The Phoenix Insurance Company Ltd.

Monitoring Report | August 2024

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.

Contacts:

Lidor Uzan
Analyst, Lead Rating Analyst
lidor.u@midroog.co.il

Amit Federman, CPA
Senior Team Leader, Secondary Rating Analyst
amit.federman@midroog.co.il

Moty Citrin, Vice President
Head of Financial Institutions, Structured Finance and Additional Services
moty.c@midroog.co.il

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

Midroog upgrades the IFS rating of The Phoenix Insurance Company Ltd. ("Phoenix" or the "Company") from Aa1 to Aaa.il, and it also upgrades the rating of the deferred notes (hybrid Tier 2 and Tier 2 capital instruments) issued through the subsidiary The Phoenix Capital Raising (2009) Ltd., from Aa3.il(hyb) to Aa2.il(hyb). The rating has been upgraded in view of a favorable capital adequacy ratio relative to the sector, along with improved diversification of revenues and profitability that compares positively with the peer group, as well as a risk profile that remains appropriate for the rating. The outlook has been changed from positive to stable.

The subordinated debt ratings reflect the legal-contractual subordination of this debt to the IFS rating, the seniority ranking among the subordinated debt instruments, as well as the effect of their loss absorption mechanisms. Considering the Company's IFS, as well as its current and expected economic solvency ratio as estimated by us, while maintaining an adequate margin from the effective regulatory economic solvency requirement for the instrument, we believe that the uncertainty over the likelihood of reaching "suspensive circumstances"[1] is low, and therefore it is not reflected in a further downgrade of one notch for Tier 2 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 B8	1139815	Aa2.il(hyb)	Stable	Tier 2 capital [1]	31/07/2028
PHONIX CAP B9	1155522	Aa2.il(hyb)	Stable	Tier 2 capital	31/08/2029
PHONIX CAP B10	1155530	Aa2.il(hyb)	Stable	Tier 2 capital	31/01/2028
PHONIX CAP B11	1159359	Aa2.il(hyb)	Stable	Tier 2 capital	30/04/2032
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

[1] Hybrid Tier 2

[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**").

Summary of Rating Rationale

The Company rating reflects a strong business profile, supported by the Company being one of Israel's top three insurance companies over time, as reflected by an overall market share of 15% in terms of gross premiums, as well as assets under management (AUM)[2] totaling NIS 135 billion, as of March 31, 2024. The business profile is also supported by relatively well diversified lines of business, as reflected in three significant segments over the past 12 months – life insurance[3] (40% of total gross premiums and management fees, on average), non-life insurance (36%) and health insurance (24%), along with a strong brand, adequate control of the distribution system and a broad and diversified customer base. The above parameters support the business profile and revenue generation potential over the economic cycle, while contending with changes in the business environment, regulatory changes and macroeconomic influences. The Company's risk profile is appropriate for the rating and is supported by relatively low product risk, alongside exposure to collectives out of total premiums in the health segment, which, however, is expected to moderate following the termination of the period of insurance of the group long-term care insurance policy for members of Maccabi Healthcare Services.[4] In addition, the Company's risk management policy is appropriate for the rating. Asset quality as well is appropriate for the rating, in spite of an increase in risk assets relative to the absorption buffer. Capital adequacy is appropriate for the rating, as reflected in capital surpluses above the Solvency II Directive, with the solvency ratios (SCR) as of December 31, 2023 standing at 194% (considering phase-out period) and 152% (without considering the phase-out period). These ratios are good for the rating and compare favorably with the peer group,[5] and we believe that they support the Company's financial flexibility and ability to implement strategic moves, in view of the margin from the regulatory requirement. The Company's financial profile is supported by profitability that is appropriate for the rating and that compares favorably with the peer group. It is dependent on performance and capital market gains and is bolstered by surplus underwriting profits in the health insurance segment.

