

Bank Hapoalim B.M.

Primary Credit Analyst:

Regina Argenio, Milan + 39 0272111208; regina.argenio@spglobal.com

Secondary Contact:

Avital Koren, RAMAT-GAN; avital.koren@spglobal.com

Table Of Contents

Ratings Score Snapshot

Credit Highlights

Outlook

Key Metrics

Anchor: 'bbb+' For Banks Operating Only In Israel

Business Position: Leading Domestic Player

Capital And Earnings: Profitability Will Sustain Capitalization

Risk Position: Concentrated Exposure

Funding And Liquidity: Diversified Funding Base And Good Liquidity

Support: One Notch Of Uplift For Government Support

Environmental, Social, And Governance

Hybrids

Key Statistics

Table Of Contents (cont.)

Related Criteria

Related Research

Ratings Score Snapshot

A/Stable/A-1

ssuer credit rating

ALAC support	0
GRE support	0
Group support	0
Sovereign support	+1

Issuer credit rating

A/Stable/A-1

Credit Highlights

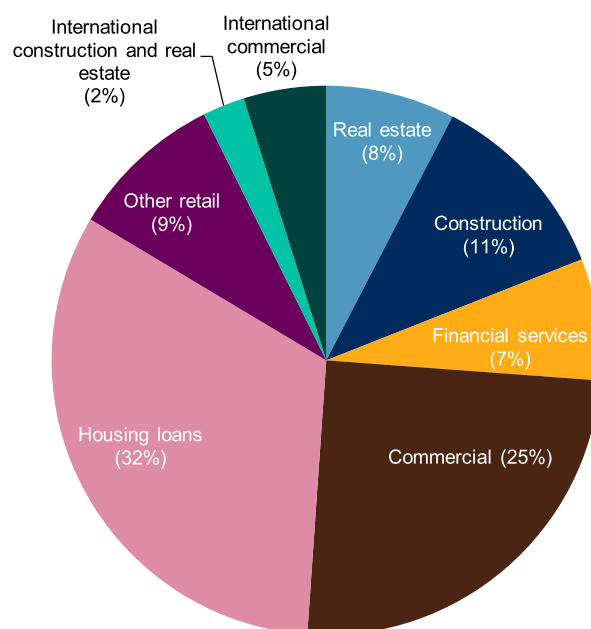
Key strengths

Market leader in Israel, with a strong presence in all key business lines.	High concentration in the real estate sector.
Improving profitability and efficiency.	Operating in a competitive environment.
Large domestic customer deposit base.	Weakening economic outlook.

BNHP's business and geographical concentration remains higher than that of its international peers. This is because of BNHP's geographical focus on Israel, the local economy's relatively concentrated nature, and the bank's high exposure to cyclical industries such as real estate and construction.

Chart 1**Construction And Real Estate Account For A Significant Part Of The Lending Book**

Loans breakdown as of Sept. 30, 2022



Data do not take into account guarantee or insurance. Source: S&P Global Ratings.

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A large and granular deposit base supports the bank's funding profile. In addition, we think BNHP's large stock of liquid assets is sufficient to comfortably cover its liquidity needs. BNHP's recourse to wholesale funding remains limited to about 6% of its total funding, despite the increased recourse over the past couple of years to fund its strong lending growth.

Government support will continue to benefit the ratings. We factor into our ratings our view that Israel (AA-/Stable/A-1+) would provide extraordinary support to the bank in the event of financial distress.

Outlook

The stable outlook on BNHP reflects our view that the bank will be able to maintain strong capitalization, with a RAC ratio sustainably above 10% over the next two years, and the nonperforming loan (NPL) ratio remaining broadly in line with the system average at about 1.5% by 2024.

Downside scenario

Rating pressure could emerge if the Israeli economy, particularly the real estate sector, markedly deteriorated. Such weakening could stem from an abrupt readjustment of the local real estate market, an economic stress amid the deteriorating global economic outlook, or a pronounced escalation in local geopolitical turbulence. Rating pressure could also emerge if higher-than-anticipated growth put pressure on capital or if we anticipated that it could bring asset quality deterioration.

Upside scenario

Although unlikely during our two-year outlook period, we could upgrade BNHP if economic and operating conditions in Israel improved, in turn improving the bank's risk profile. This could happen if we observed lower concentration toward the real estate sector and Israeli banks show better profitability than peers, for example.

