux S.a.r.l (hereunder: "**Belenus**") which is held by Centerbridge Partners LP and Gallatin Point Capital LLC (hereunder: "**the funds**"). Belenus holds, as of the date of the report, approximately 32.5% of the issued and paid-up capital of the Company. During the period of the report, Leolin Lux S.a.r.l, a subsidiary of Belenus, acquired a cumulative rate of 0.33% of the Company's issued and paid-up capital. Therefore, the rate of holding of **the funds** from the issued and paid-up capital of the Company is approximately 32.83%. For additional details, see reports from July 14, 2020 and July 22, 2020 (reference number: 2020-01-075330 and 2020-01-077073, respectively.

1.1.2 The consolidated financial statements include the statements of Company-controlled companies. In determining whether control exists, the effect of potential voting rights, realizable on the statement of financial position date, is taken into account. For additional information concerning the Group's holding structure and the holding rates in various companies, see Section 1.2 to the Report on the corporate business as of December 31, 2019 (hereunder: "**the Report on the Corporate Business**"). Company names in the Board of Directors' Report as of June 30, 2020 are as described in the definitions in the Report on the Corporate Business.

1. The Group's Structure, Operating Segments, and Developments

1.1 The Group's Structure

1.1.3 The Company has a variety of sources of profit from the activities of its subsidiaries, as detailed in the various operating segments .The following is the distribution of total profit before tax in the reporting period (for further details, see Note 3 to the financial statement):



(*) The profit includes intercompany adjustments in the Group and the other segment.

1.2 Pension and Provident Fund Activities

On December 30, 2019, it was decided by the Board of Directors of The Phoenix Insurance to issue The Phoenix Excellence Pension and Provident Ltd. (hereunder: "**Phoenix Excellence**") by means of distribution of a dividend in-kind to the Company. The distribution is subject to receipt of approvals in accordance with the law, including approval of the Tax Authorities and the Capital Market, Insurance and Savings Authority (hereunder – "Capital Market Authority"). During the second quarter, the distribution was approved by the Capital Market, Insurance and Savings Authority but approval of the Tax Authorities is pending. For additional details, including the reasoning of the Board of Directors for the distribution – see the Company's Immediate Report dated December 31, 2019 (Ref. No. 201901-126166).

It should be noted that as part of the restructure process and prior to the actual dividend in kind, on August 27, 2020, the Company's Board of Directors approved a liability to supplement Phoenix Excellence's equity to the amount set forth in the Financial Services (Provident Funds) Regulations (Minimum Equity Required from a Provident Fund or Fund Pension), 2012, in lieu of Phoenix Insurance's liability.

1.3 Establishment of a Strategy Committee

On April 22, 2020, the Board of Directors of The Phoenix Insurance and the Board of Directors of the Company approved the establishment of a Strategy Committee to advise the boards on strategic issues and corporate development.

1. The Group's Structure, Operating Segments, and Developments

1.4 Multi-year strategy plan

Over the past few months, the Company has been working on preparing a multi-year strategy plan that touches on the Group's areas of activity .The plan is formulated with the assistance of an international consulting firm that specializes in such programs and accompanies the strategy committees of the Company and Phoenix Insurance .The Company is nearing the end of the formulation of the strategic plan and intends to bring it to the approval of the Company's Board of Directors in the near future.

1.5 Establishment of an internal audit unit in Phoenix

On July 28, 2020, the Board of Directors decided to accept the request of the Company and The Phoenix Insurance (together: "The Phoenix") internal auditor, CPA Mr. Shmuel Rosenblum to terminate his term as internal auditor at Phoenix.

In addition, the Audit Committees and the Company's Board of Directors approved the appointment of Ms. Michal Leshem, CPA, as the Chief Internal Auditor of the Phoenix and the establishment of an internal audit unit in the Company as of September 1, 2020 .Also, on August 10, 2020 the appointment was approved by the Commissioner of the Insurance and Savings Capital Market Authority. For further details, see the Company's immediate reports dated July 28, 2020 (reference number: 2020-01-080460) and from August 13, 2020 (reference number: 2020-01-088194).

1.6 Corporate Officers

1.6.1 On March 31, 2020, Mr. Uri Kisos concluded his position as CEO of Phoenix Excellence. On May 13, 2020, the Board of Directors of Phoenix Excellence approved the appointment of Ms. Yifat Mizrahi as CEO.

1.6.2 On April 22, 2020, the Board of Directors of the Company and the Board of Directors of The Phoenix Insurance approved the appointment of Mr. Eli Yones as director of the Company.

1.6.3 On April 22, 2020, the Board of Directors of the Company and the Board of Directors of The Phoenix Insurance approved the appointment of Mr. Benny Gabbay as Chairman of the Board of Directors, after having served as temporary Chairman of the Board of Directors.

1.6.4 On June 7, 2020, Ms. Hila Conforti was approved by the Capital Market Authority to serve as an independent director of Phoenix Insurance.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments

1.7.1 Credit Rating

On April 21, 2020, Maalot announced that it reaffirmed the rating of The Phoenix Insurance at ilAA+ and revised the rating outlook from positive to stable, and reaffirmed the rating of the Company at ilAA- with a stable outlook. For additional details see the Company's Immediate Report dated April 21, 2020 (Ref. no. 2020-01-040161).

During March 2020, Midroog published a circular "Special Report – Sector Notes" for insurance companies, about the negative impacts of the Covid-19 on the industry. For additional details, see Section 1.7.4 of the Report.

1.7.2 Collective Labor Agreement

On May 6, 2019, The Phoenix Insurance and The Phoenix Pension (together: "**The Phoenix**") signed a new collective labor agreement for the period commencing on January 1, 2019 and ending on December 31, 2021, with the New General Union of Workers and The Phoenix's labor committee (hereunder: "**the New Agreement**"). According to the New Agreement, the provisions of the collective labor agreement signed on July 5, 2016 for the years 2016-2018 will continue to apply in the period of the New Agreement, excluding modifications expressly defined in the New Agreement.

<u>Changes in the collective agreement following the Covid-19 crisis</u>

In response to the spread of the Covid-19 and its significant impact on the Group's operations and results, as detailed in Section 1.7.4 below, The Phoenix Insurance and the Labor Committee of The Phoenix employees signed a letter of agreements that lists a series of modifications and adjustments to the new agreement ("**Agreement Letter**").

For further details, see the Company's immediate report dated March 26, 2020 (reference number 2020-01-026086) as well as sections 4.6.3 and 4.6.4 of the corporation's business report as of December 31, 2019, which was published on March 31, 2020 (reference number 2020- 01-034023).

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (Cont.)

Changes in the collective agreement following the Covid-19 crisis

Due to the continued impact of the global health crisis caused by the spread of the Covid-19 virus on the economy in general and society in particular, The Phoenix decided to accelerate a plan to change the organizational structure to improve service and operations for policyholders and agents, reduce Phoenix spending and adapt to changing competition and market conditions. Therefore, and following the signing of the said agreement, a collective agreement was signed on June 30, 2020 between The Phoenix and the Workers Committee and the new General Workers' Federation - the Maof Histadrut ("**the Histadrut**") in relation to the streamlining of Phoenix and its expenses ("**the collective agreement**"), whose main points are as follows:

Adjustment of the organizational structure:

1.7.2.1 The parties agreed to adjust the workforce by reducing the volume of employment of approximately 10% of Phoenix employees, with special retirement conditions agreed between the parties.

1.7.2.2 Accordingly, as of July 1, 2020, the permanent employees of Phoenix were offered a voluntary retirement plan on terms agreed between the parties.

Additional adjustments to the agreement letter:

1.7.2.3 The 6% reduction in the wages of Phoenix employees as stipulated in the written agreements has been canceled, and this reduction rate has been retroactively reimbursed from the May 2020 salary.

1.7.2.4 Salary increase for the year 2020 (according to the new agreement) is canceled.

1.7.2.5 The wage increases for the year 2021 will be updated to an average rate of 4.70% (instead of 3.40%), in accordance with the principles of the 2019 collective agreement and will be given to employees who will be entitled to it under the 2019 collective agreement.

1.7.2.6 The advance at the expense of a future wage increase that was supposed to be paid in October 2021 with respect to 2022 onwards, as stipulated in the written agreement, is void.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (Cont.)

1.7.2.7. In addition to the stated, The Phoenix has decided that the salary reduction of senior Phoenix executives (at a rate of between 8% and 10%) stipulated in the written agreement will continue to apply during the year 2020 and will be cancelled as at January 1, 2021. The salary of the Company's Chairman and CEO will return to its former state as of July 1, 2021. In addition, the directors on behalf of the controlling shareholders of the Company announced the waiver of the annual directors' salary (with an estimated cumulative amount of about NIS 1 million) to which they are entitled and its transfer to the Employee Financial Aid Fund.

For further details, see Immediate Report dated June 30, 2020 (Reference No.:2020-01-069357).

1.7.3 **Interest**

Changes in the risk-free yield curve have a significant effect on Phoenix Insurance's assets, liabilities and results of operations, as well as on Phoenix Insurance's solvency ratio .For further details regarding changes in the yield curve, see Note 7 to the financial statements as of June 30, 2020 (hereunder: "the financial statement") and regarding the effect of the interest rate on the solvency ratio, see section 2.1.7 of the report.

1.7.4 **Impact of the Covid-19 crisis**

During the month of January 2020, the Covid-19 virus began to spread. The Virus first erupted in China a number of months ago and began causing illness and death around the world, triggering actions in various countries, including Israel, to cope with the spread of the virus and its risks. The spread of the Covid-19 (“**the Event**”) had a material impact on the Group’s operations and results.

The spread of the Covid-19 led to a series of restrictions that included, among others, the temporary closure of many businesses, restrictions on movement, restrictions on entry of citizens from various countries, restrictions on congregations in workplaces, and the temporary suspension of attendance in the education system. These restrictions caused a slowdown of the economic activity in Israel and around the world, resulting in sharp declines in the financial markets and a decline in economic activity.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (Cont.)

1.7.4 Impact of the Covid-19 crisis (Cont.)

The restrictions approved by the Israeli government and the Knesset, as the case may be, as Emergency Regulations (Restriction on the Number of Employees in Workplaces to Reduce the Spread of the New Covid-19), 2020 and Emergency Regulations (The New Covid-19 – Restrictions on Activity), 2020 and the Law on Special Authorities for Dealing with the New Covid-19 Virus (Temporary Order), 2020, which have been updated from time to time in accordance with the situation assessments and their purpose is to anchor the guidelines of the Ministry of Health regarding the creation of "social distance" as part of the strategy of dealing with the incident.

Due to its activities, the Group is exposed to declines in the financial markets and to economic recession, as well as to insurance risks arising from the Event. For information regarding the sensitivity and exposure to risk factors, see also Note 40 to the financial statement as of December 31, 2019 (hereunder: the "**Annual Report**") and Note 7 to the Financial Statements.

It should be noted that in mid-April, a gradual return to various activities in the economy took place (e.g., commerce, education, and more), but as of the publication date of this Report the economy has not yet returned to full activity, and the areas that have returned to activity are subject to various restrictions related to social distancing. Therefore, at this stage, the pace of the Israeli business economy’s recovery is uncertain. It should also be noted that as at the date of the report there was a second outbreak of the pandemic which had an impact on the economy and on the Group's activity. In general, the above is also true of the global market situation which has an impact on the Group’s operations.

A continuation and intensification of the Covid-19 crisis in Israel will have a critical effect and if the situation deteriorates into a recession, may lead to a material adverse effect on the Group’s business.

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

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (Cont.)

1. Business continuity

An effect on employees' absence from the workplace and the Group's ability to continue to render a high standard of service to its agents, policyholders, and customers, and on procedures that are critical to the Company's operations. The Company has a BCM (Business Continuity Management) function that constructed an emergency file and drafted an immediate emergency response procedure, a business continuity strategy document, and mapped the critical processes in each unit, and defined schedules for recovery and the resources and labor required for recovery. BCP sites were determined, as well as an emergency management structure for the Group, special emergency situation teams and business emergency teams.

The Group is following its BCM plan, according to which, among other things, it permits employees to work from home. Throughout the entire period, the Company continued to provide a rapid, efficient, and attentive response in all its operating segments. To facilitate remote operations, hundreds of computers and various technological means were allocated to the Company's employees and executives, to allow the Company's operations to proceed normally. As of publication date of this Report, the Company works in a format of three groups (capsules) so that a rate of about two thirds of the Company's employees work from home in order to reduce exposure in case of infection with the virus.

The results of insurance activities

As a result of the Event, The Phoenix Insurance is subject to an insurance risk that might be reflected in an effect on its insurance liabilities and on the volume of activity in the following segments:

a. **Life insurance and long-term savings**

Most of the exposure stems from risk insurance and could have materialized if the infection in Israel had spread and caused many deaths .It should be noted that as of the date of publication of the report, this disclosure has not materialized . It should be noted that even if such a risk were to be realized for Phoenix Insurance has a non-proportional reinsurance contract, which protects against loss of life and disability from a catastrophic event .The contract purchased is a contract of the excess loss type that protects the accumulation of Phoenix Insurance's deductible and which covers epidemics at a rate of 86.5% .The covered industries are risks, loss of ability to work, personal accidents, medical expenses and international travel.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (Cont.)

The results of insurance activities (Cont.)

a. **Life insurance and long-term savings** (Cont.)

During the second quarter of the reporting year, there was a decrease in the volume of current premiums, as a result of the event .The decrease in the current collection of benefits in pensions and executive insurance is mainly attributed to the decrease in the employment rate and the sharp increase in the number of workers in the economy who are on unpaid leave. It should be noted that this decrease moderated in the period after the date of the report.

