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Migdal Insurance Company Ltd.

Monitoring Report | July 2021

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 Hebrew.

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Migdal Insurance Company Ltd.

Insurer Financial Strength (IFS) Rating	**Aa1.il**	**Outlook: Stable**
Tertiary hybrid capital	**Aa2.il (hyb)**	**Outlook: Stable**
Secondary hybrid capital and Tier 2 capital instrument	**Aa3.il (hyb)**	**Outlook: Stable**

Midroog affirms the Aa1.il IFS rating of Migdal Insurance Company Ltd. (the "Company"), as well as the Aa2.il (hyb) rating for subordinated notes (tertiary hybrid capital) and the Aa3.il rating for subordinated notes (secondary hybrid capital Tier 2 capital instrument) issued by the subsidiary Migdal Capital Raising Ltd. The outlook is stable.

The subordinated debt ratings reflect the legal-contractual subordination of these debts relative to the IFS rating, the seniority hierarchy among the subordinated debts themselves, and the effect of the loss-absorbing mechanisms they embody. Considering the Company's IFS rating level and the current and projected economic solvency level as estimated by us, while maintaining an adequate margin from the effective regulatory economic solvency requirement for the instrument, we assess as low the uncertainty regarding the probability of occurrence of the "suspending circumstances," [1] which therefore was not expressed in an additional notch downgrade of the Tier 2 capital instruments.

Outstanding bonds rated by Midroog:

Series	ISIN	Rating	Outlook	Class of recognized capital	Maturity
C	1135862	Aa3.il(hyb)	Stable	Tier 2 [1]	31/12/2027
D	1137033	Aa2.il(hyb)	Stable	Tier 2 [2]	31/12/2027
E	1139286	Aa3.il(hyb)	Stable	Tier 2 [1]	30/06/2029
F	1142785	Aa3.il(hyb)	Stable	Tier 2	31/12/2030
G	1156041	Aa3.il(hyb)	Stable	Tier 2	31/12/2031

[1] Secondary hybrid
[2] Tertiary hybrid

KEY RATING CONSIDERATIONS

The Company's rating reflects a strong business profile, supported by the Company's size, in terms of premiums and assets under management, market leadership in the long-term savings sector, significant market share in all the insurance sectors (above 10%), good control of the distribution network, and a wide customer base, creating potential for future income generation. However, the risk profile is negatively affected by a low diversification of lines of business for the rating, reflected in a concentrated mix of revenues, with the life insurance segment accounting for 70% of total premiums and management fees over time. The risk profile is reasonable for the rating, given relatively low exposure to collectives and large insurance clients out of total gross premiums, low product risk in nonlife insurance, and a risk management policy and controls that are appropriate for the rating and

[1] The capital requirement for "suspending circumstances" is defined as 80% of the required solvency ratio in the phase-in period after the equities scenario adjustment according to the Solvency Circular ("**required solvency ratio**").

also supported by regulatory requirements, with full implementation of the Solvency II Directive, and especially the second pillar (ORSA) in the future, expected to continue improving risk management processes within the Company. As against this, the risk profile is negatively impacted by high product risk in life and health insurance, mainly in respect of policies sold in the past, as well as by the debt servicing needs of the controlling shareholder and by corporate governance events that could be a major cause of downward pressure on the rating, insofar as they continue. The Company's financial profile is reasonable for the rating, supported by a strong liquidity profile based on a long duration of obligations, while financial flexibility is low for the rating and negatively impacted by high balance sheet leverage. Asset quality is appropriate for the rating.

Under Midroog's capital model, the Company has a reasonable risk-adjusted capital surplus for the rating, with the Company meeting the third most severe stress test out of five, based on the data of March 31, 2021. The principal risks to which the Company is exposed, as perceived by the model, are associated with insurance risks, particularly life expectancy risks in policies with guaranteed factors, as well as market risks in the nostro portfolio (guaranteed-yield life insurance, nonlife insurance and capital), while the diversification of activities and the correlations between them reduce the capital requirement. The Company's solvency ratio in accordance with the Solvency II directives, taking into account the directives for the phase-in period, stands at 148%. The solvency ratio includes the amount of the deduction in the phase-in period after an 80% factor, as explained below. Without the application of this factor, the Company's solvency ratio would have stood at 166% as of December 31, 2020. The solvency ratio, without taking into account the directives for the phase-in period, stands at 91% (including capital effects after the balance sheet date). We note that on October 16, 2020, the Capital Market, Insurance and Savings Commissioner (the "Commissioner") sent the Company a letter notifying it that in view of the continuing concerns that the proper management of Migdal Insurance would be compromised and that this could affect the Company's capacity to build up the capital required of it in accordance with the principles for calculating the deduction in the phase-in period, the Commissioner had determined that the amount of the deduction at any calculation date may not exceed 80% (the "factor") of the basic deduction amount as defined by him, and that this limitation would apply at least up to the conclusion of the corporate governance audit the Capital Market Authority was performing on Migdal, compliance with the instructions that would be given in the wake of the audit process and correction of the deficiencies found during the process, and in any event as long as not directed otherwise by the Commissioner.

