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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: December 13 2023
	www.isa.gov.il		www.tase.co.il		Ref: 2023-01-135738

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

On December 13 2023 Fitch Rating published *Other*:

A rating report/notice *updated*

A notice regarding rating cessation

1. Rating report or notice

Corporation's rating: *Other* Fitch Rating *none/NOO*

Comments/Notice summary: *Other no change, A/F1+ (RWN)*

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

Date	Rating subject	Rating	Comments/Notice summary
October 19 2023	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ (RWN) None/NOO</i>	<i>Rating Watch List (Negative) / Rating review (Negative)</i>
May 2 2023	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A-(xsg)/F2(xsg) None/NOO</i>	<i>Initial rating</i>
December 22 2022	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ stable</i>	<i>Rating confirmation</i>
March 29 2022	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ stable</i>	<i>Rating confirmation</i>
January 13 2022	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ stable</i>	<i>Rating confirmation</i>
April 22 2021	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ stable</i>	<i>Rating confirmation</i>
March 18 2021	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ 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>Subordinated Tier 2 Capital Notes</i>	06950836	<i>Other Fitch Rating</i>	<i>Other BBB None/NOO</i>	<i>Other No Change</i>

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 Tier 2 Capital Notes</i>	06950836	<i>October 19 2023</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Rating confirmation</i>
<i>Subordinated Tier 2 Capital Notes</i>	06950836	<i>December 22 2022</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Rating confirmation</i>
<i>Subordinated Tier 2 Capital Notes</i>	06950836	<i>March 29 2022</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Rating confirmation</i>
<i>Subordinated Tier 2 Capital Notes</i>	06950836	<i>January 13 2022</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Rating confirmation</i>
<i>Subordinated Tier 2 Capital Notes</i>	06950836	<i>April 22 2021</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Rating confirmation</i>
<i>Subordinated Tier 2 Capital Notes</i>	06950836	<i>April 7 2021</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Other Initial rating – supplementary report</i>
<i>Subordinated Tier 2 Capital Notes</i>	06950836	<i>March 18 2021</i>	<i>Debenture</i>	<i>Other BBB (EXP) 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 [Fitch 13122023_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>Menahem Aviv</i>	<i>Other</i> <i>Chief Accountant</i>
2	<i>Adi Shachaf</i>	<i>Other</i> <i>Head of the Finance Division</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):

2023-01-117675

Securities of a Corporation Listed for Trading on Form structure revision date: December 5 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:

mangment@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, Tel: Fax: E-mail:
52520 03-7559219 03-7559923 management@umtb.co
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13 DEC 2023

Fitch Maintains Mizrahi Tefahot Bank's 'A' IDR on Rating Watch Negative

Fitch Ratings - London - 13 Dec 2023: Fitch Ratings is maintaining Mizrahi Tefahot Bank Ltd's (UMTB) ratings, including its 'A' Long-Term Issuer Default Rating (IDR) and its 'a' Government Support Rating (GSR), on Rating Watch Negative (RWN). The bank's Viability Rating (VR) has been affirmed at 'a-'.

Key Rating Drivers

State Support Drives Ratings: UMTB's IDRs reflect Fitch's view of a very high probability that Israel (A+/F1+ on RWN) would provide support to the bank. Fitch believes Israel's ability and propensity to support UMTB are very high, particularly given the systemic importance of the bank, which holds almost 20% of the country's banking system assets.

Uncertain Economic Environment: The Israel-Hamas war has caused an initial contraction of economic activity. Our negative outlook on the operating environment reflects the uncertainty around the severity, duration and longer-term impact of the war. The Israeli government and the Bank of Israel have provided a variety of measures to support the economy and the most affected borrowers. Rising interest rates have supported net interest income, but Fitch believes this benefit peaked in 1H23 and will subsequently recede due to rising deposit costs and the Bank of Israel's decision to maintain the key interest rate at 4.75% in November.

Strong Mortgage Franchise: UMTB has a strong franchise in Israel as the third-largest bank by total assets. The ratings reflect conservative underwriting, resilient asset quality and adequate capitalisation. UMTB's business model is less diversified than its two larger peers, but is particularly strong in residential mortgages as the largest mortgage lender.

Close Regulatory Oversight: Underwriting standards are conservative, helped by tight regulatory limits and oversight, particularly for mortgage loans, and construction and real estate lending. Like other Israeli banks, UMTB has material exposure to the residential real estate market through mortgages as well as construction loans, but this is mitigated by the low indebtedness of Israeli households as well as high population growth that drives demand for new construction.

