

-Convenience translation only-

The Phoenix Insurance Company Ltd.

Monitoring Report | August 2025

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.



The Phoenix Insurance Company Ltd.

Insurer Financial Strength (IFS) Rating	Aaa.il	Outlook: Stable
Hybrid Tier 2 and Tier 2 Capital Instruments	Aa2.il(hyb)	Outlook: Stable
Additional Tier 1 capital instrument	Aa3.il(hyb)	Outlook: Stable

Midroog affirms the Aaa.il rating for the Insurance Financial Strength (IFS) of The Phoenix Insurance Company Ltd. ("Phoenix" or the "Company"). Midroog also affirms the Aa2.il(hyb) rating, with a stable outlook, for the deferred notes (Tier 2 capital instruments), and assigns an Aa3.il(hyb) rating, also with a stable outlook, to the additional Tier 1 deferred notes issued through the subsidiary The Phoenix Capital Raising (2009) Ltd.

The subordinated debt ratings reflect the legal-contractual subordination of these instruments relative to the IFS rating, the seniority ranking among the subordinated debt instruments themselves, and the impact of their embedded loss absorption mechanisms. Considering the Company's IFS rating, its current and expected economic solvency ratio as estimated by Midroog, and the maintenance of an adequate margin above the effective regulatory economic solvency requirement for these instruments, Midroog assesses that the uncertainty regarding the likelihood of reaching "suspensive circumstances"¹ or triggering a "material event" is low. Therefore, this assessment does not warrant an additional one-notch downgrade for the Tier 2 and additional Tier 1 capital instruments.

Outstanding bonds rated by Midroog:

Bond Series	Security No.	Rating	Outlook	Type of Regulatory Capital	Final Maturity
PHONIX CAP B5	1135417	Aa2.il(hyb)	Stable	Tier 2 capital [1]	31/10/2029
PHONIX CAP B9	1155522	Aa2.il(hyb)	Stable	Tier 2 capital	31/08/2029
PHONIX CAP B11	1159359	Aa2.il(hyb)	Stable	Tier 2 capital	30/04/2032

¹ The capital requirement for "suspensive circumstances" is defined as 80% of the solvency ratio required over the phase-out period, after adjustment for the equities scenario, in accordance with the Solvency Circular ("**required solvency ratio**").

Bond Series	Security No.	Rating	Outlook	Type of Regulatory Capital	Final Maturity
PHONIX B13	1188135	Aa2.il(hyb)	Stable	Tier 2 capital	31/10/2032
PHONIX B14	1201946	Aa2.il(hyb)	Stable	Tier 2 capital	28/02/2033
PHONIX B15	1201953	Aa2.il(hyb)	Stable	Tier 2 capital	30/06/2033
PHONIX B16	1220342	Aa2.il(hyb)	Stable	Tier 2 capital	01/11/2034
PHONIX B17	1220334	Aa2.il(hyb)	Stable	Tier 2 capital	01/02/2035
PHONIX B12	1195585	Aa3.il(hyb)	Stable	Additional Tier 1 capital	05/02/2071

[1] Hybrid Tier 2

SUMMARY OF RATING RATIONALE

The Company rating reflects a strong business profile, supported by its position as one of Israel's top three insurance companies over time, with a total market share of approximately 14.6% in terms of gross premiums and total assets under management (AUM)² of approximately NIS 154 billion as of March 31, 2025. The business profile is further supported by relatively well-diversified lines of business, with three significant segments over time—life insurance, non-life insurance, and health insurance—alongside a strong brand, adequate control of the distribution system, and a broad and diversified customer base. These factors support the Company's business profile and revenue generation potential throughout the economic cycle, while enabling it to contend with changes in the business environment, regulatory shifts, and macroeconomic influences.

The Company's risk profile is appropriate for the rating, supported by relatively low product risk and a reduction in exposure to collectives following the termination of the group long-term care insurance policy for members of Maccabi Healthcare Services. The Company's risk management policy is also appropriate for the rating. Asset quality is adequate, although negatively affected by the level of risk assets relative to the absorption buffer.

² In view of the distribution of a dividend in kind from The Phoenix Excellence Pension and Provident Funds Ltd. to the Company, the pension and provident fund assets are not included in assets under management as of the date of the distribution (June 30, 2021).

