Phoenix Holdings Ltd.

Monitoring and Rating Report | January 2023

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel. The binding version is the one in the original language.

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Phoenix Holdings Ltd.

Issuer rating	Aa2.il	Rating outlook: Stable
Series rating	Aa2.il	Rating outlook: Stable

Midroog sets the issuer's rating at Aa2.il for Phoenix Holdings Ltd. (hereinafter: the "Company"), with a stable rating outlook. In addition, Midroog upgraded the rating for the bonds (Series 4, 5 and 6) issued by Phoenix Holdings Ltd. (hereinafter: the "Company") to Aa2.il from Aa3.il and changes the rating outlook from positive to stable.

Furthermore, Midroog leaves the Aa2.il rating with a stable rating outlook for the bonds (Series 6) raised through the expansion of the series in a scope of up to NIS 100 million. The consideration of the issue is for the Company's current activities.

The bonds in circulation rated by Midroog:

Bond series	Security number	Rating	Rating outlook	Final maturity date
4	7670250	Aa2.il	Stable	July 31, 2028
5	7670284	Aa2.il	Stable	May 1, 2030
6	7670334	Aa2.il	Stable	December 31, 2032

Summary of Rating Rationale

The rating increase is supported by high financial flexibility characterized by outstanding leverage and coverage ratios, and a liquidity profile characterized by a continuous improvement in the debt service coverage ratio (DSCR[1] including liquidity balances). Furthermore, there has been an improvement in the Company holdings portfolio's profile, which is reflected in the structural changes that have taken place in the Group that have contributed to an improvement in the mix of the holdings portfolio, and in the visibility of permanent receipts from the rest of the holdings excluding the Insurer. In addition, the Company's rating is supported by its control in Phoenix Insurance Company Ltd. ("**Phoenix Insurance**" and/or the "**Insurer**") (Aa1.il, stable), the Company has a significant holdings portfolio in the insurance and finance industry, with its main holdings (the Company has full control in all of them) being Phoenix Insurance, Phoenix Investment House Ltd. ("Phoenix Investment House")[2] (through Phoenix Investments and Finances Ltd.), Phoenix Pension and Provident Ltd. ("**Phoenix Pension and Provident**") and Phoenix Insurance Agencies (1989) Ltd. (hereinafter: "**Phoenix Agencies**"), which constitute the main part of the held companies' book value.

Over the last year, the Company continued to operate within the framework of the strategic plan while completing structural changes and unlocking value of some of the held companies. The Company has a number of other holdings that contribute to diversification of the portfolio,

[1] Dividends, management fees and interest from held companies net of administrative and general expenses for principal and interest payments.

[2] Formerly Excellence Investments Ltd.

the largest of which is Gamma Management and Clearing Ltd. ("**Gamma**") (Aa3.il, stable), operating in the non-bank credit sector, mainly through the clearing of credit vouchers, financing against deferred receivables and against real estate assets.

In our base scenario for the years 2023-2024, we anticipate an aggregate volume of sources (in the next two years) of NIS 1,500-1,400 million. These will mainly stem from current dividends from Phoenix Insurance, Phoenix Agencies and Phoenix Investment House totaling approximately NIS 1,400 million and from annual interest payments totaling NIS 23 million for additional tier 1 capital instruments issued to the Company by the Insurer. We further estimate that Phoenix Insurance's ability to continue to maintain a wide gap from the regulatory requirements that will allow the continuation of the distribution of dividends in the forecast range, according to the established policy. The applications side mainly includes interest and principal payments in the aggregate amount of approximately NIS 120 million in the next two years, without the assumption of additional substantial investments within the forecast range. In this scenario, the interest coverage ratio[3] (ICR) and the liquidity ratio (DSCR + CASH) are expected to be around 13.0 to 16.0, respectively, and stand out positively with respect to the rating and support the raising of the Company's rating. Moreover, the current debt service coverage ratio (DSCR) is expected to be in the range of 3.7-5.0, which supports the financial flexibility and enables the construction of the liquidity cushion, alongside the continued distribution of dividends by the Company to the shareholders, pursuant to the established policy. The liquidity profile stands out positively and is supported by significant liquidity balances which support the raising of the rating. Midroog anticipates that the Company will continue to maintain significant liquidity balances over time, also considering the extent of the existing debt. The Company has high financial flexibility, supported by a low loan to value ratio (LTV), which in our estimation is expected to be around 10%, under several scenarios concerning the value of the holdings. However, the FFO to debt coverage ratio is expected to be in the years 2023-2024 around 3.7, reflecting good free cash flow in relation to the amount of debt.

