

Outlooks On Israeli Banks Revised To Negative On Increased Geopolitical Risk; Ratings Affirmed

October 31, 2023

- On Oct. 24, 2023, we revised our outlook on Israel to negative from stable due to the ongoing Israel-Hamas conflict.
- We think the development of the conflict, its duration, and the effects on Israel's economy and business confidence might have negative consequences for the banking sector.
- Therefore, we revised our outlooks to negative on Bank Leumi, Bank Hapoalim, Mizrahi Tefahot Bank, and Israel Discount Bank and affirmed the ratings.

MILAN (S&P Global Ratings) Oct. 31, 2023--S&P Global Ratings today took the following rating actions on Israeli banks (see the Ratings List for full details):

- We revised our outlooks on Bank Hapoalim B.M. and Bank Leumi le-Israel B.M. to negative from stable and affirmed the 'A/A-1' long- and short-term issuer credit ratings. We also affirmed all the issue ratings on the banks' debt.
- We revised our outlook on Mizrahi Tefahot Bank Ltd. to negative from stable and affirmed the 'A-/A-2' long- and short-term issuer credit ratings. We also affirmed the issue rating on the bank's debt.
- We revised our outlooks on Israel Discount Bank Ltd. and its core subsidiary Israel Discount Bank of New York to negative from positive and affirmed the 'BBB+/A-2' and 'BBB+/-' long- and short-term issuer credit ratings.

The rating actions reflect our view that the Israeli banking system might face higher risks amid increased geopolitical risk.

Hamas' attacks and the military operation led by the Israeli army on the Gaza Strip have added significant downside risks to Israel's economic outlook (see "Israel Outlook Revised To Negative On Geopolitical Risks; 'AA-' Ratings Affirmed," published Oct. 24, 2023, on RatingsDirect). Our revised baseline assumptions suggest this situation will have the most acute economic impact in fourth-quarter 2023, with an estimated 5% drop in GDP quarter on quarter, and the effects lessening throughout 2024 and a rapid recovery beyond. We acknowledge it is difficult to gauge the scale of the downturn and we see a high degree of uncertainty about the extent and duration of military hostilities. Moreover, we believe that if the conflict escalates further, it could add significant security risks and have a deeper impact on the domestic economy.

In our view, Israeli banks face increasing risks with sound credit fundamentals. We think that Israeli banks are facing this conflict with strong profitability and capitalization, healthy asset quality metrics, and ample liquidity buffers, coupled with stable largely domestic deposit bases. So far, we have not witnessed any deposit volatility and seen only limited draw downs on liquidity

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lines from corporates. The domestic bond market has also continued to operate with a limited price effect on new issuances. In addition, the government is engineering a sizable support package to affected populations and businesses. Since the war started, Israeli banks have already introduced credit holidays of up to three months to affected individuals and companies, and we expect further measures will be announced.

However, we think Israeli banks might face heightened economic risks if geopolitical risks escalate further and have a deeper negative effect on the economy. Israeli banks have navigated several military escalations over recent decades, but current developments could be of a greater magnitude. We see risk that banks might face protracted effects from changed macroeconomic prospects and credit conditions, with a potential decline in revenue and substantial increase in credit losses. We see some sectors being more vulnerable to the current situation, especially those directly affected like the tourism industry, small businesses, and the service sector. Banks' exposures to construction loans are also relevant because a potential drop in sales over the coming months could pressure those developers and construction companies with limited liquidity buffers and lower financial flexibility. In addition, there is the risk that technology firms move their business abroad if the conflict and its consequences are prolonged, with negative consequences for the office sector.

Our negative outlooks on all Israeli banks reflect our view that banks' creditworthiness might deteriorate if economic conditions worsen. They also factor in the high level of uncertainty surrounding the negative effects of the conflict on the sector.

Bank Leumi le-Israel B.M. (Leumi)

The negative outlook on Leumi mirrors that on the sovereign and reflects our view that the deteriorated economic environment could have negative consequences for the bank's creditworthiness over the next 12-24 months.

