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CREDIT OPINION
20 September 2023

Update

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RATINGS

Bank Hapoalim B.M.

Domicile	Tel Aviv, Israel
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Alexios Philippides +357.2569.3031
VP-Senior Analyst
alexios.philippides@moodys.com

Corina Moustra +357.2569.3003
Associate Analyst
corina.moustra@moodys.com

Henry MacNevin +44.20.7772.1635
Associate Managing Director
henry.macnevin@moodys.com

Nick Hill +33.1.5330.1029
MD-Financial Institutions
nick.hill@moodys.com

Bank Hapoalim B.M.

Update to credit analysis

Summary

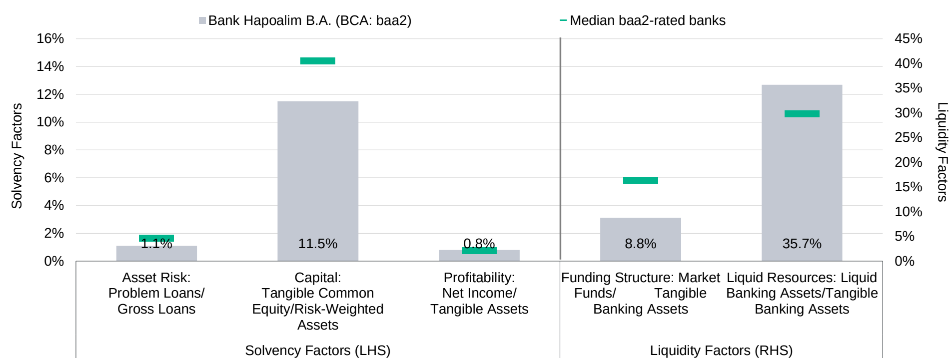
Bank Hapoalim B.M. (Bank Hapoalim)'s A2 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) three notches of rating uplift from our assessment of a very high likelihood of support from the Government of Israel (A1 stable), in case of need.

Bank Hapoalim's baa2 standalone BCA reflects the bank's strong deposit-based funding structure, sound liquidity and low levels of problem loans and contained credit losses over an entire economic cycle. At the same time, the BCA also reflects downside risks from a significant exposure concentration to the Israeli property market through lending to the real estate sector and residential mortgages and from potential geopolitical events.

Profitability and capitalisation are moderate. Moody's tangible common equity (TCE)/risk-weighted assets (RWAs) ratio was 11.5% as of June 2023 which, although below similarly-rated international peers, reflects the Bank of Israel's (BoI) conservative risk weights.

Exhibit 1

Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset Risk and Profitability reflect the weaker of either the latest figure or the three-year and latest figure average. Capital is the latest reported figure. Funding Structure and Liquid Resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

Credit strengths

» Strong retail deposit-based funding structure and sound liquidity

» Solid loan quality and contained single-borrower concentrations

» Very high likelihood of government support, in case of need, underpins the deposit ratings

Credit challenges

» Large exposure to Israel's property market and geopolitical tensions are tail risks

Outlook

The stable outlook on the bank's long-term deposit ratings reflects our expectation that the bank's asset quality will remain sound, despite a higher cost of risk compared to recently very low levels, and capital levels to be broadly stable.

Factors that could lead to an upgrade

» Bank Hapoalim's ratings could be upgraded in the event of both stronger sovereign creditworthiness and improvement in the bank's standalone credit profile.

» This improvement could arise from (1) materially stronger capital buffers; (2) significantly higher sustained profitability without an increase in asset risk; and/or (3) materially lower sector concentration.

Factors that could lead to a downgrade

» Bank Hapoalim's ratings could be downgraded if operating conditions deteriorate, for example in case of a significant real estate price correction, higher unemployment and an economic slowdown, and lead to substantial weakening in asset quality.

» Lower capital levels, a deterioration in the bank's asset risk profile, or a persistent weakening in the bank's recurring earnings power could also put pressure on the ratings.

» The bank's ratings could also be downgraded if we consider that the government's willingness or capacity to provide extraordinary support has materially declined. We gauge capacity to provide support based on the Israeli government's rating.

