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CREDIT OPINION
15 February 2024

Update

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RATINGS

Bank Hapoalim B.M.

Domicile	Tel Aviv, Israel
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Bank Hapoalim B.M.

Update following ratings downgrade

Summary

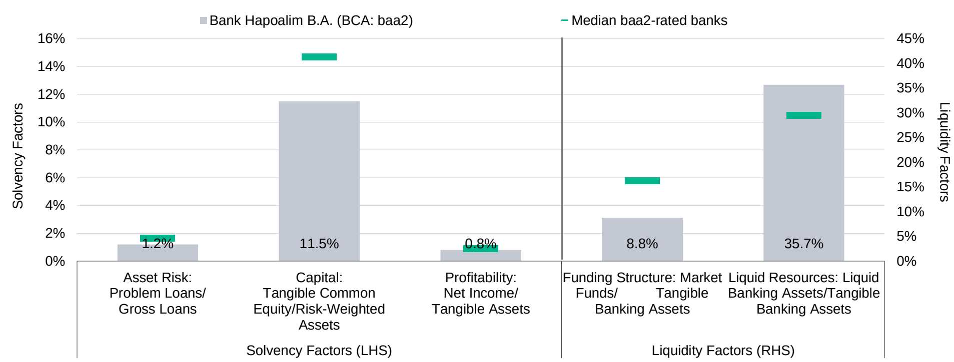
Bank Hapoalim B.M. (Bank Hapoalim)'s A3 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) two notches of rating uplift from our assessment of a very high likelihood of support from the Government of Israel (A2 negative), in case of need.

Bank Hapoalim's baa2 standalone BCA reflects its strong deposit-based funding structure, sound liquidity and low levels of problem loans and contained credit losses over an entire economic cycle.

The BCA also reflects additional downside risks from a significant exposure concentration to the Israeli property market. Capitalisation is moderate with a tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 11.5% as of September 2023 which, although below similarly-rated international peers, has been consistently stable and reflects the Bank of Israel's (BoI) conservative risk weights.

Exhibit 1

Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset Risk and Profitability reflect the weaker of either the latest figure or the three-year and latest figure average. Capital is the latest reported figure. Funding Structure and Liquid Resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

Credit strengths

» Strong retail deposit-based funding structure and sound liquidity

» Loan quality has been solid and single-borrower concentrations contained

» Very high likelihood of government support, in case of need, underpins the deposit ratings

Credit challenges

» Given the crystallisation of geopolitical risks, asset quality will likely deteriorate and profitability will decline

» Large exposure concentration to Israel's property market is also a tail risk

Outlook

The negative outlook on the long-term deposit ratings captures both the negative outlook on the Government of Israel's rating and the potential for a significantly more negative impact on the economy in the event of an escalation in the ongoing conflict, which could lead to the bank's standalone fundamentals being impacted more severely.

Factors that could lead to an upgrade

» There is a limited scope for an upgrade of the bank's deposit ratings given the negative outlook. We could stabilise the outlook on the bank's ratings in case the outlook on the sovereign rating changes to stable and/or downside risks to the economy and the bank subside.

Factors that could lead to a downgrade

» Bank Hapoalim's long-term deposit ratings could be downgraded if both the sovereign rating and its standalone BCA are downgraded.

» The bank's BCA could be downgraded in case of a prolonged and wider conflict that could have a significant impact on the standalone fundamentals, or if the bank's performance proves more volatile than in previous conflicts and economic crises.

