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.

In the event of any discrepancy or inconsistency between the Hebrew version and the translation to English, the Hebrew version shall prevail and supersede, for all purposes and in all respects.

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: December 9, 2020
	www.isa.gov.il		www.tase.co.il		Ref: 2020-01-126187

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

On December 9, 2020, *S&P Maalot* published:

⦿A rating report/notice *initial*

○A notice regarding rating cessation

1. Rating report or notice

☐ Corporation's rating: __

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
Contingent subordinated bonds with a loss absorption capacity (COCO) (Series 53)	0	S&P Maalot	*S&P Maalot None/NOO ilAA-*	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 maalot 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

Maalot's rating is granted in connection with the issuance of a series of contingent subordinated bonds (series 53), 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 terms.

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

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

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

Maalot

S&P Global Ratings

Mizrahi Tefahot Bank Ltd
Mizrahi Tefahot Issuing Company Ltd

December 9 2020

New Issuance

Grant of an ‘ilAA-’ Rating to an Issuance of Contingent Subordinated Bonds with a Loss Absorption Capacity at up to ILS 200 Million N.V.

Primary Credit Analyst:
Lena Schwartz 972-3-7539716 lena.schwartz@spglobal.com

Additional Contact Person:
Avital Koren 972-3-7539708 avital.koren@spglobal.com

New Issuance

Grant of an 'ilAA-' Rating to an Issuance of Contingent Subordinated Bonds with a Loss Absorption Capacity at up to ILS 200 Million N.V.

S&P Maalot hereby announces the grant of an 'ilAA-' rating to the issuance of contingent subordinated bonds with a loss absorption capacity at up to ILS 200 million N.V., through the issuance of a new series, Series 53, by Mizrahi Tefahot Bank Ltd (ilAAA/Stable) via Mizrahi Tefahot Issuing Company Ltd.

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

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

The first rating level is removed off the bank's SACP, as determined by the global ratings scale, in order to reflect the insolvency risk, according to our methodology for rating banks' complex instruments. Afterwards, we convert to the regional rating, using the conversion tables. After the conversion to the regional ratings scale, we remove one more notch, in order to reflect the contractual subordination of the instrument, thus reaching the instrument's rating on the regional scale.

An examination of the instrument in light of our complex instrument methodology does not, in our assessment, reveal additional default risks that would justify removing more notches beyond those specified above. In particular, we note that the current creditworthiness of the bank does not lead us to think that the likelihood of regulatory intervention with respect to the aforementioned bonds, as described above, requires an additional removal of rating levels.

For further details regarding Mizrahi Tefahot Bank Ltd's rating and for additional regulatory requirements, see the rating report dated July 21, 2020. For further details regarding the methodology behind the instrument's rating, please consult the list of methodology articles in the aforementioned rating report and the Q&A document "Rating of Complex Bank Instruments – Q&A" (November 29, 2015).

General details			
Mizrahi Tefahot Bank Ltd	**Rating**	**Date on which rating was first published**	**Date on which rating was last updated**
Issuer Rating(s)			
Long term	ilAAA/Stable	Oct 9 2003	Jul 21 2020
Issuance rating(s)			
Complex subordinated debt			
Contingent subordinated bonds with loss absorption capacity	ilAA-	Nov 19 2015	Jul 21 2020
Subordinated capital bonds (upper Tier-II capital) A	ilAA-	May 28 2007	Jul 21 2020
Issuer rating history			
Long term			
December 23, 2014	ilAAA/Stable		
November 15, 2010	ilAA+/Stable		
September 14, 2009	ilAA+/Negative		
May 28, 2007	ilAA+/Stable		
October 01, 2003	ilAA+		
Mizrahi Tefahot Issuing Company Ltd	**Rating**	**Date on which rating was first published**	**Date on which rating was last updated**
Issuance rating(s)			
Complex subordinated debt			
Contingent subordinated bonds with loss absorption capacity Series 47	ilAA-	Dec 4 2017	Jul 21 2020
Contingent subordinated bonds with loss absorption capacity Series 53	ilAA-	Dec 9 2020	Dec 9 2020
Contingent subordinated bonds with loss absorption capacity Series 48	ilAA-	Oct 4 2018	Jul 21 2020
Contingent subordinated bonds with loss absorption capacity Series 50	ilAA-	Jun 6 2019	Jul 21 2020
Senior unsecured debt			
Series 38	ilAAA	Dec 25 2014	Jul 21 2020
Series 40, 41, 42	ilAAA	May 21 2015	Jul 21 2020
Series 43	ilAAA	Jan 21 2016	Jul 21 2020
Series 44	ilAAA	Sep 11 2016	Jul 21 2020
Series 45, 46	ilAAA	Sep 11 2016	Jul 21 2020
Series 49	ilAAA	Jun 6 2019	Jul 21 2020
Series 51	ilAAA	Oct 10 2019	Jul 21 2020
Series 52	ilAAA	Jun 17 2020	Jul 21 2020
Additional details			
Time of the event's occurrence	December 9, 2020 12:07		
Time at which the event first became known	December 9, 2020 12:07		
Rating initiator	The rated company		