On the other hand, the Company's financial policy is low with respect to the rating, and reflects a certain business appetite for mergers and leveraged acquisitions, when the extent of the debt is not expected to decrease in the coming years. However, the financial policy is supported by adequate market risk management and liquidity management, when the Company has an annual dividend distribution policy of at least 30% of the total distributable profit according to the annual consolidated financial statements.

[3] The ratio between dividends received, net of administrative and general expenses, and interest payments.

Rating Outlook

The stable rating outlook reflects our assessment that the Company's business status, financial profile and key data will be maintained within the range of Midroog's base scenario.

Factors that could lead to a rating upgrade:

- Continuous deterioration in the business and financial profile of the main held companies
- Significant erosion in the dividends visibility from the held companies in the long medium term
- Significant increase in financial leverage and the burden of repayments, which will hamper the Company's financial flexibility

Phoenix Holdings Ltd. (Solo) – key financial data (in NIS millions)

	September 30, 2022	September 30, 2021	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Investment in held companies	10,133	9,599	10,056	9,053	7,451	7,093
Cash and Liquidity Balances [1]	1,006	943	115	59	179	140
Total assets	11,161	10,555	11,129	9,132	7,646	7,246
Equity	9,611	9,087	9,653	7,970	6,636	6,446
Financial debt	1,531	1,444	1,457	1,124	1,010	800
Net debt to total investment in held companies	5%	5%	13%	12%	11%	9%
Liquidity to debt [1]	66%	65%	8%	5%	18%	18%
Net profit	1,022	1,352	1,965	1,169	271	651
Total comprehensive profit	599	1,557	2,316	1,353	664	512
Dividend received	615	763	1,063	-	250	55
Dividend paid	(581)	(380)	(580)	-	(250)	(120)

[1] Excluding the liquidity balances of Phoenix Agencies, Phoenix Investment House, which are taken into account in the liquidity requirements for the purpose of rating and discounting non-tradable assets (Solo)

Detailed Rating Considerations

Control of Phoenix Insurance is a material consideration in the rating; The Company's activity to diversify the holdings portfolio is a positive factor for the rating, but it is still relatively concentrated in the financial sector.

The Company has a significant holdings portfolio in the insurance and finance industry, where its main holdings (the Company has full control therein) are Phoenix Insurance, Phoenix Investment House (through Phoenix Investments), Phoenix Pension and Provident and Phoenix Agencies, which constitute the main part of the held companies' book value and a substantial part of the receipts for debt service (dividends and interest).

Phoenix Insurance's rating reflects a strong business profile, characterized by a significant size, a relatively good spread of business lines and a wide distribution array that supports its ability to generate revenue. In addition, Phoenix Insurance is characterized by significantly better profitability compared to the comparison group[4], which is supported by excess underwriting profitability. This supports the building of the capital cushion, and absorbs losses appropriately in relation to the rating. The Insurer has an adequate liquidity profile, which is supported by a relatively long average duration of liabilities, but its financial flexibility does not stand out positively, given its relatively high financial leverage.

Phoenix Investment House is an investment house, managing as of September 30, 2022 approximately NIS 68 billion (AUM) mainly of exchange traded funds and mutual funds. Phoenix Investment House presented in the first nine months of 2022 revenues of approximately NIS 335 million and a pre-tax profit of approximately NIS 88 million. All the while, Phoenix Investment House operates, within the framework of the implementation of the strategy to increase its activity, mainly by increasing the portfolio of private clients in the brokerage and zero management fees in KSM (hereinafter: "**KSM**") on a number of mutual funds. In the field of long-term savings, the Company operates mainly through Phoenix Pension and Provident, which was transferred to the Company in June 2021 through the distributing of shares from Phoenix Insurance by way of a dividend in kind. The Company continued to operate in accordance with the strategic plan to increase its activity in the field of long-term savings, among other things, through the purchase of Halman Aldubi (100% directly and indirectly[5]) and the merging of Halman Aldubi Provident with and into Phoenix Pension and Provident. It should be noted that the Company does not expect a dividend payment from Phoenix Pension and Provident in the next two years, however as part of the future cash flow the Company is considering the repayment of the loan the Company extended to Phoenix Pension and Provident. As of September 30, 2022, Phoenix Pension and Pension manages assets amounting to approximately NIS 171 billion, with the growth in their scope in 2021 being mainly due to the merger. Furthermore, the activities of the Group's agencies are concentrated through Phoenix Agencies, which includes the activities of the arrangement agencies and the other consolidated insurance agencies. Phoenix Agencies continues to show a growth trend, as reflected in the increase in revenue and profit in the first nine months of 2022, when this growth was mainly due to an increase in activity and the acquisition of new agencies and activities. In our estimation, Phoenix Agencies will be able to continue to support the Company's debt service,

[4] Harel Insurance Company, Migdal Insurance Company, Clal Insurance Company and Menorah Insurance Company.