Under our base case scenario for 2021-2022, we foresee a persisting challenging business environment, continuing to weigh on the industry, and particularly on the income generating potential of the companies in the industry. Furthermore, in our estimation, the industry will be marked by a continuing low interest rate environment and by a growth in inflation, coupled with volatility in capital market yields and exposure to a regulatory burden that encourages competition and creates additional costs in certain segments, along with continuing competitive pressures in certain products. Under this scenario, we estimate that the Company will maintain its business positioning, though with a certain erosion in its market share in some of the operating segments, such that the volume of gross earned premiums will decrease by an average of 2% in the forecast years. The Company's profitability rates are expected to fluctuate, with ROC and ROA ratios during the forecast period in the range of 3.0%-4.0% and 0.2%-0.25%, respectively.

This forecast is still subject to uncertainty regarding the recovery of the economy from the current economic crisis brought on by the global spread of the coronavirus pandemic and the resulting rise in capital market volatility.

Rating Outlook

The stable outlook reflects our belief that the Company's financial profile and key indicators will remain within the range of Midroog's base case scenario. Nevertheless, we note the corporate governance events that occurred in the Company in recent years, as explained later on in this report, which have exerted pressure on its rating. However, we believe that the Company is in the final stages of implementing the recommendations included in the draft corporate governance audit report issued by the Capital Market, Insurance and Savings Commissioner, with any deviation from this assumption, including a continued high turnover in the Company's management ranks and a lack of management stability, liable, in our estimation, to affect the Company's rating.

Furthermore, we note the continuing element of uncertainty within the forecast period, due to the realization of a risk event in the form of the spread of the coronavirus in Israel in 2020, including uncertainty as to the effectiveness of the vaccine against the virus over time, the effects of the pandemic on local economic activity and the increased volatility in the capital markets.

Factors that Could Lead to a Rating Upgrade

- A significant improvement in the diversification and mix of the Company's activities over time.
- A significant improvement in and ongoing stability of the profitability margin.

Factors that Could Lead to a Rating Downgrade

- Deterioration in the Company's business profile – both in market share and in the diversification of activities.
- A continuous decline in underwriting results, leading to significant erosion of overall profitability.
- A significant drop in equity, including due to an aggressive distribution of dividends.
- A continuous decrease in the capital surpluses according to Midroog's capital model.

Migdal Insurance Company Ltd. – Key Financial Indicators

NIS millions	3 0 .03.2021	3 1 .03.2020	3 1 .12.2020	3 1 .12.2019	3 1 .12.2018	3 1 .12.2017
Total assets	186,153	161,155	181,264	170,879	153,602	146,987
Total capital attributable to the Company's shareholders	6,713	5,393	6,488	5,964	5,688	5,474
Total comprehensive income (loss) attributable to the Company's shareholders	225	(572)	524	626	(24)	622
Total gross earned premiums	3,243	3,323	13,007	13,709	13,382	12,622
Of which life insurance and long-term savings	*2,311*	*2,326*	*9,082*	*9,765*	*9,488*	*8,916*
Of which health insurance	*417*	*420*	*1,659*	*1,611*	*1,487*	*1,326*
Of which nonlife insurance	*514*	*578*	*2,266*	*2,333*	*2,408*	*2,381*
Total earned premiums retained	3,059	3,118	12,240	12,954	12,648	11,853
Total investment gains (losses) (including other comprehensive income)	5,058	(13,499)	7,441	15,480	668	9,934
Solvency ratio [1]	N/R	N/R	148%	144%	152%	171%
Solvency ratio without implementing the transition directives for the phase-in period [3]	N/R	N/R	91%	90%	107%	95%
Midroog adjusted ratios						
Intangible assets and DAC long-term savings from equity	32%	40%	33%	36%	38%	39%
Return of capital (ROC) [2]	7.8%	(21.41%)	4.7%	5.7%	(0.2%)	7.0%
Return on assets (ROA) [3]	0.5%	(1.4%)	0.3%	0.4%	(0.02%)	0.4%
Adjusted debt/adjusted debt and equity [4]	44%	49.4%	45%	47.3%	49%	42%
Income before interest and tax (EBIT) and income from investments in other comprehensive income/ interest expenses	5.8x	(12.6x)	5.2x	3.6x	0.3x	8.5x