[legal disclaimer]

[S&P Maalot Letterhead]

Mizrahi Tefahot Bank Ltd

Mizrahi Tefahot Issuance Company Ltd

July 21, 2020

Primary Credit Analyst:

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Mizrahi Tefahot Bank Ltd

Mizrahi Tefahot Issuance Company Ltd

Affirmation of issuer rating	ilAAA/Stable

Strengths and Weaknesses

Strengths	Weaknesses
• The leading bank in the field of mortgages, expanding into other areas of activity. • One of the most profitable and efficient banks in the local banking industry • A large and dispersed base of local depositors and ongoing accessibility to the capital market, which support the funding and liquidity indices	• A relatively high level of market concentration in exposure to the real estate field, although this is mostly to the mortgage field • Fast growth in credit to small and mid-sized businesses and unsecured retail credit, which might expose the bank to high credit losses, especially given the current economic activity environment

Rating Forecast

Mizrahi Tefahot Bank's stable rating forecast reflects our assessment that during the next 24 months, the bank's capital buffer will allow it to absorb the damage to profitability due to the consequences of the outbreak of the corona virus. Our assessment derives mainly from the relatively low risk we are currently attributing to the bank's principle exposure to the mortgage industry. In particular, we anticipate that the risk-adjusted capital ratio (RAC) will remain above 10% and that the quality of the Bank's assets will remain slightly better than that of its local competitors.

The negative scenario

We would consider a negative rating action in the next 24 months if there is a significant deterioration in the performance of the economy, which will also affect the real estate industry, e.g. due to economic damage much more significant than our current estimate following the outbreak of the corona virus, or as a result of deterioration in the geopolitical situation.

We would also consider a negative rating action if we observe a deterioration in the quality of the bank's assets that is beyond our assessment, which would lead to a much more lasting damage to profitability that would exert pressure on the bank's capital base. This scenario is possible in the event that we observe a delay in the labor market's recovery, which would make it increasingly difficult for borrowers to meet their obligations; or in the event that the recovery of business activities will be slower than expected, in turn slowing the recovery of the business sector and damaging the bank's profitability.

Main rating considerations

Mizrahi Tefahot Bank's rating reflects our assessment that the bank will maintain its strong capital adequacy and that the risk-adjusted capital (RAC) will exceed 10% in the next two years. The strong capital adequacy will allow the bank to absorb the expected damage to its profitability in 2020, mainly as a result of an increase in credit loss expenses following the outbreak of the corona virus and the increase in credit risk in the economy, until the expected recovery in 2022. In addition, we are of the opinion that the bank's strong ability to generate profits, supported by a low operating efficiency ratio, will support its ability to mitigate the impairment of profitability. The regulatory relief that allows for a one-percent reduction in the tier I capital ratio, combined with a cessation of dividend distribution, are expected to reduce the pressure on the bank's minimum required regulatory capital.

We assess the bank's principle exposure to the mortgage industry as having a relatively low risk due to prudent risk management resulting from the macro-stability measures implemented by the regulator several years ago to curb risks in this industry. The bank's current LTV rate is approx. 52.8% and the monthly payment-to-income rate (PTI) is at approx. 25.8%. These ratios are relatively low, and mitigate the risks arising from the slowdown in the local residential real estate market and the rise in unemployment rates. However, we assess the bank's operations in the mid-sized business sector and the unsecured retail credit sector as riskier. These segments of operation constitute less than 20% of the bank's total credit portfolio, but they were the ones that led the increase in credit loss expenses during the first quarter of the year, and are expected to have an impact in the future as well. Recovery in these sectors is largely dependent on the development of the unemployment rate and the recovery rate of activity in the business sector. Moreover, the rating reflects our assessment that the bank will maintain its good position and its status as a leading bank in the local market's mortgage industry.

We are closely monitoring the details of the bank's anticipated acquisition and merger with Union Bank. As far as is known about the transaction so far, we currently estimate that it does not affect the rating; however, we will continue to follow the development of the transaction and its full details, which we estimate will become clearer towards the end of 2020, and we will update our evaluation accordingly.

The bank's issuer rating is one rating level (notch) higher than its stand-alone credit profile (SACP), which reflects our assessment of a fairly high probability of exceptional support from the State of Israel (AA-/Stable/A-1+), if necessary. We are classifying Mizrahi Tefahot Bank as being systemically important and the State of Israel as supportive of the local banking sector.

Anchor: Reflecting the operational focus on Israel

S&P Global's rating methodology for banking institutions is based on our assessment of the Israeli banking industry from a global perspective (BICRA – Banking Industry Country Risk Assessment) as an anchor for bank ratings, i.e. a starting point rating. This assessment combines the economic risk assessment and the industry risk assessment. The BICRA score for the Israeli banking system is 3 on a scale of 1 to 10, with 1 reflecting the lowest risk.