[5] As part of the merger of the companies, the Company allocated 1.3 million shares to Halman Aldubi Investment House, which constitute 16% of the investment in Phoenix Pension and Provident in the merged entity. Thus, as of today, the Company holds directly approximately 100% of Phoenix Pension and Provident.

and this, *inter alia*, in light of substantial capital surpluses, a relatively high cash flow generation capacity and a policy of dividend distribution at a rate of approximately 80% of its profits.

The Company has a number of additional holdings that contribute to diversifying the portfolio, the largest of which is Gamma, operating in the non-bank credit sector, mainly through the clearing of credit vouchers, financing against deferred receivables and against real estate assets. As of the date of this report, the Company holds, through Phoenix Investments, approximately 62% of Gamma's issued capital and voting rights and holds controlling interest in Gamma.

The scope of the distribution from the Insurer is supported by a wide gap from the regulatory limits; Improvement in the dividend visibility from other held companies.

The Company is significantly dependent on the volumes of dividends distributed by its primary held companies for debt service and for financing its current activities. The structure of the debts and the regulatory capital of Phoenix Insurance places several senior tiers on the Company's financial debts, with the most senior debt being the Insurer's obligation towards the policyholders, and below that are the subordinated obligations. Only when there is certain certainty, that the Insurer has the ability to service its obligations, a dividend may be distributed, which will serve the Company's financial debt.

In addition, the domestic insurance and long-term savings industry operates under regulation aimed at preserving the stability and financial stability of the companies, while striving to preserve the rights of the insured. As a result, there are many limitations and control mechanisms on Phoenix Insurance's activities, including the execution of dividend distributions and the management of the capital sources. Thus, the Company's control over the ability to distribute dividends from the Insurer also depends on exogenous factors and is therefore relatively limited. A key condition for the distribution potential is compliance with a solvency ratio of at least 100% according to Solvency Circular 2 (regardless of the spread period, without adjusting the share scenario) and subject to the solvency ratio goals set by the Insurer's board of directors. The minimum economic solvency ratio goal, taking into account the spread provisions, is set at a rate of 135%, while the minimum solvency ratio without taking into account the provisions during the transition period is set at a rate of 111% (instead of 108%, as of June 30, 2022), which will reach 135 % at the end of the spread period. In addition, the Phoenix Insurance board of directors approved a goal range for economic solvency ratio in the range of 150%-170% which the Company aims to be in during the spread period and at its end, considering the amount of the deduction during the spread period and its gradual reduction. At the same time, the solvency ratio of Phoenix Insurance according to the provisions of Solvency 2 (without taking into account the spread provisions) was 137%, as of June 30, 2022, and taking into account the spread provisions, it was about 202% at that time, when these ratios constitute a gap compared to the goals stated above. It should be noted that these results took into account capital operations carried out by Phoenix Insurance during 2022, which included, among other things, the distribution of dividends[6] in the amount of approximately NIS 615 million. These distributions were made based on the results of the economic solvency ratio, which reflect an adequate positive gap with respect to the regulatory requirement and with respect to the board's goals. Therefore, we estimate that Phoenix Insurance is able to continue to maintain a sufficient gap from the regulatory requirements, which will allow the continuation of the distribution of dividends within the forecast range, in accordance with the established policy. Our assumption of continued distribution of dividends from the Insurer is also based on

[6] NIS 500 million for the profits of the second half of 2021 and NIS 115 million for profits of the first half of 2022.

the dividend distribution policy approved in October 2020 by the Insurer's board of directors, according to which it was decided that it will distribute an annual dividend at a rate ranging from 30%-50% of its total profit, which can be distributed according to the annual consolidated financial statements, as long as Phoenix Insurance meets the minimum goals for the economic solvency ratio based on Solvency 2 specified above. Moreover, the Company has a number of assets with relatively good dividend visibility, including Phoenix Investment House and Phoenix Agencies, given liquidity balances, significant surpluses and the ability to generate a positive current cash flow.

