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.

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MIZRAHI TEFAHOT BANK LTD

No. with the Registrar of Companies: 520000522

To	Israel Securities Authority	To	Tel Aviv Stock Exchange Ltd	T125 (Public)	Date of transmission: September 10, 2020
	www.isa.gov.il		www.tase.co.il		Ref: 2020-01-090841

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

On September 10, 2020, *Midroog* published:

⦿A rating report/notice *updated*

○A notice regarding rating cessation

1. Rating report or notice

☑ Corporation's rating: *Midroog Aaa.il 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
August 1 2019	*Mizrahi Tefahot Bank Ltd*	*Midroog Aaa.il stable*	*Other Reaffirmation*

September 6 2018	*Mizrahi Tefahot Bank Ltd*	*Midroog Aaa.il stable*	*Other Reaffirmation*
December 14 2017	*Mizrahi Tefahot Bank Ltd*	*Midroog Aaa.il stable*	*Other Reaffirmation*
September 10 2017	*Mizrahi Tefahot Bank Ltd*	*Midroog Aaa.il stable*	*Other Initial rating*

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
Contingent convertible bonds	0	Midroog	Midroog *Aa3.il stable*	Rating affirmation
Deferred capital notes	6950083	Midroog	Midroog *Aa2.il stable*	Rating affirmation

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
Contingent convertible bonds	0	*August 1 2019*	*Contingent convertible bonds (CoCo)*	*Midroog Aa3.il stable*	Rating affirmation
Series A Deferred Capital Notes	6950083	*August 1 2019*	*Deferred capital notes*	*Midroog Aa2.il stable*	Rating affirmation

Contingent convertible bonds	0	*September 6 2018*	*Contingent convertible bonds (CoCo)*	*Midroog Aa3.il stable*	Rating affirmation
Series A Deferred Capital Notes	6950083	*September 6 2018*	*Deferred capital notes*	*Midroog Aa2.il stable*	Rating affirmation
Contingent convertible bonds	0	*December 14 2017*	*Contingent convertible bonds (CoCo)*	*Midroog Aa3.il stable*	Rating affirmation
Series A Deferred Capital Notes	6950083	*December 14 2017*	*Deferred capital notes*	*Midroog Aa2.il stable*	Rating affirmation
Contingent convertible bonds	0	*September 10 2017*	*Contingent convertible bonds (CoCo)*	*Midroog Aa3.il stable*	Initial rating
Series A Deferred Capital Notes	6950083	*September 10 2017*	*Deferred capital notes*	*Midroog Aa2.il stable*	Initial rating

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

Attached rating report annualfollowupreportmizrahitefahotbank10092020_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	*Ofer Horwitz*	*Other* *Bank Secretary & Head of the Bank's Headquarters*

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):

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

Form structure revision date: August 4, 2020

Abbreviated Name: Mizrahi Tefahot

Address: 7 Jabotinsky Street, Ramat Gan, 52520 Tel:03-7559720 Fax:03-7559923

E-mail: mangment@umtb.co.il Company website: https://www.mizrahi-tefahot.co.il

Previous name of the reporting entity: United Mizrahi Bank Ltd

Name of the person reporting electronically: Horwitz Ofer Position: Bank Secretary Name of Employing Company: Mizrahi Tefahot Bank Ltd

Address: 7 Jabotinsky Street, Ramat Gan, 52520 Tel: 03-7559207 Fax: 03-7559913 E-mail: management@umtb.co.il

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Mizrahi Tefahot Bank Ltd

Follow-Up | September 2020

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Baseline credit assessment (BCA) for the bank	aa2.il	
Long-term deposits & bonds	Aaa.il	Outlook: stable
Deferred capital notes (upper tier 2 capital)	Aa2.il (hyb)	Outlook: stable
Contingent convertible bonds with contractual loss absorption (CoCo)	Aa3.il (hyb)	Outlook: stable
Short-term deposits	P-1.il	

Midroog is maintaining the baseline credit assessment (BCA) of Mizrahi Tefahot Bank Ltd (the "Bank") at aa2.il. The BCA's direction of development is stable.
The ratings of the Bank's long-term deposits and senior debt has remained Aaa.il with a stable outlook, and they continue to embody the assumption of a high external support from the state, at two rating levels (notches) relative to the BCA.
The ratings of the Bank's subordinated and hybrid debts have remained unchanged, as follows: Aa2.il (hyb) with a stable outlook for deferred capital notes (upper tier 2 capital). This rating reflects the structural subordination of these debts relative to the Bank's senior debt, the seniority scale among the subordinated debts themselves, the impact of the loss-absorption mechanisms embodied therein and the assumption of state support.
The rating of the contingent convertible bonds with contractual loss absorption (CoCo[1]) through a write-off or partial write-off (classified as tier 2 capital) has remained Aa3.il (hyb) with a stable outlook. This rating is one notch lower than the BCA and three notches below the senior debt and reflects the instrument's conditions, including the structural subordination and loss-absorption mechanisms of this instrument and without an assumption of external support.
Midroog is likewise determining a P-1.il rating for short-term deposits.

[1] Contingent convertible.

The main considerations behind the baseline credit assessment (BCA) and the Bank's ratings

The Bank's baseline credit assessment (BCA) is supported by its good positioning in the local banking system, which is based on a strong brand name, a significant market share and leadership in the housing credit sector, alongside a broad, dispersed customer base, which support the Bank's good profitability, despite the concentration of the income sources.The Bank is a universal bank, providing its customers with a variety of banking and financial services. The Bank is characterized by a conservative risk management policy which supports the Bank's risk profile, as reflected also by the credit quality indicators, which are outstanding relative to the BCA and the comparison group[2] over time. The Bank is characterized by a sectorial credit concentration relative to the capital buffer, which is high relative to the BCA (on par with the system), which weighs down the Bank's risk profile. The Bank's profitability rates have been improving in recent years, in view of the high asset quality and outstanding operational efficiency over time, and improvement in the Bank's financial margins as a result of the implementation of its strategic plan. However, the Bank has profitability indicators which are still reasonable relative to the BCA.