After more than a decade of sustained economic growth at a rate of 3%, the outbreak of the corona virus and the restrictions imposed as a result thereof are expected to lead the Israeli economy into a recession, with a 5.5% decline anticipated for the real GDP in 2020. Although there is a great deal of uncertainty surrounding the development of the corona pandemic, we expect that the Israeli economy will be able to contain the impact in 2020, and growth in 2021 is expected to be more than 6%. This forecast is based on global recovery expectations in the second half of 2020, as well as the strong macroeconomic foundations of the local economy, in combination with the government aid package aimed at preventing permanent damage to local production capacity. However, this is expected to put pressure on the fiscal balance of the State of Israel and will most likely lead government debt to increase to approx. 71% of the GDP in 2020. One of our basic assumptions is that the new government will be able to curb the increase in government debt to reduce the pressures on the resilience of the local economy starting in 2021. At the same time, Israel remains exposed to geopolitical shocks and local security risks.

The support measures provided to the private business sector and the banking industry will help relief short-term pressure on borrowers, and may mitigate the damage to banks, but will not prevent it. Our main concern is a slow recovery of the labor market, which may burden households and the small and mid-sized business sector, reduce demand and private consumption over time, and hurt the profitability of banks in the medium term. The significant exposure to the real estate market, and especially to the income-producing real estate sector, such as commercial properties and offices, also poses a risk for the banks.

We estimate that most of the damage to asset quality is to be expected from the unsecured consumer credit sector and the small and mid-size businesses credit sector. In our forecast for the local banking system, we estimate that the rate of expenditure on credit losses will rise from a historically low level of approx. 0.25% in 2019 to approx. 0.8%-1% in 2020. However, the local banking industry is facing this crisis from a position of strength compared to other banking industries in the world. The Israeli banking industry is relatively profitable and with proper capital adequacy. In recent years, tight regulatory control has led banks to reduce risky exposures, such as borrower groups or leveraged funding. Macro-stable macroeconomic measures in the field of residential credit contributed significantly to the reduction of risk in the mortgage industry, despite the continued growth of the residential real estate industry. We are therefore of the opinion that in the medium term, the banking industry may get through the short-term damage to profitability with a limited impact on its medium-term profitability.

The local banking system is centralized and conservatively funded by local core deposits. We are not of the opinion that encouragement of competition and the anticipated entry of additional players into the retail credit industry will result in material harm to the profitability of the banking system in the short term. In recent years, banks have become more efficient and prepared for competition on the part of new digital players, which we estimate will focus their activities in the payments sector.

Table 1.

Bank Mizrahi Tefahot Ltd. Key Figures (Mil. ILS)

	2020 YTD*	2019	2018	2017	2016
Adjusted assets	284,644	273,157	257,786	239,485	230,368
Customer loans (gross)	212,994	207,057	196,586	183,058	173,109
Adjusted common equity	17,081	16,135	14,874	13,777	12,789
Operating revenues	1,940	7,306	6,890	6,000	5,640
Noninterest expenses	1,017	3,988	4,384	3,611	3,299
Core earnings	378	1,925	1,274	1,391	1,308

*First 3 months of 2020
Data are based on S&P Global Ratings adjusted figures and ratios

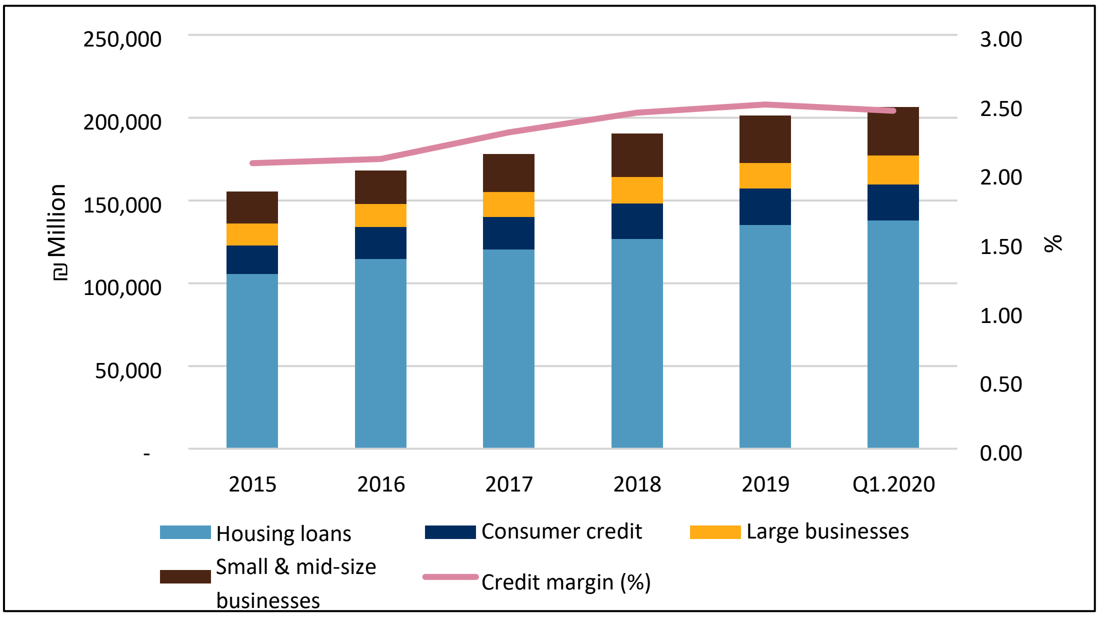
Leading business status as Israel's leading mortgage provider, diversification of the credit portfolio gradually to the business sectors