Capital adequacy is appropriate for the rating, reflected in capital surpluses relative to the Solvency II Directive. As of December 31, 2024, solvency ratios (SCR) stood at approximately 183% (including phase-out provisions and the impact of capital actions post-reporting date), which compares favorably with the peer group³, and approximately 155% (excluding phase-out provisions). These ratios support the Company's financial flexibility and ability to execute strategic initiatives, given the margin above the regulatory requirement.

The financial profile is supported by profitability that is appropriate for the rating and positively affected, among other things, by the initial implementation of IFRS 17. The Company is characterized by a stable but low liquidity profile for the rating, negatively impacted by an increase in short-term obligations. Financial flexibility is appropriate and supported by a wide margin relative to regulatory capital adequacy requirements. The Company has good access to funding sources, both for improving the solvency ratio (through issuance of Tier 2 and Additional Tier 1 capital instruments) and due to its international rating by Moody's at Baa1⁴ with a stable outlook, which reflects potential for capital raising abroad and the ability to increase the proportion of foreign investors in the Group. Additional tools available to the Company (reinsurance agreements, changes in investment mix, etc.) also support its ability to manage potential deterioration in the solvency ratio, if needed.

Midroog's base case scenario for 2025–2026 anticipates a continued challenging business environment that will weigh on the industry and revenue generation potential. This is compounded by a tight monetary environment characterized by higher inflation and interest rates compared to recent years, which negatively affect economic activity, sector growth, and Company profits. Simultaneously, the Iron Swords War has led to a series of restrictions and consequences that have reduced economic activity. On the other hand, the higher interest rate environment in recent years has improved the solvency ratio and reduced insurance obligations in long-tail⁵ segments.

Midroog expects the industry to remain exposed to regulatory burdens, including the health insurance reform and the update to mortality tables published in July 2024, which may increase the Company's insurance obligations. The Company anticipates an increase in contributions to insurance reserves, estimated at NIS 80–130 million (after tax), affecting its financial results for Q2 2024.

Despite these developments, Midroog's base case scenario assumes that the Company will maintain its business positioning, with profitability rates remaining appropriate for the rating. Return on capital (ROC)

³ Migdal Insurance Company Ltd., Menora Mivtachim Insurance Ltd., Harel Insurance Company Ltd. and Clal Insurance Company Ltd.

⁴ The Company's standalone rating remains at A2, while its credit rating is capped at Baa1 due to the sovereign rating of Israel and the Company's connection to the local operating environment.

⁵ Long-term savings, long-term care, long-term health, compulsory vehicle insurance, and liabilities.

is projected to range between approximately 8.2%–10.9%, and the ratio of comprehensive income to gross earned premiums is expected to be around 9.5%–12.1% during the forecast years.

RATING OUTLOOK

The stable rating outlook reflects our assessment that the company’s financial profile and key metrics will be maintained under Midroog’s base-case scenario.

FACTORS THAT COULD LEAD TO A RATING DOWNGRADE

- Significant and sustained erosion of capital surpluses
- Material increase in product risk, particularly in non-life and long-term health insurance
- Significant and sustained deterioration in underwriting results in core business lines and/or significant and sustained decline in overall profitability
- Significant and sustained loss of market share
- Deterioration in the liquidity profile and/or significant and sustained shortening of the duration of liabilities

The Phoenix Insurance Company Ltd – Key Financial Indicators (NIS in millions)

Description	31.03.2025	31.03.2024	31.12.2024
Total Assets	160,807	145,175	158,683
Total Equity Attributable to Shareholders	6,921	6,083	6,742
Total Comprehensive Income Attributable to Shareholders	368	375	1,837
Total Gross Premiums	3,141	2,792	11,335
Of which: Life Insurance and Long-Term Savings	1,132	1,028	4,061
Of which: Health Insurance	759	616	2,392
Of which: General Insurance	1,250	1,147	4,882
Total Net Investment Income	1,024	5,876	16,713
Solvency ratio [1]	NR	NR	183%
Solvency ratio without application of the transition provisions for the phase-out period [2]	NR	NR	155%

Midroog's adjusted ratios

NIS in millions	31.03.2025	31.03.2024	31.12.2024
Intangible assets and long-term savings DAC as a percentage of equity [3]	15%	18%	16%
Return on capital (ROC) [4]	11.3%	12.4%	14.6%
Comprehensive income/gross premium	11.7%	13.4%	16.2%

[1] Taking into account the provisions for the phase-out period (including adjustment for equities scenario and effect of material capital transactions taking place in the period between the calculation date and the solvency ratio report publication date.

