

18 OCT 2021

Fitch Assigns Hapoalim's USD1 billion Tier 2 Notes 'BBB' Final Rating

Fitch Ratings - London - 18 Oct 2021: Fitch Ratings has assigned Bank Hapoalim B.M.'s (Hapoalim; A/Stable/a-) USD1 billion issue of Tier 2 notes a final rating of 'BBB'. Hapoalim's other ratings are unaffected by this rating action.

The notes are rated under Fitch's "Exposure Draft: Bank Rating Criteria" published on 17 August 2021.

The final rating is in line with the expected rating that Fitch assigned to the notes on 11 October 2021.

Key Rating Drivers

Hapoalim's USD1 billion Tier 2 notes are rated two notches below the bank's Viability Rating (VR), reflecting poor recovery prospects in the event of a failure of the bank, in line with Fitch's base-case notching for Tier 2 debt. No additional notching is applied as, in our opinion, the principal loss-absorption feature after a breach of a 5% common equity Tier 1 (CET1) ratio gives rise to low incremental non-performance risk relative to the bank's VR.

The new notes rank pari passu with the bank's other Tier 2 debt. The notes will be converted to equity partially or in full if Hapoalim's CET1 ratio falls below 5% or if Hapoalim's regulator, the Bank of Israel, notifies Hapoalim in writing that the conversion of the debt is necessary to avoid becoming non-viable, or if a capital injection is needed from the public sector, or equivalent support, to avoid the point of non-viability. There is no coupon flexibility on the notes.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The Tier 2 notes' rating would likely be downgraded if the bank's VR is downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The Tier 2 notes' rating would likely be upgraded if the bank's VR is upgraded.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

Date of Relevant Committee

05 October 2021

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Fitch Ratings Analysts

Christian Scarafia

Managing Director

Primary Rating Analyst

+44 20 3530 1012

Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Michael Bojko, CFA

Associate Director

Secondary Rating Analyst

+44 20 3530 2723

Patrick Rioual

Senior Director

Committee Chairperson

+49 69 768076 123

Media Contacts

Louisa Williams

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Bank Hapoalim B.M.			
• subordinated	BBB	New Rating	BBB(EXP)

RATINGS KEY OUTLOOK WATCH

POSITIVE	+	◊
NEGATIVE	-	◊
EVOLVING	◊	◆
STABLE	◊	

Applicable Criteria

Exposure Draft: Bank Rating Criteria (pub.17 Aug 2021) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Bank Hapoalim B.M. UK Issued, EU Endorsed

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