HaArbaa 21, Platinum Tower
19th Floor Tel Aviv 6473921, Israel
Tel +972-3-6844700, Fax +972-3-6855002
www.midroog.co.il

MIDROOG

Migdal Insurance Company Ltd.

Monitoring | September 2018

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 origin language.

Contacts:

Omer Foremberg, Team Leader– Primary Rating Assessor
omer@midroog.co.il

Ilil Shatner, Analyst – Secondary Rating Assessor
ilil@midroog.co.il

Avi Ben-Noon, Head of Financial Institutions
avib@midroog.co.il

Migdal Insurance Company Ltd.

Insurer financial strength (IFS) rating	**Aa1.il**	**Rating outlook: Stable**
Hybrid Tier III capital	**Aa2.il(hyb)**	**Rating outlook: Stable**
Hybrid Tier II capital and Tier II capital[1]	**Aa3.il(hyb)**	**Rating outlook: Stable**

Midroog affirms the Insurer financial strength (IFS) rating of Migdal Insurance Company Ltd. (hereinafter: "the Company") at Aa1.il and affirms the rating of Aa2.il(hyb) for subordinated notes (Hybrid Tier III capital) and of Aa3.il(hyb) for subordinated notes (Hybrid Tier II capital and Tier II capital) issued by the Company through Migdal Insurance Capital Issuance Ltd. These ratings reflect the structural subordination of this debt relative to the IFS rating, the seniority ranking among subordinated debt instruments, as well as the effect of their loss-absorption provisions. Rating outlook – Stable.

Outstanding debentures rated by Midroog:

Debenture series	Securities ID	Rating	Rating outlook	Type of regulatory approved capital[2]	Final maturity
A	1125483	Aa3.il(hyb)	Stable	Hybrid Tier II	December 31, 2021
B	1127562	Aa3.il(hyb)	Stable	Hybrid Tier II	December 31, 2024
C	1135862	Aa3.il(hyb)	Stable	Hybrid Tier II	December 31, 2027
D	1137033	Aa2.il(hyb)	Stable	Hybrid Tier III	December 31, 2027
E	1139286	Aa3.il(hyb)	Stable	Hybrid Tier II	June 30, 2029
F	1142785	Aa3.il(hyb)	Stable	Tier II	December 31, 2030

Summary of rating rationale

The Company rating reflects a strong business profile, supported by the Company size, in terms of premiums and assets under management, its market-leading position in the long-term savings segment and significant market shares (over 10%) in all insurance segments, good control over distribution and extensive customer base, providing potential for generating future revenues. However, the business profile is limited by relatively low diversification of business lines, with revenues highly concentrated in the life insurance segment, which accounts for 70% of total premiums over time. The risk profile is reasonable for the rating, given the relatively low exposure to major customers out of total gross premiums, low product risk in non-life insurance and constant improvement in risk management quality, due to deployment of processes in support of Solvency II and improved capital adequacy ratios. Conversely, the risk profile is negatively impacted by high product risk in life and health insurance and by debt at Group level. The Company's financial profile is appropriate for the rating, supported by an appropriate capital cushion and a good liquidity profile, along with improved asset quality, but on the other hand, financial flexibility and profitability are still low for the rating. Based on Midroog's capital model, the Company has excess risk-adjusted capital that is appropriate for the current rating, maintaining excess capital at 107%, based on data as of June 30, 2018, under the second most severe scenario out of five (un-changed from the previous monitoring

1 Tier II recognized under the Solvency II Directive, issued as from June 2017

2 In conformity with the Solvency II Directive, subordinated Tier II capital, Hybrid Tier III capital and Hybrid Tier II capital are recognized as Tier II capital.

report). The main risks to which the Company is exposed, as perceived in the model, derive from insurance risks and in particular life expectancy risks in policies with guaranteed annuity and from market risks in the proprietary (nostro) portfolio (guaranteed-return life insurance, P&C and equity). Moreover, in accordance with the Solvency 2 directives, the SCR ratio as of December 31, 2016 was 93% and 160% (without / with accounting for the transition provisions, respectively), reflecting a NIS 0.9 billion shortfall compared to the final requirements. This shortfall has been completed by a Tier II capital issuance in late 2017, amounting to NIS 1.1 billion, without accounting for the effect of Company operations and results in 2017 and in the first half of 2018 on the mix of investments and insurance obligations and external influences such as change to the risk-free interest curve and regulatory changes that impact financial capital and capital requirements pursuant to the Solvency II Directive. This fact supports an improvement in the Company's risk profile and business flexibility. The aforementioned Solvency Capital Ratio is not favorable compared to the peer group, but we believe that the Company has several other tools and sufficient flexibility to create a margin over the regulatory threshold, including capital accrual from current operations, further risk reduction in the nostro portfolio, some adjustments to the product mix, obtaining re-insurance etc. Midroog expects the Company to create and maintain a sufficient safety margin over the regulatory threshold, including through any future dividend distribution policy, given the expected volatility of this ratio.