[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).
[3] Excluding investment contract premium.
[4] Further information on the termination of the period of insurance of the group long-term care insurance policy for Maccabi members can be found in the immediate report dated December 19, 2023 issued by the Company on the MAYA system (Reference No. 2023-01-137454).
[5] Migdal Insurance Company Ltd., Menora Mivtachim Insurance Ltd., Harel Insurance Company Ltd. and Clal Insurance Company Ltd.

The Company is marked by a low liquidity profile for the rating that is negatively affected by an increase in obligations that will be payable in the short-term, while the financial flexibility is appropriate for the rating. We believe that the Company has good access to sources of finance, both for improving the solvency ratio (issuance of Tier 2 capital instruments and additional Tier 1 capital) and in light of the international rating by Moody's at A2 with a negative outlook, reflecting a potential for raising capital abroad along with an ability to increase the percentage of foreign investors in the Group, as well as additional tools the Company has (agreements with reinsurers, change in the investment mix, etc.) for contending with a possible deterioration in the solvency ratio, should this be necessary.

Midroog's base case scenario for 2024-2025 foresees a business environment that will continue to be challenging and to weigh on the industry in general and on revenue generation potential in particular. This is added to a tight monetary environment marked by higher inflation and interest rates than in previous years, adversely affecting economic activity and capital market returns and impacting sector growth and the Company's profits. Simultaneously, the Iron Swords War (the "**War**") has led to a series of restrictions and ramifications resulting in 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 segments with a "long tail."[6] In our assessment, the industry will continue to be exposed to a regulatory burden, reflected, among other things, in the health insurance reform and in the update to the mortality tables which was published in July 2024 and could lead to an increase in the Company's insurance obligations. The Company foresees an increase in the contribution to insurance reserves, amounting to an estimated NIS 80-130 million (after tax) on its financial results for the second quarter of 2024. Notwithstanding the developments described above,[7] Midroog's base case scenario assumes that the Company will maintain its business positioning, while its profitability rates will decline to a certain extent but remain appropriate for the ratio, with ROC projected to be in the range of 4.8%-5.1% and the ratio of comprehensive income to gross earned premiums to be on the order of 5.8%, in the forecast years.

[6] Compulsory motor and liabilities.

[7] Further information on the Company's assessment of the expected effects of the update to the mortality tables can be found in the immediate report dated July 25, 2024 issued by the Company on the Maya system (Reference No. 2024-01-076539).

Rating Outlook

The stable outlook reflects our assessment that the Company's financial profile and key indicators will be maintained within the range of Midroog's base case scenario.

At the same time, the war that broke out in Israel on October 7, 2023 has led to a series of restrictions and repercussions, coupled with uncertainty as to the scale and duration of the war and its effects on the Israeli economy. Further elaboration on the subject is provided in the special report: "Impact of the Iron Swords War on the Creditworthiness of Issuers Rated by Midroog" (October 2023).[8]

Factors that could lead to a rating downgrade

- Significant, ongoing erosion of capital surpluses.
- Material increase in the risk associated with products, particularly non-life and long-term health insurance.
- Ongoing deterioration in underwriting results in the core lines of business and/or ongoing, significant decline in overall profitability.
- Continuous loss of market share.
- Weakening of the liquidity profile and/or significant, ongoing shortening of the duration of obligations.

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

NIS in millions	31.03.2024	31.03.2023	31.12.2023	31.12.2022	31.12.2021	31.12.2020
Total assets on balance sheet	145,232	139,039	147,638	136,616	134,875	115,498
Total equity attributable to shareholders	6,577	6,408	6,418	6,628	6,592	6,192
Total comprehensive income (loss) attributable to shareholders	155	(17)	641	640	1,728	1,060
Total gross earned premiums	2,661	2,952	11,988	12,137	11,161	10,383
Of which life insurance and long-term savings	1,028	1,208	4,542	5,611	5,423	4,766
Of which health insurance	511	808	3,309	3,055	2,735	2,782
Of which non-life insurance	1,122	936	4,137	3,471	3,003	2,835
Total retained earned premiums	2,260	2,560	10,356	10,567	9,816	9,054
Total investment gains (losses) (including other comprehensive income)	5,786	1,029	10,034	(6,136)	15,066	5,743
Solvency ratio [1]	NR	NR	194%	211%	190%	192%
Solvency ratio without application of the transition provisions for the phase-out period [2]	NR	NR	152%	149%	117%	116%

[8] See: "Special Report – Impact of the Iron Swords War on the Creditworthiness of Issuers Rated by Midroog."

