

**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 20, 2019
	www.isa.gov.il		www.tase.co.il		Ref: 2019-01-061465

**Supplemental report to the report submitted on June 6, 2019 with reference number 2019-01-056524**

Main details added/supplemented: *Update of the initial rating report: update of the issuance sum from ILS 1.5 billion and ILS 250 million to ILS 3 billion and ILS 700 million for bonds and deferred bonds, respectively.*

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

On June 6<sup>th</sup>, 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: update report on rating action for customer- Mizrahi Bank 19062019 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):

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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](mailto: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:  
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# **Mizrahi Tefahot Bank Ltd**

## **Rating Action Update | June 2019**

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## 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

**Pursuant to the rating action report from June 6<sup>th</sup>, 2019, Midroog determines an Aaa.il rating with a stable outlook for bonds (Series 49) at up to ILS 3,000 million in nominal value, in lieu of the ILS 1,500 million total previously rated; furthermore, Midroog determines an Aa3.il(hyb) rating with a stable outlook for deferred bonds with a contractual loss absorption mechanism (hereinafter: “CoCo”) (Series 50) at up to ILS 700 million N.V., in lieu of the ILS 250 million sum previously rated.**

**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 nonviability<sup>1</sup> 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**

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<sup>1</sup> 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”.

**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 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](http://www.midroog.co.il)

## General Information

<b>Rating report date:</b>	June 19, 2019
<b>Last date on which rating was updated:</b>	June 6, 2019
<b>Date on which rating was first published:</b>	September 10, 2017
<b>Name of the rating initiator:</b>	Mizrahi Tefahot Bank Ltd
<b>Name of the party paying for the report:</b>	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.

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