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In case of any discrepancy, the Hebrew version prevails.

בנק הפועלים בע"מ

Bank Hapoalim B.M.

Number with the Registrar: 520000118

To: Israel Securities Authority To: Tel Aviv Stock Exchange Ltd. Tav 125 Transmitted via Magna: February 12, 2024
www.isa.gov.il www.tase.co.il (Public) Reference: 2024-01-015558

**Immediate Report on the Rating of Debt Certificates / Rating of a Corporation or
Discontinuation of Rating**

On February 12, 2024, S&P Maalot _____ published:

- A rating report / notice *Up to date*
- Notice of discontinuation of rating

1. Rating report or notice

- Rating of the corporation: S&P Maalot _____ ilAAA _____ *stable*

Notes / nature of the notice: *Rating approval* _____

Rating history for the 3 years preceding the date of the rating/notice:

Date	Subject of the rating	Rating	Notes / nature of the notice
31/10/2023	Bank Hapoalim B.M.	S&P Maalot _____ ilAAA _____ <i>stable</i>	<i>Rating approval</i> _____
02/02/2023	Bank Hapoalim B.M.	S&P Maalot _____ ilAAA _____ <i>stable</i>	<i>Rating approval</i> _____
26/07/2022	Bank Hapoalim B.M.	S&P Maalot _____ ilAAA _____ <i>stable</i>	<i>Rating approval</i> _____
23/01/2022	Bank Hapoalim B.M.	S&P Maalot _____ ilAAA _____ <i>stable</i>	<i>Rating approval</i> _____
05/12/2021	Bank Hapoalim B.M.	S&P Maalot _____ ilAAA _____ <i>stable</i>	<i>Rating approval</i> _____
20/07/2021	Bank Hapoalim B.M.	S&P Maalot _____ ilAAA _____ <i>stable</i>	<i>Rating approval</i> _____

Explanation: Under the rating history only the rating history of the rating company referred to in the Immediate Report should be specified.

■ Rating of the corporation's debt certificates:

Name and type of security	Number of the security on the stock exchange	Rating company	Present rating	Notes / nature of the notice
<i>Bonds Series (100)</i>	6620488	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Bonds (Series 101)</i>	1191337	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Bonds Series (200)</i>	6620496	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Bonds (Series 201)</i>	1191345	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Bonds (Series 202)</i>	1199850	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Bonds (Series 203)</i>	1199868	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Subordinated Notes (Series E)</i>	6620462	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Subordinated Notes (Series F)</i>	6620553	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Subordinated Notes (Series G)</i>	1191329	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Subordinated Notes (Series I)</i>	1199884	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Subordinated Notes (Series J)</i>	1199892	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____
<i>Subordinated Notes (Series K)</i>	1201466	<i>S&P Maalot</i> _____	<i>S&P Maalot</i> _____ <i>ilAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____

Rating history for the 3 years preceding the date of the rating/notice:

Name and type of security	Number of the security on the stock exchange	Date	Type of rated security	Rating	Notes / nature of the notice
<i>Bonds Series (100)</i>	6620488	31/10/2023	<i>Bonds</i>	<i>S&P Maalot</i> _____ <i>ilAAA</i> _____ <i>None/NOO</i>	<i>Rating approval</i> _____

