

Three Israeli Bank Ratings Affirmed Under Revised FI Criteria

January 20, 2022

- We have reviewed our ratings on three Israeli banks under our revised "Financial Institutions Rating Methodology".
- We have affirmed the ratings on these banks, and the outlooks are unchanged.

MILAN (S&P Global Ratings) Jan. 20, 2022--S&P Global Ratings today said that it has affirmed its issuer and issue credit ratings on the following three Israeli banks. The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology," published Dec. 9, 2021 and "Banking Industry Country Risk Assessment Methodology And Assumptions," published Dec. 9, 2021). The affirmations include:

- Bank Hapoalim B.M. (BNHP) (A/Stable/A-1)
- Bank Leumi le-Israel (Leumi) (A/Stable/A-1)
- Mizrahi Tefahot Bank Ltd. (Mizrahi) (A-/Positive/A-2)

Our outlooks on the banks are unchanged.

Our assessments of economic risk and industry risk in Israel also remain unchanged at '3' and '4', respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for economic risk and industry risk remain stable.

In addition, the stand-alone credit profiles of these banks, and our assessment of the likelihood of extraordinary external support, remain unchanged under our revised criteria.

Bank Hapoalim B.M. (BNHP)

The ratings reflect BNHP's leading position in the supportive Israeli economy and its sound capital position. We also factor in the bank's large and granular deposit base and ample stock of liquid assets. At the same time, in line with domestic peers, the ratings remain constrained by the bank's higher concentration than its international peers, reflecting the relatively concentrated nature of the local economy, as well as its sensitivity to risks from its high exposure to real estate. The ratings also factor in our view that Israel (AA-/Stable/A-1+) would provide extraordinary support to the bank in the event of financial distress.

PRIMARY CREDIT ANALYSTS

Regina Argenio

Milan
+ 39 0272111208
regina.argenio
@spglobal.com

Goksenin Karagoz, FRM

Paris
+ 33.1.44206724
goksenin.karagoz
@spglobal.com

SECONDARY CONTACT

Lena Schwartz

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

Outlook

The stable outlook on BNHP reflects our view that the bank will be able to preserve its strong capitalization while growing its new lending over the next 24 months. The outlook also reflects our view that the bank's business, financial, and risk profiles will remain stable over the forecast horizon. We expect the bank's risk-adjusted capital (RAC) ratio to remain sustainably above 10% over the next two years, with asset quality metrics remaining broadly in line with the system average.

Downside scenario: Rating pressure could emerge if the Israeli economy, particularly the real estate sector, markedly deteriorated. This could be triggered by higher-than-expected economic stress amid the COVID-19 pandemic, an abrupt readjustment of the local real estate market, or a pronounced escalation in local geopolitical turbulence.

Upside scenario: Although unlikely during our two-year outlook period, an upgrade could occur if BNHP materially improved its capital policy or risk profile.

Ratings Score Snapshot

Issuer Credit Rating: A/Stable/A-1

Stand-alone credit profile: a-

- Anchor: bbb+
- Business Position: Strong (+1)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: +1

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: +1

Additional Factors: 0

Bank Leumi le-Israel

The ratings reflect Leumi's leading position in the supportive Israeli economy and its sound capital position. The ratings also benefit from the bank's sound liquidity, supported by its deep and diverse domestic funding source. At the same time, in line with domestic peers, the ratings remain constrained by higher concentration than its international peers, reflecting its geographical focus on Israel, the relatively concentrated nature of the local economy, as well as sensitivity to risks associated with its high real estate exposure. The ratings also factor in our view that Israel

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(AA-/Stable/A-1+) would provide extraordinary support to the bank in the event of financial distress.

Outlook

The stable outlook on Leumi reflects our view that the bank will be able to preserve strong capitalization while growing its new lending over the next 24 months. The outlook also reflects our view that the bank's business, financial, and risk profiles will remain stable over the forecast horizon. We expect the bank's RAC ratio to remain sustainably above 10% over the next two years, with asset quality metrics remaining broadly in line with the system average.