We are of the opinion that in view of the developments stemming from the economic crisis, the banking system's credit risk has increased, in light of the uncertainty regarding a successful eradication of the coronavirus' spread, the policy measures being taken in the local economy and the short-medium term economic consequences, which manifest through a substantial growth of the unemployment rate, wage erosion and damage to the liquidity of households and businesses. We estimate that household resilience has eroded, in particular for those that have large liabilities relative to their income from the period before the outbreak of the coronavirus, in consequence of the household leveraging trend that had characterized recent years. This growth of the credit risk is reflected by a rise in the rate of debts that are impaired or in arrears for 90 days or more in the Bank's credit portfolio. Under the guidelines created by the Supervisor of Banks[3] in favor of supporting households and businesses' ability to endure the crisis, the total sum of deferred loan payments (principal and interest) amounted to approx. ILS 41 billion, as of June 30, 2020; and ILS 25 billion (approx. 89% of which was from the housing credit sector) as of August 10, 2020. According to the Bank's data, no further deferment was requested for 60% of the loan balance, the payment date of which fell on August; and the customers resumed paying after the month of August.

[2] The four major banks in the system.

[3] On July 13, 2020, the Banking Supervision announced a further extension of the previous guidelines (from March 2020) and its expansion.

The Bank increased its provision buffer (especially due to a growth in group provision), *inter alia*, also against this increase in risk, as reflected in the growth of the credit loss expenses rate from the Bank's total credit portfolio in the first half of 2020, which was 0.58% (annual gross-up) compared with 0.18% in 2019. In the base scenario for the years 2020-2021, Midroog anticipates that the Bank's profitability indicators - the core yield on risk weighted assets and the return on assets – will erode and be in the range between 1.6%-1.8% and 0.4%-0.5%, respectively, in light of our assessment that the sharp uptrend in credit loss expenses that had occurred during the first half of 2020 will become more moderate in the next two years.

The central assumptions regarding the Bank's profitability, upon which Midroog's baseline scenario for 2020-2021 relies, are as follows: (1) A growth of 3.5%-4.5% *per annum* in the credit portfolio, especially in the housing loans sector, and a utilization of the potential of the Bank's existing customer base in the retail sector, alongside high competition over the business sector; (2) Low interest and inflation environments, which will weigh down the financial margin; (3) A continued focus on business-commercial credit, which is characterized by an overabundant margin; (4) A credit loss expenditure rate of 0.40%-0.50% due to the consequences of the economic crisis; and (5) A continued "creeping" of wage expenses per the Bank's wage agreements and an increase in the number of employees and branches alongside an offsetting effect caused by early retirement.

We are of the opinion the Bank's sufficient buffer above the regulatory capital target established by the Bank of Israel, in light of the decrease of capital requirements from Bank by the Banking Supervision in March 2020 will support adequate business flexibility during the crisis. However, we estimate that the buffer relative to the Bank's regulatory barrier will return to its level after the end of the aforesaid temporary ordinance[4], and be low relative to the system, as part of the Bank's capital management strategy, which may, from time to time, limit the Bank's business flexibility.

[4] For the purpose of increasing credit to households and the business sector, the Banking Supervision, like other supervisors around the world, announced the reduction of capital requirements from the banks by one percentage point, so that the minimum Tier 1 capital ratio will be 9% at the major banks (vs. approx. 10%) and approx. 8% at medium and small banks (vs. approx. 9%), in effect for six months (and to be extended by a further six months, if deemed necessary). On September 2, 2020, the Supervisor of Banks published a draft that included an update of the temporary ordinance's extent to March 31, 2020.

Midroog anticipates that the capital buffer will continue to be constructed and the capital adequacy ratios will marginally improve in the forecast range, so that the capital adequacy ratio will be in the range between 10.1%-10.2% in the base scenario, as a result of the following factors: (1) Accrued profits; (2) Dividend distribution to the extent of 40% from the net quarterly profit, depending upon the extent of the Supervisor of Banks' temporary ordinance; and (3) A growth in risk weighted assets similar to the credit portfolio's increase rate. We note that relative to Midroog's extreme scenarios, the Bank's capital buffer absorbs unexpected losses appropriately and supports the Bank's stability and its ability to withstand the economic crisis.

The Bank's liquidity profile is appropriate and supported by a comfortable, wide and dispersed source structure, based on stable (retail) deposits and a substantial inventory of low-risk liquid assets. All the same, the liquidity profile might be affected by a relatively high wholesale deposits component, which in our assessment is less stable throughout the cycle. The liquidity coverage ratio (LCR) is significantly higher the regulatory benchmark (100%), which supports business flexibility.

In August 2020, the Bank reported a purchase offer agreement by way of an exchange purchase offer with the shareholders of Union Bank of Israel Ltd (hereinafter: "**Union Bank**"). We are of the opinion that the probability of the realization of Mizrahi Tefahot's purchase of Union Bank and its merging into the Bank in the coming months is high. Insofar as the transaction is completed, Midroog is of the opinion that the merger is not likely to have a material effect on the Bank's financial profile, despite our assessment of a change in the Bank's segment mix, which would be affected by the mix of Union Bank's credit portfolio and the risk characteristics deriving from this mix, as well as the consequences of the corona crisis. Midroog estimates that the purchased operations are in line with the Bank's development strategy to expand its business-commercial activities, alongside a synergy option with the merged bank. However, the merging of Union Bank is not expected, in Midroog's assessment, to change Mizrahi Tefahot's rating in the near future; and the impact of the merger on the Bank's credit risk will need to be examined over time. Likewise, the merger's consequences for the Bank have not been taken into account in Midroog's base scenario.

The ratings of the long-term deposits and senior debt were set at two rating levels (notches) above the BCA, embodying our assumption of high external support from the state. The rating of the Bank's subordinated debt which is not eligible for Basel III likewise reflects an assumption of high support from the state. The rating of subordinated debts which are eligible for Basel III (CoCo) will not, in our assessment, benefit from state support, and will bear losses if necessary.

The rating of the Bank's contingent convertible bonds with contractual loss absorption (CoCo) via write-off or partial write-off is one notch lower relative to the BCA and three notches lower than the senior debt, embodying the instrument's conditions, including the contractual subordination and this instrument's loss absorption mechanisms and without the assumption of state support.

BCA development direction and rating forecast

The stable development direction of the BCA and the stable outlook for the Bank's ratings reflect Midroog's assessment that the Bank will maintain an adequate financial profile in the forecast years, despite the anticipated pressure on the risk indicators of the credit portfolio and on profitability, due to the economic crisis in the local economy. It should be noted that at this stage, there is uncertainty regarding the length of the corona crisis and its strength, and hence the consequences that may be expected for the economic environment and for the Bank in particular. Midroog will continue to follow the development of the corona crisis and its consequences for the economy, and particularly for the Bank's financial profile.