Key indicators

Exhibit 2

Bank Hapoalim B.M. (Consolidated Financials) [1]

	09-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	675,988.0	665,353.0	638,781.0	539,602.0	463,688.0	10.6[4]
Total Assets (USD Million)	177,564.5	188,565.4	205,716.6	168,058.4	134,246.7	7.7[4]
Tangible Common Equity (ILS Million)	51,978.0	48,359.0	42,632.0	39,363.8	37,860.7	8.8[4]
Tangible Common Equity (USD Million)	13,653.3	13,705.3	13,729.4	12,259.8	10,961.4	6.0[4]
Problem Loans / Gross Loans (%)	1.0	0.9	1.2	1.5	1.8	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.5	11.3	10.7	11.0	11.0	11.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.2	6.5	9.0	10.3	12.6	9.1[5]
Net Interest Margin (%)	2.5	2.1	1.7	1.8	2.1	2.0[5]
PPI / Average RWA (%)	3.1	2.5	1.8	1.7	1.6	2.1[6]
Net Income / Tangible Assets (%)	1.1	1.0	0.8	0.4	0.6	0.8[5]
Cost / Income Ratio (%)	37.4	43.2	52.6	54.6	58.4	49.2[5]
Market Funds / Tangible Banking Assets (%)	9.7	8.8	6.8	6.5	6.4	7.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	33.3	35.7	40.3	38.6	31.5	35.9[5]
Gross Loans / Due to Customers (%)	77.4	74.0	68.4	71.1	82.7	74.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Bank Hapoalim provides banking and other financial services to households, small businesses, middle-market companies and large corporate customers mainly in Israel. Internationally, Bank Hapoalim's New York branch focuses on providing commercial banking services in North America to local middle-market customers and Israeli companies that are active abroad.

In line with its strategy, Bank Hapoalim has reduced its international private banking activities through the sale or transfer of the customer portfolio of its Swiss subsidiary. In July 2023, the bank's subsidiary received the approval of the relevant authorities for the return of its banking license. In September 2023, the bank also completed the sale of its holding in Bank Pozitif in Turkiye.

As of September 2023, Bank Hapoalim had total assets of NIS676 billion ($178 billion). Bank Hapoalim was the second-largest bank in Israel with a market share of 28% in terms of total system assets.

Following the divestment by Arison Group of part of its stake in Bank Hapoalim in late 2018, the bank does not have a controlling shareholder. The bank's common stock trades on the Tel Aviv Stock Exchange (ticker: POLI).

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from the banks' reports and are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to Financial Statement Adjustments in the Analysis of Financial Institutions published on 1 February 2024. We do not use the Bank of Israel's exchange rates in converting figures from Israeli shekel into US dollars, so US dollar figures may differ from bank reported figures.

Detailed credit considerations

Solid loan quality that will likely deteriorate

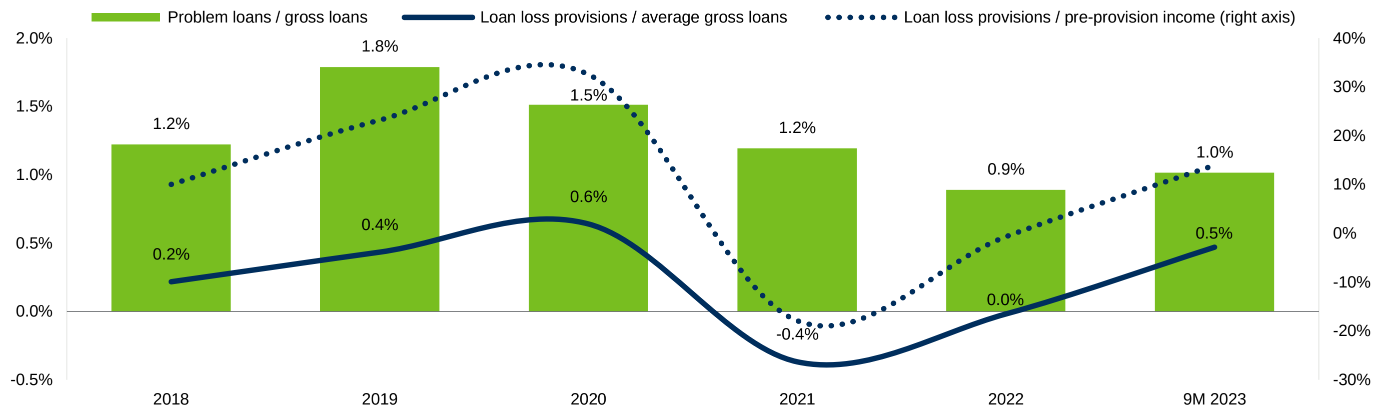
Bank Hapoalim's asset quality will deteriorate from strong levels because of the economic impact of the ongoing military conflict. The bank is proactively provisioning against downside scenarios. Additionally to risks from geopolitical tensions and similarly to other Israeli banks, the bank's exposure concentration to Israel's property market is also a downside risk for its asset quality. However, our assessment of the bank's asset risk also reflects contained credit losses in the last decade, limited single-borrower concentrations (with no exposures exceeding 15% of its capital as of September 2023) and relatively conservative underwriting supported by proactive oversight by the BoI.

