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MIDROOG

Ayalon Insurance Company Ltd.

Monitoring Report I November 2016

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.

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Ayalon Insurance Company Ltd.

Insurer Financial Strength (IFS)	A2.il	Outlook: Stable
Tertiary hybrid capital	A3.il (hyb)	Outlook: Stable
Secondary hybrid capital	Baa1.il (hyb)	Outlook: Stable

Midroog affirms the A2.il Insurance Financial Strength (IFS) rating of Ayalon Insurance Company Ltd. ("Ayalon" or "the Company") as well as the A3.il (hyb) rating of deferred notes (Tier 3 hybrid capital) and Baa1.il (hyb) rating of deferred notes (Tier 2 hybrid capital) issued by the Company. The rating outlook is stable.

Deferred notes outstanding which are rated by Midroog:

Series*	Security ID*	Rating	Outlook	Class of recognized capital	Maturity date
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	29/03/2020
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	30/09/2020
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	01/01/2021
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	24/03/2021
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	01/04/2021
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	30/06/2021
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	30/06/2021
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	22/04/2022
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	30/04/2022
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	30/04/2022
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	31/08/2023
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	31/08/2023
-	-	Baa1.il(hyb)	Stable	Hybrid Tier 2	31/12/2023
-	-	A3.il(hyb)	Stable	Hybrid Tier 3	13/04/2019
-	-	A3.il(hyb)	Stable	Hybrid Tier 3	28/08/2022

*All the notes are nonmarketable.

Summary of Rating Rationale

The Company's rating reflects a reasonable business profile supported by good diversification of business lines, with an orientation towards non-life insurance but with relatively limited customer diversification that adversely affects revenue visibility. The insurer's market positioning is limited by its medium size, noting, however, relatively high variance among the business lines, with the Company enjoying in non-life insurance significant market share and surpluses relative to its size. In addition, we estimate that the Company has reasonable control of its distribution system, with a significant part of the distribution carried out through agents and agencies not owned by it, reflecting moderate operational efficiency.

That Company has good business diversification relative to its rating, with no significant dependence on a single line of business, supporting its ability to generate revenues over the economic cycle. However, the Company's activity mainly focuses on the non-life insurance branches, most of which are subject to price and market share competition, and we, therefore, foresee a certain degree of erosion in profitability in the short to medium term.

The Company's risk profile is above par relative to the rating, characterized by relatively low product risk, supporting its underwriting capacity and reducing the insurance risk, given a higher level of certainty and reduced exogenous exposure in all the lines of business in which it operates. This profile is reflected in "short-tail" premium volumes at a rate of 55% in the non-life and short-term health lines and at 55% for "low risk" life and long-term health insurance reserves, with the Company presenting a good mix of risks relative to the industry. Nevertheless, we note that the Company has high exposure to premiums from collectives (45% of total gross premiums), a parameter that weighs on the rating, as well as on revenue visibility and the ability to build a capital buffer. This exposure could intensify the insurance, credit and sector-specific risks over the economic cycle and limits risk-adjusted pricing, in view of customer economies of scale.

The Company's capital adequacy depresses the rating. Based on our capital model, the Company has an adequate risk-adjusted capital surplus relative to its current rating (third stress test out of five in terms of severity), with a surplus of 111%, but it does not meet more stringent tests. The primary risks to which the Company is exposed, as perceived by the model – comprise insurance risks in non-life insurance and market risks associated with investments. In our assessment, the Company will continue on the margins to build the capital buffer in the short and medium term, also in view of the regulatory requirement, with limited profit accrual potential in light of the challenging business environment, and assuming no dividend distribution within this time, also due to regulatory restrictions. The Company has adequate non-risk-based balance sheet leverage relative to the rating, but its business flexibility is limited due to compliance with an insufficient margin with the current regulatory capital targets. We estimate that the Company will meet the SCR ratio according to the Solvency II Directive at the end of 2018, while the Company meets the current target according to the last exercise performed by it based on the data for 2015 (IQIS5).

The Company has reasonable profitability relative to the rating, throughout the economic cycle, and an adequate liquidity profile and financial flexibility.