Factors that could lead to raising the baseline credit assessment and the Bank's ratings:

- A significant improvement in the dispersion of the activity mix
- A significant improvement in profitability and its stability over time

Factors that could lead to lowering the baseline credit assessment and the Bank's ratings:

- Substantial damage to the Bank's business status
- A significant worsening of the credit portfolio's quality
- An erosion of the capital buffer, profitability and the stability thereof

Mizrahi Tefahot Bank Ltd, financial data and main ratios, in millions (ILS) and in percentages:

₪ Million	June 30 2020	2019	2018	2017	2016	2015
Loans to the public	216,538	206,401	195,956	182,602	172,779	160,604
Deposits from the public	231,784	210,984	199,492	183,573	178,252	162,380
Total equity attributed to the shareholders	16,653	16,033	14,681	13,685	12,714	11,847
Total assets	291,560	273,244	257,873	239,572	230,455	209,158
Revenue before taxes and credit loss expenses	1,771	3,318	2,505	2,389	2,341	2,166
Net profit attributed to the Bank’s shareholders	717	1,842	1,206	1,347	1,266	1,134
(%)						
Exposure to largest industry to tier 1 shareholders' capital	120%	118%	126%	113%	104%	105%
Exposure to major borrowers to tier 1 shareholders' capital [1]	NA	2%	0%	0%	0%	0%
Problem debts from gross loans to the public	1.9%	1.9%	1.5%	1.4%	1.4%	1.4%
Problem debts to total shareholders' capital and provision for credit losses	20.8%	21.0%	17.5%	16.0%	16.9%	16.0%
Gross credit loss expenditure to average loan to the public [2]	0.6%	0.2%	0.2%	0.1%	0.1%	0.1%
Net profit to asset average [2]	0.5%	0.7%	0.5%	0.6%	0.6%	0.6%
Revenue before taxes and credit loss expenses to risk weighted asset average [2]	2.1%	2.1%	1.7%	1.8%	1.8%	1.7%
Efficiency ratio	52.6%	54.6%	63.6%	60.2%	58.5%	59.8%
Tier 1 capital adequacy	10.0%	10.1%	10.0%	10.2%	10.1%	9.5%
Total shareholders' capital to asset total	6.0%	6.2%	6.0%	6.0%	5.8%	5.9%
Less stable finance resources [3] to asset total	15.0%	19.0%	16.5%	17.1%	16.3%	17.8%
Liquidity balances [4] to deposits from the public	30%	29%	28%	28%	29%	26%

[1] Total balance sheet credit over 5% of the Bank's shareholders' capital; [2] Calculated on an annual basis; [3] Financial institutions' deposits (wholesale), bonds and bonds deferred by up to one year and deposits from banks; [4] Cash and deposits at banks, US and Israel government bonds and assets backed by the US government

Details of the key considerations in the Bank's baseline credit assessment

A favorable business profile which supports the Bank's income generation capability throughout the cycle due to the substantial weight of retail income, but with a bias to the housing loans sector

Over time, Mizrahi Tefahot Bank is the leading banking group by size in the housing loan sector, with a market share of approx. 35% of all credit; and the third largest in the local economy, with a market share of approx. 16.2% of all assets in the system, as of June 30, 2020. The business profile, as is the case with the rest of the major banks, is supported by it being a universal bank, which provides a wide range of financial and banking services, leaning on a broad and dispersed customer base alongside a comprehensive value proposition that appeals to a variety of public tastes. The Bank is characterized by a strong brand in the housing credit sector, which in our assessment constitutes a platform to achieve growth in market shares, the retail customer base and as a derivative in the income base, which support the establishment of its position as a leader in the retail field. Unlike its primary competitors, the Bank is implementing a strategy of branch expansions and a hybrid operation model, which provide the Bank's customers with a personal, human banking service alongside a direct banking service. All of these support the value proposition to the Bank's customers, and contribute, in our assessment, to the Bank's growth potential and profitability, as well as its ability to cope with changes in the business environment. However, we are of the opinion that in light of the changes in the banking industry's operation environment, particularly in view of the restrictions on movement resulting from the eradication policy against the spread of the coronavirus, customer needs for a fast, flexible and digital have increased; and banks which will not adopt technological innovation, nor adjust their business model over time, may experience a substantial erosion of the business position in the medium-long term.

The stability of the Bank's revenues, as assessed by Midroog, is outstandingly positive relative to the BCA and positively affected by its focus on mortgage credit. Thus, the weight of the Bank's retail revenues[5] is significant, constituting approx. 89% on average between 2017 and 2019 – outstandingly positive relative to the comparison group and contributing to the revenue generation ability even throughout the economic crisis period.

[5] Gross revenues from interest and non-interest revenues in accordance with the supervisory operation segments, and including the household and private banking (including housing) segments, as well as small and micro businesses.

However, the Bank is characterized by a low rate of commission revenues (approx. 21% in 2019) - which we have characterized as stable throughout the cycle - which is on a decline trend (approx. 21.4% in 2018 and approx. 23.7% in 2017), and low relative to the comparison group (approx. 27.4% on average in 2019), which hinders the stability of the Bank's revenues.

The dispersion of the Bank's sources of income is limited, in our assessment, and stands on two primary legs[6] over time, as reflected by the revenue mix in 2019, which included approx. 59% of the housing loans sector, approx. 20% from small and micro businesses and approx. 11% from the households and private banking sector. It should be noted that the Bank implements a strategy which is supportive of income source dispersal through increasing focus on the business-commercial sector, particularly in the small and micro businesses sector and the medium business sector. Thus, the growth rate in these sectors reached approx. 12%, on average, between 2017 and 2019, vs. a growth rate of approx. 5.7% in the housing credit portfolio during that period. In our assessment, the dispersion of the Bank's revenues may improve somewhat within the forecast's range, in view of the implementation of the strategic plan alongside maintaining its business positioning in the mortgage sector, while the weight of housing credit revenues will remain substantial within the credit portfolio. We are of the opinion that the changes in the business environment, along with the implementation of the Credit Data Law, will provide an opportunity to grow the Bank's customer base; but this will occur in parallel to an increase in the level of (banking and non-banking) competition, in our assessment, in the range of the next two years.