Midroog's adjusted ratios

NIS in millions	31.03.2024	31.03.2023	31.12.2023	31.12.2022	31.12.2021	31.12.2020
Intangible assets and long-term savings DAC as a percentage of equity	29%	26%	30%	26%	24%	35%
Return on capital (ROC) [3]	5.0%	(0.6%)	5.2%	5.5%	15.9%	10.8%
Comprehensive income/gross premium	5.8%	(0.6%)	5.3%	5.3%	15.5%	10.2%

[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] 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 has long been one of the three leading insurers in Israel, as reflected by a 15% overall market share in terms of gross premiums and by total assets under management (AUM) amounting to NIS 135 billion, as of March 31, 2024. The business profile is supported by relatively well diversified lines of business, as reflected in three significant segments over the past 12 months – life insurance (40% of total gross premiums and management fees), non-life insurance (36%) and health insurance (24%). At the same time, we have assessed revenue diversification by the largest line of activity[9] (in terms of premiums and management fees) compared to total lines of activity, where this line of activity has accounted for 40% and is in the segment of life insurance and long-term savings, which has shown steady improvement (48% in 2022 and 54% in 2021), and a relatively diversified revenue mix, along with a strong brand and a large, diversified client base. These support the business profile and the revenue generating potential over the economic cycle, while addressing changes in the business environment, regulatory changes and macroeconomic effects.

The Company's major marketing and distribution channels include insurance agents and agencies; concurrently, in recent years, the Company has diversified its distribution channels, adapting them to the changing business environment and to the range of public tastes. Thus, the Company has launched a digital sales platform in the areas of auto, home, mortgage, pet and overseas travel insurance, under the Smart brand. Furthermore, the Company has recently continued bolstering its technological positioning in the market by launching a new application, which bundles together the entire range of insurance

[9] Midroog 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.

products and other products in the Phoenix Group (including, among others, investments and credit facilities), provides access to them, and improves the customer experience. We expect that continued establishment of the brand will support the expense structure, help in offering a comprehensive range of products to clients, aid in client retention, and facilitate addressing future innovation challenges in the sector. In this connection, we believe that insurers that do not adopt technological innovation and do not adapt their business model over time, could find their business positioning significantly eroded.

Midroog's base case scenario for 2024-2025 foresees a business environment that will continue to be challenging and to weigh on the industry in general and on revenue generation potential in particular. This is added to a tight monetary environment marked by higher inflation and interest rates than in previous years, adversely affecting economic activity and capital market returns and impacting sector growth and the Company's profits. Simultaneously, the Iron Swords War has led to a series of restrictions and ramifications resulting in 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 segments with a "long tail." Midroog's base case scenario assumes that the Company will maintain its business positioning, but gross earned premiums will decrease to a certain extent, mainly due to the reforms in managers insurance and in health insurance.

The life insurance and long-term savings sector is expected to be impacted, on the one hand, by the continued growing competition in the long-term savings products (mainly in the risk products), and by the regulations limiting contributions to managers insurance[10] that became effective in September 2023, and which are expected to continue casting a cloud over the growth potential of premium amounts in the sector. On the other hand, these effects will be moderated by the tight labor market, which will contribute to the continued ongoing, regular contributions in this sector.

