

Mizrahi Tefahot Bank Ltd.'s Immediate Reports are published in Hebrew on the Israel Securities Authority and the Tel Aviv Stock Exchange websites.

The English version is prepared for convenience purposes only. The only binding version of the Immediate Reports is the Hebrew version.

In the event of any discrepancy or inconsistency between the Hebrew version and the translation to English, the Hebrew version shall prevail and supersede, for all purposes and in all respects.

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

To	<u>Israel Securities Authority</u>	To	<u>Tel Aviv Stock Exchange Ltd</u>	T125 (Public)	Date of transmission: July 23 2023
	www.isa.gov.il		www.tase.co.il		Ref: 2023-01-083862

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

On July 23 2023 *S&P Maalot* published:

A rating report/notice *updated*

A notice regarding rating cessation

1. Rating report or notice

Corporation's rating: *S&P Maalot ilAAA stable*

Comments/Notice summary: *Other affirmation*

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

Date	Rating subject	Rating	Comments/Notice summary
July 26 2022	<i>Mizrahi Tefahot Bank Ltd</i>	<i>S&P Maalot ilAAA stable</i>	<i>Other Affirmation</i>
January 23 2022	<i>Mizrahi Tefahot Bank Ltd</i>	<i>S&P Maalot ilAAA stable</i>	<i>Other Affirmation</i>
July 22 2021	<i>Mizrahi Tefahot Bank Ltd</i>	<i>S&P Maalot ilAAA stable</i>	<i>Other Affirmation</i>
July 21 2020	<i>Mizrahi Tefahot Bank Ltd</i>	<i>S&P Maalot ilAAA stable</i>	<i>Other Affirmation</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>Subordinated debentures</i>	0	S&P Maalot	<i>S&P Maalot stable ilAA-</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>Subordinated debentures</i>	July 26 2022	0	<i>Subordinated debentures with a loss absorption mechanism</i>	<i>S&P Maalot stable ilAA-</i>	Rating confirmation
<i>Subordinated debentures</i>	January 23 2022	0	<i>Subordinated debentures with a loss absorption mechanism</i>	<i>S&P Maalot stable ilAA-</i>	Rating confirmation
<i>Subordinated debentures</i>	July 22 2021	0	<i>Subordinated debentures with a loss absorption mechanism</i>	<i>S&P Maalot stable ilAA-</i>	Rating confirmation
<i>Subordinated debentures</i>	July 21 2020	0	<i>Subordinated debentures with a loss absorption mechanism</i>	<i>S&P Maalot stable ilAA-</i>	Rating confirmation

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

Attached rating report [MaalotSPGlobalRatings_23072023 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 Bank Secretary & Head of the 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](#)

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

2022-01-095635

Securities of a Corporation Listed for Trading on the Tel Aviv Stock Exchange

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: Company website:

management@umtb.co.il <https://www.mizrahi-tefahot.co.il>

Previous name of the reporting entity: United Mizrahi Bank Ltd

Name of the person reporting electronically:

Position:

Name of Employing

Kikozashvili Hanan

Bank Secretary

Company: Mizrahi Tefahot

Bank Ltd

Address: 7 Jabotinsky Street, Ramat Gan,
52520

Tel:
03-7559219

Fax:
03-7559923

E-mail:
management@umtb.co
.il

Mizrahi Tefahot Bank Ltd

Mizrahi Tefahot Issuance Company Ltd

July 23 2023

Rating Affirmation

Affirmation of 'ilAAA' Rating; Outlook Stable

Primary Credit Analyst:

Pierre Hollegien, Paris 33-14-0752513 pierre.hollegien@spglobal.com

Additional Contact Person:

Matan Benjamin, Ramat Gan 972-3-7539716 matan.benjamin@spglobal.com

Table of Contents

Summary	.....	2
The Rating Action	.....	2
Primary Considerations	.....	2
Rating Outlook	.....	4
Downside Scenario	.....	4
Methodology and Related Articles	.....	3
Rating List	.....	4