Key Metrics

Bank Hapoalim B.M.--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	2020a	2021a	2022f	2023f	2024f
Growth in customer loans	3.5	16.0	8.6-10.5	4.5-5.5	4.5-5.5
Net interest income/average earning assets (NIM)	2.3	2.4	2.6-2.9	2.6-2.9	2.5-2.8
Cost to income ratio	57.3	54.5	46.6-48.5	44.6-46.4	44.7-46.5
Return on average common equity	5.3	11.9	12.4-13.4	11.5-12.7	11.0-12.1
New loan loss provisions/average customer loans	0.6	(0.4)	0.0-0.0	0.3-0.3	0.2-0.2
Gross nonperforming assets/customer loans	1.5	1.2	1.0-1.1	1.3-1.4	1.3-1.4
Risk-adjusted capital ratio	11.2	10.4	10.2-10.7	10.4-10.9	10.6-11.1

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb+' For Banks Operating Only In Israel

High income levels, contained private sector debt, and a solid domestic economic performance support Israeli banks' asset quality metrics. Following a strong performance in 2021, we expect the Israeli economy to remain broadly resilient. Over the past few years, the Israeli financial system has experienced a strong lending expansion, particularly in construction and real estate. Real estate prices have increased sharply, fueled by the economic rebound and very

accommodative monetary policy. We now expect credit and real estate price growth to decelerate because of rising interest rates and higher inflation. In addition, regulatory measures will weigh on the sector. We consider that vulnerabilities in this segment are manageable, but are mindful that banks' significant exposure to the real estate sector poses risks. We expect credit losses to gradually normalize to pre-pandemic levels of about 25 bps by 2024.

The Israeli banking sector benefits from a strong funding profile, a large core customer deposit base, and a net external creditor position. Banking regulations are broadly in line with international standards, and the prudent regulatory oversight mitigates the risks stemming from the sector's structurally high exposure to real estate. Israeli banks engage in simple and traditional banking and their profitability has been boosted by strong business momentum, rising interest rates, the high amount of assets linked to the consumer price index (CPI), and continuous cost-cutting initiatives. That said, competition among both banks and nonbank financial institutions constrains margins and fees. Many banks are adapting their business models to changing customer preferences and new competitors. Less dynamic, smaller banks and nonbank lenders could be more vulnerable to the changing competitive landscape.

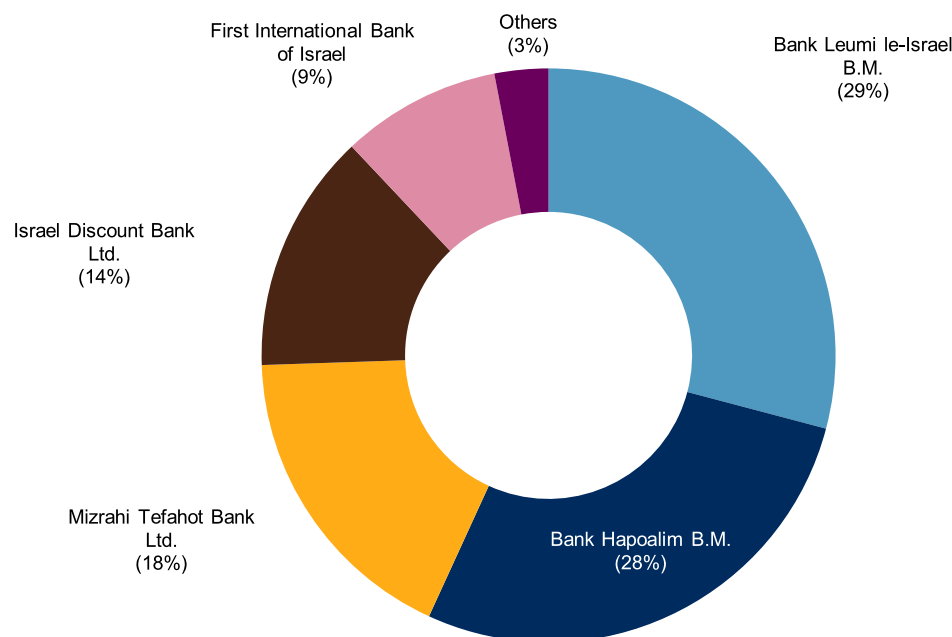
Business Position: Leading Domestic Player

BNHP benefits from its leading position in most segments of the Israeli market (see chart 2).

Chart 2

BNHP Is One Of The Leading Banks In Israel

Domestic deposits market share as of June 30, 2022



Source: S&P Global Ratings.

