

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: June 6, 2019
	www.isa.gov.il		www.tase.co.il		Ref: 2019-01-056524

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

On June 6th, 2019, *Midroog* published:

A rating report/notice *initial*

A notice regarding rating cessation

1. Rating report or notice

Corporation's rating: *iAAA*

Comments/Notice summary:

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

Date	Rating subject	Rating	Comments/Notice summary

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>Bonds (Series 49)</i>	0	Midroog	Midroog <i>stable Aaa.il</i>	Initial rating
<i>Deferred bonds (Series 50)</i>	0	Midroog	Midroog <i>stable Aa3.il</i>	Initial rating

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

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

Attached rating report Midrug_06062019_isa.pdf

2. On _____, _____ announced that it would cease rating _____

Midroog's rating was given in connection with the issuance of bonds (Series 49) and deferred bonds (Series 50), which is being examined by Mizrahi Tefahot Issuing Company Ltd, a subsidiary fully owned by the bank. It is hereby clarified that at the time of this report, there is no certainty regarding the execution of the issuance, its timing, its size and its conditions.

No change has been made to the bank's rating.

The above report was signed by Ms. Maya Feller, Bank Secretary

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

Securities of a Corporation Listed for Trading Form structure revision date: April 30, 2019
on the Tel Aviv Stock Exchange
Abbreviated Name: Mizrahi Tefahot
Address: 7 Jabotinsky Street Tel: 03-7559720 Fax: 03-7559923
Ramat Gan, 52520, Israel
E-mail: mangment@umtb.co.il

Previous name of the reporting entity: United Mizrahi Bank Ltd.

Name of the person reporting electronically: Feller Maya Position: Bank Secretary Name of
Employing Company:
Address: 7 Jabotinsky Street, Ramat Gan, 52520, Israel Tel: 03-7559720 Fax: 03-7559923 E-mail:
mangment@umtb.co.il

Platinum Tower, 21 Ha'Arba'a Street
Tel Aviv 6473921
Tel: 03-6844700, Fax: 03-6855002
www.midroog.co.il

Mizrahi Tefahot Bank Ltd

Rating Action | June 2019

Contacts:

Omer Foremberg
Team Leader, Chief Rating Evaluator
omer@midroog.co.il

Avi Benoon , Deputy CEO
Head of Financial Institutions
avib@midroog.co.il

Mizrahi Tefahot Bank Ltd

Baseline credit assessment (BCA) for the bank	aa2.il	
Long-term deposits/Bonds	Aaa.il	Outlook: stable
Deferred bonds with contractual loss absorption capacity (CoCo)	Aa3.il (hyb)	Outlook: stable

Midroog announces an Aaa.il rating for the raising of bonds (Series 49 – senior debt) at up to ILS 1,500 million in nominal value; and an Aa3.il(hyb) rating to the raising of deferred bonds with a contractual loss absorption mechanism (“CoCo”) (Series 50) at up to ILS 250 million N.V., with a stable outlook. The bonds and the deferred bonds will be issued by Mizrahi Tefahot Issuing Company Ltd (“Mizrahi Issuing”), a subsidiary fully owned by Mizrahi Tefahot Bank Ltd (the “Bank”), which is the Bank’s issuing arm.

The principal conditions of the rated deferred bonds (Series 50): 1. They are to be paid off by a single installment after 10.5 years, with an early payment option available to the Bank after 5.5 years; 2. They constitute an instrument which is recognized by the Supervision of Banks as tier II capital, for the purpose of their inclusion in the Bank’s regulatory capital; 3. They are subordinated to all other liabilities not of their type, excluding upper tier 2 capital, tier 1 instruments and equity; 4. They are up for complete or partial write-off in the event that the Bank’s tier I equity ratio falls below 5%, and a full write-off if the Supervisor of Banks decides that a formative nonviability¹ event is occurring. In the event of a principal write-off, there is the possibility of cancelling the principal’s complete or partial write-off, at the Bank’s discretion, for a period of up to 7 years after the write-off, whether the final payment date of the deferred bond has passed or not.