In the health sector, the growth potential is expected to be supported by a relatively high penetration rate[11], coupled with the continued competition in the industry and the uniform policy structure, which will exert a certain price pressure in this sector. We assess that the Company will retain significant market shares, and this despite termination of the group long-term care insurance policy for the members of Maccabi Healthcare Services.

In the non-life insurance sector, we expect premiums to grow by 6% to 8% during the forecast period. This growth stems primarily from a highly inflationary environment, as well as vicissitudes in the vehicle

[10] The regulations provide that the contribution to managers' insurance will be limited for new enrollees who earn more than double the national average salary.
[11] Gross premiums per GDP.

property sector in recent years, which will support the price increase in premiums (and in claims) during the forecast period.

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 ability and reduces the insurance risk, given the higher level of certainty regarding the amount of the claims. Product risk in non-life and short term healthcare insurance is assessed by us to be appropriate for the rating, with 67% of total gross premiums for the last 12 months ended March 31, 2024 derived from "short tail" insurance contracts[12], which, in our estimation, are characterized by a lower insurance risk level than "long term" contracts, which are marked by higher uncertainty and lower business flexibility, due to their exposure to changes in the business environment. In our assessment, the policy and control procedures for exposure assessment and management vis-à-vis the reinsurers are appropriate. The Company hedges the insurance risks in some segments of non-life insurance through highly rated reinsurers, with relatively low retained exposure upon occurrence of a catastrophic event, which stood at 1.6% of equity as of December 31, 2023.

The rate of "high-risk" reserves, as per our definition in life and long-term health insurance is appropriate for the rating, standing at 24% as of December 31, 2023, and stable over time (like the average for the years 2020-2022), and is even likely to improve over the forecast years, following termination of the group long-term care insurance policy for members of Maccabi Healthcare Services, as mentioned above. This ratio reflects relatively low exposure to guaranteed-yield and/or life expectancy mechanisms, net of HETZ bonds, which expose the insurers to significant exogenous changes, including changes in the interest curve and capital market volatility, in addition to demographic risks. The risk profile is affected by exposure to large collectives and insureds, which could augment the insurance, credit, and sector-specific risks over the economic cycle, and limits risk-adjusted pricing, in view of customer economies of scale. This exposure, which has accounted for 19% of total gross earned premiums in 2023, is reasonable for the rating, and is affected, inter alia, by exposure to collective premiums in the healthcare sector (which have accounted for 57% of the premium mix in this sector), which is inappropriate for the rating, but which is expected to be moderated during the forecast years, by the termination of the group long-term care insurance policy for members of the Maccabi Healthcare Services, as stated above.

[12] Vehicle property, other property and short-term healthcare.

In our assessment, the Company's risk management policy and controls are appropriate for the rating, and are supported by regulatory requirements. Full implementation of the Solvency II Directive, and particularly of its second pillar (ORSA), should improve both the Company's and industry's risk management processes, should support improvement of the risk profile over time and measurement of economic capital, despite the volatility of economic capital under the Solvency II regime. Midroog expects that the Company will continue to place great emphasis, in the coming years, on the management of operational risks, which are a key emerging risk focus, as well as on the areas of information security, business continuity and cyber[13]. The Company's surplus capital under the Solvency II regime supports the risk profile, business flexibility and the Company's ability to build risk management processes that are appropriate and without regulatory pressures.

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 indicates a risk appetite that is high for the rating, as reflected by the ratio of "at-risk assets"[14] to equity of 128% as of March 31, 2024 (compared to 121% as at December 31, 2022, and 112% as at December 31, 2021). This ratio has been negatively affected by increased exposure to risk assets in recent years, which we believe has largely resulted from the growing competition, creating an incentive among the insurers to improve the yields in the nostro and members' portfolios. As of that date, the investment mix in the nostro portfolio comprised mainly Government bonds (31%), loans secured by collateral (16%), and investment funds (15%), with the remaining investments relatively diversified and less significant in the investment mix. We do not expect a material change in the investment mix, but continued focus on non-traded credit and overseas investment channels.