Our assessment reflects the expectation that Mizrahi Tefahot Bank will maintain its strong position in the local market as the leading mortgage provider, with a market share of 35% in this industry. At the end of March 2020, the bank's total assets amounted to approx. ILS 285 billion, approx. 19.5% of the local banking industry, and it is the third largest bank in terms of asset volume.

The total volume of the bank's credit portfolio was ILS 212 billion, of which ILS 138 billion were mortgages (65%), with the rest distributed between consumer credit (10%) and credit to large businesses and small and mid-sized businesses (22%).

The bank's mortgage portfolio has grown at an average rate of approx. 6% over the past five years, despite increasing competition on the part of its local competitors, who have been focusing their efforts on growth in this industry. In addition, Mizrahi Tefahot accelerated the growth rate in the retail credit sector and in the small and mid-sized businesses credit sector. The bank's growth rates in these areas – approx. 7% and approx. 9%, respectively, on average in the last five years - also reflect the bank's relatively low volume of activity in these areas compared to its local competitors. These growth rates were slightly mitigated in 2019, but the first quarter of 2020 saw the bank expand its lending to large businesses and small and mid-sized businesses through the state-guaranteed loan program that was introduced following the outbreak of the coronavirus pandemic. A moderate change in the mix of the bank's portfolio has also contributed to the increase in the bank's financing margins in recent years (see Figure 1).

Figure 1: Development of the credit portfolio



In 2019, the bank completed a five-year strategic plan, approx. two years ahead of schedule. The bank, under a new CEO, is expected to update its strategic plan in the shadow of the operation environment's conditions worsening due to the consequences of the corona pandemic, and is likely to also include a merger with Union Bank. We assess that the bank's management is experienced and stable and expect that it will be able to implement its strategic objectives if the terms of the merger are completed. At this time, the merger transaction does not affect the rating, but we will continue to monitor the development of the transaction and its full details, which we estimate will become clearer towards the end of 2020, and we will update our assessment accordingly. In addition, we will monitor possible developments in the bank's digital strategy. Unlike its local competitors, the bank has not launched or purchased a mobile payments application, but neither has it been hit by a forced separation from a credit card company. Although its expenses have increased, in contrast to the industry trend, it remains the most efficient bank in the local banking system, supported by rapid revenue growth. The bank focuses its streamlining efforts on work methods and improving employee productivity.

Table 2.

Bank Mizrahi Tefahot Ltd. (%)	2020 YTD*	2019	2018	2017	2016
Total revenues from business line (ILS millions)	1,940	7,306	6,890	6,000	5,640
Commercial banking/total revenues from business line	37.1	38.1	37.6	38.7	37.7
Retail banking/total revenues from business line	57.7	54.2	53.3	54.9	54.3
Commercial & retail banking/total revenues from business line	94.8	92.3	90.9	93.6	92.0
Return on average common equity	8.8	12.0	8.5	10.2	10.3

*First 3 months of 2020
Data are based on S&P Global Ratings adjusted figures and ratios

Capital and profitability: A relief of capital requirements and a halt on dividend distribution are balancing the damage to the bank's profitability

We base our assessment of Mizrahi Tefahot Bank's capital and profitability on our expectation that the bank's risk-adjusted capital ratio (RAC), pre-adjustments, will remain above 11% from 2020 and until 2022 despite the pressure on profitability. The actual RAC ratio at the end of 2019 was 11.3%.

We anticipate that the bank's profitability will suffer in 2020 due to the negative effects of the corona pandemic. We expect that the reduction in interest rates in both Israel and the United States will put pressure on the bank's financing margin and may hurt financing revenues. In addition, we are taking it into account that the growth in the business credit sector for large and mid-sized businesses is mainly occurring through a state-guaranteed loan program where interest rates are limited. We estimate that the bank's rate of expenditure on credit losses are expected to rise to 0.5%-0.6% in 2020, compared with 0.18% in 2019, but that it will remain among the lowest in the local banking system. This is due to the bank's focus on the mortgage sector, which we anticipate will suffer less from an increase in credit losses compared to other sectors, such as credit to small and mid-sized businesses or retail credit. We expect growth of approx. 6% in the bank's credit portfolio in 2020, mainly due to the accelerating growth in business credit during the first half of the year.