Continuous improvement in the debt service ratio supports the raising of the rating and supports the diversification of the sources of receipts

The structure of the current repayment schedule is relatively convenient in the short and medium term, in light of the spread and the extension of the average duration of liabilities over the past year. At the same time, the annual repayment burden (principal and interest) is expected to range between NIS 50-70 million per annum during the years 2023-2024. We note that following the acquisition of Halman Aldubi and the expected increase in the capital requirements of Phoenix Pension and Provident as mentioned above, the Company extended loans to Phoenix Pension and Provident in an aggregate amount of approximately NIS 300 million NIS. Some of the annual principal and interest payments determined are on the same terms (back to back) as the bonds (Series 5 and 6) issued by the Company and these also support the debt service in the forecast range.

In our base scenario for the years 2023-2024, we anticipate an aggregate amount of receipts (in the next two years) of NIS 550-990 million. These will mainly result from current dividends from Phoenix Insurance, Phoenix Agencies and Phoenix Investment House and annual interest payments totaling approximately NIS 23 million, for additional tier 1 capital instruments issued to the Company by the Insurer. In the course of 2022, Phoenix Insurance distributed a significant dividend in the amount of approximately NIS 615 million, as stated above, and we believe that it will continue to distribute dividends in accordance with the distribution policy established as mentioned above, as long as the gap from the board's goal allows it. The applications side mainly includes interest and principal payments in the aggregate amount of approximately NIS 120 million in the next two years, and without assuming additional material investments in the forecast range[7]. In this scenario, the interest coverage ratio (ICR) and the liquidity ratio (DSCR + CASH) are expected to be around 13.0 to 16.0, respectively, and stand out positively with respect to the rating and support the raising of the Company's rating. Moreover, the current debt service coverage ratio (DSCR) is expected to be in the range of 3.7-5.0, which supports the financial flexibility and enables the construction of the liquidity cushion, alongside the continued distribution of dividends by the Company to the shareholders, pursuant to the established policy.

Since the Company constitutes the only base asset in the parent company Belenus Lux S.a.r.l. (hereinafter: "**Belenus**") and in our estimation, the main source of debt service for the debt taken to acquire control of Belenus, the Company is expected to distribute an annual dividend at a rate of at least 30% per annum, in accordance with the dividend policy established as stated above, and with the aim of servicing the debt interest payments in the parent company. However, we note that as part of the loan taken by Belenus, there are mechanisms that allow

[7] On January 19, 2023, the Company reported entering into an agreement for the partial acquisition of assets managed by Psagot in the amount of NIS 310 million.

it cash flow flexibility that does not depend on the timing and extent of the distribution of dividends from the Company.

The Company has high financial flexibility, and in particular leverage and coverage ratios that stand out positively, which support raising the rating

In recent years, the Company has worked to diversify its sources of income, but at the same time increased the amount of debt (solo), which as of September 30, 2022 was approximately NIS 1,531 million, reflecting an increase compared to December 31, 2021 (approximately NIS 1,444 million), following the expansion a bond (Series 4) in September 2022, in the amount of NIS 60 million par value, when the proceeds from the issue were meant to provide a loan to Phoenix Investment House. Furthermore, in January 2022, the Company issued a bond (Series 6) in the amount of NIS 300 million par value, for the purpose of full early repayment of bonds (Series 3) of similar scope in the course of January 2022. Consequently, we anticipate that the scope of adjusted net debt (taking into account liquidity balances) will amount to approximately NIS 940 million as of the end of 2022, and will result in a relatively low loan to value ratio (LTV), which is expected to be around 10% in the forecast years, under a stress scenario with respect to the extent of the Company's debt and the value of the holdings, as derived from the Company's market value. This ratio stands out positively with respect to the Company's rating and supports its financial flexibility and its ability to refinance the debt, if necessary. Furthermore, the extent of the above-mentioned debt, along with the structure of the repayment schedule and expected distribution of dividends as mentioned, determine a FFO to debt coverage ratio that is expected to be in 2023-2024 in a range of 3.7, reflecting good free cash flow in relation to the amount of debt. The Company's financial flexibility is positively affected also by high accessibility to the financing parties, ownership and control of the main holdings due to the lack of effective covenants in the bonds and a negative lien on its assets. However, in this scenario we do not expect a material reduction in the extent of the Company's (gross) debt.

