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

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Phoenix Insurance Ltd.

Issuer Credit Affirmed	ilAA+/Stable

The Phoenix Holdings Ltd.

Issuer Credit Affirmed	ilAA-/Stable

Phoenix Capital Raising (2009) Ltd.

Overview

Key Strengths	Key Risks
• Established competitive position as one of the three largest insurance groups in Israel. • Diversified income sources and distribution channels. • Strong profitability, outperforming its local peers, measured by an average ROE of 14% in the last five years.	• Exposure to low interest environment triggering profit volatility due to frequent strengthening of life and health insurance reserves. • Capital market volatility which may trigger volatility in investment income and overall profitability.

S&P Maalot expects that Phoenix Insurance Ltd. ("Phoenix Insurance" or "the Company") will maintain its position among the three leading insurers in Israel, benefiting from increasing digital processes, diverse premium stream and distribution channels, and favorable underwriting profitability.

We forecast about 2%-3% GPW growth in 2021 while profitability remains strong. P/C and life & long-term savings segments premium growth will benefit from overall improved economic conditions and the labor market recovery. At the same time, we expect health insurance premiums to decline following the termination of Meuhdedt health fund's long-term care insurance and David Shield's travel and relocation insurance transactions. We expect growth in assets under management to drive higher income from variable and fixed management fees, and forecast about 93% P/C net combined ratio, continued high investment income due to market performance in 2021, leading to 13%-15% ROE.

We expect Phoenix Holdings' liquidity to remain stable, as well as its ability to serve its debt from its own resources. Our assessment is supported by Phoenix Holdings' actions to increase diversification of the group's activity. We expect cash flow streams from non-regulated entities, in particular subsidiaries Phoenix Agencies and Excellence, will be sufficient to cover Phoenix Holdings' ongoing cash requirements. The distribution by Phoenix Insurance of Phoenix Pension & Provident Funds Ltd. as dividend-in-kind to Phoenix Holdings further supports our assessment. We believe Phoenix Holdings will focus on accelerated growth in these activities, in order to increase non-regulatory cash flows and decrease its dependence on divided receipts from Phoenix Insurance.

Phoenix Insurance's capitalization, both on group and standalone basis, will remain adequate compared with its on balance sheet risks. According to S&P global ratings' risk-adjusted capital model, Phoenix's capitalization is expected to remain stable in 2021-2023. Our assessment is supported by Phoenix's strong profitability, driven by its robust underwriting profitability which should offset overall profitability and capitalization volatility due to capital markets and investment income volatility.

Outlook

The stable outlook on Phoenix Insurance reflects our view that it will maintain its leading competitive position in the Israeli insurance industry and a stable financial risk profile in the next 18-24 months. Our view is supported by the company's diversified business model and sound profitability, supporting its capital accumulation and adequacy compared with its on-balance-sheet risks.

The stable outlook on Phoenix Holdings reflects our expectation that it will maintain an adequate level of liquid sources, at least 1.2x of is uses, which will allow it to serve its liquidity needs in the next 18-24 months at the least.

Upside Scenario

We may raise Phoenix Insurance's rating in the next 18-24 months if its stand-alone and consolidated capitalization level exceeds our expectations, supported by strong operating performance, such that its loss-absorption capacity consistently increase to a higher confidence level in our risk-adjusted capital model and accordingly support a higher rating. This will allow the company to absorb the volatility due to the low interest rate environment and capital markets' volatility's effect on investment income. At the same time, we expect Phoenix Insurance to maintain at least the current gross premiums written growth pace.

An upgrade on Phoenix Holdings is subject to an upgrade on Phoenix Insurance.

Downside Scenario

We may lower Phoenix Insurance's rating the next 18-24 months if its operating performance materially deteriorate and erode its capital buffer and loss absorbing capacity thus materially weakening its capitalization. We may also lower the rating if Phoenix Insurance's capitalization sharply deteriorates because of life and health insurance reserves strengthening or due to a material increase in its market risk exposure from its investment in equities and non-tradable credit in its own investment portfolio ("nostro"). A negative rating action could also stem from a material decline in gross premiums written beyond our expectations compared with its local peers, which would lead us to conclude that Phoenix Insurance's competitive position in the Israeli insurance market has weakened.

