August, 30 2020

The Phoenix maintains financial resilience and posts, despite the Covid-19 crisis

NIS 748 million profit in Q2 2020 and NIS 171 million profit in H1 2020

Phoniex CEO, Mr. Eyal Ben Simon: "The second quarter results prove, once again, that the Phoenix's leading investment management, which relies both on professional and dynamic capabilities and responsible risk management, alongside the growing improvement in our underwriting profit, create sustainable value over time

We have already started to reap the fruits of increasing synergies and collaboration within the Phoenix Group – our insurance carrier, Excellence, and owned distribution channels. This has led to growth and improved profitability across Phoenix Group subsidiaries.

As it prepares for the future, the Phoenix is revamping its technology organization, which is focused on supporting Phoenix’s existing operations, but also setting the foundation for future development and innovation."

The Company's Shareholder's Equity, as of 30.06.2020, totaled approximately NIS 6.8 bn, compared to approximately NIS 6.6 bn as of 31.12.2019. Recent COVID-19 events confirm the Phoenix’s resilient and diversified business model with activities across insurance, asset management, distribution, and related holdings.

Profits of NIS 748 million in Q2 2020 and NIS 171 million in H1 2020. Q2’20 profits benefited from market recovery of NIS 612 million in the Nostro portfolio.

The Group’s profit before tax from agencies and financial services, key elements of diversification, was NIS 173 million in H1’20, representing 67% of the Group’s total

Assets under management grew to NIS 208 billion as of 30.06.2020, reaching NIS 213 billion after the end of the reporting period

To improve operational and underwriting performance, the Company took several efficiency measures and implemented a voluntary retirement plan that is expected to reduce costs by NIS 150 million annually starting next year. Moreover, the Company is driving growth and focusing on return on risk adjusted capital.

S&P and Moody's credit agencies reaffirmed the Company's credit rating at ilAA- and Aa3.il, respectively and with a stable outlook

Following the recovery of the financial markets during the second quarter, improvement in the underwriting profit, and actions undertaken by the Group during H1/2020, the Company posts a quarterly comprehensive net profit of NIS 748 million.

The Company's Shareholder's Equity, as of 30.06.2020, totaled approximately NIS 6.8 bn, compared to approximately NIS 6.6 bn as of 31.12.2019 – prior to the COVID-19 crisis. Moreover, S&P and Moody's credit agencies reaffirmed the Company's credit rating at ilAA- and Aa3.il, respectively, with a stable outlook.

The Phoenix Group's results express the Group's continuous effort to generate sustainable competitive advantage while creating value to shareholders. Alongside of the Group's range of business activities, which facilitate stability and risk diversification, Phoenix continues to strengthen its proprietary distribution and invests in technology. This combination creates a strong infrastructure that positions the Company to successfully cope with the competitive landscape, market fluctuations, and insurance regulations.

During Q2, Phoenix’s responsible investments strategy and risk management, which quickly adapted to the changing market dynamics, provided significant advantage to the Group. In addition, our ability to capture synergies within the Group and leverage our distribution channels also contributed to our success, in spite of the decrease in benefit contributions mainly due to the lasting Covid-19 crisis. It is noteworthy that the financial implications of the voluntary retirement plan, which was executed by the Company during Q2, are still not reflected in the reports, and are expected to be reflected in the next quarters.

As part of our COVID-19 mitigation efforts, Phoenix launched a crisis-response plan, which included improvement in our digital infrastructure, continuous migration to digital channels by our agents and customers, changes in our call center to provide better service to our clients, strong Group synergies, and diligent risk management. Phoenix has also explored different investment opportunities during COVID-19 and launched a large scale efficiency plan. All these measures are reflected in our financial results.

Specifically on service and operations, in Q2 the Company strengthened the service and operations teams with the launch of The Phoenix Pro, which is a new operating model aimed at providing faster, simpler, and specialized service to our customers and agents.

Business Results H1/20 and Q2/20:

The comprehensive income attributed to shareholders for Q2/2020 totaled NIS 748 million, compared to NIS 213 million income in Q2/2019.

The comprehensive income attributed to shareholders for H1/2020 totaled NIS 171 million, compared to NIS 596 million income in H1/2019.

P&C:

The comprehensive profit from the P&C insurance segment in H1/20 totaled to NIS 67 million, compared to NIS 434 million in H1/19. The decrease in profit was due to a significant decrease in investment income compared to the corresponding period last year and a decrease in insurance liabilities in compulsory motor and in liabilities compared to the corresponding period last year in the amount of NIS 155 million before tax, which is due to the increase in the discount rate in damages to 3%, the property vehicle and property segments, and from the loss in the flight cancellation segment due to the spread of COVID-19.

