Outlooks On Three Israeli Banks Revised To Stable From Negative On Financial Resilience

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- Israeli banks will continue facing economic uncertainty amid the high geopolitical risk in the country.
- However, profitability and asset quality metrics have been resilient in recent quarters despite the conflict, and we expect banks' robust financials would help cushion a potential weakening of the Israeli economy.
- Therefore, we revised our outlooks to stable from negative on Bank Leumi le-Israel B.M., Bank Hapoalim B.M., and Mizrahi Tefahot Bank Ltd., and affirmed our ratings on the banks.
- We maintained our negative outlook on Israel Discount Bank (IDB) and its core subsidiary, Israel Discount Bank of New York (IDB NY), and affirmed our ratings on the banks.

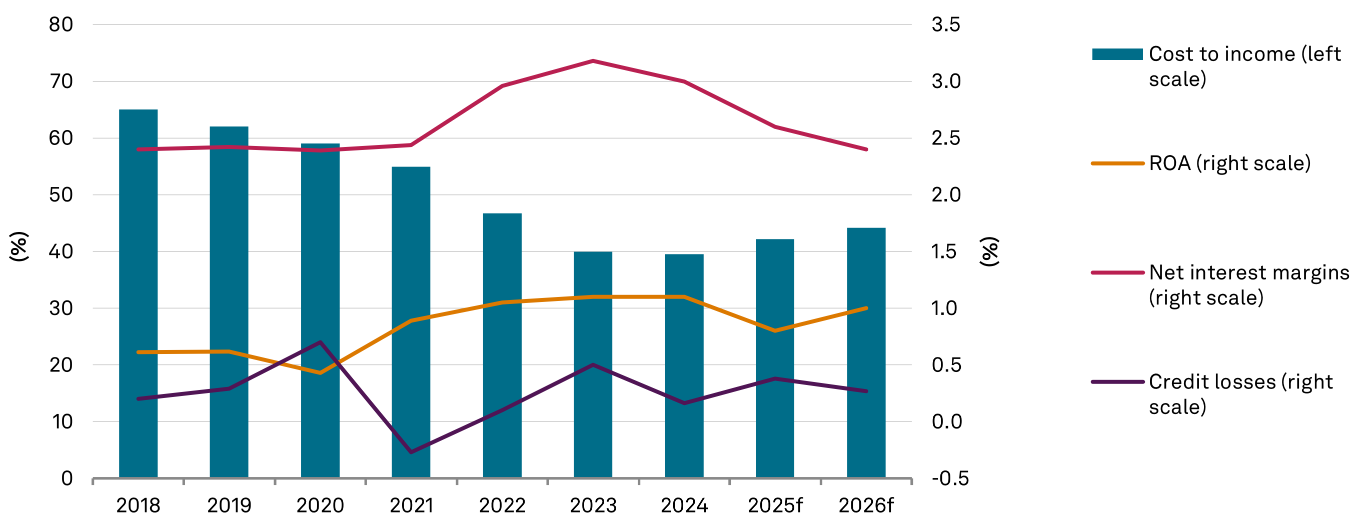
MILAN (S&P Global Ratings) May 29, 2025--S&P Global Ratings today said it took the following rating actions on the following banks (see the Ratings List for full details):

We revised our outlooks on Bank Leumi le-Israel B.M., Bank Hapoalim B.M., and Mizrahi Tefahot Bank Ltd. to stable from negative and affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings on the three banks. We also affirmed our issue ratings on the banks' debt.

We maintained our negative outlooks on Israel Discount Bank (IDB) and core subsidiary Israel Discount Bank of New York (IDB NY), and affirmed our 'BBB+/A-2' and 'BBB+' issuer credit ratings on the banks, respectively.