[1] Taking into accountthedirectives for thephase-in period andtheequities scenarioadjustment, and taking into account events between the balance sheet date and the reporting date; the solvency ratio includes the deduction amountin thephase-in period afteran 80% factor, as explainedabove. Withouttheapplicationof the factor, the Company's solvency ratio would have stood at 166% as of December 31, 2020 and at 160% as of December 31, 2019; the figure as of December 31, 2018 is presented takinginto accountthetransition directives as in effect on that date. [2] Comprehensive income to average financial liabilities (without derivatives) and equity attributable to the shareholders in the period, on an annualized basis. [3] Comprehensive income to average total assets in the period, on an annualized basis. [4] The adjusted debt includes financial liabilities (withoutderivatives) andliabilities foremployeebenefits, net. Additionally, as of January 1, 2019, the adjusted debtincludes leases.

Detailed Rating Considerations

A GOOD BUSINESS PROFILE SUPPORTED BY SIGNIFICANT SIZE BUT NEGATIVELY IMPACTED BY A FAIRLY LOW DIVERSIFICATION OF LINES OF BUSINESS

The Company has a strong brand, a broad and diversified customer base and good control of the distribution network, supporting income generating ability throughout the operating cycle.

The Company is one of Israel's two leading insurers over time, with a significant volume of assets under management (including pension and provident funds), amounting to NIS 279 billion as of March 31, 2021. The Company's size is also reflected in a significant market share in terms of gross earned premiums, amounting to 18.4% as of March 31, 2021, but trending downward from 20.3% in 2017. The decrease in market share is mainly attributable to nonlife insurance segment, due to steps taken in recent years to cleanse the auto and business lines of the portfolio as well as the Company's failure to win the tender for insurance of government employee vehicles in 2021, which resulted in a decrease in the Company's market share in this segment, from 11.09% in 2017 to 8.9% as of March 31,

2021. At the same time, the Company is Israel's largest life insurer, holding over time a significant market share of total gross earned premiums in this segment (excluding contributions to pension and provident funds), amounting to 30% as of March 31, 2021, and also holding a substantial 12.5% market share in the health insurance segment as of that date.

As against this, the business profile is negatively impacted by a low diversification of lines of business for the rating, reflected in a concentrated mix of revenues, with the life insurance segment accounting for 70% of total premiums and management fees over time. This concentration presents, in our opinion, a risk factor for the Company, considering especially that a substantial proportion of the life insurance and long-term savings reserves include guaranteed-yield and/or life expectancy mechanisms that expose the Company to significant exogenous changes,

The Company's main marketing and distribution channel comprises insurance agents and insurance agencies, including insurance agencies owned by the Group. The Company's has a comparatively limited direct marketing system compared with its competitors (apart from pension and provident funds), and we do not expect a material change in the short term in the share of this distribution channel in the mix of marketing channels.

Under our base case scenario for 2021-2022, we foresee a persisting challenging business environment, continuing to weigh on the industry, and particularly on the income generating potential of the companies in the industry. Furthermore, in our estimation, the industry will be marked by a continuing low interest rate environment and by a growth in inflation, coupled with volatility in capital market yields and exposure to a regulatory burden that encourages competition and creates additional costs in certain segments, along with continuing competitive pressures in certain products. Under this scenario, we estimate that the Company will maintain its business positioning, though with a certain erosion in its market share in some of the operating segments, such that the volume of gross earned premiums will decrease by an average of 2% in the forecast years.

In the life insurance and long-term savings segment we foresee bolstering of the segment by high growth rates in the coming two years, with the Bank of Israel forecasting GDP growth of 5.0% and 6.3% in 2021 and 2022, respectively. On the other hand, relatively high unemployment rates in the forecast period (compared with previous years) may depress growth rates and the volume of current deposits. Moreover, failure to receive approval for the rate charged for risk sold as part of manager insurance policies, along with intensifying competition over the pension product and continuing regulatory focus, will continue to weigh on growth and support the increasing trend of migration between institutional bodies in this segment.