In H1/20 and in the Q2/20, there was a change in the risk-free yield curve as a result of which the company recorded a loss of approximately NIS 10 million and approximately NIS 21 million, respectively, compared to a loss of approximately NIS 21 million and approximately NIS 3 million in H1/19 and in the Q2/19 respectively.

LTS:

The comprehensive loss in H1/20 totaled NIS 60 million, compared to a comprehensive profit of NIS 98 million in H1/19

Life:

The comprehensive loss in H1/20 totaled to NIS 67 million, compared to a comprehensive profit of NIS 70 million in H/19. Income from management fees in H/20 and Q2/20 totaled NIS 212 million and NIS 102 million, respectively, compared to NIS 369 million and NIS 133 million in H1/19 and Q2/19, respectively. The decrease is attributed mainly to variable management fees that were not charged as a result of declines in the financial markets, which led to a value decrease in Phoenix Insurance portfolios. As of June 30, 2020, the decline led to the non-collection of management fees in the amount of NIS 296 million (as of publication date, totaled NIS 86 million).

Provident funds:

The comprehensive profit in H1/20 totaled to NIS 15 million, compared to profit of approximately NIS 22 million in H1/19. The decrease in profits is mainly due to capital market yields, which impacted the margins in yield guaranteed provident funds for a total of approximately NIS 6 million loss, compared to approximately NIS 2 million profit during the corresponding period of last year, and due to an increase in management and general expenses. Management fee income in H1/20 totaled to NIS 100 million compared to approximately NIS 104 million in H1/19. The decrease in management fees is mainly due to a drop in AUM that was caused by the Covid-19 crisis and erosion of average fees as a result of increasing competition.

Pension Funds:

The comprehensive loss in H/20 totaled NIS 8 million compared to a comprehensive income of NIS 6 million in in H1/19. The decrease in profit is mainly due to capital market yields, and due to increase in marketing and other expenses for a total of approximately NIS 5 million. Management fees in H1/20 totaled to NIS 80 million, compared to NIS 82 million in H1/19. The decrease in management fees is mainly due to management fees rate erosion, offset by the increase of volume and AUM.

Health:

The comprehensive profit in H1/20 and Q2/20 totaled NIS 226 million and NIS 176 million, respectively, compared to NIS 87 million and NIS 72 million in H1/19 and Q2/19, respectively. The results for H1/20 stems mainly from changes in the yield curve, the initial application of the LAT circular amendment, and the decrease of the non-marketable asset surplus, which increased the LAT reserve by NIS 190 million. Additionally, the H1/20 results include a decrease in the LAT reserve, totaled NIS 110 million due to the initial application of regulatory circular regarding liquidity premium and actuary assumptions update, for a total of NIS 63 million. The total impact of the above for Q2/20 is a reserve increase of NIS 17 million.

The Q2/20 results were impacted by the decrease in yield curve, which led to an increase of the LAT reserve and offset of an increase of non-marketable asset surplus, totaled NIS 93 million and a decrease of NIS 110 million of the LAT reserve due to the initial application of regulatory circular regarding liquidity premium. The total impact of the above for Q2/20 is a reserve decrease of NIS 17 million.

Financial Services:

The comprehensive profit in H1/20 totaled NIS 95 million, compared to NIS 87 million in H1/19.

Despite the decline in assets under management resulting from the spread of the COVID-19, and the declines in the financial markets, which led to a decline in revenues from management fees, the Company presented an increase in earnings, mainly from market making activities involving ETFs, and stock exchange member activities. In H1/19, the Company recorded a one-time profit of approximately NIS 29 million from revaluation of an investment that was consolidated for the first time, due to an increase in control.

Agencies:

Comprehensive income in the insurance agency segment in H/20 is NIS 78 million compared to NIS 88 million in H1/19. The decline in earnings stems mainly from the effect of declines in financial market.

Other Segments and Operations Not Attributed to Operating Segments

In H1/20, comprehensive loss not attributable to reporting segments totaled approximately NIS 149 million compared to income of approximately NIS 160 million in H1/19.

The aforesaid change is mainly due to capital market returns, which were significantly lower than the returns last year. In Q2/20, the profit was NIS 384 million, compared to NIS 11 million in Q2/19.