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G City Ltd.

Monitoring Report | July 2024

This credit rating report is a translation of a report that was written in Hebrew for a debt issued in Israel.

The binding version is the one in the original language.

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G City Ltd.

Issuer Rating	A3.il	Outlook: Stable
Series 11, 12, 13, 14, 16, 17, 19 Rating	A3.il	Outlook: Stable
Series 15, 18 Rating	A2.il	Outlook: Stable

Midroog affirms the A3.il rating of bonds (Series 11, 12, 13, 14, 16, 17 and 19) issued by G City Ltd. (the "Company") and the A2.il rating of bonds (Series 15 and 18), and changes the rating outlook from negative to stable.

Outstanding bonds rated by Midroog:

Bond series	Security No.	Rating	Outlook	Final Maturity
11	1260546	A3.il	Stable	30.09.2024
12	1260603	A3.il	Stable	30.06.2027
13	1260652	A3.il	Stable	30.06.2028
14	1260736	A3.il	Stable	30.09.2031
15*	1260769	A2.il	Stable	31.03.2028
16*	1260785	A3.il	Stable	01.04.2029
17	1198142	A3.il	Stable	30.06.2029
18*	1203850	A2.il	Stable	30.09.2031
19*	1205715	A3.il	Stable	30.09.2031

* Bonds (Series 15, 16, 18 and 19) are secured by liens, as detailed in the bond indentures.

Summary of Rating Rationale

- ***Improvement in liquidity and reduction in debt, which are expected to continue in the coming year.*** The rating affirmation and change of outlook from negative to stable stem from the decrease in the Company's financial debt in the last year and the stabilization of its liquidity at an adequate level providing appropriate financial flexibility for the rating level. Adjusted net financial debt[1] on an expanded standalone basis amounted to NIS 15.6 billion as of March 31, 2024, compared to NIS 17.4 billion as of March 31, 2023. The decrease in adjusted net debt is mainly due to the disposal of properties, in line with the Company's strategic plan, and is expected to continue in the coming year, with the Company recently reporting the signing of a letter of intent to sell the Flora shopping center in Prague for EUR 232 million (equal to its book value), which will be used by the Company to pay off liabilities. The Company's liquidity has been placed on a more stable basis, after the Company took steps to raise debt secured by properties, with a resulting erosion of financial flexibility.

[1] Following the classification of hybrid bonds amounting to EUR 340 million as 50% debt and 50% equity.

- ***The disposal of properties and issuance of secured debt contributed to the improvement in the Company's liquidity, which is supported by the continued disposal of properties.*** As of March 31, 2024, the Company had maturities of both marketable bonds and private loans in Israel for the next four quarters amounting to NIS 1.2 billion. The balance of cash, deposits and the securities portfolio as of that date on an expanded standalone basis amounted to NIS 772 million, mostly held by wholly owned subsidiaries. Net sources for the next four quarters, before debt issues carried out by the Company since the first quarter of the year, are estimated by Midroog in the range of NIS 0.8-1.1 billion, comprising mainly cash flows from the disposal of properties and depending on the extent of the disposals. In addition, after the cutoff date, the Company raised NIS 831 million in bonds in Israel, through the reopening of bonds (Series 16) (NIS 336 million) and issuance of bonds (Series 19) (NIS 495 million), with both series secured by properties. The Company also has unused credit facilities for a total of NIS 0.6 billion. At the end of four quarters, maturities of both marketable bonds and private loans in Israel will stand at NIS 1.2 billion, in addition to which bonds (Series 2025) issued by G Europe will become due in September 2025 in an amount of EUR 287 million (NIS 1.1 billion) as of March 31, 2024. In keeping with the Company's policy, the main sources against the bond maturities in Israel and Europe for the four quarters starting March 31, 2024 are expected to derive from the continued disposal of properties, the taking of loans in Poland against the encumbrance of properties, and the refinancing of debt in Israel.