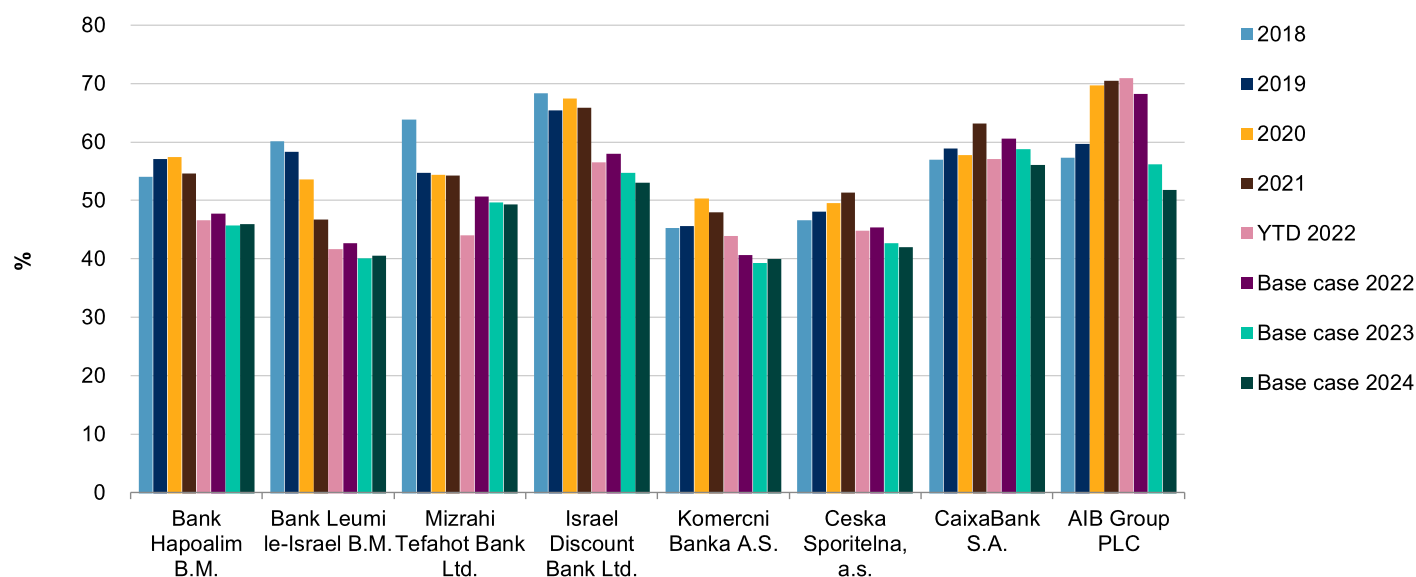
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BNHP's medium-term strategy and growth objectives involve increasing the bank's exposure with a controlled risk appetite. At the same time, BNHP aims to increase operational efficiency and digitalization. Thanks to cost-containment initiatives and an expanded digital proposition, BNHP has managed to improve its efficiency (see chart 3).

Chart 3

BNHP's Efficiency Is Now More In Line With International Peers

Cost-to-income ratio



YTD--Year to date. Source: S&P Global Ratings.

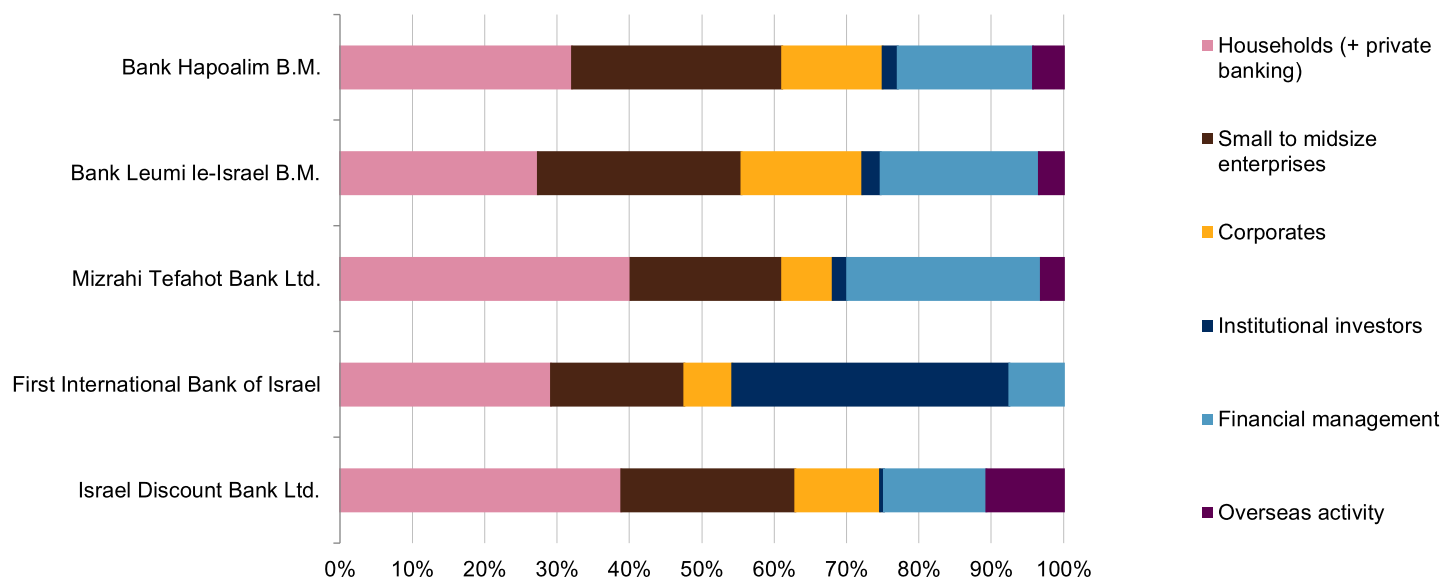
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Revenue is quite diversified among sectors (see chart 4), with mortgages a key target for the bank in the Israeli market. While we see increased competition in the sector and lower demand amid rising rates eroding good margins, we anticipate that the risk associated with mortgage exposures will be contained; partly thanks to macroprudential measures that the Bank of Israel (BoI) introduced in the past (such as increasing banks' regulatory capital requirements and limiting mortgages' loan-to-value and payment-to-income ratios).