Downside scenario: Rating pressure could emerge if the Israeli economy, particularly the real estate sector, markedly deteriorated. This could be triggered by higher-than-expected economic stress amid the COVID-19 pandemic, an abrupt readjustment of the local real estate market, or a pronounced escalation in local geopolitical turbulence. Furthermore, we could take a negative rating action if Leumi fails to sustain its capitalization. This could happen if the bank's employee benefits increase much more than we currently expect or if earnings retention does not support the bank's growth.

Upside scenario: Although unlikely during our two-year outlook period, an upgrade could occur if Leumi materially improved its capital policy or risk profile.

Ratings Score Snapshot

Issuer Credit Rating: A/Stable/A-1

Stand-alone credit profile: a-

- Anchor: bbb+
- Business Position: Strong (+1)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: +1

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: +1

Additional Factors: 0

Mizrahi Tefahot Bank Ltd.

The ratings balance the bank's sound franchise and healthy financial profile with its relatively high business and geographic concentration compared with higher-rated peers. We expect that Mizrahi will maintain its strong capitalization and earnings capacity, healthy asset quality, and good operating efficiency over the coming years. In our view, the bank benefits from sound liquidity, supported by its deep domestic funding sources, including a strong retail base. We factor into our ratings one notch of uplift based on our view that Israel (AA-/Stable/A-1+) would provide extraordinary support to the bank in the event of financial distress.

Outlook

The positive outlook on Mizrahi reflects our expectation that the bank's earnings capacity will continue to improve relative to 2020, and that its asset quality and capital position will remain unaffected by the impact of the pandemic. In addition, we expect its creditworthiness to benefit from the ongoing integration of recently acquired Union Bank.

Upside scenario: We could raise the ratings by one notch over the next 12-24 months if we conclude that Mizrahi can maintain its solid risk profile and strong capitalization while implementing its new strategic plan, and successfully integrating Union Bank. An upgrade will hinge upon the bank's accelerated growth in new segments not bringing additional risks and remaining supportive to its overall capitalization.

We will monitor the evolution of asset quality, efficiency, and profitability metrics in comparison with those of higher-rated peers as Mizrahi starts realizing targeted cost synergies after the merger.

Downside scenario: Should the bank fail to maintain its solid risk profile, such that its asset-quality metrics weaken, for example because of higher credit losses than we expect from the anticipated fast growth, we could revise the outlook to stable. An outlook revision could also stem from the bank failing to withstand competitive pressure in Israel and losing market share and revenue, to the detriment of its profitability.

Ratings Score Snapshot

Issuer Credit Rating: A-/Positive/A-2

Stand-alone credit profile: bbb+

- Anchor: bbb+
- Business Position: Adequate (0)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: +1

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- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: +1

Additional Factors: 0

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021
- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021
- Ratings On U.S. Small Regional Banks Affirmed Under Revised Criteria, Dec. 16, 2021

Ratings List

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***** Bank Hapoalim B.M. *****

Ratings Affirmed

Bank Hapoalim B.M.

Bank Hapoalim B.M. (New York branch)

Issuer Credit Rating	A/Stable/A-1
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Bank Hapoalim B.M.

Junior Subordinated	BBB
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***** Bank Leumi le-Israel B.M. *****

Ratings Affirmed

Bank Leumi le-Israel B.M.

Issuer Credit Rating	A/Stable/A-1
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Bank Leumi le-Israel B.M.

Junior Subordinated	BBB
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***** Mizrahi Tefahot Bank Ltd. *****

Ratings Affirmed

Mizrahi Tefahot Bank Ltd.

Issuer Credit Rating	A-/Positive/A-2
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Mizrahi Tefahot Bank Ltd.

Junior Subordinated	BBB-
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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 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 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at 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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