

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: July 27, 2022
	www.isa.gov.il		www.tase.co.il		Ref: 2022-01-095635

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

On July 26, 2022 S&P Maalot published:

A rating report/notice *updated*

A notice regarding rating cessation

1. Rating report or notice

Corporation's rating: *Other* S&P Maalot ilAAA stable

Comments/Notice summary: *Other affirmation*

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

Date	Rating subject	Rating	Comments/Notice summary
January 23 2022	<i>Mizrahi Tefahot Bank Ltd</i>	<i>S&P Maalot ilAAA stable</i>	<i>Other Affirmation</i>
July 22 2021	<i>Mizrahi Tefahot Bank Ltd</i>	<i>S&P Maalot ilAAA stable</i>	<i>Other Affirmation</i>
July 21 2020	<i>Mizrahi Tefahot Bank Ltd</i>	<i>S&P Maalot ilAAA stable</i>	<i>Other Affirmation</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
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<i>Subordinated debentures</i>	0	S&P Maalot	<i>S&P Maalot stable ilAA-</i>	Rating confirmation
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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 stock exchange	Date	Type of rated security	Rating	Comments/Notice summary
<i>Subordinated debentures</i>	January 23 2022	0	<i>Subordinated debentures with a loss absorption mechanism</i>	<i>S&P Maalot stable ilAA-</i>	Rating confirmation
<i>Subordinated debentures</i>	July 22 2021	0	<i>Subordinated debentures with a loss absorption mechanism</i>	<i>S&P Maalot stable ilAA-</i>	Rating confirmation
<i>Subordinated debentures</i>	July 21 2020	0	<i>Subordinated debentures with a loss absorption mechanism</i>	<i>S&P Maalot stable ilAA-</i>	Rating confirmation

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

Attached rating report [maalot270722 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 Horvitz</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](#)

The reference numbers of previous documents on the subject (reference does not constitute incorporation by reference):
2022-01-010258

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

Form structure revision date: June 7 2022

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:

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

Mizrahi Tefahot Bank Ltd

Mizrahi Tefahot Issuance Company Ltd

July 26, 2022

Rating Affirmation

Affirmation of 'ilAAA' Rating; Outlook Stable

Primary Credit Analyst:

Pierre Hollegien, Paris 33-14-0752513 goksenin.karagoz@spglobal.com

Additional Contact Person:

Avital Koren, Ramat Gan 972-3-7539708 avital.koren@spglobal.com

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Rating Affirmation

Affirmation of 'ilAAA' Rating; Outlook Stable

Summary

- A resilient economic environment is expected to support Israel's banking industry, despite the global economic slowdown.
- We expect real estate price growth to continue, albeit at a slower pace compared with the past 12 months.
- We affirm the rating 'ilAAA' for Mizrahi Tefahot Bank Ltd. The outlook is stable.

The Rating Action

On July 26, 2022, S&P Maalot affirmed Mizrahi Tefahot Bank Ltd's 'ilAAA' rating. The outlook is stable.