In addition, at the beginning of the event, there was an increase in the volume of withdrawals and redemptions in savings and financial products (especially in study funds and individual savings products) .It should be noted that as of the date of the report, there has been a significant moderation in the volume of withdrawals and redemptions.

b. **Health insurance (including LTC)**

Travel insurance

1. As a result of an almost complete halt to flights abroad, in Phoenix's international travel insurance activity, there was a decrease in the amount of premiums that led to a loss in profit in the period of six and three months ended on June 30, 2020 of approximately NIS 12 million and NIS 5 million before tax effect respectively. This trend continued until the date of publication of the reports, it should also be noted that The Phoenix has adjusted its policy of selling travel insurance policies abroad in accordance with the risk assessment in the destination countries from time to time. However, the results of this industry have no significant effect on the Company's results.

2. In the matter of claims and outstanding claims, The Phoenix has reinsurance that covers the major part of its exposure to claims in its travel policies.

3. It should also be noted that as of the date of the report, there is a decrease in the frequency of claims in the field of health due to restrictions on activity due to the outbreak of the Covid-19 virus.

In Phoenix Insurance's opinion, the scope of exposure in travel insurance abroad and in other areas of activity in health is not material. For flight cancellation insurance, see section c.1 in P&C insurance.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (Cont.)

The results of insurance activities (Cont.)

c. **P&C insurance**

1. Phoenix Insurance operates in the field of flight cancellation insurance, in which it is exposed to claims for cancellations as a result of the spread of the virus and the restriction of flights. Phoenix Insurance examined the destinations and dates for which new policies are sold and set restrictions on sales of new policies accordingly. During the reporting period, the Phoenix recorded a loss of approximately NIS 18 million in respect of the aforesaid exposure.
2. Phoenix Insurance operates in the field of professional liability insurance and insurance for directors and officers. To the extent that the entities insured by Phoenix Insurance operate in violation of the required guidelines and precautionary rules, there may be claims against those companies insured by Phoenix. Phoenix Insurance estimates that in the near future an increase in the number of claims against directors and officers is expected, but at this stage it is not possible to estimate the extent of the exposure. But at the same time the Company has reinsurance agreements for a significant part of the exposure.
3. In the segment of business insurance, The Phoenix Insurance anticipates difficulties in premium collections and insolvency of the businesses that it insures, resulting in an adverse impact on its income.
4. On the other hand, during the reporting period, the frequency of claims decreased, mainly in the car insurance branches due to restrictions on activity due to the outbreak of the Covid-19 virus.
5. Phoenix Insurance is exposed to an increase in the cost of claims in other branches of P&C insurance, such as a car, apartments, etc., as a result of a shortage of raw materials and/or spare parts that will lead to an increase in their prices. Phoenix Insurance is unable to assess the extent of the exposure at this time.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (cont.)

The results of insurance activities (Cont.)

c. **P&C insurance** (Cont.)

6. Several motions to certify class actions have been filed against The Phoenix Insurance (and other insurance companies) in the motor, residential, and employer liability segments. These motions argue that the insurance companies in general, and The Phoenix Insurance specifically, should refund to its insured parties part of the premiums paid during the period in which restrictions were imposed due to the Event, because of the supposedly decline in insurance risk in these segments in this period. For additional details, see Note 6 Class Actions, paragraphs 46-49.

d. **Exposure to Reinsurers** - reinsurers are expected to absorb heavy losses as a result of the global Event. The Board of Directors of The Phoenix Insurance defined maximum exposure limits to its reinsurers, based on reinsurers' international ratings. The Phoenix Insurance enters into agreements with reinsurers whose rating is mainly A- or higher. For additional details on the Company's exposure to its reinsurers, see Section 6.6 of Note 40 to the Annual Report.

Phoenix Insurance estimates that in light of the increase in infection and morbidity rates in the second quarter the effects of the Event have not yet ended or have been finally identified and therefore uncertainty exists with respect of insurance product sales, contributions to the various pension savings plans, and the Company's studies on morbidity, cancellations, and mortality rates. Consequently, it is not possible to assess the full effects of the Event at this stage.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (cont.)

2. Measurement of Assets and Liabilities of The Phoenix Insurance

a. **Financial assets** –

The Group's activity exposes it to declines in the financial markets and changes in yield curves, both through the management of the Group's Nostro investments and through the management fees charged in the management of members' assets of profit-sharing policies, pension fund and provident funds members. Income from investments against insurance reserves and shareholders' equity has a material effect on the results of operations. Following the decrease in the financial markets in Israel and around the world, in the first quarter of the reporting year, the Group's Nostro assets decreased by approximately NIS 550 million, after the tax effect. On the other hand, in the second quarter there was a significant recovery in the financial markets in Israel and around the world, which led to an increase in the Group's Nostro assets in the second quarter in the amount of NIS 612 million after the tax effect. It should be noted that, as of the date of publication of the report, the Group's quoted Nostro assets increased by approximately NIS 269 million, after tax.

In addition, the Company examined impairments in respect of unquoted capital assets and real estate, in which significant signs of material impairment were formed in light of the event, while exercising professional judgment of the Company.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (cont.)

2. Measurement of Assets and Liabilities of The Phoenix Insurance

a. **Financial assets** – (Cont.)

The impairment examination included, among other things, a specific examination of real estate assets, including reliance on an opinion regarding the discount rate and clear with the asset managers regarding an indication of impairment. Following the aforementioned examination in the reporting period, the Company recorded a decrease in value in respect of unquoted assets in Nostro in the amount of NIS 65 million after tax effect and in respect of policies participating in profits in the amount of NIS 283 million.

It should be noted that the aforesaid decrease in respect of participating policies in such profits did not affect the results of operations in the financial statements. Following this examination, the aforesaid decline was fully allocated in the first quarter of the reporting year. It should also be noted that the decrease in respect of profit participating policies did not affect the results of operations in the financial statements.

In addition, in the first quarter of the reporting year, there was a decrease in the value of assets managed by the Group under yield-dependent policies, provident funds and pension funds at a rate of approximately 10.1%. As of the date of the report, the rate of decrease in the total assets under management has been reduced to a rate of approximately 3.5% compared to December 31, 2019.

The effect of the said decrease in the members' assets portfolio means that non-collection of variable management fees varies until the decrease, as stated, is covered by spreads in the assets portfolio in profit participating portfolios. As at the date of the report, the variable management fees that Phoenix Insurance will refrain from collecting is approximately NIS 296 million.

It should be noted that, as of the date of publication, following the continued increase in the capital markets, there has been an increase in the value of the assets under management, and therefore, the balance of the variable management fees as aforesaid amounts to approximately NIS 86 million.

For more information about the market risks to which Phoenix Insurance is exposed, and for the results of sensitivity tests related to market risks, see Note 40 to the annual report and Note 7 to the financial report.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (cont.)

2. Measurement of Assets and Liabilities of The Phoenix Insurance

b. **Financial liabilities** - Following the event, on March 15, 2020 the Bank of Israel offered licensed entities (pension funds, provident funds, mutual funds, and insurance companies) an opportunity to bid on repurchase agreements (REPO) for the purchase and resale of government bonds and Short Term Government Bill. As of the date of the report, Phoenix Insurance entered into a resale transaction in the amount of approximately NIS 352 million.

c. **Measurement of Fair Value of tangible and intangible assets-**

1. Intangible assets including goodwill – the Company examined during the reporting period the need to update its impairment assessment. A reassessment of impairment before the elapse of one year is required in view of the existence of indications of impairment following the consequences of the event. According to this assessment, the recoverable amount of these cash-generating units exceeds the carrying amount and no impairment should be recorded.

2. Deferred Acquisition Costs (DAC) – after the Company assessed the elements described in paragraph 1 above, no sign of impairment was found.

d. Regarding the effect of changes in the excess value of unquoted assets that were used to calculate the insurance liabilities in the health insurance segment, see Note 7 to the financial statements.

3. Liquidity, financial position, and sources of financing

After an assessment performed by the Company, it was found that the Event has no material impact on the Company’s liquidity, its financial strength, or the financing sources available to it, and the Company is compliant with the contractual restrictions and financial covenants defined in the deeds of trust. For details on the financial covenants of the bonds and the suspending circumstances of the liability's deeds, see Note 26 to the annual financial statements.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (cont.)

3. Liquidity, financial position, and sources of financing (Cont.)

In March 2020, Midroog published "Special Report – Sector Note" for insurance companies. According to Midroog, the negative effects of the Virus on insurance companies increase their credit risk, but the companies are nonetheless have an adequate loss-absorbing capacity, extremely low liquidity risk, and long average duration of liabilities, which facilitates relatively high managerial flexibility in dealing with extreme events.

Following the Event, in April 2020, S&P (Maalot) announced that it was leaving the Phoenix Insurance rating at ilAA + and updating the Company's rating forecast from positive to stable.

4. Additional activities

Assisted Living

The older adult population is at high risk for complications resulting from infection with the virus and therefore in sheltered housing there is an increased risk for residents to become infected as a result of exposure to the virus. As part of the measures taken to prevent the further spread of the virus, guidelines have been set, among others and at this time, according to which restrictions on visitors' entry into the chain's sheltered housing will be restricted. In assessing the fair value of investment property, AD 120 management learned that a slowdown in the sales of housing units is expected in the short term. At the same time, if the crisis will not be prolonged, AD 120's management expects no long-term adverse effect on demand. Consequently, no material changes were made to turnover rates.

In the opinion of the Company, at this stage, there are no market data that justify a material change in the assumptions taken, including the discount rates.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (cont.)

4. Additional activities (Cont.)

Financial Services

During the reporting period, the main effect on financial services is a decline in assets under management. The extent of the effect depends on the duration of the Crisis and the duration of the period of increased volatility in stock and corporate bond markets. As of the reporting date, assets under management (including ETFs) declined by a total of approximately NIS 3.6 billion and assets in managed portfolios declined by NIS 0.4 billion compared to December 31, 2019. The decline in assets under management includes impairments and customers' withdrawals and leads directly to a decline in revenues in this segment.

Despite the decline in assets under management that created a decline in revenues from management fees, during the reporting period, the Company presented increased activity in the activities of the mutual funds and the activity of the stock exchange member.

From the date of the report until the date of publication of the report, the assets of the managed mutual funds (including mutual funds) increased by approximately NIS 1.4 billion and the assets of the managed portfolios increased by approximately NIS 0.1 billion.

Insurance Agencies

In the Agencies segment, there was no material effect in agencies' operations, with the exception of an effect of declines in the financial markets that led to insignificant losses to the Group in the reporting period. Furthermore, the majority of agencies initiated various reorganization efforts (such as adjusting the scope of manpower to the scope of the activity), which reduced expenses in the period of the event.

5. Additional Activities Performed by the Group

The Group monitors the rapid developments in the markets, has acted and is constantly working to adjust its expenses to the expected decline in revenues .Due to the nature of the Group's activity, about one - third of the decrease in revenue is automatically offset by a decrease in direct expenses such as distribution fees, operating costs and other expenses derived from the volume of assets .In addition, various organizational and business measures were taken and implemented, which led, among other things, to streamlining and reducing the Company's expenses in matters of manpower, information systems and other expenses.

1. The Group's Structure, Operating Segments, and Developments (Cont.)

1.7 Additional Developments (cont.)

5. Additional Activities Performed by the Group (Cont.)

In the Event period, The Phoenix Insurance placed approximately 20% of its employees on unpaid leave. In late April, The Phoenix Insurance commenced a return of employees to employment based on its business needs. As of the date of publication of The Phoenix Insurance Report, it has returned all its employees.

On March 25, 2020, Phoenix Insurance reached an agreement with the Workers' Committee which was updated through the signing of a new collective agreement on June 30, 2020. The Phoenix estimates the annual total savings from the implementation of the collective agreement and further streamlining actions carried out by The Phoenix following the Covid-19 crisis (such as: reduction of suppliers' costs and additional cuts). For more information on this matter, see section 1.7.2 above and Note 7 in the financial statements. All of the above is based on the information that the company has at the time of publication of the report. It should be noted that the implications of the event on the scope of business activity in Israel and around the world have not yet been definitively clarified and therefore there may be further future effects on the Group's results. In addition, it will be clarified that the Company's assessments regarding the possible consequences of the spread of the Covid-19 virus on the Company's activities are uncertain and are not under the Company's control. These assessments are based, among other things, on the publications in Israel and around the world on this subject and the readiness of the countries of the world to deal with the spread of the virus, as well as the group management's assessments of possible means to deal with the various effects. Considering, among other things, the limitations (existing or absent) on the Group's ability to deal with such effects, and accordingly their realization is uncertain. These assessments may not materialize, in whole or in part, or materialize differently, including materially differently, than expected.

The Group continues to monitor developments in Israel and around the world on an ongoing basis and will continue to be updated as necessary regarding the material consequences of the spread of the Covid-19 virus on the Group's activities, as they may be.

2. Description of the Business Environment

2.1 Implementation of Solvency II Directives that Applies to The Phoenix Insurance Ltd.

2.1.1 Directives in the Matter of Implementation of the Solvency II Directive

Phoenix Insurance is subject to a solvency-based economic repayment regime based on Solvency 2 in accordance with the instructions published in June 2017 (hereunder - "Solvency Circular"). Solvency 2 is a regulatory provision that regulates capital requirements and risk management processes among insurance companies .The report of the economic solvency ratio for June 30, 2019 was published on December 31, 2019 (Reference No.: 2019-01-126082).

2.1.2 In May 2018, **Insurance Circular 2018-1-5 - Amendment to the Consolidated Circular Concerning Reports to the Supervisor - Solvency** came into effect. Under this circular, the Insurance Company must calculate its solvency position according to the Solvency circular, at least at the date of its annual report and at the date of its second quarter report. In the event of a material change, the Insurance Company will also be required to calculate its solvency position at the date of the quarterly financial statement near the time of such change.

