

# Alony Hetz Properties and Investments Ltd.

## Monitoring Report | May 2020

*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:

**Orit Teshuva**

Team Leader, Lead Rating Analyst

[Orit.teshuva@midroog.co.il](mailto:Orit.teshuva@midroog.co.il)

**Ran Goldstein, Vice President**

Head of Real Estate

[Rang@midroog.co.il](mailto:Rang@midroog.co.il)

---

## Alony Hetz Properties and Investments Ltd.

<b>Series Rating</b>	<b>Aa3.il</b>	<b>Outlook: Stable</b>
----------------------	---------------	------------------------

Midroog affirms the Aa3.il rating of bonds (Series H, I, J and L) issued by Alony Hetz Properties and Investments Ltd. (the "Company" or "Alony Hetz"). Rating outlook is stable.

Outstanding bonds rated by Midroog:

Bond series	ISIN	Rating	Outlook	Maturity
H	3900271	Aa3.il	Stable	24/02/2023
I	3900354	Aa3.il	Stable	28/02/2027
J	3900362	Aa3.il	Stable	28/02/2027
L	3900495	Aa3.il	Stable	28/02/2031

**\*The Company has an additional series (Series K) that is not rated by Midroog.**

### Summary of Rating Rationale

- High quality of the Company's investees and an investee credit risk profile that is appropriate for the rating level – primarily Amot Investments Ltd. ("**Amot**") (rated Aa2.i), PSP Swiss Property AG ("**PSP**") (rated A3 by Moody's) and Carr Properties Holdings LP ("**Carr**"), supporting future dividend distributions by these investees to the Company in line with its forecasts.
- Stable leverage ratios over time which are commensurate with the rating, with a net LTV ratio<sup>1</sup> of 27% as of December 31, 2019. A sensitivity test performed for the rating showed that a possible impairment in the value of the Company's investments could result in an increase in its gross LTV ratio to a range of 31%-39%, taking into account the decline in value in recent weeks since the start of the coronavirus pandemic.
- Adequate financial flexibility and liquidity, including, close to the report date, cash and cash equivalents and undrawn confirmed credit facilities of NIS 1 billion and unencumbered quoted shares substantially in excess of the Company's liabilities. In addition, Midroog estimates that the Company and its investees have good access to capital and debt funding sources.
- An average interest coverage ratio of 3 and an average debt service ratio (DSCR+cash) of 2.5, which are appropriate for the rating level. It should be emphasized that these ratios incorporate a sensitivity analysis with respect to dividend receipts from the investees. The rating applied sensitivity tests to the dividend receipts in 2020 including under an extreme scenario of an interest coverage ratio above 1.

<sup>1</sup> Financial debt to value of investees on market value basis.

- Rather poor diversification of the Company's investees for the rating level, with the book value of the largest investee (Carr) accounting for 29% of its investment portfolio on an equity basis as of December 31, 2019, and the book value of the three major investees (Carr, PSP and Amot) accounting together for 73% of the portfolio. Moreover, the correlation between the investees' operating sectors is relatively high. We note, on the other hand, the spread of operations over different economies.
- The coronavirus pandemic, which broke out in China and spread at the beginning of 2020 to the rest of the world, is rocking the global economy, including the Israeli market. As part of the fight against the coronavirus, many countries around the world, Israel among them, are taking drastic measures to slow and even halt the spread of the virus, which has resulted in the shutdown of numerous economic sectors. Various restrictions on workplaces have led to great numbers of workers being sent on unpaid leave or dismissed; thus, since the start of the crisis more than a million jobseekers have registered with the Employment Service in Israel. One of the effects of the crisis has been a hit to the value of publicly traded companies, including the Company's investees. Furthermore, the blow to the job market, the cuts to the growth forecasts and the rise in unemployment levels could affect office occupancy rates and put downward pressure on prices, harming the investees' business operations and reducing dividend payouts. Midroog's baseline scenario tested the value of the investees beyond the impairment that has occurred since the start of the crisis. The baseline scenario also took into account possible harm to the investees' business operations in 2020, as well as an extreme scenario of a significant decrease in the amount of dividends in 2020. At the same time, the baseline scenario does not assume long-term harm to the investees' financial profile and business positioning.