Midroog's base asset foresees retention of the Company's business profile, with the volume of earned premiums growing at a cumulated rate of 10% in the years 2016-2017, due to the winning of tenders, as well as organic growth in line with the industry, which we estimate at a slightly higher rate than the GDP growth, with higher growth expected in the health insurance line in the short and medium term. Within the forecast range, we foresee limited profitability potential, in view of a continued challenging business environment: a continuing low-interest rate environment together with capital market volatility will continue to weigh on the Company's results and inhibit profitability. Furthermore, we do not foresee a significant improvement in the Company's underwriting profitability, reflected in moderate operational efficiency, as expressed in the combined ratio[1] in all the lines of business, in light of increased competition encouraged by the regulator in all the lines of business as well as the

[1]Ratio of payments and changes in obligations for insurance contracts and retention investment contracts, administrative and general expenses and deferred marketing and purchase fees to retained earned premiums.

Company's strategy to continue insuring collectives. In our estimation, the Company's profitability will remain reasonable relative to the rating throughout the economic cycle, also as a function of changes in the curve. The limited profitability potential impacts on the ability to build the capital buffer, and we believe that the need to increase the capital base in the short term will force the Company to take measures to reduce the capital requirement by adjusting the investment portfolio, having recourse to reinsurance and improving the insurance portfolio. The stable rating outlook reflects our assessment that the Company will maintain the key indicators within the time range of our base scenario.

Ayalon Insurance Company Ltd. – Key Financial Indicators (NIS millions)

	30/06/2016 [1]	2015	2014	2013	2012	2011
Total assets	**9,402**	**8,877**	**8,427**	**7,991**	**7,134**	**7,134**
Total capital attributable to the Company's shareholders	**647**	**624**	**618**	**543**	**497**	**451**
Total comprehensive income (loss) attributable to the Company's shareholders	**(42)**	**8**	**75**	**70**	**35**	**(54)**
Total gross earned premium	**2,606**	**2,462**	**2,208**	**2,006**	**1,711**	**1,612**
Of which in life insurance and long-term savings	502	515	612	555	447	363
Of which in health insurance [2]	360	266	-	-	-	-
Of which non-life insurance	1,744	1,681	1,596	1,451	1,264	1,249
Total earned premiums retained	**2,078**	**2,036**	**2,182**	**1,717**	**1,453**	**1,046**
Total investment gains	**22**	**121**	**294**	**444**	**317**	**21**
Midroog adjusted ratios						
Intangible assets and DAC from equity	35%	9%5	54%	48%	47%	48%
Return of capital (ROC)	-3.9%	0.8%	7.9%	7.9%	4.0%	-7.1%
Return on assets (ROA)	-0.5%	0.1%	0.9%	0.9%	0.5%	-0.8%
Adjusted debt to cap	42.6%	44.3%	41.6%	39.8%	45.7%	46.5%

[1] The comparative figures relate to the last 12 months ended June 30, 2016.

[2] The Company began reporting health insurance as a separate segment in 2016.

Detailed Rating Considerations

A reasonable business profile limited by the Company's size, contrasted with good business diversification that supports the ability to generate profits

Ayalon is a mid-tier company (the sixth largest insurer in terms of premium), characterized by a reasonable business profile supported by good diversification in the lines of business with an orientation towards non-life insurance, but with relatively low customer diversification that adversely affects revenue visibility. The insurer's market positioning is limited by its medium size, as reflected in a relatively stable, low overall market share in recent years, in terms of gross premium, which stood at 4% at the end of 2015, and a relatively small volume of managed assets. These factors are also evidence of the brand strength and market strength of the Company, which are not notably favorable and are based on activity with large collectives and businesses. We note the existence of relatively high variance among the lines of business, with the Company, characterized in the non-life insurance branches by significant market share and surpluses relative to its size (mainly in the Liability motor sector – 9%, the property Motor sector – 9%, and in the liabilities and other sector -12%, as of December 31, 2015). The ability to retain market share is also based on the Company's strategy of focusing on the insurance of large collectives and businesses, mainly in non-life insurance and particularly in the motor and personal accident lines, with customers characterized by economies of scale also reflected in the price, which could significantly affect revenue production potential in the event of the departure of a material customer. Our base scenario estimates that the Company will be able to retain its existing market share in the medium to short term, having won several large non-life insurance tenders (collective personal accident insurance for school children, civil servants' car insurance tenders), with the volume of earned premiums growing, in our estimation, at a cumulative rate of 10% in the years 2016-2017, due to the award of the tenders, as well as organic growth in line with the industry, which we estimate at a slightly higher rate than the GDP growth, with higher growth expected in the health insurance line in the short and medium term.