In the health insurance segment we assume stability in the volume of premiums (in 2021 compared with 2020), due to continued slowing in the marketing of overseas travel insurance policies in 2021, the discontinuation of marketing of individual long-term care policies starting from 2019 and a decrease in new sales of the personal accident insurance product in the wake of the regulatory focus[2] on this area recent years. Additionally, the ongoing competition in the industry and the standard policy format will continue to exert a degree of pressure on prices in this segment. On the other hand, we estimate that these trends will be offset by a relatively low market penetration rate[3] as well as continued growthin demand for private healthcare services.

In the nonlife insurance segment, we foresee a 12% decline in the volume of the Company's premiums in 2021 (compared with the year-before period), and stability in premiums in 2022, in light of the Company's failure to win the tender for insurance of government employee vehicles in 2021, as well as our assumption that the Company will continue to take steps to cleanse the auto and business lines in its portfolio also in the forecast years. As against this, we foresee a slower decline in auto property insurance rates in the forecast period, since we estimate that this downward trend, stemming from the increased competition in recent years, will be nearing exhaustion. Furthermore, the expected GDP recovery and the return of small and medium enterprises in most sectors to normal activity are also expected to impact positively on growth rates in the property and other and liability lines of insurance within the forecast period. We note the continuing element of uncertainty in this forecast, due to the realization of a risk event in the form of the spread of the coronavirus in Israel in 2020, including uncertainty as to the effectiveness of the vaccine against the virus over time, the effects of the pandemic on local economic activity and the increased volatility in the capital markets.

A RISK PROFILE THAT IS REASONABLE FOR THE RATING BUT NEGATIVELY AFFECTED BY CORPORATE GOVERNANCE EVENTS THAT COULD BE A MAJOR CAUSE OF DOWNWARD PRESSURE ON THE RATING, INSOFAR AS THEY CONTINUE

The Company is characterized by relatively high product risk in life and long-term health insurance, mainly in respect of policies sold in the past, with 62% of adjusted reserves over time defined by us as being at medium to high risk, in view of guaranteed-yield and/or life expectancy mechanisms. This high rate exposes the Company to significant exogenous changes, including changes in the interest rate curve and capital market volatility, in addition to demographic risks. In the short to medium term we do not foresee a material change in the mix of reserves, given the expected mix of activities. We note positively that the management and implementation of a tighter ALM policy by the Company, as well as regulatory changes[4] in the method of calculating the LAT reserves, are expected to moderate the sensitivity of the reserves for the life and long-term health insurance portfolios to fluctuations in the risk-free interest rate curve. Thus, in a scenario of Company sensitivity to a 1% decrease in the interest rate curve, profit is expected to decline by NIS 440 million as of December 31, 2020. The loss under the interest rate sensitivity scenario as of December 31, 2019, after the above changes, amounts to NIS 738 million (NIS 954 million before the changes). Midroog expects the Company to continue managing the interest rate exposure, which constituted a significant risk factor for profit and capital buffer stability.

[2] According to a draft published by the regulator, in the framework of its intention to regulate insurance coverage under the personal accident product, including special marketing directives for these products.
[3] Ratio of gross premiums to GDP.
[4] Update of provisions of the Consolidated Circular – allocation of assets not at fairvalue in the LAT calculation.

By contrast, we assess the product risk in nonlife and short-term health insurance as appropriate for the rating, with 34% of total gross premiums in the 12 months ended March 31, 2021 and a similar percentage over time being in respect of "short tail" [5] insurance contracts. These, in our estimation, are characterized by a lower insurance risk than "long tail" [6] contracts, which are subject to greater uncertainty and lower business flexibility with respect to changes in the business environment.

Additionally, the risk profile is supported by relatively low exposure to collectives and large insurance clients, which account for 7% of total gross earned premiums in recent years. Nevertheless, the life insurance oriented activity model creates a certain bias, with the Company having a relatively significant exposure to large clients in health insurance and nonlife insurance amounting to 12% and 31%, respectively, which could heighten insurance and sector-specific risks throughout the cycle and limit risk-adjusted pricing, in view of customer bargaining power.

The Company hedges insurance risks in some of the segments in the nonlife insurance line through highly rated reinsurers, leaving it with a relatively high retention exposure upon the occurrence of a catastrophe, which stood at 1.8% of the adjusted recognized capital[7] as of December 31, 2020.

In our estimation, the Company's risk management policy and controls are appropriate for the rating and are also supported by regulatory requirements, with full implementation of the Solvency II Directive, and especially the second pillar (ORSA) in the future, expected to continue improving risk management processes within the Company, as well as in the industry, bolstering the risk profile over time and measurement of the economic capital. Additionally, Midroog expects the Company to continue putting strong emphasis in the coming years on the management of operational risks, which are an emerging key risk focus in general, and in the fields of information security, business continuity and cyber security in particular.