**Midroog's baseline scenario**<sup>2</sup> takes into account several key assumptions, among them continued investment in the investees, as well as dividend receipts and other income amounting to NIS 374 million and NIS 465 million, respectively, in 2020 and 2021, which includes a sensitivity test on dividend receipts from the investees. The baseline scenario likewise assumes a dividend distribution of NIS 200 million in 2020, as well as the raising and repayment of bond debt as part of the Company's ordinary operations. We note that Midroog's baseline scenario assumes, mainly in light of the sensitivity test for a possible impairment in the value of the investments, gross LTV ratios in the range of 31%-39%, which are inappropriate for the rating level. Beyond this, the baseline scenario assumes an average interest coverage ratio (ICR) of 3 in the forecast years and an average debt service ratio (DSCR+cash) of 2.5, both ratios being appropriate for the rating category. Additionally, various sensitivity tests were applied to the dividend receipts, our basic assumption for the rating being that in case of a cut in the amount of the distributed dividends, the Company will take supplementary steps to maintain adequate liquidity and leverage, including a reduction of investments in its investees and dividend distribution.

---

<sup>2</sup> The baseline scenario includes Midroog's assessments regarding the issuer, and does not necessarily match the issuer's assessments. The baseline scenario is for 12-24 months.

## Rating Outlook

The stable rating outlook reflects Midroog's assessment that even under a scenario of further impairment in the value of its investments, the Company's leverage ratios remain within the forecast range and the Company will continue to maintain its high leverage ratios and level of liquidity. Furthermore, the investees over the long term will maintain their consistent performance, including steady occupancy rates, stable leverage ratios and an unchanged mix of activities.

### Factors that could lead to a rating upgrade:

- A significant improvement over time in the financial strength ratios.
- An improvement in the financial profile.
- Greater diversification of the portfolio of holdings.

### Factors that could lead to a rating downgrade:

- Reduced financial flexibility and liquidity.
- Deterioration of the LTV ratios.
- An increase in the Company's business and financial risk, including a significant rise in the rate of entrepreneurial activities.

## Key Financial Indicators

### Alony Hetz Properties and Investments Ltd. – Key Financial Indicators, Expanded Standalone Balance Sheet:

NIS in thousands	31.12.2019	31.12.2018	31.12.2017
Gross financial debt	4,549,610	3,688,783	3,340,184
Cash balances	518,800	562,709	135,717
Net financial debt (excluding cash)	4,030,810	3,124,023	3,204,467
Accounting equity	6,336,545	5,851,503	5,358,083
Market value of quoted investments	9,715,117	6,587,752	6,765,485
Total value of investments (unquoted and quoted) at market value (hereinafter: adjusted market value)	15,135,237	11,284,049	10,929,993
Book value of total investments	10,812,429	9,407,719	8,748,687
Total assets	11,400,370	9,989,476	8,984,542
Equity/total assets	56%	59%	60%
Equity/total assets taking into account market value of holdings	68%	65%	68%
Gross financial debt/book value of total investments	42%	39%	38%
Net financial debt/book value of total investments	37%	33%	37%
Gross financial debt/adjusted market value	30%	33%	31%
<b>Net financial debt/adjusted market value</b>	<b>27%</b>	<b>28%</b>	<b>29%</b>

**Operating Indicators – Expanded Standalone:**

NIS in thousands	31.12.2019	31.12.2018	31.12.2017
Dividend from investee companies	514,450	511,507	461,827
Management fees and other income	13,848	12,242	11,795
<b>Total current operating income</b>	<b>528,298</b>	<b>523,749</b>	<b>473,622</b>
General and administrative expenses	29,767	26,191	25,160
Net cash flow financing	129,680	114,723	113,625
Tax	18,847	8,970	15,811
<b>Total cash flow expenses</b>	<b>178,294</b>	<b>149,884</b>	<b>154,596</b>
<b>Interest coverage ratio</b>	<b>3.8</b>	<b>4.3</b>	<b>3.9</b>