The Company's main marketing and distribution channels are insurance agents and agencies, with the majority of the Company's insurance plans marketed nationwide through thousands of agents and agencies, which are responsible for the bulk of the Company's sales in the life insurance, pension and provident fund, health and non-life insurance lines. In our estimation, the Company's mid-range control of the distribution network is reflected in a ratio of marketing fees and costs to retained premiums of 21% in 2015 and in the first half of 2016, which is moderate for the peer group, in spite of significant exposure to collectives which should have lessened these costs. In our estimation, like other companies in the industry, the Company will act in the forthcoming period to expand the use of digital means for the marketing and distribution of insurance products, also with the aim of improving underwriting efficiency.

The diversification of sources of funding and profit among different operating segments is, in Midroog's opinion, an important factor in an insurer's ability to withstand difficult periods, generate sustainable revenues and support capital buffers. Insurance companies that depend on one main business line are vulnerable and more exposed to sudden and unexpected changes in the business environment that could significantly erode the flow of revenues without the ability to compensate with safety cushions provided by other lines of business. The Company has good business diversification relative to the rating, supporting its ability to generate revenues over the economic cycle, as reflected in the retained premiums and management fees derived from the mix of lines and their contribution to the profit, with five lines accounting for 90% of the premiums over time, this being a positive factor. The Company's operations are relatively diversified over all the lines of business, without any dependence on a single line, and are weighted, as noted, towards non-life insurance. However, in our estimation, this focus could exert pressure on underwriting profitability in the short to medium term in the non-life insurance branches. We foresee continued price competition in the industry.

A good risk profile for the rating, supported by relatively low product risk but limited by high exposure to insurance of collectives

The Company is characterized by relatively low product risk, supporting its underwriting capacity and reducing the insurance risk, given a higher level of certainty and reduced exogenous exposure in all the lines of business in which it operates. In the non-life and short-term health insurance branches, 55% of total gross premiums in the 12 months ended June 30, 2016 are in respect of "short-tail" insurance contracts which, in our estimation, are characterized by lower insurance risk than "long-tail" contracts, which are subject to greater uncertainty and lower business flexibility due to variance in the business environment. We note that the Company presents a good mix of risks relative to the industry. In the last two years, the Company has succeeded in increasing the volume of operations in the property motor line and in the liability lines, as well as its market share while maintaining steady growth in the other segments relative to the market.

The Company hedges insurance risks in the non-life insurance line, through highly rated reinsurers, leaving it with a relatively low retention exposure upon the occurrence of a catastrophe (the ratio of maximum retained exposure to recognized capital stood at 0.4% as of December 31, 2015). At the same time, the Company relies to a great extent on reinsurance, as reflected in the ratio of premiums earned by reinsurers to total gross premiums (disregarding the effect of the termination of contracts with reinsurers in 2014), as well as exposure to reinsurers relative to equity, which stood at an average of 15% and 75% in the last three years, compared to an average of 10% and 60% for the industry, which, notwithstanding the advantages inherent in reducing the insurance risk, increases the counterparty exposure and adversely affects profitability rates.

The rate of "low risk" reserves, as defined by us, in life and long-term health insurance, is high and compares favorably with the rating and with the industry, standing at 55% of total reserves in these lines as of December 31, 2015. This ratio reflects a relatively low-risk profile, based on low exposure to guaranteed-yield and life expectancy mechanisms that expose insurers to significant exogenous changes. These risks have recently intensified in light of the challenging macroeconomic environment, low capital market yields, historically low-interest rates and increasingly tight regulation. In the short to medium term, we do not foresee a significant change in mix, other than continued growth in health insurance business. The growth foreseen for the Company in the health insurance line could serve as a source for further improvement in the diversification of the business lines.

Moreover, the Company's has relatively high exposure to premiums from collectives, accounting for 45% of gross premiums over time, a factor that weighs on the rating, on revenue visibility and on the ability to build a capital buffer. This exposure could intensify the insurance, credit and sector-specific risks over the economic cycle and limits risk-adjusted pricing, in view of customer economies of scale. It is our understanding that the Company is acting to upgrade the insurance portfolio and increase activity with private customers, a fact that should support risk diversification and the profitability cushion in the short to medium term.

