

**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 4, 2017
www.isa.gov.il	www.tase.co.il		Ref: 2017-01-113496

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

On December 4, 2017, *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*  
Reaffirmation.

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

Date	Rating subject	Rating	Comments/Notice summary
October 24, 2017	Mizrahi Tefahot Bank Ltd.	<i>S&amp;P Maalot ilAAA stable</i>	<i>Other Reaffirmation</i>
September 26, 2017	Mizrahi Tefahot Bank Ltd.	<i>S&amp;P Maalot ilAAA stable</i>	<i>Other Reaffirmation</i>
January 4, 2017	Mizrahi Tefahot Bank Ltd.	<i>S&amp;P Maalot ilAAA stable</i>	<i>Other Reaffirmation</i>
January 21, 2015	Mizrahi Tefahot Bank Ltd.	<i>S&amp;P Maalot ilAAA stable</i>	<i>Other Reaffirmation</i>
December 23, 2014	Mizrahi Tefahot Bank Ltd.	<i>S&amp;P Maalot ilAAA stable</i>	<i>Rating upgrade</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 bonds:

Name and type of security	Security number on the stock exchange	Rating company	Current rating	Comments/Notice summary

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

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

Attached rating report maalot\_041217\_isa.pdf

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

*On December 4, 2017, S&P Maalot reaffirmed the bank's issuer rating, which is at AAA with a stable outlook*

*The above report was signed by Ms. Racheli Friedman, Adv. Chief Legal Advisor*

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      Form structure revision date: November 6, 2017  
on the Tel Aviv Stock Exchange  
Abbreviated Name: Mizrahi Tefahot  
Address: 7 Jabotinsky Street      Tel: 03-7559207      Fax: 03-7559913  
Ramat Gan, 52520, Israel      03-7559720  
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Previous name of the reporting entity: United Mizrahi Bank Ltd.

Name of the person reporting electronically: Friedman Rachel Position: Chief Legal Advisor Name of Employing Company:  
Address: 7 Jabotinsky Street, Ramat Gan, 52520, Israel Tel: 03-7559500 Fax: 03-7559655 E-mail: [rachelifr@umtb.co.il](mailto:rachelifr@umtb.co.il)

**MAALOT**

**S&P Global Rating**

# **Mizrahi Tefahot Bank Ltd**

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**December 4 2017**

## **New Issuance**

### **Grant of an 'ilAA-' Rating to the Issuance of Debentures with a Loss Absorbing Capacity at up to ILS 600 Million N.V.**

**Primary Credit Analyst:**

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## New Issuance

# Grant of an 'ilAA-' Rating to the Issuance of Debentures with a Loss Absorbing Capacity at up to ILS 600 Million N.V.

S&P Maalot hereby announces the grant of an 'ilAA-' rating to Series 47 debentures with a loss absorbing capacity at up to ILS 600 million N.V., which Mizrahi Tefahot Bank Ltd (ilAAA/Stable) will issue by Mizrahi Tefahot Issuing Company Ltd.

In determining the rating of this type of debentures, we implement, among other things, the methodology for rating banks' complex instruments and the methodology to determine regional scale ratings. The rating's starting point is the bank's stand-alone credit profile (SACP), and not the issuer's rating, which also includes state support, as we estimate that these instruments will not receive support from the state. We are removing two rating levels (notches) off the SACP as follows:

- One notch to reflect the contractual subordination of the instrument, compared with the bank's more senior (subordinated) debt.
- One notch to reflect the loss absorbing capacity embedded in the instrument in the form of a principal write-off on the instrument, should any of the trigger events defined in its conditions occur, i.e. formative principal loss absorbency event, when the bank's tier 1 equity ratio falls below 5%, or a formative nonviability event, which is defined as the earliest between a written notice from the Supervisor of Banks to the bank that a write-off of debentures is necessary, since without it the bank would reach the point of nonviability, in the opinion of the Supervision of Banks; or written notice from the Supervisor of Banks to the bank regarding a decision to inject capital from the public sector, or support of equivalent value, without which the bank would reach the point of nonviability, as will be determined by the Supervision of Banks (insolvency).

According to our methodology for determining regional scale ratings, we are removing one notch off the bank's SACP, as determined by the global ratings scale, in order to reflect the insolvency risk. Afterwards, we convert to the regional rating, using the conversion tables. After the conversion to the regional ratings scale, we remove one more notch, in order to reflect the contractual subordination of the instrument, thus reaching the instrument's rating on the regional scale.

An examination of the instrument in light of our complex instrument methodology does not, in our assessment, reveal additional default risks that would justify removing more notches beyond those specified above.

For further details regarding Mizrahi Tefahot Bank Ltd's rating and for additional regulatory requirements, see the rating report dated October 24, 2017. For further details regarding the methodology behind the instrument's rating, please consult the methodology articles list in the aforementioned rating report and the Q&A document "Rating of Complex Bank Instruments – Q&A" (November 29, 2015).

