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Harel Insurance Investments and Financial Services Ltd.

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Harel Insurance Investments and Financial Services Ltd.

Issuer's Rating	Aa2.il	Rating outlook: Stable
Series rating	Aa2.il	Rating outlook: Stable

Midroog leaves unchanged the Aa2.il rating for the issuer and Series 1 bonds issued by Harel Insurance Investments and Financial Services Ltd. ("the Company"). Rating outlook: Stable

Bonds in circulation rated by Midroog:

Bond series	Security number	Rating	Rating outlook	Final maturity date
Harel Inv Series 1	5850110	Aa2.il	Stable	December 31, 2035

Rationale

The issuer's rating is supported by the holding of the controlling interest in Harel Insurance Company Ltd. ("Harel Insurance" and/or "the Insurer") (Aa1.il, stable outlook), by strong financial flexibility characterized by low leverage, favorable cover ratios in relation to the rating and stable and conservative financial policy, in our opinion. The Company's liquidity profile is favorable with respect to the rating, as reflected in the debt service coverage ratio (DSCR[1] including liquid balances).

Notwithstanding the increase in the number of investees over the last three years, the Company's holdings portfolio remains concentrated in the insurance, long-term savings and financial services sectors, where the three key investees (the Company fully controls all three) are Harel Insurance, Harel Pension and Provident Ltd. ("Harel Pension & Provident"), and Harel Finance Holdings Ltd. ("Harel Finance") which account for most of the value of the investments and loans to investees. Over the past three years, the Company has worked to broaden and diversify its holdings portfolio, in part by transferring all the share capital of Harel Pension & Provident and Israel Mortgage Holdings Ltd. ("EMI Holdings"[2]) by distributing a dividend in kind from Harel Insurance to the Company. We believe that these two companies will be capable of supporting the Company's debt service over time, in view of the capital surpluses, ability to generate cashflows and relatively low exposure to market variables. Additionally, the Company has several other holdings which contribute to diversification of the portfolio, including Hamazpen Shutaphim Laderech Ltd. (70%) ("Hamazpen"), which holds an extended license for the provision of credit. Hamazpen is involved in the creation of financing solutions for quality entrepreneurs in the medium business sector. Nonetheless, its contribution to value and cash flow is not expected to be significant in the short to medium term. Notably, the Company has agreements with some of its investees according to which it is entitled to receive management fees in return for management and consulting services. The cashflows received in respect of these agreements form a relatively stable source of income which supports the Company's debt servicing and liquidity.

In Midroog's baseline scenario for 2024-2025, we expect the volume of revenue sources to range from between NIS 360 million and NIS 410 million a year. This assumption is based on continuing receipts

[1] Dividends, management fees and interest from investees, net of general and administrative expenses for principal and interest payments.
[2] EMI Holdings holds the entire share capital of EMI - Ezer Mortgage Insurance Company Ltd.

of annual management fees, dividends from investees, interest received from Harel Insurance in respect of additional Tier-1 capital instruments issued to the Company, and the repayment of promissory notes by investees. Against these sources, we assume that annual use will be in the region of NIS 525-950 million in the forecast range, including principal and interest payments from bank corporations, principal and interest payments on Series 1 bonds, general and administrative expenses, ongoing investments in investees and continuing regular dividend distributions to the shareholders, in accordance with the dividend distribution policy determined by the Board of Directors (at least 30% of comprehensive income based on the consolidated annual financial statements), and taking into account the dividends to be distributed by the Insurer, assuming that the liquidity buffer will be maintained. In this scenario, the annual debt service coverage ratio (DSCR + Cash), comprising liquid balances (cash and securities portfolio), is expected to range between x19 and x24, which is significantly favorable with respect to both the rating and benchmark group, and provides confirmation of strong liquidity and cash generating capability in relation to the current maturities. The Company's liquidity profile is supported by significant liquid balances (cash and cash equivalents and a securities portfolio) in the amount of NIS 3,385 million as at September 30, 2023. These balances include a partially marketable securities portfolio which in our opinion is characterized by relatively reasonable market risk. We believe that the Company has strong financial flexibility, supported by a favorable interest coverage ratio (ICR), which in our baseline scenario is expected to be in the range of x5-x9. Financial flexibility is also reflected in the favorable loan-to-value (LTV) rate and the FFO to financial debt ratio for the rating and benchmark group, which in our opinion are expected to range between 21% and 22% and between x4.6 and x8.9, respectively, while we believe that the low leverage level supports the Company's ability to recycle the debt, should this be necessary. The Company's financial flexibility is also positively influenced by strong accessibility to financing entities, an adequate margin from financial covenants, ownership and control of the key investees, the absence of effective covenants on the bank loans and bonds as well as material assets that are free of encumbrance.