In our base scenario for 2018-2019, we expect the business environment to continue being challenging. This would continue to be positively affected, in our estimate, by relatively stable GDP growth (3.5%-3.7% in 2018-2019) and low, stable unemployment rate which support further improvement in real wages. Conversely, the low interest and inflation environment, some stability in curve slope, along with volatile returns on the capital market and exposure to regulatory burden, which promotes competition and causes additional costs in certain segments, are a continuing challenge for the insurance industry. We note that we expect further improvement in penetration rates, in particular in the healthcare segment, to somewhat moderate competition in the market. We assume that the Company would maintain its business positioning and gross earned premiums from organic operations should grow by 10% on aggregate in 2018-2019, with the life insurance segment remaining the primary earnings generator. The earnings generation potential is materially dependent on external factors and is limited in achieving returns on the capital market and from the interest rate environment. In this scenario, the ROC and ROA ratios should range between 3%-5% and between 0.2%-0.3%, respectively, over the next two years. We note that the rating reflects a benefit due to the Company's relatively long average duration of liabilities, which significantly supports the Company's liquidity profile and rating.

The stable rating outlook reflects our expectation that the company would maintain key ratios in the forecast range.

Migdal Insurance Company Ltd. - Key financial data (NIS in millions)

	June 30, 2018	June 30, 2017	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total assets	152,743	139,958	146,987	134,434	125,668	118,228
Total equity attributable to equity holders of the Company	5,703	5,298	5,474	4,851	4,680	4,720
Total comprehensive income attributable to equity holders of the Company	230	447	622	172	169	554
Total Earned premiums, gross	6,496	6,149	12,622	11,194	10,689	10,426
Of which: life insurance and long-term savings	4,595	4,300	8,916	*7,835*	*7,662*	*7,606*
Of which: healthcare insurance	723	642	1,326	*1,177*	*1,024*	*880*
Of which: P&C insurance	1,178	1,207	2,381	*2,182*	*2,003*	*1,940*
Total premiums earned in residual	6,137	5,748	11,853	10,486	10,066	9,738
Total - investment gain	2,495	3,964	9,548	4,930	3,475	5,598
Midroog's adjusted ratios						
Intangible assets and long-term savings DAC as percentage of shareholder equity	38%	41%	39%	45%	47%	48%
Return on capital (ROC) [1]	4.5%	10.0%	7.0%	2.1%	2.4%	9.3%
Return on assets (ROA) [2]	0.3%	0.7%	0.4%	0.1%	0.1%	0.5%
Adjusted debt to adjusted debt and shareholder equity [3]	51.7%	44.1%	42.5%	46%	41%	27%
Adjusted earnings before interest and tax (EBIT) to interest expenses	6.2x	6.3x	5.4x	5.8x	19.0x	22.9x

[1] Comprehensive income to average financial liabilities and equity attributable to shareholders for the period, annualized
[2] Comprehensive income to average assets in the period, annualized
[3] Adjusted debt including financial liabilities and liabilities in respect of employee benefits, net

Detailed rating considerations

Strong business profile supported by significant size, but constrained by relatively low diversification of business lines

The Company has a strong brand, extensive and diversified customer base and good control over distribution, which support its revenue generation capacity across the cycle. The Company is one of the top two insurers in Israel over time, the largest in life insurance, as reflected in significant market shares over time in total gross earned premiums in the sector, and in particular – in the life insurance segment (excluding contributions to pension and provident funds) at 20% and 30%, respectively and has the highest assets under management in the industry (including pension and provident funds) over time, at NIS 220 billion as of June 30, 2018. Conversely, the business profile is constrained by business line diversification that is low for the rating and by comparison to the peer group, even though the Company does business in all insurance segments other than credit insurance. This concentration is reflected in the revenue mix, with the life insurance segment accounting for over 70% of total premiums over time, the Company's major earnings generator. The Company has two other significant segments: health insurance (10% of gross premiums) and non-life insurance (20% of gross premiums) over the past 12 months, but their contribution to total earnings is relatively low. This concentration is, in our estimate, a risk factor for the Company, especially given the fact that a material portion of reserves in life insurance and in long-term savings include provisions to guarantee returns and life expectancy, which expose the Company to significant external changes.