Primary Considerations

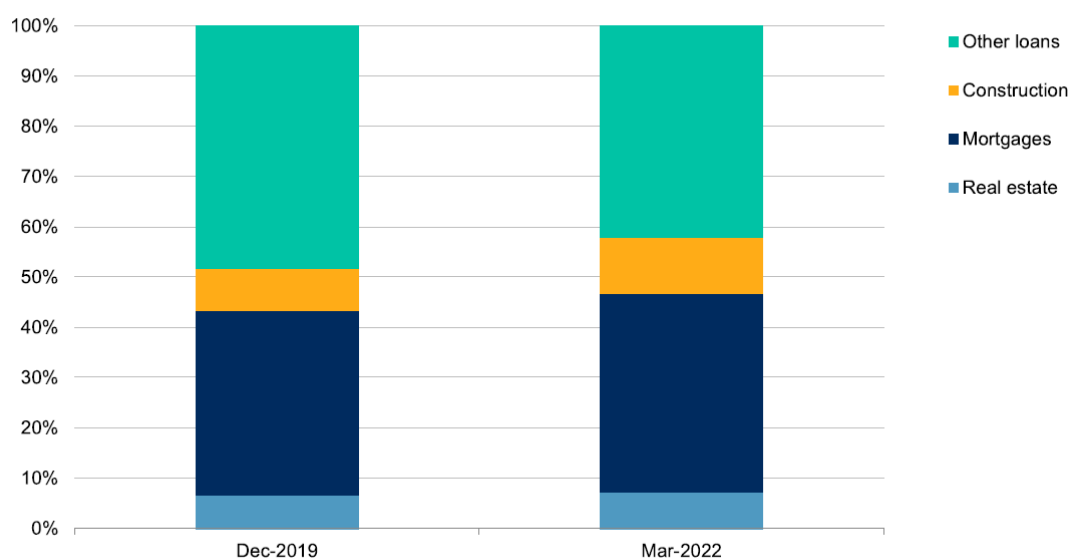
Economic conditions continue to support the banking system. Following strong performance in 2021, we expect the Israeli economy to remain broadly resilient, posting solid GDP growth of 5.5% in real terms in 2022, despite rising inflation and the monetary policy tightening of the Bank of Israel. However, the rebound after the peak of the COVID-19 pandemic and the accommodative monetary policy have fueled real estate price growth, which has increased in real terms by about 10% in real terms over the past 12 months.

The banking system's high exposure to the real estate sector poses a risk, but we anticipate that it will remain manageable. On the back of growing demand, Israeli banks expanded their lending portfolios by about 14% last year. Most of the expansion occurred in real-estate-related lending, particularly mortgages and construction loans, which constitute a large part of bank credit in Israel. We continue to consider the commercial real estate sector as the most vulnerable. Although offices and shopping malls have been resilient during the pandemic, there is still a risk of oversupply in the office sector, particularly if the high-tech sector's demand were to slow significantly.

Fundamental real estate demand driven by population growth and the limited supply side will continue pushing up prices and lending. However, we now expect the market to slow down as rising interest rates, higher inflation, and regulatory measures will weigh on lending expansion and prices in 2022 and 2023. That said, we expect the price increase rate to remain slightly above the pre-pandemic average of about 3%-4%, and we therefore foresee growing imbalances in the economy.

Chart 1

Israeli Real Estate Lending Has Increased In Recent Years



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We think stringent regulation and the banking system's adequate lending and underwriting standards are mitigating risks stemming from the structural high exposure to the real estate sector. As such, we expect credit losses will gradually normalize to pre-pandemic levels of about 25 basis points by 2024, with unsecured retail small and micro business lending accounting for most of the credit losses.

Increasing interest rates and strong business momentum will sustain Israeli banks' profitability and capitalization. Revenue will benefit from the strong lending growth observed over recent quarters, increasing interest rates, and a high amount of consumer price index-linked assets benefiting from rising inflation. That said, strong competition will dent margins. Branch closures and workforce reduction will continue helping banks to limit operating expenses increases, while banks continue investing in digitalization. Resilient profitability and financial flexibility to raise capital or cut dividends will help capitalization to stabilize over the next 12-24 months, in our view. This is despite the erosion of the capital buffer above regulatory capital by strong lending growth, the resumption of dividend payments, and, to a lesser extent, asset repricing, following the peak of the pandemic.

The rating affirmation for Mizrahi Tefahot reflects our view that the bank will continue to benefit from its leading position in mortgage lending and the resilient economy. Ongoing integration of the recently acquired Union Bank, high lending growth, and a hike in interest rates and inflation are factors that will support the bank's 2025 profitability target of 14% return on equity and below 50% operational efficiency (cost to income).