[2] Without considering the provisions for the phase-out period and adjustment for the phase-out period, taking into account events between the balance sheet date and the reporting date.

[3] The initial implementation of IFRS 17 led to the derecognition of Deferred Acquisition Costs (DAC) in the long-term savings segment, offset against a reduction in surpluses. Accordingly, the ratio refers to intangible assets from shareholders' equity.

[4] Comprehensive income to average financial liabilities (excluding derivatives) and equity attributable to shareholders during the period, on an annualized basis.

DETAILED RATING CONSIDERATIONS

A GOOD BUSINESS PROFILE, REFLECTED IN THE COMPANY'S SUBSTANTIAL SIZE AND DIVERSIFIED BUSINESS LINES, WHICH SUPPORT ITS REVENUE GENERATING CAPACITY

The Company is one of the three leading insurers in Israel over time, as reflected by an overall market share of approximately 14.6% in terms of gross premiums in 2024, and total assets under management (AUM) of approximately NIS 154 billion as of March 31, 2025. The business profile is supported by relatively well-diversified lines of business, with three significant segments over time, as reflected in the mix of gross premiums and management fees for the 12 months ended March 31, 2025. The most substantial segment is general insurance (approximately 42%), followed by life insurance and long-term savings (approximately 37%), and health insurance (21%). This mix represents a shift in the Company's business composition, as in previous years the life insurance and long-term savings segment was the most dominant (approximately 40% of total gross premiums and management fees from life insurance and long-term savings, approximately 36% from general insurance, and approximately 24% from health insurance for the 12 months ended March 31, 2024).

Additionally, we assess revenue diversification by the largest line of activity⁶ (in terms of premiums and management fees) compared to total lines of activity, where this line accounted for approximately 37% and originates from the life insurance and long-term savings segment. This reflects a continued improvement trend compared to previous years (approximately 40% in 2023 and 48% in 2022), and indicates a relatively diversified revenue mix, alongside a strong brand and a broad, diversified client base. These factors support the business profile and revenue generation potential throughout the economic

⁶Midroog examines four lines of activity: vehicle and property auto insurance, property insurance (other property and liabilities), life and long-term savings insurance, and health insurance.

cycle, while enabling the Company to address changes in the business environment, regulatory shifts, and macroeconomic impacts.

The Company's primary marketing and distribution channels are insurance agents and agencies. We believe that, similar to other companies in the industry, the Company will continue to diversify its distribution model in the coming years, strengthening the digital channel alongside agents and customers. In this context, we note that in recent years the Company has diversified its distribution channels, adapting them to a changing business environment and public preferences. Accordingly, the Company has a digital sales platform in the areas of auto, home, mortgage, pet, and overseas travel insurance under the "Smart" brand, enabling direct marketing to customers and supporting the Company's distribution channels. Additionally, the Company offers an application that consolidates all insurance products and other products within the Phoenix Group (including investments and credit), providing access, enhancing customer experience, and strengthening its technological positioning in the market.

We expect that continued brand establishment will support the expense structure, enable offering a comprehensive product suite to customers, assist in customer retention, and help address future innovation challenges in the industry. We believe that insurers who do not adopt technological innovation and adapt their business model over time may experience significant erosion in their business positioning.

Midroog's base case scenario for 2025–2026 anticipates a continued challenging business environment, which will weigh on the industry overall and on revenue generation potential in particular. Additionally, a tight monetary environment characterized by relatively high inflation and interest rates in recent years is negatively impacting economic activity, sector growth, and the Company's profits. Concurrently, the war has led to a series of consequences and restrictions that have adversely affected economic activity. On the other hand, the rising interest rate environment has improved the solvency ratio and reduced insurance liabilities in long-tail segments. Midroog's base case scenario assumes that the Company will maintain its business positioning.