In our opinion, the Company's financial policy will remain stable and conservative and, among other things, it confirms the conservative approach taken by the Company's management regarding stringent management of market risks and liquidity risks over time. This policy is reflected in the defined debt and capital targets, the holding of adequate liquid assets, and at the same time defining the risk characteristics in its Nostro (proprietary) portfolio. We believe that this policy supports the Company's stability and potential for coping with changes in the business environment, including unforeseen and non-recurring events. As noted, the Company's defined dividend distribution policy also supports the forecast and transparency capability.

Rating outlook

The stable rating outlook reflects our opinion that the Company's business position, financial profile and key data will remain within the range of Midroog's baseline scenario.

At the same time, the war that broke out in Israel on October 7, 2023, had a series of consequences. Due to the uncertainty regarding the expected scope and duration of the war and its ramifications for the Israeli economy, Midroog will continue to monitor these consequences. For further information on this subject, please refer to the special report “Repercussions of the Swords of Iron War on the credit repayment capacity of bond issuers rated by Midroog” (October 2023).[3]

Factors that could improve the rating:

- Improved credit risk profile for the investees while maintaining the Company’s financial profile
- Improvement of the concentration characteristics in the holdings portfolio while the Company’s financial profile is maintained

Factors that could lower the rating:

- Prolonged deterioration of the business and financial profile of the key investees
- Erosion of the visibility of revenues from the investees in the medium-long term
- Significant increase in the volume of debt and repayment load which could threaten the Company’s financial flexibility

Harel Insurance Investments and Financial Services Ltd. - key data (NIS million)

	September 30, 2023	September 30, 2022	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019
Investments and loans in investees [1]	6,590	7,589	6,979	8,627	7,368	6,759
Cash and liquid balances	3,385	1,151	1,134	928	797	668
Total assets [1]	10,127	8,861	9,120	9,682	8,268	7,522
Equity [2]	8,712	8,165	8,335	8,861	7,735	6,902
Gross financial debt	1,309	603	587	622	454	532
Ratio of net debt to total investment in investees	-32%	-7%	-8%	-4%	-5%	-2%
Liquidity to debt [2]	259%	191%	193%	149%	176%	126%
Operating profit [3]	130	92	116	124	104	123
Total comprehensive income attributed to the Company’s shareholders [1]	397	(359)	(77)	1,515	833	978
Dividends received	3,385	1,151	1,134	928	797	668
Dividends paid	(100)	(400)	(400)	(257)	-	(343)

[1] Including the effect of the amendment to circular on LAT published in March 2020; [2] cash and a securities portfolio with respect to gross financial debt; [3] not including the Company’s share in the profits of equity accounted investees; [4] not including dividends received from Israel Mortgage Holdings Ltd. in the amount of NIS 310 million in August 2021; [5] including securities received as a dividend in the amount of NIS 380 million.

[3] The report “Repercussions of the Swords of Iron War on the Credit Repayment Capacity of Issuers Rated by Midroog - Special Report”, appears on Midroog’s website.