In the forecast range of 2018-2019, we estimate the Company would maintain its business positioning, while increasing earned premiums by a cumulative 10% compared to 2017, primarily derived from the life and health insurance segments. We expect the supportive macro-economic environment to continue, including stable growth (3.5% and 3.7% for 2018-2019) and stable unemployment, which should contribute to further real wage growth. Therefore, in the life insurance and LTS sector, we expect the Company would grow at a rate higher than GDP growth, primarily due to current contributions and our estimate of a certain continued increase in real wages without a significant addition of non-recurring premiums, compared to recent years. In the health segment, further to our previous assessment, we assume some moderation in premium growth compared to recent years, but this growth should remain strong, with market shares maintained and further focus on individual insurance. The growth potential will be supported by the relatively low penetration rate in the economy, with further competition in the industry and the uniform insurance policy further creating certain price pressures in this segment. In the non-life insurance segment, we anticipate stability to moderate increase in premiums, given the fact that the Company is one of those awarded a tender for auto insurance for Government employees in 2019-2020 as well. Conversely, the Company's sustained underwriting loss in this segment, as reflected by a net Combined Ratio higher than 100% (despite improvement over the past year), as well as further growing competition in this segment, regulatory changes and limited price flexibility, would continue to be a challenge for the Company within the forecast range and would require, in our opinion, further action to improve the customer portfolio.

The risk profile is reasonable for the rating, but continues to be negatively impacted by relatively high risk with respect to the legacy life insurance portfolio

The Company has relatively high product risk in the life and health insurance segment over the long term, primarily due to insurance policies sold in the past, with 70% of total reserves over time classified by us at medium-high risk, including provisions to guarantee returns and/or life expectancy. This high rate exposes the Company to significant external changes, including changes to the interest rate curve and capital market volatility, beyond the demographic risk. In the short and medium term, we do not anticipate material change in the reserve mix, given the expected operating mix.

Conversely, product risk in non-life and health insurance over the short term is appropriate for the rating, in our opinion, with 65% of total gross premiums for the 12 months ended June 30, 2018 and over time are with respect to "short-tail" insurance contracts, which in our opinion are characterized by lower insurance risk than "long-tail" contracts. The risk profile is further supported by relatively low exposure to major collectives and policy holders out of total premiums, at 6% of gross earned premiums over the past two years. However, the operating model that is weighted towards life insurance creates a skew, whereby in health and non-life insurance, the Company has relatively significant exposure, at 14% and 22%, respectively, over the past two years. This exposure may increase the insurance, credit and sector risk across the cycle and restricts the risk-adjusted pricing, given these customers' economies of scale.

The Company hedges insurance risk in non-life insurance through highly-rated re-insurers. However, the Company has relatively high net exposure given a catastrophic event compared to its competitors, despite improvement in recent years, at 2% of recognized capital as of December 31, 2017.

We believe that the Company's risk management policy and controls are appropriate for the rating and are also supported by regulatory requirements. Full implementation of the Solvency II Directive should further improve the Company's risk management processes, as well as the industry's, and should support improvement of the risk profile over time and measurement of economic capital, although the economic capital and capital ratio should be more volatile under the Solvency II Directive. Note that the Company has significantly reduced the shortfall compared to the full capital requirement, which must be achieved by 2024, based on the ratio published for data as of December 31, 2016, a fact which supports improvement in the risk profile and in business flexibility, and the Company is not required to make significant use of risk mitigation tools, which might exert pressure on the profitability cushion. The risk profile continues to be constrained by the controlling shareholder's debt service needs, where the Company is the only cash flow source for said needs. This strong dependency may impact the potential build-up of the capital cushion and the Company's risk appetite, despite some relief in the repayment burden on the controlling shareholder over the short term.