In August 2020, a third draft of the "Consolidated Circular Amendment concerning provisions for the implementation of the Solvency II-based insurance solvency regime was published, hereinafter -" Amended Solvency Circular ". The first draft was published in March and the second draft in April 2020.

2.1.3 The purpose of the amendment was to adjust the economic solvency regime in Israel to the directive and its updates, including the option of selecting an adaptation period in which the insurance reserve will increase gradually for specific homogeneous classes of insurance reserves in the economic balance sheet, beginning from December 31, 2019, to December 31, 2032. The said adaptation period requires advance approval of the Supervisor and will replace the solvency adaptation period up to 2024. The amendment should significantly increase the Company's solvency ratio in the future. Also see Note 5 to the financial statements.

2. Description of the Business Environment (Cont.)

2.1 Implementation of Solvency II Directives That Apply to The Phoenix Insurance Ltd. (Cont.)

2.1.4 In April 2020, a draft letter was published regarding **Principles for Calculating a Deduction for the Period of Deployment in a Solvency-Based Economic Solvency Regime**. In the framework of the letter, details are proposed of principles for calculating the deduction during the deployment period that will be considered in examining an application for approval of the deduction during the deployment period in the calculation of insurance reserves, how to monitor the adequacy of the deduction during the deployment period in calculating insurance reserves and related requirements that apply to an insurance company. The requirements include, among others, the following requirements:

(a) Monitoring its existing and expected solvency ratio and its ability to meet the provisions of an economic solvency regime over time in the presence of various financial, demographic and operational scenarios.

(b) Approval of a detailed action plan to be included in the annual report which will be submitted to the Commissioner in the event that the economic solvency ratio is lower than 100%.

(c) The approval of the Board of Directors at any date of calculation.

(d) Determining qualitative and quantitative tests for cases in which the Company will re-calculate the deduction during the deployment period in the cases specified in the letter.

(e) Examination of the deduction calculation by the Company's auditor.

(f) Providing a quantitative disclosure in the framework of an economic solvency ratio report in relation to the deduction during the deployment period in the calculation of insurance reserves.

The Company submitted the deduction calculation during the deployment period according to the updated circular for approval of the Supervisor.

2. Description of the Business Environment (Cont.)

2.1 Implementation of Solvency II Directives That Apply to The Phoenix Insurance Ltd. (Cont.)

2.1.5 Following the above, in August 2020, a draft circular was published **Circular Draft regarding the Updating of the Provisions of the Consolidated Circular regarding Public Accountability - Disclosure regarding the Economic Solvency Ratio**, which aims to update the disclosure structure in the Board of Directors' Report and the Economic Solvency Ratio Report so that disclosure will be provided regarding the solvency ratio that includes the implementation of the transitional provisions set for the deployment period and to expand the scope of the disclosure in the Economic Solvency Ratio Report. And restrictions on dividend distribution.

In addition, the draft prescribes that the date of publication of the economic solvency ratio report and the reporting of solvency reporting files to the Commissioner as of December 31, 2019, will be September 30, 2020. The letter also exempts the companies from calculating and publishing the solvency ratio report to June 30, 2020.

In accordance with the consolidated circular from now on, an economic solvency ratio report will be included in respect of data from December 31 and June 30 of each year as part of the periodic report following the date of calculation.

2. Description of the Business Environment (Cont.)

2.1 Implementation of Solvency II Directives That Applies to The Phoenix Insurance Ltd. (Cont.)

2.1.6 Solvency ratio and capital threshold of Phoenix Solvency Based Insurance 2 (in thousands of NIS):

	As at June 30, 2019	As at December 31, 2018
	Unaudited	Audited (*)
	NIS in thousands	
Without taking into account the directives for the deployment period and according to the shares scenario:		
Shareholders equity for SCR	9,074,639	9,139,354
Equity for SCR	8,279,129	7,042,367
Reserves (Deficit)	795,510	2,096,987
Solvency ratio (%)	**110%**	**130%**
Total material capital events in the period between the balance sheet date and the reporting date that affected the Company's solvency ratio		
Issue of additional Tier-1 capital	300,000	300,000
Issue of Tier-2 capital	601,459	-
Redemption of Tier-2 capital bonds (Series B)	(444,519)	-
Total material capital events in the period between the date and the reporting date that affected the Company's solvency ratio	456,940	300,000
Surplus (excluding the effects of directives concerning the adaptation period and share-based scenario)	1,252,450	2,396,987
Solvency ratio (excluding the effects of directives concerning adaptation period and share-based scenario)	115%	134%
Directors' Capital Target (**)	111%	111%
Capital reserve (including capital events that occurred up to December 31, 2019, the first publication date) with respect to the capital target	916,618	1,642,448

(*) The audit was conducted pursuant to International Standard on Assurance Engagement (ISAE) 3400 – "The Examination of Prospective Financial Information." This Standard is relevant to audits of solvency calculations and does not constitute part of the Auditing Standards that apply to financial statements.

2. Description of the Business Environment (Cont.)

2.1 Implementation of Solvency II Directives That Applies to The Phoenix Insurance Ltd. Company (Cont.)

2.1.6 Solvency ratio and capital threshold of Phoenix Solvency Based Insurance 2 (in thousands of NIS): (Cont.)

(**) In December 2018, the Board of Directors of The Phoenix determined an economic solvency ratio based on Solvency II (the "Capital Target"). The Capital Target determined is 110% of the required capital (which reflects an initial "safety cushion" of 10% above SCR capital requirements), which will increase linearly until reaching 115% at the end of the period (that is, 2024). It is noted that the determination of the aforementioned target does not guarantee that The Phoenix Insurance will meet it at any time.

As of December 31, 2018, the ratio, including a dividend of NIS 250 million and a distribution of The Phoenix Agencies shares as a dividend in-kind to the Company in the amount of approximately NIS 371 million. For information on the distributions, see Note 7 to the annual financial statements.

As at June 30, 2019, the ratio includes the effects of the Circular published in November 2019 "Amendment to the Provisions of the Standard Circular in the Matter of Measuring Liabilities – Update to the Demographic Assumptions in Life Insurance and Update to the Model of Mortality Improvements for Insurance Companies and Pension Funds" and a position paper on this topic. The effect of the publication of said circular is a decline of approximately 7% in the solvency ratio.

On December 30, 2019, the Board of Directors of The Phoenix Insurance approved the distribution of shares of The Phoenix Excellence Pension and Provident, which constitute approximately 100% of the issued and paid-in share capital of The Phoenix Excellence, as a dividend in kind to the Company. The distribution described above is subject to the required statutory approvals including the approval of the tax authorities and the Capital Market, Insurance, and Savings Authority. As at the publication date of the report, the distribution was approved by Capital Market, Insurance and Savings Authority but approval by Tax Authorities is pending. For additional information, see the Company's immediate report dated December 31, 2019 (Ref. No. 2019-01-126166).

2. Description of the Business Environment (Cont.)

2.1 Implementation of Solvency II Directives That Applies to The Phoenix Insurance Ltd. Company (Cont.)

2.1.6 Solvency ratio and capital threshold of Phoenix Solvency Based Insurance 2 (in thousands of NIS): (Cont.)

On February 20, 2020, the Company issued NIS 220 million in registered CPI-linked bonds (Series 5), of NIS 1 par value each, and received proceeds in the amount of NIS 220,000 thousands. The proceeds of the issue will be used by the Company to inject Tier-1capital into The Phoenix Insurance. On March 9, 2020, the Supervisor of the Capital Market, Insurance, and Savings Commissions approved the inclusion of additional Tier-1 capital in the calculation of the shareholders' equity of The Phoenix Insurance. This capital will be included in the calculation of the economic solvency ratio of The Phoenix Insurance as of December 31, 2019. For information on the issue, see Note 26 to the annual financial statements.

2.1.7 Changes in the risk-free linked shekel yield curve have an impact on the Company's economic solvency ratio results.

The following table summarizes the positive/negative risk-free linked interest **("SPOT")** rates:[1]

Range/ Years		30/06/2019	31/12/2019	30/06/2020	24/08/2020
Short	**1-3**	Between (0.8%) and (0.79%)	Between (1.01%) and (0.77%)	Between (0.34%) and 0.03%	Between (0.31%) and 0.13%
Medium	**4-10**	Between (0.67%) and 0.12%	Between (0.90%) and (0.47%)	Between (0.63%) and (0.49%)	Between (0.5%) and (0.38%)
Medium-long	**11-15**	Between 0.25% and 0.68%	Between (0.38%) and 0.00%	Between (0.58% and (0.36%)	Between (0.45% and (0.26%)
Long	**16-25**	Between 0.77% and 1.42%	Between 0.09% and 0.75%	Between (0.30%) and 0.20%	Between (0.2%) and 0.29%

[1] The risk-free indexed interest curves were taken from fair-margin company

2. Description of the Business Environment (Cont.)

2.1 Implementation of Solvency II Directives That Applies to The Phoenix Insurance Ltd. Company (Cont.)

2.1.7 Changes in the risk-free linked shekel yield curve have an impact on the Company's economic solvency ratio results. (Cont.)

The Company performed an estimate of the effect of the decrease in the linked shekel yield curve on the results as at June 30, 2019, a corresponding decrease of 50 basis points along the lined shekel yield curve would lead to a decrease of approximately 9% in the economic solvency ratio, as stated above.

This result is an estimate, based on the data as of June 30, 2019, and constitutes an indication that is designed to illustrate the effect of the decline in interest on solvency, and we cannot infer the result had the Company calculated this estimate on the publication date of the Report. Furthermore, this estimate was calculated on the basis of a fall of 50 basis points across the entire curve, and therefore any other change in the interest curve will not necessarily have a linear and symmetrical effect on the Company's solvency on the above date.

These figures on the surplus solvency, which take into account the capital activities described above, do not include the effects of the business operations of The Phoenix Insurance after June 30, 2019, changes in the composition and size of the insurance investments and liabilities, the Covid-19 Crisis, exogenous effects such as changes in the risk-free interest curve, as described above, and regulatory changes that affect the business environment. According to the Supervisor's guidelines, the Company is required to meet 100% of the SCR on December 31, 2024. For additional information on implementing Solvency II provisions, see the solvency ratio report that appears on the Company's website.

Determining the optimal estimate is based, inter alia, on forecasts, assessments, and estimates of future events, the realization of which is not certain or in the Company's control, and should be considered forward-looking information as this term is defined in Section 32a to the Securities Law 5728-1968.

2. Description of the Business Environment (Cont.)

2.1 Implementation of Solvency II Directives That Applies to The Phoenix Insurance Ltd. Company (Cont.)

2.1.7 Changes in the risk-free linked shekel yield curve have an impact on the Company's economic solvency ratio results. (Cont.)

Actual results may differ from that described in the estimate in this Report, if these forecasts, assessments, sensitivity tests, and estimates, either in entirety or in part, fail to materialize or materialize otherwise than anticipated, inter alia with respect to actuarial assumptions (including mortality rates, morbidity rates, recovery rates, cancellations, expenses, payout of pension benefits, and underwriting profit rate), assumptions regarding future management action, capital market returns, future revenue, and damage in catastrophic scenarios.

According to the Supervisor's guidelines, the Company is expected to publish its solvency rate results as of December 31, 2019, by September 30, 2020.

The events during the reporting period and after the date of the report due to the spread of the Covid-19 virus may adversely affect the solvency ratio, however the Company has taken a number of actions including adjusting the expense structure and changes in the investment mix that may improve this ratio. As of the date of the financial statements, the Company is unable to assess the full impact of the events and actions taken on its solvency ratio. However, the Company estimates that, as of the date of the report, it meets the capital requirements, taking into account the deployment provisions, in accordance with the Solvency Circular.

2.2 Arrangements in Effect

The following are significant regulatory provisions that were published during and after the reporting period and which are not included in the Board of Directors' report for the first quarter of the year 2020.

2.2.1 Temporary Provisions Issued in response to the COVID-19 virus

Against the background of the spread of the Covid-19 virus, starting in March 2020, the Commissioner of the Capital Market issued a series of amendments to circulars, which are a temporary provision for a limited period, whose function is to facilitate and/or make adjustments in the activities of institutional and licensed entities, in view of the Covid-19 crisis.

2. Description of the Business Environment

2.2 Arrangements in Effect (Cont.)

The following are significant regulatory provisions that were published during and after the reporting period and which are not included in the Board of Directors' report for the first quarter of the year 2020.

2.2.1 Temporary Provisions Issued in response to the COVID-19 virus (Cont.)

The aforesaid amendments deal, among others, with the following matters: extension to the date of submission of the financial statements for the first quarter of the year 2020, providing disclosure in the financial statements about the consequences of the Covid-19 virus, postponement of the dates for submitting various reports to the Commissioner of the Capital Market, making adjustments to the way the board works (such as canceling the obligation to convene physically and providing an opportunity to postpone discussions); Allowing an insurance agent to have a telephone conversation with a customer after a meeting and extending the time periods for answering the customer; refraining from delaying the payment of an annuity to a member of a pension fund who has not presented a life certificate, extending the period of the automatic temporary risk provided by the pension fund and executive insurance to 12 months and extending the scope of application of the temporary insurance coverage, disabling an insurance policy for insured persons who are interested in it and providing the possibility of renewing insurance coverage for the insured (in business insurance and third-party liability insurance) and providing an option for an insurance company that settles a long-term care insurance claim, to contact the insured with a request to attach relevant information to the claim if it has not been able to obtain such information through a confidentiality waiver form; providing the possibility of withdrawing tax-free funds from a study fund, subject to the conditions set, even though the date of eligibility for the withdrawal of funds has not yet arrived ,determining that an institutional body's eligibility to raise management fees before the end of the discount period will be denied, following the cessation of savings payments transferred to the provident fund for the member that did not occur due to the employer, for a period of 12 months from the date of cessation of savings payments instead of 6 months (draft).