Rating Rationale

The holdings portfolio is highly concentrated in the financial services sector where the control of Harel Insurance is a material consideration in the rating

The Company has a holdings portfolio which is concentrated in the insurance, long-term savings and financial services sectors, where the three key investees (the Company fully controls all three) are Harel Insurance, Harel Pension & Provident and Harel Finance accounting for 66%, 15% and 8% of the value of the investments and loans to investees in the Company’s books, respectively, at December 31, 2022. According to Midroog's baseline scenario, these underlying assets are expected to continue to form the key component of value and cash flows in 2024-2025.

The Financial Strength Rating (FSR) of Harel Insurance (Aa1.il) reflects a strong, stable business profile characterized by significant market segments in all the insurance sectors, relatively good diversification of lines of business, strong control of the distribution network and a broad customer base, all of which support the potential to generate future income. Additionally, the profitability of Harel Insurance is reasonable compared with the benchmark group,[4] and this supports the formulation of its capital buffer. Moreover, Harel Insurance has an adequate liquidity profile which is supported by a diverse mix of activity and relatively long duration of liabilities. Its financial flexibility is adequate and supported by a wide margin relative to the regulatory capital adequacy requirements.

In the long-term savings sector, the Company operates principally through Harel Pension & Provident. Total AUM in this sector amounts to NIS 206 billion correct to September 30, 2023. These include pension fund assets in the amount of NIS 144 billion and provident fund assets in the amount of NIS 62 billion, at the same date.

The Group’s financial arm is managed by Harel Finance which operates through subsidiaries that it holds and that engage, among other things, in the management of investment portfolios, the issue and management of mutual funds, alternative investments and the rendering of financial services to various entities. At September 30, 2023, Harel Finance has AUM of NIS 77 billion, an increase of 35% over the volume of AUM in the corresponding period last year (NIS 57 billion). Harel Finance presented income of NIS 253 million and pre-tax profit of NIS 58 million in the first three quarters of 2023.

The Company has a number of other holdings that contribute to diversification of the portfolio, including Hamazpen with a 70% holding, which has an extended license to provide credit and commenced operations in November 2019. Hamazpen is involved in the creation of financing solutions for quality entrepreneurs in the medium business sector. Nonetheless, at this stage such activity is insignificant at Group level, although should Hamazpen’s operations continue to grow, we expect that the Company might continue to invest in it in coming years. Notably, the Company has additional holdings in insurance companies overseas, including Interasco Societe Anonyme General Insurance Company (94%), which operates in Greece, and Turk Nippon Sigorta A.S. (100%), which operates in Turkey. Midroog will continue to monitor the business developments and political and macroeconomic effects on the investees, and will examine their impact on the Company’s performance.

[4] The Phoenix Insurance Company Ltd., Migdal Insurance Company Ltd., Clal Insurance Company Ltd. and Menora Mivtachim Insurance Ltd.

The scope of the Insurer's distribution is dependent on exogenous factors but is supported by an adequate margin from the regulatory restrictions; the Company's activity to diversify the holdings portfolio, together with the receipt of annual management fees, support the stability and visibility of revenues from the investees

The structure of the insurance companies liabilities and regulatory capital sets several levels of seniority for the Company's financial debt. The most senior debt is the insurers' obligation towards policyholders and below this are the subordinated debts (if any). A dividend may only be distributed, servicing the Company's financial debt, when there is a measure of certainty that the insurers are able to service their liabilities.