Bank Hapoalim's problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) to gross loans were 1.0% as of September 2023 from 1.2% as of the end of 2021 (see Exhibit 3). Credit costs (loan loss provision expenses to average gross loans) increased to 0.5% in the nine months ending September 2023 from very low levels in 2021 and 2022, mainly driven by group provisions because the bank adjusted downwards its macroeconomic expectations before the outbreak of the conflict and then incorporated expectations on the impact of the war in the third quarter of 2023. In 2024, we expect Bank Hapoalim's credit costs to remain above the historical average of 0.4%[1], which includes an entire economic cycle.

Exhibit 3

Bank Hapoalim's asset quality has been solid

Evolution of problem loans ratio and annualised credit costs



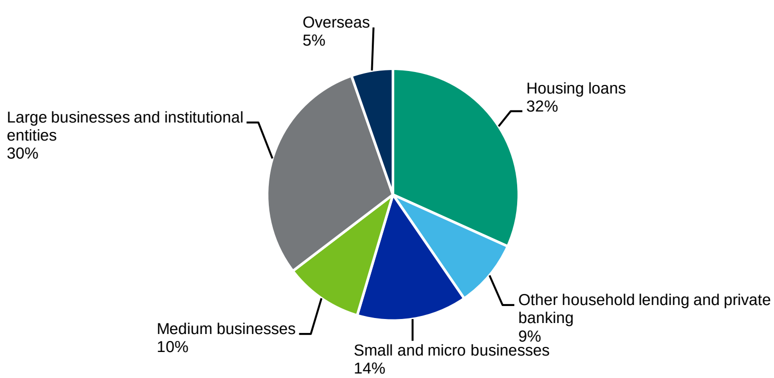
Source: Moody's Investors Service

In terms of the bank's loan book, relatively low-risk residential mortgages[2] accounted for 32% of total, while medium and large businesses (including institutional entities) for 40% as of September 2023 (see Exhibit 4). The bank's exposure to small businesses (regulatory definition[3]) and other retail and consumer loans in Israel were 14% and 9% of total gross loans respectively as of September 2023. The bank had been deleveraging from these two higher risk segments in recent quarters. More generally, loans grew by double digits in 2022, driving some unseasoned risk. Loan growth moderated to 4% during the nine months ending in September 2023, and growth was mainly in the corporate segment.

Exhibit 4

Bank Hapoalim's loan book is diversified by segment

Loan book breakdown as of September 2023 (supervisory operating segments)



Source: Bank's financial results

Sector concentration to real estate is high. Beyond mortgages, lending to the construction and real estate sector made up 20% of Bank Hapoalim's gross loans as of September 2023 and the bank's exposure grew by a high 13% year-over-year as of September 2023 because of strong demand. Therefore, Bank Hapoalim's asset quality is susceptible to the risk of a sharp property price correction together with reduced ability of borrowers to service their loans. The real estate sector, already affected by higher interest rates and lower demand prior to the outbreak of the conflict, is also vulnerable to a sustained disruption in activity.

Residential projects made up 52% of total credit risk[4] in the corporate division's total credit risk and where long-term demand is supported by a growing population. Income generating properties were 28% of total credit risk. A significant part, around 21%, of the exposure to the sector was for the acquisition of land for construction where projects will take several years to complete. However, underwriting criteria are relatively conservative, with 90% of this exposure having a loan-to-value of less than 80% and 99% of the bank's real estate exposures under construction having the capacity to absorb a price drop of up to 25% without the bank incurring losses.

