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**MIZRAHI TEFAHOT BANK LTD**  
No. with the Registrar of Companies: 520000522

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|           |   |           |   |                  |                                       |
|-----------|---|-----------|---|------------------|---------------------------------------|
| <b>To</b> | <b><u>Israel Securities Authority</u></b> | <b>To</b> | <b><u>Tel Aviv Stock Exchange Ltd</u></b> | T125<br>(Public) | Date of transmission:<br>July 20 2023 |
|           | <b>www.isa.gov.il</b>                     |           | <b>www.tase.co.il</b>                     |                  | Ref: 2023-01-083322                   |

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**Immediate Report on the Rating of Bonds/Rating of a Corporation or Rating Cessation**

On July 20 2023 S&P Global Rating published *Other*:

A rating report/notice *updated*

A notice regarding rating cessation

1. Rating report or notice

Corporation's rating: *Other S&P Global Rating A-/A-2 stable*

Comments/Notice summary:  
*Outlook/projection reduction*

Ratings history in the three years prior to the date of the rating/notice:

| Date            | Rating subject                  | Rating   | Comments/Notice summary           |
|-----------------|---------------------------------|--|-----------------------------------|
| July 20 2022    | <i>Mizrahi Tefahot Bank Ltd</i> | <i>Other S&amp;P Global Rating A-/A-2 positive</i> | <i>Rating confirmation</i>        |
| January 20 2022 | <i>Mizrahi Tefahot Bank Ltd</i> | <i>Other S&amp;P Global Rating A-/A-2 positive</i> | <i>Rating confirmation</i>        |
| July 21 2021    | <i>Mizrahi Tefahot Bank Ltd</i> | <i>Other S&amp;P Global Rating A-/A-2 positive</i> | <i>Outlook / Projection raise</i> |
| March 18 2021   | <i>Mizrahi Tefahot Bank Ltd</i> | <i>Other S&amp;P Global Rating A-/A-2 stable</i>   | <i>Initial rating</i>             |

**Explanation: The ratings history should only detail the rating history of the company rating the subject of the immediate report**

Rating of the corporation's debentures:

| Name and type of security     | Security number on the stock exchange | Rating company                              | Current rating                 | Comments/Notice summary |
|-------------------------------|---------------------------------------|---|--------------------------------|-------------------------|
| <i>MizrahiTF<br/>\$2031RM</i> | 6950836                               | <i>Other<br/>S&amp;P Global<br/>Ratings</i> | <i>Other BBB-<br/>None/NOO</i> | Rating confirmation     |

Ratings history for the three years prior to the rating/notice date:

| Name and type of security     | Security number on the stock exchange | Date                       | Type of rated security | Rating                             | Comments/Notice summary        |
|-------------------------------|---------------------------------------|----------------------------|------------------------|------------------------------------|--------------------------------|
| <i>MizrahiTF<br/>\$2031RM</i> | 6950836                               | <i>July 20<br/>2022</i>    | <i>Debentures</i>      | <i>Other<br/>BBB-<br/>None/NOO</i> | <i>Rating<br/>confirmation</i> |
| <i>MizrahiTF<br/>\$2031RM</i> | 6950836                               | <i>January 20<br/>2022</i> | <i>Debentures</i>      | <i>Other<br/>BBB-<br/>None/NOO</i> | <i>Rating<br/>confirmation</i> |
| <i>MizrahiTF<br/>\$2031RM</i> | 6950836                               | <i>July 21<br/>2021</i>    | <i>Debentures</i>      | <i>Other<br/>BBB-<br/>None/NOO</i> | <i>Rating<br/>confirmation</i> |
| <i>MizrahiTF<br/>\$2031RM</i> | 6950836                               | <i>March 18<br/>2021</i>   | <i>Debentures</i>      | <i>Other<br/>BBB-<br/>None/NOO</i> | <i>Initial rating</i>          |

Explanation: The ratings history should only detail the rating history of the company rating the subject of the immediate report