The Company's risk management policy and controls are adequate for the rating and also supported by regulatory requirements, with full implementation of the Solvency II Directive expected to continue improving risk management processes within the Company as well as the industry, bolstering the risk profile over time and the measurement of economic capital, which however will become more volatile.

In the last two years Ayalon has experienced a high turnover of managers and key personnel, as an outcome of organizational and management changes resulting from the change in the Company's shareholders apart from which a class action was filed in respect of an interest-party transaction carried out by the Company. We expect the Company to demonstrate over time managerial and organizational stability, which is key to its stability and businesses focus.

Quality of assets that is commensurate with the rating, in light of a reasonable rate of "high-risk assets" and a low rate of intangible assets relative to equity

The Company's Nostro investment portfolio demonstrates a reasonable risk appetite compared to the peer group, with a ratio of adjusted "assets at risk"[2] to recognized capital of 70% as of June 30, 2016, similar to the average for the peer group as of that date. Out of the investments in the Company's Nostro portfolio (including non-life insurance and capital) as of June 30, 2016, 15% comprise investments in properties and land with relatively low tradability, which is a high rate compared to the peer group (4%). On the other hand, the rate of the insurer's investments in equities, index-linked certificates and mutual funds is relatively low, accounting for only 5% of the Nostro portfolio, while the percentage of high-risk assets in the non-yield-dependent investment portfolio, amounting to 10% over time, supports the portfolio's survivability over the economic cycle. We do not foresee a significant change in the short-term investment policy, and the low yields and market volatility will contribute to continued investments in nonmarketable assets by the Company and the market.

The scope of intangible assets, which are characterized by a "softer" value than equity, is relatively low, standing at 35% as of June 30, 2016, reflecting positively against the rating and the peer group, due to low DAC and goodwill costs as derived from the mix of operations, the economic value of these assets being uncertain especially under stress tests. We do not foresee a material change in this ratio in the short term, a factor that supports the rating.

The Company's capital adequacy limits the rating

In our opinion, the capital buffer is key to protection against unexpected losses, which Midroog attempts to quantify using the risk-adjusted model (hereinafter – **"the capital model"**). The capital model examines the scope of the capital buffer ("**the adjusted capital**) that is available to the insurer against a variety of risks to which he is exposed, for the purpose of covering obligations to policyholders under an array of stress tests (five scenarios) of varying degrees of severity and over several years (**"the required capital")**, taken from stress tests that were

[2] High-risk assets generally include all financial investment assets excluding cash, government bonds and corporate bonds with an investment rating, the latter weighted at a partial reliance rate reflecting possible impairment risk over the credit cycle due to credit, market or liquidity risks.

defined by us, and it is a leading parameter in examining the Company's capital adequacy. Under the capital model, the Company has surplus low-risk-adjusted capital compared to the peer group, and only a reasonable surplus relative to the present rating (the third most severe stress test out of five), this scenario yielding a capital surplus of 111%, whereas the Company does not meet other more stringent scenarios. The chief risks to which the Company is exposed, as perceived by the model, are associated with insurance risks (underwriting and reserve), non-life insurance, specifically liability motor and property motor insurance, as well as market risks arising from investments. The total amount of required capital (total exposure under the scenarios) ranges between NIS 1.6 billion under the most stringent scenario and NIS 1.2 billion under the scenario which the Company meets. As against these risks, the Company has an economic capital buffer comprising adjusted equity equal to NIS 930 million as of June 30, 2016, and adjusted VIF amounting to NIS 380 million. In our estimation, building the capital buffer in the short to medium term would be onerous and subject to limitations, in view of the challenging business environment, which in our estimation embodies low-profit accrual potential. We do not assume a dividend distribution within this time range, also due to regulatory restrictions.

In addition, as a supplementary non-risk-weighted test for determining the insurer's leverage, we look at a simple leverage ratio – the capital to balance sheet ratio (excluding assets in respect of yield-dependent contracts), excluding 10% of assets at risk. This ratio stood as of June 30, 2016, at 9%, commensurate with the rating and with the peer group, and we do not foresee a material change in the short to medium term.

Under existing regulatory capital requirements, the Company does not have any capital surplus and it complies with 100% capital requirements after full funding, impairing its business flexibility. Compliance with the capital requirements was achieved with the support of the parent company, which injected NIS 55 million in capital during the second quarter of 2016. Nevertheless, in spite of the regulatory uncertainty surrounding the implementation of the new capital regime, in our forecast, we examine the adequacy of the regulatory capital also in light of expected compliance with the Solvency II solvency ratios and the implications for the Company.