Asset quality is reasonable for the rating

The Company's proprietary (nostro) investment profile indicates a risk appetite that is reasonable for the rating, similar to the comparison group, with a ratio of adjusted "assets at risk"[3] to regulatory approved capital at 45% as of June 30, 2018. The investment mix in the nostro portfolio primarily consists of: Government debentures at 65%, cash at 5% and highly-rated corporate bonds at 5%, with other investments being relatively diversified. We expect no material change in the investment mix over the short term, hence in the risk appetite as well, with further focus on non-tradable assets, given the current interest environment which poses a challenge to maintaining potential returns.

We also expect the Company to further limit some of the risk components in the portfolio, in particular the equity component, due to its significant capital allocation, with potential returns remaining challenging due to the interest rate environment and asset valuation on the capital market.

The rate of intangible assets and deferred acquisition expenses in life insurance, which are associated with a "softer" valuation than shareholder equity, has also improved, to 38% as of June 30, 2018. It is supported by accrued earnings and some stability in total assets. This ratio is an outstanding positive compared to the peer group and is reasonable for the rating, supported by earnings accrued over the past two years and some stability in intangible assets. We expect the trend in this ratio to further improve in the short and medium term, given our estimate of stability in the operating mix, along with continued improvement in the capital cushion.

3 High risk assets generally include all financial investment assets other than cash, Government debentures and investment-grade corporate debentures, with the weighting of the latter based on partial reliance reflecting risk of potential impairment over the credit cycle due to credit, market or liquidity risk.

The capital cushion is appropriate for the rating and absorbs losses well; some improvement in the potential for capital cushion build-up

Based on Midroog's capital model, the Company has excess risk-adjusted capital that is appropriate for the current rating, with excess capital at 107%, based on data as of June 30, 2018, under the second most severe scenario out of five (un-changed from the previous monitoring report). The main risks to which the Company is exposed, as perceived in the model, derive from insurance risks and in particular life expectancy risks in policies with guaranteed annuity and from market risks in the nostro portfolio (guaranteed-return life insurance, P&C and equity). Against these risks, the Company has an economic capital cushion with adjusted shareholder equity as of June 30, 2018 amounting to NIS 6.3 billion (of which tangible shareholder equity amounting to NIS 4.1 billion) and significant adjusted VIF (based on our model), amounting to NIS 7.6 billion.

As a complementary test, not based on risk weighting for insurer leverage, we consider the ratio of equity to adjusted total assets (excluding assets for return-dependent contracts) excluding 10% of assets at risk, which reflect the expected erosion in asset value under more stringent scenarios. This ratio was around 11% on June 30, 2018, which is appropriate for the rating and we believe should remain at a similar level over the short to medium term.

We believe that the potential for capital cushion build-up over the short term has improved, primarily due to the interest rate environment and its impact on reserves, but this should be limited over the medium term, due to the challenging business environment which in our estimate would result in low earnings accrual potential, which is extensively impacted by external factors, as set forth below. We assume that the Company may start distributing dividends at a moderate percentage of earnings over the next two years and would act to re-finance the hybrid Tier II capital with early redemption in the coming year. In June 2017, updated directives were published for implementation of an economic solvency regime for insurers, based on Solvency II ("**the new directives**"), whereby insurers would maintain an economic solvency regime in accordance with said directives. As of June 30, 2018, the Company had an SCR ratio in line with the new directives, based on 2016 data, at 93% and 160% (without / with accounting for the transition period, respectively). Consequently, the Company has significant excess capital amounting to NIS 4 billion, based on milestones in the transition period[4], but is required to make-up NIS 0.9 billion by 2024. This shortfall has been made up by a Tier II capital issuance in late 2017, amounting to NIS 1.1 billion, without accounting for the effect of Company operations and results in 2017 and in the first half of 2018 on the mix of investments and insurance obligations and external influences such as change to the risk-free interest curve and regulatory changes that impact financial capital and capital requirements pursuant to the Solvency II Directive. This fact supports an improvement in the Company's risk profile and business flexibility. Note that the Solvency Capital Ratio is not favorable compared to the peer group, but we believe that the Company has several other tools and sufficient flexibility to create a margin over the regulatory threshold, including capital accrual from current operations, further risk reduction in the nostro portfolio, some adjustments to the product mix, obtaining

[4] The capital required for solvency of an insurer in the period from June 30, 2017 to December 31, 2024 would gradually increase by 5% annually, from 60% of SCR to 100% of SCR.

re-insurance for capital-intensive products etc. Midroog expects the Company to create and maintain a sufficient capital margin over the regulatory threshold, including through any future dividend distribution policy, given the expected volatility of this ratio.

