

Rating Action: Moody's Ratings affirms The Phoenix Insurance Company's Baa1 IFSR; outlook changed to stable from negative

26 March 2025

London, March 26, 2025— Moody's Ratings (Moody's) has today affirmed the Baa1 insurance financial strength ratings (IFSRs) of The Phoenix Insurance Company Ltd. (Phoenix Insurance). In the same action, the outlook was changed to stable from negative. Phoenix Insurance is the principal insurance operating subsidiary of Phoenix Financial Ltd. (Phoenix, or Group), a diversified financial services group based in Israel.

RATINGS RATIONALE

The change in outlook to stable reflects our view that Phoenix Insurance's substantial capital and liquidity buffers, along with continued strong performance, position it to absorb potential further stress in the operating environment, including potentially, a one-notch downgrade of the sovereign debt rating. Furthermore, the Group's significant non-insurance activities provide a source of additional cashflows that could be used to support the insurer's solvency in times of stress.

The change in outlook also reflects our updated expectations for Israel's real GDP growth, which will support business growth for the Group and maintain stability in asset prices, despite fiscal challenges and ongoing pressure on government finances.

The insurer's IFSR reflects its A2 standalone credit profile which has been constrained at Baa1 due to its linkage to the Israeli sovereign and operating environment. That notwithstanding, Phoenix Insurance has demonstrated resiliency in its solvency and liquidity position and has continued to generate solid earnings since the start of the military conflict in October 2023. For 2024, the Group reported comprehensive income of around NIS 2.1 billion and return on equity of 18.6%, whilst its most recently reported Solvency II coverage ratio stood at 189%. These ongoing strengths are reflected in the resilience of its standalone credit profile that remains unchanged at an A2 score before the sovereign constraint.

The Government of Israel's ratings, including its Baa1 long-term issuer rating, with negative outlook remain unchanged. Geopolitical risks for Israel remain elevated but broadly in line with our expectations. However, recent temporary ceasefire agreements, while fragile and tenuous, have allowed the economy to gradually recover. As a result, we now expect real GDP growth to increase by 3.8% in 2025 and 4.3% in 2026, following 1% last year. See this link for our most recent rating update on Israel: <https://ratings.moody's.com/ratings-news/439564>.

The upward revision in forecasts for economic growth underpin our expectation of continued business growth and profitability for the Group's insurance, asset management and lending businesses while contributing to relative stability of asset prices. These factors support continued strength in the Group's overall business and financial profile.

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

The ratings could be upgraded once we believe that downside risk to the sovereign and operating environment has receded sufficiently and the outlook for the sovereign is changed to stable.