Moderate risk-weighted capitalisation, although below global peers, but with a stronger leverage ratio

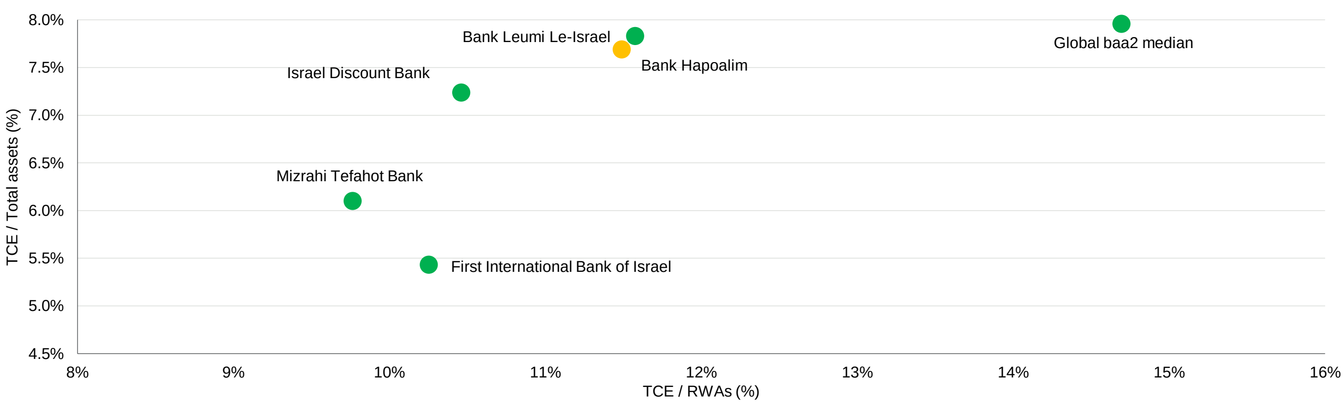
Bank Hapoalim's capitalisation is moderate. Although risk-weighted capital metrics are below global peers, the bank's loss-absorption buffers are supported by conservative regulatory risk-weights that result in higher loss-absorption buffers and drive stronger leverage. For example, mortgages are risk-weighted according to their loan-to-value, resulting in an average risk weight of over 50% in Israel, which is higher than the 35% risk weight normally used in the standardised approach. The bank's capital ratios are also significantly more stable compared to banks globally that use a model based approach in calculating credit RWAs. Regulatory capital levels would, however, be somewhat sensitive to foreign exchange movements and to the sovereign's rating level.

Bank Hapoalim's TCE/RWAs ratio was 11.5% as of September 2023, below the global peer median (see Exhibit 5). The bank's TCE-to-total assets ratio was 7.7% as of September 2023 and compares favourably with international peers. The reported Basel leverage ratio was 6.8% as of September 2023, above the 5.5% minimum regulatory requirement that applied at that time.

Exhibit 5

Bank Hapoalim's risk-weighted capitalisation is lower than global peers, but leverage is in line with peers driven by conservative risk weights

Risk-weighted capitalisation and leverage of Israeli banks and the global median as of September 2023



Source: Moody's Investors Service

Bank Hapoalim also reported a Common Equity Tier 1 (CET1) ratio of 11.5% as of September 2023, slightly up from 11.2% at the end of 2022 and exceeding the 10.2% minimum regulatory requirement and the bank's own internal target of 10.5%.

Similarly to other periods of high volatility and in line with the BoI's guidance, Bank Hapoalim adjusted down its dividend and distributed 20% of profits in the third quarter of 2023 against a dividend distribution policy of up to 40% of net profits in each quarter. Through adjustments in earnings distributions and RWAs management, Bank Hapoalim has demonstrated its ability to maintain steady capital ratios over time.