The regulatory relief granted with the outbreak of the corona crisis – a reduction of the minimum capital requirement by one percent and a removal of the requirement for additional capital confinement in respect of mortgages - aid the bank in meeting the regulatory capital requirements. The bank's regulatory tier I capital ratio was 9.89% as of March 30, 2020, compared to the minimum rate of 8.82% required after adjustment. We expect the bank's management to manage the exposure of risk weighted assets in order to protect the regulatory capital against unforeseen events, as we estimate that the bank will continue to maintain a narrow margin above the minimum required regulatory ratio. At the same time, the bank will not be distributing dividends as long as the regulatory relief on capital remains in place, which is expected to support its capital adequacy.

In our baseline scenario, we estimate that the bank's strong capital adequacy will help the bank absorb the expected damage to its profitability in 2020. In addition, we estimate that economic activity will recover in the second half of 2020 and in 2021. Government aid plans and payment deferral outlines may delay the damage to asset quality, but cannot entirely prevent it, so we still anticipate a deterioration in asset quality in 2020, and probably also in 2021. In view of the bank's high exposure to the mortgage industry, we consider the labor market's rate of recovery and stability in the residential property markets to be key factors that will dictate the bank's level of credit losses and profitability in the next two years.

Our forecasts do not currently include any effect on the bank from the expected merger with Union Bank. Once we have higher certainty regarding the completion of the transaction and visibility regarding its full financial details, we will update the forecasts accordingly.

Table 3.

Bank Mizrahi Tefahot Ltd. Capital and Earnings (%)

	2020 YTD*	2019	2018	2017	2016
Tier 1 capital ratio	9.9	10.1	10.0	10.2	10.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	69.4	73.1	71.4	72.5	67.0
Fee income/operating revenues	21.9	21.0	21.4	23.7	25.4
Market-sensitive income/operating revenues	3.3	4.9	6.4	2.3	5.2
Noninterest expenses/operating revenues	52.4	54.6	63.6	60.2	58.5
Preprovision operating income/average assets	1.3	1.2	1.0	1.0	1.1
Core earnings/average managed assets	0.5	0.7	0.5	0.6	0.6

*First 3 months of 2020
Data are based on S&P Global Ratings adjusted figures and ratios

Table 4.

Bank Mizrahi Tefahot Ltd. RACF [Risk-Adjusted Capital Framework] Data (Mil. ILS)

(Mil. ILS)	EAD(1)	Basel III RWA (2)	Average Basel III RW (%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government and central banks	61,920	298	0	338	1
Of which regional governments and local authorities	1,394	207	15	50	4
Institutions and CCPs	2,899	517	18	663	23
Corporate	64,038	56,620	88	62,991	98
Retail	156,582	88,044	56	54,317	35
Of which mortgage	136,152	72,671	53	38,994	29
Securitization (3)	0	0	0	0	0
Other assets(4)	4,348	5,016	115	7,870	181
Total credit risk	**289,788**	**150,494**	**52**	**126,179**	**44**
Total credit valuation adjustment	--	**384**	--	**0**	--
Equity in the banking book	150	150	100	1,311	874
Trading book market risk	--	1,791	--	2,687	--
Total market risk	--	**1,941**	--	**3,998**	--
Total operational risk	--	**10,189**	--	**12,919**	--

(Mil. ILS)	Basel III RWA	S&P Global RWA	% of S&P Global RWA
RWA before diversification	163,008	143,096	100
Total Diversification/Concentration Adjustments	--	14,719	10
RWA after diversification	**163,008**	**157,815**	**110**

(Mil. ILS)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio before adjustments	16,520	10.1	16,135	11.3
Capital ratio after adjustments (5)	16,520	10.1	16,135	10.2

