

The Phoenix Insurance Company Ltd.

The Phoenix Holdings Ltd.

The Phoenix Capital Raising (2009) Ltd.

July 11, 2023

Research Update

The Phoenix Insurance Company Ltd. Rating Raised To 'iLAAA', Outlook Stable; The Phoenix Holdings Ltd. Rating Raised To 'iLAA', Outlook Stable

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Table of Contents

| | |
|---|---|
| Overview | 3 |
| Rating Action | 3 |
| Key analytical factors | 3 |
| Outlook | 4 |
| Downside scenario | 4 |
| Environmental, Social, And Governance | 5 |

**The Phoenix Insurance Ltd.
The Phoenix Holdings Ltd.
The Phoenix Capital Raising 2009 Ltd.**

| | |
|--|---|
| ESG Credit Indicators: E-2, S-2, G-2 | 5 |
| Related Criteria And Research..... | 5 |
| Ratings List | 5 |

Research Update

The Phoenix Insurance Company Ltd. Rating Raised To 'ilAAA', Outlook Stable; The Phoenix Holdings Ltd. Rating Raised To 'ilAA', Outlook Stable

Overview

- The Phoenix Insurance Company Co. Ltd. ("Phoenix" or "the Company") continues to perform strongly compared with our expectation and peers in the Israeli market.
- Despite challenging market conditions in 2020-2022, Phoenix's capital base remains robust as reflected by a variety of indices.
- The group also benefits from increased cashflows from non-insurance operations, offering increased diversification and strengthening its competitive position.
- We are therefore raising our issuer credit rating on The Phoenix Insurance Company Ltd to 'ilAAA' from 'ilAA+' and our issuer credit rating on The Phoenix Holdings Ltd. to 'ilAA' from 'ilAA-'. The outlook is stable.

Rating Action

On July 11, 2023, S&P Maalot raised its issuer credit rating on The Phoenix Insurance Company Ltd. to 'ilAAA' from 'ilAA+' and its issuer credit rating on The Phoenix Holdings Ltd. to 'ilAA' from 'ilAA-'. We also raised our ratings on the junior subordinated issues of core group subsidiary The Phoenix Capital Raising 2009 Ltd. and on the senior debt of The Phoenix Holdings Ltd. to 'ilAA' from 'ilAA-'.

Key analytical factors

The upgrade reflects the continuous improvement in Phoenix's operating performance and capital base, and the growth in cashflows derived from non-insurance operations that strengthen its competitive position.

Phoenix continues to perform strongly compared with our expectation and peers in the Israeli market, as reflected, *inter alia*, in average ROE of about 15% in the last five years. The Company has diverse lines of business, which balance between extensive life insurance and general and health insurance. Based on Phoenix Agencies' high distribution capabilities, the Company's market share by premiums at year-end 2022 was about 17% in life insurance, about 14% in general insurance and about 19% in health insurance. The Company has been implementing strategic plans that include investing in

technological capabilities and in exploitation of internal synergies, which, we believe, will enable it to continue growing. In accordance with the strategic plan, we expect Phoenix to demonstrate an annual increase of 2%-3% in premiums and a decrease in the rate of expenses.

Phoenix is endeavoring to increase its cashflows from non-insurance operations (about 40% of total profit in 2022) through acquisitions and organic growth. The growth in non-insurance operations contributes to the Company's business diversification and strengthens its competitive position and business profile. Furthermore, we believe that the increase in cashflows from non-insurance operations (agencies, Excellence, Gamma) enhances Phoenix Holdings' liquidity profile, which becomes more diversified and reduces the dependency on insurance operations which are subject to intense regulatory supervision.

We believe Phoenix's capital base remained robust in recent years despite the slowdown resulting from the pandemic and challenging market conditions in 2022, whether measured using S&P's model or based on a regulatory solvency basis. Although the Company's stated goal is to maintain a Solvency II coverage ratio of 170%-150%, in practice this ratio was 211% in December 2022, 190% in 2021 and 192% in 2020. We estimate that the Company will continue to maintain a solid capital base. In our assessment of the capital and expectations for future growth, we take into account the Company's current dividend policy according to which it will distribute at least 30% of the group's total profit.

Outlook

The stable outlook on Phoenix Insurance reflects our view that it will maintain its leading business position in the next 18-24 months. Our view is supported by its diversified business model and sound profitability, supporting its capital growth. At the same time, we believe its capital adequacy will strengthen and remain adequate in relation to balance sheet risks.