- ***The diversification of the Company's operations over several strong and stable economies contributes positively to its credit profile:*** The Company operates in the income-producing commercial real estate and rental housing sectors in Europe, Israel and the U.S., in countries with high credit ratings that are characterized by a strong and stable economic environment over time. The last year saw a steady decline in inflation rates in the countries in which the Company operates, primarily in Poland, which experienced high inflation, peaking at 18.4% in February 2023 versus 2.6% in June 2024. The retail real estate market in Poland is continuing to grow, with a rise in visitor numbers to commercial centers, increasing revenues and higher rental prices.

- ***A favorable business profile for the rating level, in terms of number and quality of assets.*** The Company's business profile is supported by a large volume of operations, with total assets (expanded standalone) of NIS 23 billion as of March 31, 2024, broad geographical diversification and a decentralized, quality portfolio of properties. The Company's properties on an expanded standalone basis span five main territories, including Poland, Israel, the U.S., Brazil and the Czech Republic. The majority of the Company's income-producing properties comprise commercial shopping centers located in city centers, along with rental housing and offices. In addition, the Company is the largest shareholder (49.6%) in Citycon Oyj ("Citycon"), which operates in Northern Europe in the sector of commercial centers based on anchor businesses. As of March 31, 2024, the Company has 49 income-producing properties held by it directly and through wholly owned subsidiaries, and 34 properties held by Citycon. The Company's properties maintain high occupancy rates over the years, ranging as of March 31, 2024 between 94% and 98%. NOI from same properties on a consolidated basis net of the exchange rate effect rose by 8.7% in the first three months of 2024 over the same period last year, due to efficiency processes implemented in the Company's properties, increased visitor traffic, higher tenant revenues, contract renewals at higher prices per square meter, and the inflationary effect resulting from 90% of the contracts being index-linked.

- ***Property disposals and higher interest rates are expected to erode the FFO.*** The Company recorded FFO (expanded standalone) of NIS 300 million in 2023, net of linkage and exchange rate differentials, capital gains on the purchase of bonds and income from securities. In its base case scenario, Midroog estimates FFO within an annual range of NIS 250-300 million in the years 2024-2025, trending downward in view of the sale of properties, with the lower end expected in 2025. The projected FFO is also affected by a reduction in the per-share dividend announced by Citycon in the first quarter of 2024, amounting to EUR 0.3 instead of EUR 0.5 per share, in view of the efficiency plan and sale of properties at Citycon and given also the revaluation losses recorded by it.
- ***High leverage for the rating level and very slow coverage ratios weigh on the Company's financial profile.*** In spite of the decrease in the net financial debt, the net-debt to adjusted-net-cap ratio as of March 31, 2024 stood at 73.5% (expanded standalone) compared to 72.7% as of March 31, 2023. The increase in leverage in the last year stemmed from a comprehensive loss attributable to shareholders of NIS 698 million recorded by the Company in the last four quarters, of which a loss of NIS 518 million (gross before tax) is attributable to its exit from operations in Russia. Midroog estimates that the Company will continue to reduce the level of net debt in 2024-2025, through the disposal of properties the proceeds of which will be used to repay debt and buy back bonds of the Group. Accordingly, the leverage ratio is expected to be in the range of 68%-72%, while the net-debt to FFO coverage ratio is expected to be very slow, within a range of 50-60 years.
- ***Good financial flexibility for the rating level, due to a high number of unencumbered properties that compensates to a certain extent for the Company's weakened access to unsecured marketable debt in Israel and Europe.*** However, the Company is gradually reducing this flexibility by issuing property-secured debt in Israel and Europe. As of March 31, 2024, the Company together with wholly owned subsidiaries had unencumbered properties valued at NIS 5.4 billion, representing 23% of the expanded standalone balance sheet. The secured-debt to investment-real-estate ratio amounted as of that date to 40%. Under Midroog's base case scenario, these ratios are expected to be adversely affected by the continued encumbrance of properties as backing for secured debt and the increase of the LTV on those properties.