The insurance and long-term savings industry is highly regulated, regulations that change frequently, and the purpose of which is to maintain the financial strength and stability of the companies while striving to improve the rights of the insureds. Accordingly, numerous limitations and control mechanisms govern the activity of Harel Insurance, including in connection with the distribution of dividends and management of sources of capital. Consequently, the Company's ability to control the distribution of dividends from the Insurer is also dependent on exogenous factors and is therefore limited to a certain extent. One of the main conditions for a potential distribution is compliance with a solvency ratio of at least 100% according to the Solvency II Circular (without taking into account the transitional period and without adjustment for equity risk) and subject to the target solvency ratio determined by the Insurer's Board of Directors. According to the capital management plan of Harel Insurance, threshold conditions were defined for a dividend distribution, which include a minimum economic solvency ratio of 135%, taking the transitional measures into account, and a minimum solvency ratio of 110%without taking the transitional measures into account. Additionally, in February 2021, the Board of Directors of Harel Insurance approved a dividend distribution policy according to which it will distribute dividends of at least 35% of the comprehensive income in its annual consolidated financial statements, and in compliance with the aforementioned threshold conditions. Accordingly, the solvency ratio of Harel Insurance at June 30, 2023 was 167% (taking into account the transitional period measures) and 126% (without taking into account the transitional period measures). At the same time, we expect that Harel Insurance will continue to distribute dividends based on its defined policy, insofar as it remains in compliance with the minimum ratios defined by the Insurer's board of directors.

We take a favorable view of the restructuring carried out by Harel Group over the past three years, which included transferring all the share capital of Harel Pension & Provident and transfer of all the share capital of EMI Holdings through the distribution of a dividend in kind from Harel Insurance to the Company. We believe that both companies will be capable of supporting the Company's debt service over time, in light of the capital surpluses, ability to generate cashflows by both of them and relatively low exposure to market variables. Accordingly, at September 30, 2023, the capital surpluses of Harel Pension & Provident were NIS 508 million, compared with required capital[5] of NIS 251 million at that date. These support our assessment that Harel Pension & Provident will continue to provide an ongoing annual cashflow in the forecast range. Furthermore, in August 2021, EMI Holdings distributed a one-time dividend of NIS 310 million and we believe that it is possible to receive ongoing annual cash flow of NIS 10-30 million from the current activity of EMI - Ezer Mortgage Insurance Company Ltd.

[5] Under the investment regulations for management companies, they must hold liquid assets of at least 50% of the required capital.

("EMI Insurance"), which is fully held (100%) by EMI Holdings. Notably, in July 2023, EMI distributed a dividend in the amount of NIS 60 million.

The Company also has agreements with some of its investees, securing its entitlement to receive management fees in consideration of management and consulting services in various sectors. The agreements are in force from January 1, 2009 and they may be cancelled at the end of each calendar year. We expect that the Company will continue to collect management fees (mainly from Harel Insurance and Harel Pension & Provident) in the amount of NIS 140 million a year, forming a relatively strong source of income and supporting service of the Company's debt and liquidity.

Debt servicing ratios are favorable in relation to the rating, and supported by annual management fee agreements and substantial liquid balances

At September 30, 2023, the Company has a (separate) debt of NIS 1,309 million consisting of bank loans and Series 1 bonds in circulation, where current maturities (principal and interest) will be in the range of NIS 145-150 million per year, in the forecast range. In Midroog's baseline scenario for 2024-2025, we expect that the volume of revenue sources will be in the region of between NIS 360 million and NIS 410 million a year in the forecast range. This assumption is based on continuing receipts of annual management fees in the amount of NIS 140 million, dividends from investees in the amount of NIS 210-250 million, and interest received from Harel Insurance in respect of additional Tier-1 capital instruments issued to the Company. Against these sources, we expect that annual use will be on the scale of NIS 525-950 million in the forecast range, including principal and interest payments from bank corporations in the amount of NIS 35 million per year, principal and interest payments on Series 1 bonds in the amount of NIS 110 million, general and administrative expenses of NIS 40 million per year, ongoing investments in investees and continuing ongoing dividend distributions to the shareholders, in accordance with the dividend distribution policy determined by the Company's Board of Directors (at least 30% of comprehensive income based on the annual consolidated financial statements), and taking into account the dividends distributed by the Insurer, based on our assumption that the liquidity buffer will be maintained. Accordingly, in the baseline scenario, the annual debt service coverage ratio (DSCR + Cash), comprising liquid balances (cash and securities portfolio), is expected to range between x19 and x24, which is significantly favorable with respect to both the rating and benchmark group, and provides confirmation of strong liquidity and cash generating pability in relation to the current maturities.

