

13 NOV 2024

Fitch Affirms Bank Hapoalim at 'A-'; Outlook Negative

Fitch Ratings - London - 13 Nov 2024: Fitch Ratings has affirmed Bank Hapoalim B.M.'s (Hapoalim) Long-Term Issuer Default Rating (IDR) at 'A-' with a Negative Outlook and Short-Term IDR at 'F1'. The bank's Viability Rating (VR) has been affirmed at 'a-'.

Key Rating Drivers

VR and Support Drive Ratings: Hapoalim's IDRs are driven by its VR and underpinned by our view of a very high probability that Israel (A/Negative/F1+) would provide support to the bank, if needed. Fitch believes Israel's ability and propensity to support Hapoalim is very high, particularly given the bank's systemic importance in the country, holding about 30% of banking system assets.

Diversified Business Model: Hapoalim's VR reflects its strong franchise in retail and corporate banking in Israel. Asset quality and earnings have been resilient, despite the macroeconomic effects of the war in Gaza, and we expect them to remain so, given prudent underwriting and a multi-year focus on improving efficiency. The VR also reflects the bank's sound funding, given its diversified and granular deposit base, and adequate capitalisation.

Close Regulatory Oversight: Hapoalim's underwriting standards are conservative, helped by prudent regulatory limits and oversight. Like other Israeli banks, Hapoalim has material exposure to the construction and real estate sectors, which results in risk concentration and makes its asset quality vulnerable to a sharp decline in real estate prices. However, most of its exposure is to residential projects, which we expect to perform adequately, given high population growth and structural demand for housing in Israel.

Asset Quality Remains Sound: Hapoalim's impaired loans ratio was 0.8% at end-1H24 and has decreased slightly, despite the macroeconomic impact of the war. We expect higher loan impairment charges as loans season, given high loan growth in recent years. Asset quality will also be affected by higher interest rates and inflation, but due to sound underwriting and a resilient operating environment we expect the impaired loans ratio to remain below 1.5% over the next two years.

Strong Earnings Recovery: Profitability has benefited from loan growth and higher interest rates, which support net interest income. Higher inflation has also benefited income in recent years, given the bank's net long exposure to the consumer price index. We expect profitability trends to remain positive, driven by higher interest rates and improved efficiency. We forecast risk-adjusted operating profitability, which was 2.9% in 1H24, to remain above 2% for the next two years.

Capital Buffers Adequate: Headroom in our capitalisation score is limited, but capitalisation remains adequate, with a common equity Tier 1 (CET1) ratio of 12.0% at end-1H24. We expect it to remain above 11.5% over the next two years. Hapoalim uses the standardised approach for credit risk, which results in high risk-weighted asset density (RWAs/total assets) of 68%. Our assessment also considers the bank's improved internal capital generation.

Large, Stable Deposit Base: Hapoalim's solid and stable funding base consists mostly of customer deposits, which exceed the size of the loan book. The bank has proven access to domestic and international debt markets. Liquidity is strong, with a 134% liquidity coverage ratio at end-1H24.

Hapoalim's 'F1' Short-Term IDR is the higher of two possible Short-Term IDRs that map to a 'A-' Long-Term IDR because we view the sovereign's propensity to support as more certain in the near term.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign ratings would result in a downgrade of Hapoalim's Long-Term IDR if accompanied by a downgrade of the bank's VR.

A sharp increase in the bank's risk environment that increases the likelihood of asset quality deterioration could result in a downgrade. A deterioration of asset quality that results in an impaired loan ratio of above 2% for an extended period combined with the CET1 ratio declining below current levels and weakening internal capital generation could also result in a VR downgrade. Given the bank's significant exposure to the real estate sector, a sharp decline in real estate prices would put pressure on asset quality, and therefore on the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Hapoalim's IDRs is unlikely due to the Negative Outlook on the sovereign's Long-Term IDR. We would revise the Outlook to Stable if the sovereign Outlook was revised to Stable.

An upgrade of Hapoalim's VR is unlikely given the bank's geographical concentration. It would require a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWAs while also maintaining materially higher capital ratios, which we do not expect.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Hapoalim's Tier 2 subordinated notes are rated two notches below the bank's VR to reflect poor recovery prospects in the event of a failure or non-performance of the bank.

The Long-Term IDR (xgs) of 'A-(xgs)' is at the level of the VR. The Short-Term IDR (xsg) of 'F1(xgs)' is the higher of two possible options that map to a 'A-' Long-Term IDR (xgs) due to Hapoalim's 'a' funding & liquidity score.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The ratings of Hapoalim's Tier 2 notes are sensitive to changes in the bank's VR.

The IDRs (xgs) are sensitive to changes in the bank's VR.

VR ADJUSTMENTS

The operating environment score of 'a' has been assigned below the implied 'aa' category implied score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The business profile score of 'a-' has been assigned above the implied 'bbb' category implied score due to the following adjustment reason: market position (positive).

The earnings & profitability score of 'bbb+' has been assigned below the implied 'a' category implied score due to the following adjustment reasons: earnings stability (negative).

The capitalisation & leverage score of 'a-' has been assigned above the implied 'bbb' category implied score due to the following adjustment reason: leverage and risk-weight calculation (positive).

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.

Public Ratings with Credit Linkage to other ratings

Hapoalim's IDRs and GSR reflect a very high probability of support from Israel.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

Fitch Ratings Analysts

Michael Bojko, CFA

Director

Primary Rating Analyst

+44 20 3530 2723

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

Rory Rushton



Senior Analyst
Secondary Rating Analyst
+44 20 3530 1919

Patrick Rioual
Senior Director
Committee Chairperson
+33 1 44 29 91 21

Media Contacts

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Bank Hapoalim B.M.	LT IDR	A- 	Affirmed	A- 
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	Government Support	a-	Affirmed	a-
	LT IDR (xgs)	A-(xgs)	Affirmed	A-(xgs)
	ST IDR (xgs)	F1(xgs)	Affirmed	F1(xgs)
	• subordinated	BBB	Affirmed	BBB

RATINGS KEY OUTLOOK WATCH

POSITIVE  

RATINGS KEY OUTLOOK WATCH

NEGATIVE	●	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.15 Mar 2024\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Bank Hapoalim B.M. UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk

is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.