**Detailed Rating Considerations**

**A good business profile and high positioning of investee companies operating in strong economies, as well as high visibility of dividend income, alongside poor diversification of investees for the rating category**

Alony Hetz is a holding company whose primary field of operations is long-term investments in income-producing real estate in the office segment in Israel, the US, the UK and Switzerland. An additional area of activity is investments in renewable energy sources. We note positively that the Company's investees have strong economic characteristics and activity spread over a number of different economies, most of which have a high country rating, including Israel (A1/stable), the US (Aaa/stable) and Switzerland (Aaa/stable). The Company's operations in Israel include the holding of a 55% stake (close to the report date) in Amot, which is traded in Israel and has a Midroog Aa2.il domestic rating with stable outlook,<sup>3</sup> supported by leverage and coverage ratios which are appropriate for the rating level and stable over time and by significant volumes of activity compared to peer companies. The Company has an additional holding in Israel – a 57% stake (close to the report date) in Energix Renewable Energies Ltd. ("**Energix**"), a company engaging in the promotion and construction of photovoltaic and wind energy systems for generating electricity, in Israel, Poland and the US, which is traded in Israel and rated A2.il by Midroog.

The Company has a 6% stake (close to the reporting date) in PSP, Switzerland's second largest real estate company,<sup>4</sup> which is traded in Switzerland and has a Moody's international rating of A3 with stable outlook. PSP's rating is supported by the company's activity in the income-producing real estate market in Switzerland, with most of its portfolio of properties being in the office lease sector. According to the Moody's rating report, PSP's properties are located in business centers or other prime areas in Switzerland. PSP has a conservative financial policy, reflected, inter alia, in a low LTV of 34% and in the fact that none of its properties is encumbered. On the other hand, PSP's rating is negatively affected by relatively low occupancy rates for the Swiss office market, which, although they are trending moderately upward, could exert downward pressure on rental prices and the value of the properties.

<sup>3</sup> The report is published on the Midroog website at [www.midroog.co.il](http://www.midroog.co.il).

<sup>4</sup> According to a Moody's rating report.

The Company also has joint control, together with JP Morgan Chase Bank, NA ("**JPM**"), of Carr (the Company's holding rate in Carr is 44% as of December 31, 2019), which operates in the office property market mostly in Washington DC and also in Boston, with Carr having a local management that is responsible for managing and operating the properties. Carr is not rated. As of December 31, 2019, the net debt/net cap ratio stands at 41% and the NOI is \$150 million.<sup>5</sup> Additionally, the occupancy rates in the properties are high, standing as of December 31, 2019 at 93%. However, we note that Carr has four properties under development at an estimated construction cost of \$1.5 billion (of which a sum of \$563 million was invested as of December 31, 2019), a factor which impacts negatively on its risk profile but is mitigated by preleases on 38% of the property areas. We note that in November 2019 JPM notified the Company of its intention to sell its share in Carr. The rating does not assume any negative impact on the company's operating results due to the possible change in ownership.

The metropolitan areas of Washington DC (Moody's rating Aaa with stable outlook) and Boston (Moody's rating Aaa with stable outlook) are characterized by positive growth. In Washington DC, the employment rate has increased in the last five years by an annual average of 1.6%. The office property market in Washington DC is characterized by tenant diversity and high quality properties. As of December 31, 2019, occupancy rates stand at 86.2%, with a moderate decline forecast in occupancy rates. At the same time, we note that the occupancy rates in the Carr properties stand at 93%, which is higher than the market average, due to their location and high quality. Rental prices in Washington DC are stable and expected to remain steady in the coming years in spite of a moderate decline in occupancy rates.<sup>6</sup>