The risk profile continues to be restricted by the debt servicing needs of the holder of the permit for control of the Company – Eliahu Issues Ltd. ("**Eliahu Issues**"; A3.il/negative outlook), since the insurer (through Migdal Insurance Holdings and Finance Ltd.; the "**Parent Company**") is the main source of cash flow for servicing its debt. This high dependency could adversely affect the potential for building up the capital buffer as well as the Company's risk appetite. At the same time, the Company's board of directors recently put in place a capital policy (see below).

We note that corporate governance events that occurred in the Company during the last year and a half have led to downward pressure on the rating, inter alia due to a high turnover in officers of the Company and the extent of the involvement of the Company's ultimate shareholder. In our estimation, these events affect the Company's ability to implement its strategic plan and are evidence of a weakness in the corporate governance. However, Midroog believes that the Company will continue acting to adopt the steps detailed in the audit report [8] of November 4, 2020, issued following the corporate governance audit performed on the Company by the Capital Market Commissioner.

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[5] Auto property, other property and short-term health.

[6] Compulsory auto and liabilities.

[7] Including accounting equity and subordinated notes.

[8] The draft audit report sets out a series of steps required to correct the deficiencies listed in connection with the need to increase the independence of the board of directors and its committees and improve the effectiveness of the control and supervision mechanisms, the main points of which are presented in the immediate report dated November 5, 2020.

Further thereto, in the course of the period several changes occurred in the composition of the Company's board of directors. Among other things, on October 15, 2020, Mr. Shlomo Eliahu (the controlling shareholder in Eliahu Issues) ceased serving as a director of the Company, and on July 4, 2021, the Company reported the appointment of Mr. Ron-Tal Yiftah as the chairman of the board of directors. We believe the Company is in the final stages final stages of implementing the recommendations included in the aforementioned draft corporate governance audit report, with any deviation from this assumption, including a continued high turnover in the Company's management ranks and a lack of management stability, leading, in our estimation, to a review of the Company's rating.

APPROPRIATE ASSET QUALITY FOR THE RATING LEVEL

The Company's nostro investment portfolio demonstrates, in our estimation, an appropriate risk appetite for the rating category, with an adjusted "at-risk assets" [9] to recognized capital ratio of 36% as of March 31. 2021, similar to the previous monitoring report (38%). The investment mix in the nostro portfolio consists mainly of government bonds (65%) (including Hetz designated bonds), cash (7%) and highly rated corporate bonds (5%), with the remaining investments relatively dispersed. We anticipate a possible increase in the exposure to risk assets compared with recent years, stemming mainly from the interest-rate environment, which presents a low yield potential. This, along with the increasing competition, creates an incentive among insurers to improve yields in the fund-member and nostro portfolios. Additionally, in light of the foregoing, we estimate that the Company will continue to focus on nonmarketable assets. The percentage of intangible assets and deferred acquisition costs (DAC) in life insurance, which are characterized by a "softer" value than equity, stood at 32% as of March 31, 2021, compared with 36% as of the date of the previous monitoring report, mainly due to a 14% increase in equity since then, resulting from the accrual of profits in 2020 and in the first quarter of 2021. This ratio compares favorably with the peer group and is appropriate for the rating. We believe that this ratio will remain at a level appropriate for the rating, due to the expected mix of activities and in view of our assessment that equity will be maintained, growing at a more moderate rate in the forecast period.

A LOW CAPITAL BUFFER FOR THE RATING CATEGORY, THAT IS DEPENDENT ON EXOGENOUSFACTORS BUT EXPECTED TO BE BOLSTERED BY OPERATIONAL EFFICIENCY MEASURES AND CLEANSING OF THE NONLIFE INSURANCE PORTFOLIO

The Company is characterized by low profitability for the rating category, which is also limited by low underwriting profitability, as reflected in a retained combined ratio in nonlife insurance of 103% on average in the years 2016-2020, compared with an average of 97% for the industry in the same period. The Company, like the industry in general, has demonstrated volatile profitability in recent years due to high exposure to exogenous factors, including the interest rate curve, the capital market and regulation, all of which were reflected in the Company's ROC and ROA ratios in the years 2016-2020, which stood on average at 3.9% and 0.2%, respectively. [10].