BNHP aims to gradually build up a portfolio of investments in private small and midsize companies. We consider this segment to be associated with a higher risk profile, but we expect BNHP to approach it carefully.

Chart 4**BNHP Has A Diversified Revenue Base**

Revenues distribution per segment as of Sept. 2022



Source: S&P Global Ratings.

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BNHP's international activity is small, accounting for 4.5% of its net loans. Most of this stems from its U.S. branch, which is primarily focused on strengthening BNHP's commercial banking business in the U.S., offering investment services to private and corporate clients. Other than the U.S., BNHP is looking to sell its small subsidiary in Turkey, and is closing its operations in Switzerland and Luxembourg.

Capital And Earnings: Profitability Will Sustain Capitalization

BNHP's profitability recovered strongly in 2021 and 2022, and will continue supporting capitalization. We forecast that BNHP's RAC ratio will be about 10.5%-11.0% in 2024, compared with 10.4% at year-end 2021.

Specifically, we expect loan growth to return to pre-pandemic levels of about 5%, supported by demand for investments, after significant lending expansion--by about 29.7%--since year-end 2019.

Net interest income, boosted in 2022 by rising interest rates and BNHP's CPI-linked assets, will continue to expand but at a slower pace due to rising funding costs and lower lending growth. Fees contribution will moderate, but remain resilient.

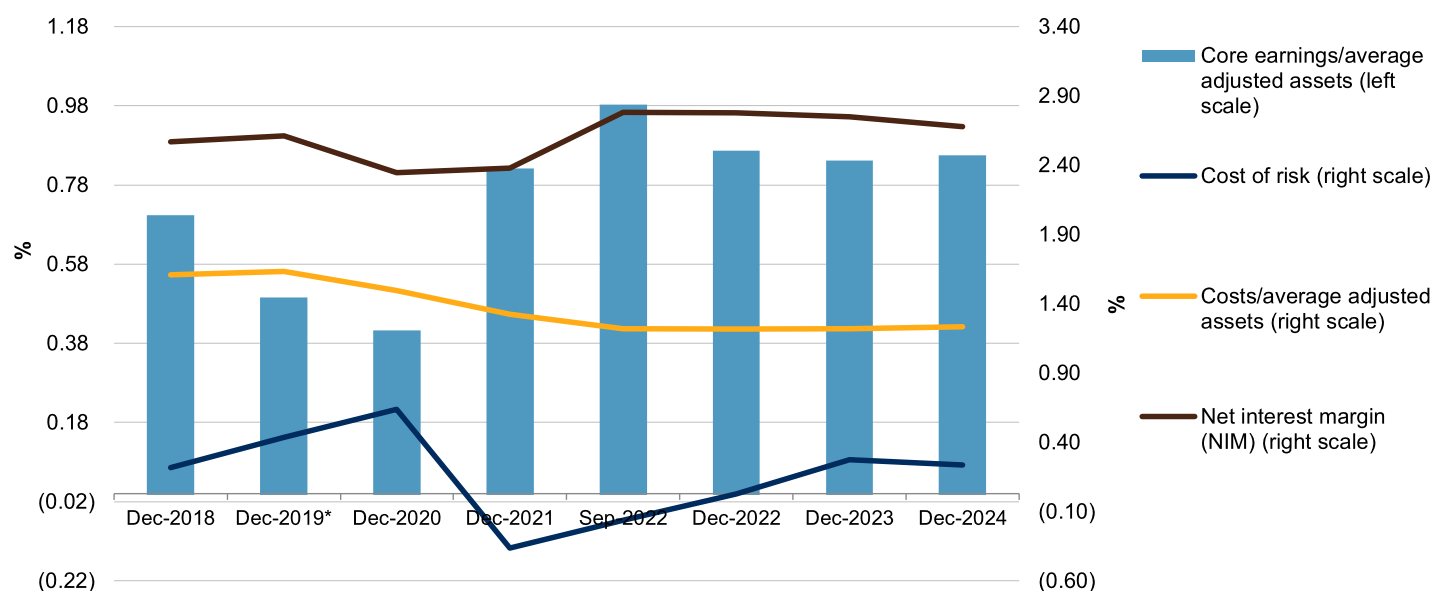
We also expect a cost-to-income ratio of about 45%-47%, because expenses will only moderately progress, benefitting

from the bank's continuous cost-cutting initiatives that should help mitigate the effects of rising inflation.

Credit losses will increase because of the economic slowdown and after strong credit expansion in past quarters, but we anticipate that they will remain limited at about 25 bps in 2023-2024, in line with pre-pandemic levels. The overlays accumulated during the pandemic and in 2022 will help the bank contain the impact on its profit and loss and capital. BNHP's bottom line significantly benefitted from the credit loss reversals until September 2022, thanks to high specific provisions reversal in 2021 and first-quarter 2022 and lower-than-peers' collective provisioning in 2022.