In August 2020, the Bank reported on the purchase offer agreement by way of an exchange purchase offer of the Bank with Union Bank's shareholders. We are of the opinion that there is a high probability that the purchase transaction of Union Bank by Mizrahi Tefahot, and its merger into the Bank, will be executed in the coming months. Insofar as the transaction is completed, Midroog is of the opinion that the merger is not likely to materially affect the Bank's financial profile, despite our assessment of an anticipated change in the Bank's segment mix, which would be affected by the mix of Union Bank's credit portfolio and the risk characteristics derived from this mix, as well as the consequences of the corona crisis. Midroog estimates that the purchased activities are in line with the Bank's development strategy to expand business-commercial operations, alongside the possibility of synergy with the merged bank. However, the merger with Union Bank is not expected to lead to a change in Mizrahi Tefahot's rating in the near term, according to Midroog's assessment; and the impact of the merger on the Bank's credit risk will need to be examined over time.

[6] A segment of operations which constitutes over 15% of net revenues (interest and non-interest revenues from outsiders).

Likewise, the merger’s consequences for the Bank were not taken into account in Midroog’s base scenario.

The risk management policy supports the Bank’s risk profile; on the other hand, the industry concentration relative to the capital buffer is still relatively high

The Bank's risk management system is encompassing and includes a number of anchors and control circles, which support the formulation of risk management policies, in determining the Bank's risk appetite (in consistence with its strategy) and in monitoring and controlling risks. Credit risks are managed using statistical rating models (consumer credit) and expert evaluations (business credit). In our assessment, the Bank takes a conservative credit policy in the housing credit segment, which includes relatively strict restrictions on the business credit portfolio, underwriting processes, monitoring and management of collaterals, while this policy is also expressed by good risk indicators relative to the credit portfolio, that support the BCA. The Bank has no exposure over time to large borrowers, who constitute over 5% of the Bank’s tier 1 shareholders’ capital (over ILS 826 million), which constituted 2% on December 31, 2019 (approx. 32% on average in the comparison group on that date). On the other hand, the Bank is characterized by a high industry credit concentration relative to the BCA, as measured in relation to the capital buffer, which weighs down the Bank’s risk profile. Thus, the largest industry out of the Bank’s tier 1 shareholders’ capital is the real estate and construction industry, which constituted 120% on June 30, 2020, but which is low relative to the comparison group (approx. 162%) and relatively stable over the years (approx. 119% between 2017 and 2019).

The Bank's market risks are estimated by the VaR model under conservative assumptions, similar to the entire banking system, and as a complementary action to the risk assessment, a number of stress scenarios (including holistic scenarios) at varying degrees of severity are examined. In Midroog’s assessment, the Bank's market risk appetite is adequate, as reflected in the VaR limit of the Bank’s total activity to a one-month investment prospect, which does not exceed 9% of the shareholders’ capital according to the data available on December 31, 2019, which is reasonable but high relative to the other major banks.

The credit risk indicators are expected to be pressured by the economic crisis; however, the quality of the credit portfolio is still outstanding relative to the rating and the comparison group

The Bank is characterized by a high-quality credit portfolio, which supports its future profitability, as reflected in the risk indicators which are outstanding relative to the BCA and the system; and maintains a reasonable buffer for absorbing anticipated losses (provision for credit losses) relative to the impaired debts and debts in arrears for over 90 days, which supports the performance of the portfolio even against the background of an economic crisis. Thus, on June 30, 2020, the proportion of impaired debts relative to the credit to the public amounted to an outstanding rate of approx. 1.9% (vs. approx. 1.6% on average between 2017 and 2019), compared with a rate of approx. 2.5% in the comparison group on that date. On the other hand, on June 30, 2020, the Bank's coverage ratio[7] amounted to approx. 70% (vs. approx. 68% on average between 2017 and 2019) - a rate which is low relative to the comparison group on that date (approx. 120%).

We are of the opinion that the Bank's exposure to the mortgage and real estate industries is relatively high and amounts in aggregate at approx. 70% of the Bank's liabilities[8] on June 30, 2020, while the comparison group had a much lower exposure rate of approx. 42% on that date. Exposure to the real estate industry alone (without mortgages) in Israel – which is characterized by a relatively high level of risk, in view of homogeneous characteristics and due to high exposure relative to the capital absorption buffer, constitutes approx. 8.2% of the Bank's total liabilities (approx. 9.0% including credit to foreign operations) and substantially low relative to the comparison group. The exposure to the mortgage portfolio constitutes approx. 62% for that date, and it is characterized by the Bank's conservative underwriting processes, as reflected in the maintenance of a high repayment capability, which supports a low probability of failure. Thus, the average LTV rate in the Bank's housing loans portfolio amounted to approx. 53% on June 30, 2020 (a rate reflecting the LTV when the credit was granted), with the share of the loans that had a relatively high leveraging rate (an LTV rate of over 75% of the total housing credit) being low and amounting to 1.8% of the portfolio for that period. In addition, the average repayment rate from disposable income in the housing credit portfolio[9] amounted to approx. 25.7% on June 30, 2020 – likewise a low rate, reflecting a relatively low level of risk.

[7] The provision balance to the total of impaired debts and debts in arrears for over 90 days.
[8] Credit to the public, credit to governments, bank deposits and other debts, except for borrowed securities and bonds.
[9] Payments to income.

This ratio is a key variable in assessing a borrower's probability of insolvency, as even if income was to decline by 20%, the average repayment rate should not exceed the maximum rate set in the Banking Supervision's directive (50%), a rate which represents a high level of risk[10].