The life insurance and long-term savings segment is expected to be impacted, on one hand, by continued intensifying competition in long-term savings products (mainly risk products), and by regulations limiting contributions to managers insurance⁷ that came into effect in September 2023, which are expected to continue weighing on premium growth potential in the sector. On the other hand, these effects will be moderated by a tight labor market, which will contribute to continued regular contributions in this segment. Simultaneously, the Company is emphasizing the marketing and sale of investment policies, which represent a growth strategy for the Company.

⁷ The regulations provide that the contribution to managers' insurance will be limited for new enrollees who earn more than double the national average salary.

In the health segment, we assume that premium growth will be influenced, on one hand, by regulations regarding the transition of insureds from “first-shekel” surgery insurance policies to “supplementary SHABAN” policies, and on the other hand, by continued demand for private healthcare services, with the Company focusing on more profitable individual segments. However, continued competition in the industry and the uniform policy structure will continue to exert some price pressure in this segment.

In the general insurance segment, we expect relatively moderate growth or stability in premium volumes throughout the forecast period. Premiums in this segment will be influenced, on one hand, by expansion in economic activity, supporting growth in both commercial and consumer insurance volumes, and on the other hand, by a gradual decline in vehicle property insurance rates, following significant rate increases in recent years.

THE RISK PROFILE IS APPROPRIATE FOR THE RATING; PROJECTED DECREASED EXPOSURE TO COLLECTIVES (GROUPS) DURING THE FORECAST YEARS SUPPORTS AN UPGRADING OF THE RATING

The Company is characterized by relatively low product risk, which supports underwriting capabilities and reduces insurance risk due to higher certainty regarding the volume and timing of claims. Product risk in non-life and short-term healthcare insurance is assessed by us to be appropriate for the rating, with approximately 77% of total gross premiums for the 12 months ended March 31, 2025 derived from “short tail” insurance contracts⁸, which we consider to carry lower insurance risk compared to “long tail” contracts, which are marked by greater uncertainty regarding claim development and timing due to their extended settlement periods.

In our assessment, the Company’s policies and control procedures for evaluating and managing exposure to reinsurers are appropriate. As of December 31, 2024, the largest reinsurer exposure ratio stood at approximately 12% of total exposure, which is low compared to the industry average of around 26% in 2024, reflecting good diversification among reinsurers. The retained exposure to reinsurers from equity stood at approximately 39%. Additionally, the Company hedges insurance risks in certain non-life segments through highly rated reinsurers, with relatively low retained exposure in the event of a catastrophe, standing at approximately 1.6% of equity as of December 31, 2024, which is low relative to the industry.

The rate of “high-risk” reserves, as defined by us, in life and long-term health insurance is appropriate for the rating, standing at approximately 19% as of December 31, 2024, reflecting an improvement compared to 24% as of December 31, 2023. This improvement follows the termination of the group

⁸ Vehicle property, other property and short-term healthcare.

long-term care insurance policy for members of Maccabi Healthcare Services, as previously mentioned. This ratio reflects relatively low exposure to guaranteed-yield and/or life expectancy mechanisms, net of HETZ bonds, which expose insurers to significant exogenous changes, including interest rate curve shifts, capital market volatility, and demographic risks.

The risk profile is further supported by relatively low exposure to large collectives and insureds, which accounted for approximately 10% of total gross premiums in 2024, representing a significant improvement compared to 19% in 2023. This reduction is primarily due to the termination of the group long-term care insurance policy for members of Maccabi Healthcare Services, as noted above.

In our assessment, the Company's risk management policies and control frameworks are appropriate for the rating and are supported by regulatory requirements. Full implementation of the Solvency II Directive, particularly its second pillar (ORSA), is expected to enhance risk management processes both within the Company and across the industry, support improvement of the risk profile over time, and enable measurement of economic capital, despite the inherent volatility under the Solvency II regime. Furthermore, Midroog expects the Company to continue placing strong emphasis on operational risk management in the coming years, which is a key emerging risk area, as well as on information security, business continuity, and cyber⁹ risk. The Company's surplus capital under the Solvency II regime supports the risk profile, business flexibility, and the ability to build appropriate risk management processes without regulatory pressure.