The liquidity profile stands out positively and is supported by significant liquidity balances which supports the increase in rating; However, the financial policy is low with respect to the rating

In examining the liquidity cushion and the Company's debt service capacity, we take into account existing liquidity balances in Phoenix Investments and Phoenix Agencies (Solo) as well, (including adjustments to the equity portfolio of the aforementioned companies), and our assessment of liquidity management at the level of the three companies together. As of September 30, 2022, the Company, together with Phoenix Investments and Phoenix Agencies (Solo), have liquidity balances in the amount of approximately NIS 1,200 million. The liquidity cushion consists of cash balances, the securities portfolio and mainly of a tier 1 capital instrument in the amount of approximately NIS 1.0 billion, which was issued in the course of 2021 by Phoenix Insurance (through Phoenix Capital Raising). Apart from that, the liquidity cushion also consists of cash balances and the securities portfolio, which is characterized by a relatively reasonable market risk profile.

We anticipate that the amount of liquid balances will be approximately NIS 1,800 million at the end of 2023. However, we note that in light of the relatively low level of marketability in these instruments, which are traded on TACT Institutional, we are applying significant adjustments to them in the calculation of coverage ratios and the calculation of net debt. Midroog expects that the Company will continue to maintain significant liquidity balances over time, also in view of the extent of the existing debt. The Company's financial policy does not stand out positively in relation to the rating, and reflects a certain business appetite for mergers and acquisitions and leveraged transactions, when the amount of debt is not expected to decrease in the coming years. However, the financial policy is supported by adequate market risk management and liquidity management, where the Company has an annual dividend distribution policy of at least 30% of the total distributable profit according to the annual consolidated financial statements.

Additional Rating Considerations

Environmental, Social and Corporate Governance (ESG) Considerations

In our estimation, ESG considerations have a moderate impact on the Company's rating. In Midroog's estimation, the Company has little exposure to environmental and social risks, when the Company's exposure to corporate governance risks is low. Risk management at Phoenix Holdings is carried out by the Chief Risk Manager, who serves as a supervisor at the companies held in the Group. In addition, the Company has a defined information security policy and an orderly process of assessing information security risks in the information systems and interfaces.

The Company Profile

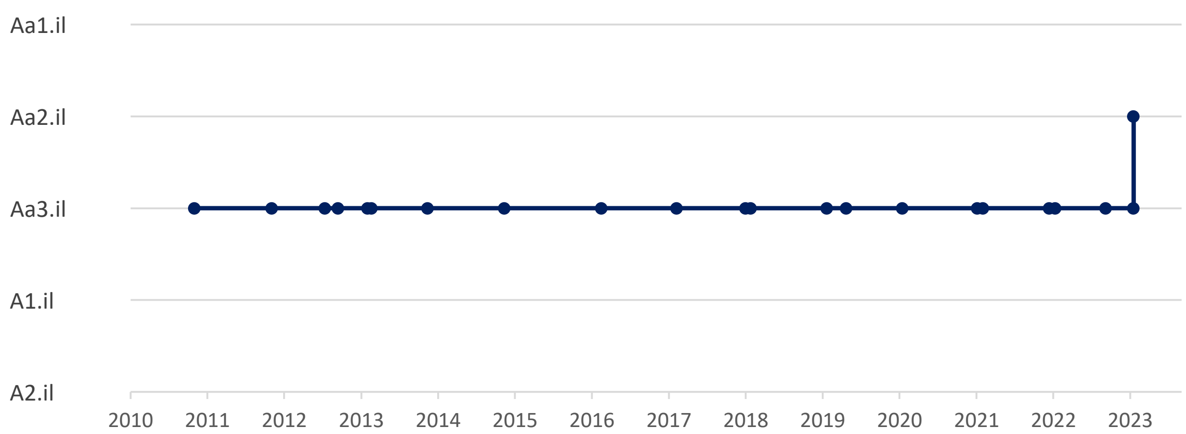
Phoenix Holdings Ltd. ("**Phoenix Holdings**") is a public company whose shares are listed on the Tel Aviv Stock Exchange. On November 3, 2019, the Delek Group sold approximately 32.5% of the Phoenix Holdings share capital to a corporation controlled by Centerbridge Partners LP and Gallatin Point, for approximately NIS 1.6 billion. From this date, the controlling stakeholder in the Company is Belenus – a corporation established and registered in Luxembourg. Therefore, the funds' holding rate in the Company's issued and paid-up capital is approximately 32.98%. The remaining shares are held by the institutions (approximately 8.32%) and the public (approximately 58.33%). The Company holds the entire share capital of Phoenix Insurance Company Ltd., the entire share capital of Phoenix Agencies as of April 2019, the entire share capital of Phoenix Investments and Finances Ltd., which holds Phoenix Investment House, Gamma Management and Clearing Ltd. (approximately 62%), which specializes in financing, managing and discounting credit card vouchers and other holdings. In addition, the Company directly and indirectly holds approximately 100% of the shares in Phoenix Pension and Provident. The Company CEO is Mr. Eyal Ben Simon and the Chairman of the Board is Mr. Benjamin Gabbay.