The bank reported that a 100bps interest rate increase would lift its NII by about 16.8% compared to 2021. Rising inflation will also contribute since about 18.6% of total assets are CPI-linked. That said, following several quarters of pandemic-related provisions release, we expect cost of risk to increase above historical levels due to the bank's ongoing and expected growth in the small and midsize enterprise and construction segments. In line with peers, the bank significantly grew its lending portfolio, particularly loans to the construction and real estate sectors (by 20.8% in 2021 and 11.1% in Q1 2022). We anticipate that the bank's growth will lead to an increase in the cost of risk to about 20 bps of the total credit in 2023, moderately below that of domestic peers as 75% of Mizrahi Tefahot's lending portfolio is retail. As such, we expect the RAC ratio to stay at about 10.5%-11.0% at end-2024 from 10.4% at end-2021. We anticipate that the bank will distribute approximately 40% of its revenues as a dividend.

Rating Outlook

Mizrahi Tefahot's stable outlook for the next 12-24 months reflects our assessment that the bank will continue to benefit from its leading status in mortgage lending, under a resilient economic environment, and that the ongoing integration of Union Bank, a growth of the credit portfolio, the rising interest and inflation rates and a high operational efficiency will support the bank's profitability. The outlook likewise assumes that the capital base will remain strong, despite the growth of the credit portfolio and a certain increase in credit loss provisions that we are anticipating, due to the growth in credit to small and medium business and construction loans.

Downside Scenario

We may 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 could indicate a weakening of the risk profile. We may also consider a negative rating action should the bank fail to withstand the competitive pressure in Israel and loses market share and revenue, to the detriment of its profitability.

Methodology and Related Articles

- General Criteria: Principles Of Credit Ratings February 16, 2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings April 7, 2017
- Risk-Adjusted Capital Framework Methodology July 20, 2017
- General Criteria: Methodology For National And Regional Scale Credit Ratings June 25, 2018
- Group Rating Methodology July 1, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings October 10, 2021
- Financial Institutions Rating Methodology December 9, 2021
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions December 9, 2021
- Hybrid Capital: Methodology And Assumptions March 2, 2022
- S&P Global Ratings Rating Definitions November 10, 2021
- The Connection Between the Global Rating Scale and the Israeli Rating Scale June 26, 2018

Mizrahi Tefahot Bank Ltd Mizrahi Tefahot Issuance Company Ltd	Rating	Date on which rating was first published	Date on which rating was last updated
Issuer Rating(s)			
Mizrahi Tefahot Bank Ltd			
Long term	ilAAA/Stable	Oct 9 2003	Jan 23 2022
Issuance rating(s)			
<u>Mizrahi Tefahot Bank Ltd</u>			
<u>Complex subordinated debt</u>			
Contingent subordinated bonds with loss absorption capacity	ilAA-	Nov 19 2015	Jan 23 2022
<u>Mizrahi Tefahot Issuance Company Ltd</u>			
<u>Complex subordinated debt</u>			
Contingent subordinated bonds with loss absorption capacity Series 47	ilAA-	Dec 4 2017	Jan 23 2022
Contingent subordinated bonds with loss absorption capacity Series 53	ilAA-	Dec 9 2020	Jan 23 2022
Contingent subordinated bonds with loss absorption capacity Series 48	ilAA-	Oct 4 2018	Jan 23 2022
Contingent subordinated bonds with loss absorption capacity Series 50	ilAA-	Jun 6 2019	Jan 23 2022
<u>Senior unsecured debt</u>			
Series 40, 42	ilAAA	May 21 2015	Jan 23 2022
Series 44	ilAAA	Sep 11 2016	Jan 23 2022
Series 45, 46	ilAAA	Sep 11 2017	Jan 23 2022
Series 62	ilAAA	Oct 6 2021	Jan 23 2022
Series 63, 64	ilAAA	Mar 28 2022	Mar 28 2022
Series 49	ilAAA	Jun 6 2019	Jan 23 2022
Series 51	ilAAA	Oct 10 2019	Jan 23 2022
Series 52	ilAAA	Jun 17 2020	Jan 23 2022
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+		
Additional details			
Time of the event's occurrence	July 26, 2022 11:24		
Time at which the event first became known	July 26, 2022 11:24		
Rating initiator	The rated company		

[legal disclaimer]