Chart 5

We Expect BNHP's Profitability To Remain Resilient



*2019 provisions include about 20 basis points of COVID-19-related provisions. Source: S&P Global Ratings.

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After a dividend payment pause in early 2022 to sustain capitalization amid strong lending growth, BNHP has declared about a 20% payout on the first-nine-months 2022 results, and we factor in expanding dividend payouts, averaging about 35% in 2022-2024. We expect the distribution to remain cautious, given the uncertain market conditions.

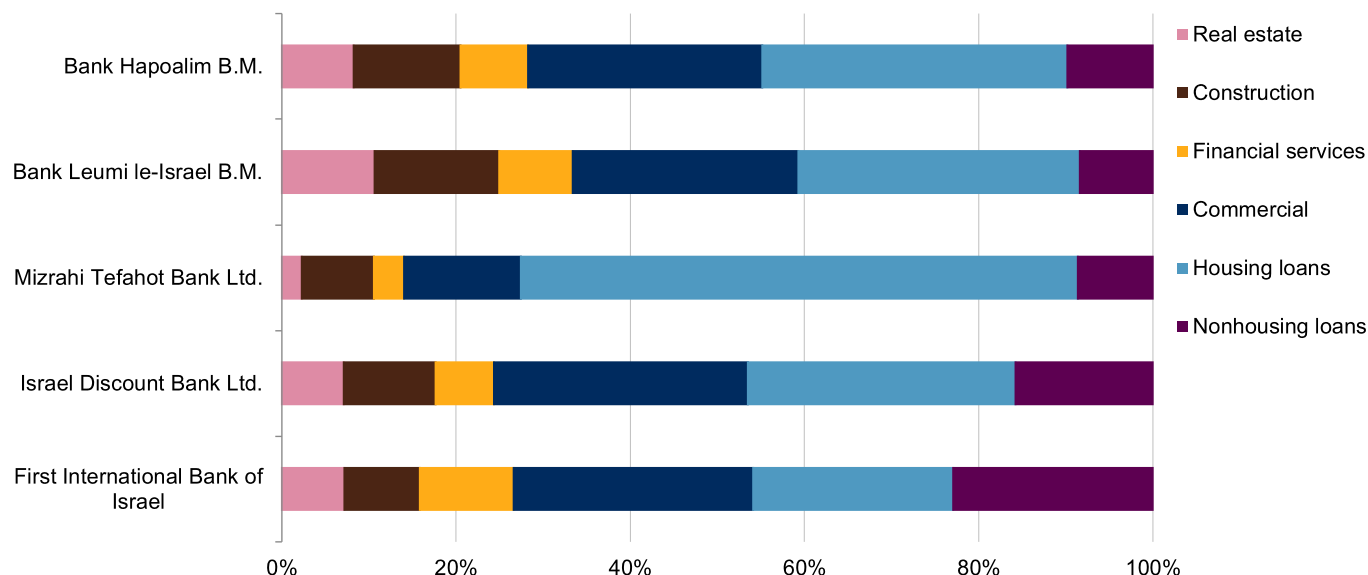
Risk Position: Concentrated Exposure

BNHP's risk exposures are more concentrated than those of most international peers, in our view. Given the small size of Israel's economy, BNHP's leading position in corporate lending means that single-name borrower concentration represents a source of risk, compared with banks in larger, more diverse economies.

A key risk factor for BNHP and its local peers is the high exposure to property-related lending, namely for construction and income-producing property (see chart 6). This exposure could weigh on the bank's capital and earnings if there is a material property price correction, or if the labor market is hit harder than anticipated.

Chart 6

BNHP's Domestic Property-Related Lending Exposure Is A Source Of Risk
Loans breakdown September 2022



*Data as of June 2022. Source: S&P Global Ratings.

