22 October 2023

Subject: Impact of Conflict on Company Relating to Planned Debt Offering

This immediate report is published in light of the Company's report regarding its intention to issue the Company's bonds by way of expanding a bond series and/or series of bonds in the amount of up to NIS 350 million, for the purpose of expanding the Company's and its subsidiaries financial flexibility, including preparing for possible business opportunities in the current situation. For additional details, see the Company's immediate report dated October 22, 2023 (Reference No.: 2023-01-096760).

On October 7, 2023, after the end of the third quarter on September 30, 2023, war broke out between the State of Israel and the terrorist organization "Hamas" in Gaza (hereinafter the **"War"**), after a murderous attack by the militants of the terrorist organization on communities and population centers in southern Israel. As a result of the War, based on current published data, more than 1,400 Israelis have been murdered, roughly 3,000 were injured to varying degrees, and roughly 210 civilians and soldiers are defined as kidnapped. This information is not final.

The War led to a series of implications and restrictions, including the temporary closure of many businesses, restrictions on large gatherings at workplaces and events, and suspension of studies in the education systems. Moreover, a widescale number of reservists were drafted. These measures led to a reduction in activity in the Israeli economy. In addition, as a result of the War there were sharp declines in Israeli capital markets.

By virtue of its activities, the Group is exposed to declines in capital markets, a slowdown in activity, as well as other risks deriving from the War. For information about the sensitivity and exposure to risk factors, see also Note 41 to the financial statements for 2022, which was published on March 23, 2023 (Reference No.: 2023-01-026428) (hereinafter: **"The Annual Report"**) and developments in the Company's quarterly financial statements in 2023.

In the period from the date of the outbreak of the War until the date of this report, the War has had an effect on the Group's activities and results which was driven primarily by capital market declines. From a preliminary assessment carried out by the Company, the total effect from the outbreak of the War to the date of this report is a net loss of roughly NIS 70 million after tax.

At this stage, there is significant uncertainty regarding the development of the War, its scope and duration. Therefore, it is not possible, at this time, to assess the full extent of the effect of the War on the Company and its results in the immediate and medium term which may also be characterized by a significant recovery of the markets, based on past events.

Information regarding the effect of the War up to the date of publication of this report is presented below.

The War affects the Phoenix group in several ways:

1. **Business continuity**
   The Company quickly adjusted to the situation and continues to provide its services fully and efficiently for all customers and activity segments and activated a business continuity program for remote work, while supporting the needs of group employees.

2. **<u>Insurance underwriting results</u>**
The main underwriting effects in the various insurance segments as of the date of this report are detailed below. It should be noted that, as a general rule and from an initial assessment, it seems that the scope of exposure to insurance risk is not expected to be significant, as described below:

A. **Life insurance and long-term savings (LTS) segments** –The main underwriting exposure derives from life risk insurance, loss of working capacity (PHI) and disabilities, insofar as claims in these segments mature. It should be noted that The Phoenix Insurance Company has a non-proportional reinsurance agreement which protects against loss of life and disabilities from a catastrophic event, which reduces exposure to this risk in accordance with the terms of the policy. As a result, the Company estimates that the scope of its exposure in this segment is not significant.

The activity in the segment may be negatively affected as a result of an increase in unemployment. Also, until the report date there was no substantial change in the scope of withdrawals and redemptions, however, the War could lead to an increase in the amount of withdrawals and redemptions in savings and financial products (mainly in funds and individual savings products).

B. **Health insurance segment (including LTC) -**
The Phoenix Insurance estimates that the scope of exposure as a result of the War in the Health segment is not expected to be material.

C. **P&C segment**
In general, property damage deriving from a war event is not covered under property policies, therefore the scope of exposure as a result of the War is not expected to be substantial. In addition, it is possible that the War will have positive effects in this segment. For example, from a preliminary assessment, a positive effect is expected as a result of a decrease in the frequency of claims in the property motor and compulsory insurance.

3. **<u>Effect on the managed assets of The Phoenix Insurance & The Phoenix Pension and Provident and insurance liabilities - Financial activity</u>**

A. **Managed Financial Assets –**
The Group's activities expose it to declines in the financial markets and changes in interest rate curves, both through the Nostro (corporate account) investment management and through the management fees relating to profit-participating policies, pension funds and provident funds. The income from the investments that stand against the insurance reserves and the equity have a substantial effect on the results of the activity.