The Company has strong financial flexibility which is supported by low leverage and favorable coverage ratios for the rating

We believe that the Company has strong financial flexibility, supported by a favorable interest coverage ratio (ICR) for the rating, which is expected to be in the range of x5-x9 in our baseline scenario. As mentioned, at September 30, 2023, the Company had a gross debt of NIS 1,309 million while in contrast, the Company has significant liquid balances (cash and cash equivalents as well as a securities portfolio), in the amount of NIS 3,385 million at that date. The Company therefore has a negative (net) financial debt which supports its financial flexibility. The increase in the liquid balances in the first three quarters of 2023 was partially attributable to the distribution of dividends of NIS 1,350 million from Harel Insurance and the expansion of Series 1 bonds in the amount of NIS 953 million par value. These were performed as part of the Company's deployment to finance the Isracard transaction (which failed to materialize due to opposition by the Commissioner of Competition).

Accordingly, the Company has a favorable loan-to-value (LTV) rate[6] and FFO to financial debt ratio for the rating and benchmark group, which in our opinion are expected to range between 21% and 22% and between x4.6 and x8.9, respectively, in the forecast years while, in our opinion, the low leverage level supports the Company's ability to recycle the debt, if necessary. Notably, the Company's financial flexibility is also positively influenced by strong accessibility to financing entities, a wide margin from financial covenants, ownership and control of the key investees, the absence of effective covenants on the bank loans and bonds as well as material assets that are free of encumbrance.

In our opinion, the Company's financial policy will remain stable and conservative and among other things is confirmation of the conservative approach taken by the Company's management regarding stringent management of market risks and liquidity risks over time. This policy is reflected in the definition of debt and capital targets, the holding of adequate liquid assets, while defining the risk characteristics in the Company's Nostro (proprietary) portfolio. In our opinion, this policy supports the Company's stability and potential for coping with changes in the business environment, including unforeseen and non-recurring events. The Company's defined dividend distribution policy also supports the forecast and transparency capability.

The liquidity profile is favorable for the rating in the long term and supported by significant liquid balances

As mentioned, at September 30, 2023, the Company has significant liquid balances (cash and cash equivalents and a securities portfolio) of approximately NIS 3,385 million, constituting 259% of the gross debt at that date and 1157% of the anticipated debt servicing (principal and interest) over the next two years. The liquidity buffer consists mainly of cash and cash equivalent balances, a partially marketable securities portfolio which in our opinion is characterized by relatively reasonable market risk. The Company is expected to maintain a strong liquidity buffer of between NIS 2,650 and NIS 2,800 million in the forecast range, based on the sources and use of finance. Likewise, we expect that the volume of gross debt will decrease in accordance with the repayment schedule so that liquidity as a percentage of gross debt will be in the range of 215% - 225%, reflecting a relatively low level of liquidity risk .

[6] The Company's leverage (LTV) is assessed as a proportion between the level of the Company's financial debt and the value of its holdings, and takes into account the Company's liquid balances.

Additional rationale

ESG considerations

In our opinion, ESG considerations have a moderate effect on the Company's rating. Midroog believes that the Company has a low level of exposure to environmental and company risks, while the Company's exposure to corporate governance risk is relatively low in view of its solid financial policy. The Company's financial policy is expressed in a low level of leverage and balance allocation between the interests of shareholders and those of the debt (bond) holders, based on the defined dividend distribution policy (at least 30% of comprehensive income according to the annual consolidated financial statements), and a measured scope of investments and expansion. The Company has a compliance and enforcement officer who is responsible for enforcement among the Group's investees and it also has a data security unit which protects the Company against cyber attacks.