Downside scenario

We could lower the ratings on Leumi if we lowered the ratings on Israel, since we would consider it less likely that the government would provide Leumi with extraordinary support in case of need. We could also lower the ratings on Leumi if we considered that economic risks in Israel had structurally increased, with negative consequences for the banking sector and Leumi's creditworthiness. This could happen if we anticipated significant asset quality deterioration, particularly in the real estate sector, and a material decline in its solvency or higher exposure to financial and nonfinancial risks.

Upside scenario

We could revise the outlook to stable if we revised the outlook on Israel to stable and thought that pressure on domestic economic prospects had lessened.

Bank Hapoalim B.M. (BNHP)

The negative outlook on BNHP mirrors that on the sovereign and reflects our view that the deteriorated economic environment could have negative consequences for BNHP's

creditworthiness over the next 12-24 months.

Downside scenario

We could lower the ratings on BNHP if we lowered the ratings on Israel, since we would consider it less likely that the government would provide BNHP with extraordinary support in case of need. We could also lower the ratings on BBHP if we considered that economic risks in Israel had structurally increased, with negative consequences for the banking sector and BNHP's creditworthiness. This could happen if we anticipated significant asset quality deterioration, particularly in the real estate sector, and a material decline in its solvency, or higher exposure to financial and nonfinancial risks.

Upside scenario

We could revise the outlook to stable if we revised the outlook on Israel to stable and thought that pressure on domestic economic prospects had lessened.

Israel Discount Bank Ltd. (IDB)

We revised the outlook on IDB to negative from positive because the sudden and unexpected military escalation in Gaza triggered a significant shift in operating conditions for the bank. The negative outlook reflects the deteriorated economic environment that could have negative consequences for IDB's creditworthiness over the next 12-24 months.

Downside scenario

We could lower the ratings on IDB if we considered that economic risks in Israel had structurally increased, with negative consequences for the banking sector and IDB's creditworthiness. This could happen if we anticipated significant asset quality deterioration, particularly in the real estate sector, or higher exposure to financial and nonfinancial risks.

Upside scenario

We could revise the outlook to stable if we thought that pressure on domestic economic prospects had lessened.

Mizrahi Tefahot Bank Ltd. (Mizrahi)

The negative outlook on Mizrahi reflects the deteriorated economic environment that could have negative consequences for the bank's creditworthiness over the next 12-24 months.

Downside scenario

We could lower the ratings on Mizrahi if we considered that economic risks in Israel had structurally increased, with negative consequences for the banking sector and Mizrahi's creditworthiness. This could happen if we anticipated significant asset quality deterioration, particularly in the real estate sector, and a material decline in its solvency, or higher exposure to

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financial and nonfinancial risks.

Upside scenario

We could revise the outlook to stable if we thought that pressure on domestic economic prospects had lessened.

BICRA Score Snapshot*

Israel

	To	From
BICRA group	3	3
Economic risk	3	3
Economic resilience	Intermediate risk	Intermediate risk
Economic imbalances	Intermediate risk	Intermediate risk
Credit risk in the economy	Low risk	Low risk
Trend	Negative	Stable
Industry risk	4	4
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	High risk	High risk
Systemwide funding	Low risk	Low risk
Trend	Stable	Stable

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017

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- 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

- Israel Outlook Revised To Negative On Geopolitical Risks; 'AA-' Ratings Affirmed, Oct. 24, 2023

Ratings List

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

Ratings Affirmed; Outlook Action

	To	From
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Bank Hapoalim B.M.

Bank Hapoalim B.M. (New York branch)

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

Ratings Affirmed

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

Ratings Affirmed; Outlook Action

	To	From
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Bank Leumi le-Israel B.M.

Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
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Ratings Affirmed

Senior Unsecured	A	A
Junior Subordinated	BBB	BBB

***** Israel Discount Bank Ltd. *****

Ratings Affirmed; Outlook Action

	To	From
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Israel Discount Bank Ltd.

Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Positive/A-2
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Israel Discount Bank of New York

Issuer Credit Rating	BBB+/Negative/--	BBB+/Positive/--
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***** Mizrahi Tefahot Bank Ltd. *****

Ratings Affirmed; Outlook Action

	To	From
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Mizrahi Tefahot Bank Ltd.

Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2
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Ratings Affirmed

Junior Subordinated	BBB-	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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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