Profitability remains strong despite the ongoing conflict. Israeli banks reported resilient performance in 2024 and first-quarter 2025. The systemwide return on equity stood at about 15%, close to the historical high. Revenue benefited from strong recovery in lending since mid-2024--with loans expanding about 7.6% in 2024 and 1.9% in first-quarter 2025--and resilient margins despite strong competition and continued pass-through of high rates in cost of deposits. At the same time, costs have remained under control despite investments in digitalization and technologies, as well as somewhat persistent inflation. Israeli banks' efficiency ratios compare favorably with those of European peers, a remarkable turnaround from a few years ago. We expect returns to moderately decline while remaining robust over the next couple of years. This is because while we anticipate profits will continue benefiting from strong lending growth and efficiency efforts, we anticipate steadily declining margins and banks providing financial support to households of Israeli new shekel (NIS) 1.5 billion (about €374.5 million) per year in 2025 and 2026, in line with Bank of Israel requirements. In our base-case scenario, we assume credit losses of 30-35 basis points, above their through-the-cycle levels.

Resilient margins and better efficiency will sustain profitability



ROA--Return on assets. f--Forecast. Source: S&P Global Ratings.

Asset quality deterioration has been contained. It has been resilient despite the war and lower economic activity, with real GDP per capita growth of negative 1.1% in 2024. Cost of risk stood at a low 15 basis points (bps) in 2024 as banks reversed provisions built up after the conflict's outbreak, a reassuring signal of banks' portfolios robustness. The nonperforming loan (NPL) ratio stood at a contained 1% at end-March 2025 due to limited inflow and moderately higher recourse to charge-offs. Even assuming Israel's real GDP growth recovering to 3.3% this year, we anticipate banks will face a rising inflow of NPLs in second-half 2025 due to weaker economic activity than from before the conflict, spillover effects from trade disputes, higher-for-longer interest rates, and strong lending growth in recent years. In particular, we expect some sectors like tourism, small and midsize enterprises (SMEs), unsecured lending, and real estate and construction, to be more vulnerable. The construction sector, which had previously benefited from strong post-COVID-19 momentum, faces significant headwinds from increased cost of labor owing to the severe shortage of Palestinian workers, higher funding costs, and an increase in unsold apartments, which ultimately narrow margins and constrain financial construction companies' flexibility. Still, we anticipate asset quality deterioration to remain contained and factor into our forecast an increase of credit losses to 30-35 bps per year in 2025-2027. We therefore revised our trend on the economic risk faced by Israeli banks in our Banking Industry Country Risk Assessment (BICRA) to stable from negative, because we think Israeli banks have preserved sound financial risk profiles that would provide some cushion for deterioration in their operations.

Banks' access to local market remains strong. Israeli banks have been able to tap financial market several times since October 2023, with limited impact on pricing. Recourse to capital markets remains limited because deposits fully fund loans. Deposits have grown in line with loans, although mostly via more costly corporate deposits. Depositors' search for higher yields associated with alternative savings products will continue weighing on deposit evolution in 2025.

Interest-bearing deposits increased to about 60% of the total compared with a low 34% in 2021.

Bank Hapoalim B.M.

Primary credit analyst: Pierre Hollegien

We revised our outlook on Hapoalim to stable because pressure on the Israeli banking system have eased. The bank's stand-alone credit profile (SACP), which remains 'bbb+', reflects our expectation that Hapoalim will maintain resilient profitability amid challenging operating conditions. At the same time, we do not think it will be sufficient to push up the risk-adjusted capital (RAC) ratio to above 10% by end-2027 due to more vigorous business growth and higher dividend payouts. As such, we have revised our capital and earnings assessment to adequate from strong. Nevertheless, we continue to view a combined capital and earnings and risk profile as neutral in our analysis, based on our view of Hapoalim's more conservative track record of growth and underwriting standards, and solid asset quality through crises. Therefore, we have also revised our risk position assessment to adequate from moderate.

Outlook

The stable outlook on Hapoalim balances our view that despite geopolitical and economic risks, the bank's robust financials should support its creditworthiness over the next 12-24 months.