2. Description of the Business Environment

2.2 Arrangements in Effect (Cont.)

2.2.1 Temporary Provisions Issued in response to the COVID-19 virus (Cont.)

In addition, amendments have been published that are part of temporary regulations aimed at providing incentives in the capital market for dealing with the Covid-19 virus, including: easing the reporting requirements of an institutional investor for active or passive deviation; granting permission to invest through peers' funds an additional rate of 24% of the par value of quoted bonds that are not State of Israel bonds or quoted securities of an issuer, in addition to holding through Nostro and peer funds of 25% (49% in total); providing the possibility of making loans to members at a higher rate than the amount of accumulated savings and for a longer loan period; providing the possibility of conducting an analysis in relation to the purchase of bonds in the secondary market not in accordance with the structure set forth in the circular and granting an exemption from the obligation to establish a policy in relation to the purchase of such bonds; collection from provident fund assets of the management fee charged by the director of an ETF fund, under the conditions set out in the circular ; and establishing guiding principles for the formulation of temporary debt deployment procedures that do not include reducing the return of investment relating to bonds or loans provided by institutional entities ("Flag Outline").

2.2.2 In June 2020, a circular was published concerning the amendment of the provisions of the consolidated circular regarding the **Measurement of liabilities - the liquidity premium**. The chapter "Measurement of Liability" in the Consolidated Circular deals, among other things, with the obligation of insurance companies to carry out an examination of the adequacy of reserves (LAT) for all insurance businesses (P&C insurance , life, LTC and health). When calculating the completion resulting from the LAT test, the circular permits the addition of a non-liquidity premium under the discount rate at different rates for different policies and reserves. The circular sets an individual rate for the illiquidity premium, which will be used to calculate the adequacy of the reserve for long-term care insurance policies (individual), Compulsory motor insurance and liability insurance in the financial statements of the insurance companies. The commencement date of the circular is from the financial statements as of June 30, 2020; however, a company was entitled to make early application of the provisions of the circular in the financial statements as of March 31, 2020. The Company implemented the Circular in these reports as of June 30, 2020, see the aforesaid effect on the financial statements in the Notes 2c and 7(1) to the financial statements.

2. Description of the Business Environment (Cont.)

2.2 Arrangements in Effect (Cont.)

2.2.3 In June 2020, the Capital Market Authority published a document concerning a **roadmap for the adoption of International Accounting Standard No. 17 (IFRS) - Insurance Contracts.** The roadmap details the steps that will be required and the schedules that pertain to them, in order to ensure that the insurance companies in Israel prepare for the implementation of International Financial Reporting Standard No. 17 (IFRS) regarding insurance contracts. The outline detailed in the roadmap is intended to increase the level of regulatory certainty regarding the planned date of implementation of the standard and regarding the main preparation steps that the insurance companies will be required to take. The roadmap sets out key milestones for a number of courses: (1) information systems; (2) project management; (3) accounting policies; (4) quantitative tests; and (5) public disclosure. The application of the standard will be from the quarterly and annual periods beginning on 1.1.2023.

2.2.4 In June 2020, a circular was published concerning **the allocation of assets that are not at fair value when calculating the reserve due diligence (LAT)** .The purpose of the circular is to provide clarifications regarding the manner of allocating unquoted assets when calculating the reserve adequacy test (LAT) for the purpose of improving the comparability between the companies and the regulatory certainty .The circular also updates the disclosure provisions in this regard in the financial statements of insurance companies, due to the fact that asset allocations and transfers of assets between insurance groups have a material potential impact on the financial statements of insurance companies .The commencement date of the circular is from the financial statements as of June 30, 2020. The Company implemented the circular in these reports as of June 30, 2020, see the aforesaid effect on the financial statements in the Note 2d and 7(1) to the financial statements.

2.2.5 In June 2020, an amendment was published to the consolidated circular regarding **personal accident insurance**. As part of the amendment, it is proposed to establish provisions aimed at regulating the personal accident industry, in a manner that will ensure a fair sale procedure that will be clarified to the insurance applicant, the scope of insurance coverage. At the same time, it is proposed to establish provisions for the formulation of a personal accident insurance plan, in order to ensure proper coverage in the event of an insurance event. The main provisions set forth in the circular are: determination of a basic tier for the policy that will include the coverages death, disability, hospitalization, fractures and burns and recovery days; determining a uniform and broad definition of "accident"; determining a biennial insurance period; determination of unique provisions for the inclusion of insureds in a personal accident policy; and determining a mechanism for resolving disability claims in the policy. The commencement date of the circular is 1.2.2021. The circular will apply to individual or group personal accident insurance policies, but will not apply to exceptions set forth in the circular.

2. Description of the Business Environment (Cont.)

2.2 Arrangements in Effect (Cont.)

2.2.6 In June 2020, a circular was published **withdrawal of funds from small accounts in a provident fund - a correction.** The "Withdrawal of funds from small accounts in provident funds" circular stipulates that the management companies will be required to make an "initiated withdrawal" and send to members with a small account with an accumulated balance higher than NIS 50 and lower than NIS 1,350 by check in the mail. The amendment to the circular extends the obligation of a management company to make an "initiated withdrawal" of funds from a provident fund, so that it applies to balances of up to NIS 8,000 (instead of NIS 1,350), with checks being sent to members gradually in five installments over a year.

2.2.7 In July 2020, a circular was published **Attachment to the Insurance - Amendment**. The purpose of the circular is to prevent double premium payments that insureds are often unaware of. The circular stipulates that: (a) an insurance company that receives an application to attach an insurance applicant who already has an existing policy in another company, shall be liable under the conditions set out in the circular for the cancellation of that other policy for the insured; (b) also determines, if the new insurance company did not act as aforesaid, it must pay the applicant the insurance premiums paid to the insuring insurance company in the original policy from the date of cancellation, with the exceptions set out in Circular.

2.2.8 In July 2020, **The Directives of the Financial Services Supervision (Insurance) (Collective LTC insurance for HMO members) (Amendment), in 2020**, were published. The provisions of the Supervision of Financial Services (Insurance) (Collective LTC insurance for HMO members), 2015, establish a uniform policy in the collective LTC insurance prepared for HMO members and regulate the terms of the policy. In view of the current situation of the long-term care insurance market and the decline in the willingness of insurance companies to continue operating in the long-term care insurance field, the provisions were amended to stipulate that the HMOs can offer, through an insurer, And at an additional charge, as specified in the amendment. The extension of insurance coverage will be compromised in two ways: (1) increasing the period of entitlement to an annuity by 10 years (in addition to the 5 years included in the

(in addition to the 5 years included in the base level); and (2) increasing the amount of the benefit.

2. Description of the Business Environment (Cont.)

2.2 Arrangements in Effect (Cont.)

2.2.9. In July 2020, the **Circular for the Principles of Medical Underwriting - an Amendment** was published stipulating that: (a) an institutional body will be required to reflect in a letter of rejection to an insurance applicant with a disability the possibility to apply again, after a period of certainty has been established; (b) an institutional body will be required to examine in detail the medical and functional condition of the applicant for insurance on the autism spectrum and not to rely on the actual receipt of a disability pension from the National Insurance Institute at a rate of 100%.

2.3 Drafts and proposals for legislative arrangements

2.3.1 In June 2020, a draft circular was published concerning an **Internet Interface for Locating Insurance Products - Amendment.** As part of the "Internet Interface for Locating Insurance Products" circular, a central Internet interface was established that allows policyholders to locate information about their insurance portfolio with all insurance companies ("Har Habitoach"). As part of the draft circular, it is proposed to add to the reporting requirements that insurance companies are currently required to report to the Capital Market Authority as detailed below: (1) It will present the existing policy to the insured, without identifying details of the insured; (2) It is proposed to stipulate that the Insurance Mountain will present data on the amount of compensation and the duration of compensation in LTC policies. It is proposed to stipulate that the amendment will apply to the health insurance industry.

2.3.2 In July 2020, the **Insurance Contract Law Proposal (Amendment - Extension of the Statute of Limitations)**, 2020, was published 7 - .years. As part of the law, it is proposed to amend the Insurance Contract Law and extend the statute of limitations on life insurance, sickness and hospital insurance and long-term care insurance, from 3 years to 7 years.

2.3.3 In June 2020, a **Draft of the Directives of the Supervision of Financial Services (Insurance) (Group Health Insurance), 2020,** was published. The draft proposes to amend the Group health insurance provisions and allow the HMO to collect expenses incurred due to the management of a group travel insurance policy abroad, up to a maximum of 5% of the total insurance premiums collected from insured travel insurance for HMO members.

2. Description of the Business Environment (Cont.)

2.3 Drafts and proposals for legislative arrangements (Cont.)

2.3.4 In June 2020, a draft circular was published concerning the **Amendment of the Provisions of the Consolidated Circular - Title 6, Part 3 - Long-Term Care Insurance**, in continuation of the directives of the Financial Services Supervision (Insurance) (collective long-term care insurance for HMO members) (Amendment), .("**Supervision Directive")**. In the framework of the Supervision Directive it was prescribed, among others, an extended tier and an additional insurance amount for the long-term care insurance for HMO members .In the draft circular, it is proposed to establish supplementary provisions to those set forth in the Supervision Regulations regarding the manner of management of the insured funds accrued in respect of those tiers.

2.3.5 In June 2020, a draft of the **Financial Services (Provident Funds) Regulations (Direct Expenditure Due to Transactions) (Temporary Order) Regulations, 2020**, was tabled on the Finance Committee's table. In 2014, a direct rate of 0.25% was set for the first time in the regulations .Certain direct expenses set forth in the regulations. This ceiling was set as a temporary provision until the end of 2017 which was subsequently extended until the end of 2019. As part of the draft regulations it was proposed to extend the temporary provision until 31.12.2021, until the Capital Market Authority completes the comprehensive examination and the latitude it performs on the issue of direct expenditure.

2.3.6 In August 2020, an **Amendment to the Execution Law (Amendment No. 66), 2020** was published .The Execution Act provides provisions restricting the ability to impose a lien on the debtor's assets held by a third party .In order to allow a debtor who is entitled to receive funds from the HMO or an insurance company to receive the funds without being foreclosed on, the law was amended and added to the list of debtor assets that cannot be confiscated, also funds due by health care basket, drug insurance policy, transplant insurance and long-term care insurance policy.

2. Description of the Business Environment (Cont.)

2.3 Drafts and proposals for legislative arrangements (Cont.)

2.3.7 In July 2020, a memorandum was published on the **Securities Streamlining Regulation (Legislative Amendments) Law, 2020** , .The purpose of this law is to authorize the Securities Authority to issue instructions on a number of specific issues, which the Authority has found to require great flexibility in designing the instructions and adapting them to the market situation, namely: investment restrictions, asset diversification and mutual fund revaluation ;Equity and insurance of portfolio management license holders, investment advice and investment marketing and their reporting ;Special disclosure rules for reported corporations and the levels of leverage in the merchant arenas for its own account .Currently, the authority to prescribe provisions in these matters is vested in the Minister of Finance within the framework of regulations.

2.3.8 In July 2020, the Ministry of Justice issued a memorandum on the **Protection of Privacy Law (Amendment No. __) (Definitions and Reduction of the Registration Duty), 2020** .As part of the amendment, it is proposed to reduce the scope of the registration obligation on databases, so that it will only apply to a database that has information on 100,000 people or more and which meets one of the conditions set out in the proposal . It is also proposed to amend the definitions set out in the Privacy Protection Act relating to the protection of personal information, so that the definitions will fit the broad interpretation given to them in recent years and the advanced foreign legislation in the field.

2.3.9 In July 2020, the Ministry of Finance published a **Law Memorandum on the Financial Services Supervision (Consulting, Marketing and Pension Clearing System) Law (Amendment No. 11), 2020**. The law memorandum proposes to allow banks to provide pension advice by telephone or digital means.

2.3.10 In July 2020, a draft circular was published which concerned the **Amendment of the Provisions of the Consolidated Circular - Chapter 4 to Title 5 - Management of Investment Assets - Internal Rating Model.** In accordance with the Financial Services (Provident Funds) Supervision Regulations (Investment Rules Applicable to Institutional Entities), 2012, a debt rating for the said regulations and for an economic solvency regime may be made by an institutional entity according to an internal rating model approved by the Commissioner. The chapter "Management of investment assets" in the consolidated circular in its current wording contains few conditions with respect to such an internal rating model. Will see his model as an internal rating model approved by the Commissioner.

2. Description of the Business Environment (Cont.)

2.3 Drafts and proposals for legislative arrangements (Cont.)

2.3.11 In July 2020, a draft **Circular Attached to the Insurance-Amendment** .In light of the Capital Market Authority's policy of increasing transparency and fairness in the process of joining insurance, it is proposed to impose provisions requiring the insurance agent to disclose to insurance applicants, during the joining process, that most of his income is received from certain insurance companies, as detailed in the draft ;And to order that insurance agents will not be able to condition the procedure for joining the insurance, including the adjustment of the needs of the insurance applicant, in that he will remain insured for a fixed or non-fixed insurance period.

3. Developments in the macroeconomic environment

Following is a brief description of the trends, events, and developments in the Group's macroeconomic environment that have or are expected to have an impact on the Group.