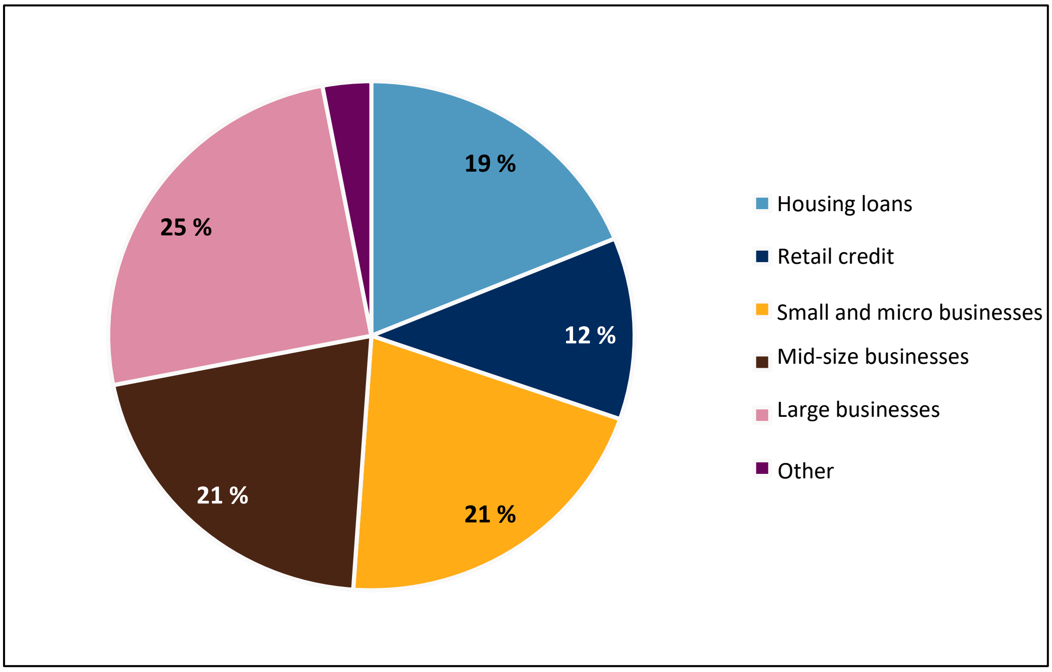
(1) EAD: Exposure At Default (2) RWA: Risk-Weighted Assets (3) Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework (4) Other assets inlcudes Deferred Tax Assets (DTAs) not deducted from ACE (5) For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons)

Risk profile: High exposure to the residential real estate market balances the damage to asset quality in the corporate credit and credit to small and mid-size businesses sectors

The assessment of the bank's risk profile reflects its geographical focus in Israel and the relatively centralized nature of the local economy, with high exposure to the local real estate market. The bank's total exposure to the residential real estate market was approx. 72% of the total credit to the public, mainly through mortgages and credit for funding construction. The bank's exposure to these sectors of activity is high compared to its local competitors, and also compared to its global competitors operating in countries with similar economic risks. Moreover, we are of the opinion that the current crisis will also illuminate the bank's other exposures in the fields of retail credit and credit to small and mid-sized businesses. These sectors, despite their relatively low share in the bank's credit mix, were responsible for more than half of the credit loss expenditure in the first quarter of 2020 (see figure 2).

Since a large part of the credit loss expenditure in this quarter was a group based provision, the purpose of which was to build a loss-absorbing capacity during the year, we estimate that the credit loss expenditure rate will increase to 0.5%-0.6% in 2020, substantially higher than in 2019 (0.18%).

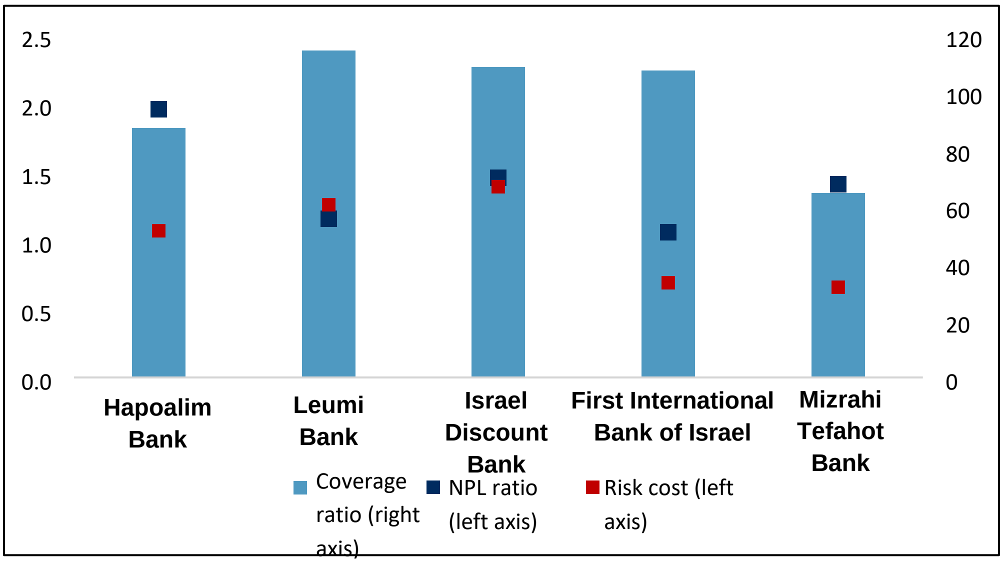
Figure 2: Segmentation of credit loss expenses – Q1 2020



We expect stability in the risk profile, thanks to the relative stability, in our assessment, of the residential real estate market, which limits the level of risk in the bank's mortgage portfolio, which constitutes 65% of its credit portfolio. Moreover, the loan-to-value (LTV) ratio of the bank's mortgage portfolio stands at 52.8% as of March 31, 2020 - a low rate on a global comparison, despite having slightly increased in the past year due to the high weight of Buyer's Price transactions, the LTV rates of which are slightly higher. The payment-to-income (PTI) rate is 25.8% and provides additional support, in our assessment.