Downside scenario: We could lower the rating on Hapoalim if we downgraded Israel and the war's impact is more significant than anticipated, leading Hapoalim's asset quality, capitalization, or earnings to suffer more than we anticipated or material losses emerged from a slower-than-expected economic recovery and rising pressure on the real estate and construction segment.

Upside scenario: An upgrade is unlikely because security risks and pressure on domestic economic prospects are likely over the outlook horizon.

Ratings score snapshot

	To	From
Issuer Credit Rating	**BBB+/Stable/A-2**	**BBB+/Negative/A-2**
SACP	bbb+	bbb+
Anchor	bbb	bbb
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Adequate (0)	Strong (+1)
Risk position	Adequate (0)	Moderate (-1)
Funding and liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0

	To	From
Issuer Credit Rating	**BBB+/Stable/A-2**	**BBB+/Negative/A-2**
Group support	0	0
Sovereign support	0	0
Additional factors	0	0
ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.		

Bank Leumi le-Israel B.M.

Primary credit analyst: Pierre Hollegien

We revised our outlook on Leumi to stable because pressure on the Israeli banking system has eased. The bank's SACP, which remains 'bbb+', factors in Leumi's relative strengths despite current difficulties. These strengths include the bank's earnings resiliency, strong franchise, and financial flexibility. Our ratings on Leumi also incorporate its high concentration in the real estate sector and our expectation that the bank will maintain a RAC ratio of 8.3%-8.6% in 2027, with only moderately deteriorating asset quality.

Outlook

The stable outlook on Leumi balances our view that despite geopolitical and economic risks, we think the bank's strong financial results should support its creditworthiness over the next 12-24 months.

Downside scenario: We could lower the rating on Leumi if we downgraded Israel and considered that the bank's above-peers profitability no longer warrant the one-notch upward adjustment under our comparable rating analysis. This could materialize if the war's impact is more significant than anticipated, or material losses emerged from a slower-than-expected economic recovery and rising pressure on the real estate and construction segment.

Upside scenario: An upgrade is unlikely because security risks and pressure on domestic economic prospects are likely over the outlook horizon.

Ratings score snapshot

	To	From
Issuer Credit Rating	**BBB+/Stable/A-2**	**BBB+/Negative/A-2**
SACP	bbb+	bbb+
Anchor	bbb	bbb
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Moderate (-1)	Moderate (-1)

	To	From
Issuer Credit Rating	**BBB+/Stable/A-2**	**BBB+/Negative/A-2**
Funding and liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	+1	+1
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0
ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.		

Mizrahi Tefahot Bank Ltd.

Primary credit analyst: Regina Argenio

We revised our outlook on Mizrahi to stable because pressure on the Israeli banking system has eased. The ratings on the bank continue to reflect its leading position in the mortgage market, which we see as more resilient than construction and commercial real estate exposure in Israel. The mortgage market will benefit from the still-strong housing demand and low unemployment. We expect Mizrahi's profitability to decline--as competition remains strong and credit losses increase from unsustainably low levels in 2024--but remaining resilient. We expect this and a more contained dividend payout to help improve its RAC ratio to about 10% by 2027, indicating a capitalization level we consider strong, despite still-strong lending growth.

Outlook

The stable outlook balances risks from the geopolitical and economic circumstances and its concentration in real estate related lending with benefits from its strong financial performance. We expect the bank's profitability to remain resilient, with its RAC to reach 10% from about 9.2% on Dec. 31, 2023 (pro forma the updated BICRA parameters) and the bank maintaining a risk profile aligning with that of peers.

Downside scenario: We could lower our rating if we downgraded Israel, and the bank failed to maintain its solid risk profile and its asset quality metrics weakened materially over the next 12-24 months. This could happen if the war's impact is more significant than anticipated, accentuating the stress on real estate developers and households, or if lending growth accelerates and jeopardizes Mizrahi's capitalization, with its RAC ratio lasting materially below 10%.

Upside scenario: An upgrade over the next 12-24 months is unlikely and would hinge on a material improvement of the security risk in the country and the bank strengthening its profitability, efficiency, and capital buffers, while diversifying its loan book.