Rating matrix

		As at September 30, 2023		Midroog outlook [1]	
Category	**Parameters**	**Measurement [1]**	**Score**	**Measurement**	**Score**
Holdings portfolio profile	Credit risk profile of the investees	-	Aa.il	-	Aa.il
	Visibility of cash flows from the investees and limitations on dividend distribution	-	Aa.il	-	Aa.il
	Characteristics of the portfolio concentration	-	Baa.il	-	Baa.il
Financial profile	Financial debt ratio adjusted to adjusted asset value	-49%	Aaa.il	-21%	Aaa.il
	ICR	>6	Aaa.il	7.1	Aaa.il
	Financial debt to FFO	<5	Aaa.il	-6.8	Aaa.il
	Financial flexibility	-	Aa.il	-	Aa.il
	DSCR+CASH	>3	Aaa.il	21.7	Aaa.il
	Financial policy	-	Aaa.il	-	Aaa.il
Derived rating					**Aa2.il**
Actual rating					**Aa2.il**

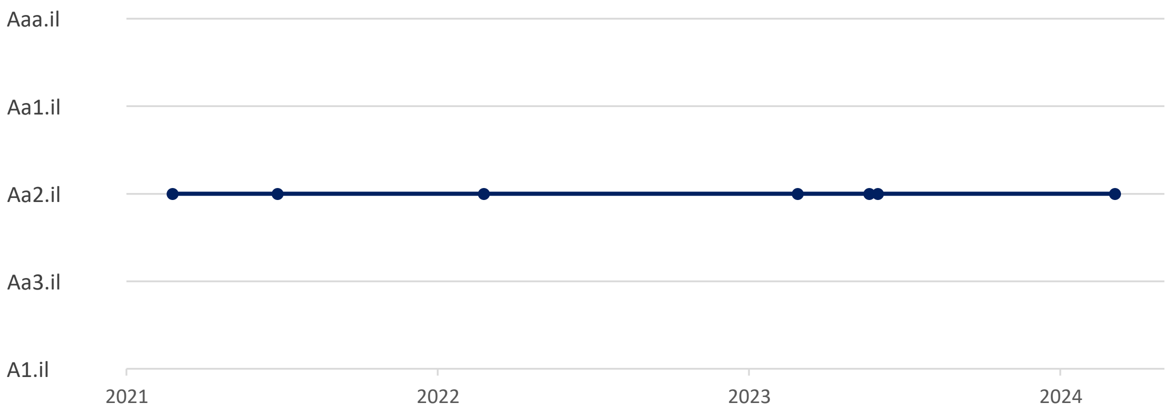
[1] The indicators presented in the table are after Midroog's adjustments and are not necessarily the same as those presented by the Company. Midtoog's outlook includes its assessments of the issuer based on Midroog's baseline scenario rather than the issuer's assessments.

About the Company

Harel Insurance Investments and Financial Services Ltd. is a public company whose shares have been traded on the Tel Aviv Stock Exchange since 1982. The principal shareholders in the Company are Yair Hamburger, Gideon Hamburger and Nurit Manor ("the Controlling Shareholders"), holding 48.47% of the voting rights and the issued share capital of the Company. The Controlling Shareholders hold the Company principally through G.Y.N. Financial Consulting & Management 2017 Limited Partnership ("G.Y.N. Partnership") which is fully owned by them, which they hold, as limited partners, through private companies under the full ownership of each of the Controlling Shareholders, and they also hold the general partner in G.Y.N. Partnership. The Company is a holding company which operates mainly in the different sectors of insurance and long-term savings through subsidiaries. In the insurance industry, the Company operates mainly through Harel Insurance (100%), ICIC - Israel Credit Insurance Company Ltd. (50%), and E.M.I. Insurance (100%). The Company has additional holdings in insurance companies overseas - Interasco Societe Anonyme General Insurance Company (94%), which operates in Greece, and Turk Nippon Sigorta A.S. (100%), which operates in Turkey. In the long-term savings sector, the Company operates through the following subsidiaries: Harel Pension & Provident (100%), which manages pension funds, provident funds and education funds; Tzva Hakeva Savings Fund - Provident Funds Management Company Ltd. (held indirectly and fully through Harel Insurance) which manages a designated education fund for IDF career soldiers and pensioners; LeAtid Pension Funds Management Company Ltd. (in which Harel Insurance has an indirect holding of 79%), which manages an old pension fund.

