

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings downgrades the long-term deposit ratings of five Israeli banks following sovereign rating action, outlook remains negative**

---

01 Oct 2024

Limassol, October 01, 2024 -- Moody's Ratings (Moody's) has today downgraded to Baa1 from A3 the long-term deposit ratings of Bank Leumi Le-Israel B.M. (Bank Leumi), Bank Hapoalim B.M. (Bank Hapoalim), Mizrahi Tefahot Bank Ltd. (Mizrahi), Israel Discount Bank Ltd. (IDB) and First International Bank of Israel Ltd. (FIBI). The outlook on the long-term deposit ratings remains negative.

At the same time, we affirmed the five banks' P-2 short-term deposit ratings, and their baa2 Baseline Credit Assessments (BCAs) and Adjusted BCAs.

We also downgraded the five banks' long- and short-term Counterparty Risk Ratings (CRR) to Baa1/P-2 from A2/P-1, their long- and short-term Counterparty Risk (CR) Assessments to Baa1(cr)/P-2(cr) from A2(cr)/P-1(cr) and IDB's long-term foreign currency senior unsecured debt rating to Baa1 from A3 with a negative outlook.

Today's rating action follows the downgrade of the Government of Israel's long-term issuer ratings to Baa1 from A2, with a negative outlook, on 27 September 2024. For more information on the sovereign rating action, please refer to the press release: <https://ratings.moodys.com/ratings-news/429502>.

Please click on this link [https://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_ARFTL496466](https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL496466) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

#### RATINGS RATIONALE

##### -- DOWNGRADE OF DEPOSIT RATINGS

The downgrade of the banks' long-term deposit ratings to Baa1 is driven by the downgrade of Israel's sovereign ratings to Baa1, which leads to lower government support uplift for deposits.

We continue to assume a very high probability of government support for the five large Israeli banking groups because of their systemic importance and the Israeli government's history of supporting systemically important banks, in case of need. This assumption together with the Baa1 sovereign rating, results in one notch, down from two previously, of government support uplift from the banks' baa2 Adjusted BCAs to their long-term deposit ratings.

## -- NEGATIVE OUTLOOK

The negative outlook on the long-term deposit ratings captures both the negative outlook on the Government of Israel's rating and therefore the potential further weakening of the sovereign's capacity to provide support, together with the risk that the banks' standalone fundamentals may be more severely and sustainably affected because of weaker economic growth and investment climate, and a more adverse impact from the conflict on key sectors to which banks are exposed to and individual borrowers.

To reflect the weaker operating environment for banks, we lowered our Macro Profile for Israel's Banking System to "Moderate+" from "Strong-". This captures a combination of a more durable weakening of the economy by the conflict and significantly higher geopolitical and rising domestic political risks that also point to a diminished quality of Israel's institutions and governance, all of which were drivers for the sovereign rating action and are inputs to the Macro Profile.

## -- BCA AND ADJUSTED BCA AFFIRMATION

The affirmation of the banks' baa2 BCAs and Adjusted BCAs balances the banks' resilient financial performance to date, growing loss-absorption buffers and high liquidity against the damage to Israel's economy caused by the military conflict that has already lasted longer than most of its previous conflicts and the risk of a severe escalation along with the impact this could have on domestic security and economic growth.

We expect the five banks' loan quality to see some deterioration from historically strong levels, depending on the macroeconomic impact of the conflict. We continue to consider banks' relatively high, although varying, exposure to the construction and real estate sectors as being more at risk given potential further disruption in construction activity, which has slowed given an ongoing lack of workers, and real estate demand.

Exposures to small businesses that have more limited financial resources and consumer lending would also be more vulnerable, although buffered by government and the banking sector's support measures.

That said borrower concentration levels are contained and loan underwriting standards are relatively prudent supported by close and proactive oversight by the

Bank of Israel (BoI).

High interest rates, still elevated CPI and past cost efficiency gains have supported exceptionally high recent profitability for Israeli banks with a normalised net income to tangible assets of 1.1%-1.3% in the first half of 2024. This high profitability acts as a first-line of defence against potential credit losses. Banks have also built-up a buffer of collective provisions that incorporate downside scenarios, and against sectors and borrowers that are more at risk.

Banks also lowered their dividend payouts in the second half of 2023, and although dividends increased this year, capitalisation further strengthened given the high profits and more moderate credit growth. Capital metrics, which have reached recent record high levels, will also likely continue to increase in the coming quarters notwithstanding a crystallisation of stress scenarios. The sectorwide reported Common Equity Tier 1 (CET1) ratio averaged 11.3% and the buffer over the CET1 requirement was 1.6 percentage points as of June 2024. Capital buffers and their past stability are supported by the use of the standardised approach and conservative risk-weights, especially on mortgages.

Israel banks' funding bases have remained stable, benefiting from a large domestic deposit base, mostly from households and small businesses, and liquidity remains ample and of high quality.

## BANK-SPECIFIC RATING DRIVERS

### --- BANK LEUMI

We downgraded Bank Leumi's long-term deposit ratings to Baa1 from A3 and affirmed its baa2 BCA and Adjusted BCA.

