

Mizrahi Tefahot Bank Ltd.'s Immediate Reports are published in Hebrew on the Israel Securities Authority and the Tel Aviv Stock Exchange websites.

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MIZRAHI TEFAHOT BANK LTD

No. with the Registrar of Companies: 520000522

To	<u>Israel Securities Authority</u>	To	<u>Tel Aviv Stock Exchange Ltd</u>	T125 (Public)	Date of transmission: March 18, 2021
	www.isa.gov.il		www.tase.co.il		Ref: 2021-01-038514

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

On March 18, 2021 S&P Global Ratings published *Other*:

A rating report/notice *initial*

A notice regarding rating cessation

1. Rating report or notice

Corporation's rating: *Other S&P Global Ratings A-/A-2 stable*

Comments/Notice summary: *Initial rating*

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

Name and type of security	Security number on the	Date	Type of rated security	Rating	Comments/Notice summary
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	stock exchange				

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

Attached rating report [ingsOutlookStable Mar-18-2021 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	<i>Menahe</i>	<i>Other</i> <i>Chief Accountant</i>
2	<i>Adi Shachaf</i>	<i>Other</i> <i>Head of the Finance Division</i>

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](#)

S&P Global Ratings has confirmed the bank's Long Term Credit Rating as A-, the bank's Short-Term Credit Rating as A-2, and the Long-Term Outlook as Stable. For further information on said rating, please see the attached document.

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

Securities of a Corporation Listed for Trading on _____ Form structure revision date: March 3, 2021

the Tel Aviv Stock Exchange

Abbreviated Name: Mizrahi Tefahot

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

E-mail: _____ Company website:

mangment@umtb.co.il <https://www.mizrahi-tefahot.co.il>

Previous name of the reporting entity: United Mizrahi Bank Ltd

Name of the person reporting electronically:

Horvitz Ofer

Position:

Bank Secretary

Name of Employing

Company: Mizrahi Tefahot

Bank Ltd

Address: 7 Jabotinsky Street, Ramat Gan, Tel: Fax: E-mail:
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Research Update:

Mizrahi Tefahot Bank Ltd. Assigned 'A-/A-2' Ratings; Outlook Stable

March 18, 2021

Overview

- Mizrahi Tefahot Bank Ltd. (Mizrahi) is the third-largest bank in Israel with a strong franchise, leading position in mortgage lending, and large and granular deposit base.
- Mizrahi enjoys sound asset quality and strong capital buffers supported by good efficiency, but it remains highly concentrated in the domestic market and its lending portfolio is skewed toward mortgages and real estate lending.
- The recent merger with Union Bank will likely support the bank's market positioning in Israel and increase the diversification of its lending portfolio, reducing its concentration in mortgages.
- We are assigning our 'A-' long-term and 'A-2' short-term issuer credit ratings to Mizrahi.
- The stable outlook reflects our expectation that, over the next 24 months, the bank's capital buffer will be sufficient to absorb the COVID-19 pandemic's effects on its asset quality and financial performance.

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Rating Action

On March 18, 2021, S&P Global Ratings assigned its 'A-/A-2' long- and short-term issuer credit ratings to Mizrahi Tefahot Bank Ltd. (Mizrahi). The outlook is stable.

Rationale

The ratings balance the bank's sound franchise and healthy financial profile with its relatively high business and geographic concentration compared with that of higher-rated peers. They also reflect our expectation that Mizrahi will maintain its strong capitalization and earnings capacity, healthy asset quality, and good operating efficiency over the coming years. We forecast the bank's risk-adjusted capital (RAC) ratio before concentration adjustments will remain above 10% despite some deterioration of its, currently superior, asset quality in the next two years. Mizrahi should be able to absorb higher credit costs amid the pandemic while preserving its financial profile. For 2020, Mizrahi reported an Israeli new shekel (ILS) 1.54 billion annual net

profit, excluding the effect of Union Bank, compared with ILS1.84 billion in 2019, a decrease of 16.2%. We believe the bank faces higher risk stemming from its recent fast growth in the middle market and unsecured retail lending. Those segments comprise below 20% of the bank's lending but largely drove the recent increase in credit-loss provisions. However, we anticipate the hit from any potential deterioration will remain manageable since the Israeli economy is expected to recover faster than elsewhere and the bank benefits from strong risk management. Also, we expect these segments will gradually recover as full business activity resumes in the country.