During 2019 and in early 2020 Carr expanded its operations in Boston. Boston is rated Aaa by Moody's, and according to the rating report has a strong regional economy supported by its status as the capital city and by its being home to a substantial number of higher education and health institutions. As of December 2018 the unemployment rate in Boston stood at 2.3%, lower than the US national average unemployment rate at the time, and it had a median per capita income close to the general US median per capita income. Boston has 150,000 students in 35 colleges and universities, which brings down the median household income, while at the same time contributing to the economy due to higher consumption relative to income. The city's rating is also favorably affected by good financial performance and adherence to a comprehensive financial policy.<sup>7</sup>

In addition, from the beginning of 2019 until the date of this report the Company invested in the London metropolitan area a sum of NIS 2.8 billion through Brockton Everlast Inc. Limited ("**BE**"), a company established in February 2018 which engages in the acquisition, development, improvement, management and maintenance of commercial income properties in the UK, with a focus on the London metropolis. In 2019 BE acquired four office properties in London for £518 million. Furthermore, in

<sup>5</sup> The financial data of Carr are based on Midroog calculations and differ from the Company's calculation as presented in its financial statements.

<sup>6</sup> CBRE Office Outlook Washington DC.

<sup>7</sup> According to Moody's report – Boston (City of) MA.

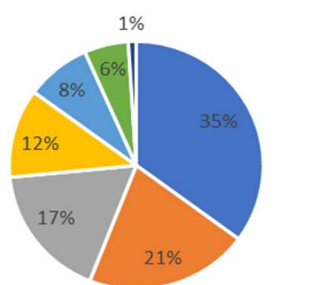
January 2020 BE completed the acquisition of a business park, situated near the Oxford city center and zoned for offices and commerce, in consideration of £80 million. This business park is rented out at full occupancy and yields and annual NOI of £4 million.

The UK has a Moody's rating of Aa2 with negative outlook and is characterized by relatively weak growth, with the GDP rate increasing by 1.2% and the unemployment rate declining to 4% in 2019. The economic slowdown in the UK reflects the effects of the decline in demand from foreign sources combined with instability due to the Brexit process. Regarding the Brexit process, there is still uncertainty concerning the future of the commercial relations between the UK and the European Union, and therefore, in Moody's estimation, the economic slowdown is expected to continue. In the office market in the UK there has been a rise in demand along with an increase in supply, and therefore the occupancy rates have remained stable at 95.9% as of December 31, 2019.<sup>8</sup>

Alongside the high quality of the investees, we note the concentrated nature of the Company's portfolio of holdings, with the three main companies accounting for 73% of the value of holdings both by book value and by market value. Thus, by book value, Amot accounts for 31%, Carr for 29% and PSP for 13% of the value of the Company's holdings as of December 31, 2019. In addition, 91% of the expected dividend receipts in 2020 derive from these three material holdings.

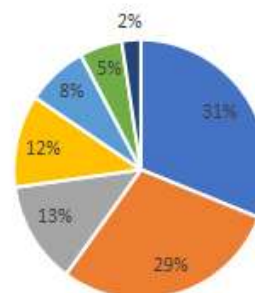
Below is a breakdown of the Company's investees as of December 31, 2019:<sup>9</sup>

**Breakdown of investees by market value as of  
31.12.2019**



■ Amot ■ Carr ■ Energix ■ PSP ■ BE ■ Investment in Boston ■ Other

**Breakdown of investees by book value as of  
31.12.2019**



■ Amot ■ Carr ■ PSP ■ BE ■ Investment in Boston ■ Energix ■ Other

The Company's investees own income-producing properties in financially strong countries and are highly positioned in the markets in which they operate, showing stability over time in a manner that strengthens visibility of the Company's income from dividends. The results and strong financial profile of the Company's principal investees confer on it better financial and operating flexibility than other

<sup>8</sup> Q4 2019 1 JLL Office Market Report

<sup>9</sup> Since the beginning of the year the Company has sold approximately one billion shares of PSP in consideration of SFR 145 million (NIS 520 million).