3.1 The Financial Markets in Israel

In the first quarter, a deadly pandemic (Covid-19) led most countries in the world, including Israel, to adopt a policy of social closure and distance, which caused severe economic disruptions and aggressive updates of downward growth forecasts. In response, stock markets around the world and in Israel fell sharply by approximately 30%, credit spreads soared, bond yields collapsed and soared, the shekel collapsed and soared, and the unemployment rate (including GDP) jumped to about 23%.

In the second quarter, the recovery began to take hold. Towards the end of April, indications began to emerge of a decline in the rate of epidemic spread in Israel, and assessments intensified, which even began to materialize, easing closure and restrictions on businesses, which supported the acceleration of economic recovery. In light of these developments, the Bank of Israel updated its growth forecast for 2020 from 5.3% in April to 4.5% in May. But in light of concerns about the strength of the recovery, it updated its downward growth forecast for 2021 from 8.7% to 6.8% and raised the unemployment forecast at the end of 2021 from 4.0% to 5.5%. A major question mark was regarding the phenomenon of unemployment in light of the huge number of workers who have been laid off, and how many of them will indeed be returned to work.

3. Developments in the macroeconomic environment (Cont.)

3.1 The Financial Markets in Israel (Cont.)

The Bank of Israel decided in its decision in April to support the recovery by reducing the interest rate from 0.25% to 0.1% and stating that "it will do whatever is required and within the Bank's authority", including further use of the interest rate tool. The Bank of Israel's responses to the crisis, using the interest rate tool together with the continued implementation of the government bond purchase program, supported the decline in the local yield curve and especially the longest interest rates. At the beginning of June, data was published again on an increase in the number of those infected in Israel.

The consumer price index fell by 0.7% in the second quarter, compared with average economists' forecasts for a decrease of 0.5%. It should be noted that the measurement of prices during the closure was accompanied by many difficulties, which may later turn out to be a distortion. The credit rating company Moody's has announced that it has reduced the Israeli government's debt rating forecast from "positive" to "stable". A return to the strengthening of the shekel also led the Bank of Israel to return to foreign currency purchases. The economic policy of the new government in Israel still seems unclear.

In July, also against the background of a renewed increase in the level of morbidity from Covid-19, the Bank of Israel reduced the growth forecast for 2020 to -6.0%.

During the reporting period, the TA 125 index rose by 3.8%, in the government bond market the 10-year yield fell from 0.92% to 0.60%, in the corporate bond market, the Tel Bond 60 index rose by 1.4 In the foreign exchange market, the shekel strengthened by 2.4% against the dollar and by 0.6% against the Euro, to NIS 3.89 per Euro.

The Period After the Balance Sheet Date

In August, it was reported that in the second quarter, GNP in Israel decreased at an annual rate of 28.7%, the sharpest in 40 years. It was also reported that inflation in the second quarter amounted to -0.3% - and decreased to an annual change of -1.1%. Current data continued to describe a return to the expansion of the economy, including the combined index of the Bank of Israel for June. The increase in the number of Covid-19 patients in Israel continued, but policymakers avoided imposing a new closure, which apparently prevented a significant jump in the unemployment rate, which rose in July from 4.5% to 4.6% and of the broad unemployment rate (including non-employed workers), 11.9% in June to 12.3% in July. In light of developments, the Bank of Israel revised updated its growth forecast for 2020 to -4.5%.

The Bank of Israel has published a plan to buy corporate bonds, and the government has issued a number of plans, most notably the distribution of financial aid grant to all citizens.

3. Developments in the macroeconomic environment (Cont.)

3.1 The Financial Markets in Israel (Cont.)

The Period After the Balance Sheet Date (Cont.)

In the geopolitical sector, there were concerns at the time of advancing the elections due to disagreement regarding the budget period, but later this risk decreased. Israel and the United Arab Emirates have agreed on normalization, which has increased assessments of the possibility of similar agreements with other Arab countries.

In line with the positive economic developments and in line with the global trend, the Tel Aviv stock market recorded another 10% increase and over 30% from the low in March, but is still 12% lower than its peak level in February, pre-crisis.

The 10-year bond yield rose slightly from 0.60% to 0.63%, the shekel strengthened against the dollar by 1.8% to NIS 3.40 but weakened against the euro by 3.9% to a rate of NIS 4.05.

3.2 Global Financial Markets

The deep crisis that erupted in the first quarter, in the context of the Covid-19 epidemic, led to closure and severe economic consequences. In early April, the International Monetary Fund estimated that the global economy would shrink by 3% by 2020, and during May the fund's chairman, Georgieva, warned that if no medical solutions were found to the virus, growth might even be lower. Unemployment in March rose to 14.7% and if that was not enough the White House threatened to punish China for its part in the crisis, which added fuel to the fire. On the other hand, towards the end of the second quarter data on the decline of the epidemic led most countries in the world to easing closure and on business, which together with very aggressive fiscal and monetary incentives supported the acceleration of the upward trend in stock markets. Among other things, the Federal Reserve announced for the first time that as part of its asset purchase program, it will soon begin purchasing "junk" bonds as well. The capital market began to embody for the first time a reduction in interest rates in the US to a negative level as early as 2021. The Federal Reserve Chairman Powell addressed this and argued that the possibility of a negative interest rate is not currently being discussed by the Federal Reserve. Investors lingered on the word "now" and continued to price a reduction to future negative interest rates, mainly in light of estimates of the post-crisis growth of the economy in slow growth, which will also keep inflation below central bank targets. Towards the end of the quarter the Federal Reserve began to signal more and more about the possibility of changing the inflation target, to a method of average inflation, a policy that would allow it to keep interest rates low and perhaps even be willing to commit to them in the long run (YCC).

3. Developments in the macroeconomic environment (Cont.)

3.2 Global Financial Markets (Cont.)

The Federal Reserve's policy response has managed to leave the yield curve around historic lows, to which it fell in the midst of the crisis during March.

Towards the end of the second quarter data began to be received on the re-spread of the Covid-19 virus in the US and in some countries the restrictions on social distancing were renewed. In the background, a case of an African-American man being killed by a white police officer and the difficult economic situation led to a widespread wave of protests in the US. In addition, China passed the "Hong Kong Security Law" move that led to a very harsh response from the US and increased fears of a renewed escalation between the two powers. Meanwhile, in Europe in particular, the situation began to look more stable, both in terms of curbing the pandemic and economically, which began to support the strengthening of the Euro against the dollar.

The S&P 500 rose 20%, the Euro Stoxx -50 index rose 16%, the 10-year US bond yield remained relatively stable at 0.66% and the Euro strengthened above the Dollar by 1.8% to $1.12 per Euro.

The Period After the Balance Sheet Date

The volume of economic data that pleasantly surprised economists' forecasts continued to skyrocket, as reflected in the Citigroup Economic Surprise Index, which reached historically high levels. U.S. Purchasing Managers' Surveys stood out, returning to levels above 50 points (a level that describes a return to expansion), and the U.S. unemployment rate fell from 14.7% at the April high to 10.2%. Although the unemployment rate remains at a high level, retail sales data have already jumped to a pre-crisis level in June. According to many, strong consumption has been made possible thanks to the government's aggressive grants to the unemployed and all households. However, by the end of July, some aid programs began to fade and the administration had so far failed to approve their extension in Congress. In the US, as in Israel, a renewed increase in the number of patients with the virus did not lead to significant renewed restrictions on the economy. On the other hand, in Europe there was a marked takeover of the virus, but markets were even more excited from the agreements and led to the beginning of a significant move of strengthening the Euro in the world. During this period, the publications of the companies' reports for the second quarter, which were very surprising in the profit line, stood out at the largest rate in years. The stock markets continued the sharp upward trend that began at the end of the first quarter, led by the stocks of technology companies, as they continued to emerge as the biggest gainers from the crisis.

3. Developments in the macroeconomic environment (Cont.)

3.2 The Financial Markets in Israel (Cont.)

The Period After The Balance Sheet Date (Cont.)

In the period after the balance sheet date, the S&P500 rose by 9.1%, the Euro-Stoxx-50 index rose by 2.7%, the 10-year yield in the US remained stable at 0.67% and the Euro jumped against the dollar by 6.0%, to a rate of 1.19 Euro to the Dollar

4. The Board of Directors' explanations on the state of the Corporation's Business

4.1 General

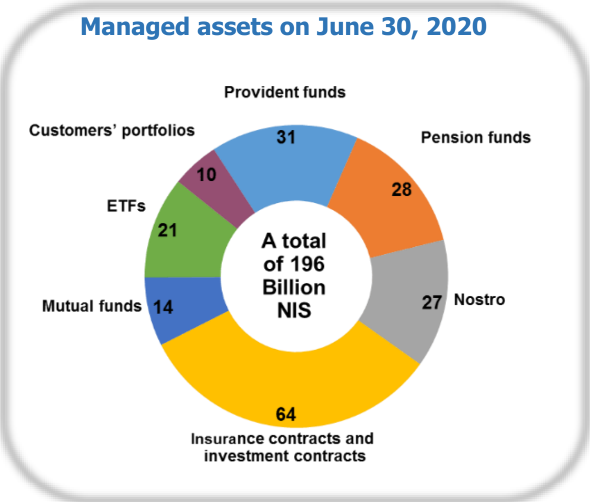
The Group's operations are affected by constantly changing regulations and changes and regulatory reforms that are executed in a step-wise manner over time. The Group operates in a complex, changing reality in which it must prepare for such regulatory changes.

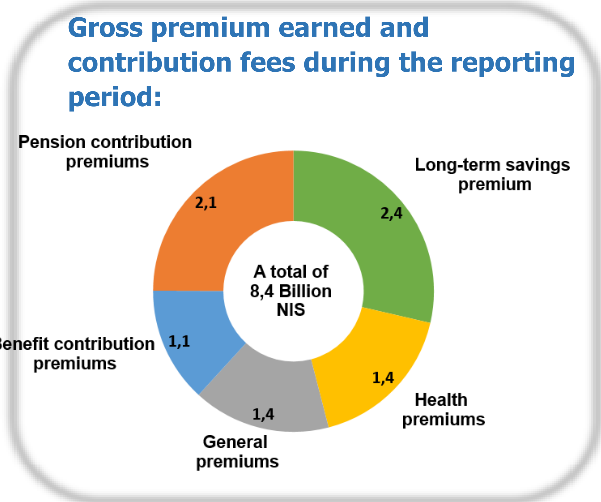
In addition, as the controlling shareholder of institutional entities, the Group must cope with proposed changes in the minimum capital requirements that apply to the operations of institutional entities, which also impose restrictions on dividend distributions in the institutional entities, among other effects.

The Group's operations and results are influenced by the capital markets to a considerable extent, including, among other factors, the low-interest environment that has implications for its insurance liabilities and on the returns in the Group's financial asset portfolios, and consequently also on the management fees and the financial margins from investments.

Business

4.2 Key Data From the Group's Consolidated Financial Statements





Total managed assets in provident funds, pension funds, mutual funds, ETFs, and customers' investment portfolios are not included in the Company's consolidated financial statements. Proceeds in respect of investment contracts are not included under premiums but are charged directly to liabilities in respect of insurance contracts and investment contracts.

For additional information on premiums in the various sectors, see Note 3 to the financial statements.

4.3 Description of the Development of the Group's Financial Position:

Following are summary data from the consolidated balance sheets (in NIS millions):

	30.06.2020	30.06.2019	31.12.2019
Fixed Assets	817	708	770
Investments in affiliates	739	640	718
Investment property for yield dependent contracts	1,759	1,466	1,554
Other investment property	2,666	2,386	2,547
Reinsurance assets	2,545	2,222	2,348
Financial investments for performance-based contracts	56,974	56,046	64,305
Other financial investments	25,783	23,668	24,809
Total assets	**107,770**	**101,788**	**110,064**
Total shareholders' equity (including non-controlling shares)	**6,926**	**6,889**	**6,743**
Total liabilities for insurance contracts and investment contracts	**91,219**	**86,681**	**94,283**
Of which:			
Liabilities for non-dependent-yield insurance contracts and investment contracts	23,388	22,024	23,192
Liabilities for yield dependent- insurance contracts and investment contracts	67,831	64,657	71,091
Financial liabilities	6,619	5,180	5,757
Total liabilities	**100,844**	**94,899**	**103,321**
Total shareholders' equity and liabilities	**107,770**	**101,788**	**110,064**

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.3 Description of the Development of the Group's Financial Position: (Cont.)

Assets

Total financial investments for yield-dependent contracts as of June 30, 2020, amounted to NIS 56,974 million compared to NIS 64,305 million as of December 31, 2019, reflecting a decline of approximately 11.4%, which was influenced mainly by negative capital market returns and increase in surrenders resulting from the spread of the Covid-19, and in contrast, continued in net accruals in the asset portfolio.

Liabilities

Liabilities in respect of yield-dependent insurance contracts and investment contracts totaled approximately NIS 67,831 million as at June 30, 2020, compared to NIS 71,091 million as at December 31, 2019, a decline of approximately 4.6%, which was influenced largely by capital market returns and increase in surrenders resulting from the spread of the Covid-19.

Financial liabilities as at June 30, 2020 totaled NIS 6,619 million, compared to approximately NIS 5,757 million. This increase stems mainly from the Company's bond issue in the amount of approximately NIS 220 million, an increase in liabilities in respect of derivative instruments on insurance indices, and repo agreements with the State of Israel in the amount of approximately NIS 352 million.

In the reporting period, the Company performed a retroactive implementation of the Amendment to the Consolidated Circular on Liability Measurement - Adequacy of LAT, Published in March 2020, which determined that LAT will be calculated for all life insurance products together (excluding LTC products) in lieu of calculations for each life insurance product separately.