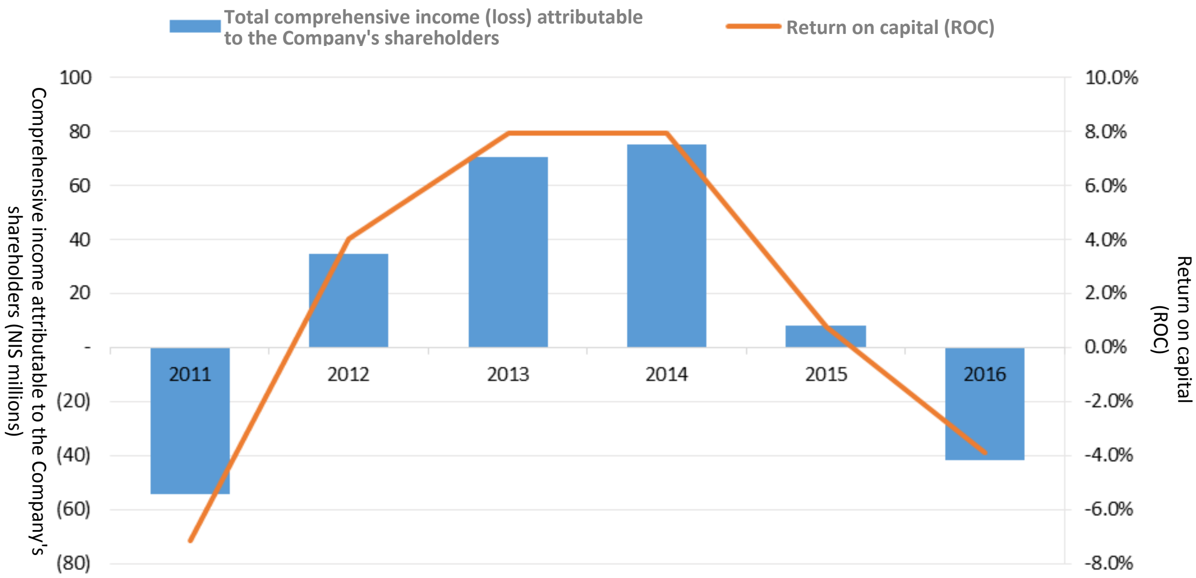
In November 2014 the Insurance Commissioner published a letter to all insurance company executives (hereinafter – **"the letter"**) providing an outline for the implementation of a Solvency II-based solvency regime. According to the letter, insurance companies in Israel would be required to meet the new capital directives starting from the annual financial statements for 2016. In April 2016 the Insurance Commissioner published guidelines for the performance of an IQIS exercise on data as of the end of 2015 (above and below – "**IQIS5"**), which includes, inter alia, changes in the adjustments to the Israeli market. According to the IQIS5 exercise, which was performed by the Company in August based on the mix of investments and insurance obligations as of December 31, 2015, the Company has a capital deficiency of NIS 99 million after taking into account the transitional provisions established by the Insurance Commissioner for certain classes of investments held by the Company, in respect of which the additional capital requirements amounts to NIS 44 million. This deficiency reflects solvency ratios of 92% and 89% disregarding the transitional provisions and does not include the effects of the Company's activity during 2016. The IQIS results provide an indication of the impact of a Solvency II-based solvency regime and mainly reflect higher capital requirements that the existing capital requirements for financial risks (both in the nostro portfolio and in the participating portfolio. It should be noted that the regulator recently revised the schedule for compliance with the capital targets, relaxing previous guidelines, such that insurance companies will be required to comply with an SCR ratio according to the following schedule: 60% as of January 1, 2017, 80% as of December 31, 2017 and 100% as o December 31,2018. This relaxation allows the Company (based on the last exercise) to comply with the capital targets with an adequate margin in the short term and to prepare for full compliance with the ratio as of the end of 2018, with Midroog expecting a safety margin above the SCR ratio, in view of its expected volatility.