[9] High risk assets generally include all the financial investment assets except for cash, government bonds and investment- rated corporate bonds, with the latter weighted at a partial reliance rate reflecting a risk of possible impairment over the credit cycle due to credit, marketor liquidity risks.

[10] Taking into account a retrospective adjustment for the effect of the LAT circular on the results for 2019.

Under the base case scenario for 2021-2022, we foresee a persisting challenging business environment, a low interest rate environment that will continue to limit the yield-generating potential, and inflationary pressures that may affect the profit margins in the short to medium term. In this scenario, we take into account the operational efficiency plan, which included, among other things, the cutting of the workforce by 300 workers in 2020 compared with 2019, along with the adjustment of June 1, 2020 in the collective agreement with the workers committee. Concurrently, the Company's nonlife (auto and business) portfolio has been undergoing a cleansing process, reflected in a decrease in market share as mentioned above, but also leading, in our assessment, to a positive development in the form of an improvement in the LR ratio in this segment. We assume that this efficiency plan will be fully realized within the forecast period, and it is expected, concurrently with the cleansing of the portfolio as aforesaid, to be reflected in the short to medium term (excluding exogenous effects on the Company).

In the life insurance and long-term savings line we foresee continued volatile profitability, due to exposure to exogenous factors (demographic and regulatory changes) and volatility in capital market yields. However, in our estimation, this volatility will be more moderate than in previous years, due to the Company's reduced exposure to the interest rate curve as mentioned above. Additionally, inflationary pressures may lead to an increase in the provisions for reserves linked to the price index and adversely affect the variable management fees collected on participating life insurance policies that were marketed until 2004, due to a possible decline in the real return. Furthermore, we believe that following the discontinuation of government payments to workers on unpaid leave in the course of the year, there is a likelihood of an increase in the number of claims under income disability policies.

The health insurance segment will, in our estimation, continue to be affected by regulatory developments, by the creation of a standard policy format and by the business focus of most companies in the segment, which are expected to continue stepping up the price competition, putting pressure on the segment profitability, while the existing long-term care portfolio (of policies sold in the past) will continue to be affected by the interest rate curve.

In the nonlife insurance segment we expect competition to remain high both on the part of the existing competitors' direct channels and on the part of the direct insurance companies. This factor, coupled with continuing regulatory involvement, will result, in our opinion, in limited underwriting profitability. Additionally, we foresee a decline in underwriting results compared with 2020, due to the reopening of the economy in the course of the year and a return to relatively normal activity in most sectors, which is expected to increase the incidence of business and auto claims to the levels characteristic of the years before 2020. We note that the financial crisis around the world may impact negatively on the global reinsurers, which may lead to adjustments in the agreements with them, possibly resulting in the hardening of policy in the market accompanied by rate increases. In light of the foregoing, the Company's profitability rates are likely to fluctuate, with the ROC and ROA ratios expected to be in the range of 3.0%-4.0% and 0.2%-0.25%, respectively, in the forecast period.

This forecast is still subject to uncertainty regarding the recovery of the economy from the current economic crisis brought on by the global spread of the coronavirus pandemic and the resulting rise in capital market volatility.

REASONABLE CAPITAL ADEQUACY FOR THE RATING LEVEL; FLUCTUATING CAPACITY TO BUILD A CAPITAL BUFFER FROM CURRENT PROFITS, THAT IS AFFECTED BY EXOGENOUS FACTORS

Under Midroog's capital model, the Company has a reasonable risk-adjusted capital surplus for the rating category, with the Company meeting the third most severe stress test out of five, based on the data of March 31, 2021. The principal risks to which the Company is exposed, as perceived by the model, are associated with insurance risks, particularly life expectancy risks in policies with guaranteed factors, as well as market risks in the nostro portfolio (guaranteed-yield life insurance, nonlife insurance and capital), while the diversification of activities and the correlations between them reduce the capital requirement. As against these risks, the Company has an economic capital buffer as of March 31, 2021 consisting of adjusted equity[11] of NIS 7.9 billion and adjusted[12] EPIFP[13] of NIS 5.1 billion. As a supplementary, non-risk-weighted test for determining the insurer's leverage, we look at the capital to adjusted total assets ratio (without assets for yield-dependent contracts), excluding 10% of at-risk assets, which reflect an expected decrease in the value of the assets under more severe tests. This ratio, standing at 12% as of March 31, 2021, is appropriate for the rating, has not changed materially from last year, and can be expected to remain at a similar level in the short to medium term.