- ***A financial policy that is focused on reducing financial debt and leverage, although the Company may resume the distribution of dividends in the short term depending on progress in the plan for property disposals.*** The Company demonstrated in the last year progress in the plan for disposal of properties with the aim of reducing the level of leverage as well as creating a geographical and business focus. In October 2022 the Company announced a plan for the disposal of properties for a total of NIS 5.3 billion, subsequently expanding this amount to NIS 7.1 billion. Thus far, the Company has completed disposals or binding agreements for disposals amounting to NIS 4.0 billion, mainly in Europe, the U.S. and Brazil. Additionally, as mentioned earlier, the Company recently reported progress in the plan to sell a key property in Prague, with the sale expected to be completed in the course of 2024, while additional properties are in advanced stages of negotiations, primarily in Brazil. This policy is necessary in order to reduce the credit risk, after the Company's leverage increased significantly and against the background of the global hike in base interest rates and slowing growth. These steps were accompanied by the raising of share capital by the Company. In Midroog's estimation, the Company may resume the distribution of dividends in the short term, depending on progress in the plan for property disposals, since the controlling shareholder, Norstar Inc (Baa2.il), relies over time on the receipt of dividends from the Company for servicing its debt.

Additional Rating Considerations

Among the additional rating considerations, Midroog gave positive weight to the substantial scope and wide diversification of the Company's operations. On the other hand, Midroog viewed negatively the Company's liquidity, which relies in the medium term on the continued disposal of properties as well as property refinancing to an extent that increases the credit risk, although in its estimation, the Company's recent track court in property disposals and debt refinancing is a risk-mitigating factor. Midroog also viewed unfavorably the foreign exchange exposure inherent to the activity of the Company, which operates internationally. The Company's leverage ratio is affected by exposure to the shekel exchange rate against the functional currencies, primarily the euro, the U.S. dollar and the Brazilian real, making any estimate of the leverage ratio in the forecast years somewhat uncertain. Midroog assigned further negative weight to the structural subordination of the bonds issued by the Company in Israel to the bonds issued by the subsidiary G Europe, the latter accounting for a substantial proportion of value and cash flow of the Company's properties on an expanded standalone basis, while also taking into account the mitigating factors included in the structural considerations below.

Structural Considerations

Bonds (Series 15), bonds (Series 16), bonds (Series 18) and bonds (Series 19) issued by the Company are secured by liens which the Company provided in favor of the bondholders. Bonds (Series 15) are secured by a first fixed lien on rights in four income-producing properties in Israel – G Horev Center, G Rothschild, G Kochav Hatzafon and G Savyon. Midroog rates the quality of this collateral as "strong," given that the underlying assets are income-producing properties located in Israel and in light of Midroog's assessment of low volatility in their value. Midroog likewise assesses the diversification of the collateral over four properties as contributing to its liquidity and stability of its value. Based on a value sensitivity test at up to 40% of the book value of the encumbered assets as of March 31, 2024, Midroog estimates the recovery rate for bonds (Series 15) as more likely than not to exceed 70%.

Bonds (Series 16) are secured by a first fixed lien on shares of G Europe and all the Company's rights in the encumbered shares, in accordance with the provisions of the bonds (Series 16) indenture. Midroog did not assign a rating uplift to bonds (Series 16) in respect of this lien, in light of its assessment of the quality of this collateral as "medium" only, since it consists of shares of an investee. Bonds (Series 18) are secured by a first lien on all the rights of G Alpha, which is a special purpose entity directly holding six income-producing properties on the East Coast of the U.S. (Miami, New York and Boston). Midroog rates the quality of this collateral as "strong," given that the underlying assets are income-producing properties located in the U.S. and in light of Midroog's assessment of low volatility in their value. Midroog likewise assesses the diversification of the collateral over six properties as contributing to its liquidity and stability of its value. Based on a value sensitivity test at up to 40% of the book value of the encumbered assets as of March 31, 2024, Midroog estimates the recovery rate for bonds (Series 18) as more likely than not to exceed 70%. Bonds (Series 19) are secured by a second fixed lien on the G City Rishon Lezion complex, in accordance with the provisions of the bonds (Series 19) indenture. Midroog did not assign a rating uplift to bonds (Series 19) in respect of this lien, in light of its assessment of the quality of this collateral as "medium" only, since it is a second lien, and considering the quality of the lien rights and our assessment that the recovery rate from this collateral does not exceed 70%.