## General details (as of December 4, 2017)

Mizrahi Tefahot Bank Ltd

Mizrahi Tefahot Issuing Company Ltd

### Issuer Rating(s)

Local rating – long term iIAAA/Stable

### Issuance rating(s)

#### Complex subordinated debt

Subordinated capital notes (upper Tier-II capital) A iIA+

Subordinated debentures with loss absorbing capacity Series 47 iIAA-

Subordinated debentures with loss absorbing capacity iIAA-

#### Senior unsecured debt

Series 35, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46 iIAAA

#### Subordinated debt

Subordinated notes 31 iIAA+

### Issuer rating history

Local rating – long term

December 23, 2014 iIAAA/Stable

November 15, 2010 iIAA+/Stable

September 14, 2009 iIAA+/Negative

May 28, 2007 iIAA+/Stable

October 01, 2003 iIAA+

### Additional details

Time of the event's occurrence December 4, 2017 15:36

Time at which the event first became known December 4, 2017 15:36

Rating initiator The rated company

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**STANDARD AND POOR'S**

**MAALOT**

**S&P Global**

## **Mizrahi Tefahot Bank Ltd**

## **Yahav Bank for Government Employees Ltd**

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**October 24, 2017**

**Rating update**

### **Reaffirmation of 'iAAA' Rating for Mizrahi Tefahot Bank and Rating Upgrade for Yahav Bank to 'iAA+'; Stable Rating Outlooks**

**Primary Credit Analyst:**

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## **Contents**

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**Summary**

**Rating Action**

**Main Rating Considerations**

**Rating Outlook**

**Methodology and Related Articles**

## Rating update

### **Reaffirmation of 'ilAAA' Rating for Mizrahi Tefahot Bank and Rating Upgrade for Yahav Bank to 'ilAA+'; Stable Rating Outlooks**

#### **Summary**

- In our assessment, the economic conditions under which the banking sector in Israel operates have improved, and our current estimate is that the economic risk assessment, which is part of our Banking Industry Country Risk Assessment (BICRA), is improving.
- Banks in Israel benefit from operations in a convenient economic environment, which is supported by improvements in a number of economic indicators, such as the continuous growth of the GDP and the GDP per capita and a consistently low unemployment rate.
- Accordingly, we believe that Mizrahi Tefahot Group's credit quality has grown stronger, especially in view of its retail focus.
- We are reaffirming Mizrahi Tefahot Bank's 'ilAAA' rating and upgrading Yahav Bank's issuer rating from 'ilAA' to 'ilAA+'.
- The stable rating outlooks reflect our assessment that both banks' business and financial profiles will remain relatively unchanged in the next 12-24 months, as will Yahav Bank's strategic importance to the Mizrahi Tefahot Group.

#### **Rating Action**

On October 24, 2017, S&P Maalot reaffirmed Mizrahi Tefahot Bank Ltd's 'ilAAA' issuer rating and upgraded the issuer rating of Yahav Bank for Government Employees Ltd from 'ilAA' to 'ilAA+'. Both banks have a stable rating outlook.

#### **Main Rating Considerations**

We are currently seeing a positive trend in the economic risk assessment that constitutes part of BICRA. The positive trend reflects the ongoing growth of the Israeli economy's GDP, ongoing growth of the GDP per capita, which we estimate is at a high level of approx. USD 40,000, and the low unemployment rate at approx. 4.5% anticipated in 2017, which in our assessment strengthens the power of households.

The decline in the business sector's leveraging also supports the positive trend. Moreover, a combination of the Bank of Israel enacting macroeconomic stability tools and government initiatives on the supply side of the housing market has led in the past year to a slowdown both in the increase rate of housing prices and the growth rate of mortgages and real estate loans.

The banking system is highly concentrated, with high entry barriers. The system is appropriately supervised and conservatively financed through local core deposits, mainly from households. These characteristics have helped banks present stable, consistent revenues since 2009, despite the fierce competition over business sector loans from institutional investors and the corporate bond market.



We have reaffirmed Mizrahi Tefahot Bank's issuer rating as 'ilAAA', the highest rating level according to the regional scale. Nonetheless, in view of our positive assessment of the economic environment and conditions under which Israel's banking sector operates, we believe that Mizrahi Tefahot Group's risk assessment has slightly improved. This is because Mizrahi Tefahot, being a bank focused on retail activities, is expected to benefit from positive trend in the Israeli economy, such as GDP per capita growth and a low unemployment rate. In our assessment, a slowdown in the increase rate of housing prices could also bring some stability to the bank's activity environment.

