

Clal Insurance Company Ltd. Clal Insurance Enterprises Holdings Ltd. Clalbit Finance Ltd.

July 19, 2023

Rating Affirmation

**‘iIAA+’ Issuer Rating On Clal Insurance
Compay Ltd. Affirmed; ‘iIAA-’ Issuer Rating
On Clal Insurance Enterprises Holdings Ltd.
Affirmed; Outlook Stable**

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Rating Affirmation

'ilAA+' Issuer Rating On Clal Insurance Company Ltd. Affirmed; 'ilAA-' Issuer Rating On Clal Insurance Enterprises Holdings Ltd. Affirmed; Outlook Stable

Rating Action Overview

- Our rating on Clal Insurance Company Ltd. ("Clal Insurance") and its parent company Clal Insurance Enterprises Holdings Ltd. ("Clal Holdings" or "the Group") reflects the business diversification in major insurance segments and long-term savings, but is constrained by lack of geographic spread.
- Clal Insurance's operating performance is sound, but highly volatile and less profitable than rated peers.
- The Company's capitalization is stable and adequate, but is dependent on Value in force (VIF), an equity component with less significant loss absorption capacity.
- The Group's acquisition of the Max credit card company is likely to support its business line diversification and boost its non-insurance cashflows, but will also increase its exposure to consumer credit which is subject to volatility based on macro-economic changes.

Rating Action

On July 19, 2023, S&P Maalot affirmed its 'ilAA+' rating on Clal Insurance Company Ltd., the outlook is stable. At the same time, S&P Maalot affirmed its 'ilAA-' rating on Clal Insurance Enterprises Holding Ltd., with a stable outlook, and its 'ilAA-' rating on tier-2 capital deferred notes issued by Clalbit Finance Ltd.

Rating Action Rationale

Clal Insurance is a significant player in the Israeli insurance market. The Company operates in all major insurance lines and long-term savings and holds a market share of about 14% (calculated on the basis of premiums). Clal Insurance's operations is however confined to the Israeli market, and its profitability lags behind major peers. Clal Insurance's expenses remain relatively high, but are decreasing thanks to its cost-cutting program.

In 2022, the Group recorded profit of about NIS 121 million, compared to about NIS 1 billion in 2021. Sharp decline in capital markets in 2022 had a negative impact on investment income, especially in life insurance. As a result, the company recorded a return on equity of about 1.5%. However, its operating performance remained positive, especially in health insurance, where the Company

recorded a 13% increase in premiums. Assets under management (AUM) at year-end 2022 was about NIS 295 billion, an increase of about 3%.

In Q1 2023 the Company recorded NIS 57 million in profit, but this was tipped into a bottom-line loss once the provision pertaining to the acquisition of Max was taken into account. Equity grew by NIS 166 million, mainly due to an equity issuance for the purpose of the Max acquisition. The auto insurance line continued to generate losses, as did the general insurance line. Property and credit lines returned a profit. Assets under management increased by NIS 21 billion due to the Max acquisition. Rising interest rates continued to support the life and health insurance lines.

Clal Insurance's capitalization remains stable and commensurate with the rating. Its solvency rate, including the transitional relief, was 178% of the SCR requirement in December 2022, compared to 168% in December 2021. The Group has good access to capital markets, as reflected in a number of recent senior debt and hybrid debt issuances. We note that Clal Insurance's capitalization is still relatively dependent on VIF, which reflects the current value of future cash flows from the life insurance line. Given that this value is based on projections of future cash flows, we believe its loss-absorbing ability is less certain.

In March 2022, Clal Holdings completed the acquisition of the Max credit card company. We believe this acquisition is expected to contribute to the Group's business diversification and reduce its dependence on highly regulated insurance activity. On the other hand, the acquisition increases the Group's exposure to consumer credit, which is subject to volatility due to macroeconomic changes.