The structure of the Company's debt, which includes corporate bonds of G City Ltd. amounting to NIS 7.8 billion as of March 31, 2024, and corporate bonds of the subsidiary (100%) G Europe (excluding hybrid bonds) amounting as of that date to NIS 2.1 billion, inherently subordinates the G City bonds to the bonds of the subsidiary. The properties of G Europe account for a substantial proportion of value and cash flow – 39% of the value of the Company's properties (expanded standalone) and 42% of the adjusted EBITDA (expanded standalone). Midroog believes that this subordination is mitigated, among other things, by reasonable leverage of G Europe and a substantial number of unencumbered properties of the subsidiary, as well as by the considerable diversification of properties of G City itself, its subsidiaries and investees. G

Europe complies adequately with the financial covenants applicable to the bonds issued by it. The Company has various ways of raising cash from G Europe, through dividends or intercompany loans.

RATING OUTLOOK

The stable outlook reflects Midroog's assessment of the Company's ability to continue meeting its plans with respect to disposals as well as debt refinancing, with a resulting improvement in its financial profile. The Company is still in the midst of implementing organizational and structural changes, but its track record in implementation somewhat mitigates this uncertainty.

Factors that Could Lead to a Rating Upgrade

- A significant decrease in the Company's net financial debt (expanded standalone) and in its level of leverage measured as the ratio of net debt to adjusted net cap.
- Improvement over time in FFO and in the coverage ratios.

Factors that Could Lead to a Rating Downgrade

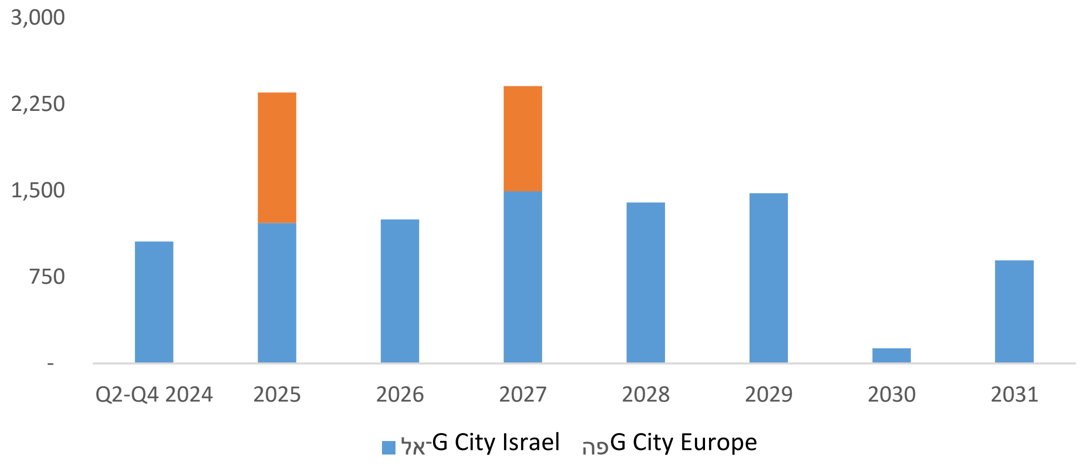
- No improvement over time in the net-debt to adjusted-net-cap leverage ratio.
- A decrease in FFO beyond Midroog's assessments.
- Deterioration in the economic environment, weakening of the Company's liquidity and ongoing difficulty in accessing financing sources for debt refinancing.

G. City Ltd. – Key Financial Indicators (Expanded Standalone), NIS Million

	31.03.2024	31.12.2023	31.12.2022	31.12.2021	31.12.2020
Total assets	23,312	24,756	25,527	19,679	18,215
Adjusted gross financial debt	16,364	17,796	18,235	13,092	11,871
Cash, deposits and securities portfolio	772	594	1,414	2,290	1,143
Adjusted net debt / net cap	73.5%	74.3%	73.1%	64.6%	64.9%
LTM FFO – adjusted	339	296	285	215	284
Adjusted net financial debt / FFO	46	58	59	53	38

**The metrics shown in the table are after adjustments by Midroog and are not necessarily identical to those presented by the Company. The expanded standalone figures are based on unaudited management figures. FFO is based on management figures for expanded standalone cash flow from operating activities as presented in the board of directors report of the Company accompanying the financial statements, with adjustments by Midroog.*