We are of the opinion that in view of the developments stemming from the economic crisis, the banking system's credit risk has increased, in light of the uncertainty regarding a successful eradication of the coronavirus' spread, the policy measures being taken in the local economy and the short-medium term economic consequences, which manifest through a substantial growth of the unemployment rate, wage erosion and damage to the liquidity of households and businesses. We estimate that household resilience has eroded, in particular for those that have large liabilities relative to their income from the period before the outbreak of the coronavirus, in consequence of the household leveraging trend that had characterized recent years. This growth of the credit risk is reflected by a rise in the rate of debts that are impaired or in arrears for 90 days or more in the Bank's credit portfolio, which amounted to approx. 1.34% on June 30, 2020, vs. 1.07% on average between 2017 and 2019. Under the guidelines created by the Supervisor of Banks[11] in favor of supporting households and businesses' ability to endure the crisis, the total sum of deferred loan payments (principal and interest) amounted to approx. ILS 41 billion, as of June 30, 2020; and ILS 25 billion (approx. 89% of which was from the housing credit sector) as of August 10, 2020. According to the Bank's data, no further deferment was requested for 60% of the loan balance, the payment date of which fell on August; and the customers resumed paying after the month of August. The Bank increased its provision buffer (especially due to a growth in group provision), *inter alia*, also against this increase in risk, as reflected in the growth of the credit loss expenses rate from the Bank's total credit portfolio in the first half of 2020, which was 0.58% in annual gross-up terms (approx. 0.25% in the households sector including housing credit and approx. 1.60% in the business-commercial sector) vs. 0.18% in 2019 (approx. 1.60% in the households sector including housing credit and approx. 0.47% in the business-commercial sector).

Midroog is examining the development of the Bank's credit portfolio quality in the short and medium term, based also on a number of leading macroeconomic indicators[12], which point to some worsening (varying between the different segments of the credit portfolio) in the portfolio's quality within the base forecast range.

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[10] The Financial Stability Report for the first half of 2020, the Bank of Israel

[11] On July 13, 2020, the Banking Supervision announced a further extension of the previous guidelines (from March 2020) and its expansion.

[12] For details regarding the manner in which Midroog examines the banking system's asset quality, see: Leading Indicators for the Examination of the Local Banking System's Asset Quality – Special Report, January 2015. The reports are published on Midroog's website: www.midroog.co.il

The rate of problematic debts in the portfolio is expected to rise, but still remain at a good level relative to the rating, given the characteristics of the portfolio's quality on the eve of the crisis. As such, the rate of problematic debts in the portfolio will be in the range between 2.3%-2.6% in the years 2020-2021 (vs. approx. 1.6% on average between 2017 and 2019), with the rate of problematic debts out of the absorption buffers (shareholders' capital and provision for credit losses) expected to be in the range between 24.0%-25.0% in the forecast range (vs. approx. 18.2% on average between 2017 and 2019). Moreover, the rate of the Bank's credit loss expenses during the first half of 2020 was affected by an increase in group expenditure, which is extraordinary in its scope and reflects a possible increase in individual provision later in the year, which has yet to be expressed. However, we are assuming a more moderate credit loss expense for the credit portfolio, which in our assessment will be in the range between 0.40% and 0.50%; and will be affected, among other things, by the Bank of Israel's outline for loan deferral, but also by some absorption, in our assessment, of individual provisions at the expense of group provisions during the forecast years. This scenario takes into account moderation in the recovery rates and increase in the write-off rate relative to past years.

Midroog's base scenario for the quality of the Bank's credit portfolio is based on a number of macroeconomic effects[13], including: (1) A 4.5% contraction of the GDP in 2020 in the optimistic scenario, with a high uncertainty component regarding its length and impact on the scope of domestic economic activity, and recovery in 2021 which will be reflected in a growth rate of approx. 6.0%; (2) An increase of the unemployment rate to a level in the range between 7.7%-11.6%l (3) An interest environment on par with its current level in the forecast years; (4) A low inflationary environment below the bottom range of the BoI's target limit; (5) Continued competition on the part of the non-bank debt market in the business portfolio and moderation in the supply of credit in the retail sector.

In this scenario, the Bank's credit portfolio is expected to grow at lower rates than those that had characterized the Bank in the past, with an estimated growth in the range between 3.0%-3.5% anticipated in 2020. We note that the increase in the Bank's credit portfolio in 2020 will also be affected, in our estimation, by the Supervisor of Banks' loan deferral outline – a trend which will persist in the Bank (as in the entire banking system) throughout 2020.

Depending on the curb of the pandemic and the economy's gradual return to routine activity, there may be some recovery in the business environment in 2021, according to our assessment, which will express itself through a growth rate between 4.0% and 4.5% in the Bank's credit portfolio.

[13] Bank of Israel, the Research Department's macro-economic forecast, August 2020.

We assume that the Bank will continue to focus on retail credit and business credit (micro and small businesses and medium businesses), in accordance with its strategy in recent years; but our assessment is that the bulk of the growth will be seen in the housing credit sector. Growth in credit to micro and small businesses, as well as the various business credit sectors, will be moderate compared to previous years, due to the high level of competition in the banking system and the significant contraction of the GDP, and in our assessment will mainly derive from the economic aid program, which includes state-guaranteed loans (the scope of which at the Bank is approx. ILS 4.1 billion, as of August 10, 2020[14]). Against the background of a contraction in private consumption and an increase in the unemployment rate, we assume an erosion in the credit portfolio for households and private banking in the forecast years. We are of the opinion that the growing of the portfolio will be done while maintaining the Bank's risk appetite, and favorable business flexibility resulting from a satisfactory margin over the regulatory capital target set by the Bank of Israel, also in light of the reduction in banks' capital requirements by the Supervisor of Banks in March 2020**.**

The Bank's profitability is expected to erode in view of the economic crisis and a low interest environment, alongside increased credit loss expenses; however, it is supported by a favorable operational efficiency

The Bank's profitability indicators reflected an improvement trend in recent years, which, among other things, was the result of low credit loss expenses; outstanding operational efficiency over time, stemming from the credit portfolio mix; the business model; and improvement in the Bank's financial margin as a result of the strategic plan's implementation, which includes increased focus on the business sector, which is characterized by excess financial margins. Thus, the Bank's profitability was supported by outstanding asset quality over time, which was reflected in a credit loss expense rate that was moderate relative to the comparison group, of approx. 0.15% at the Bank vs. approx. 0.24% in the comparison group, on average, between 2017 and 2019. Profitability was also supported by the implementation of the Bank's efficiency processes starting in 2017, which included employees' early retirement, an organization of assets (asset realization and transitioning into a leasing model) and the signing of collective employment agreements for the Bank and Yahav Bank. Moreover, the Bank is expected to concentrate headquarter units' operations into a single central site, as part of a strategic move by the Bank, which supports further optimizing potential in the medium-long term. As such, the Bank's operating efficiency ratio improved from approx. 60% in 2017 to approx. 53% in the first half of 2020 (2019: approx. 55%).