In the first quarter of 2020, the bank's operations in the field of credit to large and mid-sized businesses grew, mainly as a result of credit line utilization. We estimate that the bank continued to grow in these credit areas during the second quarter, *inter alia* through providing credit via state-guaranteed funds at a rate of 15% of the portfolio for mid-sized businesses; and 12% of the portfolio for credit to large businesses. Although these are not new areas of operation, we will be monitoring the portfolio's performance, particularly in cases where the credit is given to new customers. These performances may only become clear in 2021, after a year-long grace period.

Figure 3: Asset quality - local comparison – Q1 2020



As of May 2020, the bank has deferred ILS 45.5 billion in credit payments, approx. 21.6% of the portfolio, a relatively high rate compared to the industry. However, in our assessment, this reflects the bank's large share of the mortgage sector, which constituted approx. 87% of the deferred credit. We are of the opinion that there is still a great deal of uncertainty regarding the repayment ability of such deferred payments, given the high unemployment rates. At the same time, the significant increase in the provision for credit losses, particularly the group based provision in the first quarter of 2020, may mitigate this risk to some extent. Nevertheless, we will continue to monitor developments in credit loss expenses, especially in the sectors of retail credit and credit to small and mid-sized businesses, which we consider to be the most sensitive to the economic downturn.

The bank's exposure to market risks is not high, in our assessment, given the relatively small nostro portfolio, particularly when compared to some of its local competitors. The bank has some unhedged exposure to interest rate and CPI risks, as well as some exposure to the risk of an adjustment to assets' average duration, due to the longer average duration of assets. The bank manages these risks in a tight manner and we do not anticipate a deterioration in the bank's risk profile as a result thereof.

Table 5

Bank Mizrahi Tefahot Ltd. Risk Position (%)	2020 YTD*	2019	2018	2017	2016
Growth in customer loans	11.5	5.3	7.4	5.7	7.6
Total diversification adjustment / S&P RWA before diversification	N/A	10.3	N/A	N/A	18.0
Total managed assets/adjusted common equity (x)	16.7	16.9	17.3	17.4	18.0
New loan loss provisions/average customer loans	0.7	0.2	0.2	0.1	0.1
Net charge-offs/average customer loans	0.2	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.4	1.4	1.2	1.0	0.9
Loan loss reserves/gross nonperforming assets	64.5	60.4	65.2	79.8	87.7

*First 3 months of 2020
N/A - not applicable
Data are based on S&P Global Ratings adjusted figures and ratios

Funding and liquidity: Average compared to the rest of the industry

We consider the funding characteristics of the bank and of the entire industry to be strong – an evaluation which we also include in the assessment of the Israeli banking industry's risk profile. The bank's funding base is diverse, with a credit-to-deposits ratio of 95% as of March 30, 2020, significantly higher than most of its local competitors and reflecting its credit needs. The bank also benefits from a solid liquidity profile, supported by a broad funding base of local retail deposits.

Table 6

Bank Mizrahi Tefahot Ltd. Funding and Liquidity (%)	2020 YTD*	2019	2018	2017	2016
Core deposits/funding base	87.8	86.1	86.5	85.5	86.2
Customer loans (net)/customer deposits	94.5	97.3	97.7	98.9	96.3
Long term funding ratio	96.0	96.3	96.4	98.2	98.3
Stable funding ratio	113.7	113.5	112.5	114.8	116.5
Short-term wholesale funding/funding base	4.3	3.9	3.8	1.9	1.8
Broad liquid assets/short-term wholesale funding (x)	4.9	5.3	5.2	10.3	11.6
Net broad liquid assets/short-term customer deposits	24.0	24.5	23.3	25.8	27.5
Short-term wholesale funding/total wholesale funding	24.0	24.5	23.3	25.8	27.5

*First 3 months of 2020
Data are based on S&P Global Ratings adjusted figures and ratios

Deposits from local customers accounted for 98% of the bank's funding base on March 31, 2020. Deposits from the public have grown by 6% since the beginning of the year and retail deposits have grown by 9.5%, due to the public leaving the capital market during the March's period of volatility. In our opinion, the transition to bank deposits reflects the public's trust in the banking system and supports banks' liquidity. However, we are of the opinion that these growth rates are not representative, and likely to become more moderate.