ASSET QUALITY IS APPROPRIATE FOR THE RATING, BUT IS NEGATIVELY AFFECTED BY AN INCREASE IN THE COMPANY'S RISK ASSETS WITH RESPECT TO THE ABSORPTION BUFFER

In our assessment, the Company's nostro investment profile reflects a risk appetite that is high for the rating, as indicated by the ratio of "at-risk assets"¹⁰ to equity, which stood at approximately 130% as of March 31, 2025. As of that date, the investment mix in the nostro portfolio consisted primarily of government bonds (approximately 35%), investment funds (approximately 16%), and loans secured by collateral (approximately 15%), with the remaining investments relatively diversified and less material in the overall mix. The ratio of intangible assets and deferred acquisition costs (DAC) in life insurance—components considered to have a "softer" value than equity—has significantly improved following the initial implementation of IFRS 17, which led to the elimination of DAC against retained earnings. As of March 31, 2025, this ratio stood at approximately 15%, which is appropriate for the rating.

⁹ See Midroog's related report on the following topic: [Goodwill damages arising from cyberattacks could exact a business price from companies.](#)

¹⁰ High risk assets include financial investment assets, excluding cash, government bonds and investment rated corporate bonds, with the latter weighted at a partial reliance rate, reflecting a risk of possible impairment over the credit cycle due to credit, market or liquidity risks.

CAPITAL ADEQUACY IS APPROPRIATE FOR THE RATING AND COMPARES FAVORABLY IN RELATION TO THE INDUSTRY, AS REFLECTED BY THE ECONOMIC SOLVENCY RATIO, AND SUPPORTS AN UPGRADING OF THE RATING

The ratio of equity to total assets on the balance sheet (excluding assets for yield-dependent contracts) stood at approximately 15.6% as of March 31, 2025, and is appropriate for the rating. We believe that in the short to medium term, this ratio will remain stable and/or improve, due to the continued consolidation of the Company's capital buffer.

The Company's capital adequacy compares favorably relative to the industry over time, and is reflected in significant capital surpluses above the Solvency II Directive. As of December 31, 2024, the solvency capital requirement (SCR) ratios stood at approximately 183% (taking into account the phase-out provisions and including the impact of capital actions after the reporting date), and approximately 155% without taking into account the phase-out provisions. These ratios are appropriate for the rating, compare favorably with the peer group, and support the Company's business flexibility and ability to execute strategic initiatives, given the margin above the regulatory requirement.

The Company's board of directors has set capital management targets, including a target range for the Solvency II-based economic solvency ratio. The target range during and after the phase-out period is set between 150%–170%, with a minimum target of 135% (taking into account the deduction during the phase-out period until the end of 2032). Additionally, the board has set a minimum solvency ratio for dividend distribution (excluding the phase-out provisions), which stood at 121% as of March 31, 2025, and is expected to reach 135% by the end of the phase-out period, in line with the Company's capital plan.

In May 2025, the board approved an update to the dividend distribution policy, shifting from semi-annual to quarterly distributions, at a rate of approximately 40%–60% of total distributable profit. This is subject to the aforementioned capital targets and the regulatory restrictions¹¹ on dividend distribution applicable to insurance companies. We believe the Company will continue to build its capital buffer and maintain a Solvency II ratio that is appropriate for the rating, despite our assumption of continued dividend distributions within the forecast range, in accordance with the Company's stated policy.

¹¹ Pursuant to the Commissioner's letter from October 2017, an insurance company may pay out a dividend only if after the payout the company has a solvency ratio as per the Solvency Circular, of at least 100%, calculated without taking into account the transitional provisions, and subject to the solvency ratio target set by the company's board of directors. In addition, the letter establishes provisions for reporting to the Commissioner.

PROFITABILITY INDICATORS THAT ARE APPROPRIATE FOR THE RATING BUT EXPECTED TO MODERATE TO A CERTAIN EXTENT IN THE FORECAST YEARS

During 2024 and the first quarter of 2025, the Company recorded a significant improvement in profitability indicators. The initial implementation of IFRS 17 contributed positively to profits in the life and health segments during these periods. Additionally, the improvement in profitability in 2024 was driven by substantial investment gains, following strong capital market performance. These factors were reflected in the ROC and comprehensive income to gross earned premiums ratios, which stood at approximately 11.3% and 11.7%, respectively, on an annualized basis for Q1 2025, compared to 14.6% and 16.2%, respectively, for full-year 2024 (versus 5.2% and 5.3%, respectively, in 2023).