Name and type of security	Number of the security on the stock exchange	Date	Type of rated security	Rating	Notes / nature of the notice
<i>Bonds Series (100)</i>	6620488	02/02/2023	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (100)</i>	6620488	26/07/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (100)</i>	6620488	08/03/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (100)</i>	6620488	23/01/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (100)</i>	6620488	09/12/2021	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (100)</i>	6620488	29/11/2021	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Initial rating _____</i>
<i>Bonds Series (101)</i>	1191337	31/10/2023	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (101)</i>	1191337	02/02/2023	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (101)</i>	1191337	27/11/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (101)</i>	1191337	09/11/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Initial rating _____</i>
<i>Bonds Series (200)</i>	6620496	31/10/2023	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (200)</i>	6620496	02/02/2023	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (200)</i>	6620496	26/07/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (200)</i>	6620496	08/03/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
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<i>Bonds Series (201)</i>	1191345	09/11/2022	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Initial rating _____</i>
<i>Bonds Series (202)</i>	1199850	31/10/2023	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Bonds Series (203)</i>	1199868	31/10/2023	<i>Bonds</i>	<i>S&P Maalot _____ ilAAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Subordinated Notes (Series E)</i>	6620462	31/10/2023	<i>Subordinated notes</i>	<i>S&P Maalot _____ ilAA _____ None/NOO</i>	<i>Rating approval _____</i>
<i>Subordinated Notes (Series E)</i>	6620462	02/02/2023	<i>Subordinated notes</i>	<i>S&P Maalot _____ ilAA _____ None/NOO</i>	<i>Rating approval _____</i>
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<i>Subordinated Notes (Series G)</i>	1191329	31/10/2023	<i>Subordinated notes</i>	S&P Maalot _____ ilAA _____ None/NOO	<i>Rating approval</i> _____
<i>Subordinated Notes (Series G)</i>	1191329	02/02/2023	<i>Subordinated notes</i>	S&P Maalot _____ ilAA _____ None/NOO	<i>Rating approval</i> _____
<i>Subordinated Notes (Series G)</i>	1191329	27/11/2022	<i>Subordinated notes</i>	S&P Maalot _____ ilAA _____ None/NOO	<i>Rating approval</i> _____
<i>Subordinated Notes (Series G)</i>	1191329	09/11/2022	<i>Subordinated notes</i>	S&P Maalot _____ ilAA _____ None/NOO	<i>Initial rating</i> _____
<i>Subordinated Notes (Series I)</i>	1199884	31/10/2023	<i>Subordinated notes</i>	S&P Maalot _____ ilAA _____ None/NOO	<i>Rating approval</i> _____
<i>Subordinated Notes (Series J)</i>	1199892	31/10/2023	<i>Subordinated notes</i>	S&P Maalot _____ ilAA _____ None/NOO	<i>Rating approval</i> _____
<i>Subordinated Notes (Series K)</i>	1201466	19/11/2023	<i>Subordinated notes</i>	S&P Maalot _____ ilAA _____ None/NOO	<i>Initial rating</i> _____

Explanation: Under the rating history only the rating history of the rating company referred to in the Immediate Report should be specified.

Attached hereto is the rating report: [Hapoalim 12022024 isa.pdf](#)

2. On (date) _____, _____ gave notice of discontinuation of rating to: _____

Particulars of the signatories authorized to sign on behalf of the corporation:

	Name of signatory	Job title
1	<i>Ram Gev</i>	<i>Other Chief Financial Officer</i>
2	<i>Tamar Koblenz</i>	<i>Other Head of Investor Relations</i>

Explanation: According to Regulation 5 of the Periodic and Immediate Reports Regulations (5730-1970), a report filed pursuant to these regulations should be signed by the persons authorized to sign on behalf of the corporation. A staff position on this subject can be found on the ISA website: [Click here](#).

Note: S&P Maalot has affirmed the long-term rating of the Bank (AAA) and its debt ratings. The outlook remains stable.

Signed on February 12, 2024

Reference numbers of previous documents on the subject (any citation made does not constitute inclusion by way of reference):

Date on which the structure of the form was updated: December 31, 2023

The securities of the corporation are listed for trading on the Tel Aviv Stock Exchange

Abbreviated name: Poalim

Address: Rothschild Blvd. 50, Tel Aviv 6688314 Telephone: 03-567-3800 Fax: 03-567-4576

Electronic mail: gilad.bloch@poalim.co.il Company website: <http://www.bankhapoalim.co.il>

Previous names of reporting entity:

Name of electronic reporter: Bloch Gilad; Position: Secretary of the Bank; Name of employing company:

Address: Yehuda Halevy 63, Tel-Aviv-Jaffa 6578109, Telephone: 03-567-3800 Fax: 03-567-4576

Electronic mail: gilad.bloch@poalim.co.il

Maalot

S&P Global Ratings

Bank Hapoalim B.M.

February 12, 2024

Affirmation of iAAA Rating; Outlook Stable

Primary credit analyst:

Regina Argenio, Milan, 39-02-72111208 regina.argenio@spglobal.com

Additional contact:

Matan Benjamin, Ramat Gan, 972-3-7539716 matan.benjamin@spglobal.com

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Abstract

Main strengths	Main weaknesses
<ul style="list-style-type: none">• Leading status in Israel, with strong presence in all major activity segments.• Ongoing improvement in efficiency ratios.• Broad, diversified domestic deposit base.	<ul style="list-style-type: none">• Macroeconomic uncertainty and exposure to defense and geopolitical risks.• High exposure to the construction and real-estate industries.• Activity in a competitive environment.