To the best of our understanding, the Company is acting to comply with the final capital targets under the new capital regime by expanding its capital base (accrued profits and capital injections, should they be necessary), adjustment of the investment mix and sale of unprofitable long-term savings activities. The Company could also reduce risks by additional means, such as hedging transactions on the Nostro portfolio, purchase of reinsurance, etc. In our estimation, the Company will comply with the requirements of the new capital regime within the medium term, but the application of such means could weigh on future profitability and perhaps also impair the Company's flexibility in expanding its operations. We would emphasize that a change in the capital surplus rate as derived from a change in the regulatory capital measurement in its own right does not reflect an improvement or deterioration in an insurance company's financial strength since it does not affect the economic capital, which is the main buffer for absorbing unexpected losses. At the same time, the new measurement method under the Solvency II regime is expected to reflect more faithfully an insurance company's financial strength, based on economic capital and under advanced risk management better adjusted to the risk profile.

Reasonable profitability relative to the rating; expectations for sustained pressure on the profitability due to a challenging business environment

The Company operates in a challenging economic environment affected in recent years, among other things, by a steep fall in the risk-free interest rate curve. The low-interest rates impact significantly on the return achieved for customers of the Company as well as on the profits of the Company itself, including the amount of the insurance obligations. The exposure of the industry, including the Company, to exogenous factors, and in particular to the capital market, creates significant volatility in profitability, as reflected in the ROC and ROA ratios, which ranged between 7.9% and 0.8% and between 0.9% and 0.1%, respectively, in the last three years. Furthermore, the Company's reliance on large collectives, which account for 53% of total non-life premiums (as of December 31, 2015), serves as a drag on profitability, which is compensated by the structure of marketing and DAC costs and leads to underwriting profitability which, however, is not substantial enough to absorb the fluctuations in the capital market.

Under our base scenario, we foresee for 2016-2017 a low interest-rate environment which along with volatile yields in the capital market will continue to weigh on the Company's results and to inhibit profitability. Moreover, we do not foresee a significant improvement in the Company's underwriting profitability, as expressed in the combined ratio in all the lines of business, in light of increased competition encouraged by the regulator in all the lines of business as well as the Company's strategy to continue insuring collectives, with no significant change expected in the structure of costs. In addition, we foresee a continued drop in management fees for executive insurance policies, due to competition in the sector and migration to other long-term savings channels such as pension and provident funds. Based on the weighting of our profitability ratios with the forecast, and in light of the results of previous years which, in our opinion, reflect a business cycle, we estimate the Company's profitability over the cycle as reasonable relative to the rating, but with expectations for its erosion in the short to medium term.



Low reserve adequacy relative to the rating

Changes in reserves are a decisive factor in an insurer's financial results, given the direct relationship between a change in the reserve and the equity buffer. In recent years the Company has steadily reduced the provision for the cost of cumulative claims for events from previous years in all the non-life insurance lines. The reduction in reserves is in itself evidence of a relatively conservative policy in the initial calculation of the reserve, but in our estimation, an overly rapid rate of release, in large amounts, could also be an indication of low reliability of reserves, leading to higher volatility than advisable in the amount of the reserves, in the comprehensive income and in the capital buffer. The change in reserves (life, health and non-life) due to changes in actuarial assessments and other changes relative to the opening balances of the reserves stands at 425%, low for the rating, reflecting a significant reduction in reserves versus a relatively low standard deviation, which in our estimation could be evidence of low reserve adequacy relative to the rating.

Liquidity profile and financial flexibility commensurate with the rating; expectations for a degree of erosion in financial flexibility in view of the regulatory capital limitation

We estimate the Company's liquidity as reasonable for the rating, reflecting a current ratio of 1.3 between the weighted liquid assets and the expected outflows within the next 12 months. The Company's business mix, which is weighted towards non-life insurance, and the short to medium duration of obligations shift the ratio relative to companies with a life insurance orientation, our assumption being that no significant repayment of financial obligations is to be expected in the short term. On the other hand, the Company's financial flexibility has eroded in recent years, reflected in a deterioration in the ratio of operating profit to interest costs, which was in the range of 2.8-6.9 during 2013-2015 and is expected in the short and medium term to erode further in light of the expected absence of significant profitability. We expect the ratio of adjusted debt to adjusted debt and equity to remain within a range of 40%-45%, a somewhat low level for the rating. We note that the Company is operating within a tight margin relative to the regulatory capital barrier, to an extent that impairs its business and financial flexibility and its ability to raise subordinated debt, should this be necessary, in light of exhaustion of the funding potential.

