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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	<u>Israel Securities Authority</u>	To	<u>Tel Aviv Stock Exchange Ltd</u>	T125 (Public)	Date of transmission: December 19, 2021
	www.isa.gov.il		www.tase.co.il		Ref: 2021-01-181752

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

On December 19, 2021, *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 bonds:

Name and type of security	Security number on the stock exchange	Rating company	Current rating	Comments/Notice summary
<i>Bonds (Series 46)</i>	2310225	S&P Maalot	<i>S&P Maalot ilAAA None/NOO</i>	Rating affirmation
<i>Bonds (Series 52)</i>	2310381	S&P Maalot	<i>S&P Maalot ilAAA None/NOO</i>	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
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Explanation: The ratings history should only detail the rating history of the company rating the subject of the immediate report

Attached rating report [Maalot 19122021 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>Ofer Horwitz</i>	<i>Other Bank Secretary & Head of the Bank's Headquarters</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](#)

Maalot's rating is given in connection with the issuance of bonds (Series 46 and 52), by way of series expansion, which is being examined by Mizrahi Tefahot Issuing Company Ltd, , a subsidiary fully owned by the bank. It is hereby clarified that as of this report's date, there is no certainty regarding the execution of the issuance, its timing, its size and its terms.

No change was made to the bank's rating.

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: December 15, 2021

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:	Position:	Name of Employing
Horwitz Ofer	Bank Secretary	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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[S&P Maalot Letterhead]

Mizrahi Tefahot Bank Ltd

Mizrahi Tefahot Issuance Company Ltd

December 19, 2021

New Issuance

Granting of an 'ilAAA' Rating to an Issuance of Bonds at up to ILS 1.4 Billion N.V.

Primary Credit Analyst:

Goksenin Karagoz, Paris 33-1-44206724 goksenin.karagoz@spglobal.com

Additional Contact Person:

Lena Schwartz, Ramat Gan 972-3-7539716 lena.schwartz@spglobal.com

New Issuance

Granting of an 'ilAAA' Rating to an Issuance of Bonds at up to ILS 1.4 Billion N.V.

S&P Maalot hereby announces the grant of an 'ilAAA' rating to an issuance of bonds at up to ILS 1.4 billion N.V., to be issued through the expansion of Series 46 and 52, by Mizrahi Tefahot Bank Ltd (ilAAA/Stable) via Mizrahi Tefahot Issuing Company Ltd.

For further details regarding Mizrahi Tefahot Bank Ltd's rating and for additional regulatory requirements, see the rating report dated July 22, 2021.

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 22 2021
Issuance rating(s)			
<u>Complex subordinated debt</u>			
Contingent subordinated bonds with loss absorption capacity	ilAA-	Nov 19 2015	Jul 22 2021
Subordinated capital bonds (upper Tier-II capital) A	ilAA-	May 28 2007	Jul 22 2021
Issuer rating history			
Long term			
December 25, 2014	ilAAA/Stable		
November 15, 2010	ilAA+/Stable		
September 14, 2009	ilAA+/Negative		
May 28, 2007	ilAA+/Stable		
October 13, 2003	ilAA+		

Mizrahi Tefahot Bank Ltd
Mizrahi Tefahot Issuing Company Ltd

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 22 2021
Contingent subordinated bonds with loss absorption capacity Series 53	ilAA-	Dec 9 2020	Jul 22 2021
Contingent subordinated bonds with loss absorption capacity Series 48	ilAA-	Oct 4 2018	Jul 22 2021
Contingent subordinated bonds with loss absorption capacity Series 50	ilAA-	Jun 6 2019	Jul 22 2021
Senior unsecured debt			
Series 40, 41, 42	ilAAA	May 21 2015	Jul 22 2021
Series 44	ilAAA	Sep 11 2016	Jul 22 2021
Series 45, 46	ilAAA	Sep 11 2017	Jul 22 2021
Series 62	ilAAA	Oct 6 2021	Oct 6 2021
Series 49	ilAAA	Jun 6 2019	Jul 22 2021
Series 51	ilAAA	Oct 10 2019	Jul 22 2021
Series 52	ilAAA	Jun 17 2020	Jul 22 2021
Additional details			
Time of the event's occurrence	December 19, 2021 10:45		
Time at which the event first became known	December 19, 2021 10:45		
Rating initiator	The rated company		

[legal disclaimer]

Mizrahi Tefahot Bank Ltd

Mizrahi Tefahot Issuance Company Ltd

July 22, 2021

Primary Credit Analyst:

Goksenin Karagoz, Paris 33-1-44206724 goksenin.karagoz@spglobal.com

Additional Contact Person:

Lena Schwartz, Ramat Gan 972-3-7539716 lena.schwartz@spglobal.com

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Rating reaffirmation

Reaffirmation of 'ilAAA' rating on resilient risk profile and capital buffer; outlook stable

Overview

- Mizrahi Tefahot Bank Ltd ("Mizrahi Tefahot" or "the Bank") has maintained sound asset quality and strong capital buffers in the past few years while demonstrating resilience to the economic impact of the COVID-19 pandemic.
- We expect that the recently completed purchase between Mizrahi Tefahot and Union Bank of Israel Ltd ("Union Bank") and the ongoing integration of Union Bank into Mizrahi Tefahot alongside the successful implementation of the new five-year strategy will support the Bank's rating.
- We are reaffirming Mizrahi Tefahot Bank Ltd's rating, 'ilAAA', as well as the ratings of its debt.
- The stable rating outlook for the next two years is based on our expectations that the Bank will successfully implement the new strategic plan and improve its product diversification, profitability, and operational efficiency while maintaining solid credit quality and capital ratios.

The rating action

On July 22, 2021, S&P Maalot reaffirmed Mizrahi Tefahot Bank Ltd's 'ilAAA' rating, stable outlook. At the same time, S&P Maalot reaffirmed the Bank's debt ratings.

Main considerations

We estimate that Mizrahi Tefahot could strengthen its business and risk profiles through its merger with Union Bank after demonstrating resilience to the pandemic's impact. We expect the merger with Union Bank to strengthen Mizrahi Tefahot's brand and domestic positioning as the third largest bank in Israel. Mizrahi Tefahot's asset quality metrics and capitalization remained sound despite the pandemic-related economic stress and the consolidation of Union Bank. In 2020, at 9.24%, Mizrahi Tefahot's return on equity (according to our calculations) exceeded those of domestic and foreign peers. This is despite an elevated cost of risk due to the pandemic (not taking into account the impact of the completion of the purchase of Union Bank, since Mizrahi's 2020 financials consolidated Union Bank's balance-sheet only, apart from the 4th quarter). The purchase further boosted Mizrahi Tefahot's return on equity to 14.15% (according to our calculations) in first-quarter 2021, which is well above that of most peers.

Mizrahi Tefahot's risk profile is similar to that of its local and global peers. During the five years preceding the pandemic, the Bank's cost of risk (measured by new loan loss provision to average customer loans) averaged 14 basis points, ranking in the middle of the peer group (a sample of eight banks domiciled in Israel, Czech Republic, and Denmark). At 1.04% of total loans on Dec. 31, 2020, its gross nonperforming assets was the lowest among peers. Given its focus on lending to households, Mizrahi Tefahot's lending book exhibits lower single-party concentration than domestic peers. Similarly, at about 9.2% of gross loans on the same date, the Bank's exposure to real estate and construction was well below domestic peers.

Mizrahi Bank's capital buffer helped it absorb the negative impact of the pandemic and the purchase of Union bank. Mizrahi Tefahot's risk-adjusted capital (RAC) ratio dropped to 10.5% at year-end 2020 from 11.6% a year ago, largely reflecting the purchase of Union Bank. Our RAC ratios differ from the Bank's reported regulatory capital ratios owing to different risk weights we attribute to all asset classes. We forecast our RAC ratio for the Bank will gradually improve beyond 11% by the end of 2023. In our base-case scenario, we assume a normalization of credit costs starting from this year, coupled with about 6% annual loan growth. The net interest margin should show only a marginal contraction despite current low rates, given higher margins for business lending that is expected to expand. We assume a gradual resumption of dividend payouts in 2021, eventually increasing to the bank's stated target payout ratio of up to 50%.

The 2021-2025 strategic plan aims at leveraging the Union Bank merger as a platform for rapid growth in business-sector lending while consolidating Mizrahi Bank's leading position among households. Even after the completion of the purchase, Mizrahi's loan book remains skewed toward households, with mortgage loans standing at about 64% of gross loans on March 31, 2021. The planned fast lending growth in the middle market and corporate segments will help the Bank diversify its loan and revenue split by customer and product type. However, this rapid growth could hurt the Bank's asset quality should the economic rebound lose momentum - for example, if the pandemic lingers, or if the Bank were to compromise its currently prudent lending standards, which is not our base case expectation, however. Yet, even in such an adverse scenario, asset-quality deterioration will be from a very solid base, and the bank has sufficient earnings and capital buffers to absorb elevated losses. Of note, while Mizrahi Tefahot's mortgage book has performed well so far, we remain cautious regarding the bank's rising exposure to the residential property, especially considering the market's recent heating. We are mindful that a reversal in the current trend--notably prices--could trigger imbalances and higher credit risks for banks.