Asset-Quality Pressures: UMTB's impaired loans ratio increased slightly to 0.9% at end-September 2023 from 0.8% at end-2022. Fitch expects asset quality to be affected by the macroeconomic impact of the Israel-Hamas war. UMTB's loan impairment charge of ILS694 million in 3Q23 reflects the bank's assessment of the likely impact of the war on its loan portfolio and is comparable in size to the provisions taken at the start of the coronavirus pandemic in 1Q20.

Despite increased credit risk, we expect the impaired loans ratio to remain below 1.5% over the next two years due to sound underwriting and Israel's resilient operating environment.

Earnings to Weaken: The bank's profitability has benefited from higher interest rates, though net interest margins appear to have peaked. Cost efficiency has benefited from the successful integration of Union Bank. We expect improving efficiency to only partly mitigate lower loan growth in 2024, but we expect risk-adjusted operating profit to remain above 2% of risk-weighted assets (RWAs) over the next two years.

In our view, prudent underwriting and provisioning policies would reduce the impact on profitability from higher loan arrears should the war result in a more severe macroeconomic deterioration than we currently expect.

Adequate Capital Buffers: Capital headroom is limited. UMTB's common equity Tier 1 (CET1) ratio of 10.12% at end-9M23 is the lowest among domestic peers', though it has been fairly stable. UMTB calculates RWAs using the standardised approach, which resulted in RWAs at 62% of total assets at end-9M23, which is conservative for the bank's high proportion of lower-risk mortgage loans. Our assessment also considers improved internal capital generation and a prudent decrease in the dividend pay-out ratio to 15% for 3Q23.

Stable Deposit Base: UMTB's 93% loans/deposits ratio at end-9M23 is higher than that of domestic peers, reflecting greater use of wholesale funding. However, UMTB's funding benefits from the bank's stable and granular retail and SME deposit base, and liquidity is sound, with a quarterly average liquidity coverage ratio of 138% in 3Q23. Since the outbreak of the Israel-Hamas war, the bank has not noted material change in its liquidity ratios or funding mix.

UMTB's 'F1+' Short-Term IDR is the higher of two possible options that map to a 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign rating is likely to result in a downgrade of UMTB's GSR and IDRs.

A sharp deterioration of asset quality as a result of the war that would result in an impaired loan ratio of above 2% for an extended period, combined with the CET1 ratio declining below current levels, and weakening internal capital generation, funding stability or liquidity could result in a VR downgrade. Given the bank's exposure to the real estate sector, a sharp decline in real estate prices would put pressure on asset quality and therefore on the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

UMTB's GSR and IDRs are likely to be affirmed and removed from RWN if Israel's ratings are affirmed and removed from RWN. An upgrade of the GSR and IDRs is unlikely due to the war and the RWN on

the sovereign IDRs.

An upgrade of UMTB's VR is unlikely given the bank's geographical concentration and would require a material and structural improvement in profitability that allows it to generate stronger and more stable operating profit/RWAs while maintaining materially higher capital ratios, which we do not expect.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Subordinated Debt: UMTB's Tier 2 instruments are rated two notches below its VR, reflecting poor recovery prospects in the event of a failure of the bank, in line with Fitch's base-case notching for Tier 2 debt.

IDRs (xgs): The Long-Term IDR (xgs) of 'A-(xgs)' is at the level of the VR. The Short-Term IDR (xsg) of 'F2(xgs)' is the lower of two possible options that map to a 'A- (xgs)' Long-Term IDR (xgs) due to UMTB's 'a-' funding & liquidity score.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Subordinated Debt

-The ratings are sensitive to changes in the bank's VR

IDRs (xgs)

-The IDRs (xgs) are sensitive to changes in the bank's VR

VR ADJUSTMENTS

The operating environment score of 'a' is below the 'aa' implied category score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The business profile score of 'a-' is above the 'bbb' implied category score due to the following adjustment reason: market position (positive).

The capitalisation & leverage score of 'a-' is above the 'bbb' implied category score due to the following adjustment reason: leverage and risk weight calculation (positive).

The funding & liquidity score of 'a-' is above the 'bbb' implied category score due to the following adjustment reason: deposit structure (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

UMTB's IDRs and GSR reflect Fitch's expectation of a very high probability of state support from Israel.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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
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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Mizrahi Tefahot Bank Ltd	LT IDR	A 	Rating Watch Maintained	A 
	ST IDR	F1+ 	Rating Watch	F1+ 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
			Maintained	
	Viability	a-	Affirmed	a-
	Government Support	a	Rating Watch Maintained	a
	LT IDR (xgs)	A-(xgs)	Affirmed	A-(xgs)
	ST IDR (xgs)	F2(xgs)	Affirmed	F2(xgs)
	• subordinated	BBB	Affirmed	BBB

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Mizrahi Tefahot Bank Ltd UK Issued, EU Endorsed

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