Note that improvement of capital adequacy by increasing Tier I capital and by reducing risk and capital required would be regarded favorably by us, while increasing the capital cushion through Tier II capital, which would impact the quality of the capital cushion and significant dividend distributions which could erode it, may negatively impact the rating.

The earnings cushion is low for the rating, dependent on external factors and limited, *inter alia*, by low underwriting profitability

The Company's profitability is low for the rating and average by comparison to the industry in recent years, which is also limited by low underwriting profitability (Combined Ration in residual higher than 105% for non-life insurance over the past 5 years). The industry exposure and the Company exposure to external factors, particularly to the capital market, and the lack of significant underwriting profitability, result in high volatility in profitability, as reflected in the Company's ROC and ROA ratios ranging between 2%-14% and between 0.1%-0.8%, respectively, in 2013-2017. Earnings volatility was due, *inter alia*, to the need to make up reserves in view of the continued decline in the interest rate curve and impact to the revenue generation potential, in particular to variable management fees and investment gains. Moreover, the effect of the Vinograd Commission on discount rates in National Insurance claims, which have impacted and should continue to impact the underwriting profitability in mandatory auto insurance and in liability insurance. However, the trend has recently reversed to some extent, especially due to external influences, with the interest rate curve being slightly higher and steeper (resulting in release of reserves amounting to NIS 318 million after tax in the past six months) and relatively high capital market returns in part of this period, which supported the portfolio performance and collection of variable management fees.

In our forecast for 2018-2019, we anticipate improved earnings generation potential compared to our previous forecast and despite the business environment, which continues to be challenging in some segments. The business environment should continue to be affected by relatively stable GDP growth (3.5% to 3.7% in 2018-2019), the low interest, low inflation environment, some stability in the steepness of the curve along with volatile returns on the capital market and exposure to the regulatory burden, which promotes competition and generates additional costs in certain segments. Conversely, penetration rates should continue to grow, in our opinion, which would somewhat moderate market competition.

In the life insurance and long-term savings segment, the Company's primary earnings source, we anticipate further volatility in profitability over the forecast period, due to significant exposure to external factors, including volatility of the interest rate curve and market returns, with key support, in our estimate, provided by some stability in the interest rate curve (no significant decrease anticipated). The healthcare segment is also exposed to the interest rate curve and we assume some profitability erosion, given our estimated deterioration in claim volume and severity, due *inter alia* to the increased penetration rate in this segment. Furthermore, recent regulatory changes, including the creation of a uniform insurance policy structure, are expected to increase price competition and to pressure profitability. In the non-life insurance segment, we anticipate some improvement in underwriting results compared to 2017, due to portfolio improvement efforts, but this would remain outstandingly negative compared to the industry. Competition should remain relatively high, in particular in the Motor Casco line of insurance, which saw some rate increases over the past year, with underwriting profitability remaining low and limited due, *inter alia*, to regulatory intervention. Consequently, under Midroog's base scenario, the Company's profit margins should be low for the rating, with ROC and ROA ratios should range between 3.0%-5.0% and between 0.2%-0.3% respectively, over the forecast range.

Favorable liquidity profile supported by a long duration of liabilities, low financial flexibility for the rating is negatively impacted by increased leverage, but is supported by improved regulatory capital adequacy ratios

The Company's liquidity profile is favorable for the rating and for the peer group, as reflected by a current ratio of 4 times between weighted liquid assets to short-term insurance and financial liabilities. Given the Company's business mix, which is weighted towards life insurance, most of the liabilities should, naturally, mature over the long term.

Company liabilities have a relatively long duration, which strongly supports its liquidity profile and rating. In our opinion, insurers characterized by a long duration of liabilities and no put options for policyholders to call for money, are less exposed to liquidity risk and are better capable of responding to them over a longer period of time, which supports their survivability and rating. Moreover, the volatility that may result from marking to market of assets (MTM) sometimes does not reflect the economic value of insurers with a long duration of liabilities, given their ability to hold the relevant assets to maturity, therefore the economic capital of these insurers may be less exposed to short-term market volatility in our opinion.