peer companies. Midroog notes positively the financial parameters as well as the scope of operations of these companies, which increases the certainty of receiving future dividends. Over the past few years the investees have paid dividends to Alony Hetz, steadily and consistently, with Amot, Carr and PSP reporting each year the board of directors' distribution decision and the Company having a satisfactory distribution record including compliance with its forecast distribution amounts. Current operating income rose in 2019 to NIS 528 million from NIS 524 million in 2018. We note that, according to the Company's forecasts, current income is expected to decrease in 2020 to NIS 453 million and to increase in 2021 to NIS 465. The decrease in income relative to 2019 is mainly due to a decrease in the amount of the dividend from PSP, due to disposals, as well as a decrease in the amount of the expected dividend from Carr in 2020. The increase in 2021 is attributable to an expected dividend from BE, which will be received for the first time in that year. We note that the outbreak of the coronavirus could affect the scope of the dividend distribution in 2020. As noted above, as part of the fight against the coronavirus, many countries around the world, Israel among them, are taking drastic measures to slow and even halt the spread of the virus, resulting in the shutdown of numerous economic sectors, which, along with various restrictions on workplaces, could affect the business results of the investees and the dividend distribution amounts. At the same time, we note that the rating did not take into account any harm to the investees' business positioning.

**Interest coverage ratios appropriate for the rating level, along with a poor LTV ratio for the rating level, particularly in light of sensitivity tests on the value of the holdings**

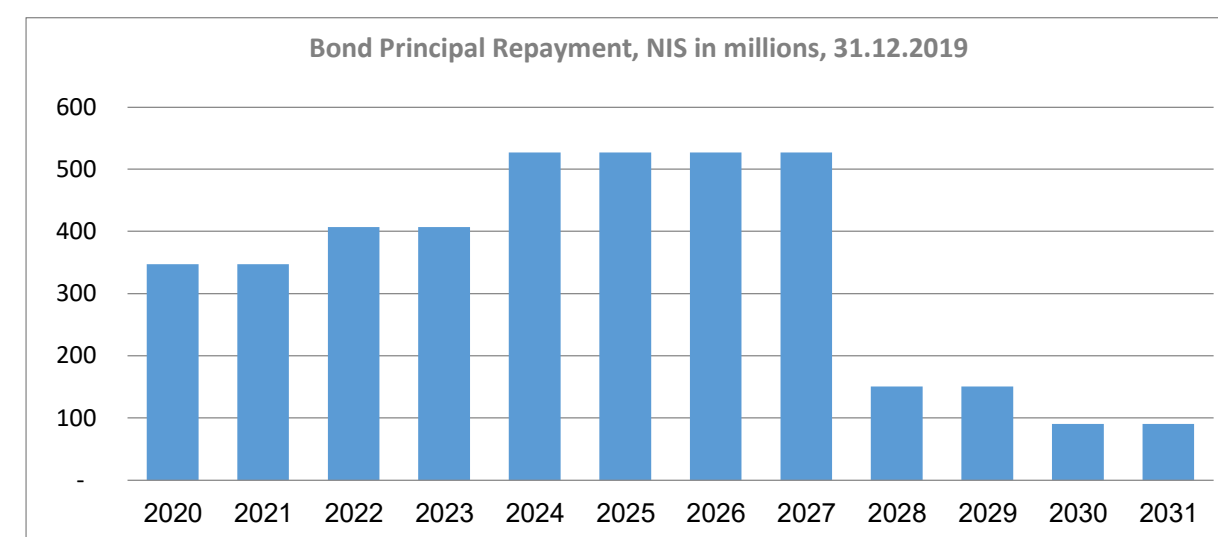
The Company's gross financial debt (at the expanded standalone level) stands at NIS 4.5 billion as of December 31, 2019, of which more than 90% is for bonds and the remainder is a bank debt secured by charges. As of December 31, 2019, the LTV ratio, net financial debt to market value of investees at the expanded standalone level, is 27%, which is appropriate for the rating level. We note that in the first quarter of the year the global spread of the coronavirus rocked the stock markets in Israel and the world, leading to significant impairment of the value of the investees. Considering that the Company's leverage on the eve of the crisis was favorable for the rating category, the Company's leverage remains appropriate for the category even after the impairment in the value of the investees. Midroog's baseline scenario assumes gross LTV ratios in the range of 31%-39%, mainly in light of a sensitivity test for a possible further impairment in the value of the investments, which ratios are inappropriate for the rating level. Midroog's baseline scenario assumes continued investment in the investees, financed, inter alia, through the sale of the holdings in PSP. Thus, since the beginning of the year the Company has sold approximately one billion PSP shares for SFR 145 million (NIS 520 million). The baseline scenario assumes as well the raising and repayment of bond debt as part of the Company's ordinary operations. We note that Midroog views positively the Company's conservative financial policy over time, accompanied by consistent growth in the investment portfolio. Additionally, under Midroog's baseline scenario, the average interest coverage ratio (ICR) is expected to be 3, which is commensurate with the rating.