The Company's solvency ratio in accordance with the Solvency II directives stood, as of December 31, 2020, at 148% after taking into account the directives for the phase-in period (166% without the 80% factor mentioned above), and at 91% without taking into account the transition directives for the phase-in period. We note than on October 16, 2020, the Capital Market, Insurance and Savings Commissioner (the "Commissioner") sent the Company a letter notifying it that in view of the continuing concerns that the proper management of Migdal Insurance would be compromised and that this could affect the Company's capacity to build up the capital required of it in accordance with the principles for calculating the deduction in the phase-in period, the Commissioner had determined that the amount of the deduction at any calculation date may not exceed 80% (the "factor") of the basic deduction amount as defined by him, and that this limitation would apply at least up to the conclusion of the corporate governance audit the Capital Market Authority was performing on Migdal, compliance with the instructions that would be given in the wake of the audit process and correction of the deficiencies found during the process, and in any event as long as not directed otherwise by the Commissioner. Following the publication of the updated Solvency Circular from October 2020, the board of directors reviewed the Company's capital policy, further to which, on May 26, 2021, it established a policy whereby the Company will endeavor to operate at a solvency ratio within a range of 155%-175%. In addition, the board of directors established a minimum target solvency ratio of 140%. These targets refer to a solvency ratio taking into account the amount of the deduction in the phase-in period until the end of 2032, and before an 80% factor on the deduction amount according

[11] Including equity attributable to the shareholders, Additional Tier 1 capital, 50% of Tier 2 capital, and revaluation of nonmarketable financial assets (excluding Hetz bonds) at an 85% reliance rate. From this amount, deferred acquisition costs in the life insurance and long-term savings segmentand other net intangible assets are deducted from deferred taxes.
[12] At a 60% reliance rate.
[13] Expected Profit in Future Premiums.

to the Commissioner's letter of October 16. According to the Company, the solvency ratio without taking into account the transition directives will be built up gradually, in keeping with the said targets, until the end of 2032, on the basis of the Company's capital plan. Midroog expects the Company to continue acting to maintain an adequate safety margin above the regulatory minimum. At the same time, we consider that the capacity to build the capital buffer from current profits within the forecast period is subject to fluctuations, due to the fluctuating potential for profit accrual that is exposed to exogenous factors. However, the building of the capital buffer is supported by a significant release from requirements, including the cost of the capital for past portfolio risks that is released to profit over time.

A FAVORABLE LIQUIDITY PROFILE THAT IS BACKED BY AN EXTENDED DURATION OF OBLIGATIONS; LOW FINANCIAL FLEXIBILITY FOR THE RATING THAT IS NEGATIVELY IMPACTED BY RELATIVELY HIGH FINANCIAL LEVERAGE

The liquidity profile is favorable for the rating, as reflected by a current ratio of 3x between the inventory of weighted liquid assets and the projected insurance and financial obligations in the short term, in light of the Company's life insurance oriented business mix, with most of the obligations naturally expected to be settled in the long term (life insurance and long-term savings), and some in the short term (nonlife insurance), and no additional payments of financial obligations foreseen by us within the forecast period, based on the schedule of payments. At the same time, we do not foresee a significant change in the leverage ratio in the forecast years, thus the Company, in our estimation, will remain close to the regulatory recognition limit for Tier 2 capital instruments (40% of the SCR).

The Company has low financial flexibility for the rating level, with a relatively high balance sheet leverage ratio (debt/cap) of 44% as of March 31, 2021, which, in our estimation, is not expected to change significantly in the short to medium term. Likewise, we estimate that the debt servicing needs of Eliahu Issues may diminish the Company's financial flexibility.

ADDITIONAL RATING CONSIDERATIONS

LIQUIDITY PROFILE SUPPORTED BY A RELATIVELY EXTENDED DURATION OF OBLIGATIONS

The Company has a relatively long duration of obligations, which strongly supports its liquidity profile and rating. In our assessment, insurers characterized by a long duration of obligations, without put options for policyholders to make capital calls, are less exposed to liquidity risk and have better responsiveness over a longer time, a factor that supports their survivability and rating. Additionally, the volatility that may result from the recording of assets at market value (MTM) sometimes does not reflect the economic value for insurance companies with a long duration of obligations, given the ability to hold the relevant assets to redemption, and therefore, in our estimation, the economic capital of these companies may be less exposed to short-term market volatility.