The Company's financial flexibility is low for the rating, with a relatively high debt to CAP ratio at 52% as of June 30, 2018 (in 2015: 41%). This ratio is higher than the average for the peer group and is not expected to materially change over the short-medium term. Conversely, the expected continued improvement in regulatory capital adequacy ratios, as set forth above, supports the Company's financial flexibility.

Structural considerations

Features of subordinated instruments

In conformity with Midroog's methodology, rating of subordinated debt (hybrid Tier III capital, hybrid Tier II capital and Tier II capital) is based on the Insurer financial strength (IFS) rating, as a starting point for rating of various debt instruments issued by insurers. We then adjust the rating for the credit risk associated with the subordinated debt instrument, based on its specific features and ranking on the capital-to-debt scale, taking into account the structural subordination of the instrument, loss-absorption provisions in terms and conditions of the instrument and uncertainty with regard to their triggering point (by contractual trigger or at the discretion of the Supervisor of Insurance). We reduce the rating by one notch and two notches from the insurer's IFS rating for rating of hybrid Tier III capital and hybrid Tier II capital / Tier II capital, respectively. These ratings reflect the legal-contractual subordination of such debt relative to the insurer's IFS rating, the seniority ranking among subordinated debt instruments, as well as the effect of their loss-absorption provisions.

Rating outlook

Factors that could lead to a rating upgrade:

- Sustained, significant improvement in diversification of the Company's operating mix
- Significant improvement in the capital cushion and financial flexibility

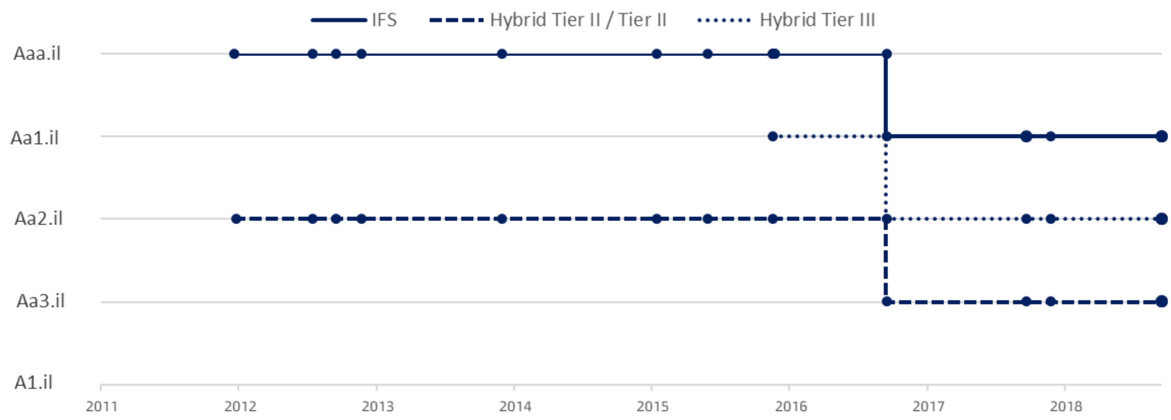
Factors that could lead to a rating downgrade:

- Impact to the Company's reputation and market positioning
- Sustained deterioration in capital and profitability cushions

Company profile

Migdal Insurance Company Ltd., through its subsidiaries ("the Group") primarily operates in insurance, pension and provident funds. The Group's insurance business is carried out by the Company. The Group's pension and provident fund business is carried out by Company subsidiaries: Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund for the Self-Employed Ltd. The Group also owns insurance agencies through Migdal Holdings and Insurance Agency Management Ltd., a wholly-controlled subsidiary of the Company. The Company is wholly-controlled by the controlling shareholder, Migdal Holdings Insurance and Finance Ltd. ("Migdal Holdings"). The CEO of the Company is Mr. Doron Sapir. Following debt issued by the controlling shareholder of the Company, the control permit was revised as from September 10, 2017, allowing transfer of the controlling stake owned by Eliyahu 1959 Ltd. ("Eliyahu"), at 68% of the issued and paid-in share capital of Migdal Holdings, to Eliyahu Issuance Ltd., a wholly-owned subsidiary of Eliyahu. Moreover, as part of this debt issue, options were granted to lenders, exercisable for shares of Migdal Holdings at 15% of total issued and paid-in share capital.