Attached rating report [SandPGlobalRatings 20072023 isa.pdf](#)

2. On \_\_\_\_\_, \_\_\_\_\_ announced that it would cease rating \_\_\_\_\_

**Details of the signatories authorized to sign on behalf of the corporation**

|   | Signatory's Name          | Position  |
|---|---------------------------|---|
| 1 | <i>Hanan Kikozashvili</i> | <i>Other<br/>Bank Secretary &amp; Head of the<br/>Bank's Headquarters</i> |

Explanation: According to Regulation 5 of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970, a report filed under these regulations shall be signed by those authorized to sign on behalf of the corporation. The position of the senior staff on the matter (in Hebrew) can be found on the ISA's website: [Click here](#)

*For further information on said rating, see the attached document.*

The reference numbers of previous documents on the subject (reference does not constitute incorporation by reference):

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Securities of a Corporation Listed for Trading on Form structure revision date: June 20 2023

the Tel Aviv Stock Exchange

Abbreviated Name: Mizrahi Tefahot

Address: 7 Jabotinsky Street, Ramat Gan, 52520 Tel:03-7559720 Fax:03-7559923

E-mail: management@umtb.co.il Company website: <https://www.mizrahi-tefahot.co.il>

Previous name of the reporting entity: United Mizrahi Bank Ltd

Name of the person reporting electronically: Kikozashvili Hanan Position: Bank Secretary Name of Employing Company: Mizrahi Tefahot Bank Ltd

Address: 7 Jabotinsky Street, Ramat Gan, 52520 Tel: 03-7559219 Fax: 03-7559923 E-mail: management@umtb.co.il

Research Update:

# Mizrahi Tefahot Bank Outlook Revised To Stable From Positive On Toughening Market Conditions; Affirmed At 'A-/A-2'

July 20, 2023

## Overview

- In our view, Mizrahi Tefahot Bank Ltd. (Mizrahi)'s increasing real estate concentration exposes it to heightened risks amid toughening economic conditions.
- We therefore revised our outlook on Mizrahi to stable from positive and affirmed our 'A-/A-2' ratings on the bank.
- The stable outlook indicates that the bank is well positioned to benefit from rising rates while limiting negative spill-over effects on its asset quality.

## Rating Action

On July 20, 2023, S&P Global Ratings revised its outlook on Mizrahi Tefahot Bank Ltd. to stable from positive.

At the same time, we affirmed our 'A-' long-term issuer credit rating and 'A-2' short-term issuer credit rating on the bank. We also affirmed all our debt ratings on the bank.

## Rationale

**The outlook revision reflects our view that Mizrahi's increased concentration on the Israeli real estate market could bring additional tail risk amid the economic slowdown.** Mizrahi has grown rapidly in the construction and commercial real estate segments, building up new risks. The share of these activities in its loan book has rapidly increased to 11.2% as of March 31, 2023, from 9.0% at financial year-end 2020. Although it remains lower than leading Israeli players, we think that because Mizrahi's unseasoned portfolio ramped up when real estate price dynamics and expectations were much more supportive, this could represent a risk. Israel has seen two years of cumulative 22.4% growth in real estate prices in real terms, but the outlook is now less favorable.

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**The bank's increased exposure to construction and real estate adds to its already high share of housing loans.** Its mortgage book was a high 63.8% of Mizrahi's total portfolio as of March 31, 2023. The highly collateralized mortgage portfolio--with an average loan to value (LTV) ratio of 57% at origination and low payment-to-income ratio of 26.2% as of March 31, 2023--continues to mitigate the risk of increased credit losses. The rapid repricing of mortgages will hit borrowers, even if the unemployment rate is contained. Consequently Mizrahi's performance remains correlated with the Israeli real estate market, which has shown signs of slowing down amid rising interest rates.