Rating Affirmation

Affirmation of 'ilAAA' Rating; Outlook Stable

Summary

- Mizrahi Tefahot Bank Ltd. ("Mizrahi Tefahot" or the "Bank") presents strong operating performance based on its high competitive status and a high-interest environment which supports profitability, but we predict a certain moderation in profitability in view of a weakening in macroeconomic conditions.
- The increases exposure to real estate in Israel is a risk factor in view of the slowdown in the industry, but the Bank's conservative approach limits the credit risks.
- We are affirming the 'ilAAA' rating for Mizrahi Tefahot Bank Ltd.
- The stable rating outlook for the next 12-24 months reflects our assessment that the Bank will continue to present strong operating performance in view of the high-interest environment, with no significant harm to the quality of its assets.

The Rating Action

On 23 July 2023, S&P Maalot affirmed the long-term rating, 'ilAAA', for Mizrahi Tefahot Bank Ltd. The outlook is stable. S&P Maalot also affirmed the Bank's short-term rating, 'ilA-1+', and all of its debt ratings.

Primary Considerations

Mizrahi Tefahot presents strong performance, but we forecast that the profitability will peak in 2023 and moderate in the subsequent two years. We are of the opinion that Mizrahi Tefahot's strong position in the retail market, its high efficiency and the current interest environment will support the Bank's profitability in the medium term. The Bank presented good financial results for 2022, with a reported ROE of 19% (excluding one-time capital gains and the sale of assets), compared with 15.8% in 2021 and 9.5% in 2020. The rise mainly derived from the structure of mortgages in Israel, both the CPI-linked component and the variable interest component, which allows swift pricing of the assets. We forecast that the Bank's profitability will remain strong and peak in 2023, subsequently moderating in 2024, as a result of a less supportive monetary policy alongside gradual growth in financing costs and credit losses. We also anticipate that the operating expenses to income ratio will remain low at around 40%.

As a result of the Bank's high profitability, we forecast that it will maintain a significant capital buffer, despite the slowdown in the economy. We anticipate that Mizrahi Tefahot's RAC (risk-adjusted capital) ratio will slightly improve in the next two years to approx. 10.8%-11.3%, from 10.2% at the end of 2022. Our assessment is based on a lower credit growth rate as a result of a decline in demand and as a result of the Bank's limited margin above the regulatory requirements for capital ratios. We predict that the Bank will continue to maintain a low margin above the regulatory requirements, alongside adjustment of its dividend distribution policy.

Mizrahi Tefahot's increasing concentration in the Israeli real estate market may increase the tail risks, in view of the economic slowdown. Mizrahi Tefahot has grown in the commercial real estate and construction industries (although the rate of exposure remains low compared to the leading local banks), and consequently there has been a certain change in its risk profile. At the end of 2022, the share of these industries in the Bank's credit portfolio was 11.2%, compared with 9% at the end of 2020. We estimate that the significant expansion in these industries was done based on the expectation that real estate prices would be significantly more supportive. After two years of cumulative real growth of around 22.4% in real estate prices, uncertainty is now increasing regarding the continuation of this trend.

The increased exposure to the real estate and construction industries joins the high percentage of mortgages in the Bank's credit portfolio. As of 31 March 2023, mortgages constituted approx. 63.8% of Mizrahi Tefahot's total credit portfolio. Although this portfolio is backed by a high rate of collateral, with an average LTV ratio of 57% in performance and a low payment to income ratio of 26.2% as of the end of March 2023, which continue to moderate the risk, the swift repricing of mortgages is expected to impair the repayment capacity of the borrowers also in this sector. Consequently, Mizrahi Tefahot's performance remains consistent with the Israeli real estate market, which has demonstrated signs of slowdown in view of an environment of rising interest rates.

Rating Outlook

Mizrahi Tefahot's stable outlook for the next 12-24 months reflects our assessment that the bank is in a resilient position that will be supported by interest rate increases, with a limited negative impact on asset quality. Despite Mizrahi Tefahot's high concentration on mortgages and real estate, we are of the opinion that its favorable ability to generate profits combined with its conservative approach limit the credit risks.

