

# Mizrahi Tefahot Bank Ltd. Proposed Tier 2 Subordinated Notes Assigned 'BBB-' Rating

March 18, 2021

PARIS (S&P Global Ratings) March 18, 2021--S&P Global Ratings today said it assigned 'BBB-' issue ratings to the proposed Tier 2 subordinated contingent convertible bonds to be issued by Mizrahi Tefahot Bank Ltd. (A-/Stable/A-2). The rating is subject to our review of the notes' final documentation. This is Mizrahi Bank's first issuance of contingent convertible notes in foreign currency.

**Our ratings on the proposed co-co bonds are two notches lower than our stand-alone credit profile (SACP) on the bank.** In accordance with our criteria for hybrid capital instruments (for more information, see "General Criteria: Hybrid Capital: Methodology And Assumptions," published July 1, 2019, on RatingsDirect), the starting point for the rating on the subordinated co-co notes is the SACP (bbb+). We don't use the issuer credit rating as the starting point, since it includes government support and we do not expect these instruments to benefit from state support. The issue rating stands two notches below the SACP, including:

- One notch to reflect contractual subordination with respect to the bank's senior obligations (subordination); and
- One notch to reflect the loss absorption mechanism built into the instruments by way of instrument principal conversion on the occurrence of the trigger events, as defined in the instruments' terms and conditions, that is a "capital loss absorption event" when core Tier 1 falls below 5%, or a "nonviability event."

The latter is defined as the earlier of written notice by the bank supervisor to the bank that a conversion is necessary, since without it the bank will become nonviable, in the view of the supervisor; or a written notice by the bank supervisor regarding a decision to inject public funds, or an equivalent support mechanism, without which the bank will reach the point of nonviability as determined by the bank supervisor (default risk).

**When evaluating the instrument, we believe there are no additional nonpayment risks that would justify deduction of additional notches to those noted above.** In particular, based on our view of the bank's creditworthiness, we consider that the likelihood of regulatory discretionary intervention does not require deduction of any additional notch to determine the final rating on the notes. The notes are must-pay instruments with no deferrable coupons and we assign them minimal equity content.

**PRIMARY CREDIT ANALYST**

**Goksenin Karagoz, FRM**  
Paris  
+ 33.1.44206724  
goksenin.karagoz  
@spglobal.com

**SECONDARY CONTACT**

**Lena Schwartz**  
RAMAT-GAN  
+ 972-3-7539716  
lena.schwartz  
@spglobal.com

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

## **Related Research**

- Mizrahi Tefahot Bank Ltd. Assigned 'A-/A-2' Ratings; Outlook Stable, March 18, 2021
- Banking Industry Country Risk Assessment Update: January 2021, Jan. 28, 2021
- Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable, Nov. 13, 2020
- Banking Industry Country Risk Assessment: Israel, July 15, 2020
- Tech Disruption In Retail Banking: The Regulator Is Moving Israeli Banks Into A Digital Future, Feb. 5, 2020

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](http://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/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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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