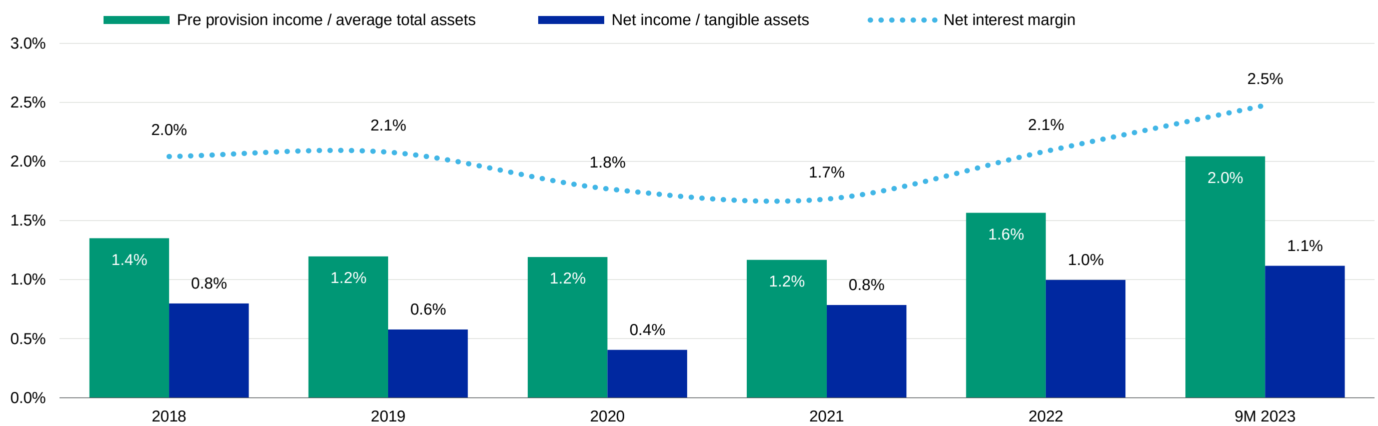
Profitability is moderate and underpinned by ongoing revenue growth and cost discipline

Bank Hapoalim's ongoing profitability is moderate, aided by its strong franchise and large customer base in Israel, and the country's still robust long-term economic growth potential and population growth that afford new business opportunities. Ongoing cost discipline and operating efficiency gains also support sustainable profitability and the bank's ability to resist growing competition, income headwinds and its ability to withstand and recover from shocks. Because of several streamlining initiatives[5] and strong revenue growth, Bank Hapoalim's cost efficiency improved significantly over time and its cost-to-income ratio of 38.7% in the nine months ending in September 2023 was one of the lowest ever reported.

In the coming quarters, profitability will decline from recent exceptionally high levels because of higher cost of risk, lower credit growth and support measures to customers affected by the conflict.[6] The authorities' planned increase in bank taxes for 2024 and 2025 will also weigh on the bank's bottom-line. Gradually lower interest rates, the BoI cut its policy rate by 25 basis points to 4.5% in January 2024, and moderating CPI will also restrain financing income. But still overall high interest rates will be supportive of a healthy net interest margin and robust revenues.

Bank Hapoalim reported higher than usual net profits equivalent to 1.1% of tangible assets in the nine months ending in September 2023 and 1.0% in 2022 (see Exhibit 6), up from an average of 0.7% between 2017 and 2019. Stronger profits were driven by loan growth, an expanding net interest margin and higher CPI benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages).

Exhibit 6
Bank Hapoalim's profitability is moderate
Evolution of profitability metrics



Source: Moody's Investors Service

The bank's net interest margin widened to 2.5% in the nine months ending in September 2023 from 2.1% in 2022 and 1.7% in 2021 because rate hikes allowed the bank to unlock the value from its low-cost core deposit base. Even before the conflict and the recent policy rate cut, we expected the net interest margin to peak in mid-2023 because of a gradual shift from current accounts to costlier time deposits. The bank's non-interest bearing deposits accounted for 28% of total deposits as of September 2023 compared to 36% at end-2022.