We could downgrade The Phoenix Holdings in the next 18-24 months if its capability to serve its liquidity needs from its own sources deteriorates. A negative rating action on Phoenix Insurance could also lead to a similar action on Phoenix Holdings.

Key Assumptions

Macroeconomic assumptions

- Real GDP growth of 5.5% in Israel in 2021. In 2022 and 2023 we expect 4% and 3.5% growth, respectively.
- CPI to increase to 1.5%-2% in 2021-2022
- Unemployment rate to decrease to about 5.5%-6% in 2021 and to improve to 4.5% in 2023

Base-case assumptions

In our base case scenario we assume that Phoenix Insurance's gross premiums written will grow by about 2%-3% in 2021. Our assessment is supported by the improved economic environment and labor market recovery in 2021. We expect the growth will mainly stem from life and P/C insurance, while health business gross premiums are expected to decline by about 7%-8% following the termination of the Meuhedet long-term care insurance tender and the termination of the contract with "David Shield" on travel and relocation insurance following the latter's decision to set up its own insurance company. It should be noted that the effect of both terminations on the company's overall profitability is immaterial.

In the life and long-term savings segment, we expect Phoenix Insurance to focus on pure risks, pension and provident funds and financial deposits. We forecast growth in assets under management and in management fees. In the PC segment, Phoenix Insurance is expected to remain focused on its property lines, in particular motor insurance distributed by its direct Smart brand and by insurance agents. We forecast about 13%-15% ROE in 2021, owing to favorable investment income due to supportive global capital markets performance, which drive higher variable management fees and higher profits from all business lines. We also expect motor insurance net combined ratio to increase compared with recent years' average due to the increase in motor claims frequency, but to remain about 93% owing to sound underwriting profitability. This profit will be mitigated due to health segment performance adversely affected by morbidity and expenses actuarial model updates.

Phoenix Insurance Key Metrics

Financial Metric	2017	2018	2019	2020	2021F
Gross premiums (Mil. NIS)	9,826	10,145	11,286	10,396	>10,600
Total Profit (Mil. NIS)	710	385	418	1,060	~1,300
Return on Equity	19.3%	8.2%	8.0%	18.7%	~13%-15%
Net combined ratio	91.2%	88.2%	84.9%	85.6%	>93%