**We believe Mizrahi's risk metrics compares reasonably well to that of similarly rated peers.**

Mizrahi's track record in terms of cost of risk (measured by loan-loss provisions to average customer loans) is slightly weaker than international peers with a similar niche business focused on mortgages, in our view. While Mizrahi's cost of risk is partly offset by higher-than-peers profitability, we believe its current risk-return profile fits well with similarly rated peers.

**We expect Mizrahi's profitability to peak in 2023 but to remain solid.** We believe its strong position in the retail market, its efficiency, and the current interest rate environment will support its medium-term profitability. The bank's full-year 2022 results were somewhat better than we had anticipated, with a reported return on equity of 19.0% (excluding one-off capital gains and assets sales), up from 15.8% in 2021 and 9.5% in 2020. This reflects the structure of mortgages in Israel. They have both a CPI-linked and a variable rates component, which enables rapid repricing on the assets side. While Mizrahi's revenue prospects remain favorable, we think profitability will peak in 2023 as monetary policy loosening could start from 2024 and funding costs and credit losses will gradually increase. We forecast Mizrahi's return on average equity at 16%-18% over 2024 and 2025. We also forecast its cost-to-income ratio to remain low and hover around 40%.

**Given its earnings power, we think Mizrahi will protect its strong capital buffer despite the economic slowdown.** We expect Mizrahi's risk-adjusted capital (RAC) ratio will improve slightly to 10.8%-11.3% over the next two years, compared with 10.2% at end-2022. We base this assumption on the moderating pace of lending growth, which mainly reflects decreasing demand but is also due to the bank's limited buffers above regulatory capital ratios. We expect the bank to continue operating within these narrow buffers and adjust its dividends policy accordingly.

## Outlook

The stable outlook on Mizrahi reflects our expectation that the bank is well positioned to reap the benefits from rising rates while limiting negative spillovers on its asset quality. Despite Mizrahi's high concentration in mortgages and real estate, its strong earnings generation capacities and its conservative approach to credit risk limit ratings downside.

## Downside scenario

We could lower our rating if the bank failed to maintain its solid risk profile such that its asset-quality metrics weakened materially over the next 12-24 months. This could happen, for example, if monetary tightening leads to a more severe correction than we currently anticipate, accentuating the stress on real estate developers and households. An outlook revision could also stem from the bank's RAC ratio falling lastingly below the 10% threshold.

## Upside scenario

An upgrade over the next 12-24 months would hinge on the bank maintaining strong profitability, efficiency, and capital buffers, while materially diversifying its loan book toward less risky segments. We would also need to see the bank's risk profile aligning with that of higher rated peers.

## Ratings Score Snapshot

|                             | To              | From            |
|-----------------------------|-----------------|-----------------|
| Issuer Credit Rating        | A-/Stable/A-2   | A-/Positive/A-2 |
| SACP                        | bbb+            | bbb+            |
| Anchor                      | bbb+            | bbb+            |
| Business position           | Adequate (0)    | Adequate (0)    |
| Capital and earnings        | Strong (+1)     | Strong (+1)     |
| Risk position               | Moderate (-1)   | Moderate (-1)   |
| Funding and liquidity       | Average and (0) | Average and (0) |
| Comparable ratings analysis | Adequate        | Adequate        |
| Support                     | +1              | +1              |
| ALAC support                | 0               | 0               |
| GRE support                 | 0               | 0               |
| Group support               | 0               | 0               |
| Sovereign support           | +1              | +1              |
| Additional factors          | 0               | 0               |

SACP--Stand-alone credit profile.

## ESG credit indicators: E-2, S-2, G-2

## Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

#### Mizrahi Tefahot Bank Ltd.

|                     |      |
|---------------------|------|
| Junior Subordinated | BBB- |
|---------------------|------|

### Ratings Affirmed; Outlook Action

|  | To | From |
|--|----|------|
|--|----|------|

#### Mizrahi Tefahot Bank Ltd.

|                      |               |                 |
|----------------------|---------------|-----------------|
| Issuer Credit Rating | A-/Stable/A-2 | A-/Positive/A-2 |
|----------------------|---------------|-----------------|

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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