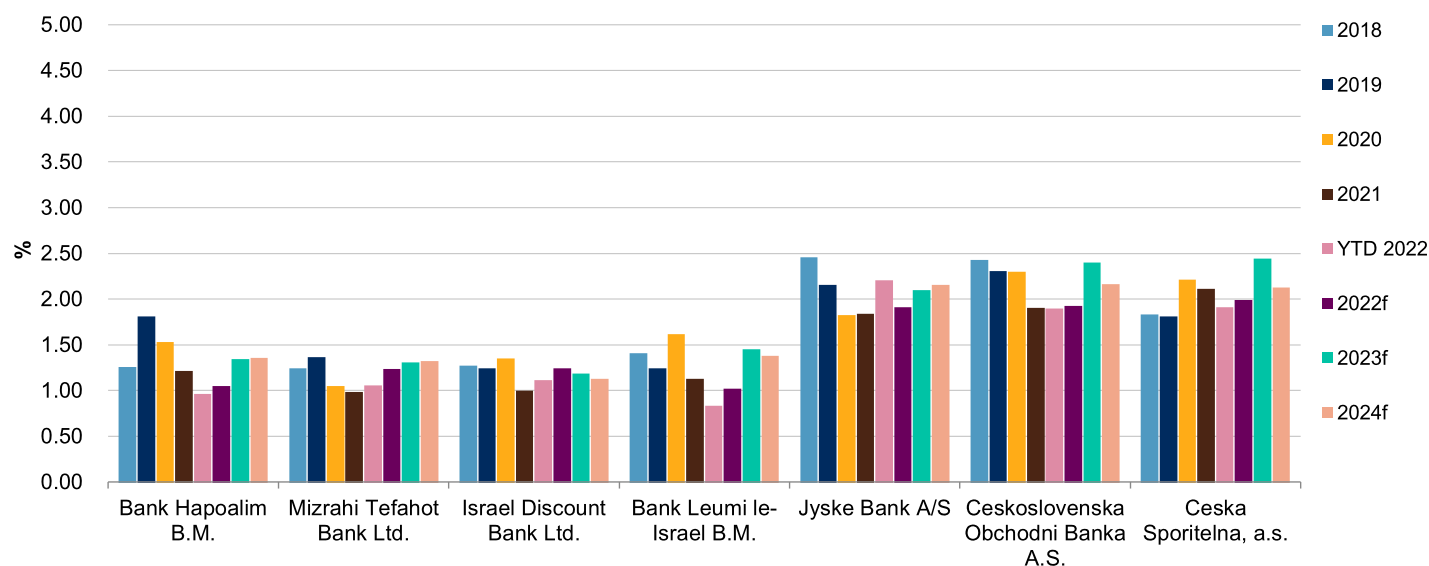
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We view BNHP's exposure to income-producing real estate as a source of vulnerability. Offices and shopping malls have been resilient during the pandemic, but we still see a risk of oversupply in the office sector, particularly if IT sector demand were to slow significantly.

We expect the mortgages portfolio to prove resilient; the level of defaults among Israeli households has been much lower than we have observed in other regions. In addition, BNHP maintains a conservative underwriting standard (including loan to value) on these loans. The structural demand for housing in Israel also helps reduce the risk of a sharp correction in the market.

BNHP's asset quality metrics looks good in comparison with peers. Nonperforming assets amounted to about 0.95% of total loans as of Sept. 30, 2022. We consider this to be good compared with global peers and adequate relative to local peers. As a result of the deteriorating global economic conditions, however, we expect NPLs to moderately increase over the next couple of years (see chart 7). As of September 2022, BNHP's share of problematic but not impaired loans amounted to about 1% of total loans. Mostly in the commercial sector.

Chart 7

Nonperforming Loans Will Rise Moderately While Comparing Well With Peers'

YTD--Year to date. f--Forecast. Source: S&P Global Ratings.

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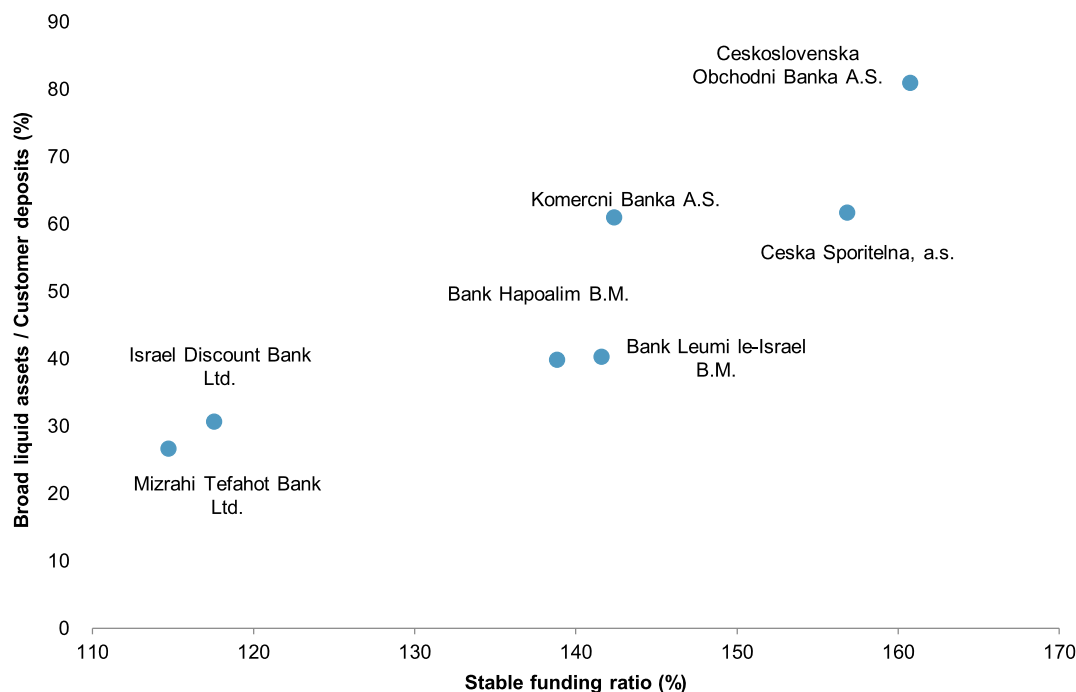
Operational risks are material but not bank-specific. They mainly relate to geopolitical tensions in the region and potential damage in the event of adverse events, such as terrorist attacks or wars. We reflect these risks in our anchor for Israeli banks. At the same time, we consider that the bank has adequate protection from cyber risks.