The percentage of intangible assets and deferred acquisition costs in life insurance (which have a "softer" value than equity) stood at 29% as of March 31, 2024. This ratio is appropriate for the rating and compares favorably with the peer group, but has been climbing steadily in recent years (26% at December 31, 2022, and 24% at December 31, 2021), due to the quantity of intangible assets. In our assessment, no significant change is expected in this ratio during the forecast years, in view of the mix of activities expected, according to our assessment, in connection with the creation of the capital buffer during the forecast period.

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

[14] 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

Ratio of equity to total assets on balance sheet (excluding assets for yield-dependent contracts) stood at 15.6% as of March 31, 2024, and is appropriate for the rating. We believe that in the short to medium term, the ratio will remain stable and/or improve, due to continued consolidation of the Company's equity buffer. The Company's capital adequacy compares favorably relative to the industry, and is reflected in the significant capital surpluses above the Solvency II Directive, with the solvency ratios (SCR) as of December 31, 2023, standing at 194% (taking into account the phase-out period) and 152% (without taking into account the phase-out period). These ratios are appropriate for the rating and compare favorably with the peer group, and in our assessment, also support the Company's business flexibility and ability to carry out strategic moves, in light of the margin from the regulatory requirement.

We note that the board of directors has set minimum targets for the Company, including a target range for a Solvency II-based economic solvency ratio (the "**Capital Target**"). The minimum economic solvency ratio target, taking into account the phase-out provisions, was set at 135%, while the minimum solvency ratio without taking into account the phase-out provisions in the transition period was updated in August 2023 to 115%, which is set to reach 135% at the end of the phase-out period (in 2032), in accordance with the Company's capital plan. Additionally, the board of directors of Phoenix approved a target range for the economic solvency ratio, between 150%-170%, which the Company is seeking to maintain during and after the phase-out period, considering the deduction during the phase-out period and its gradual reduction. The Company has also defined an annual dividend distribution policy, ranging between 40%-60% of its overall distributable profit, to be paid out twice a year: at the date of approval of the financial statement for the second quarter of each calendar year, and a supplementary dividend in line with the policy at the date of approval of the annual financial statement for each calendar year, according to Phoenix's annual consolidated financial statements, subject to the aforementioned capital targets and the restrictions[15] on dividend distribution applying to insurance companies. In addition, it was determined that the board of directors of Phoenix may review the dividend payout and decide at any time, taking into account business considerations as well as legal and regulatory provisions applicable to the Company, to make changes in the dividend policy, including the amount of the dividend to be paid out, in line with the Company's capital plan. We believe that the Company will continue to building the capital

[15] 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.

buffer and maintain a Solvency II ratio that is appropriate for the rating, in spite of our assumption of the continued distribution of dividends in the forecast range, in accordance with the Company's aforesaid distribution policy.

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

The profitability of the Company is appropriate for the rating and compares favorably with the peer group, with relatively high and stable underwriting profitability over time, as reflected in a retained combined ratio in non-life insurance of 92% on average in the years 2021-2023, compared with 106% on average for the peer group in the same period. As an outcome, the ROC ratio and the ratio of comprehensive income to gross earned premiums stood on average at 8.9% and 8.7%, respectively, in the years 2021-2023.

Midroog's base case scenario for the years 2024-2025 assumes that the Company will maintain good profitability for the sector. However, we foresee that the effects of the War on the business environment, as well as the challenging macroeconomic environment, will continue to weigh on the insurance industry, in particular on the revenue generation potential and on the ability to build a capital buffer from current profits. Additionally, the industry will continue to be affected by capital market volatility and by the regulatory burden, which encourages competition and generates additional costs, as reflected, inter alia, by the health insurance reform and by the update to the mortality tables, in accordance with the amendment to the Consolidated Circular on the measurement of liabilities – revision of the set of demographic assumptions for life insurance plans and pension funds, which was published in July 2024 and could result in an increase in the contribution to insurance reserves, amounting to an estimated NIS 80-130 million (after tax) on the Company's financial results for the second quarter of 2024.