Midroog's base case scenario for 2025–2026 assumes that the Company will maintain high profitability levels that are appropriate for the rating. However, we expect that the business environment—impacted by the effects of the war and a restrictive macroeconomic climate—will continue to weigh on the insurance industry, particularly on profit generation potential and the ability to build capital buffers from current earnings. The industry is also expected to remain affected by volatile capital market returns and regulatory burdens that foster competition and generate additional costs.

In the health insurance segment, profitability is expected to remain under pressure due to regulatory changes and the business focus of most companies on profitable segments. These include the transition from “first-shekel” surgical policies to “supplementary SHABAN” policies and the adoption of a uniform policy structure, which intensify price competition.

In the non-life insurance segment, competition is expected to remain high, both from traditional insurers and direct insurance companies, alongside continued development and use of digital tools and AI technologies that increase competitive pressure. Profitability in motor insurance is expected to be influenced by a gradual decline in property insurance rates—following significant rate increases in recent years—and by improvements in operational efficiency. This includes better control over operating cost structures through increased use of technology, streamlined claims handling, and use of arrangement garages. The Company is well positioned in the motor insurance sector, with a product portfolio that includes the “Smart” brand, which is expected to support better cost control as its share of total production increases.

As a result, we estimate that the Company's profitability indicators will remain strong and appropriate for the rating during the forecast years, with ROC expected to range between approximately 8.2%–10.9%

and comprehensive income to gross earned premiums expected to range between approximately 9.5%–12.1%.

A LIQUIDITY PROFILE THAT IS LOW FOR THE RATING AND NEGATIVELY AFFECTED BY AN INCREASE IN SHORT-TERM OBLIGATIONS; FINANCIAL FLEXIBILITY THAT IS APPROPRIATE FOR THE RATING AND SUPPORTED BY A WIDE MARGIN FROM THE REQUIRED REGULATORY CAPITAL ADEQUACY RATIO

The Company's liquidity profile is stable but low for the rating, as reflected in a current ratio of approximately 1.5x between the inventory of weighted liquid assets and the projected short-term insurance and financial obligations.

The Company's financial flexibility is assessed as appropriate for the rating and is supported by solvency ratios that are significantly above the regulatory requirement, alongside the absence of material pressure for dividend distribution in the short term from the parent company, Phoenix Holdings Ltd. (“**Phoenix Holdings**”), which is characterized by significant capital surpluses and low leverage, and is rated Aa2.il with a stable outlook.

In our assessment, Phoenix Holdings is to some extent dependent on dividend distributions from the Company for servicing its debt, with the insurance company still serving as a central anchor in the consolidated operations of the parent company and maintaining business ties with other companies in the group. However, the parent company also relies on additional sources, including Phoenix Pension and Provident Funds Ltd., Phoenix Insurance Agencies Ltd., Phoenix Capital Partners Ltd., Phoenix Investment House Ltd., and Gamma Clearing and Management Ltd..

We believe the Company has good access to financing sources, including for improving its solvency ratio (through issuance of Tier 2 capital instruments and additional Tier 1 capital). As of the report date, the Company holds an international credit rating of Baa1 with a stable outlook (by Moody's), reflecting potential for capital raising abroad, supporting the Company's ability to increase the share of foreign investors in the group. The Company also has additional tools at its disposal (such as agreements with

reinsurers, changes in the investment mix, etc.) to address potential deterioration in the solvency ratio, if needed.

ADDITIONAL RATING CONSIDERATIONS

A RELATIVELY LONG DURATION OF OBLIGATIONS, SUPPORTING THE LIQUIDITY PROFILE

The Company has a relatively long duration of obligations, which strongly supports both its liquidity profile and its rating. In our assessment, insurers characterized by a long duration of obligations and without put options for policyholders to make capital calls are less exposed to liquidity risk and have better responsiveness over time—factors that support their resilience and credit rating.

Additionally, the volatility that may arise from the mark-to-market (MTM) valuation of assets does not always reflect the true economic value for insurance companies with a long duration of obligations, given their ability to hold the relevant assets to maturity. Therefore, in our view, the economic capital of such companies may be less exposed to short-term market fluctuations.