**Good flexibility for the rating category, along with high access to funding sources, contributing to the Company's risk profile; liquidity that is commensurate with the rating with a coverage ratio that is appropriate for the rating level**

Midroog estimates that the Company has good financial flexibility, stemming from its holding of unencumbered quoted shares valued as of December 31, 2019 at NIS 8.5 billion (mainly PSP, Amot and Energix), as well as unencumbered unquoted investments (mainly Carr, BE and investments in Boston) valued as of December 31, 2019 at NIS 5.4 billion, amounts which indicate high financial flexibility. In March 2020 the Company sold PSP shares, thus the value of the unencumbered quoted shares close to the report issue date is NIS 7 billion. Midroog likewise assesses the Company's access to the capital market as high, in light of capital and debt issues held in recent years. The Company has maintained over time liquidity reserves that include undrawn confirmed credit facilities and cash amounting to NIS 500 million. Furthermore, in the first quarter of the year the Company sold PSP shares, increasing the amount of liquidity beyond the current frameworks. Midroog's baseline scenario assumes a possible decrease in dividend receipts in 2020 in light of the coronavirus pandemic and its impact on the investees' business activity. Accordingly, the baseline scenario assumes dividend receipts and other income amounting to NIS 374 million and NIS 465 million, respectively, in 2020 and 2021, with the average debt service ratio (DSCR+cash) expected to stand at 2.5, which is appropriate for the rating level. Bond payments in each of the years 2020 and 2021 total NIS 350 million. Additionally, we note that in 2022 there is a significant payment of NIS 370 million due on a loan from a foreign bank, which the Midroog base scenario assumes will be refinanced. In light of the foregoing, Midroog considers that the Company possesses adequate liquidity and financial flexibility for the annual bond payments.

Following is the bond principal amortization schedule as of December 31, 2019 (NIS in millions):

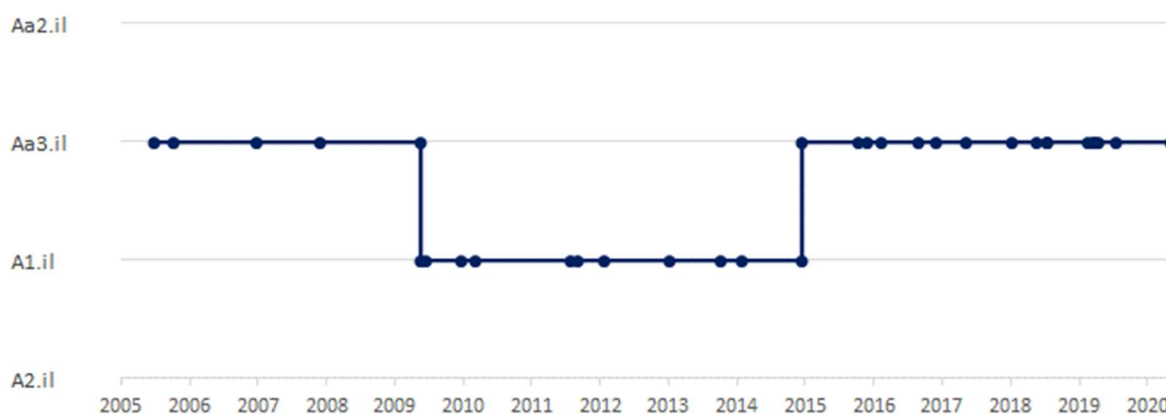


## Company Profile

Alony Hetz Properties and Investments Ltd. is primarily focused on long-term investments in income-