In the life insurance and long-term savings sector, we foresee continued volatility in profits, due to exposure to exogenous factors as mentioned above. In addition, due to the negative real return recorded in participating life insurance policies that were marketed until 2004, the Company has not recorded variable management fees since 2022, with the variable management fees that will not be collected due to the negative real return, until a cumulative positive return is achieved, amounting to NIS 302 million (as of May 2024). In view of the strong volatility in the markets, we consider the possibility of collecting variable management fees to be uncertain in the short term.

The health insurance segment will, in our estimation, continue to be affected by regulatory developments and by the business focus of most companies in the segment, including a uniform policy structure, which are expected to intensify price competition, putting pressure on the segment profitability.

In the non-life insurance sector, we expect the level of competition to remain high, both on the part of the traditional insurance companies and on the part of the direct insurance companies, in spite of significant increases in premium rates. We estimate that an improvement in profitability could stem from greater operating efficiency, including better control over the structure of operating costs, inter alia through increased use of technological means, along with streamlining of the claims process and use of arrangement garages in this regard. We note that the Company is better positioned than its competitors in the motor insurance line, with a product basket that includes the "Smart" brand, which is expected to enable better control of the structure of costs as the weight of these policies in the total production increases. In light of the foregoing, in our estimation, the Company's profitability rates will moderate somewhat during the forecast years compared with previous years, but will remain appropriate for the rating, with the ROC ratio expected to be in the range of 4.5%-5.1% and the ratio of comprehensive income to gross earned premiums to be on the order of 5.8%.

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 low for the rating, as reflected in a current ratio of 1.4x between the inventory of weighted liquid assets and the projected insurance and financial obligations in the short term. In light of the Company's diversified business mix, some of the obligations are expected to be settled in the long term (life insurance and long-term savings), and some in the short term (non-life insurance). Recent years have seen a deterioration in this ratio, stemming, inter alia, from the expansion of the Company's operations in the non-life insurance segment, which has led to growth in short-term obligations.

We do not foresee a significant change in the forecast years in the leverage ratio, with the Company remaining close to the regulatory limitation on Tier 2 capital instruments (40% of SCR). The Company's liquidity profile is appropriate for the rating and supported by solvency ratios that are significantly higher than the regulatory requirement, along with the absence of significant pressure to distribute dividends in the short term on the part of the parent company, The Phoenix Holdings Ltd. (the "**Parent Company**" or "**Phoenix Holdings**"), which is rated Aa2.il with a stable outlook. In our assessment, Phoenix Holdings is dependent, to a certain extent, on the distribution of dividends from the Company for servicing its debts, with the insurance company still serving as a major anchor for the Parent Company's consolidated operations and maintaining business ties with the Group's other companies, although the Parent Company also relies on other sources (The Phoenix Pension and Provident Funds Ltd., The Phoenix Insurance

Agencies 1989 Ltd. and The Phoenix Investments and Finance Ltd.). We believe that the Company has good access to sources of finance, also for improving the solvency ratio (issuance of Tier 2 capital instruments and additional Tier 1 capital). As of the report date, the Company's has a Moody's international credit rating of A2 with a negative outlook, reflecting a potential for raising capital abroad along with an ability to increase the percentage of foreign investors in the Group, as well as additional tools the Company has (agreements with reinsurers, change in the investment mix, etc.) for contending with a possible deterioration in the solvency ratio, should this be necessary.

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 its liquidity profile and rating. In our assessment, insurers characterized by a long duration of obligations, without put options for policyholders to make capital calls, are less exposed to liquidity risk and have better responsiveness over a longer time, a factor that supports their survivability and rating. Additionally, the volatility that may result from the recording of assets at market value (MTM) sometimes does not reflect the economic value for insurance companies with a long duration of obligations, given the ability to hold the relevant assets to redemption, and therefore, in our estimation, the economic value of these companies may be less exposed to short-term market volatility.