ESG CONSIDERATIONS

Environmental considerations: Insurance companies in Israel, particularly those operating in the non-life insurance sector, are exposed to risks associated with climate change. These include potential increases in the frequency and severity of natural disasters (e.g., earthquakes, fires, floods), which may result in significant losses and impact actuarial models. In our assessment, the difficulty in estimating the impact of climate events—should they materialize—adds to the uncertainty inherent in this risk. While insurers generally have the ability to periodically reprice policies, the rising global incidence of catastrophic losses linked to climate change and the accumulation of such risks adds complexity to underwriting and risk management. These exposures are largely mitigated through the use of reinsurance, although insurers remain indirectly exposed to the financial strength of the reinsurers. Any deterioration in the financial condition of reinsurers covering local insurers could pose an additional risk to the sector. We believe these risks are adequately reflected in the rating scorecard, particularly under the “product risk – non-life and long-term health insurance” parameter, as well as in the solvency ratio, which incorporates various capital requirement scenarios.

Social considerations: Israeli insurance companies, especially those active in life insurance, long-term savings, and health sectors, are exposed to significant demographic and social changes, including increased longevity and rising morbidity rates. The extension of life expectancy due to lower post-retirement mortality rates affects the duration of future annuity payments (especially in policies with guaranteed conversion factors), requiring higher reserves to cover these payments. Additionally, an increase in mortality rates among holders of life insurance policies that provide death benefits (risk policies), including in catastrophic events, may lead to immediate losses and impact portfolio value. Rising morbidity—particularly in long-term care, disability, and prescription drug insurance—also materially affects insurers’ profitability. These risks are appropriately reflected in the rating scorecard, specifically under the “product risk – life insurance and long-term savings, LTC and long-term health” parameter, and in the solvency ratio, which accounts for various capital requirement scenarios.

Corporate Governance Considerations: In our view, corporate governance risks have a material impact on the insurance industry and represent a key credit consideration. Weak governance practices can negatively affect an insurer’s creditworthiness, while strong governance can have a positive effect. A mitigating factor is the regulatory framework within which insurers operate, which mandates robust internal controls and strong oversight by the regulator. Midroog has reviewed the Company’s governance practices and does not identify significant exposure to governance-related risks.

STRUCTURAL CONSIDERATIONS

ATTRIBUTES OF THE SUBORDINATED INSTRUMENTS

In accordance with Midroog's methodology, the anchor for rating subordinated debt instruments (hybrid Tier 2, Tier 2, and additional Tier 1 capital) is the insurer financial strength (IFS) rating, from which we adjust the rating to reflect the credit risk of the subordinated instrument based on its contractual features.

We apply a two-notch downgrade from the IFS rating for hybrid Tier 2 and Tier 2 capital instruments, and a three-notch downgrade for additional Tier 1 capital instruments. These downgrades reflect the legal and contractual subordination of these instruments relative to the IFS rating, the seniority hierarchy among subordinated instruments, and the impact of embedded loss absorption mechanisms (triggered either by contractual "suspensive circumstances" or "triggering events," or at the discretion of the Commissioner of Insurance).

For hybrid Tier 2, Tier 2, and additional Tier 1 capital instruments, we assess that the uncertainty regarding the likelihood of reaching "suspensive circumstances" or a "triggering event" is significantly lower than the Company's current and expected solvency ratio, and therefore does not warrant an additional notch downgrade.

"Suspensive circumstances" are defined in the Solvency Circular as a solvency ratio of 80% of the required solvency ratio over the phase-out period, after adjustment for the equity scenario. A "triggering event" occurs under any of the following conditions:

1. The insurer's equity, based on the financial statement preceding the most recently published one, is below the required solvency capital (SCR), and no capital injection has been made.
2. The solvency ratio in the most recently published financial statement is below 75%, and no capital injection has been made.
3. There are significant doubts regarding the insurer's ability to continue as a going concern.

As of December 31, 2024, the Company's solvency ratio over the phase-out period stood at approximately 183%, after the impact of material capital actions, as previously noted.