A great deal of uncertainty still exists with regard to the effects of the war between Israel and Hamas.

The attacks by Hamas and the military campaign being conducted by the IDF in the Gaza Strip have significantly increased the risk to Israel's economic outlook (see [Change in the rating outlook of the State of Israel to negative](#), October 31, 2023). There is a risk that Bank Hapoalim ("Bank Hapoalim" or the "Bank") and other banks in Israel may have to cope with prolonged effects of changes in the macroeconomic forecast and in credit terms.

Despite this risk, in our baseline scenario we still expect the profitability of the Bank to be sufficient to maintain its level of capital.

We believe that profitability peaked in the first nine months of 2023, when return on equity (ROE) was 15.4% (including a collective allowance of NIS 662 million in the third quarter, which was influenced by the war), and will decrease in the coming quarters. We expect a decrease in returns due to contraction of the net interest margin (NIM), deceleration of business growth, and an increase in risk cost (provisions for credit losses as a percentage of the total portfolio). However, we expect adequate profits and a return on equity of approximately 10% in 2024 and 2025. Based on these assumptions, and with the support of limited growth and cautious dividend distribution, we expect the risk-adjusted capital (RAC) ratio of the Bank to gradually rise to approximately 11.0%-11.5% in 2025, from 10.3% on December 31, 2022.

The economic deceleration and rise in debt service will affect asset quality, but we expect the deterioration to be containable.

This is in view of the Bank's strong balance sheet at the beginning of the war, with a low rate of nonperforming loans, at 1.1% on September 30, 2023, and coverage of approximately 143%, and due to the low leverage of borrowers, the sturdy labor market, and macro-prudential measures applied by the regulator to limit risk-taking. We expect the rate of nonperforming loans to rise to approximately 1.9%-2.0% by 2025, particularly in businesses focused on tourism, small and mid-sized businesses, unsecured consumer credit, and real estate, and the allowance for credit losses to grow to approximately 50-60 basis points per year on average in 2023 and 2024, and later gradually return to pre-pandemic levels. However, we see downside risks due to the uncertainty arising from the war. These risks are heightened for Bank Hapoalim and other banks in Israel due to their substantial exposure to the construction and real-estate sectors. Exposure to these sectors constituted approximately 22% of the credit portfolio of the Bank at the end of September 2023, and we believe that the risks involved in it are mounting. A decrease in confidence, labor shortage, and rise in defense-related risks, in addition to the declines in prices and in the number of transactions, which had already begun before the war, may have a material effect on asset quality in the event of substantial declines in valuations and in demand.

A large and decentralized domestic deposit base supports the Bank's financing and liquidity profile.

Despite a transition to interest-bearing deposits due to the changes in interest rates, the Bank's rating

continues to be supported by financing based primarily on deposits from domestic customers and on limited use of wholesale financing, which constitutes only 8.5% of total financing.

Government support will continue to support the rating. The Bank’s issuer rating is supported, in our opinion, by the likelihood of outstanding support from the State of Israel (AA-/Negative/A-1+) in the event of financial distress.

Rating outlook

The stable rating outlook reflects our assessment that given our current forecasts regarding macroeconomic parameters, the leading business position of Bank Hapoalim will enable it to cope relatively well with the present challenges.

Negative scenario

We will consider a negative rating action if we believe that a structural increase has occurred in economic risks in Israel, with negative implications for the banking system and the credit quality of Bank Hapoalim. This scenario is possible if we observe significant deterioration in asset quality, particularly in the area of real estate, or higher exposure to financial and non-financial risks.

Key rating considerations

Key data and ratios

Bank Hapoalim Ltd. Key Ratios And Forecasts (%)					
Fiscal year	2021A	2022A	2023F	2024F	2025F
Growth in customer loans	16.0	10.2	4.1-5.0	1.8-2.2	5.4-6.6
Net interest income/average earning assets (NIM)	2.4	2.8	2.9-3.2	2.6-2.9	2.5-2.7
Cost to income ratio	53.5	43.4	39.0-41.0	42.6-44.8	43.2-45.4
Return on average common equity	11.9	14.6	12.5-13.8	10.5-11.6	10.8-12.0
New loan loss provisions/average customer loans	-0.4	0.0	0.5-0.6	0.4-0.5	0.2-0.3
Gross nonperforming assets/customer loans	1.2	1.0	1.3-1.4	1.8-2.0	1.3-1.4
Risk-adjusted capital ratio	10.4	10.3	10.3-10.8	10.8-11.3	11.0-11.5

A – actual. F – forecast. NIM – net interest margin. All data are after S&P Global Ratings adjustments.