The Rating Matrix

		As at September 30, 2022		Midroog's forecast [1]	
Category	**Parameters**	**Measurement [1]**	**Score**	**Measurement**	**Score**
Holdings portfolio profile	The credit risk profile of the held companies	---	Aa.il	---	Aa.il
	Visibility of the cash flows from the held companies and limitations on the distribution of dividends % of retail revenues	---	A.il	---	A.il
	Characteristics of portfolio concentration	---	Baa.il	---	Baa.il
Financial profile	Adjusted financial debt to adjusted asset value ratio	11%	Aa.il	10%	Aaa.il
	ICR	8	Aaa.il	13	Aaa.il
	FFO to financial debt	9	A.il	3.7	Aa.il
	Financial flexibility	---	Aa.il	---	Aa.il
	DSCR + CASH	2	Aa.il	16	Aaa.il
	Financial policy	---	Aa.il	---	A.il
Derived rating					Aa2.il
Actual rating					Aa1.il

[1] The indices presented in the table are after Midroog's adjustments, and are not necessarily the same as those presented by the Company. Midroog's forecast includes Midroog's estimates concerning the Issuer according to Midroog's base scenario, and not the Issuer's estimates.

Rating History



Related Reports

Phoenix Holdings Ltd. – Related Reports

The Phoenix Insurance Company Ltd. – Related Reports

Rating of holding Companies – methodology report, January 2021

Rating of life, Health and General Insurance Companies – methodology report, May 2022

Guidelines for examining environmental, social and corporate governance risks within the framework of credit ratings – methodology report, February 2022

Table of Affinities and Holdings

Midroog's rating scales and definitions

The reports are published on Midroog's website: www.midroog.co.il.

General Information

Date of rating report:	January 19, 2023
The last date the rating was updated:	September 8, 2022
Date rating was first published:	November 1, 2010
Name of rating initiator:	Phoenix Holdings Ltd.
Name of party that paid for the rating:	Phoenix Holdings Ltd.

Information Provided by the Issuer

Midroog relies in its ratings, *inter alia*, on information received from the Issuer's authorized entities.

Long-Term Rating Scale

Aaa.il	**Issuers or issues rated Aaa.il are those that, in Midroog judgment, have highest creditworthiness relative to other local issuers.**
Aa.il	**Issuers or issues rated Aa.il are those that, in Midroog judgment, have very strong creditworthiness relative to other local issuers.**
A.il	**Issuers or issues rated A.il are those that, in Midroog judgment, have relatively high creditworthiness relative to other local issuers.**
Baa.il	**Issuers or issues rated Baa.il are those that, in Midroog judgment, have relatively moderate credit risk relative to other local issuers, and could involve certain speculative characteristics.**
Ba.il	**Issuers or issues rated Ba.il are those that, in Midroog judgment, have relatively weak creditworthiness relative to other local issuers, and involve speculative characteristics.**
B.il	**Issuers or issues rated B.il are those that, in Midroog judgment, have relatively very weak creditworthiness relative to other local issuers, and involve significant speculative characteristics.**
Caa.il	**Issuers or issues rated Caa.il are those that, in Midroog judgment, have extremely weak creditworthiness relative to other local issuers, and involve very significant speculative characteristics.**
Ca.il	**Issuers or issues rated Ca.il are those that, in Midroog judgment, have extremely weak creditworthiness and very near default, with some prospect of recovery of principal and interest.**
C.il	**Issuers or issues rated C are those that, in Midroog judgment, have the weakest creditworthiness and are usually in a situation of default, with little prospect of recovery of principal and interest.**

Note: Midroog appends numeric modifiers 1, 2, and 3 to each rating category from Aa.il to Caa.il. The modifier '1' indicates that the bond ranks in the higher end of its rating category, which is denoted by letters. The modifier '2' indicates that it ranks in the middle of its rating category and the modifier '3' indicates that the bond ranks in the lower end of that category, denoted by letters.

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