The direct effect of these changes on liabilities in respect of non-yield-dependent insurance contracts in the corresponding period of the previous year is a decline of approximately NIS 269 million and an increase in liability of approximately NIS 92 million in deferred taxes. The retroactive implementation also led to a decline in liabilities in respect of non-yield-dependent insurance contracts in 2019 in the amount of approximately NIS 382 million and an increase in liability to deferred taxes of approximately NIS 131 million. For additional details, see Section 2.2.2 above and Note 2c to the financial statements.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.4 Description of the Development of the Group's Income for the Period and Comprehensive Income:

Following is a summary of the results of the Company's operations for each of the years and for the fourth quarter (in NIS millions):

Summary of main data from reports consolidated profit and loss					
	1-6/2020	1-6/2019	4-6/2020	4-6/2019	1-12/2019
Premiums earned, gross	5,248	5,711	2,529	2,843	11,325
Premiums earned on retention	4,570	5,052	2,197	2,508	9,923
Investment income (loss), net, and	(4,181)	4,677	3,973	1,810	9,110
Management fees	527	660	253	277	1,487
Income from commissions	275	255	135	127	542
Total income	**1,315**	**10,767**	**6,608**	**4,770**	**21,291**
Payment and change in liabilities in respect of insurance contracts and investment contracts, gross					
Commissions, marketing expenses, and	(217)	8,981	5,367	3,801	18,568
acquisition costs	887	911	429	470	1,918
General and administrative expenses	648	652	324	324	1,281
Finance expenses	55	90	29	64	143
Total expenses	**908**	**10,191**	**5,939**	**4,467**	**20,972**
Company's share in profits of investee treated according to the equity	21	33	6	(14)	97
Profit (loss) for the period	**304**	**385**	**457**	**163**	**308**
Profit (loss) for the period attributed to the Company's shareholders	**283**	**371**	**449**	**156**	**271**
Shareholders' return on equity for the period (based on profit for the period)	8.6%	11.5%	31%	9.5%	4.2%
Other comprehensive income (loss), net from tax	(112)	225	299	57	393
Comprehensive income (loss) for for the period	**192**	**610**	**756**	**220**	**701**
Comprehensive income (loss) for attributable to Company's shareholders	**171**	**596**	**748**	**213**	**664**
Return on capital to shareholders for the period (based on comprehensive income for the period)	5.2%	18.8%	55.3%	13.1%	10.2%

A considerable share of the Group's asset portfolio is invested in the capital market. Therefore, returns in various investment vehicles in the capital market have a material impact both on the returns achieved for the Group's customers and on the Group's earnings. Investment income and losses reflect the behavior of capital markets in Israel and abroad, and the behavior of the CPI and

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.4 Description of the Development of the Group's Income For the Period and Comprehensive Income: (Cont.)

The exchange rates of the shekel against the major currencies, whose cumulative effect on the financial margin is the main reason for fluctuations in the reported results.

Investment losses, including other comprehensive loss (before tax) totaled approximately NIS 4,350 million in the reporting period, compared to income of approximately NIS 5,022 million in the corresponding period of the previous year. Income from investments, including other comprehensive income (before tax), amounted to a profit of NIS 4,428 million in the second quarter, compared with a profit of NIS 1,897 million in the corresponding period last year. It is noted that a significant part of the investment losses or profits is allocated to investment profit-sharing policies and does not directly influence the Company's results. For information concerning investment income attributed to policyholders. On this matter, also see Section 4.5.1 below. Revenues from management fees decreased in the reporting period and in the second quarter by NIS 133 million and in the amount of approximately NIS 24 million compared with the corresponding periods last year. Most of the decrease is due to non-collection of variable management fees due to declines in financial markets in Israel and around the world which led to a decrease in the value of the members' assets portfolio. As of the date of the report, the effect of the decrease in the members' assets portfolio will result in non-collection of variable management fees in the future in the amount of NIS 296 million, before tax effect (as of the date of publication of the reports in the amount of NIS 86 million, before tax effect). For further details regarding the effect of the Covid-19 virus see section 1. 7.4 above.

The results in the reporting period and in the second quarter were additionally affected by changes in yield curves, changes in the value of assets as a result of the initial implementation of the circular amendment of the LAT, the results in the reporting period were additionally affected by the changes in the yield curves, and the first application of the liquidity premium circular and changes in discount rates. These changes led to an increase in insurance liabilities in the amount of NIS 31 million before tax in the reporting period and a decrease in insurance liabilities in the amount of NIS 135 million before tax in the second quarter. For additional details see Note 7(1) to the financial statements.

In the same period and quarter last year, the results were affected by the decline in the yield curve, changes in assumptions and an update of life expectancy rates. These changes led to an increase in insurance liabilities in the amount of NIS 127 million in the corresponding period last year and a decrease in insurance liabilities in the amount of NIS 47 million in the corresponding quarter last year. For further details, see Note 7 (1) to the financial statements.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.4 Description of the Development of the Group's Income For the Period and Comprehensive Income: (Cont.)

In addition to what is stated in section 4.3 above regarding the effect of an amendment to the provisions of the consolidated circular regarding the measurement of liabilities - checking the adequacy of the reserve (LAT) which was published in March, 2020, the direct effect of these changes on the results of the corresponding period last year is an increase in profit before tax in the amount of NIS 64 million and an amount of NIS 42 million after tax, and on the results of the corresponding quarter last year.Before tax in the amount of approximately NIS 26 million and in the amount of approximately NIS 17 million after tax .In addition, the retroactive application resulted in an increase in profit for 2019 in the amount of approximately NIS 177 million before tax and an amount of approximately NIS 117 million after tax .For further details, see section 2.2.2 above and in Note 2c to the financial statements.

In the reporting period, the ratio of commissions, marketing expenses, and other acquisition costs to gross earned premiums was approximately 16.9%, compared to 15. 9% in the corresponding period of the previous year. The ratio of ratio of general and administrative expenses to gross earned premiums in the reporting period was approximately 12.4% compared to 11.4% in the corresponding quarter of the previous year.

For explanations on the changes in the periods presented above in comprehensive income in the various operating segments, see details in sections 4.5-4.7 below.

The following is a description of the development of the Group's activity results by areas of activity:

4.5 Developments in the life Insurance and Long-Term Savings (LTS) Segment

4.5.1 Life Insurance Line of Business

Following are the key data from the financial results of the life insurance segment, included in the Company's financial statements (in NIS millions):

	Life insurance				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Premiums earned on retention	2,393	2,724	1,134	1,328	5,209
Income from management fees	212	369	102	133	889
Comprehensive profit (loss) before taxes on income	**(67)**	**70 *)**	**192**	**(75) *)**	**(150) *)**

*) For the retroactive application of the effect of an amendment to the provisions of the consolidated circular regarding the measurement of liabilities - checking the adequacy of the reserve (LAT), see paragraphs 4.3 and 4.4 of the report.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.5 Developments in the life Insurance and Long-Term Savings (LTS) Segment (Cont.)

4.5.1 Life Insurance Line of Business (Cont.)

For key data on the financial results of the life insurance segment, see Note 3 to the financial statements.

The profitability of investments has a material effect on the profitability of this segment, which is characterized by long-term accrual of significant reserves. Investment income is affected by capital market fluctuations, as well as changes in interest rates and the rate of change in the Israeli CPI, which affect the yields on the quoted asset portfolios held against insurance and outstanding claims reserves.

It should be noted that a significant portion of investment income is allocated to policies that participate in investment profits and does not directly affect the Company's results.

The results in the reporting period and in the second quarter were affected compared to last year mainly by the decrease in the financial margin in respect of guaranteed policies.

Revenues from management fees totaled approximately NIS 212 million in the reporting period, compared to approximately NIS 102 million in the corresponding period of the previous year. The decline in the reporting period stems mainly from variable management fees that were not charged as a result of declines in the financial markets in Israel and abroad, which led to a decline in the value of assets in The Phoenix Insurance's customer portfolio. As of the date of this Report, the effect of the decline in customers' asset portfolio caused approximately NIS 296 million in variable management fees, before tax effects, not to be charged (as of the publication date of this Report – approximately NIS 86 million, before tax effects).

In addition, the results in the reporting period and in the second quarter were affected by changes in the risk-free yield curve, discounts and changes in the value of K. The total net effect for the reporting period is an increase in insurance liabilities of NIS 4 million. NIS 139 million resulting from the changes in the value of K.

The results in the corresponding period last year were affected by the decrease in the risk-free yield curve, which increased the insurance liabilities by NIS 102 million in the corresponding period last year and by NIS 21 million in the corresponding quarter last year, in addition to updating the life expectancy rate. Insurance in the amount of approximately NIS 85 million in the corresponding quarter last year.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.5 Developments in the life Insurance and Long-Term Savings (LTS) Segment (Cont.)

4.5.1 Life Insurance Line of Business (Cont.)

Continuing with section 4.3 and section 4.4 above regarding the effect of an amendment to the provisions of the consolidated circular regarding the measurement of reserve adequacy testing (LAT) published in March, 2020, the direct effect of these changes on the results of the corresponding period last year is an increase in profit before tax of NIS 64 million. NIS 42 million after tax, and for the results of the corresponding quarter last year there was an increase in profit before tax in the amount of NIS 26 million and a total of NIS 17 million after tax. In addition, the retroactive application resulted in an increase in profit for 2019 in the amount of approximately NIS 177 million before tax and an amount of approximately NIS 117 million after tax. For further details, see section 2.2.2 above and in Note 2c to the financial statementד.

The redemption rate from the average reserve (in annual terms) was about 2.7% compared to a rate of about 2.8% in the corresponding period last year. It should be noted that the state of the economy, the employment rate, the wages of workers and the competition in the industry affect this rate.

For further details, see Note 7 to the financial statements. For details regarding the sensitivity of the insurance liabilities to the change in interest rates, see Note 40(3)(2) to the annual financial statements.

Weighted Returns on Profit-Sharing Policies

Following are details concerning estimated net investment earnings attributed to profit-sharing policyholders and management fees calculated according to the Supervisor of Insurance's guidelines, based on insurance reserve balances and returns:

	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Investment income (losses) allocated to insured after management fees *)	(4,224)	3,323	3,127	1,112	6,289
Management fees	213	371	102	134	893

*) Does not include gains (losses) on investments imputed to insured persons in the health sector.

For details on estimated management fees that will not be charged due to negative yields, see Section 4.5.1 above.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.5 Developments in the life Insurance and Long-Term Savings (LTS) Segment (Cont.)

4.5.1 Life Insurance Line of Business (Cont.)

Nominal returns on profit-sharing policies for policies issued from 1992 to 2003 were as follows:

	Policies issued up to 2004 (J Fund)				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Nominal return before payment of management fees	(6.57%)	7.16%	5.15%	2.33%	13.95%
Nominal return after payment of management fees					
Real return before paying	(6.87%)	6.23%	5.00%	2.08%	11.52%
management fees	(5.92%)	5.89%	5.36%	0.82%	13.61%
Real return after payment of management fees	(6.22%)	4.97%	5.21%	0.57%	11.18%

Fluctuations in these returns are a function of capital market returns in Israel and abroad, changes in the CPI, and changes in the NIS exchange rates against the major currencies.

Nominal returns on profit-sharing policies for policies issued from 2004 onward were as follows:

	Policies issued since 2004				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Nominal return before payment of management fees	(6.31%)	7.01%	5.77%	2.28%	13.48%
Nominal return after payment of management fees	(6.77%)	6.46%	5.52%	2.02%	12.34%
Real return before paying management fees	(5.65%)	5.74%	5.99%	0.77%	13.14%
Real return after payment of management fees	(6.12%)	5.20%	5.73%	0.52%	12.00%

For events after the reporting period due to the spread of the Covid-19, see Section 1.7.4 above and Note 1d to the financial statements.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.5 Developments in the life Insurance and Long-Term Savings (LTS) Segment (Cont.)

4.5.2 Provident Fund Line of Business

The Group manages provident and study funds through The Phoenix Excellence Pension and Provident Ltd., a wholly owned subsidiary of The Phoenix Insurance, which manages benefit and severance pay funds, study funds, a central compensation fund, a yield-guaranteed provident fund, an investment provident fund, a child long-term investment provident fund for savings, a personally managed benefit provident fund, and a personally managed study fund.

For additional information on the merger of the companies that manage the provident funds, study funds, and pension funds, and the decision of the Board of Directors of The Phoenix Insurance on the issue of The Phoenix Excellence Pension and Provident Ltd by distributing a dividend in kind to the Company in the reporting period, see Section 1.2 of the Report.

For key data on the financial results of the provident fund line of business, see Note 3 to the financial statements.

Revenues from management fees totaled approximately NIS 100 million in the reporting period, compared to approximately NIS 104 million in the corresponding period of the previous year. Revenues from management fees declined in the reporting period mainly as a result of the decline in assets under management following the spread of the Covid-19, alongside a decrease in management fee rates as a result of increasing competition in this line of business.

Comprehensive income before taxes in the reporting period totaled approximately NIS 15 million and approximately NIS 22 million, in the corresponding period of the previous year. The decline in income stemmed mainly from capital market returns, which affected margins in guaranteed-yield provident funds in the amount of approximately NIS 5.5 million loss in the reporting period, compared to income of approximately NIS 2.3 million in the corresponding period of the previous year, and from an increase in general and administrative expenses resulting from changes to operating and investment management agreements with The Phoenix Insurance and The Phoenix Investments. During the reporting period and in the second quarter, compared with the corresponding periods, there was a decrease in the benefit contributions due to the prolongation of the Covid-19 crisis.