F - forecast

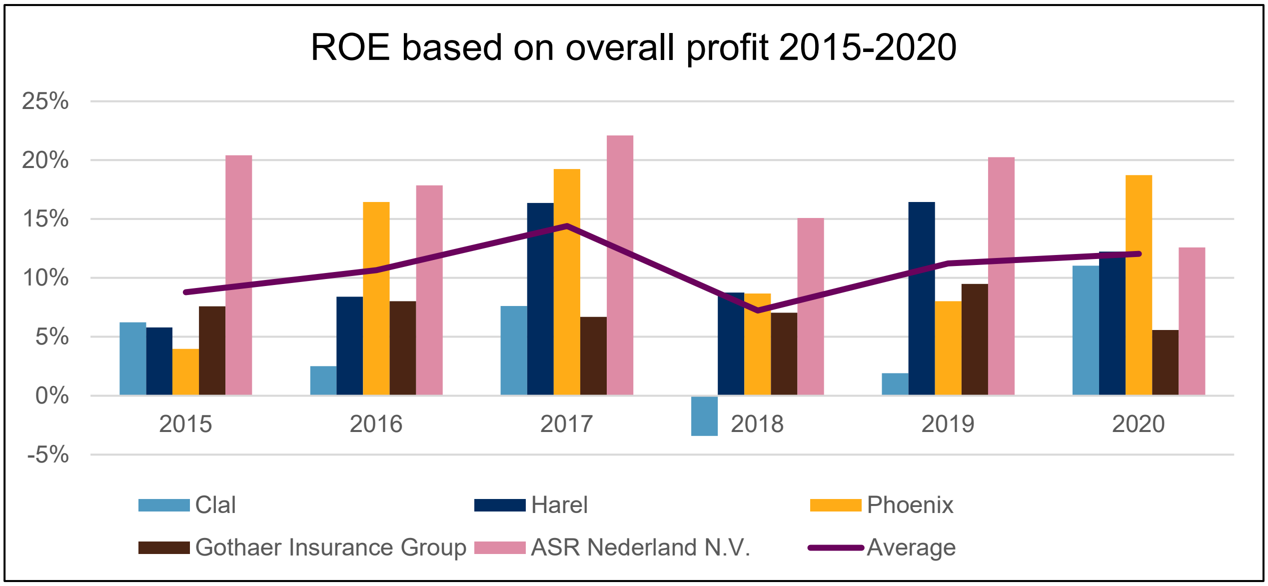
Business Risk

Phoenix Insurance is one of the three largest insurance groups in Israel, with a market share of about 16% of total premiums in the Israeli insurance industry. Its total gross earned premiums was NIS 10.3 billion in 2020. About 46% of its gross earned premiums were generated by its life insurance activity, while its health and PC Insurance operations generated 27% and 27%, respectively.

As part of its strategic plan, Phoenix Insurance focuses on growth in profitable products in terms of return on equity (ROE) and strives to strengthen its operating efficiency. As a result, we expect growth in its P/C insurance and financial savings, pensions and provident funds segments, alongside individual risk products. In addition, we believe that Phoenix Insurance benefits from high distribution capabilities through Phoenix Agencies and a variety of direct channels in recent years, strengthening its ability to implement its strategic plan. At the same time, investing in innovation, service and digital tools it provides to its customers and insurance agents it is working with is a high priority in the Company's strategy. In addition, in accordance with its strategic plan for increasing operational efficiency and the use of technological and digital tools in its operations, the company reduced its workforce by about 12% and improved its marketing and sales activities by eliminating the sales division and transferring responsibility for this activity to the various insurance divisions. These measures are expected to support a decrease of approximately NIS 140 million per year in expenses and its operating performance in changing market conditions and increased competition in the industry.

Over the past five years, Phoenix Insurance has adapted its strategy to changing market conditions and successfully translated its diversified business model into high profitability reflected in an average ROE of approximately 14.2%, higher than the average ROE of 10.3% achieved on average by its local and global peers (see Chart 1).

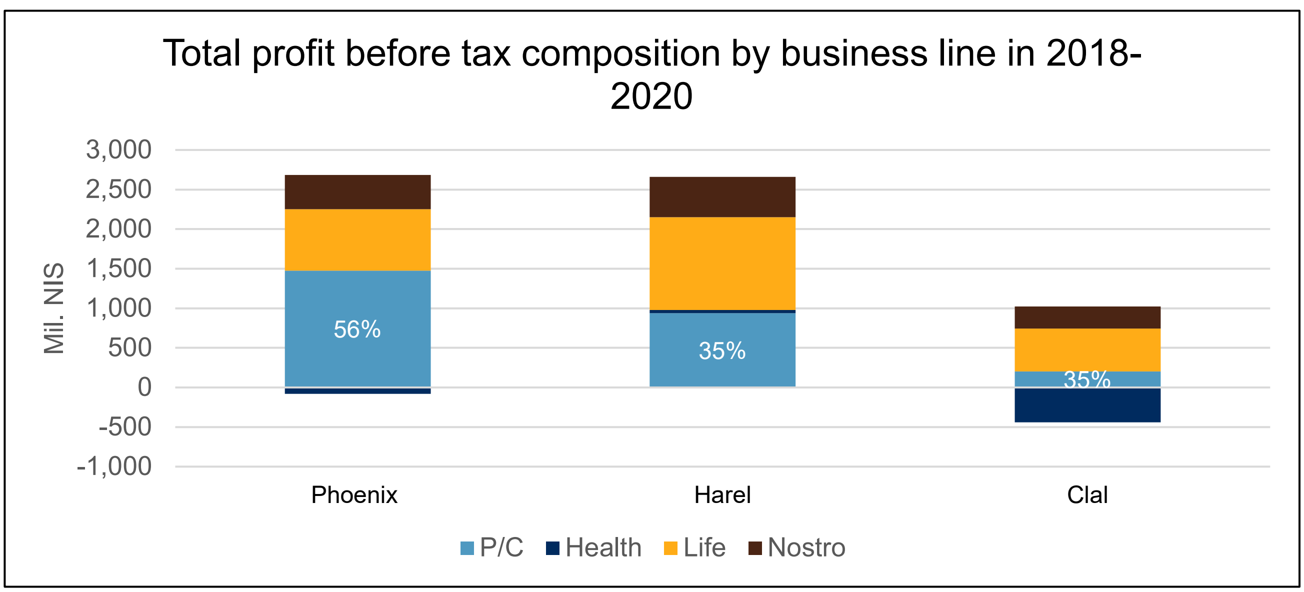
Chart 1: The Phoenix stands out on ROE compared with local and global peers