[14] According to up-to-date data on the Bank's actions to assist customers during the corona crisis.

In addition, the Bank has worked to establish collaborations with financial institutions over the past few years, through the sale of housing loan portfolios, as part of its credit portfolio and regulatory capital management strategy, as well as increasing operating revenues from the management of sold portfolios. Under this framework, the Bank sold approx. ILS 0.7 and 2.7 billion in assets in 2019 and 2018, respectively. We are of the opinion that all of these support the Bank's profitability improvement potential, even in the face of the challenging operating environment in the context of the crisis, and offset the increase in operational costs due to the branch expansion strategy.

The core yield on the risk weighted assets and the return on the Bank's assets in 2019 were approx. 2.1% and 0.72%, respectively, compared with approx. 1.75% and 0.59%, respectively, in 2017. However, we note that these profitability indicators reflect a reasonable profitability buffer relative to the BCA, as well as the Bank's ability to absorb losses and construct the capital buffer.

Due to the consequences of the economic crisis and the increase in borrowers' risk during the first half of 2020, an increase has been observed in the credit loss expenses, in the total of approx. ILS 615 million (of which approx. ILS 401 million were due to group provisions). As such, the ratios of profitability to core yield on risk weighted assets and ROA (in annual terms) amounted to approx. 0.86% and 0.54%, respectively, for that period.

We are of the opinion that the Bank's profitability is expected to erode, in part due to a challenging business environment in the forecast years, which will put pressure on the Bank's revenue growth potential, and in view of a significant increase in credit loss expenses compared to previous years. Depending on the Bank's ability to control its expenditure structure, the continued implementation of efficiency processes may have a mitigating effect on the erosion in profitability, in our assessment.

The main assumptions regarding the Bank's profitability, on which Midroog's baseline scenario for the years 2020-2021 is based, are as follows: (1) An annual growth rate of 3.5%-4.5%, primarily in the housing loans sector, and utilization of the potential of the Bank's existing retail sector customer base alongside high competition in the business sector; (2) Low interest and inflation environments, which will weigh down the financial margin; (3) Further focus on commercial-business credit, which is characterized by an excess financial margin; (4) Credit loss expenses at a rate of 0.40%-0.50%, due to the consequences of the economic crisis; and (5) A continued "creeping" of wage expenses, per the Bank's wage agreements and an increase in the number of employees and branches alongside an offsetting effect caused by early retirement.

In this scenario, Midroog anticipates that despite the erosion in the Bank's profitability ratios, they will continue to support the ongoing construction of the capital and the financial profile. The core yield on risk weighted assets and ROA are expected to move between approx. 1.6%-1.8% and 0.4%-0.5%, respectively, in the forecast years.

The capital buffer is adequate for the BCA, despite a relatively high balance sheet leverage and a low margin over the regulatory barrier; the capital buffer is anticipated to continue its construction within the forecast range

The Bank is characterized by a capital buffer which is adequate for the BCA, that had been constructed over the years through the accumulation of profits minus dividends (a policy of 40% of the quarterly net profit), optimization and management of risk weighted assets and the asset mix. The Bank's tier 1 capital adequacy, which is the central absorption buffer for unexpected losses, amounted to approx. 10.0% on June 30, 2020, while the total capital ratio amounted to approx. 13.5% on that date. It should be noted that as part of the Bank's capital management strategy, the Bank had, in recent years, been characterized by a narrow margin over the regulatory capital requirements – tier 1 capital and total capital (approx. 0.3% and approx. 0.5% on average between the years 2017-2019, respectively) - which may occasionally limit the Bank's business flexibility. Further to the publication of the Supervisor of Banks' temporary ordinance to reduce banks' capital requirements, on March 29, 2020, it was decided to reduce the Bank's capital requirements by one percentage point, so that the minimum Tier 1 capital ratio of the Bank will be 8.8% vs. 9.8%, in effect for six months; the draft of an update to the temporary ordinance was recently published, which may extend it to the end of Q1/2021.

In light of this, the Bank's margin increased to approx. 117 basis points above the temporary regulatory barrier (Tier 1 capital), which supports the risk profile and has a positive effect on the Bank's business flexibility and growth potential, even at a time when the Bank's profitability has slowed down along with the construction of the capital buffer. The Bank's simple balance sheet leveraging ratio (capital to balance sheet) amounted to approx. 6.0% on June 30, 2020. It should be noted that in light of the volatility in the capital market, the total profit of the Bank - and that of the banking system in general - may be affected during this crisis period by losses from adjusting securities available for sale according to fair value, and from change in the actuarial liability for employee benefits.

Midroog tested a holistic stress scenario for one year ahead on the Bank's loss absorption buffers relative to its risk profile, while assuming variable PD and LGD rates in the various sectors of the economy, losses from the securities portfolio, erosion in the financial margin and the loss of commission income, along with the construction of the shareholders' capital through current profitability and the non-distribution of a dividend. The Bank's tier 1 capital adequacy would amount to approx. 9.1% at the end of the scenario - a level that reflects the good ability of the Bank to absorb unforeseen losses, in our assessment, and supports its stability during the economic crisis.

Midroog's base scenario anticipates that the capital buffer will continue to be constructed and the capital adequacy ratios will continue to marginally improve in the forecast range, so that the capital adequacy ratio will be in the range between 10.1% and 10.2%. This ratio will be affected by the following factors: (1) Accrued profits; (2) Dividend distribution to the extent of 40% from the net income, depending on the extent of the Supervisor of Bank's temporary ordinance; and (3) A growth in risk weighted assets, similar to the credit portfolio's increase rate.

A rating-appropriate liquidity profile supported by a favorable liquid asset inventory and an adequate resource structure

The Bank's resource structure, similarly to the entire local banking system, mainly relies on a broad retail deposit base, which has been stable throughout the economic cycle. The Bank's resource structure contains a substantial proportion of widely-dispersed stable (retail) deposits (approx. 48% households and private banking and approx. 14% small and micro businesses, as of June 30, 2020), which are appropriate for the Bank's risk profile, in Midroog's assessment. The Bank has a relatively moderate rate of financing sources which are less stable[15] out of the asset total, per our definition, which amounted to approx. 15% on that date (the comparison group average was approx. 13%). Moreover, the Bank is characterized by a relatively high ratio between credit to the public and deposits from the public, which on June 30, 2020, amounted to 93% compared to a system average of 75%. The Bank's NSFR ratio, as calculated by us[16], is high and amounts to approx. 134%, which supports its financing profile.