RATING SCORECARD

			As of 31.03.2025	Midroog forecast [1]		
Category	Parameter	Sub-parameter	Measurement [1]	Score	Measurement	Score
Business profile	Business positioning		15%	Aa.il	~15%	Aa.il
	Distribution channels		-	Aa.il	-	Aa.il
	Revenue diversification		40%	Aa.il	~40%	Aa.il
Risk profile	Product risk – non-life and short-term health insurance		67%	Aaa.il	~67%	Aaa.il
	Product risk – life insurance and LTS, LTC and long-term health insurance		24%	Aa.il	20%-10%	Aa.il
	Rate of exposure to collectives and large enterprises (group out of total premiums)		19%	Aa.il	~10%	Aaa.il
	Risk management policy		-	Aa.il	-	Aa.il
Financial profile	Asset quality	High-risk assets/equity	128%	A.il	~128%	A.il
		DAC life + intangibles/equity	29%	Aaa.il	~29%	Aaa.il
	Capital adequacy	% excess capital above regulatory requirements [1]	194%	Aa.il	~194%	Aa.il
		Equity/total assets on balance sheet (excluding yield-dependent)	15.6%	Aaa.il	~16%	Aaa.il
	Profitability	Return on capital (ROC)	5.0%	A.il	5.1%-4.8%	Aa.il*
		Comprehensive income/gross premium	11/7%	Aa.il	12.1%-9.5%	Aaa.il*
	Liquidity	Liquidity ratio (excluding yield-dependent)	1.5x	A.il	1.5x	A.il
	Financial flexibility		-	Aa.il	-	Aa.il
Implied score						Aa1.il
Final score						Aaa.il

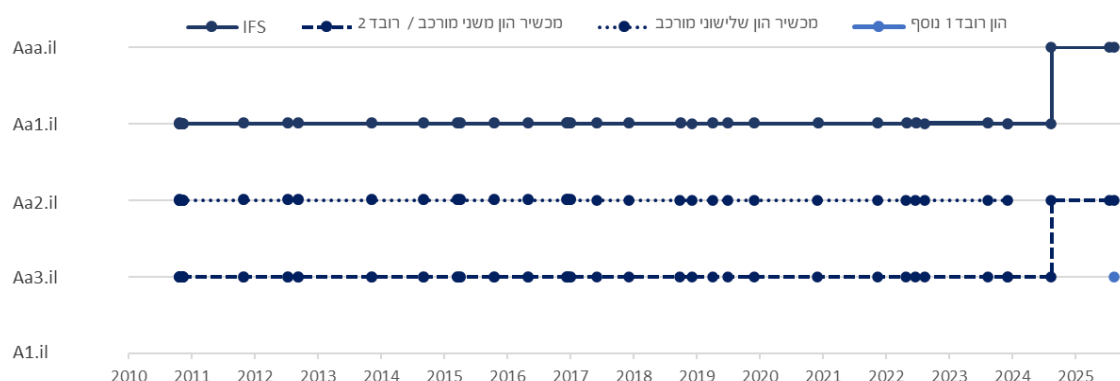
[1] The metrics shown in the table are after adjustments by Midroog and are not necessarily identical to those presented by the Company. The Midroog forecast includes Midroog's assessments with respect to the issuer as presented in its base case scenario and forecast, and not the issuer's assessments.

*The score calculation takes into account the forecast range and results of past years.

COMPANY PROFILE

The Company operates across all major insurance sectors, including life insurance and long-term savings, non-life insurance (including motor insurance (compulsory and property) and other general insurance), and health insurance. The controlling shareholder of the Company is Phoenix Holdings Ltd., a public company whose shares are traded on the Tel Aviv Stock Exchange. As of the report date, interested parties hold approximately 10.0% of the issued and paid-up share capital of Phoenix Holdings (with AP Invest holding approximately 9.9%), financial institutions hold approximately 15.1%, and the public holds approximately 74.9%. The Company's CEO is Eyal Ben Simon and the Chairman of the Board of Directors is Binyamin Gabbay.

RATING HISTORY



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GENERAL INFORMATION

Date of rating report:	August 24, 2025
Date of last revision of the rating:	July 27, 2025
Date of first publication of the rating:	October 28, 2010
Rating commissioned by:	The Phoenix Insurance Company Ltd.
Rating paid for by:	The Phoenix Insurance Company Ltd.

INFORMATION FROM THE ISSUER

Midroog relies in its ratings inter alia on information received from competent personnel at the issuer.

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 obligation 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 obligation ranks in the lower end of that category, denoted by letters.

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