Funding And Liquidity: Diversified Funding Base And Good Liquidity

In our view, BNHP benefits from sound liquidity, supported by its deep domestic funding sources, including a strong retail base. This translates into solid funding and liquidity metrics.

Chart 8**BNHP's Solid Liquidity Supports Its Metrics**

Data as of June 30, 2022



Source: S&P Global Ratings.

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BNHP is mostly deposit-funded with core deposits forming 92% of the funding base. It has a stable deposits base with 45% retail consumer customers and about 41% not bearing interest, thus reducing the prices pressure on margins.

Liquid assets are sizable, with cash at central bank and other bank placements and investment securities constituting more than one-third of assets on Sept. 30, 2022. BNHP's securities are well diversified and hedged against interest rate risks.

Support: One Notch Of Uplift For Government Support

The long-term rating on BNHP is one notch higher than the stand-alone credit profile (SACP), reflecting our view that it has high systemic importance in Israel and that the government is supportive toward the domestic banking sector. We would reconsider our assessment of government support if regulatory authorities introduced an updated bank resolution framework. However, we do not anticipate this development in the medium term, and we continue to include one notch of government support in our issuer credit rating on BNHP.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We think environmental, social, and governance credit factors influence BNHP's credit quality similarly to its industry and local peers. In 2019, some changes occurred within top management and we regard the management team as professional and experienced. Environment and social factors do not affect credit quality differently from industry peers. We expect the bank's investment in digitalization will gradually have positive environmental implications. Regarding social risk, we note that BNHP carefully managed staff reductions in the past, and we expect this to continue if further layoffs are considered.

Hybrids

We rate BNHP's hybrid instruments by applying our standard notching from the group's SACP, because we do not expect these instruments to benefit from state support. This means we currently rate Tier 2 subordinated contingent capital notes 'BBB' by applying one notch for default risk and one notch for subordination.

Key Statistics

Table 1

Bank Hapoalim B.M.--Key Figures					
	--Year-ended Dec. 31--				
(Mil. ILS)	2022*	2021	2020	2019	2018
Adjusted assets	658,336.0	638,781.0	539,602.0	463,688.0	460,926.0
Customer loans (gross)	388,722.0	359,703.0	310,170.0	299,624.0	288,693.0
Adjusted common equity	44,502.0	40,938.0	37,845.0	36,623.0	36,726.0
Operating revenues	12,762.0	14,327.0	13,098.0	13,250.0	13,722.0
Noninterest expenses	5,926.0	7,803.0	7,501.0	7,548.0	7,385.0
Core earnings	4,772.5	4,828.9	2,054.8	2,277.5	3,207.1

*Data as of Sept. 30. ILS--New Israeli sheqel.

Table 2

Bank Hapoalim B.M.--Business Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Total revenues from business line (currency in millions)	12,778.0	14,441.0	13,186.0	13,190.0	14,142.0

Table 2

Bank Hapoalim B.M.--Business Position (cont.)					
(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Commercial banking/total revenues from business line	26.9	26.9	27.0	26.1	39.1
Retail banking/total revenues from business line	48.0	45.2	50.5	56.3	35.7
Commercial and retail banking/total revenues from business line	74.9	72.0	77.5	82.3	74.8
Trading and sales income/total revenues from business line	19.1	22.8	17.6	12.3	16.1
Other revenues/total revenues from business line	6.0	5.2	4.9	5.4	9.0
Investment banking/total revenues from business line	19.1	22.8	17.6	12.3	16.1
Return on average common equity	14.5	11.9	5.3	4.8	7.1

*Data as of Sept. 30.

Table 3

Bank Hapoalim B.M.--Capital And Earnings					
(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Tier 1 capital ratio	11.1	11.0	11.7	11.8	11.4
S&P Global Ratings' RAC ratio before diversification	11.0	10.4	11.2	11.3	10.0
S&P Global Ratings' RAC ratio after diversification	10.2	9.7	10.1	10.6	9.3
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	74.7	68.2	67.2	70.3	64.9
Fee income/operating revenues	21.8	23.4	24.1	24.5	24.2
Market-sensitive income/operating revenues	1.8	7.5	8.1	4.6	10.1
Cost to income ratio	46.4	54.5	57.3	57.0	53.8
Preprovision operating income/average assets	1.4	1.1	1.1	1.2	1.4
Core earnings/average managed assets	1.0	0.8	0.4	0.5	0.7

*Data as of Sept. 30. RAC--Risk-adjusted capital.