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[15] Deposits from banks, deposits from financial institutions, and bonds and debentures to be paid within the next 12 months

[16] Calculated by us based on the definitions of the Basel Committee.

The Bank's liquidity buffer includes an inventory of liquid assets[17] relative to the deposit total, which amounted to approximately 30% on June 30, 2020 - a high rate relative to the rating, and supports the Bank's favorable liquidity. This inventory mainly includes cash and deposits at banks; and the securities portfolio, which constituted approximately 3% of the asset total on that date and which is characterised by a risk level (credit) that is low in view of Israel and US government bonds constituting substantial components thereof (approx. 80% and approx. 14%, respectively). The portfolio serves as a tool to absorb excess resources and manage the Bank's various market exposures, but exposes it to an interest rate risk. The liquidity management is also supported by a high regulatory liquidity coverage ratio (LCR) which amounted to approx. 122% on June 30, 2020 - significantly higher than the regulatory bar (100%), but relatively low compared to the rest of the system (approx. 135% on average on that date). This rate also supports the liquidity profile and business flexibility.

Midroog anticipates that the Bank's resource structure and good liquidity will be preserved in the short and medium term, *inter alia* in view of our no-change assessment regarding the market's savings culture, while the growth potential of the credit portfolio is relatively moderate.

Structural considerations and external support

A review of the relative projected loss ranking

According to Midroog's methodology, the rating of the Bank's subordinated debts (deferred bonds) is based on the Bank's baseline credit assessment (BCA), which is the anchor for rating the Bank's liabilities and reflects the risk of failure and the Bank's ability to serve its liabilities independently, without the assumption of external support. Midroog adjusts the rating relative to the BCA 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 and/or at the discretion of the Supervisor of Banks). Midroog is removing one rating level (notch) off the Bank's BCA for the rating of the deferred bonds with contractual loss absorption (CoCo).

[17] Cash and deposits at banks, Israeli government bonds, US government bonds and bonds backed by the US government

The removal of the notch embodies the legal-contractual deferral with respect to the rest of the Bank's liabilities (excluding upper tier 2 capital, tier 1 instruments and shareholders' capital) and the contractual loss absorption mechanism. Considering the Bank's BCA (aa2.il) and the current level of capital adequacy – tier 1 capital ratio (of approx. 10% on June 30, 2020), as well as the one anticipated in our base scenario (10.1%-10.2%) and the rating-appropriate liquidity profile, the uncertainty regarding the likelihood of reaching the 'nonviability point[18]' is low; therefore, it was not embodied by the reduction of another notch. Midroog is removing two rating levels (notches) off the Bank's BCA for the rating of the deferred capital notes (upper tier 2 capital). The reduction of the notches embodies the legal-contractual deferral with respect to the rest of the Bank's liabilities (excluding tier 1 instruments and shareholders' capital) and the contractual loss absorption mechanism. Considering the Bank's BCA, current and anticipated capital adequacy levels (in our evaluation) and the liquidity profile which is adequate to the rating, the uncertainty regarding the likelihood of reaching regulatory intervention is low; therefore, it was not embodied by the reduction of another notch.

External support

The rating of the deposits, the senior debt and the subordinated debts, excluding deferred bonds with contractual loss absorption (CoCo) are granted the benefit of two rating levels (notches) due to the high probability of external support from the state, according to Midroog's JDA model. The assumption of external support probability throughout the entire liabilities structure (excluding CoCos) is based on the following considerations: the banking system's high importance to the local economy and the payment system, and the need to maintain its stability; the high concentration of the banking and financial system; the relatively high connectivity between the banking system and financial institutions; the local financial system serving as a central credit provider to the government; and some uncertainty regarding the behavior and reliability of the different debtors, in terms of bail-ins close to the point of failure, in the absence of previous experience. Furthermore, the State of Israel had, in the past, proved its willingness to support failed banks, and we do not assume any change in this policy.

The assumption of high support for subordinated debts (excluding CoCos) also derives from the fact that no significant change has been observed in Israel's system support paradigm in recent years.

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[18] Establishing nonviability event: 1. A notice from the Supervisor of Banks that the write-off/conversion of a security is necessary to avoid the nonviability point. 2. The provision of external support, without which the Bank would reach the nonviability point. It should be noted that the Supervisor of Banks has yet to define the term 'nonviability point'.

So far, Israeli regulators have not had to deal with significant stress scenarios in the banking system; and unlike other regions in the world, no legislation was enacted and no directives were given that may imply a change has occurred in subordinated debt risk from a legal standpoint. Our base assumption is that the state will not impose bail-ins on old subordinated debts (which are not eligible for Basel III), also in order to preserve the trust of the public, which had previously invested in these instruments under the assumption of support and due to the loss-absorbing containing contractual mechanism bonds (CoCo) being the only funding tool of a subordinated debt, with a periodic repayment of old subordinated debts.

We note that even after external support is weighted, Midroog usually keeps it so that the minimum possible gap between the rating of the Bank’s senior debt and its subordinated debts is at least one rating level (notch), reflecting the relatively higher loss levels that are likely for these debts compared to the senior debt.

About the bank

Mizrahi Tefahot Bank was among the first banks to be established in Israel (1923) and is one of the five major banking groups in Israel.

In 2005, two banks – United Mizrahi Ltd. and Tefahot Israel Mortgage Bank Ltd. – were merged together into Mizrahi Tefahot Bank Ltd.

The Bank group operates in Israel and abroad and includes Yahav Bank, which is held at 50%. The group engages in commercial (business and retail) banking activities, and mortgage activities in Israel, through a nationwide chain of 198 branches and business centers (as of the end of 2019). The Bank’s international activities are conducted through 3 banking units. In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, management of security portfolios for customers, pension advisory service, trust services, distribution of mutual funds, operation of provident funds and distribution of mortgage insurance. The Bank's controlling shareholders are the Ofer and Wertheim families. On June 8, 2020, the Bank’s Board of Directors decided to appoint Mr. Moshe Lari to the position of the Bank’s Chief Executive Officer in lieu of Mr. Eldad Fresher – an appointment which will come into effect on September 16, 2020.