Key indicators

Exhibit 2

Bank Hapoalim B.M. (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	668,784.0	665,353.0	638,781.0	539,602.0	463,688.0	11.0[4]
Total Assets (USD Million)	180,219.1	188,565.4	205,716.6	168,058.4	134,246.7	8.8[4]
Tangible Common Equity (ILS Million)	51,011.0	48,359.0	42,632.0	39,363.8	37,860.7	8.9[4]
Tangible Common Equity (USD Million)	13,746.1	13,705.3	13,729.4	12,259.8	10,961.4	6.7[4]
Problem Loans / Gross Loans (%)	0.9	0.9	1.2	1.5	1.8	1.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.5	11.3	10.7	11.0	11.0	11.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.3	6.5	9.0	10.3	12.6	9.0[5]
Net Interest Margin (%)	2.5	2.1	1.7	1.8	2.1	2.0[5]
PPI / Average RWA (%)	3.2	2.5	1.8	1.7	1.6	2.2[6]
Net Income / Tangible Assets (%)	1.2	1.0	0.8	0.4	0.6	0.8[5]
Cost / Income Ratio (%)	37.3	43.2	52.6	54.6	58.4	49.2[5]
Market Funds / Tangible Banking Assets (%)	9.3	8.8	6.8	6.5	6.4	7.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	33.8	35.7	40.3	38.6	31.5	36.0[5]
Gross Loans / Due to Customers (%)	76.9	74.0	68.4	71.1	82.7	74.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Bank Hapoalim provides banking and other financial services to households, small businesses, middle-market companies and large corporate customers mainly in Israel. Internationally, Bank Hapoalim's New York branch focuses on providing commercial banking services in North America to local middle-market customers and Israeli companies that are active abroad.

In line with its strategy, Bank Hapoalim has reduced its international private banking activities through the sale or transfer of the customer portfolio of its Swiss subsidiary. In July 2023, the bank's subsidiary received the approval of the relevant authorities for the return of its banking license. The bank also stepped up its efforts to sell its entire stake in Bank Pozitif in Turkiye and in March 2023 it entered into an agreement for the sale of its 100% holding. The transaction was completed in September 2023 and the bank expects no material impact from the completion of the transaction.

As of June 2023, Bank Hapoalim had total assets of NIS669 billion ($180 billion). Bank Hapoalim was the second-largest bank in Israel with a market share of 28% in terms of total system assets.

Following the divestment by Arison Group of part of its stake in Bank Hapoalim in late 2018, the bank does not have a controlling shareholder. The bank's common stock trades on the Tel Aviv Stock Exchange (ticker: POLI).

