

Harel Insurance Company Ltd. Harel Insurance Finance and Issues Ltd.

December 4, 2023

Rating Affirmation

'iIAA+' Issuer Rating Affirmed, Outlook Stable

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Overview

- The war between Israel and Hamas may have adverse effects on the Israeli economy in general and on Harel Insurance Company Ltd. ("Harel Insurance" or "the Company") in particular, especially if the fighting continues and expands. However, we estimate that the war will not have a material impact on the Company's performance, as damages and losses directly related to the war will be covered by the government program.
- The Company is implementing strategic plans with the purpose of improving the underwriting capabilities and profitability of its core activity, which lead to an improvement in profitability even when neutralizing the effects of interest rates and the capital market.
- Following the publication of S&P Global Ratings' revised methodology for assessing insurers' risk-adjusted capital on November 16, 2023, there has been an improvement in our assessment of the Company's financial profile.
- We are hereby affirming our 'ilAA+' rating on Harel Insurance Company Ltd.
- The stable outlook reflects our view that the effects of the war on Harel Insurance will remain moderate, and that the Company will maintain its leading competitive position as the largest insurer in Israel.

Rating Action

On December 4, 2023, S&P Maalot affirmed its 'ilAA+' rating on Harel Insurance Company Ltd., the outlook is stable. At the same time, S&P Maalot affirmed its 'ilAA-' rating on Harel's tier-2 capital deferred promissory notes.

Rating Rationale

Harel Insurance is currently facing higher risks due to the war between Israel and Hamas. More broadly, we believe it may suffer from prolonged effects as a result of the slowdown in economic activity in Israel and capital market volatility, especially if the fighting continues and expands (see [Israel Outlook Revised To Negative On Geopolitical Risks; 'AA-' Ratings Affirmed](#), October 24, 2023). However, we estimate that the war will not have a material impact on the Company's performance, as damages and losses directly related to the war will be covered by the government program. In addition, where life losses are not covered by the government, the Company has catastrophe

reinsurance programs which should limit the impact on their capital. The war may affect capital market returns, but we estimate that if it is relatively short and limited to the Gaza Strip and its surroundings, the impact will remain moderate.

Following the publication of S&P Global Ratings' revised methodology for assessing insurers' risk-adjusted capital on November 16, 2023, there has been an improvement in our assessment of the Company's financial profile. In accordance with the revised methodology, we provide additional credit to the Value In Force (VIF) in our calculation, and therefore our assessment of the Company's capital has improved. Harel Insurance's overall regulatory solvency ratio (including transition adjustments) was 167% on June 30, 2023, compared to 169% on December 31, 2022. We believe the Company demonstrates robust loss absorption capacity with material capital surplus compared with requirements at the current rating level.

Harel Insurance's rating continues to be supported by the Company's leading business position as the largest insurer in Israel, with diversified insurance and asset management operations. Its business is evenly balanced between life and long-term savings, pension and provident funds management, and various types of PC and Health insurance. Assets under management (AUM) were about NIS 412 billion on September 30, 2023, an increase of about 13% compared to December 31, 2022.

In the first nine months of 2023, Harel Insurance presented a pre-tax profit of NIS 562 million, compared to a pre-tax loss of NIS 601 million in the corresponding period last year. Yield on the Nostro account improved in 2023, contributing to the results of the life insurance segment, after sharp capital market declines in 2022 affected investment income. PC insurance results also improved in the first nine months of 2023, mainly in the auto insurance segment, against the backdrop of portfolio improvement and the implementation of measures aimed at improving profitability. Health insurance results decreased, on the other hand, after a positive impact on profit in 2022 due to the higher interest rate curve affecting the value of insurance liabilities. The Company is implementing strategic plans through which it attempts to improve the underwriting capabilities and profitability of its core activity, which lead to an improvement in profitability even when neutralizing the effects of interest rates and the capital market.

In January 2023, Harel Insurance Investments and Financial Services Ltd., Harel Insurance's parent company, reported its intention to purchase the Isracard credit card company for NIS 3.3 billion. In order to finance the deal, Harel Insurance distributed a special dividend of 1.3 billion. The transaction has not yet been completed and is still subject to regulatory approvals, but even if it is completed under the current conditions, we do not expect it to materially affect Harel Insurance's capital.

Outlook

The stable outlook reflects our view that Harel Insurance will maintain its leading competitive position as the largest insurer in Israel while its financial profile remains stable in the next 18-24 months. Our assessment is supported by the Company's business diversification and its actions to optimize its operating structure. We also expect Harel Insurance's capital to remain stable compared to balance sheet risks, and its capital adequacy as measured by S&P Global Ratings' Risk Adjusted Capital model to remain at a level that supports the current rating.

Upside Scenario

We may raise Harel Insurance's rating in the next 18-24 months if we believe that the Company's performance is not substantially affected by the war between Israel and Hamas and that it continues to present improved profitability and underwriting capabilities over time. All this while maintaining a loss absorption capital cushion that allows it to contain interest rates volatility and the effect of capital market fluctuations on investment income.

Downside Scenario

We may downgrade Harel Insurance in the next 18-24 months if, contrary to our assessment, we see a material weakening in its profitability and capitalization. This scenario may occur if the war between Israel and Hamas persists and even expands to other arenas, with a significant impact on economic activity in Israel.

Related Criteria And Research

- [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
- [Risk-Adjusted Capital Framework Methodology](#), November 15, 2023
- [S&P Global Ratings Definitions](#), June 9, 2023

Ratings List

Harel Insurance Finance and Issues Ltd.	Rating	Date when the rating was first published	Date when the rating was last updated
Issuer rating(s) Long term	ilAA+/Stable	01/08/1995	29/12/2022
Issue rating(s) <u>Subordinate hybrid debt</u>			
Series 11 Tier 2 hybrid capital	ilAA-	18/01/2015	29/12/2022
Series 7	ilAA-	26/03/2012	29/12/2022
Series 9,10	ilAA-	10/08/2014	29/12/2022
Series 14,15	ilAA-	14/01/2018	29/12/2022
Series 12,13	ilAA-	27/12/2015	29/12/2022
Series 18	ilAA-	30/11/2021	29/12/2022
Series 16	ilAA-	02/04/2019	29/12/2022
Series 19	ilAA-	08/01/2023	08/01/2023
Series 17	ilAA-	13/11/2019	12/29/2022
Issuer Credit Rating history			

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Issuer rating(s) Long term	ilAA+/Stable	01/08/1995	29/12/2022
Issue rating(s)			
Issuer Credit Rating history			
Long term			
November 28, 2019	ilAA+/Stable		
January 14, 2018	ilAA+/Positive		
November 19, 2012	ilAA+/Stable		
July 18, 2012	ilAA+/Watch Neg		
August 25, 2010	ilAA+/Stable		
May 10, 2010	ilAA+/Negative		
June 17, 2009	ilAA/Negative		
November 20, 2006	ilAA/Stable		
July 14, 1996	ilAA		
August 01, 1995	ilAA+/Stable		

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