Maalot
S&P Global Ratings

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

November 2, 2022

Rating Affirmation

'ilAA+' Rating Affirmed On Phoenix Insurance Ltd., Outlook Stable; 'ilAA-' Rating Affirmed On The Phoenix Holdings Ltd., Outlook Stable

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'ilAA+' Rating Affirmed On Phoenix Insurance Ltd., Outlook Stable; 'ilAA-' Rating Affirmed On The Phoenix Holdings Ltd., Outlook Stable

Overview

- The Phoenix Holdings Ltd. ("Pheonix Holdings") benefits from a strong business position as one of the three largest insurance groups in Israel, with material business line diversification.
- In 2021-2022, Phoenix Insurance Company Ltd. ("Phoenix Insurance" or "the Company") used its market position to successfully grow its business while generating good profitability and accumulating capital, leading to an improvement in its solvency ratio.
- The group's capitalization, as calculated by S&P Global Ratings' risk-adjusted capital model, remained stable.
- At the same time, we estimate that Phoenix Holdings' liquidity improved, supported by its improved ability to serve its debt from its own resources.
- We therefore affirm our 'ilAA+' rating on Pheonix Insurance Company Ltd., the outlook is stable. At the same time, we affirm our 'ilAA-' rating on The Phoenix Holdings Ltd. with a stable outlook.

Rating Action

On November 2, 2022, S&P Maalot affirmed its 'ilAA+' rating on Pheonix Insurance Company Ltd., the outlook is stable. At the same time, S&P Maalot affirmed its 'ilAA-' rating on tier 2 junior subordinated issues and 'ilA+' rating on tier 1 junior subordinated note, issued by the Company through Phoenix Capital Raising (2009) Ltd. S&P Maalot also affirmed its 'ilAA-' rating on The Phoenix Holdings Ltd.

Key analytical factors

We consider Phoenix Insurance's robust position as a strength underpinning its rating, being one of the three largest insurance companies in Israel. The Company has diverse lines of business, which include extensive life insurance and long-term savings activities, PC insurance and health insurance. Phoenix Insurance is the second largest insurer in Israel by premiums.

Using its strong market position, Phoenix Holdings has shown high growth in premiums and deposits in last couple of years, while generating solid profitability. In the first half of 2022, the Company's pre-tax income was NIS 739 million, despite a NIS 1.5 billion loss due to securities revaluations. This income was mainly due to the increase in the interest rate, which had a positive effect on life and health insurance activities owing to the release of reserves and an improvement in the solvency ratio. All of the Company's lines of operations recorded underwriting profit, although PC insurance recorded a total loss due to investment losses. Excluding investment losses, the Company’s PC insurance line recorded underwriting profit, unlike peers presenting underwriting loss, which we view positively. Underwriting profitability measured by a net combined ratio of about 90% on average over the last five years is supported by Phoenix Insurance's pricing strategy and by its focus on more profitable products. PC insurance premiums grew by 21% in 2022, although most of the growth came from rising premium prices.

Phoenix Holdings posted strong results in 2021, with a total income of NIS 2,316 million, of which NIS 1,727 million came from the insurance company, which distributed approximately NIS 500 million as a dividend. The income was translated into 26.3% return on capital and a Solvency II coverage ratio (SCR) of 196%, above the Company's goal of maintaining an SCR of 150%-170%. Rising interest rates and investment income increasing to over 3% contributed NIS 1,093 million to total post-tax income of NIS 1,658 million, coupled with strong overall revenue growth due to 58% organic and inorganic growth in managed assets (and to 10% growth in PC insurance premiums).

Phoenix Insurance’s Solvency II capital ratio improved, and the group’s capitalization, as calculated by S&P Global Ratings’ risk-adjusted capital model, remained stable in the past year. The Company's share capital grew slightly in the second half of 2022, from NIS 9.9 billion to NIS 10.1 billion. The Solvency II coverage was 190% on December 31, 2021, compared to 192% on December 31, 2020.