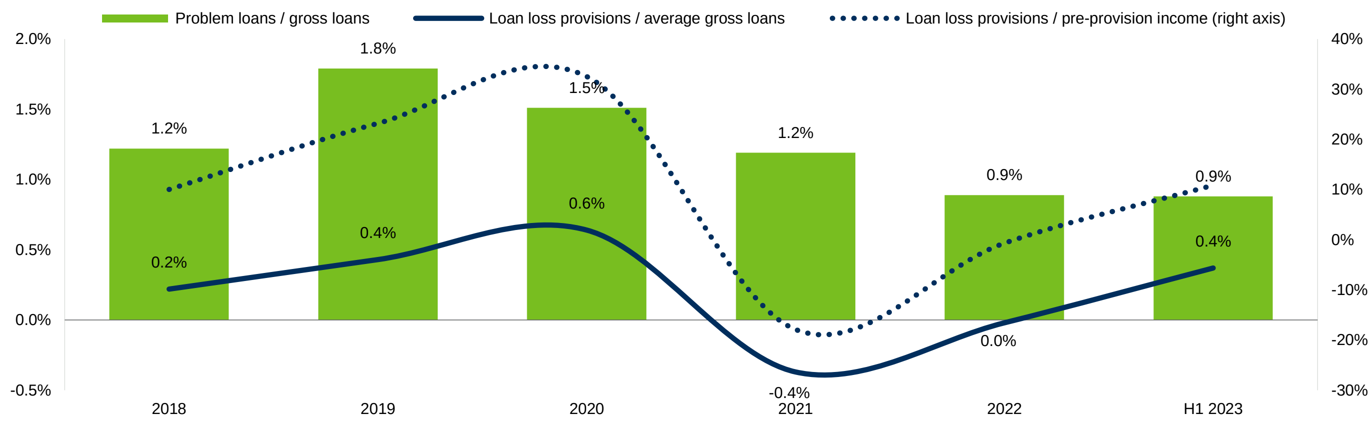
Detailed credit considerations

Solid loan quality and contained single-borrower concentrations offset by large exposure to Israel's property market and geopolitical tensions are tail risks

Bank Hapoalim's Asset Risk reflects its solid loan quality, including a low level of problem loans and contained credit losses in the last decade. Our assessment also reflects limited single-borrower concentrations and relatively conservative underwriting. However, similarly to other Israeli banks, a significant exposure to Israel's real estate market through lending along with high property prices and potential geopolitical tensions are downside risks for the bank's asset quality.

Bank Hapoalim's problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) to gross loans declined to 0.9% as of June 2023 from 1.2% as of the end of 2021 (see Exhibit 3), reflecting limited new problem loan formation and strong lending growth. We expect higher problem loan formation going forward because of reduced loan affordability as a result of higher interest rates, a more challenging macroeconomic environment and as newly originated loans season. Following double digit growth in 2022 that drives some unseasoned risk, loan growth moderated to 3% during the first six months of 2023, mainly in the corporate segment. But, we expect the bank's asset quality to remain strong overall, supported by a tight labour market and real GDP growth of around 3% annually in 2023 and 2024.

Exhibit 3
Bank Hapoalim's asset quality is solid
Evolution of problem loans ratio and annualised credit costs



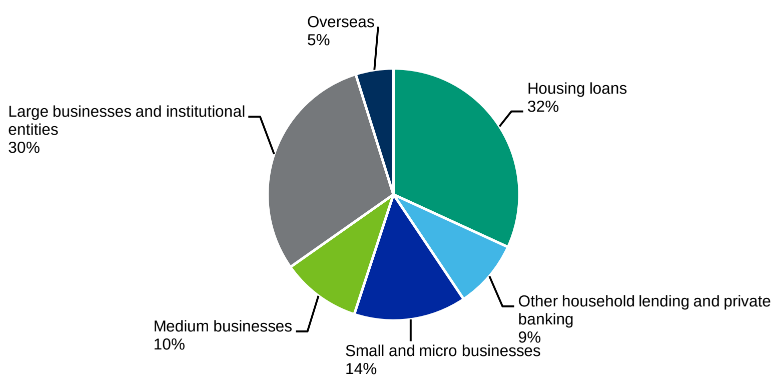
Source: Moody's Investors Service

We also expect Bank Hapoalim's credit costs (loan loss provision expenses to average gross loans) to remain close to the historical average of 0.4%[1], which includes an entire economic cycle, rising from unsustainably low levels in the last two years. Following provision charge-backs in 2021 equivalent to 0.4% of average gross loans and flat provisions in 2022, credit costs increased to 0.4% in the first six months of 2023, mainly driven by an increase in group provisions because of adjustments in macroeconomic factors, as well as model improvements.

Bank Hapoalim has low borrower concentration levels. The bank had no exposures exceeding 15% of its capital as of June 2023 and its aggregate exposure (on and off-balance sheet) to 30 borrowers whose individual exposure exceeded NIS1.2 billion as of June 2023 accounted for 9.9% of total credit risk to the public or about 114% of TCE.

Residential mortgages accounted for 32% of total loans, while medium and large businesses (including institutional entities) for 40% as of June 2023 (see Exhibit 4). The bank's exposure to small businesses (regulatory definition[2]) and other retail and consumer loans in Israel were 14% and 9% of total gross loans respectively as of June 2023. The bank had been deleveraging from these two higher risk segments in recent quarters.