Strong retail deposit-based funding structure and sound liquidity

Bank Hapoalim benefits from a strong funding profile driven by a large deposit base in Israel. The bank's growing deposit base comfortably funds its lending activities, supported by the country's strong savings culture. Bank Hapoalim's net-loans-to-deposits ratio was 76% as of September 2023.

Granular household (excluding private banking) and small business deposits accounted for 50% of total deposits as of September 2023. Potentially less stable deposits from institutional investors were 17% of total deposits as of the same date, which we take into account in our assessment, but foreign deposits were contained at 5% of the total. Bank Hapoalim's deposit base has proven to be stable during past systemic shocks, and the risk of shekel-denominated deposit outflows is limited, given that the shekel market is a closed market.

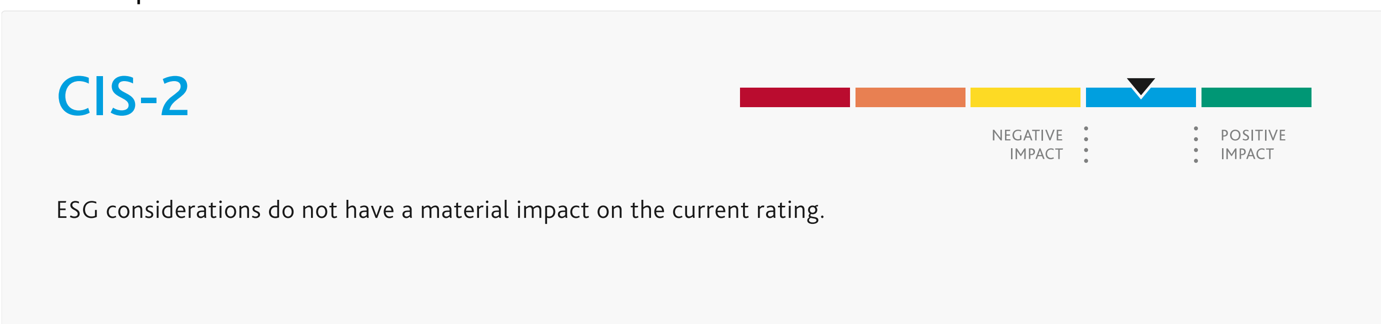
Ample deposits drive a low reliance on potentially more confidence-sensitive market funding. Market funds accounted for 10% of tangible banking assets as of September 2023, part of which reflects senior issuances[7] and derivative balances, which are mainly driven by customer activity. The bank had around NIS24 billion (4% of total assets) of bonds and subordinated notes outstanding as of September 2023. These balances were mainly sourced from the local capital market and allow for better matching of the bank's assets and liabilities maturities.

The bank also maintains sound liquidity, underscored by a conservative investment policy. Liquid banking assets were 33% of tangible banking assets as of September 2023. Bank Hapoalim kept 14% of assets in the form of cash and deposits with banks, and an additional 20% in securities. Bank Hapoalim's securities portfolio primarily consists of investments in Israeli government bonds (67% of total) and, to a lesser extent, US government bonds (20% of total), while only 3% of the securities portfolio were investments in shares. The bank's liquidity coverage ratio was 124% and its net stable funding ratio was 125% as of September 2023, both substantially above the 100% minimum regulatory requirement.

ESG considerations

Bank Hapoalim B.M.'s ESG credit impact score is CIS-2

Exhibit 7
ESG credit impact score



Source: Moody's Investors Service

Bank Hapoalim's **CIS-2** indicates that ESG factors are not material to the current ratings because a high level of government support mitigates the impact from ESG risks, which have lately increased (especially social risks) because of the military conflict and the high customer relations risks in Israel.

Exhibit 8
ESG issuer profile scores

Source: Moody's Investors Service

Environmental

Bank Hapoalim faces moderate exposure to environmental risks, mainly because of its portfolio exposure to carbon transition risks as a diversified bank and one of Israel's two largest banks with a significant corporate exposure. In line with its peers, Bank Hapoalim faces growing business risks and stakeholder pressure to meet broader carbon transition goals. Bank Hapoalim is engaging in further developing its climate risk and relevant portfolio management capabilities and increasing its green financing.