G City Ltd. – Bond principal amortization schedule (expanded standalone) as of 31.03.2024 (NIS million)



Rating Scorecard

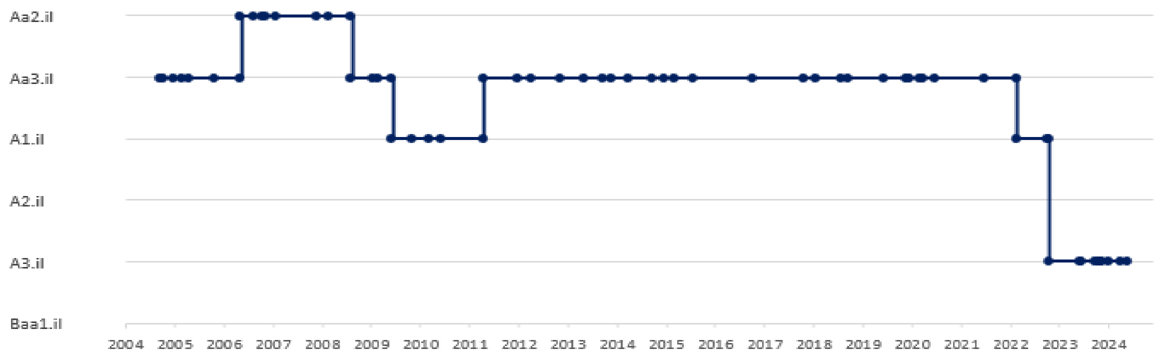
		As of 31.03.2024		Midroog forecast	
Category	**Parameters**	**Measurement**	**Score**	**Measurement**	**Score**
Operating environment	Operating sector and economic environment	---	A.il	---	A.il
Business profile	Total assets (NIS billion)	23	Aaa.il	23	Aaa.il
	Asset quality, asset diversification and tenants	---	Aa.il	---	Aa.il
Financial profile	Net financial debt / net cap	73.5%	A.il	68%-72%	Baa.il-A.il
	FFO (NIS million)	300	Aa.il	250-300	Aa.il
	Net financial debt / FFO	46 <	Baa.il	50-60	Ba.il
	Unencumbered asset value / total assets	23%	A.il	15%-20%	A.il
	Secured financial debt / investment real estate	40%	A.il	45%-55%	A.il
	Financial policy	---	A.il	---	A.il
Implied score					**A3.il**
Final score					**A3.il**

**The metrics shown in the table are after adjustments by Midroog and are not necessarily identical to those presented by the Company. The Midroog forecast includes Midroog's assessments with respect to the issuer as presented in its base case scenario, and not the issuer's assessments.*

Company Profile

G City, directly and through its private and public investees, engages in the acquisition, improvement, development and management of income-producing properties for mixed use, including retail, residential and office uses, in Israel, North and Central Europe, the U.S. and Brazil. The Company's controlling shareholder is Norstar Holdings Inc., whose controlling shareholder is Mr. Chaim Katzman. The Company’s shares are traded on the Tel Aviv Stock Exchange.

Rating History



Related Reports

G City Ltd. – Related Reports

Norstar Holdings Inc. – Related Reports

Rating of Income-Producing Real Estate Company – Methodology Report, November 2023.

Structural Considerations in Rating Debt Instruments in Corporate Finance – Methodology Report, September 2019

Financial Statement Adjustments and Presentation of Main Financial Measures in Corporate Rating – Methodology Report, May 2020

Rating of Subordinated Debts, Hybrid Instruments and Preferred Shares in Corporate Finance – Methodology Report, December 2019

Guidelines for Reviewing Environmental, Social and Governance Risks in Credit Ratings – Methodology Report, February 2022

Implications of the Iron Swords War for the Creditworthiness of Issuers Rated by Midroog – Special Report, October 2023

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 1, 2024
Date of last revision of the rating:	May 1, 2024
Date of first publication of the rating:	October 20, 2004
Rating commissioned by:	G. City Ltd.
Rating paid for by:	G. City 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.**

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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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