We have upgraded Yahav Bank's rating from 'ilAA' to 'ilAA+' based on the improvement in Mizrahi Tefahot Group's risk assessment, which we estimate strengthens the group's ability to support Yahav Bank, should the need to do so arise. We continue to evaluate Yahav Bank as 'strategically important' to the Mizrahi Tefahot Group, and therefore, the bank's rating is supported to some degree by Mizrahi Tefahot Group's risk assessment, per our group rating methodology. Furthermore, we believe that Yahav Bank – which operates strictly in the retail field – could benefit from improvement in the Israel's market's economic risk.

Likewise, we have raised the rating of Yahav Bank's subordinated debentures with a loss absorbing capacity from 'ilA+' to 'ilAA-'. This is because we estimate that Mizrahi Tefahot Group's support would be spread to supporting these debentures from the bank. Accordingly, the starting point in the instrument's rating is Yahav Bank's issuer rating, which includes some measure of support from the Mizrahi Tefahot Group<sup>1</sup>.

### **Rating Outlook**

Mizrahi Tefahot Bank's stable outlook reflects our assessment that the bank's business and financial profiles will remain relatively unchanged in the next 12-24 months. We will consider a negative rating action in the event that the positive economic trend is reversed, e.g. due to a renewed imbalance in the housing market.

Yahav Bank's stable outlook reflects our assessment that the bank's business and financial profiles will remain relatively unchanged in the next 12-24 months, as will the bank's strategic importance in the Mizrahi Tefahot Group. We may downgrade Yahav Bank's rating if we downgrade Mizrahi Tefahot Bank's rating, or if we estimate that the bank's strategic importance to the group has lessened. However, we are attributing a low likelihood to this scenario within the outlook's range. We will consider a positive rating action if we see further improvement in Mizrahi Tefahot Bank's risk assessment, or if Yahav Bank's strategic importance to the group will grow.

For further details regarding Mizrahi Tefahot Bank Ltd's rating and for additional regulatory requirements, see the rating report dated January 4, 2017.

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<sup>1</sup> This approach is different compared to the approach to rating similar instruments from other banks that we rate in Israel, where the instrument's rating does not account for external support, which in these cases means state support, since in our hybrid instrument rating methodology, we estimate that these instruments will not receive state support. In these cases, the starting point for rating subordinated debentures with a loss absorbing capacity is the bank's SACP, rather than the issuer rating.

For further details regarding Yahav Bank for Government Employees Ltd's rating and for additional regulatory requirements, see the rating report dated May 23, 2017.

### **Methodology and Related Articles**

- Use Of CreditWatch And Outlooks; September 14, 2009
- Bank Rating Methodology; November 9, 2011
- Banking Industry Country Risk Assessment Methodology and Assumptions; November 9, 2011
- Quantitative Metrics for Rating Banks Globally: Methodology and Assumptions; July 17, 2013
- Methodology: Timelines of Payments: Grace Periods, Guarantees, And Use of 'D' and 'SD' Ratings; October 24, 2013
- Group Rating Methodology; November 19, 2013
- National And Regional Scale Credit Ratings; September 22, 2014
- Bank Hybrid Capital and Nondeferrable Subordinated Debt Methodology and Assumptions; January 29, 2015
- Methodology For Linking Long-Term and Short-Term Ratings; April 7, 2017
- Risk-Adjusted Capital Framework Methodology; July 20, 2017
- S&P Global Ratings' National And Regional Scale Mapping Tables; August 14, 2017
- S&P Global Ratings Definitions; June 26, 2017
- Mapping Table – The Connection Between The Global Rating Scale And The Israeli Rating Scale; January 25, 2016

**General details (as of October 24, 2017)**

**Mizrahi Tefahot Bank Ltd**

**Issuer rating(s)**

Local rating – long term ilAAA/Stable

**Issuance rating(s)**

Complex subordinated debt

Subordinated capital notes (Upper Tier 2 Capital) A ilA+

Subordinated debentures with loss absorbing capacity ilAA-

Senior unsecured debt

Series 35, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46 ilAAA

Subordinated debt

Subordinated debentures 31 ilAA+

**Issuer rating history**

Local rating – long term

December 23, 2014 ilAAA/Stable

November 15, 2010 ilAA+/Stable

September 14, 2009 ilAA+/Negative

May 28, 2007 ilAA+/Stable

October 1, 2003 ilAA+

**Yahav Bank for Government Employees Ltd**

**Issuer rating(s)**

Local rating – long term ilAA+/Stable

**Issuance rating(s)**

Complex subordinated debt

Subordinated debentures with loss absorbing capacity to be repaid in the year 2026 ilAA-

Subordinated debentures with loss absorbing capacity to be repaid in the year 2027 ilAA-

**Issuer rating history**

Local rating – long term

October 24, 2017 ilAA+/Stable

May 29, 2016 ilAA/Stable

**Additional details**

Time at which the event occurred October 24, 2017  
15:36

Time at which the event first came into knowledge October 24, 2017  
15:36

Rating initiator The rated company

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