Exhibit 4
Bank Hapoalim's loan book is diversified by segment
Loan book breakdown as of June 2023 (supervisory operating segments)



Source: Bank's financial results

However, sector concentration to real estate is high and Bank Hapoalim's asset quality is susceptible to the risk of a sharp property price correction together with reduced ability of borrowers to service their loans. In addition to the exposure to residential mortgages, lending to the construction and real estate sector made up a further 20% of total lending as of June 2023.

House price growth in Israel peaked at a high 20% year-over-year as of September 2022 with fewer real estate transactions and a marginal decrease in prices in recent months. But, any near-term price correction would be limited because of a steady growth in new households from a young and growing population. Additionally, for housing loans, risks are mitigated by (1) banks' full recourse to borrowers and a strong repayment culture; (2) the low level of housing debt at around 34% of GDP[3]; and (3) macroprudential measures[4] that enforce tighter underwriting standards and high capital buffers against mortgages.

We see significantly higher risk in financing of the construction and real estate sector. Higher interest rates and inflation may strain the repayment capacity of some borrowers, particularly if there is also a drop in property prices. The BoI has taken steps to contain these risks.[5] It has also asked banks to allocate more capital towards riskier exposures by risk weighting new and outstanding loans for land acquisition with a loan-to-value exceeding 80% at 150%, up from 100%[6].

The bank's construction and real estate exposure grew by a high 15% year-over-year as of June 2023 because of strong demand. We expect the pace of exposure growth to moderate going forward. Most of the bank's real estate exposure involved the funding of closed residential construction projects where risk is mitigated by close oversight[7]. Residential projects made up 53% of total credit risk[8] in the corporate division's construction and real estate exposure as of June 2023, whereas income generating properties were 27%. A significant part, around 21%, of the exposure to the sector was for the acquisition of land for construction where projects will take several years to complete and there is a risk that they may become uneconomical over time. However, underwriting criteria are relatively conservative, with 90% of this exposure having a loan-to-value of less than 80% and 99% of the bank's real estate exposures under construction having the capacity to absorb a price drop of up to 25% without the bank incurring losses. Also, Bank Hapoalim increased its group provisions for the sector over the past quarters.

Similarly to other Israeli banks, Bank Hapoalim's asset quality is also vulnerable to persistent geopolitical tensions that could compromise business confidence and overall economic activity.

Moderate risk-weighted capitalisation, although below global peers, but with a stronger leverage ratio

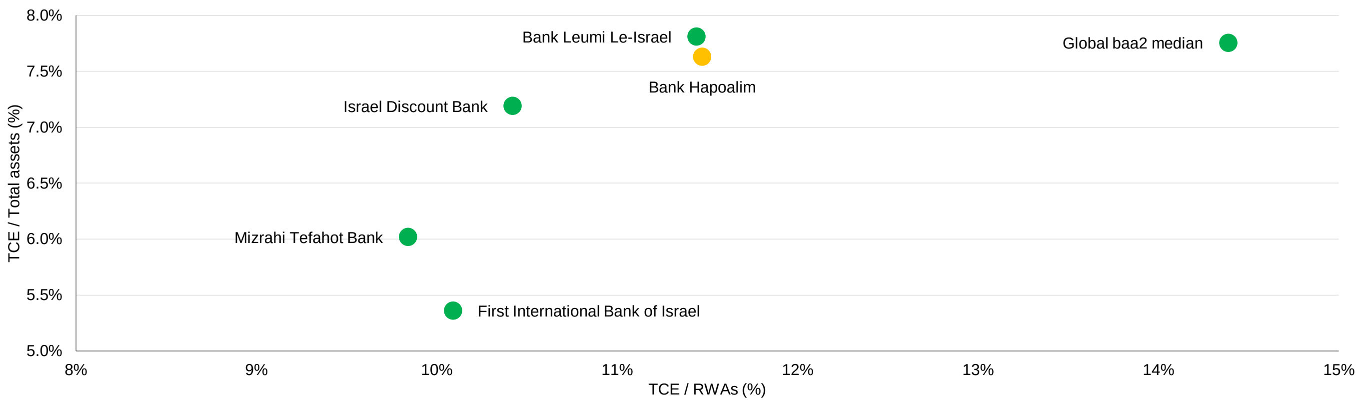
We consider Bank Hapoalim's capitalisation as moderate. Although risk-weighted capital metrics are below global peers, the bank's loss-absorption buffers are supported by conservative regulatory risk-weights, especially on mortgage lending, that drive stronger leverage. The bank's capital ratios are also significantly more stable compared to banks globally that use a model based approach in calculating credit RWAs.