Rating History



Related reports

[Migdal Insurance Company Ltd – Related Reports]

[Rating methodology for insurance companies – December 2017]

[Affinities and holdings]

[Midroog's rating scales and definitions]

These reports are available on the Midroog website at www.midroog.co.il

General information

Rating report date:	September 25, 2018
Most recent rating update date:	December 18, 2017
Initial rating issue date:	December 18, 2011
Rating initiated by:	Migdal Insurance Company Ltd.
Rating paid for by:	Migdal Insurance Company Ltd.

Information from the issuer

In its ratings, Midroog relies, inter alia, on information received from competent organs of 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 relative 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.

Caveat regarding the limitations of a rating and the risks of relying on a rating, and caveats and reservations in respect to the activity of Midroog Ltd. and the information appearing on its website

Ratings and/or publications issued by Midroog are or contain Midroog's subjective opinions about the relative future credit risk of entities, credit obligations, debts and/or debt-like financial instruments, that apply on the date of their publication, and as long as Midroog has not changed the rating or withdrawn it. Midroog's publications may contain assessments based on quantitative models of credit risks, as well as related opinions. Ratings and publications by Midroog do not constitute a statement about the accuracy of the facts at the time of the publication or in general. Midroog makes use of rating scales to issue its opinions, according to definitions detailed in the scale itself. The choice of a symbol to reflect Midroog's opinion with respect to credit risk reflects solely a relative assessment of that risk. Midroog's ratings are issued on a national scale and, as such, are opinions of the relative creditworthiness of issuers and financial obligations within Israel. National scale ratings are not designed to be compared between countries; rather, they address relative credit risk within a given country.

Midroog defines credit risk as the risk that an entity may fail to meet its contractual financial obligations on schedule and the estimated financial loss in the event of default. Midroog's ratings do not address any other risk, such as risks relating to liquidity, market value, change in interest rates, and fluctuation in prices or any other element that influences the capital market.

The ratings and/or publications issued by Midroog do not constitute a recommendation to buy, hold, and/or sell bonds and/or other financial instruments and/or make any other investment and/or forgo any of these actions.

Nor do the ratings and/or publications issued by Midroog constitute investment advice or financial advice, nor do they address the appropriateness of any given investment for any specific investor. Midroog issues ratings on the assumption that anybody making use of the information therein and of the ratings will exercise due caution and make his own assessment (himself and/or through authorized professionals) of the merit of any investment in a financial asset that he is thinking of buying, holding or selling. Every investor should obtain professional advice in respect to his investments, to the applicable law, and/or to any other professional issue.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MIDROOG IN ANY FORM OR MANNER WHATSOEVER.

Midroog's credit ratings and publications are not intended for use by retail investors and it would be reckless and inappropriate for retail investors to use Midroog's credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

All the information contained in Midroog ratings and/or publications, and on which it relied (hereinafter: "the Information") was delivered to Midroog by sources (including the rated entity) that it considers credible. Midroog is not responsible for the accuracy of the Information and presents it as provided by the sources. Midroog exercises reasonable means, to the best of its understanding, so that the Information is of sufficient quality and that it originates from sources Midroog considers to be credible, including information received from independent third parties, if and when appropriate. However, Midroog does not carry out audits and cannot therefore verify or validate the Information.

The provisions of any Midroog publication other than one expressly stated as a methodology do not constitute part of any Midroog methodology. Midroog may change its position regarding the content of such publications at any time.

Subject to applicable law, Midroog, its directors, its officers, its employees and/or anybody on its behalf involved in the rating shall not be held responsible under law, for any damage and/or loss, financial or other, direct, indirect, special, consequential, associated or related, incurred in any way or in connection with the Information or a rating or a rating process, including not issuing a rating, including if they were advised in advance of the possibility of damage or a loss as said above, including but not confined to (a) any loss of profit in present or future, including the loss of other investment opportunities; (b) any loss or damage caused consequential to holding, acquisition and/or selling of a financial instrument, whether it is a subject of a rating issued by Midroog or not; (c) any loss or damage caused consequential to the relevant financial asset, that was caused, *inter alia* and not exclusively, as a result of or in respect to negligence (except for fraud, a malicious action or any other action for which the law does not permit exemption from responsibility) by directors, officers, employees and/or anybody acting on Midroog's behalf, whether by action or omission.

Midroog maintains policies and procedures in respect to the independence of the rating and the rating processes.

A rating issued by Midroog may change as a result of changes in the information on which it was based and/or as a result of new information and/or for any other reason. Updates and/or changes in ratings are presented on Midroog's website at http://www.midroog.co.il.