During the War there has been a decline in financial markets in Israel. Until the time of this report, there was a decrease in the value of the group's Nostro assets in the amount of approximately NIS 120 million after tax.

In addition, from the day the war broke out until the report date there was a decrease in the value of group AuMs relating to yield-dependent policies, provident funds and pension funds at a rate of about 0.7%. The effect of the aforementioned decrease in the portfolio of the members' assets is not charging variable management fees in some activities until the decrease is covered, as mentioned, by profits in the asset portfolio. The total increase in the non-collection of variable management fees from the date of the outbreak of the War to the date of this report is approximately NIS 60 million, before tax effect.

B. Changes in the risk-free interest rate –

As assessed by The Phoenix Insurance, its current overall sensitivity (assets and liabilities) to a change of 1% in the risk-free interest curve both upward and downwards is a loss of roughly NIS 100-200 million after tax.

The losses in the Nostro assets mentioned above also include the effect of the increase in the risk-free interest rate which was recorded from the day the war broke out until the date of the report. In the Company's estimation, this increase in interest rates led to a reduction in insurance liabilities amounting to approximately NIS 50 million after tax.

To complete the picture, it should be noted that in the scenario of a significant increase in interest rates, the positive effect on the insurance liabilities decreases, with the full release of the balance of the LAT. On the other hand, such a scenario may support a re-examination of the K value for yield-dependent policies, which stands at 0.85%. An increase in the K value also works to reduce insurance liabilities.

4. Liquidity, financial conditions and funding sources

After an examination conducted by the Company, it was found that there is no material effect of the War on the Company's liquidity, its financial strength and the funding sources available thereto. The Company complies with the risk limits set by the Company's board of directors and is within the contractual limits and financial covenants established in the trust deeds. For details regarding the financial covenants of the bonds and the pending circumstances of the letters of undertaking, see Note 26 to the annual financial statements. In the Company's estimation, the liquidity levels of the Group companies are sufficient, and the purpose of the aforementioned capital raising is to expand financial flexibility, including preparing for various possible business opportunities as a result of the situation.

5. Solvency ratio

According to the latest financial solvency ratio report published by The Phoenix Insurance, the solvency ratio without transitional measures (TMTP) as of December 31, 2022, was 149% (The Phoenix Insurance solvency ratio with transitional measures as of December 31, 2022, was 211%).

The Company estimates, based on scenarios it examined, that the solvency ratio without transitional measures (TMTP) is expected to remain above 130%, and with high probability will not fall below the capital target, as set by the board of directors (115%).

6. **<u>Additional activities</u>**

Credit

The credit activity refers to the credit under Gama Management and Clearing Ltd. The main exposure in credit lending activity is the increase in credit losses. At this stage, it is not possible to assess the extent of the expected credit losses, however, they are not expected to be material at the Company level.

Investment services (including Phoenix Investment House)

The main effect on the activity of investment services is a decrease in AuMs. The extent of the effect depends on the length of the War and the period of increased equity and fixed income market volatility. From the start of the War to the date of this report, mutual fund and discretionary portfolio assets (including ETFs) decreased in the amount of about NIS 1.5 billion. The decrease in the volume of AuM is mainly due to a decrease in the capital markets and leads directly to a decrease in income in this segment. This effect is not expected to be material at the Company level.

Insurance agencies

In the Agencies segment, no significant effect is expected on the scope of activity, therefore no material impact at the Company level is expected.

All of the above is based on the information that the Company has at the time of publication of this report. It should be noted that the implications of the War on the scope of business activity in Israel have not yet been definitively clarified, therefore there may be additional future effects on group's results.

In addition, the Company's assessments regarding the possible implications of the War on the Company's activities are uncertain and are not under the Company's control. These assessments are based, inter alia, on the information that the Company has on this subject and the State of Israel's preparation to deal with the consequences of the War, on possible scenarios that the Company examined at its discretion as well as management's assessments of possible measures to deal with the various effects, taking into account, inter alia, the limitations (existence or absence thereof) 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 in a fundamentally different way than expected.

The Group continues to regularly monitor the developments and will continue and update as necessary regarding the material implications of the continuation of the War on the Group's activities, insofar as there are.