We see relatively low risk in Mizrahi's large mortgage exposure, due to its prudent risk approach but also partly thanks to macroprudential measures applied by the regulator several years ago. Mizrahi's current loan-to-value is about 53.1% with a payment-to-income ratio of 25.8%. As of January 2021, less than 2% of the bank's mortgage portfolio is under payment deferral, mitigating the risk of a slowdown in the residential property market and an expected rise in unemployment. We expect the recent regulatory change related to the removal of the one-third cap on prime rate components of mortgages might add some pressure on the bank's net interest margins in this segment. That said, we don't see this change significantly heightening the risk of the mortgage loan book. As seen recently, we expect faster growth in small and midsize enterprise (SME) lending, which will increase pockets of risk in the future. However, losses should remain at manageable levels in a stress scenario, given growth is coming from a very low base, and we do not expect it to come at the expense of strong credit decision making.

Mizrahi's revenue and earning assets remain concentrated in Israel and in the mortgage segment, even after the acquisition of Union Bank. Nevertheless, we expect the merger will further strengthen Mizrahi's brand and domestic positioning and boost its robust franchise in the local market.

We believe the funding profile at the bank and industrywide is sound, which we also regard as a strength in our Banking Industry Country Risk Assessment (BICRA) for Israel. In our view, the bank benefits from sound liquidity, supported by its deep domestic funding sources, including a strong retail base. Its key funding and liquidity ratios compare adequately with peers'. Being a systemically important bank in Israel, our ratings also benefit from expected extraordinary government support. We classify Mizrahi as having high systemic importance and consider Israel to be supportive toward the domestic banking sector.

Outlook

The stable outlook on Mizrahi reflects our expectation that, over the next 24 months, the bank's capital buffer will be sufficient to absorb potential pressure on asset quality and profitability following COVID-19 pandemic effects. This is largely due to our view of relatively low risk in mortgage lending, the bank's largest credit exposure. In particular, we expect that Mizrahi's RAC will remain above 10% and its asset quality slightly better than that of its domestic peers. This is despite the recent hike in cost of risk, albeit from a low base.

Downside scenario

We could lower the ratings if the bank's asset quality weakens beyond our current expectations, pressuring its capitalization. This could be the case should the bank's diversification into SME lending result in unexpectedly high credit losses. Similarly, if labor market recovery is delayed, this could pressure the ratings should it lead to increased borrower difficulties. Furthermore,

slower-than-expected recovery in economic activity and demand, further delaying or reducing the recovery chances of the business segment, could have a ratings impact.

Upside scenario

We could consider a positive rating action if we conclude that the bank's business and earnings prospects have strengthened following the recent merger with Union Bank and despite the impact of COVID-19 on the Israeli economy. We will monitor the evolution of efficiency and profitability metrics in comparison with other higher-rated peers' as targeted cost synergies post-merger start paying off. At the same time, an upgrade will hinge upon the bank's risk profile remaining commensurate with the current ratings and its accelerated growth in new segments remaining neutral to its overall capitalization.

Ratings Score Snapshot

Issuer Credit Ratings	A-/Stable/A-2
SACP	bbb+
Anchor	bbb+
Business Position	Adequate (0)
Capital & Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and Adequate (0)
Support	+1
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+1
Additional factors	0

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

Research Update: Mizrahi Tefahot Bank Ltd. Assigned 'A-/A-2' Ratings; Outlook Stable

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment Update: January 2021, Jan. 21, 2021
- Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable, Nov. 13, 2020
- Banking Industry Country Risk Assessment: Israel, July 15, 2020
- Israel Discount Bank Ltd. And Discount Bank of New York Outlooks Revised To Stable; Ratings Affirmed, May 6, 2020
- Tech Disruption In Retail Banking: The Regulator Is Moving Israeli Banks Into A Digital Future, Feb. 5, 2020

Ratings List

New Rating

Mizrahi Tefahot Bank Ltd.

Issuer Credit Rating A-/Stable/A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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