We estimate that Phoenix Holdings’ liquidity improved, as well as its ability to serve its debt from its own resources. Our assessment is supported by the IPO and registration for institutional trading, as well as by receipts from holdings in unregulated non-insurance activities. These activities include Phoenix Agencies, which markets the Company's products and competitors' products and posts high profitability and liquidity, Excellence which posts high profitability and liquidity and growth in managed assets, and Gamma, which provide credit and clearing services and was first issued to the public in 2021. In addition, Phoenix Holdings has pension and provident activity transferred from the insurance company, which generates fixed management fees that increase in tandem with the increase in asset volume. This activity is regulated, although its capital requirements are lower than Solvency II ones. Overall, we expect non-insurance activities to continue growing and the ensuing cash flow to increase and reduce dependence on dividend receipts from Phoenix Insurance. This is also supported by the insurance company’s dividend policy and by the high Solvency ratio.

We estimate that the group's capitalization, as measured by the S&P Global Ratings' risk-adjusted capital model, will remain stable in relation to its balance sheet risks. This is based on the assumption that surpluses will be used for growth or for income distribution to shareholders, in accordance with the insurance company's dividend policy. The group has continued to tap the market through two Tier 2 issues and bonds at the holding company level in 2022. We believe these issuances indicate good access to finance, supporting our assessment of the Company's Financial Structure.

We estimate that the group's leverage and interest coverage ratio are commensurate with the current rating.

Outlook

The stable outlook on Phoenix Insurance reflects our assessment that the Company will maintain its leading business position in the Israeli insurance industry in the next 18-24 months, as well as a stable financial risk profile. Our assessment is based on the Company's diverse business model and its high profitability which supports higher capital and loss absorption ability, and the capitalization in relation to balance sheet risks.

The stable outlook on Phoenix Holdings reflects our assessment that it will maintain an adequate level of liquid sources, at least at the current level of 1.2x of 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 in case of continuous strengthening of the Company's stand-alone and consolidated capitalization, supported by good operating performance, such that its loss-absorption buffer permanently increases to a level corresponding to a higher confidence level in S&P Global Ratings' risk-adjusted capital model. At the same time, we expect Phoenix Insurance to maintain at least the current growth rate in premiums and gross deposits for pension and provident funds.

An upgrade on Phoenix Holdings in the next 18-24 months would be possible in case of an upgrade on Phoenix Insurance.

Downside Scenario

We may lower the rating on Phoenix Insurance in the next 18-24 months in case of a marked deterioration in operating performance that would erode its capital buffer and jeopardize its loss absorbing capacity, thus materially weakening its capitalization. A negative rating action is also possible if its gross premium accumulation materially decreases, beyond our expectations and faster than local peers, leading us to conclude that its business position in the Israeli insurance market has weakened.

We may lower the rating on Phoenix Holdings in the next 18-24 months in case of a deterioration in its capacity to serve its liquidity needs from its own sources. A negative rating action on Phoenix Insurance could also lead to a similar 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
- Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- 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
- S&P Global Ratings Definitions, November 10, 2021

Ratings List

Phoenix Insurance Company Ltd., The Phoenix Holdings Ltd., Phoenix Capital Raising (2009) Ltd.	Rating	Date when the rating was first published	Last date when the rating was updated
Issuer rating(s)			
The Phoenix Holdings Ltd			
Long term	ilAA-/Stable	14/03/2007	24/10/2021
Phoenix Insurance Ltd.			
Long term	ilAA+/Stable	24/05/2004	24/10/2021
Issue rating(s)			
The Phoenix Holdings Ltd			
Senior Unsecured Debt			
Series 4	ilAA-	03/02/2020	24/10/2021
Series 5	ilAA-	03/02/2020	24/10/2021
Series 6	ilAA-	14/12/2021	14/12/2021
Phoenix Capital Raising (2009) Ltd.			
Subordinate hybrid debt			
Series 12	ilA+	27/07/2021	24/10/2021
Series 9	ilAA-	03/02/2020	24/10/2021
Series 4	ilAA-	03/02/2020	24/10/2021
Series 5	ilAA-	03/02/2020	24/10/2021
Series 6	ilAA-	03/02/2020	24/10/2021
Series 8	ilAA-	03/02/2020	24/10/2021
Series 10	ilAA-	03/02/2020	24/10/2021
Series 11	ilAA-	16/02/2019	24/10/2021
Series 13	ilAA-	23/06/2022	23/06/2022
Issuer Credit Rating history			
Phoenix Insurance Ltd.			
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		

The Phoenix Holdings Ltd	
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
March 14 ,2007	ilAA/Stable

Additional details	
Time of the event	02/11/2022 11:47
Time when the event was learned of	02/11/2022 11:47
Rating requested by	Issuer

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