producing real estate in Israel, including property development and improvement, as well as investments in several countries outside Israel. As of the date of this rating report, the Company operates in several countries, among them Israel, Switzerland, the US and the UK. The Company holds a controlling stake (55%) in Amot Investments Ltd., which is the group's income property arm in Israel, engaging in the lease, management, promotion and development of properties, directly and through companies it controls. The evaluation of Alony Hetz is done on an expanded standalone basis (Amot, Energix and BE are presented on an equity basis instead of consolidated basis). In addition, the Company holds 57% (close to the report date) of the shares of Energix Renewable Energy Ltd., which operates in the field of renewable energy (photovoltaic and wind) in Israel, Poland and the US. The Company also operates outside Israel through investments in several companies. In Switzerland the Company holds 6% (close to the report date) of the shares of PSP Swiss Property AG, the largest publicly listed company in Switzerland in the income property market. Beginning in the third quarter of 2013, the Company also operates in the US, where it holds 44% of Carr Properties Partnership LP, a private company operating in the income-producing real estate sector, mainly in the office segment, in Washington DC, and since December 2015 also in Boston. In the UK the Company holds varying percentages in Brockton Funds. In addition, it holds 96% (close to the report date) of Brockton Everlast, which began operating in 2018 and engages in the acquisition, development, improvement, management and maintenance of commercial income properties in the UK, with a focus on the London metropolis.

## Rating History



## Related Reports

**Alony Hetz Properties and Investments Ltd. – Related Reports**

**Rating of Income-Producing Real Estate Companies – Methodology Report, January 2019**

**Effects of the Spread of the Coronavirus on the Commercial Real Estate Sector, March 2020**

**Effects of the Spread of the Coronavirus on the Real Estate Sectors – Special Report – Sector Comment, March 2020**

**Rating of Holding Companies – Methodology Report, November 2017**

**Table of Relationships and Holdings**

**Midroog Rating Scales and Definitions**

The reports are published on the Midroog website at [www.midroog.co.il](http://www.midroog.co.il)

## **General Information**

<b>Date of rating report:</b>	May 4, 2020
<b>Date of last revision of the rating:</b>	August 7, 2019
<b>Date of first publication of the rating:</b>	June 27, 2005
<b>Rating commissioned by:</b>	Alony Hetz Properties and Investments Ltd.
<b>Rating paid for by:</b>	Alony Hetz Properties and Investments 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**

<b>Aaa.il</b>	Issuers or issues rated Aaa.il are those that, in Midroog judgment, have highest creditworthiness relative to other local issuers.
<b>Aa.il</b>	Issuers or issues rated Aa.il are those that, in Midroog judgment, have very strong creditworthiness relative to other local issuers.
<b>A.il</b>	Issuers or issues rated A.il are those that, in Midroog judgment, have relatively high creditworthiness relative to other local issuers.
<b>Baa.il</b>	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.
<b>Ba.il</b>	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>B.il</b>	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.
<b>Caa.il</b>	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.
<b>Ca.il</b>	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.
<b>C.il</b>	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.

**Copyright © All rights reserved to Midroog Ltd. (hereinafter: "Midroog").**

This document, including this paragraph, is copyrighted by Midroog, and is protected by copyright and by intellectual property law. This document may not be copied, or otherwise scanned, amended repackaged, further transmitted, transferred, disseminated, redistributed, duplicated, displayed, translated, resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, without advance written consent from Midroog.

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>.