Downside Scenario

We may consider a negative rating action in the next 12-24 months should the Bank's asset-quality metrics deteriorate, for example because of higher credit losses than we expect from the anticipated rapid growth, which could indicate a weakening of the risk profile. We may also consider a negative rating action should the Bank fail to withstand the competitive pressure in Israel and loses market share and revenue, to the detriment of its profitability.

We may also consider a negative rating action in the next 12-24 months if the Bank fails to maintain its robust risk profile, so that the asset quality metrics are considerably weakened. This, for example, could be as a result of monetary tightening that may lead to a sharper correction than we anticipated, resulting in an increased pressure on real estate developers and households. We may also consider a negative rating action if the Bank's RAC falls below 10% over time.

Methodology and Related Articles

- General Criteria: Principles Of Credit Ratings February 16, 2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings April 7, 2017
- Risk-Adjusted Capital Framework Methodology July 20, 2017
- Group Rating Methodology July 1, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings October 10, 2021
- Financial Institutions Rating Methodology December 9, 2021
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions December 9, 2021
- Hybrid Capital: Methodology And Assumptions March 2, 2022
- National And Regional Scale Credit Ratings Methodology June 8, 2023
- S&P Global Ratings Rating Definitions June 9, 2023
- The Connection Between the Global Rating Scale and the Israeli Rating Scale June 26, 2018

Mizrahi Tefahot Bank Ltd Mizrahi Tefahot Issuance Company Ltd	Rating	Date on which rating was first published	Date on which rating was last updated
Issuer Rating(s)			
Mizrahi Tefahot Bank Ltd			
Long term	ilAAA/Stable	Oct 9 2003	Jul 26 2022
Issuance rating(s)			
<u>Mizrahi Tefahot Bank Ltd</u>			
<u>Complex subordinated debt</u>			
Contingent subordinated bonds with loss absorption capacity	ilAA-	Nov 19 2015	Jul 26 2022
<u>Mizrahi Tefahot Issuance Company Ltd</u>			
<u>Complex subordinated debt</u>			
Contingent subordinated bonds with loss absorption capacity Series 53	ilAA-	Dec 9 2020	Jul 26 2022
Contingent subordinated bonds with loss absorption capacity Series 48	ilAA-	Oct 4 2018	Jul 26 2022
Contingent subordinated bonds with loss absorption capacity Series 50	ilAA-	Jun 6 2019	Jul 26 2022
Contingent subordinated bonds with loss absorption capacity Series 65	ilAA-	Dec 5 2022	Dec 5 2022
Short-Term Debt			
<u>Series 1 - CP</u>	ilA-1+	Feb 13 2023	Feb 13 2023
Senior unsecured debt			
Series 40, 42	ilAAA	May 21 2015	Jul 26 2022
Series 45, 46	ilAAA	Sep 11 2017	Jul 26 2022
Series 62	ilAAA	Oct 6 2021	Jul 26 2022
Series 63, 64	ilAAA	Mar 28 2022	Jul 26 2022
Series 67	ilAAA	May 29 2023	May 29 2023
Series 49	ilAAA	Jun 6 2019	Jul 26 2022
Series 51	ilAAA	Oct 10 2019	Jul 26 2022
Series 52	ilAAA	Jun 17 2020	Jul 26 2022
Series 66	ilAAA	Dec 5 2022	Dec 5 2022
Issuer rating history			
Long term			
December 25, 2014	ilAAA/Stable		
November 15, 2010	ilAA+/Stable		
September 14, 2009	ilAA+/Negative		
May 28, 2007	ilAA+/Stable		
October 13, 2003	ilAA+		
Additional details			
Time of the event's occurrence	July 23 2023 17:33		
Time at which the event first became known	July 23 2023 17:33		
Rating initiator	The rated company		

[legal disclaimer]