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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: January 13, 2022
	www.isa.gov.il		www.tase.co.il		Ref: 2022-01-006415

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

On January 12, 2022 Fitch Rating published *Other*:

A rating report/notice *updated*

A notice regarding rating cessation

1. Rating report or notice

Corporation's rating: *Other* Fitch Rating
A/F1+ stable

Comments/Notice summary: *Rating confirmation*

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

Date	Rating subject	Rating	Comments/Notice summary
April 22 2021	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ stable</i>	<i>Rating confirmation</i>
March 18 2021	<i>Mizrahi Tefahot Bank Ltd</i>	<i>Other Fitch Rating A/F1+ stable</i>	<i>Initial rating</i>

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

Rating of the corporation's debentures:

Name and type of security	Security number on the stock exchange	Rating company	Current rating	Comments/Notice summary
<i>Subordinated Tier 2 Capital Notes</i>	6950836	<i>Other Fitch Rating</i>	<i>Other BBB None/NOO</i>	Rating confirmation

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
<i>Subordinated Tier 2 Capital Notes</i>	6950836	<i>April 22 2021</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Rating confirmation</i>
<i>Subordinated Tier 2 Capital Notes</i>	6950836	<i>April 7 2021</i>	<i>Debenture</i>	<i>Other BBB None/NOO</i>	<i>Other Initial rating – supplementary report</i>
<i>Subordinated Tier 2 Capital Notes</i>	6950836	<i>March 18 2021</i>	<i>Debenture</i>	<i>Other BBB (EXP) None/NOO</i>	<i>Initial rating</i>

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

Attached rating report [utlook Stable - 12 Jan 2022 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>Adi Shachaf</i>	<i>Other Head of the Finance Division</i>
2	<i>Menahem Aviv</i>	<i>Other Chief Accountant</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](#)

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

2021-01-069123

Securities of a Corporation Listed for Trading on Form structure revision date: December 30, 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:
mangment@umb.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@umb.co
.il**

12 JAN 2022

Fitch Affirms Mizrahi Tefahot Bank at 'A'; Outlook Stable

Fitch Ratings - London - 12 Jan 2022: Fitch Ratings has affirmed Mizrahi Tefahot Bank Ltd's (UMTB) Long-Term Issuer Default Rating at 'A' with a Stable Outlook, and Viability Rating (VR) at 'a-'.

Fitch has withdrawn the bank's '1' Support Rating and 'A' Support Rating Floor as they are no longer relevant to Fitch's coverage following the publication of the updated Bank Rating Criteria in November 2021. In line with the updated criteria, Fitch has assigned a Government Support Rating (GSR) of 'a' to UMTB.

Key Rating Drivers

IDRs and GSR

UMTB's Long-Term IDR is at the same level as the GSR, which itself is in line with the domestic systemically important bank (D-SIB) GSR for Israel, and reflects Fitch's view of a very high probability that Israel (A+/Stable) would provide support to UMTB, if needed. Fitch believes that Israel has a strong ability to support its banking sector and that the sovereign's propensity to support UMTB is high, particularly given the bank's systemic importance in the country with a market share of about 20% of banking-sector assets.

UMTB's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

VR

The VR reflects UMTB's strong franchise in Israel, particularly in mortgage lending, stable asset quality that we expect to remain resilient despite concentration in domestic property, and adequate capitalisation. The ratings also reflect the bank's adequate funding, given a large deposit base and conservative liquidity management as well as adequate earnings, which in 2021 benefited from releases from loan loss allowances (LLAs) booked in 2020.

UMTB's asset quality has been sound since the start of the pandemic, helped by government measures to support borrowers, and the bank's gross impaired loan ratio improved to about 0.5% at end-9M21. Like its domestic peers, UMTB built up large LLAs during 2020, which equalled 1% of gross loans by end-2020, but these have gradually been released during 9M21.

We do not expect a moderate increase in the impaired loan ratio as the economy normalises, but we

expect the gross impaired loan ratio to remain below 1% over the next two years. This is lower than our expectation for UMTB's domestic peers and reflects the bank's greater proportion of lower-risk residential mortgage loans.

Underwriting standards are conservative, helped by tight regulatory limits and oversight, particularly for mortgage loans and construction-and-real-estate lending, which the regulator views as likely sources of credit risk. UMTB's material exposure to the residential real-estate market, through mortgages as well as construction loans, makes asset quality vulnerable to a sharp decline in house prices. However, this risk is mitigated by the low indebtedness of Israeli households as well as high population growth that drives high demand for new construction.

The bank's exposure to market risk is moderate and arises primarily from interest-rate and consumer price index (CPI) risks in the banking book, which is subject to the bank's framework of risk limits. Exposure to CPI is higher than peers', given the larger relative size of UMTB's mortgage book, as CPI-linked mortgages are popular with mortgage borrowers looking to reduce their monthly payments. In years of low inflation, such as 2020, this acted as a modest drag on net interest income, but the bank's CPI exposure made a positive contribution in 9M21. UMTB's exposure to equity investments in non-financial companies is much lower than peers'.