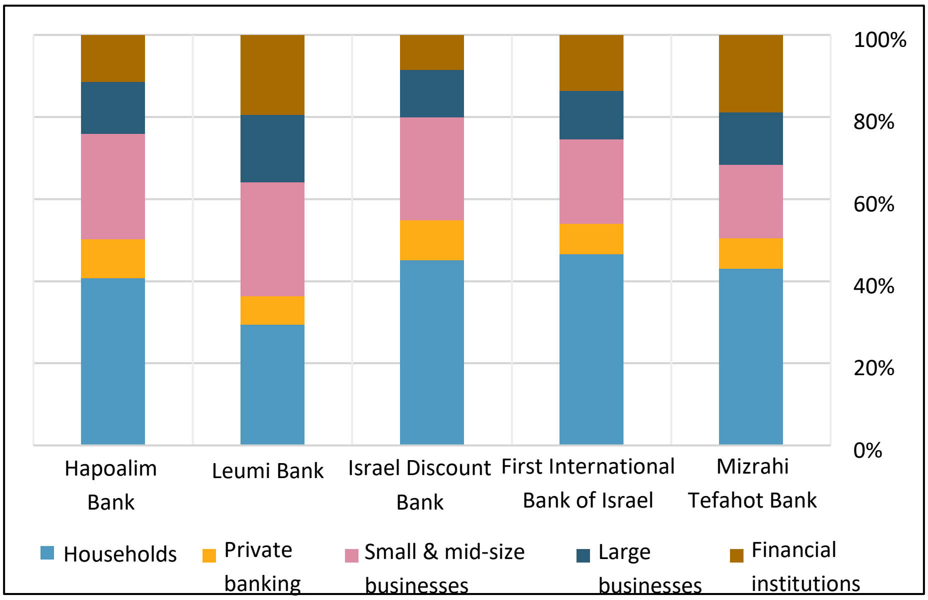
Retail deposits accounted for approx. 50% of all deposits from the public, business deposits - approx. 30%, and the rest were deposits from financial institutions (see figure 4). Mizrahi Tefahot continues to work towards increasing the weight of the more stable retail deposits in lieu of the less stable deposits from financial institutions and businesses; and towards extending their average duration for the purpose of funding its long-term assets.

The stable funding ratio, according to our calculation, was 113%, at the lower end of the range for local banks.

Wholesale funding, which consists of senior debt and subordinated debentures used as tier 2 capital, accounted for 11.3% of the bank's total liabilities - a relatively high rate for the industry. This reflects the bank's need for longer liabilities which are linked to the price index, in accordance with the characteristics of its assets.

The bank has significant liquid balances, and cash, securities and deposits in banks and at the central bank accounted for approx. 23% of the total assets on March 31, 2020. The LCR (liquidity coverage ratio) was 120%, above the minimum requirements and similar to the industry.

Figure 4: Segmentation of deposits by operating segments – Q1 2020



External support: One rating level above the independent credit profile due to the potential of state support

The bank's issuer rating is one rating level (notch) higher than its stand-alone credit profile (SACP), which reflects our assessment of a fairly high probability of exceptional support from the State of Israel (AA-/Stable/A-1+), if necessary. We are classifying Mizrahi Tefahot Bank as being systemically important and the State of Israel as supportive of the local banking sector.

Other factors that affected the rating

No other factors affected this rating.

Methodology and related articles

• Use of CreditWatch And Outlooks	September 14, 2009
• Bank Rating Methodology	November 9, 2011
• Banking Industry Country Risk Assessment Methodology and Assumptions	November 9, 2011
• Quantitative Metrics for Rating Banks Globally: Methodology and Assumptions	July 17, 2013
• Methodology: Timelines of Payments: Grace Periods, Guarantees, And Use of 'D' and 'SD' Ratings	October 24, 2013
• Methodology for Linking Long-Term and Short-Term Ratings	April 7, 2017
• Risk-Adjusted Capital Framework Methodology	July 20, 2017
• S&P Global Ratings' Methodology for National and Regional Scale Credit Ratings	June 25, 2018
• Hybrid Capital Rating Methodology and Assumptions	July 1, 2019
• Group Rating Methodology	July 1, 2019
• S&P Global Ratings Definitions	July 5, 2019
• The Connection Between the Global Rating Scale and the Israeli Rating Scale	June 26, 2018

Ratings list

General details (as of July 21, 2020)	
Mizrahi Tefahot Bank Ltd	
Issuer rating(s)	
Long term	ilAAA\Stable
Issuance rating(s)	
Complex subordinated debt	
Subordinated debentures with a loss absorption capacity	ilAA-
Subordinated capital notes (upper tier 2 capital) A	ilAA-
Issuer's rating history	
Long term	
December 23, 2014	ilAAA\Stable
November 15, 2010	ilAA+\Stable
September 14, 2009	ilAA+\Negative
May 28, 2007	ilAA+\Stable
October 1, 2003	ilAA+
Mizrahi Tefahot Issuance Company Ltd	
Issuance rating(s)	
Complex subordinated debt	
Subordinated debentures with a loss absorption capacity series 47, 48, 50	ilAA-
Senior unsecured debt	
Series 38, 40, 41, 42, 43, 44, 45, 46, 49, 51, 52	ilAAA
Additional details	
Time of the event's occurrence	July 21, 2020 12:22
Time at which the event first became known	July 21, 2020 12:22
Rating initiator	The rated company

[S&P Maalot disclaimer]