Rating Outlook

Factors that could lead to a rating upgrade:

- A material improvement in the business profile reflected in market share and the volume of premiums in all lines of business.
- Ongoing, significant improvement in underwriting profitability, while reducing dependence on profits from investments.
- A significant increase in capital adequacy.

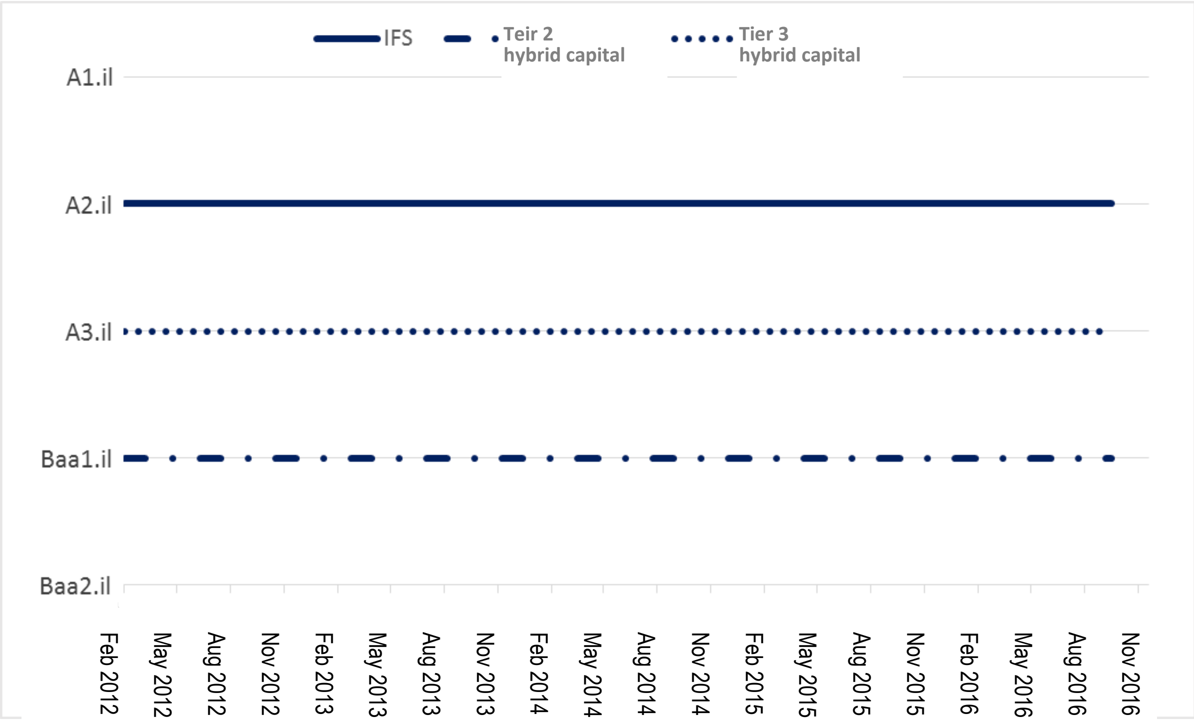
Factors that could lead to a rating downgrade:

- A decrease in the Company's capital adequacy ratios.
- Ongoing deterioration in profitability ratios and in underwriting profitability.
- Erosion of financial flexibility ratios.

Company Profile

The Company is a private company incorporated in 1976, wholly owned by Ayalon Holdings Ltd., a public company controlled by Mr. Levy Yitzhak Rachmani and relatives (66%), with the remainder of its shares held by Ofek DN – Limited Partnership (22%) and the public (12%). The Company engages primarily in the different lines of insurance business and finance, as well as in investments and long-term savings, and it belongs to the middle tier of Israeli insurance companies. The Company's CEO is Mr. Arik Yogev. The Company owns an insurance agency that manages pension arrangements.

Rating History



Related Reports

Ayalon Insurance Company Ltd. – Monitoring Report – July 2015

Methodology for Rating Insurance Companies – July 2016

Midroog Rating Scales and Definitions

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

General Information

Date of rating report:	November 21, 2016
Date of last revision of the rating:	July 15, 2015
Date of first publication of the rating:	February 13, 2012
Rating commissioned by:	Ayalon Insurance Company Ltd.
Rating paid for by:	Ayalon 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 srelative 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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