Ratings score snapshot

	To	From
Issuer Credit Rating	**BBB+/Stable/A-2**	**BBB+/Negative/A-2**
SACP	bbb+	bbb+
Anchor	bbb	bbb
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Israel Discount Bank Ltd.

Primary credit analyst: Regina Argenio

We maintained the negative outlook on IDB, mirroring that on Israel, because we don't think the bank could preserve its creditworthiness in case of a sovereign downgrade. Supporting the rating is our expectation of extraordinary government support, which we would consider less likely should the sovereign's creditworthiness weaken.

Also, we think IDB's high concentration in the real estate sector and SMEs will lead to higher provisioning than domestic peers with a more conservative lending portfolio. Nevertheless, we expect deterioration to be manageable and the bank to maintain an RAC ratio comfortably above 7%. Consequently, we continue to see the rating as comparable with that of peers.

Outlook

The negative outlook on IDB indicates that a sovereign downgrade could have negative implications for IDB's creditworthiness over the next 12-24 months.

Downside scenario: We could lower the ratings on IDB if we downgraded Israel, because we would consider the government less likely to provide IDB with extraordinary support. Although less likely, we could lower the ratings on IDB if its performance weakens vis-à-vis similarly rated peers. This could materialize if the war's impact is more significant than anticipated, or material losses emerged from a slower-than-expected economic recovery and rising pressure on the real estate and construction sector.

Upside scenario: We could revise the outlook to stable if we revised that on Israel to stable and anticipated IDB's creditworthiness to not change.

Ratings score snapshot

Issuer Credit Rating	BBB+/Negative/A-2
SACP	bbb
Anchor	bbb
Business position	Adequate (0)
Capital and earnings	Adequate (0)
Risk position	Moderate (-1)
Funding and liquidity	Adequate (0)
Comparable ratings analysis	+1
Support	+1
ALAC support	0
GRE support	0
Group support	0
Sovereign support	+1
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

BICRA Score Snapshot*

Israel

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

	To	From
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: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Israel Ratings Affirmed At 'A/A-1'; Outlook Remains Negative, May 9, 2025
- Banking Industry Country Risk Assessment: Israel, Jan. 27, 2025
- Various Rating Actions Taken On Israeli Banks On Sovereign Downgrade; All Outlooks Negative, Oct. 9, 2024
- Various Rating Actions On Israeli Banks On Increased Geopolitical Risks; All Outlooks Negative, May 2, 2024

Ratings List

* * * * * * * * * * * * * * Bank Hapoalim B.M. * * * * * * * * * * * * * *	
Ratings Affirmed	
Bank Hapoalim B.M.	
Junior Subordinated	BBB-

Ratings Affirmed; Outlook Action		
	To	**From**
Bank Hapoalim B.M.		
Bank Hapoalim B.M. (New York branch)		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
*** * * * * * * * * * * * Bank Leumi le-Israel B.M. * * * * * * * * * * * ***		
Ratings Affirmed		
Bank Leumi le-Israel B.M.		
Senior Unsecured	BBB+	
Junior Subordinated	BBB-	
Ratings Affirmed; Outlook Action		
	To	**From**
Bank Leumi le-Israel B.M.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
*** * * * * * * * * * * * Israel Discount Bank Ltd. * * * * * * * * * * * ***		
Ratings Affirmed		
Israel Discount Bank Ltd.		
Issuer Credit Rating	BBB+/Negative/A-2	
Israel Discount Bank of New York		
Issuer Credit Rating	BBB+/Negative/--	
*** * * * * * * * * * * * Mizrahi Tefahot Bank Ltd. * * * * * * * * * * * ***		
Ratings Affirmed		
Mizrahi Tefahot Bank Ltd.		
Junior Subordinated	BBB-	
Ratings Affirmed; Outlook Action		
	To	**From**
Mizrahi Tefahot Bank Ltd.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2