ESG CONSIDERATIONS

Environmental considerations: Insurance companies in Israel, particularly insurers operating in the non-life insurance sector, are exposed to the likelihood of materialization of risks associated with climate change, including potential exposure to increased frequency of natural disasters (earthquakes, fires, floods, etc.), resulting in significant losses and affecting the actuarial models. In Midroog's opinion, it is difficult to assess the effect of climate events, to the extent that they materialize, which contributes to the uncertainty arising from this risk. While insurers generally are able to reprice insurance policies on a periodic basis, the increasing global incidence of catastrophic losses associated with climate change and the accumulation of these risks add to the complexity of underwriting and risk management. On the other hand, these exposures are moderated by the use of reinsurance to transfer risks, although insurance companies nevertheless retain indirect exposure as a function of the financial strength of the reinsurers. Thus, any impairment of the financial strength of the reinsurers that insure the local insurance companies could create an additional risk for the insurance companies in the affected sector. We believe that these risks are adequately reflected in the rating scorecard, specifically in the "product risk – nonlife and long-term health insurance" parameter, as well as in the solvency ratio, which takes into account various scenarios with respect to the Company's required capital.

Social considerations: Insurance companies in Israel, particularly insurers operating in the life insurance and long-term savings and health sectors, are exposed to significant demographic and social changes, among them increased longevity and a rise in morbidity. The lengthening of life expectancy due to reduced mortality rates after retirement age affects the period of future annuity payments (mainly in the case of accrual in policies with a guaranteed factor), necessitating an increase in the required reserves against those payments. Furthermore, an increase in the mortality rates of holders of life insurance policies that compensate for death (risk policies), including in the event of a catastrophe, could result in an immediate loss and affect the portfolio value. Higher morbidity, including in terms of long-term care, income disability and prescription drug insurance, also has a material effect on the earnings of the insurance companies. We believe that these risks are adequately reflected in the rating scorecard, specifically in the "product risk – life insurance and LTS, LTC and long-term health" parameter, as well as in the solvency ratio, which takes into account various scenarios with respect to the Company's required capital.

Governance risks: In our opinion, corporate governance risks have a material impact on the insurance industry. These risks present a major credit consideration, as weaknesses in corporate governance can adversely affect an insurer's creditworthiness, whereas strong corporate governance can impact positively on its creditworthiness. A factor mitigating governance risks is the regulatory framework within which insurers operate, which establishes an array of internal controls as well as strong controls on the part of the regulator. Midroog examined the impact of corporate governance on the Company and does not believe there is significant exposure to these aspects.

Structural Considerations

Attributes of the subordinated instruments

In accordance with Midroog's methodology, the anchor for rating subordinated debt (hybrid Tier 2 and Tier 2) is the insurer financial strength (IFS) rating, which we adjust for the credit risk of the subordinated debt instrument, based on its contractual terms. We lower the rating by two notches from the insurer's IFS rating for the rating of hybrid Tier 2/Tier 2 capital. The notch downgrade reflects the legal-contractual subordination of these debt instruments to the IFS, as well as the effect of their loss absorption mechanisms (by contractual trigger for "suspensive circumstances" or at the discretion of the Commissioner of Insurance). For Tier 2 capital instruments, we believe that the uncertainty over the likelihood of reaching "suspensive circumstances" is significantly lower than the Company's current and expected solvency ratio, and therefore it is not reflected in a further downgrade of one notch."Suspensive circumstances" are defined in the Solvency Circular as a solvency ratio amounting to 80% of the solvency ratio required over the phase-out period, after adjustment for the equities scenario. The Company's solvency ratio over the phase-out period stood at 194% as of December 31, 2023, as noted above.