Per Midroog’s methodology, the CoCo rating is based on the Bank’s baseline credit assessment (BCA), which is the anchor for rating the Bank’s liabilities and reflects both the risk failure and its ability to serve its liabilities independently, without the assumption of external support. The rating is then adjusted according to the credit risk of the subordinated debt instrument, according to its specific characteristics – taking into consideration the extent of the instrument’s structural subordination, the loss absorption mechanisms per the instrument’s conditions and the uncertainty regarding their point of activation (at the contractual trigger or at the discretion of the Supervisor

¹ Formative nonviability event: 1. Notices from Supervisor of Banks that a write-off of debentures is necessary to avoid the point of nonviability. 2. The grant of external support, without which the bank could reach the point of nonviability. We note that the Supervisor of Banks has yet to define the term “nonviability point”.

of Banks). We are removing one rating level (notch) off the Bank's BCA , which embodies the legal-contractual deferral and the contractual loss absorption mechanism.

Considering the Bank’s BCA, the current and anticipated capital adequacy levels and the adequate liquidity profile, the uncertainty regarding the likelihood of reaching the ‘nonviability point’ is low; therefore, it was not embodied by the reduction of another notch. Furthermore, this instrument contains no assumption of external support.

For information regarding the rating considerations, see the follow-up report from September 2018.

Related Reports

Mizrahi Tefahot Bank Ltd – Related Reports

Methodology for Rating Banks – Methodology Report, March 2019

Connections and Holdings Table

Midroog Rating Scales and Definitions

Reports (in Hebrew) are published on Midroog's website: www.midroog.co.il

General Information

Rating report date:	June 6, 2019
Last date on which rating was updated:	October 17, 2018
Date on which rating was first published:	September 10, 2017
Name of the rating initiator:	Mizrahi Tefahot Bank Ltd
Name of the party paying for the report:	Mizrahi Tefahot Bank Ltd

Information from the Issuer

In its ratings, Midroog relies, inter alia, on information received from authorized parties at the issuer.

Baseline Credit Assessment (BCA) Scale

aaa.il	Issuers and issues assessed at aaa.il are those that, in Midroog's judgment, have the highest internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government.
aa.il	Issuers and issues assessed at aa.il are those that, in Midroog's judgment, have very high internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government.
a.il	Issuers and issues assessed at a.il are those that, in Midroog's judgment, have relatively high internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government.
baa.il	Issuers and issues assessed at baa.il are those that, in Midroog's judgment, have moderate internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government, and may have certain speculative characteristics.
ba.il	Issuers and issues assessed at ba.il are those that, in Midroog's judgment, have relatively weak internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government, and have speculative characteristics.
b.il	Issuers and issues assessed at b.il are those that, in Midroog's judgment, have very weak internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government, and have significant speculative characteristics.
caa.il	Issuers and issues assessed at caa.il are those that, in Midroog's judgment, have excessively weak internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government, and have very significant speculative characteristics.
ca.il	Issuers and issues assessed at ca.il are those that, in Midroog's judgment, have extremely weak internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government, and are very near default, with some prospect of recovery of principal and interest.
c.il	Issuers and issues assessed at c.il are those that, in Midroog's judgment, have the weakest internal or independent financial strength, relative to other local issuers, absent any possibility of external support from an affiliate or the government, and are usually in default, with little prospects of recovery of principal and interest.

Midroog

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 debenture 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 debenture ranks in the lower end of that category, denoted by letters.

Local Long-Term Rating Scale

Aaa.il	Issuers or issues rated Aaa.il are those that, in Midroog's judgment, have the highest creditworthiness relative to other local issuers.
Aa.il	Issuers or issues rated Aa.il are those that, in Midroog's judgment, have very high creditworthiness relative to other local issuers.
A.il	Issuers or issues rated A.il are those that, in Midroog's judgment, have relatively high creditworthiness relative to other local issuers.
Baa.il	Issuers or issues rated Baa.il are those that, in Midroog's 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's 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's 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's judgment, have excessively 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's 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's judgment, have the weakest creditworthiness and are usually in a situation of default, with little prospect of recovery of principal and interest.

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 debenture 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 debenture ranks in the lower end of that category, denoted by letters.

Midroog

[Midroog disclaimer]