Bank Hapoalim's TCE/RWAs ratio was 11.5% as of June 2023, below the median level of similarly-rated international peers (see Exhibit 5). However, the BoI maintains a conservative approach to risk-weighting that results in higher loss-absorption buffers than capital ratios show. Israeli banks use the standardised approach to risk-weighting. Mortgages are further risk-weighted according to their loan-to-value, resulting in an average risk weight of over 50% in Israel. This mortgage loan risk weight is significantly higher than the risk weights applied by banks in other developed countries that use the internal ratings-based approach and the 35% risk weight normally used in the standardised approach. The bank's TCE-to-total assets ratio was 7.6% as of June 2023, comparing more favorably with international peers. The reported Basel leverage ratio was 6.7% as of June 2023, above the 5.5% minimum regulatory requirement that applied at that time[9]

Exhibit 5

Bank Hapoalim's risk-weighted capitalisation is lower than global peers, but leverage is in line with peers driven by conservative risk weights

Risk-weighted capitalisation and leverage of Israeli banks and the global median as of June 2023



Source: Moody's Investors Service

Bank Hapoalim reported a Common Equity Tier 1 (CET1) ratio of 11.5% as of June 2023, slightly up from 11.2% at the end of 2022 and exceeding the 10.2% minimum regulatory requirement and the bank's own internal target of 10.5%. Capital metrics improved because of strengthened profitability, despite higher profit distribution and still strong loan growth of 3% over the same period. Bank Hapoalim distributed 40% of profits in the first and second quarters of 2023, compared to 30% in the last three quarters of 2022, in line with the bank's dividend policy whereby Bank Hapoalim may distribute up to 40% of net profits in each quarter.

Bank Hapoalim's capital levels are susceptible to any material rises in yields that lead to unrealised losses in the bank's available-for-sale bond portfolio, which constitutes around 70% of the bank's total bond portfolio as of June 2023. These losses are however partly offset by the positive effect from a decrease in actuarial liabilities for employee benefits. Following material unrealized losses in 2022, the bank's bond portfolio reported unrealized gains in the first six months of 2023, despite continued increases in the shekel and dollar interest rates.

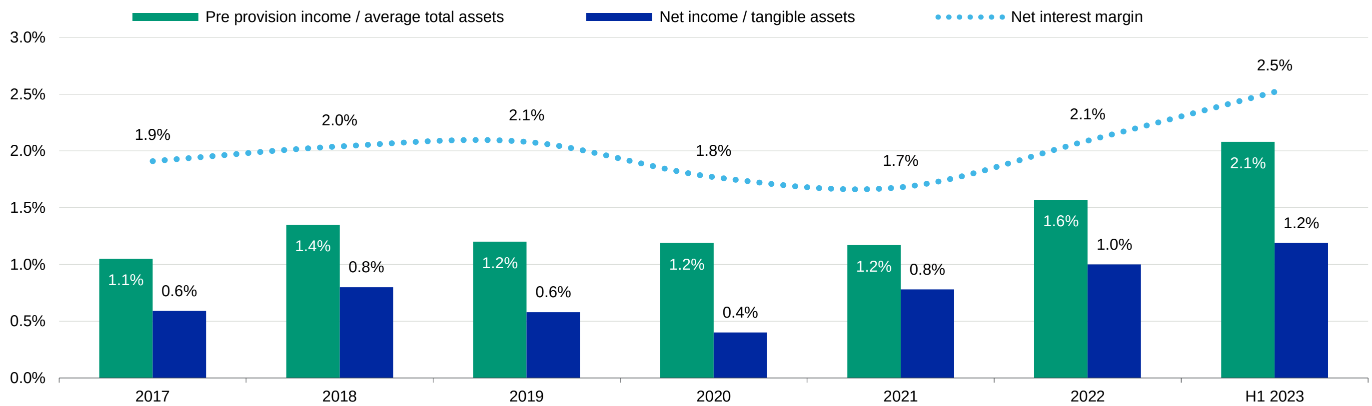
Looking ahead we expect the bank's capital buffers to remain broadly stable over the next 12-18 months reflecting adequate internal capital generation from stronger profitability, balancing growth targets and profit distribution to shareholders. Bank Hapoalim has demonstrated its ability to maintain steady capital ratios over time, including through the use of RWAs management tools and adjustments in earnings distributions.