Gothaer Insurance Group - an insurance group operating mainly in Germany, in life insurance, health insurance and P/C insurance, with gross premiums of about €4.5 billion in 2020.

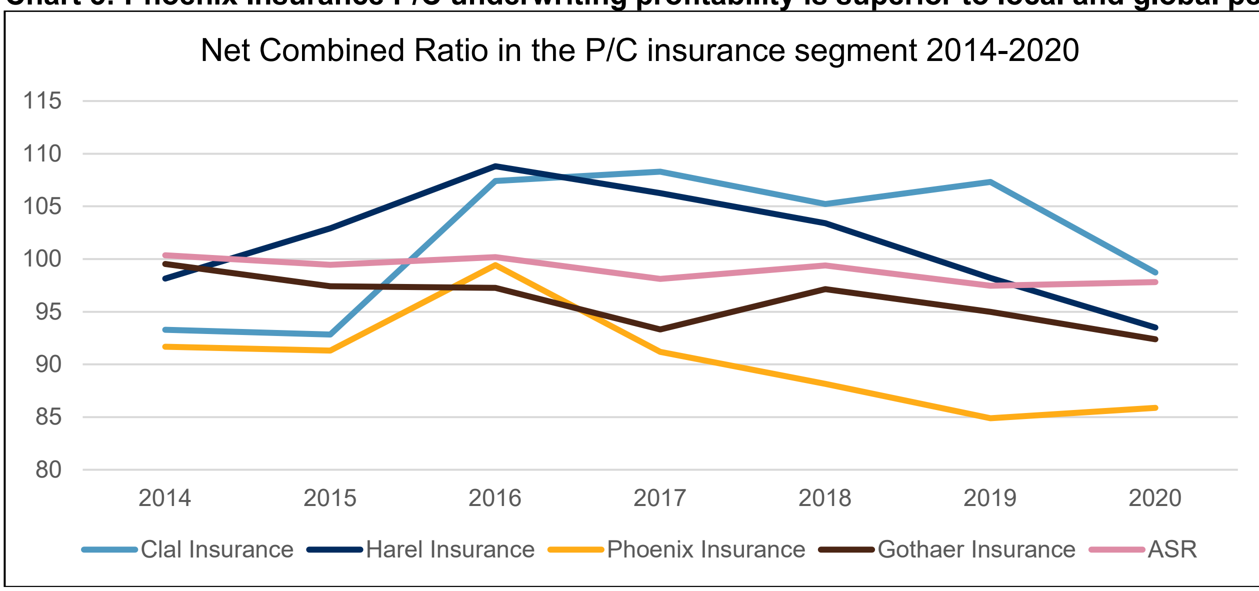
ASR Netherlands - an insurance group operating mainly in the Netherlands, in life insurance, health insurance and P/C insurance, with gross premiums of about €5 billion in 2020.

