

Israel-Based Bank Hapoalim Proposed Tier 2 Subordinated Notes Assigned 'BBB' Rating

October 11, 2021

MILAN (S&P Global Ratings) Oct. 11, 2021--S&P Global Ratings said today that it had assigned its 'BBB' long-term issue rating to the proposed Tier 2 subordinated contingent capital notes with a loss absorption mechanism to be issued by Israel-based Bank Hapoalim B.M. (A/Stable/A-1). The rating is subject to our review of the notes' final documentation. This is Bank Hapoalim's first issuance of contingent convertible notes in foreign currency.

In accordance with our criteria for hybrid capital instruments (see "General Criteria: Hybrid Capital: Methodology And Assumptions," published July 1, 2019), the 'BBB' issue rating reflects our analysis of the proposed instrument and our assessment of Bank Hapoalim's stand-alone credit profile (SACP) at 'a-'. The starting point for the rating on the subordinated contingent capital notes is the bank's SACP. We don't use the issuer credit rating (ICR) as the starting point, since it includes government support and we do not expect these instruments to benefit from state support.

The issue rating stands two notches below the 'a-' SACP, due to the following deductions:

- One notch for default risk. This reflects the loss absorption mechanism built into the instruments, under which a principal loss absorption event or a nonviability event trigger instrument principal conversion. A principal loss absorption event occurs when the common equity Tier 1 ratio falls below 5%. A nonviability event is defined as the earlier of: a written notice by the Bank Supervisor to the bank that a conversion is necessary since without it the bank will become nonviable, in the view of the Supervisor; or a decision to inject capital from the public sector, or an equivalent support mechanism, without which the bank will reach the point of nonviability as determined by the Bank Supervisor.
- One notch for subordination. This reflects the contractual subordination of the proposed notes with respect to the bank's senior obligations.

Evaluating the instrument in light of our bank hybrid methodology, in our view there are no additional nonpayment risks that would justify deduction of additional notches beyond those noted above. In particular, based on our view of the bank's current creditworthiness, we consider that the low likelihood of regulatory discretionary intervention does not require deduction of any additional notch to determine the final rating on these notes.

The notes are must-pay instruments with no deferrable coupons and we assign them minimal equity content when computing our Total Adjusted Capital.

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Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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/sourceId/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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