Profitability is moderate, but is supported by ongoing revenue growth and cost discipline

Bank Hapoalim's ongoing profitability is moderate, but stable and aided by its strong franchise and large customer base in Israel, and the country's robust economic growth potential and population growth that afford new business opportunities. These factors drive strong revenue growth, which coupled with ongoing cost discipline, support sustainable profitability and the bank's ability to resist growing competition and income headwinds. Israeli authorities continue to implement measures to increase competition, including facilitating the establishment of new banks and non-bank competitors, and to lower the cost of banking services for households and small businesses.

Bank Hapoalim reported higher than usual net profits equivalent to 1.2% of tangible assets in the first six months of 2023 and 1.0% in 2022, up from an average of 0.7% between 2017 and 2019 (see Exhibit 6). Stronger profits were driven by strong revenue growth because of loan growth, an expanding net interest margin and higher CPI benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages).

Exhibit 6
Bank Hapoalim's profitability is moderate
Evolution of profitability metrics



Source: Moody's Investors Service

The bank's net interest margin had widened to 2.5% in the first three months of 2023 from 2.1% in 2022 and 1.7% in 2021 because of rising policy rates in Israel and the US that have allowed the bank to unlock the value from its low-cost core deposit base. However, we expect limited further upside from higher interest rates because of a gradual shift from current accounts to costlier time deposits, with the bank's non-interest bearing deposits accounting for 29% of total deposits as of June 2023 compared to 36% at the end of 2022.

As a result of the above trends, and combined with a moderation in lending activity, higher provisions from unsustainably low levels as mentioned earlier and operating cost inflation including higher wages due to the bank's new collective agreement, we expect Bank Hapoalim's profitability will revert gradually, but remain slightly higher, than historical levels.

We expect Bank Hapoalim to maintain its ongoing cost containment efforts in order to mitigate cost inflation as well as ongoing investments in IT and digitalisation. Because of several past and recent streamlining initiatives[10] and strong revenue growth, Bank Hapoalim's cost efficiency improved significantly over time and its cost-to-income ratio of 38.6% in the first six months of 2023 was the lowest ever reported. We expect improvements in the bank's cost-to-income ratio to taper off going forward as revenue growth slows down and expense growth rises.

Strong retail deposit-based funding structure and sound liquidity

Bank Hapoalim benefits from a strong funding profile driven by a large deposit base in Israel. The bank's growing deposit base comfortably funds its lending activities, supported by the country's strong savings culture. Bank Hapoalim's net-loans-to-deposits ratio was 76% as of June 2023.

Granular household (excluding private banking) and small business deposits accounted for 50% of total deposits as of June 2023. Potentially less stable deposits from institutional investors were 19% of total deposits as of the same date, which we take into account in our assessment, but foreign deposits were contained at 5% of the total.