Profitability saw a strong recovery in 9M21 as UMTB benefited from strong new mortgage volumes. Profitability was also helped by releases of LLAs, which we expect to have continued in 4Q21 and to extend into 2022 if the economic recovery continues. The bank's performance should benefit from further loan growth, increasingly in loans to small and mid-sized businesses, in line with the bank's diversification strategy, as well as from ongoing cost-efficiency programmes to meet the lower cost/income ratio targeted in the 2021-2025 strategic plan.

The headroom available in our capitalisation assessment is limited, even though capitalisation has remained adequate during the pandemic, with a reported common equity Tier 1 (CET1) ratio of 10.44% at end-9M21. Like all banks in Israel, UMTB calculates risk-weighted assets (RWA) using the standardised approach, which resulted in RWA-density of 56% at end-9M21, which is high considering the bank's high proportion of mortgage loans. We expect the bank to maintain a CET1 ratio with a moderate buffer above the regulatory minimum requirement, which was 8.6% at end-9M21 including a 100bp temporary reduction made by the Bank of Israel to support lending during the pandemic. The 100bp temporary reduction was in place until 31 December 2021.

UMTB's loan/deposit ratio is higher than domestic peers', reflecting greater use of wholesale funding. However, UMTB's funding benefits from the bank's stable and granular retail and SME deposit base, and liquidity is sound.

Subordinated Debt

UMTB's USD600 million Tier 2 notes are rated two notches below the VR, reflecting poor recovery prospects in the event of a failure of the bank, in line with Fitch's base-case notching for Tier 2 debt. No additional notching is applied as, in our opinion, the principal loss-absorption feature after a breach of a 5% CET1 ratio gives rise to low incremental non-performance risk relative to the bank's VR.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

IDRs and GSR

UMTB's IDRs and GSR are primarily sensitive to a negative change in the sovereign's ability or propensity to support the bank. A downgrade of Israel's Long-Term IDR would likely result in a downgrade of UMTB's IDRs and GSR. A reduced propensity of the Israeli authorities to support the country's largest banks, which could be signalled by the introduction of effective bank-resolution legislation, would also result in a downgrade of the bank's IDRs and GSR.

VR

The most likely trigger for a downgrade of the VR is sharp deterioration of asset quality resulting in a gross impaired loan ratio of above 3% for an extended period, in combination with a CET1 ratio decreasing materially with limited prospect to re-build capital organically. A sharp increase in problem loans not classified as impaired loans could also put pressure on ratings if it indicates a structural deterioration in asset quality. Given the bank's exposure to the real-estate sector, a sharp decline in real-estate prices would put pressure on asset quality and therefore on ratings.

Subordinated Debt

The Tier 2 notes' rating would likely be downgraded if the bank's VR is downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

IDRs and GSR

An upgrade of UMTB's IDRs and GSR would require a material strengthening of Israel's ability and propensity to provide support to the bank, which we do not expect. An upgrade of Israel's Long-Term IDR is unlikely to result in an upgrade of the bank's Long-Term IDR and GSR as we typically do not assign GSRs above 'a' for D-SIBs in countries whose sovereigns are rated 'AA' or 'AA-' and where support propensity is high.

VR

An upgrade of UMTB's VR is unlikely given the bank's domestic-focused business model and would notably require a material and structural improvement in profitability that allows the bank to generate operating profit/RWA above 2% on a sustained basis while maintaining a CET1 ratio above its current target and continuing to report healthy asset quality.

Subordinated Debt

The Tier 2 notes' rating would likely be upgraded if the bank's VR is upgraded.

VR ADJUSTMENTS

The operating environment score of 'a' has been assigned below the 'aa' category implied score, due to the following adjustment reason: sovereign rating (negative).

The business profile score of 'a-' has been assigned above the 'bbb' category implied score, due to the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'a-' has been assigned above the 'bbb' category implied score, due to the following adjustment reasons: leverage and risk-weight calculation (positive).

The funding and liquidity score of 'a-' has been assigned above the 'bbb' category implied score, due to the following adjustment reason: deposit structure (positive).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

UMTB's IDRs and GSR reflect Fitch's expectation of a very high probability of state support from Israel.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Mizrahi Tefahot Bank Ltd	LT IDR	A 	Affirmed	A 
	ST IDR	F1+	Affirmed	F1+
	Viability	a-	Affirmed	a-
	Support	WD	Withdrawn	1
	Support Floor	WD	Withdrawn	A
	Government Support	a	New Rating	
	• subordinated	BBB	Affirmed	BBB

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◇
NEGATIVE	⊖	◇
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.12 Nov 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Mizrahi Tefahot Bank Ltd UK Issued, EU Endorsed

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