Social

Bank Hapoalim faces high social risks, related to societal and demographic trends as well as from customer relations. The current military conflict may cause a severe disruption of the economy and impact the bank's financial performance, depending on its duration and scale. However, a relatively young and growing population in Israel affords business opportunities for the bank. Further, Bank Hapoalim faces high customer relations risk because of the considerable focus on consumer protection in Israel, exposing banks to potential fines from regulators and litigation from customers. High cyber and personal data risks are mitigated by a sound IT framework.

Governance

Bank Hapoalim faces low governance risks, and its risk management, policies and procedures are in line with industry practices and commensurate with its universal banking model, while the bank provides timely and detailed external reporting. The bank's financial strategy is conservative, under the oversight of a proactive and hands-on regulator.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support considerations

Bank Hapoalim's A3 deposit ratings incorporate two notches of government support uplift from the bank's baa2 Adjusted BCA because of our assessment of a very high likelihood of extraordinary support from the Israeli authorities. This assumption is based on Bank Hapoalim's systemic importance as one of the country's two largest banking groups and the Israeli government's long standing practice of supporting systemically important banks in case of need.

Counterparty Risk (CR) Assessment

Bank Hapoalim's CR Assessment is A2(cr)/P-1(cr)

Prior to government support, the CR Assessment is positioned one notch above the bank's baa2 Adjusted BCA, reflecting our view that its probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimise losses and avoid disruption of critical functions. The CR Assessment also benefits from government support uplift, in line with our support assumptions on deposits.

Counterparty Risk Ratings (CRRs)

Bank Hapoalim's CRR is A2/P-1

For jurisdictions with a non-operational resolution regime, such as Israel, the starting point for the CRR is one notch above the bank's Adjusted BCA. The CRRs also benefit from two notches of government support uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Bank Hapoalim B.M.

Macro Factors							
Weighted Macro Profile	**Strong -**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.2%	a2	↓↓	baa3	Sector concentration	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.5%	baa3	↔	baa3	Capital retention		
Profitability							
Net Income / Tangible Assets	0.8%	baa3	↓	ba1	Expected trend		
Combined Solvency Score		baa1		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	8.8%	a3	↔	baa1	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	35.7%	a3	↓	a3	Expected trend		
Combined Liquidity Score		a3		baa1			
Financial Profile				baa2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				A2			
BCA Scorecard-indicated Outcome - Range				baa1 - baa3			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa1	-	A2	A2
Counterparty Risk Assessment	1	0	baa1 (cr)	-	A2(cr)	
Deposits	0	0	baa2	-	A3	A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
BANK HAPOALIM B.M.	
Outlook	Negative
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

1 Average is for the period in the run-up to the pandemic, 2006-2018. Credit costs in 2019 and 2020 reflected the impact of the pandemic.

2 For housing loans risks are mitigated by (1) banks' full recourse to borrowers and a strong repayment culture; (2) a low level of housing debt at around 30% of GDP as of September 2023; and (3) macroprudential measures that enforce tight underwriting standards and which include a loan-to-value limit of 75% for sole dwellings and 70% for the rest but for non-investment purposes, a monthly repayment cap at 50% of a borrower's monthly salary and a limit on the variable-rate part of the mortgage at two-thirds of the loan. Higher risk-weights for the calculation of regulatory capital metrics for mortgages with higher loan-to-value and repayment ratios also encourage tighter underwriting.

3 The regulatory definition of small businesses includes those businesses with an annual turnover of up to NIS50 million.

4 After haircuts and deductions.

5 The bank operated several voluntary retirement schemes, which more recently reduced its workforce by 8% in 2019-2022, despite hiring to advance IT initiatives. The bank is also looking to further streamline its branch network, which shrunk by 23% in 2019-2022, and to consolidate its headquarters.

6 On 15 October 2023, the BoI set out a comprehensive outline to support bank customers during this period, which was later expanded.

7 Market funds exclude subordinated debt, according to our definition.

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454