The bank's standalone BCA reflects its strong domestic deposit-based funding structure, healthy liquidity and low problem loans and credit losses over past economic cycles. Bank Leumi's cost of risk (loan loss provision expenses to gross loans) averaged 0.3% in the period 2006-2019 (before the pandemic) and problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) were 0.6% of gross loans as of June 2024.

In addition to the aforementioned considerations the BCA also reflects the downside risks from a significant exposure concentration to the Israeli property market. Lending to the construction and real estate sector made up 26% of total lending as of June 2024. Capitalisation is moderate with a tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 12.3% as of June 2024.

### --- BANK HAPOALIM

We downgraded Bank Hapoalim's long-term deposit ratings to Baa1 from A3 and affirmed its baa2 BCA and Adjusted BCA.

The 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. Cost of risk averaged 0.4% during the period 2006-2018 and problem loans were 0.9% as of June 2024.

The standalone BCA also reflects downside risks from exposure concentration to the Israeli property market whereby lending to the construction and real estate sector made up 21% of Bank Hapoalim's gross loans as of June 2024. Capitalisation is also moderate. Our TCE/RWAs ratio was 11.9% as of June 2024.

#### --- MIZRAHI

We downgraded Mizrahi's long-term deposit ratings to Baa1 from A3 and affirmed its baa2 BCA and Adjusted BCA.

The bank's standalone BCA reflects its low-risk residential mortgage-lending focus in Israel that has led to low problem loans and credit costs over past economic cycles, its deposit-based funding structure, mostly from households and small businesses, and adequate liquidity mostly made of cash and equivalents. The average cost of risk for 2006-2019 was 0.26% and problem loans were 1.1% of gross loans as of June 2024.

The bank had exposure concentration to real estate, whereby its lending to the construction and real estate sector made up 12% of Mizrahi's gross loans as of June 2024, although this is lower than peers.

Mizrahi's BCA also captures modest capitalisation, with a TCE/RWAs ratio of 10.2% as June 2024 that is lower than local and global peers, but it has been consistently stable and buffers are aided by the conservative risk-weighting on mortgages.

#### --- IDB

We downgraded IDB's long-term deposit and senior unsecured ratings to Baa1 from A3 and affirmed its baa2 BCA and Adjusted BCA.

The bank's BCA reflects its favourable deposit-based funding structure along with comfortable liquidity, its currently strong asset quality, with low problem loans and strengthened recurring profitability supported by efficiency gains. The bank's average cost of risk during 2006-2019 was 0.47% and problem loans were 0.9% of gross loans as of June 2024.

The BCA also reflects modest but stable capital buffers, with a TCE/RWAs ratio of 10.7% as of June 2024 and downside risks from a significant exposure concentration to the property market. Lending to the construction and real estate sector made up 16% of IDB's gross loans as of June 2024.

---FIBI

We downgraded FIBI's long-term deposit ratings to Baa1 from A3 and affirmed its baa2 BCA and Adjusted BCA.

The BCA reflects the bank's strong asset quality, stable retail deposit funding base, high liquidity, and a strong presence in niche segments that benefit it with consistent business opportunities. Cost of risk averaged 0.21% during the period 2006-2019 and problem loans were 0.6% of gross loans as of June 2024, a reflection of the bank's low-risk loan book structure and underwriting standards.

The bank's BCA also reflects additional downside risks from a significant exposure concentration to the Israeli property market. Lending to the construction and real estate sector made up 15% of FIBI's gross loans as of June 2024, although this was lower than most peers. The bank's TCE/RWAs ratio of 10.8% as of June 2024 was modest when compared globally, but the buffer between regulatory capital metrics compared to minimum requirements was the highest among the five banks.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

There is a limited scope for an upgrade of the banks' long-term deposit ratings given the negative outlook. We could stabilise the outlook on the banks' long-term deposit ratings in case the outlook on the sovereign rating changes to stable and downside risks for the economy and the banks subside.

Israeli banks' long-term deposit ratings could be downgraded if the sovereign rating is downgraded further, or if the banks' own standalone BCAs are downgraded by more than one notch.

As detailed in the sovereign press release, a severe escalation of the conflict with Hezbollah could be consistent with a markedly lower rating for the Government of Israel, in particular if Israel's economic and fiscal strength were to weaken further. The risk of a broader escalation involving Iran remains, even though it continues to be low.

The banks' BCAs could be downgraded in case of a severe escalation of the conflict and/or an adverse and long-term impact on the economy, and therefore a sustained or significant impact on their standalone fundamentals, or if any individual bank's performance proves more volatile than in previous conflicts and economic crises.

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link [https://www.moodys.com/viewresearchdoc.aspx?docid=PBC\\_ARFTL496466](https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL496466) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status
- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Lead Analyst
- Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see <https://ratings.moody's.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moody's.com> for additional regulatory disclosures for each credit rating.

Alexios Philippides  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Cyprus Ltd.  
Porto Bello Building  
1, Siafi Street, 3042 Limassol  
PO Box 53205  
Limassol, CY 3301  
Cyprus  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Henry MacNevin  
Associate Managing Director  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Cyprus Ltd.  
Porto Bello Building  
1, Siafi Street, 3042 Limassol  
PO Box 53205  
Limassol, CY 3301  
Cyprus  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

---

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT



WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type

of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK.

MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.