

Phoenix Insurance Ltd. Phoenix Capital Raising (2009) Ltd.

July 27, 2021

New Issuance

'ilA+' Rating Assigned To Junior Subordinated Additional Tier 1 Capital Notes Of Up to NIS 1.5 billion par value

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New Issuance

'iIA+' Rating Assigned To Junior Subordinated Additional Tier 1 Capital Notes Of Up to NIS 1.5 billion par value

S&P Maalot hereby assigns its 'iIA+' rating to the junior subordinated additional Tier 1 capital notes of up to NIS 1.5 billion par value to be issued by The Phoenix Insurance Company Ltd. ("Phoenix Insurance, iIAA+/Stable). Approximately NIS 400 million will be issued in a private placement to institutional investors and approximately NIS 1.1 billion will be issued to Phoenix Holdings Ltd. ("Phoenix Holdings", iIAA-/Stable) by way of series replacement.

This issue is the first of its kind in Israel, through which junior subordinated additional Tier 1 capital notes will be issued in a private placement to institutional investors, which will be recognized upon issuance by the Capital Market, Insurance and Savings Authority as additional Tier 1 capital instruments for the purpose of inclusion in the recognized capital in accordance with Solvency-II-based solvency regime. The issuance will be made through the issuance of a new series, Series 12, by Phoenix Capital Raising 2009 Ltd., a single-purpose company fully owned by Phoenix insurance, whose liabilities to debt holders are fully secured by Phoenix insurance's undertaking to repay the maturities to debt holders according to their terms. The funds that will be received following the issuance will be deposited in Phoenix insurance, for use according to its discretion.

In determining the rating on the notes, we apply our methodology for rating insurers' hybrid capital instruments as well as our national and local scale ratings methodology. The starting point to determine the rating is the issuer credit rating of Phoenix Insurance, from which we notch down to reflect the following:

- The payment risk expressed by an option to cancel coupon payments on the occurrence of 'deferring circumstances' for additional Tier 1 capital as defined in the trust deed.
- The payment risk expressed by an option to write down principal payment on the occurrence of the "trigger event" or "trigger event for principal loss absorption" as defined in the trust deed.
- The notes' contractual subordination to more senior obligations of Phoenix Insurance.

In accordance with our Methodology For National And Regional Scale Credit Ratings, we reflect the payment risk of the instrument by notching down from the global scale issuer credit rating of Phoenix Insurance.

Thereafter we convert to the national scale rating to a national scale rating using the conversion tables. After conversion to the national scale, we deduct an additional notch to reflect the contractual subordination to arrive at the final national scale rating for the instrument. Overall, our rating on the instrument is three notches lower than the national scale issuer credit rating, which is one notch lower compared than the rating on Tier-2 capital notes, to reflect the greater payment risk of the instrument relative to Tier-2 capital instruments.

When evaluating the instrument in light of our hybrid instruments methodology, in our view there are no additional non-payment risks that would justify additional notching down. We note in particular that, based on our view of Phoenix Insurance's current creditworthiness and current Solvency-II ratio (186%, considering transitional relief and events that occurred after the date of Q1 2021 financial statements), we consider that the risk of regulatory regarding Series 12, as described above, does not entail additional notching down.

We assign intermediate equity content to the notes and partially include them into our view of Total Adjusted Capital. Since we assess Phoenix Insurance's capital on the group's consolidated basis, the share of Phoenix Holdings in the issuance, about NIS 1.1 billion, is excluded from the consolidated capital assessment. The intermediate equity content is assigned due to the instrument duration of at least 10 years until the first call date.

We do not expect a material change in the Phoenix Group's consolidated capital structure, or in the group's consolidated financial risk profile assessment following the issuance of the notes. Our assessment is supported by the leverage based on the Phoenix Group's consolidated debt remaining lower than 40% on average in 2021-2022 (excluding the value in force component, which we do not consider as part of on-balance capital). The expected leverage is positively affected mainly by our view of Phoenix Insurance's pace of profit and capital accumulation. We also expect the average interest coverage ratio to be materially higher than 4x in the same period.

For additional details about the rating on Phoenix Insurance and for additional regulatory requirements, see our rating report dated January 31, 2021.

Phoenix Insurance Ltd.	Rating	Date when the rating was first published	Last date when the rating was updated
Issuer rating(s)			
Long term	iIAA+/Stable	24/05/2004	31/01/2021
Issuer Credit Rating history			
Long term			
April 21, 2020	iIAA+/Stable		
October 07, 2018	iIAA+/Positive		
February 19, 2017	iIAA+/Stable		
November 17, 2015	iIAA+/Negative		
May 20, 2014	iIAA+/Stable		
November 18, 2012	iIAA+/Negative		
July 18, 2012	iIAA+/Watch Neg		
October 16, 2011	iIAA+/Stable		
August 26, 2010	iIAA/Stable		
August 17, 2009	iIAA-/Negative		
May 19, 2009	iIAA-/Watch Neg		
February 08, 2009	iIAA/Watch Neg		
May 24, 2004	iIAA		

Phoenix Capital Raising (2009) Ltd.	Rating	Date when the rating was first published	Last date when the rating was updated
Issue rating(s)			
<u>Subordinate hybrid debt</u>			
Series 12	iIA+	27/07/2021	27/07/2021
Series 9	iIAA-	03/02/2020	21/10/2020
Series 4	iIAA-	03/02/2020	21/10/2020
Series 5	iIAA-	03/02/2020	21/10/2020
Series 6	iIAA-	03/02/2020	21/10/2020
Series 8	iIAA-	03/02/2020	21/10/2020
Series 10	iIAA-	03/02/2020	21/10/2020
Series 11	iIAA-	16/02/2019	21/10/2020
Additional details			
Time of the event	27/07/2021 08:18		
Time when the event was learned of	27/07/2021 08:18		
Rating requested by	Issuer		

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