

18 MAR 2021

Fitch Assigns Mizrahi Tefahot Bank's Planned Tier 2 Notes 'BBB(EXP)'

Fitch Ratings - London - 18 Mar 2021: Fitch Ratings has assigned Mizrahi Tefahot Bank Ltd's (UMTB) planned issue of Tier 2 notes an expected rating of 'BBB(EXP)'.

The assignment of a final rating is contingent upon the receipt of final documents consistent with the information already received.

UMTB's other ratings are unaffected by this rating action.

Key Rating Drivers

The expected rating on UMTB's planned US dollar-denominated Tier 2 notes is two notches below the bank's Viability Rating, 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% common equity Tier 1 (CET1) ratio gives rise to low incremental non-performance risk relative to the bank's VR.

The US dollar-denominated subordinated notes will rank pari passu with the bank's other Tier 2 debt. The notes will be written down partially or in full if UMTB's CET1 ratio falls below 5% or if UMTB's regulator, the Bank of Israel, notifies UMTB in writing that the write-down of the debt is necessary to avoid becoming non-viable, or if the Bank of Israel determines that a capital injection is needed from the public sector, or equivalent support, to avoid the point of non-viability. There is no coupon flexibility on the notes.

RATING SENSITIVITIES

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

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

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

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

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>]

Date of Relevant Committee

10 March 2021

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.

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			
• subordinated	BBB(EXP)		Expected Rating

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)**Additional Disclosures**[Solicitation Status](#)[Endorsement Status](#)**Disclaimer**

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