Outlook

The stable outlook reflects our assessment that Clal Insurance will maintain its business position as one of the five largest insurance companies in Israel in the next 18-24 months. At the same time, we expect its capitalization will remain stable in relation to the risks on its balance sheet and its ability to absorb losses will remain adequate. The stable outlook is based on our assessment that the company will demonstrate growth in premium and deposit, mainly in general insurance and pension savings, and will continue to restrain its expenses as reflected in its performance in the last two years. Our assessment regarding the stability of profitability and capital is supported by the decrease in the company's sensitivity to changes in the risk-free interest rate curve, due to the updating of the LAT (Liability Adequacy Test) reserves calculation and the company's efforts to reduce the gap between assets and liabilities. We assume that the company will continue to grow its premiums in general insurance, health and fees from life insurance and from AUM, while maintaining restrained expenses and at least the current profitability.

Downside Scenario

We may take a negative rating action on Clal Insurance in the next 18-24 months if one of the following occurs:

- Clal Insurance will not be able to continue implementing its strategy, such that its premium and deposit growth sharply decelerates, while its expense ratio increases.
- Clal Insurance will find it difficult to translate the improvement in premium growth into stable profitability, such that its profitability deteriorates to a level significantly lower than our forecast.
- Clal Insurance's capital assessment deteriorates to a level that constrains its loss absorption ability, as a result of high growth targets or lower than expected profit, or due to financing acquisitions.
- The interest coverage ratio consistently drops below 4x (including unrealized profits or losses) or financial leverage increases.

We may lower the rating on Clal Holdings in the next 18-24 months if its capacity to serve its liquidity needs from its own sources deteriorates. A negative rating action on Clal Insurance could also lead to a similar action on Clal Holdings.

Upside Scenario

We believe a positive rating action is unlikely in the next 18-24 months. However, we may take such action if the company's capital assessment consistently improves, alongside a consistent increase in premiums and deposits, without harming underwriting profitability. We would also expect the company's loss-absorption buffer to increase to a level corresponding to a higher confidence level in S&P Global Ratings' risk-adjusted capital mode. This improvement will strengthen its ability to contain the volatility arising from the interest rate environment and the effect of capital market fluctuations on investment income.

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 Clal 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
- [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
- [Methodology For National And Regional Scale Credit Ratings](#), June 8, 2023
- [S&P Global Ratings Definitions](#), June 9, 2023

Ratings List

Clal Insurance Company Ltd., Clal Insurance Enterprises Holdings Ltd., Clalbit Finance Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s)			
Clal Insurance Enterprises Holdings Ltd. Long term	iIAA-/Stable	26/01/2023	26/01/2023
Clal Insurance Company Ltd. Long term	iIAA+/Stable	25/12/2000	24/07/2022
Issue rating(s)			
<u>Clal Insurance Enterprises Holdings Ltd.</u>			
<u>Senior Unsecured Debt</u>			
Series A	iIAA-	26/01/2023	26/01/2023
Series B	iIAA-	26/01/2023	26/01/2023
<u>Clalbit Finance Ltd.</u>			
<u>Subordinate hybrid debt</u>			
Series 7	iIAA-	26/06/2014	24/07/2022
Series 11	iIAA-	15/09/2020	24/07/2022
Series 12	iIAA-	12/08/2021	24/07/2022
Series 13	iIAA-	29/06/2023	29/06/2023
Series 9	iIAA-	15/09/2020	24/07/2022
Series 10	iIAA-	15/09/2020	24/07/2022

Issuer Credit Rating history

Clal Insurance Company Ltd.

Long term

July 13, 2021	iIAA+/Stable
September 16, 2019	iIAA+/Negative
December 30, 2014	iIAA+/Stable
June 26, 2014	iIAA+/Negative
June 20, 2013	iIAA/Watch Dev
January 28, 2013	iIAA/Stable
October 02, 2012	iIAA/Watch Neg
July 18, 2012	iIAA+/Watch Neg
May 17, 2012	iIAA+/Negative
November 29, 2011	iIAA+/Stable
October 06, 2011	iIAA+/Watch Neg
December 23, 2009	iIAA+/Stable
August 09, 2009	iIAA/Negative
March 01, 2009	iIAA/Watch Neg
November 19, 2008	iIAA/Stable
December 25, 2000	iIAA

Clal Insurance Enterprises Holdings Ltd.

Long term

January 26, 2023	iIAA-/Stable
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Additional details

Time of the event	19/07/2023 14:32
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Rating requested by	Issuer

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