FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Mizrahi Tefahot Bank's Outlook to Stable; Affirms IDR at 'A-'

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Fitch Ratings - London - 29 Oct 2025: Fitch Ratings has revised Mizrahi Tefahot Bank Ltd's (UMTB) Outlook to Stable from Negative, while affirming its Long-Term Issuer Default Rating (IDR) at 'A-'. Its Viability Rating (VR) has also been affirmed at 'a-'. A full list of rating actions is below.

The Outlook revision reflects the resilience of UMTB's financial profile to Israel's operating environment challenges since the start of the Israel-Hamas war and our view that risks have reduced. Economic activity has returned mostly to normal, providing growth opportunities to Israeli banks while containing asset quality pressures. Risks to our operating environment assessment for Israeli banks are linked to Israel's ratings (A/Negative/F1+).

KEY RATING DRIVERS

Strong Mortgage Franchise: UMTB's Long-Term IDR is driven by its VR and reflects a good domestic universal banking franchise in Israel, alongside resilient asset quality and profitability through the war conflict. The VR reflects the bank's adequate capitalisation and sound funding, supported by a large and diversified deposit base. UMTB's business model is less diversified than its two larger peers' but is particularly strong in low-risk residential mortgages as the largest mortgage lender.

High Probability of Government Support: UMTB's IDRs are underpinned by potential government support, which is reflected in a Government Support Rating (GSR) of 'a-'. The sovereign has a strong incentive to provide support, given the bank's systemic importance in the country, with about 20% of banking system assets.

Close Regulatory Oversight: Underwriting standards are conservative, helped by prudent regulatory limits and oversight. The bank has material exposure to the construction and real estate sectors, in line with other Israeli banks, leaving it vulnerable to a sharp decline in real estate prices. However, most of its exposure is to residential projects, which we expect to perform adequately, given high population growth and strong structural demand for housing in Israel.

Sound Asset Quality: UMTB's impaired loans ratio was 1% at end-1H25, which has proven resilient to the pressures of the war. The bank has sharply increased its collective provisions since the start of the war (loans loss allowance/impaired loans of 103% at end-1H25), reflecting economic uncertainty and credit growth. Its impaired loan coverage is at the lower end among domestic peers, but this should be seen in view of the bank's higher share of retail mortgage loans. We forecast the impaired loans ratio to remain below 1.5% over the next two years, supported by declining interest rates and sound underwriting.

Resilient Earnings: Operating profit is sound, at 2.8% of risk-weighted assets in 1H25, reflecting strong loan growth but tighter lending margins. Nevertheless, NIM has remained strong due to the bank's large base of stable and low-cost current accounts. Higher inflation has also supported income given the bank's net long exposure to the consumer price index.

The bank is focused on maintaining tight cost controls with a low cost-to-income ratio (36% in 1H25), which compares favourably with international peers'. We forecast the operating profit ratio to remain above 2% of risk-weighted assets for the next two years, supported by loan growth and limited loan impairment charges, underpinned by substantial loan loss allowances.

Adequate Capital Buffers: UMTB's common equity Tier 1 ratio of 10.4% at end-1H25 has adequate buffers over its 9.7% regulatory minimum requirements but is the lowest among domestic peers'. This should be considered in light of the bank's resilient internal capital generation and its fairly high risk-weighted assets/total assets (end-1H25: 63%), as the bank uses the standardised approach to calculate credit risk-weighted assets. We expect its common equity Tier 1 ratio to slightly rise on the back of internal capital generation.

Funding Benefits from Government Support: UMTB's funding and liquidity score is driven by government support and our expectation that the government's propensity to provide support is more certain in the near term, given the systemic importance of UMTB. As a result, UMTB's 'F1' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A-' Long-Term IDR. UMTB's funding and liquidity profile is also underpinned by its stable and granular deposit base and sound liquidity. The bank also has proven access to domestic and international debt markets.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

UMTB''s Long-Term IDR would be downgraded if its GSR and VR were downgraded. A downgrade of the bank's GSR would be triggered by a downgrade of the sovereign rating, which could trigger a downgrade of UMTB's VR if it sharply increased pressure on the financial profile. This reflects the contagion risk from the links between the sovereign, the operating environment and Israeli banks' performance.

The most likely trigger for a downgrade of UMTB's VR would be a deterioration of asset quality that results in an impaired-loan ratio of above 2% for an extended period, combined with a declining common equity Tier 1 ratio and weakening internal capital generation.

The Short-Term IDR would be downgraded if Israel's Short-Term IDR was downgraded by two notches.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of UMTB's IDRs is limited by the negative outlook on the operating environment for Israeli banks, which is sensitive to the drivers of a downgrade of the sovereign rating. In addition, upside is limited by the bank's geographical concentration and small capital buffers.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

UMTB's Tier 2 subordinated notes are rated two notches below its VR, reflecting poor recovery prospects in the event of a failure of the bank.

The Long-Term IDR (xgs) of 'A-(xgs)' is at the level of the VR. The Short-Term IDR (xgs) of 'F2(xgs)' is the lower of two options that map to a 'A-(xgs)' Long-Term IDR (xgs), due to UMTB's 'a-' funding and liquidity score.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The subordinated debt ratings are sensitive to changes in the bank's VR.

The Long-Term IDR (xgs) is sensitive to changes in the bank's VR. The Short-Term IDR (xgs) is sensitive to changes in the funding and liquidity score.

VR ADJUSTMENTS

The operating environment score of 'a' is below the 'aa' implied category score for the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The business profile score of 'a-' is above the 'bbb' implied category score for the following adjustment reason: market position (positive).

The earnings and profitability score of 'bbb+' is below the 'a' implied category score for the following adjustment reason: earnings stability (negative).

The capitalisation and leverage score of 'a-' is above the 'bbb' implied category score for the following adjustment reason: leverage and risk weight calculation (positive).

The funding and liquidity score of 'a-' is above the 'bbb' implied category score for the following adjustment reason: deposit structure (positive).

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 GSR is linked to Israel's Long-Term IDR while its Short-Term IDR is linked to the sovereign's Short-Term IDR.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Mizrahi Tefahot Bank Ltd	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Negative
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	Government Support	a-	Affirmed	a-
	LT IDR (xgs)	A-(xgs)	Affirmed	A-(xgs)

	ST IDR (xgs)	F2(xgs)	Affirmed	F2(xgs)
subordinated	LT	BBB	Affirmed	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 21 Mar 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Mizrahi Tefahot Bank Ltd	UK Issued, EU Endorsed

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