Ample deposits drive a low reliance on potentially more confidence-sensitive market funding. Market funds accounted for 9% of tangible banking assets as of June 2023, part of which reflects senior issuances[11] and derivative balances, which are mainly driven by customer activity. The bank had around NIS25 billion (4% of total assets) of bonds and subordinated notes outstanding as of June 2023. These balances were mainly sourced from the local capital market and allow for better matching of the bank's assets and liabilities maturities.

The bank also maintains sound liquidity, underscored by a conservative investment policy. Liquid banking assets were 34% of tangible banking assets as of June 2023. Bank Hapoalim kept 15% of assets in the form of cash and deposits with banks, and an additional 20% in securities. The bank allocated a higher share of its liquid assets portfolio in securities in order to benefit from higher interest rates. Bank Hapoalim's securities portfolio primarily consists of investments in Israeli government bonds (69% of total) and, to a lesser extent, US government bonds (17% of total), while only 3% of the securities portfolio were investments in shares. The bank's liquidity coverage ratio was 126% and its net stable funding ratio was 125% as of June 2023, both substantially above the 100% minimum regulatory requirement.

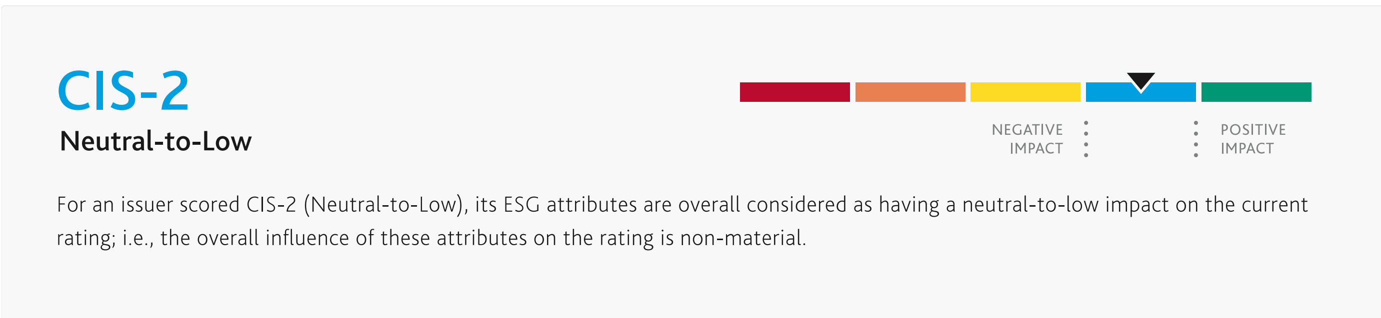
Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from the banks' reports and are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to Financial Statement Adjustments in the Analysis of Financial Institutions published on 9 August 2018. We do not use the Bank of Israel's exchange rates in converting figures from Israeli shekel into US dollars, so US dollar figures may differ from bank reported figures.

ESG considerations

Bank Hapoalim B.M.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

Bank Hapoalim's **CIS-2** indicates that ESG considerations have no material impact on the current ratings.

Exhibit 8
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

Bank Hapoalim faces moderate exposure to environmental risks, mainly because of its portfolio exposure to carbon transition risks as a diversified bank and one of Israel's two largest banks with a significant corporate exposure. In line with its peers, Bank Hapoalim faces growing business risks and stakeholder pressure to meet broader carbon transition goals. Bank Hapoalim is engaging in further developing its climate risk and relevant portfolio management capabilities and increasing its green financing.

Social

Bank Hapoalim faces high social risks from customer relations, similarly to banks globally, and there is significant focus on consumer protection in Israel. High cyber and personal data risks are mitigated by a sound IT framework. A relatively young and growing population in Israel affords business opportunities for the bank. However, the authorities are taking steps to promote competition and to reduce the cost of financial services for households and small business, which will weigh on the bank's profitability. Strict labour laws and strong employee unions in Israel limit staffing flexibility and drive up costs. The bank has reduced employee posts through successive early retirement plans and implements stringent cost control, which has allowed it to mitigate these challenges.