Table 4

Bank Hapoalim B.M.--Risk-Adjusted Capital Framework Data					
(Mil. ILS)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	250,803.4	1,710.6	0.7	1,994.1	0.8
Of which regional governments and local authorities	7,908.9	1,294.5	16.4	284.7	3.6
Institutions and CCPs	24,973.3	2,890.0	11.6	6,299.4	25.2
Corporate	245,507.2	230,554.0	93.9	216,609.7	88.2
Retail	168,435.5	102,506.8	60.9	72,495.8	43.0
Of which mortgage	116,114.8	62,968.0	54.2	33,255.3	28.6
Securitization§	26.0	13.0	50.0	26.0	100.0
Other assets†	12,670.0	22,874.5	180.5	22,157.6	174.9
Total credit risk	702,415.4	360,549.0	51.3	319,582.6	45.5

Table 4

Bank Hapoalim B.M.--Risk-Adjusted Capital Framework Data (cont.)					
Credit valuation adjustment					
Total credit valuation adjustment	--	3,038.8	--	0.0	--
Market risk					
Equity in the banking book	4,435.0	4,435.0	100.0	36,457.5	822.0
Trading book market risk	--	4,100.0	--	6,150.0	--
Total market risk	--	8,535.0	--	42,607.5	--
Operational risk					
Total operational risk	--	23,166.1	--	30,465.5	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings RWA	% of S&P Global Ratings RWA
Diversification adjustments					
RWA before diversification	--	395,288.9	--	392,655.6	100.0
Total diversification/ Concentration adjustments	--	--	--	30,884.6	7.9
RWA after diversification	--	395,288.9	--	423,540.3	107.9
	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	43,016.0	10.9	40,938.0	10.4	
Capital ratio after adjustments†	43,016.0	11.0	40,938.0	9.7	

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. ILS--New Israeli shekel. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Bank Hapoalim B.M.--Risk Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Growth in customer loans	10.8	16.0	3.5	3.8	6.2
Total diversification adjustment/S&P Global Ratings' RWA before diversification	7.4	7.9	10.5	7.2	7.6
Total managed assets/adjusted common equity (x)	14.8	15.6	14.3	12.7	12.6
New loan loss provisions/average customer loans	(0.2)	(0.4)	0.6	0.4	0.2
Net charge-offs/average customer loans	(0.0)	(0.1)	0.1	0.1	0.2
Gross nonperforming assets/customer loans + other real estate owned	1.0	1.2	1.5	1.8	1.3
Loan loss reserves/gross nonperforming assets	141.1	118.1	130.2	87.5	104.1

*Data annualized as of Sept. 30. RWA--Risk-weighted assets.

Table 6

Bank Hapoalim B.M.--Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Core deposits/funding base	92.1	92.7	93.4	92.3	91.1

Table 6

Bank Hapoalim B.M.--Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Customer loans (net)/customer deposits	72.6	67.4	69.7	81.4	80.8
Long-term funding ratio	96.0	96.6	97.7	97.8	97.5
Stable funding ratio	135.1	144.3	140.6	124.8	120.5
Short-term wholesale funding/funding base	4.3	3.7	2.5	2.4	2.8
Regulatory net stable funding ratio	127.0	136.0	N/A	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	8.1	11.0	15.7	13.2	10.8
Broad liquid assets/total assets	30.6	35.8	33.7	26.6	25.2
Broad liquid assets/customer deposits	38.2	43.5	41.7	34.0	33.0
Net broad liquid assets/short-term customer deposits	41.8	49.4	48.8	39.3	37.4
Regulatory liquidity coverage ratio (LCR) (x)	1.3	1.2	1.4	1.2	N/A
Short-term wholesale funding/total wholesale funding	55.1	50.5	37.6	30.8	31.3

*Data as of Sept. 30. N/A--Not applicable.

Bank Hapoalim B.M.--Rating Component Scores	
Issuer Credit Rating	A/Stable/A-1
SACP	a-
Anchor	bbb+
Economic risk	3
Industry risk	4
Business position	Strong
Capital and earnings	Strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
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.

Related Criteria

- 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
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- 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

- Ratings Affirmed On Three Israeli Banks On Solid Domestic Economic Performance, July 20, 2022
- Global Bank Outlook 2023 Greater Divergence Ahead, Nov. 17, 2022
- Research Update: Israel Ratings Affirmed At 'AA-/A-1+' Outlook Stable, Nov. 11, 2022
- Banking Industry Country Risk Assessment: Israel, Oct. 18, 2022

Ratings Detail (As Of January 30, 2023)*

Bank Hapoalim B.M.

Issuer Credit Rating	A/Stable/A-1
Junior Subordinated	BBB

Issuer Credit Ratings History

10-Jul-2019	<i>Foreign Currency</i>	A/Stable/A-1
24-Oct-2017		A-/Positive/A-2
07-Oct-2014		A-/Stable/A-2
10-Jul-2019	<i>Local Currency</i>	A/Stable/A-1
24-Oct-2017		A-/Positive/A-2
07-Oct-2014		A-/Stable/A-2

Sovereign Rating

Israel	AA-/Stable/A-1+
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Related Entities

Bank Hapoalim B.M. (New York branch)

Issuer Credit Rating	A/Stable/A-1
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