

RATING ACTION COMMENTARY

Fitch Revises Bank Hapoalim's Outlook to Stable; Affirms IDR at 'A-'

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Fitch Ratings - London - 29 Oct 2025: Fitch Ratings has revised Bank Hapoalim B.M.'s Outlook to Stable, from Negative, while affirming its Long-Term Issuer Default Rating (IDR) at 'A-'. Fitch has also affirmed its Viability Rating (VR) at 'a-'. A full list of rating actions is below.

The Outlook revision reflects the resilience of Hapoalim's financial profile to Israel's operating environment challenges since the start of the Israel-Hamas war and our view that risks have reduced. Economic activity has returned mostly to normal, providing growth opportunities to the country's banks while containing asset quality pressures. Risks to our operating environment assessment for Israeli banks are linked to the sovereign ratings (A/Negative/F1+).

KEY RATING DRIVERS

Diversified Business Model: Hapoalim's Long-Term IDR is driven by its VR and reflects its strong universal banking franchise in Israel and resilient asset quality and profitability through the war conflict. The VR also reflects the bank's adequate capital and sound funding, supported by its diversified and granular deposit base.

High Probability of Government Support: Hapoalim's IDRs are underpinned by potential government support, which is reflected in a Government Support Rating (GSR) of 'a-'. Fitch Ratings believes that Israel's sovereign has a strong incentive to provide support, given its systemic importance in the country with about 30% of banking system assets.

Close Regulatory Oversight: Hapoalim's underwriting standards are conservative, helped by prudent regulatory limits and oversight. The bank has material exposure to the construction and real estate sectors, in line with other Israeli banks, leaving it 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 strong structural demand for housing in Israel.

Sound Asset Quality: Hapoalim's impaired loans ratio was 0.5% at end-1H25, which has proven resilient to the pressures of the war. The bank has sharply increased its collective provisions since the start of the war (loans loss allowance/impaired loans of 298% at end-1H25), reflecting economic uncertainty and credit growth and we expect this to remain above 200%. We forecast the impaired loans ratio to remain below 1% over the next two years, supported by declining interest rates and sound underwriting.

Resilient Earnings: Operating profit is sound at 2.9% of risk-weighted assets in 1H25, reflecting strong loan growth but tighter margins. Nevertheless, net interest margin has remained strong due to the bank's large base of stable and low-cost current accounts. Higher inflation has also supported income given the bank's net long exposure to the consumer price index.

The bank is focused on maintaining tight cost controls with a low cost-to-income ratio, which compares favourably with international peers. We forecast the operating profit to remain above 2% of risk-weighted assets for the next two years, supported by high loan growth and limited loan impairment charges, underpinned by substantial loan loss allowances.

Capital Buffers Adequate: Hapoalim's common equity Tier 1 (CET1) ratio of 12% at end-1H25 has adequate buffers over its 10.23% regulatory minimum requirements. This should be considered in light of the bank's high risk-weighted asset density from using the standardised approach (68% at end-1H25), prudent provisioning and resilient internal capital generation. We expect capital buffers to remain broadly stable.

Large, Stable Deposit Base: Hapoalim funding and liquidity score is driven by government support and our expectation that the government's propensity to provide support is more certain in the near term, given the bank's systemic importance. As a result, a lower funding and liquidity score would not trigger a downgrade of the bank's 'F1' Short-Term IDR, which is the higher of two possible Short-Term IDRs that map to an 'A-' Long-Term IDR.

Hapoalim's funding and liquidity profile is also underpinned by its large deposit base, which is largely on demand but is stable and granular. The bank has proven access to domestic and international debt markets. Liquidity is strong, with a 125% liquidity coverage ratio at end-1H25.

RATING SENSITIVITIES

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

Hapoalim's Long-Term IDR would be downgraded if its Government Support Rating and VR were downgraded. A downgrade of the bank's Government Support Rating would be triggered by a downgrade of the sovereign rating, which could also trigger a downgrade of Hapoalim's VR if it also sharply increased pressure on the financial profile. This reflects the contagion risk resulting from the links between the sovereign, the operating environment and local banks' performance.

The most likely trigger for a downgrade of Hapoalim's VR would be a deterioration of asset quality that results in an impaired-loan ratio of above 2% for an extended period, combined with a declining CET1 ratio and weakening internal capital generation.

The Short-Term IDR would be downgraded if Israel's Short-Term IDR was downgraded by at least two notches.

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 operating environment for Israeli banks, which is sensitive to the drivers of a downgrade of the sovereign rating. In addition, upside is limited by the bank's geographical concentration and limited capital buffers.

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 options that map to a 'A-' Long-Term IDR (xgs) due to Hapoalim's 'a' funding and liquidity score.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The subordinated debt ratings are sensitive to changes in the bank's VR.

The Short-Term IDR (xgs) is sensitive to a lower funding and liquidity score. The Long-Term IDR (xgs) is sensitive to changes in the bank's VR.

VR ADJUSTMENTS

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

The earnings and profitability score of 'bbb+' is below the implied 'a' category implied score due to the following adjustment reason: earnings stability (negative).

The capitalisation and leverage score of 'a-' is 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 is linked to Israel's Long-Term IDR while its Short-Term IDR is linked to the sovereign's Short-Term IDR.

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. Our 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 our ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Bank Hapoalim B.M.	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Negative
	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	LT	BBB	BBB

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 21 Mar 2025\) \(including rating assumption sensitivity\)](#)

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Bank Hapoalim B.M.

UK Issued, EU Endorsed

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