Chart 2: P/C Insurance contributed 56% of Phoenix Insurance's pre-tax overall cumulative profit in 2018-2020, a high rate compared with local peers



We believe Phoenix's Insurance's high profitability compared with local peers in the past five years is predominantly supported by high profitability in PC insurance, as measured by a net combined ratio of 89.9% on average in the past five years, low compared with about 100% for its local and global peers (see Chart 3). Phoenix's sound underwriting profitability compared with the industry is supported by its technological capabilities, advanced use of its databases and their use in underwriting processes, and its focus on property lines (motor, apartments, and corporates) which constitute about 70% of its net premiums earned, while Clal and Harel property premiums represent about 60% and 47%, respectively, of net premiums earned. The liability segment, which is characterized by high underwriting losses, constitutes a smaller share of Phoenix's PC insurance premiums compared with local peers. At the same time, it can be concluded that the low interest rate environment and changes in the risk-free interest rate curve have led to the frequent strengthening of the reserves attributed to long-term care insurance and thus adversely affected Phoenix Insurance's and its local peer's profitability from the health insurance segment.

Chart 3: Phoenix Insurance P/C underwriting profitability is superior to local and global peers'



Financial Risk

Phoenix group's capital assessment, according to S&P Global Ratings' risk adjusted capital model, reflects material capital redundancy compared with the capital requirement at its current rating level, on both Phoenix Insurance's standalone capitalization and group's consolidated capitalization. The capital requirement for Phoenix Insurance's market risk increased in the past year, following increased exposure to equities, investment funds and non-tradable credit. However, according to our base case scenario, we believe that the issuance of additional Tier 1 capital in 2021 and the group's strong profitability will support the group's capital accumulation pace and capitalization in 2021–2023. We assign intermediate equity content to the notes Phoenix Insurance issued in 2021 and partially include them in our risk-adjusted capital calculation. Since we assess Phoenix Insurance's capital based on the group's consolidated capital, Phoenix Holdings' share in the issuance, about NIS 1.1 billion, is excluded from our consolidated capital assessment. In our assessment we consider an annual dividend distribution of at least 30% of the group's expected overall profit, in line with its dividend policy.

On December 31, 2020, Phoenix Insurance's solvency 2 capital ratio was 192%, compared with 162% at year-end 2019. The increase in the solvency ratio mainly reflects the Company's strong profitability, an increase in the deferred tax to absorb losses and an actuarial update to the expense model. In addition, Phoenix Insurance signed a reinsurance agreement to reduce the lapses risk scenario in the life and health insurance segments, which reduced the capital requirements attributed to this risk. These positive effects outweighed the negative impact of the risk-free interest rate curve decline that led to an increase in the capital requirement attributed to life and long-term care insurance liabilities.

Our view of Phoenix insurance's investment portfolio asset quality is largely driven by its ~39% exposure to Israeli government bonds rated 'AA-', as of June 2021. We also consider the leverage based on Phoenix group's consolidated debt to remain below 45% in 2021-2023 (excluding the value in force component, which we do not count as part of on-balance capital). We also expect the average interest coverage ratio to be materially above 4x in the same period.

Other Key Credit Considerations

Phoenix Holdings

Our rating on Phoenix Holdings (ilAA-/Stable) reflects our view of its capability to service its ongoing cash requirements. Our assessment is supported by Phoenix Holdings' actions to increase diversification of the group's activity, such as expanding Phoenix Agencies' operations by acquiring insurance agencies. Our assessment considers dividend streams from non-regulated entities, in particular subsidiaries Phoenix Agencies and Excellence, as well as Phoenix Holdings' ongoing cash requirements, including ongoing management expenses and principal and interest payments on issued bonds. This assessment reflects a sources to uses ratio of at least 1.2x on an annual basis in the next 18-24 months. Our assessment is also supported by the fact that Phoenix Holdings has sufficient liquid assets compared with its cash requirements (at least 1.5x on an annual basis in the next 18-24 months).