Downside scenario

We may consider a negative rating action in the next 18-24 months in case of material deterioration in the Company's operating performance which will erode its loss absorbing capacity thus materially weakening its capital adequacy, or in case of a decline in premiums and deposits to a level that we find to weaken Phoenix's business position in the local market.

A Negative rating action on Phoenix Insurance could lead to a similar action on Phoenix Holdings. A weakening in the liquidity profile could also lead to a negative rating action on Phoenix Holdings.

Environmental, Social, And Governance

ESG Credit Indicators: E-2, S-2, G-2

ESG factors have an overall neutral influence on our credit analysis of Phoenix Insurance Company Ltd.

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
- [Insurers Rating Methodology](#), July 1, 2019
- [Group Rating Methodology](#), July 1, 2019
- [Environmental, Social, And Governance Principles In Credit Ratings](#), October 10, 2021
- [Hybrid Capital: Methodology And Assumptions](#), March 2, 2022
- [Methodology For National And Regional Scale Credit Ratings](#), June 8, 2023
- [S&P Global Ratings Definitions](#), June 9, 2023

Ratings List

| The Phoenix Insurance Company Ltd., The Phoenix Holdings Ltd., The Phoenix Capital Raising (2009) Ltd. | Rating | Date when the rating was first published | Date when the rating was last updated |
|---|---------------|---|--|
| Issuer rating(s) | | | |
| The Phoenix Holdings Ltd Long term | iIAA/Stable | 14/03/2007 | 02/11/2022 |
| The Phoenix Insurance Company Ltd. Long term | iIAAA/Stable | 24/05/2004 | 02/11/2022 |
| Issue rating(s) | | | |
| <u><u>The Phoenix Holdings Ltd</u></u> | | | |
| <u><u>Senior Unsecured Debt</u></u> | | | |
| Series 4 | iIAA | 03/02/2020 | 02/11/2022 |
| Series 5 | iIAA | 03/02/2020 | 02/11/2022 |
| Series 6 | iIAA | 14/12/2021 | 02/11/2022 |
| <u><u>The Phoenix Capital Raising 2009 Ltd.</u></u> | | | |
| <u><u>Subordinate hybrid debt</u></u> | | | |
| Series 9 | iIAA | 03/02/2020 | 02/11/2022 |
| Series 4 | iIAA | 03/02/2020 | 02/11/2022 |
| Series 5 | iIAA | 03/02/2020 | 02/11/2022 |
| Series 8 | iIAA | 03/02/2020 | 02/11/2022 |

**The Phoenix Insurance Ltd.
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| | | | |
|-----------|------|------------|------------|
| Series 10 | iAA | 03/02/2020 | 02/11/2022 |
| Series 11 | iAA | 16/02/2019 | 02/11/2022 |
| Series 13 | iAA | 23/06/2022 | 02/11/2022 |
| Series 12 | iAA- | 27/07/2021 | 02/11/2022 |

Issuer Credit Rating history

The Phoenix Insurance Company
Ltd.

Long term

| | |
|-------------------|----------------|
| July 11, 2023 | iAAA/Stable |
| April 21, 2020 | iAA+/Stable |
| October 07, 2018 | iAA+/Positive |
| February 19, 2017 | iAA+/Stable |
| November 17, 2015 | iAA+/Negative |
| May 20 ,2014 | iAA+/Stable |
| November 18, 2012 | iAA+/Negative |
| July 18, 2012 | iAA+/Watch Neg |
| October 16, 2011 | iAA+/Stable |
| August 26, 2010 | iAA/Stable |
| August 17, 2009 | iAA-/Negative |
| May 19 ,2009 | iAA-/Watch Neg |
| February 08, 2009 | iAA/Watch Neg |
| May 24 ,2004 | iAA |

The Phoenix Holdings Ltd

Long term

| | |
|-------------------|---------------|
| July 11, 2023 | iAA/Stable |
| October 06, 2019 | iAA-/Stable |
| October 07, 2018 | iA+/Positive |
| February 19, 2017 | iA+/Stable |
| November 17, 2015 | iA+/Negative |
| May 20 ,2014 | iA+/Stable |
| November 18, 2012 | iA+/Negative |
| July 18, 2012 | iA+/Watch Neg |
| January 12, 2012 | iA+/Stable |
| August 26, 2010 | iA/Stable |
| May 19 ,2009 | iA/Negative |
| November 16, 2008 | iAA/Watch Neg |
| March 14 ,2007 | iAA/Stable |

Additional details

| | |
|------------------------------------|------------------|
| Time of the event | 11/07/2023 08:02 |
| Time when the event was learned of | 11/07/2023 08:02 |
| Rating requested by | Issuer |

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