MOODY'S
RATINGS

Rating Action: Moody's Ratings affirms The Phoenix Insurance Company's IFSR at A2; outlook remains negative

14 May 2024

London, May 14, 2024 – Moody's Ratings (Moody's) has today affirmed the A2 insurance financial strength ratings (IFSRs) of The Phoenix Insurance Company Ltd. (Phoenix Insurance). Phoenix Insurance is the principal insurance operating subsidiary of The Phoenix Holdings Ltd. (Phoenix), a diversified financial services group based in Israel. The outlook remains negative.

Today's rating action follows the affirmation of the Government of Israel's A2 long-term issuer ratings, with negative outlook, on 10 May 2024. For further information on the sovereign rating action, please refer to Moody's press release: "Moody's Ratings affirms Israel's A2 rating, outlook remains negative" (https://ratings.moodys.com/ratings-news/420739).

RATINGS RATIONALE

The affirmation of Phoenix Insurance's A2 IFSRs reflects its very strong market position in Israel and good business diversification across life, health and property and casualty (P&C) insurance, along with strong capital adequacy, good reserve adequacy and strong profitability supported by an established back book and strong new business generation capabilities. Moreover, its ratings reflect the resilience of its financial and business profile, despite the ongoing military conflict, and the tools management has at its disposal to help navigate the challenging environment.

Phoenix Insurance's credit profile is tempered by the limited geographic diversification of its insurance book, relatively high exposure to equity and alternative invested assets that have the potential to drive volatility in profits, interest rate risk and significant longevity risk related to its closed book of life and long-term care business, and high financial leverage relative to international peers.

OUTLOOK

The negative outlook reflects the potential impact of the ongoing military conflict on Phoenix, primarily through its concentrated exposure to the financial markets and economy of Israel, and to a lesser extent through its direct insurance exposures. The longer and more severe the military conflict, the greater its impact is likely to be on the economy and on Phoenix. The negative outlook also reflects the outlook for the Government of Israel and Phoenix's linkage to the sovereign's credit profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's stated that Phoenix Insurance's ratings could be downgraded in the event of further negative action on the sovereign rating that causes the insurer's rating to be constrained at the level of the sovereign debt.

Moreover, the following factors could also lead to a downgrade of Phoenix Insurance's ratings: (i) weakening of the group's strong franchise and market position, (ii) deterioration in capitalisation, with the Solvency II ratio (excluding transitionals) remaining consistently below 130%, (iii) lower or more volatile profitability, with return on capital falling below 6% and sharpe ratio below 150% through-thecycle, (iv) significant increase in high risk assets held in the nostro account, and/or (v) significantly reduced access to reinsurance capacity or weakened quality of reinsurance partners.

Given the negative outlook, there is currently no upward pressure on Phoenix Insurance's ratings. However, the outlook could be changed back to stable if the sovereign rating is affirmed at its current level with stable outlook.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Life Insurers published in April 2024 and available at https://ratings.moodys.com/rmc-documents/418351, and Property and Casualty Insurers published in April 2024 and available at https://ratings.moodys.com/rmc-documents/418354. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and is(are) endorsed for use in the EU in accordance with the EU CRA Regulation.

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