It remains to be seen when and to what extent expected operational and cost synergies from the merger will materialize. With a cost to income (C/I) ratio of 54.2% in 2020 (54.6% in 2019) according to our calculations, Mizrahi Tefahot is already one of the most efficient banks in its peer group. In addition, its return on equity averaged 10% in the past four years and exceeded the average of domestic and global peers. The Bank's new strategic plan aims at bringing its C/I ratio below 50% by the end of 2025. We view the plan as somewhat ambitious despite the expected cost synergies from the Union Bank merger. Mizrahi Tefahot has the lowest headcount among peers but is targeting further savings through reducing the number of Union Bank employees. Additional cost savings will come from a reduction of the branch network as well as from digitalization, which comes with a price. Mizrahi Tefahot and its domestic peers have been investing heavily in their IT systems to stave off stiff competition, notably in the retail segment.

We believe integration risks are manageable, given the relatively smaller size of Union Bank. We see Mizrahi Tefahot's management team as highly professional and experienced and believe they are capable of successfully completing the merger and integrating Union Bank.

We believe the funding profile of Mizrahi Tefahot and industrywide is sound, which we also regard as a strength in our Banking Industry Country Risk Assessment (BICRA). In our view, the Bank benefits from sound liquidity, supported by its stable and well-diversified domestic funding sources, including a strong retail base. Its key funding and liquidity ratios compare adequately with those of its peers.

The rating is supported by the likelihood of extraordinary government support, if necessary. Since we classify Mizrahi Tefahot as a systemically important bank in Israel, its rating includes our assessment that the State of Israel (AA-/stable/A-1+) will provide it with extraordinary support in the event of an economic crisis.

Rating outlook

Mizrahi Tefahot's stable outlook for the next 12-24 months reflects our assessment that the Bank is emerging from the pandemic with limited asset quality problems, a strong capital buffer, and improved earnings relative to 2020. In addition, our view is that the Bank will successfully implement the new strategic plan, and improve its product diversification, profitability, and efficiency while maintaining solid credit quality and capital ratios.

The downside scenario

We will consider a negative rating action in the next 12-24 months should the Bank's asset-quality metrics deteriorate, for example because of higher credit losses than we expect from the anticipated fast growth, which would indicate a weakening of its risk profile.

An outlook revision could also stem from the Bank failing to withstand competitive pressure in Israel and losing market share and revenue, to the detriment of its profitability.

Methodology and related articles

- General Criteria: Principles Of Credit Ratings February 16, 2011
- Banking Industry Country Risk Assessment Methodology and Assumptions (BICRA) November 9, 2011
- Bank Rating Methodology November 9, 2011
- Quantitative Metrics for Rating Banks Globally: Methodology and Assumptions July 17, 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 January 5, 2021
- The Connection Between the Global Rating Scale and the Israeli Rating Scale June 26, 2018

Ratings list

Mizrahi Tefahot Bank Ltd	Rating	Date first published	Last updated
Issuer rating(s)			
Long term	ilAAA/stable	Oct. 9 2003	Jul. 21 2020
Issuance rating(s)			
<u>Complex subordinated debt</u>			
Subordinated debentures with a loss absorption mechanism	ilAA-	Nov. 19 2015	Jul. 21 2020
Subordinated capital notes (upper tier 2 capital) A	ilAA-	May 28 2007	Jul. 21 2020

	Rating	Date first published	Last updated
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 1, 2003	ilAA+		
Additional details			
Time of the event's occurrence	July 22, 2021 16:59		
Time at which the event first became known	July 22, 2021 16:59		
Rating initiator	The rated company		
Issuance ratings			
<u>Complex subordinated debt</u>			
Subordinated debentures with a loss absorption mechanism series 47	ilAA-	Dec. 4 2017	Jul. 21 2020
Subordinated debentures with a loss absorption mechanism series 53	ilAA-	Dec. 9 2020	Dec. 9 2020
Subordinated debentures with a loss absorption mechanism series 48	ilAA-	Oct. 4 2018	Jul. 21 2020

	Rating	Date first published	Last updated
Subordinated debentures with a loss absorption mechanism series 50	ilAA-	Jun. 6 2019	Jul. 21 2020
<u>Senior unsecured debt</u>			
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 2017	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	July 22, 2021 16:59		
Time at which the event first became known	July 22, 2021 16:59		
Rating initiator	The rated company		

[S&P Maalot disclaimer]