ATTRIBUTES OF SUBORDINATED INSTRUMENTS

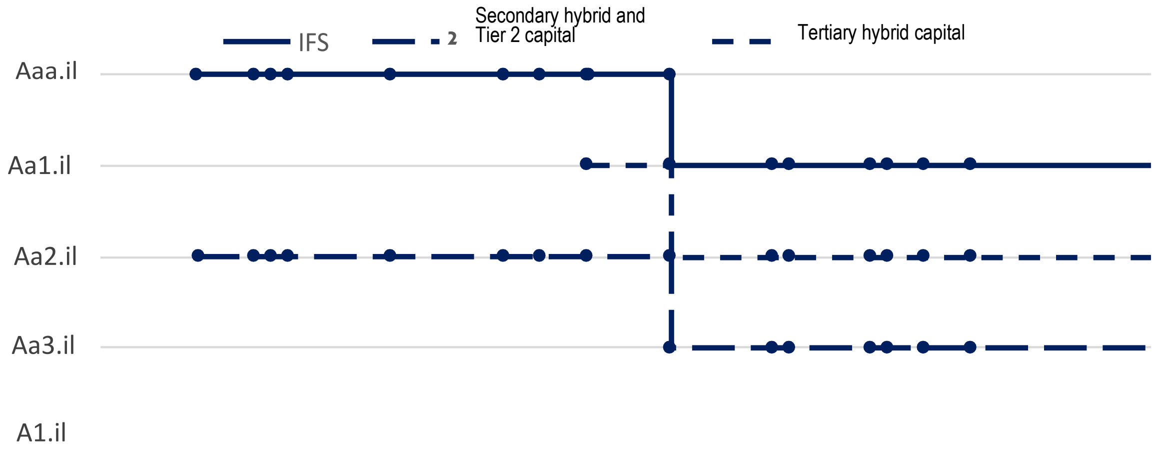
According to Midroog's methodology, the anchor for rating the subordinated debts (subordinated secondary, secondary hybrid and Tier 2) is the Insurer Financial Strength (IFS) rating, from which we derive the rating for the credit risk of the subordinated debt instrument based on its contractual attributes. We lower the rating level by one notch below the insurer's IFS rating for tertiary hybrid capital and by two notches for secondary hybrid/Tier 2 capital. The downward notching reflects the legal-contractual subordination of these debts relative to the IFS rating, the seniority hierarchy among the subordinated debts themselves and the effect of the loss-absorbing mechanisms they embody (at the contractual trigger for "suspending conditions" or at the Insurance Commissioner's discretion).

For Tier 2 capital instruments, we assess the uncertainty regarding the probability of occurrence of the "suspending circumstances" as low, at a significant distance from the Company's current and projected solvency ratio, and it therefore was not expressed in an additional notch downgrade. "Suspending circumstances" are defined in the Solvency Circular as a solvency ratio standing at 80% of the required solvency ratio in the phase-in period (80% as of December 31, 2020) after the equities scenario adjustment. The Company's solvency ratio in the phase-in period stood at 148% (after applying the 80% factor) as of December 31, 2020.

COMPANY PROFILE

Migdal Insurance Company Ltd., through its subsidiaries (the "**Group**"), operates primarily in the insurance, pension and provident fund markets. The Group's insurance operations are carried out through the Company, while its pension and provident fund operations are carried out through the Company's subsidiaries: Migdal Makefast Pension and Provident Funds Ltd. and Yozma Pension Fund for the Self-Employed Ltd. The Group also holds insurance agencies, through Migdal Holdings and Management of Insurance Agencies Ltd., which is wholly controlled by the Company. The Company's shareholder (100%) is Migdal Insurance Holdings and Finance Ltd. ("**Migdal Holdings**" or the "**Parent Company**"). Migdal Holdings is controlled (68.46%) by Eliahu Issues Ltd. ("**Eliahu Issues**"). The Company's ultimate controlling shareholder is Mr. Shlomo Eliahu, its CEO is Mr. Ran Oz and Mr. Yiftah Ron-Tal is chairman of the board.

Rating History



Related Reports

[Migdal Insurance Company Ltd. – Related Reports]

[Rating of Insurance Companies – Methodology Report, December 2017]

[Life, Health and P&C Insurance Companies – Special Report – Sector Comment, March 2020]

[Financial Statement Adjustments and Presentation of Main Financial Measures in Corporate Rating– May 2020]

[Table of Relationships and Holdings Midroog]

[Rating Scales and Definitions]

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

General Information

Date of rating report:	July 7, 2021
Date of last revision ofthe rating:	September 15, 2021
Date of first publication ofthe rating:	December 18, 2011
Rating commissioned by:	Migdal Insurance Company Ltd.
Rating paid for by:	Migdal 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 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.

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