In June 2021, Phoenix Holdings completed the acquisition of the Halman-Aldubi Investment House and the merger of its pension and provident fund operations into Phoenix Pension and Provident Funds Ltd., which was distributed as a dividend-in-kind from Phoenix Insurance to Phoenix Holdings. The group's pension and provident funds' assets under management increased to about NIS 45 billion (about NIS 2.1 billion attributable to the acquisition) and about NIS 61 billion (about NIS 20 billion attributable to acquisition), respectively. In our opinion, the acquisition improves Phoenix Holdings' ability to cope with the changing market conditions that make pension and provident funds the main products in the long-term savings subsector in Israel. We believe that after utilizing the synergies and streamlining the cost base, the increase in income from fixed management fees from pension and provident funds activity is expected to increase the share of profit that is less affected by capital market performance. We also expect the distribution of Phoenix Pension & Provident Funds Ltd. as a dividend-in-kind by Phoenix Insurance to Phoenix Holdings to support the increase in cash flow streams from non-regulated entities, and improve Phoenix Holdings' capability to service its ongoing cash requirements.

Phoenix Insurance Liquidity

We assess Phoenix Insurance's liquidity as 'adequate'. The Company has large cash and liquid investment reserves compared with its on-balance obligations.

Environmental, Social, And Governance

Phoenix group's corporate governance is in line with local insurance industry norms. We believe the group's management has been implementing its strategic plans successfully in recent years. We also believe the Company has a clear view of the risks inherent in its business operation, as reflected in its risk management and capital management policies and the tools it's developing.

As an insurance company operating in the life and health insurance lines, Phoenix Insurance's exposure to environmental and social factors may lead to an increase in its obligations, for instance as a result of longer life expectancy and an increase in chronic morbidity due to lifestyle changes. In P/C insurance, we estimate the Company's exposure to climate damages as limited, due to the fact that it only operates in Israel. However, in recent years we have seen climate changes causing harsher weather conditions in Israel in the winter, mainly floods. The Company is fully covered against this kind of catastrophic risks through re-insurance.

Related Criteria And Research

- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Principles Of Credit Ratings, February 16, 2011
- Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Insurers Rating Methodology, July 1, 2019
- Group Rating Methodology, July 1, 2019
- S&P Global Ratings Definitions, January 5, 2021

Ratings List

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

Phoenix Holdings	Rating	Date when the rating was first published	Last date when the rating was updated
Issuer rating(s)			
Long term	ilAA-/Stable	14/03/2007	31/01/2021
Issue rating(s)			
Senior Unsecured Debt			
Series 3	ilAA-	03/02/2020	31/01/2021
Series 4	ilAA-	03/02/2020	31/01/2021
Series 5	ilAA-	03/02/2020	31/01/2021
Issuer Credit Rating history			
Long term			
October 06, 2019	ilAA-/Stable		
October 07, 2018	ilA+/Positive		
February 19, 2017	ilA+/Stable		
November 17, 2015	ilA+/Negative		
May 20 ,2014	ilA+/Stable		
November 18, 2012	ilA+/Negative		
July 18, 2012	ilA+/Watch Neg		
January 12, 2012	ilA+/Stable		
August 26, 2010	ilA/Stable		
May 19 ,2009	ilA/Negative		
November 16, 2008	ilAA/Watch Neg		
May 14 ,2007	ilAA/Stable		

Phoenix Capital Raising (2009) Ltd.	Rating	Date when the rating was first published	Last date when the rating was updated
Issue rating(s)			
Subordinate hybrid debt			
Series 12	ilA+	27/07/2021	27/07/2021
Series 9	ilAA-	03/02/2020	21/10/2020
Series 4	ilAA-	03/02/2020	21/10/2020
Series 5	ilAA-	03/02/2020	21/10/2020
Series 6	ilAA-	03/02/2020	21/10/2020
Series 8	ilAA-	03/02/2020	21/10/2020
Series 10	ilAA-	03/02/2020	21/10/2020
Series 11	ilAA-	16/02/2019	21/10/2020
Additional details			
Time of the event	24/10/2021 15:39		
Time when the event was learned of	24/10/2021 15:39		
Rating requested by	Issuer		

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