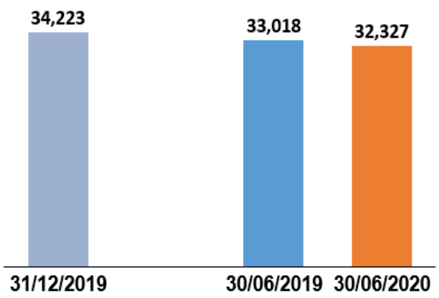
4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.5 Developments in the life Insurance and Long-Term Savings Segment (Cont.)

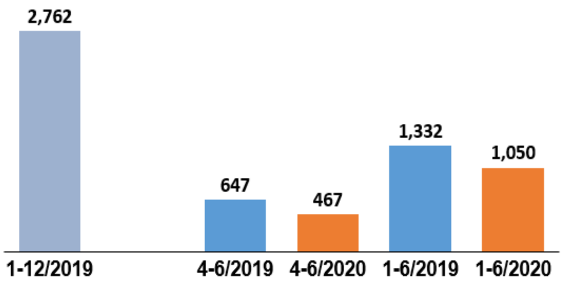
4.5.2 Provident Fund Line of Business (Cont.)

Following are developments in benefit contributions and total assets under management:

Managed assets (NIS million)



Benefit contributions (NIS million)



Based on Ministry of Finance data,[1] aggregate contribution benefits in the provident fund line of business in the reporting period totaled approximately NIS 20,835 million, compared to a total of approximately NIS 20,382 million in the corresponding period of the previous year, reflecting an increase of approximately 2.2%. According to the Ministry of Finance data, as at June 30, 2020, aggregate assets under management in the provident fund line of business totaled approximately NIS 517 billion, compared to approximately NIS 534 billion as at December 31, 2019, a decline of approximately 3.2%, which stemmed mainly from the negative returns in the capital market as a result of the spread of the Covid-19.

[1] Based on Gemel-Net.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.5 Developments in the life Insurance and Long-Term Savings Segment (Cont.)

4.5.3 Pension Funds Line of Business

The Group's operations in the pension funds line of business are conducted through The Phoenix Excellence Pension and Provident Ltd., a wholly owned subsidiary of The Phoenix Insurance.

For additional information on the merger of the companies that manage the provident funds, study funds, and pension funds, and on the decision of the Board of Directors of The Phoenix Insurance on the issue of The Phoenix Excellence Pension and Provide Ltd by distributing a dividend in kind to the Company in the reporting period, see Section 1.2 of the Report.

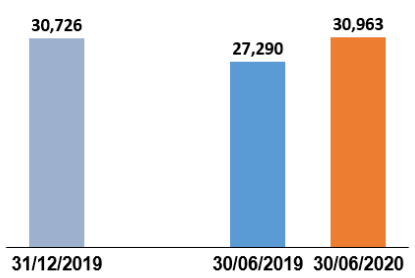
For key data on the financial results of pension funds line of business, see Note 3 to the financial statements.

Revenues from management fees during the reporting period totaled approximately NIS 80 million, compared to approximately NIS 82 million in the previous year. The decrease in management fees is due to an erosion in the rate of management fees that was offset by an increase in the volume of activity and the assets under management compared with last year.

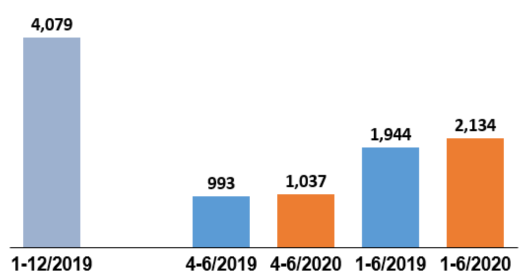
The loss before tax in the reporting period amounted to NIS 8 million, compared with a profit of NIS 6 million last year. The decrease in profit was mainly due to the return on the capital market, which affected the profits of the management company's investments in the amount of NIS 1 million in the reporting period, compared with a profit of NIS 6 million in the corresponding period last year, and an increase in other marketing and acquisition expenses. NIS 5 million.

Hereunder developments in benefits contributions and assets under management:

Managed assets (NIS million)



Benefit contributions (NIS million)



4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.5 Developments in the life Insurance and Long-Term Savings (LTS) Segment (Cont.)

4.5.3 Pension Funds Line of Business (Cont.)

Based on Ministry of Finance data, [1] aggregate benefits contributions in the new comprehensive pension fund market totaled approximately NIS 21,526 million in the reporting period, compared to approximately NIS 20,415 million in the corresponding period of the previous year, an increase of approximately 5.4%.

According to the Ministry of Finance data,[1] as June, 2020, aggregate assets under management in the new comprehensive pension fund line of business totaled approximately NIS 402 billion, compared to approximately NIS 404 billion on December 31, 2019, an increase of approximately 0.6%, which stemmed mainly from the negative returns in the capital market as a result of the spread of the Covid-19.

4.6 Health Insurance Segment

Following is key data from the financial results of the health insurance segment, as included in the Company's financial statements (in NIS millions):

	Health Insurance				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Gross premiums earned	1,449	1,562	686	795	3,257
Comprehensive income (loss) before taxes on income	**226**	**87**	**176**	**72**	**(311)**

For key data on the financial results of health insurance segment, see Note 3 to the financial statements.

Profitability on investments materially affects the profitability of this segment, which has specific products (such as LTC) that are characterized by long-term accrual of significant reserves. Gains on investments are affected by capital market fluctuations, as well as by changes in interest rates and the rate of change in the Israeli CPI, which affect the yields on the quoted financial asset portfolios held against insurance and outstanding claims reserves.

[1] Based on Pensiya-Net.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.6 Health Insurance Segment (Cont.)

The results in the reporting period include the effect of the decrease in the risk-free interest curve, which increased the LAT reserve by NIS 181 million, an increase in the LAT reserve due to a decrease in the excess value of unquoted assets, which are imputed to the LAT, in the amount of 130 NIS million offsetting the excess value of unquoted assets transferred from the living sector to the health sector in the amount of NIS 121 million as a result of the first implementation of the LAT circular amendment. In addition, the results in the reporting period include a decrease in the LAT reserve of NIS 110 million. Following the first implementation of the Supervisory Circular regarding the increase in the liquidity premium (for further details, see section 2.2.2 above) and the reduction in reserves as a result of updating actuarial discounts in the amount of NIS 63 million. In the corresponding period last year, the results were mainly due to the risk that increased the LAT reserve by NIS 105 million.

In addition, the results in the reporting period were affected compared to the corresponding period last year by the improvement of the underwriting results, mainly due to the decrease in claims.

The results in the second quarter were mainly affected by a decrease in the risk-free yield curve which increased the LAT reserve by NIS 194 million, a decrease in the LAT reserve by NIS 110 million as a result of the first implementation of the Supervision Circular increasing the liquidity premium. Section 2.2.2 above) and above the excess value of unquoted assets that are imputed to the LAT in the amount of NIS 102 million. In the corresponding quarter last year, the results were affected mainly due to the decrease in the risk-free yield curve which increased the LAT reserve in the amount of about NIS 30 million. For further details, see Note 7(1) to the financial statements.

In view of the guaranteed return in long-term care insurance plans and the complexity of the reinsurance field that accompanies this field, the company has at this stage stopped marketing individual long-term care policies.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.7 P&C Insurance Segment

	P&C insurance				
	NIS millions				
	1-6/2020	1-6/2019	4-6/2020	4-6/2019	1-12/2019
Gross premiums earned	1,538	1,529	651	672	2,815
Comprehensive income before taxes on income	**67**	**434**	**290**	**289**	**681**

The comprehensive income from the P&C insurance activity segment in the reporting period was approximately NIS 434 million in the corresponding period last year. The decrease in profit was due to a significant decrease in income from investments compared to the corresponding period last year and to a reduction in insurance liabilities in insurance in compulsory and liability industries in the corresponding period last year in the amount of NIS 155 million before tax and this follows a ruling regarding the discount rate in damages of 3% (hereinafter: "**Vinograd Commission**"). The decrease in profit neutralizing the decrease in investment income and the reduction in insurance liabilities in the corresponding period last year is due to the weather damage that affected the automotive and property industries and the loss in the flight cancellation industry due to the spread of the Covid-19 virus.

During the reporting period and in the second quarter, there was a change in the risk-free yield curve, as a result of which the company recorded a loss of approximately NIS 10 million and approximately NIS 21 million, respectively, compared with a loss of approximately NIS 21 million and approximately NIS 21 million. NIS 3 million in the corresponding period and in the corresponding quarter last year.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.7 P&C insurance Segment (Cont.)

The following are explanations on the financial results of the various P&C insurance segments. The results of each line of business are presented in detail in Note 3 to the Company's financial statements.

4.7.1 Compulsory motor Insurance Line of Business

	Compulsory motor				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Gross premiums earned	317	310	135	130	571
Comprehensive income before taxes on income	**7**	**222**	**91**	**157**	**320**

The decrease in comprehensive income in the reporting period was affected by a significant decrease in income from investments, a moderation in releases due to previous years and a reduction in insurance liabilities of NIS 105 million before tax made in corresponding periods last year in respect of the Vinograd Committee.

The decrease in comprehensive income in the second quarter compared to the corresponding quarter last year was affected by a moderation in releases for previous years and a reduction in insurance liabilities of NIS 105 million before tax in respect of the Vinograd Commission and offset in part by an increase in investment income.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.7 P&C insurance Segment (Cont.)

4.7.2 Motor property insurance line of business

	Motor property				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Gross premiums earned	546	550	234	235	1,056
Comprehensive income (loss) before taxes on income	**42**	**67**	**77**	**35**	**98**
Loss ratio (gross)	62.4%	63.3%	53.0%	60.5%	66.9%
Loss ratio (on retention)	62.4%	63.3%	53.0%	60.5%	66.9%
Combined ratio (gross)	90.5%	93.5%	81.6%	92.4%	96.0%
Combined ratio (on retention)	90.5%	93.5%	81.6%	92.4%	96.0%

Gross premiums declined in the reporting period compared to the corresponding period of the previous year, mainly as a result of the decline in average premiums alongside an increase in the number of policies issued by the Company.

The decrease in comprehensive income in the reporting period was affected by a significant decline in investment income, compared to the corresponding period of the previous year, from weather-related damage and a decline in average premiums in the reporting period. The increase in profit in the second quarter compared to the corresponding quarter last year is mainly due to an increase in investment income and a decrease in claims as a result of low activity in the economy due to the restrictions of the Covid-19 crisis.

4.7.3 Other property line of business (without motor)

	Other property lines of business				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Gross premiums earned	411	434	175	211	758
Comprehensive income before taxes on income	**22**	**74**	**27**	**31**	**123**
Loss ratio (gross)	50.7%	35.8%	42.8%	36.6%	32.9%
Loss ratio (on retention)	49.6%	21.7%	35.2%	23.7%	26.0%
Combined ratio (gross)	76.8%	63.5%	69.8%	65.4%	60.9%
Combined ratio (on retention)	81.1%	54.1%	70.4%	63.2%	62.1%

The decrease in gross premiums during the reporting period is due to the flight cancellation industry in light of the spread of the Covid-19 virus and the restriction on flights, in the second quarter the decrease is due to a change in the renewal dates of a large policy. The decrease in total profit during the reporting period was affected by a significant decrease in investment income compared with the corresponding periods last year. The decrease in profit in neutralizing income from investments is due to the weather damage that affected the businesses and apartments industries and to a loss in the flight cancellation industry due to the spread of the Covid-19 virus. The decrease in profit in the second quarter compared to last year is due to an increase in claims, mainly in the businesses and apartments industry, and the cancellation of a flight, which was partially offset by an increase in investment income.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.7 P&C insurance Segment (Cont.)

4.7.4 Liability and Other Insurance Lines of Business

	Other property lines of liability business				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Gross premiums earned	264	234	107	96	430
Comprehensive income (loss) before taxes on income	**(5)**	**70**	**95**	**66**	**140**

Most of the increase in gross premiums is due to an increase in the professional liability.

The transition to a loss in the reporting period is a period in the corresponding period last year, mainly due to a significant decrease in investment income and a reduction in insurance liabilities of NIS 50 million before tax made in a corresponding period last year in respect of the Vinograd Commission. From a positive development in claims for previous years.

The activity in this field is carried out through Excellence.

4.8 Financial Services Segment

Activities in this segment are carried out through Excellence.

Following are key data from the financial results of the financial services segment, as included in the Company's financial statements in the reporting year (NIS millions):

	Financial Services				
	NIS millions				
	1-6/2020	**1-6/2019**	**4-6/2020**	**4-6/2019**	**1-12/2019**
Total income	**232**	**204**	**108**	**88**	**405**
Total expenses	**139**	**120**	**69**	**61**	**249**
Company's share in net results of investee	2	3	1	2	11
Comprehensive income before taxes on income	**95**	**87**	**40**	**29**	**167**

Despite the decline in assets under management resulting from the spread of the Covid-19, and the declines in the financial markets, which led to a decline in revenues from management fees, the Company presented an increase in earnings, mainly from market maker activities involving ETFs, and stock exchange member activities.

In the corresponding period of the previous year, the Company recorded a one-time profit of approximately NIS 29 million from revaluation of the Company's investment in an investee that was consolidated for the first time, due to an increase in control.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.9 Insurance Agencies Segment

Key data from the financial results of the insurance agencies segment, as included in the Company's financial statements in the reporting year (NIS millions):

	Insurance Agencies				
	NIS millions				
	1-6/2020	1-6/2019	4-6/2020	4-6/2019	1-12/2019
Total income	**189**	**200**	**94**	**96**	**406**
Total expenses	**117**	**119**	**52**	**59**	**247**
Company's share in net results of investee	6	7	2	5	12
Comprehensive income before taxes on income	**78**	**88**	**44**	**42**	**171**

Comprehensive income in the insurance agencies segment in the reporting period is approximately NIS 78 million compared with earnings of approximately NIS 88 million in the corresponding period of the previous year. The decline in earnings stems mainly from the effect of declines in the financial market as a result of the spread of the Covid-19, which lead to approximately NIS 5 million in investment losses compared to investment income of approximately NIS 6 million and a one-time profit of approximately NIS 3 million from the sale of an investment in an affiliated company in the corresponding period of the previous year.