Rating Scorecard

Category	Parameter	Sub-parameter	As of 31.03.2024 Measurement [1]	As of 31.03.2024 Score	Midroog forecast [1] Measurement	Midroog forecast [1] 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	5.8%	Aa.il	~5.8%	Aaa.il*
	Liquidity	Liquidity ratio (excluding yield-dependent)	1.4x	A.il	1.4x	A.il
	Financial flexibility		-	Aa.il	-	Aa.il
Implied score						**Aa1.il**
Final score						**Aaa.il**

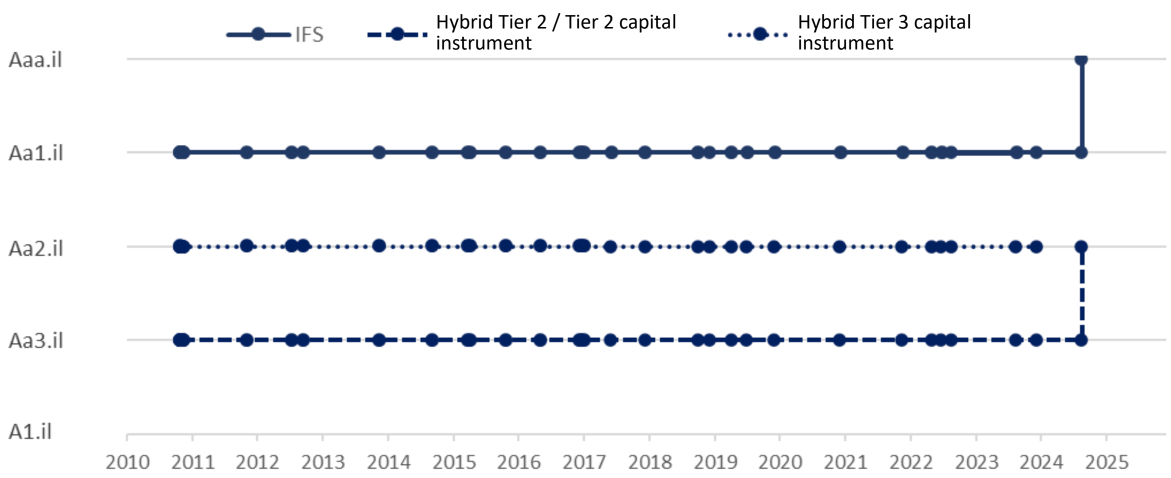
[1] The metrics shown in the table are after adjustments by Midroog and are not necessarily identical to those presented by the Company. The Midroog forecast includes Midroog's assessments with respect to the issuer as presented in its base case scenario and forecast, and not the issuer's assessments.

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

Company Profile

The Company operates in all the major insurance sectors, including life insurance and long-term savings, non-life insurance (including motor insurance (compulsory and property) and other non-life insurance) and health insurance. The controlling shareholder of the Company is The Phoenix Holdings Ltd., a public company whose shares are traded on the Tel Aviv Stock Exchange. As of the report date, interested parties hold 15.04% of the issued and paid-up share capital of The Phoenix Holdings (Belenus Lux S.a.r.l. holds 14.95%), 15.7% is held by financial institutions and 69.26% is held by the public. The Company CEO is Mr. Eyal Ben Simon and the Chairman of the Board of Directors is Mr. Binyamin Gabbay.

Rating History



Related Reports

[The Phoenix Insurance Company Ltd. – Related Reports]

[The Phoenix Holdings Ltd. – Related Reports]

[Rating of Life, Health and P&C Insurance Companies – Methodology Report, May 2022]

[Effects of the Iron Swords War on the Creditworthiness of Issuers Rated by Midroog – Special Report, October 2023]

[Guidelines for Reviewing Environmental, Social and Governance Risks in Credit Ratings – Methodology Report, February 2022]

Table of Relationships and Holdings

[Midroog Rating Scales and Definitions]

The reports are published on the Midroog website at www.midroog.co.il

General Information

Date of rating report:	August 19, 2024
Date of last revision of the rating:	December 21, 2023
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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