Governance

Bank Hapoalim faces low governance risks, and its risk management, policies and procedures are in line with industry practices and commensurate with its universal banking model, while the bank provides timely and detailed external reporting. The bank's financial strategy is conservative, under the oversight of a proactive and hands-on regulator.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support considerations

Bank Hapoalim's A2 deposit ratings incorporate three notches of government support uplift from the bank's baa2 Adjusted BCA because of our assessment of a very high likelihood of extraordinary support from the Israeli authorities. This assumption is based on Bank Hapoalim's systemic importance as one of the country's two largest banking groups and the Israeli government's long standing practice of injecting capital into systemically important banks in case of need.

Counterparty Risk (CR) Assessment

Bank Hapoalim's CR Assessment is A1(cr)/P-1(cr)

Prior to government support, the CR Assessment is positioned one notch above the bank's baa2 Adjusted BCA, reflecting our view that its probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimise losses and avoid disruption of critical functions. The CR Assessment also benefits from government support uplift, in line with our support assumptions on deposits.

Counterparty Risk Ratings (CRRs)

Bank Hapoalim's CRR is A1/P-1

For jurisdictions with a non-operational resolution regime, such as Israel, the starting point for the CRR is one notch above the bank's Adjusted BCA. The CRRs also benefit from three notches of government support uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Bank Hapoalim B.M.

Macro Factors		
Weighted Macro Profile	**Strong**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.1%	a1	↓	baa2	Sector concentration	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.5%	baa2	↓	baa3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.8%	baa2	↓	baa3	Expected trend	
Combined Solvency Score		a3		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	8.8%	a2	↔	a3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	35.7%	a2	↓	a3	Expected trend	
Combined Liquidity Score		a2		a3		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				A1		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency Rating**	**Foreign Currency Rating**
Counterparty Risk Rating	1	0	baa1	3	A1	A1
Counterparty Risk Assessment	1	0	baa1 (cr)	3	A1(cr)	
Deposits	0	0	baa2	3	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
BANK HAPOALIM B.M.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

1 Average is for the period in the run-up to the pandemic, 2006-2018. Credit costs had increased to 0.6% in 2020 from 0.4% in 2019, which had included an initial assessment of the impact of the pandemic made by the bank in its full-year 2019 financials. More than 80% of the provisions booked in 2020 were collective provisions.

2 The regulatory definition of small businesses includes those businesses with an annual turnover of up to NIS50 million.

3 Based on 2022 figures

4 The measures include loan-to-value limits of 75% for sole dwellings and 70% for the rest but for non-investment purposes, a monthly repayment cap at 50% of a borrower's monthly salary and a limit on the variable-rate part of the mortgage at two-thirds of the loan. Higher risk-weights for the calculation of regulatory capital metrics for mortgages with higher loan-to-value and repayment ratios also encourage tighter underwriting.

5 The regulator has instructed banks to scale up their monitoring of borrowers, improve and expand reporting on their exposure to the sector, and increase their collective provisions against performing exposures.

6 The regulation relates to land acquired for the purpose of development of construction. This excludes agricultural land with no planning horizon or without a request for planning consent; and acquisition of land that is designated for self-use in case of the borrower not being classified in the construction and real estate sector.

7 The closed financing structure mitigates risks because credit is managed in a separate account dedicated to the project that is separate from the rest of the borrower's banking activity and from which the developer cannot withdraw funds without the bank's consent. There is external oversight of construction progress by inspectors approved by the bank, who track the pace of progress on-site and monitor expenditure and income in accordance with the planned budget.

8 After haircuts and deductions.

9 In November 2020, the authorities lowered the bank's leverage ratio requirement to 5.5%, from 6% previously. This relief has been extended until the end of 2023, and the leverage ratio requirement will return to 6% within two quarters after that date.

10 The bank has operated several voluntary retirement schemes, which more recently reduced its workforce by 8% in 2019-2022, despite hiring to advance IT initiatives. The bank is also looking to further streamline its branch network, which shrunk by 23% in 2019-2022, and to consolidate its headquarters.

11 Market funds exclude subordinated debt, according to our definition.

REPORT NUMBER 1379594

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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