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# 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>.

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## 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

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