In the financial services and capital market sector, the Company operates through the subsidiary Harel Finance and its subsidiaries. In the credit sector the Company operates through the subsidiary Hamazpen Shutaphim Laderech Ltd. (70%) that creates innovative financing solutions for quality entrepreneurs providing credit to medium businesses, including the provision of mezzanine loans; through a subsidiary fully owned by Harel Insurance, Harel 60+ Ltd. (100%), that provides ordinary mortgage loans, as well as "reverse mortgage" loans to borrowers aged 60 or more in the form of a lien on their homes; within the framework of development property finance activity carried out by Harel Insurance; and the provision of financial guarantees and entrepreneurial and operating services for mortgage portfolios guaranteed by third parties through Harel Insurance and EMI Insurance.

Rating history



Related reports

[Harel Insurance Investments and Financial Services Ltd. – related reports]

[Harel Insurance Company Ltd. – related reports]

[Rating for holding companies – Methodology Report, January 2021]

[Rating for Life assurance, Health and Non-life Companies - Methodology Report, May 2022]

[Guidelines for assessing environmental, social and corporate governance risks as part of a credit rating – Methodology Report, February 2022]

[Special Report: "Repercussions of the Swords of Iron War on the Credit Repayment Capacity of Issuers Rated by Midroog", October 2023]

[Adjustments to financial statements and presentation of key financial indices in rating the corporations – Methodology Report, May 2020]

[Table of affiliations and holdings]

[Midroog Rating Scales and Definitions]

The reports are published (in Hebrew) on Midroog's website www.midroog.co.il

General Information

Date of rating report:	March 13, 2024
Date of previous rating update:	May 31, 2023
Publication date of initial rating:	February 24, 2021
Name of rating initiator:	Harel Insurance Investments and Financial Services Ltd.
Rating paid for by:	Harel Insurance Investments and Financial Services Ltd.

Information from the Issuer

Midroog’s rating relies, among other things, on information received from authorized parties at the issuer.

Midroog

Local Long-term Rating Scale

Aaa.il	**Issuers or issues rated Aaa.il demonstrate, in Midroog's judgment, have the highest creditworthiness relative to other local issuers.**
Aa.il	**Issuers or issues rated Aa.il demonstrate, in Midroog's judgment, very high creditworthiness relative to other local issuers.**
A.il	**Issuers or issues rated A.il demonstrate, in Midroog's judgment, high creditworthiness relative to other local issuers.**
Baa.il	**Issuers or issues rated Baa.il demonstrate, in Midroog's judgment, moderate creditworthiness relative to other local issuers and may possess certain speculative characteristics.**
Ba.il	**Issuers or issues rated Ba.il demonstrate, in Midroog's judgment, weak creditworthiness relative to other local issuers and may possess speculative characteristics.**
B.il	**Issuers or issues rated B.il demonstrate, in Midroog's judgment, very weak creditworthiness relative to other local issuers and possess speculative characteristics.**
Caa.il	**Issuers or issues rated Caa.il demonstrate, in Midroog's judgment, excessively weak creditworthiness relative to other local issuers and possess very significant speculative characteristics.**
Ca.il	**Issuers or issues rated Ca.il demonstrate, in Midroog's judgment, extremely weak creditworthiness and are very near insolvency, with some prospect of recovery of principal or interest.**
C.il	**Issuers or issues rated C.il demonstrate, in Midroog's judgment, the weakest creditworthiness and are usually insolvent, with little prospect of recovery of principal or interest.**

Note: Midroog appends numeric modifiers 1, 2, and 3 to each rating classification from Aa.il to Caa.il. The modifier "1" indicates that the debenture ranks in the higher end of its rating category, which is denoted by letters. The modifier "2" indicates a mid-range ranking and the modifier "3" indicates a ranking in the lower end of that category, which is denoted by letters.