4.10 Other Segments and Operations Not Attributed to Operating Segments

In the reporting period, comprehensive loss not attributable to reporting segments (excluding the Company's share in the net results of investees, which is not attributable to reporting segments) totaled approximately NIS 158 million compared to income of approximately NIS 144 million in the corresponding period of the previous year.

The aforesaid change is mainly due to the returns in the capital market, which were significantly lower than the returns last year. In the second quarter, the profit was NIS 379 million, compared with NIS 29 million in the corresponding quarter last year. For more details on the spread of the Covid-19 virus see Section 1.7.4 above.

4. The Board of Directors' explanations on the state of the Corporation's Business (Cont.)

4.11 Analysis of Developments of Cash Flows

The consolidated cash flows stemming from ongoing operations in the reporting period totaled app. NIS 3,569 million. Consolidated cash flows used in investing operations in the reporting period totaled app. NIS 214 million and included, mainly, app. NIS 98 million that were mainly used in software development and acquisition, the amount of about NIS 68 used for the acquisition of fixed assets and the amount of about NIS 37 million used to acquire subsidiaries consolidated for the first time.

The consolidated cash flows provided by financing operations in the reporting year totaled app. NIS 406 million, and included, among others, app. NIS 218 million from Issue of debentures, and app. NIS 352 million stemming from financial liabilities – (repo transactions) and the amount of NIS 139 million used for the settlement of financial liabilities'.

The Group's cash and cash equivalents balances increased from app. NIS 7,344 million at the beginning of the reporting period to app. NIS 11,105 million at the end of the reporting period.

5. Report regarding exposure to market risks and how to manage them

In the reporting period, significance changes occurred in the capital markets in Israel and overseas, and in the yield curves, as a result of the spread of the Covid-19. It should be noted that the extreme daily fluctuations in the risk factors relevant to the portfolio did not exceed the fluctuations assumed in the sensitivity test methodology described in the Periodic Report for the Year 2019. It should be noted that the investment portfolio of The Phoenix Holdings (excluding insurance) has a low risk profile and therefore no material changes occurred in the exposure to or management of market risks as a result of the changes in the financial markets, compared with the situation described in the Periodic Report for the year 2019.

7. Corporate Governance

7.1 Effectiveness of Internal Controls Over Financial Reporting and Disclosure

7.1.1 Securities Regulations

In December 2009, Amendment No. 3 to the Securities Regulations (Periodic and Immediate Reports) 2009 ("ISOX") was published regarding the internal controls over financial reporting and disclosure (hereunder: "**the Regulations**"). The amendment introduced several changes designed to improve the quality of financial reporting and disclosure by reporting corporations.

Beginning from the issue date of the ISOX Amendment, and as stated in the Company's previous directors' reports, the Company has taken and continues to take steps to implement the procedure defined by the ISOX Amendment in The Phoenix Group. According to the ISOX Amendment, the Company elected to implement the applicable provisions of the circulars of the Supervisor of the Capital Market, Insurance, and Savings with respect to its internal controls in all the consolidated institutional entities: Financial Institutions Circular 2009-9-10 on Management's Responsibility for the Internal Control over Financial Reporting; Financial Institutions Circular 2010-9-6 on Management's Responsibility for the Internal Control over Financial Reporting – Amendment; Financial Institutions Circular 2010-9-7 Internal Control over Financial Reporting – Attestations, Statements, and Disclosures; Circular 2012-9-5 Internal Control over Financial Reporting – Attestations, Reports, Disclosures; and Circular 2012-9-15 Internal Control over Financial Reporting – Attestations, Reports, Disclosures, and Management's Responsibility for the Internal Control over Financial Reporting – Amendments"; and Circular 2015-9-15 Internal Control over Financial Reporting – Attestations, Reports,
Disclosures, and Management's Responsibility for the Internal Control over Financial Reporting – Amendments (hereunder **: "the Management Liability Circulars**").

The reports and clarifications, according to the ISOX Amendment, required the amendment thereto are attached to the periodic financial statements. See Part 6 - Report on the Effectiveness of Internal Controls Over Financial Reporting and Disclosure.

The processes related to the financial institutions' operations are also addressed in the provisions of the circulars of the Supervisor of Insurance, see Section 7.1.2 below.

7. Corporate Governance

7.1 Effectiveness of Internal Controls Over Financial Reporting and Disclosure

7.1.2 The Circulars of The Supervisor of Insurance

Concurrently with the process described in Section 7.1.1 above, the institutional entities in The Phoenix Group implement the Management's Responsibility Circulars concerning controls and procedures related to the internal controls and procedures for disclosure and internal controls over financial reporting by institutional entities, and perform the required procedures as described below, according to the stages and schedules determined in these Circulars, in conjunction with external consultants commissioned to perform this task. Within such implementation, the financial entities in The Phoenix Group have adopted the internal control model of the Committee of Sponsoring Organization of the Treadway Commission (COSO), which is a well-known and well-defined framework for assessing internal controls.

- **Disclosure Regarding Controls and Procedures**

Managements of the financial institutions, together with their CEOs and CFOs, have assessed the effectiveness of the controls and procedures concerning said institutional entities' disclosure in their financial reports to the end of the period covered in this report. Based on this assessment, the CEOs and CFOs of the institutional entities in The Phoenix Group concluded that at the end of this period, the controls and procedures concerning the financial entities' disclosure are sufficiently effective for recording, processing, summarizing, and reporting the information that the financial entities are required to disclose in the quarterly report according to the provisions of law and the reporting rules determined by the Supervisor of the Capital Market, Insurance, and Savings and on the date defined in these provisions.

- **Internal Controls Over Financial Reporting**

In the quarter ended June 30, 2020, and following section 1.7.4 above on the spread of the Covid-19, no change occurred in the internal controls over financial reporting of the Group's institutional entities that had or can be reasonably expected to have a material impact on the internal controls over financial reporting of the institutional entities. Furthermore, the Group's institutional entities are implementing a process of re-organizing and improving their processes, internal controls, and/or customer service operations.

The required reports and declarations concerning the relevant procedures are attached to the financial statements of the Group's financial entities, pursuant to the provisions of the Management's Responsibility Circulars.

8. Disclosure Regarding Requirements Relating the Company's Financial Reporting

8.1 Events Subsequent to the Balance Sheet Date

For information concerning events after the balance sheet date, see Note 8 to the financial statement.

8.2 Designated Disclosure to the Holders of the Company's Bonds

Series I Issue Date	Bond Series 2	Bond Series 3	Bond Series 4	Bond Series 5
Rating company	Midroog	Midroog	Midroog	Midroog
Rating at the reporting date	Aa3	Aa3	Aa3	Aa3
Par value upon issue	NIS 620,050,496	NIS 272,191,000	NIS 300,000,000	NIS 220,000,000
Type of interest	CPI-linked	Unlinked	Unlinked	CPI-linked
Nominal interest rate	2.55%	2.22%	Variable quarterly interest at the Bank of Israel rate plus a margin of 1.28%	0.44%
Effective interest rate upon issue	3.95%	Approximately the nominal interest	1.7%	0.55%
Registered for trade on the TASE	Yes	Yes	Yes	Yes
Principal payment dates	6 equal annual installments of 5% on March 26 of each of the years from 2014 to 2019 inclusive, and 5 equal installments of 14% on March 26 of each of the years from 2020 to 2024.	5 equal annual installments of 16.66% on July 31 of each of the years from 2022 to 2026 inclusive, and one installment of 16.7% on July 31, 2027.	2 equal annual installments of 12% on July 31 of each of the years 2020 and 2021 and 4 equal annual installments of 19% on July 31 of each of the years 2025 go 2028, inclusive.	3 equal annual installments of 4% on May 1 of each of the years 2022 to and including 2024, one installment of 28% on May 1, 2028, and 2 equal installments of 30% on May 1 of each of the years 2029 to and including 2030.
Interest payment dates	Semi-annual interest on March 26 and 26 September	Semi-annual interest on January 31, and on July 31.	Quarterly interest on January 31, April 30, July 31, and October 31.	Semi-annual interest on November 1 and May 1

8. Disclosure Regarding Requirements Relating the Company's Financial Reporting (Cont.)

8.2 Designated Disclosure to the Holders of the Company's Bonds (Cont.)

Series I Issue Date	Bond Series 2	Bond Series 3	Bond Series 4	Bond Series 5
Par value CPI-linked at June 30, 2020	Approximately NIS 347 million	Approximately NIS 272 million	Approximately NIS 300 million	Approximately 220 million
Par value CPI-linked at June 30, 2020	Approximately NIS 352	Approximately NIS 272 million	Approximately NIS 300 million	Approximately 220 million
Carrying amount of outstanding bonds at June 30, 2020	Approximately NIS 342 million	Approximately NIS 27 million	Approximately NIS 297 million	Approximately 218 million
Carrying amount of interest payable at June 30, 2020 (*)	Approximately NIS 2 million	Approximately NIS 2 million	Approximately NIS 0.7 million	Approximately 204 million
Market value at June 30, 2020 (*)	Approximately NIS 362 million	Approximately NIS 279 million	Approximately NIS 293 million	Approximately 204 million
Material series	The series is material as this term is defined in Regulation 10(b)13(a) of the Securities Regulations (Periodic and Immediate Reports) 1970	The series is material as this term is defined in Regulation 10(b)13(a) of the Securities Regulations (Periodic and Immediate Reports) 5730-1970	The series is material as this term is defined in Regulation 10(b)13(a) of the Securities Regulations (Periodic and Immediate Reports) 5730-1970	The series is material as this term is defined in Regulation 10(b)13(a) of the Securities Regulations (Periodic and Immediate Reports) 5730-1970

(*) Market value includes accrued interest at June 30, 2020.

Contractual restrictions and financial covenants

Under the Prospectus of the Company's bonds (Series 2), the Company undertook not to create a general floating charge on its assets as long as bonds (Series 2) have not been repaid in full unless a said charge is also created in favor of bondholders (Series 2) at the same time and at the same degree. Furthermore, with respect to bonds (Series 2), the Company assumed restrictions on distributions of dividends and expansions of bonds (Series 2), and the Company undertook to comply with the financial covenant that the Company's shareholders' equity will not fall below NIS 1.3 billion for two consecutive quarters, and that the Company's total financial debt to total assets will not exceed 60%. For additional information, see shelf offer reported dated February 19, 2013.

In the Prospectus of the Company's bonds (Series 3), the Company undertook not to create a general floating lien on its assets as long as bonds (Series 3) are not repaid in full unless the bondholders give their consent in advance and the Company creates a lien in the same degree in favor of

8. Disclosure Regarding Requirements Relating the Company's Financial Reporting (Cont.)

bondholders (Series 3). With respect to bonds (Series 3), the Company assumed restrictions on distributions of dividends and expansions of bonds (Series 3), and the Company undertook to comply with the financial covenant that the Company’s shareholders’ equity will not fall below NIS 2.5 billion for two consecutive quarters, and that the Company’s total financial debt to total assets will not exceed 50% for two consecutive quarters. For additional information, see shelf offer reported dated January 22, 2018.

In the Prospectus of the Company’s bonds (Series 4), the Company undertook not to create a general floating lien on its assets as long as bonds (Series 4) are not repaid in full unless the bondholders give their consent in advance and the Company creates a lien in the same degree in favor of bondholders (Series4). With respect to bonds (Series 4), the Company assumed restrictions on distributions of dividends and expansions of bonds (Series 4), and the Company undertook to comply with the financial covenant that the Company’s shareholders’ equity will not fall below NIS 2.9 billion for two consecutive quarters, and that the Company’s total financial debt to total assets will not exceed 50% for two consecutive quarters. For additional information, see shelf offer reported dated May 7, 2019.

In the Prospectus of the Company’s bonds (Series 5), the Company undertook not to create a general floating lien on its assets as long as bonds (Series 5) are not repaid in full unless the bondholders give their consent in advance and the Company creates a lien in the same degree in favor of bondholders (Series4). With respect to bonds (Series 5), the Company assumed restrictions on distributions of dividends and expansions of bonds (Series 5), and the Company undertook to comply with the financial covenant that the Company’s shareholders’ equity will not fall below NIS 3.2 billion for two consecutive quarters, and that the Company’s total financial debt to total assets will not exceed 50% for two consecutive quarters. Furthermore, a mechanism for adjusting the rate of change in the interest rate due to noncompliance with financial covenants was determined: In the event that the Company’s shareholders’ equity falls below NIS 3.5 billion, the annual interest rate will increase at a rate determined in paragraph 5.9 of the Deed of Trust. For additional information, see shelf offer reported dated February 20, 2020.

As at the date of the statement of financial position, the Company complies with its financial covenants described above. On June 30, 2020, the net financial debt ratio is approximately 13% and the Company’s shareholders’ equity as appears on its financial statements (solo) at June 30, 2020, was approximately NIS 6,801 billion, which is higher than the shareholders’ equity required above.

For additional details – see Note 26 to the Company’s financial statements as of December 31, 2019.

The members of the Board of Directors thank the Company's management, employees and agents for their contribution to the Company.

Eyal Ben Simon	**Benjamin Gabbay**
CEO	**Chairman of the Board**

August 27, 2020