The bonds and deferred bonds rated by Midroog*:

Series	Security No.	Rating	Outlook	Final Repayment Date
43	2310191	Aaa.il	Stable	Jul 31 2021
38	2310142	Aaa.il	Stable	Sep 11 2021
41	2310175	Aaa.il	Stable	Jun 7 2022
44	2310209	Aaa.il	Stable	Sep 25 2022
49	2310282	Aaa.il	Stable	Jun 23 2026
51	2310324	Aaa.il	Stable	Oct 29 2023
Contingent subordinated notes (Coco)	Not tradable	Aa3.il(hyb)	Stable	Jan 31 2024
45	2310217	Aaa.il	Stable	Sep 28 2024
40	2310167	Aaa.il	Stable	Jun 7 2025
46	2310225	Aaa.il	Stable	Sep 28 2027
47	2310233	Aa3.il(hyb)	Stable	Dec 18 2027
48	2310266	Aa3.il(hyb)	Stable	Oct 21 2028
50	2310290	Aa3.il(hyb)	Stable	Dec 23 2029
42	2310183	Aaa.il	Stable	Jun 7 2030
52	2310381	Aaa.il	Stable	Jul 1 2030
Series A Capital Notes	6950083	Aa2.il(hyb)	Stable	Jan 1 2106

** Issued by the Bank and by Mizrahi Tefahot Issuing Company Ltd – a subsidiary fully owned by the Bank*

Baseline Credit Assessment (BCA) Matrix

			For Jun 30 2020		Midroog's outlook [1]		
Category	**Parameter**	**Sub-parameter**	**Measure [1]**	**Score**	**Measure**	**Score**	**Additional considerations**
Business profile	Business positioning		-	aa.il	-	aa.il	*Market share positioning in housing loan segment*
	Income stability	% retail income	87%	aaa.il	>80%	aa.il	*Percentage of income from commissions low relative to the system*
	Income dispersion	Number of business lines over 15%	2	baa.il	2	baa.il	*Retail sectors*
Risk profile	Corporate governance		-	aa.il	-	aa.il	
	Risk management policy		-	aa.il	-	aa.il	
	Credit portfolio concentration	Largest industry to tier 1 shareholders' capital	120%	a.il	~120%	a.il	*Real estate sector*
	Credit portfolio concentration	Major borrowers to tier 1 shareholders' capital	Approx. 2%*	baa.il	~2%	aaa.il	
	Market risk appetite	VaR limit on tier 1	9%*	aa.il	~9.2%	aa.il	

	shareholders' capital

Financial profile	Asset quality	Problem debts to loans to the public	1.9%	aaa.il	2.3%-2.6%	aaa.il	
		Problem debts to total shareholders' capital and provision for credit losses	20.8%	aa.il	24.0%-25.0%	aa.il	
	Profitability	Net profit to asset average	0.5%	a.il	0.4%-0.5%	a.il	
		Revenue before taxes and credit loss expenses to risk weighted asset average	2.1%	aaa.il	1.7%-1.8%	aa.il	*Revenue volatility*
		Efficiency ratio	53%	aa.il	55%-60%	aa.il	
	Capital adequacy	Tier 1 shareholders' capital to risk weighted assets	10.0%	aa.il	10.1%-10.2%	aa.il	
		Shareholders' capital to asset total	6.0%	a.il	6.1%-6.2%	a.il	
	Liquidity & financing	Less stable finance resources to asset total	15.0%	aaa.il	~15.0%	aa.il	*Three-year average*

	Liquid assets to deposits from the public	30%	aa.il	~30%	aa.il
Deriving baseline credit assessment					**aa2.il**
Actual baseline credit assessment					**aa2.il**

[1] The measures presented in the table have been adjusted by Midroog, and are not necessarily identical to those presented by the company. Midroog's forecast includes Midroog's assessments regarding the issuer, per Midroog's base scenario, rather than the issuer's assessments.

**According to the data available on December 31st, 2019*

Rating of the Bank's debts

	Baseline credit assessment (BCA)	Owner and/or affiliated party support	Adjusted BCA	Subordination and loss absorption capacity	State support	Rating
Deposits and bonds	aa2.il	0	aa2.il	0	+2	Aaa.il
Deferred capital notes (upper tier 2 capital)	aa2.il	0	aa2.il	-2	+2	Aa2.il(hyb)
Subordinated bonds with a contractual loss absorption capacity (tier 2 capital)	aa2.il	0	aa2.il	-1	0	Aa3.il(hyb)

Related reports

Mizrahi Tefahot Bank Ltd – Related reports

Bank Rating – Methodology Report, September 2019

Banking System – Consequences of the Crisis – Special Report – Industry Note, April 2020

Connections and Holdings Table

Midroog Rating Scales and Definitions

The reports are published on Midroog's website: www.midroog.co.il

General information

Rating report date:	September 9, 2020
Last date on which rating was updated:	June 24, 2020
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.

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 does not publish the BCA forecast, unlike the publications that have been made so far, in order to separate the BCA from credit ratings.

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.

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 strong 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 extremely 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.

Local Short-Term Rating Scale

P-1.il	Issuers rated Prime-1.il, in Midroog's judgment, have a very good ability to repay short-term obligations relative to other local issuers.
P-2.il	Issuers rated Prime-2.il, in Midroog's judgment, have a good ability to repay short-term obligations relative to other local issuers.
P-3.il	Issuers rated Prime-3.il, in Midroog's judgment, have a moderate ability to repay short-term obligations relative to other local issuers.
NP.il	Issuers rated Not Prime.il do not belong in any of the Prime categories.

The Connection between the Long-Term and Short-Term Rating Scales

The following table shows the long-term ratings consistent with short-term ratings, when such long-term ratings exist[7].

Long-term rating	Short-term rating
Aaa.il Aa1.il Aa2.il Aa3.il A1.il A2.il A3.il	Prime-1.il
A3.il Baa1.il Baa2.il	Prime-2.il
Baa2.il Baa3.il	Prime-3.il
Ba1.il,Ba2.il,Ba3.il B1.il,B2.il,B3.il Caa1.il,Caa2.il,Caa3.il Ca.il C.il	Not Prime

[7] Structured finance short-term ratings are usually based on the short-term rating of a liquidity provider for the transaction or an assessment of cash flows available to repay the rated obligation.

[Midroog disclaimer]