Benchmark: Reflects the focus of the activity in Israel

The rating methodology of S&P Global for banking institutions is based on our Banking Industry Country Risk Assessment (BICRA), as a benchmark or point of origin for the ratings of the banks. This assessment integrates an assessment of economic risk with an assessment of industry risk. The BICRA score for the Israeli banking industry is 3 on a scale of 1 to 10, where 1 indicates the lowest risk.

We estimate that the material escalation of geopolitical and defense-related risks faced by Israel due to the war with Hamas that began on October 7, 2023, will continue to affect Israel’s economic

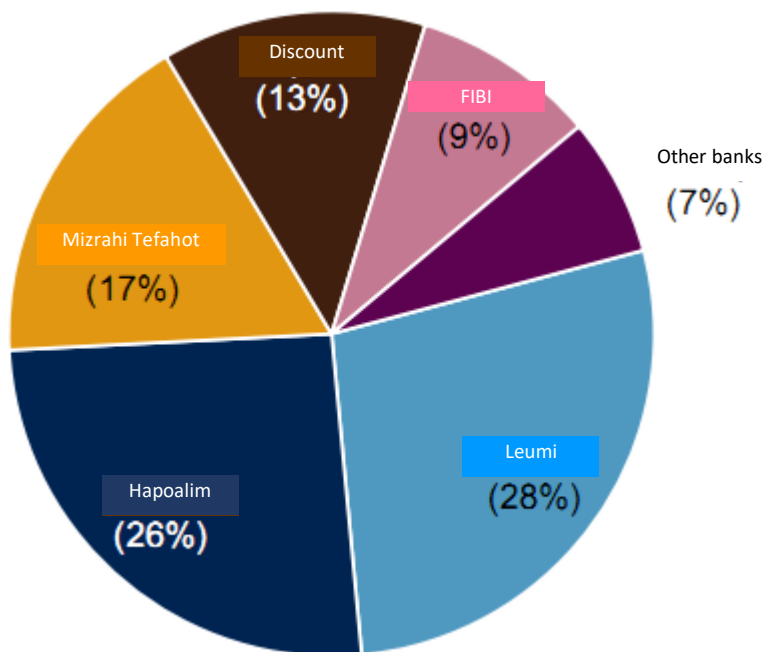
performance in 2024. We expect real GDP growth to slow to 0.5% in 2024, the lowest rate in decades (excluding the year of the Covid-19 pandemic, 2020). We expect growth to accelerate to 5% in 2025, when confidence is restored, rehabilitation begins, and the investment cycle is more fully apparent. However, we see a high degree of uncertainty with regard to the scope and duration of the fighting, and the recovery may not materialize in a scenario of a prolonged conflict. The real-estate sector in Israel, which accounts for a large part of the banks' credit portfolio, is one of the sectors most vulnerable to the current developments, along with tourism, small businesses, and services. We expect a moderate decrease in real-estate prices, due to the fact that the interest rate remains high, and due to a decrease in domestic confidence. In this context, we expect the Bank's credit losses to soar to approximately 80 basis points in 2023, and subsequently fall gradually to approximately 40 basis points in 2024.

The banking system in Israel benefits from a strong financing profile and a net credit provider position, which provides protection in the current challenging environment. Cautious regulatory supervision somewhat mitigates concentration risks and the risks of geopolitical instability. The profitability of banks in Israel is supported by strong credit growth following the Covid-19 pandemic, high interest rates, and ongoing efficiency measures. However, the competition among banks and between the banks and non-bank financial institutions somewhat limits spreads and fees.

Business position: One of the largest banking groups in Israel

Bank Hapoalim enjoys a leading position in most segments of the Israeli market (see Figure 1). This status confers significant advantages on the Bank in terms of pricing power, size advantages, and expansion of its activity, which underlie its stability of revenues and strong brand.

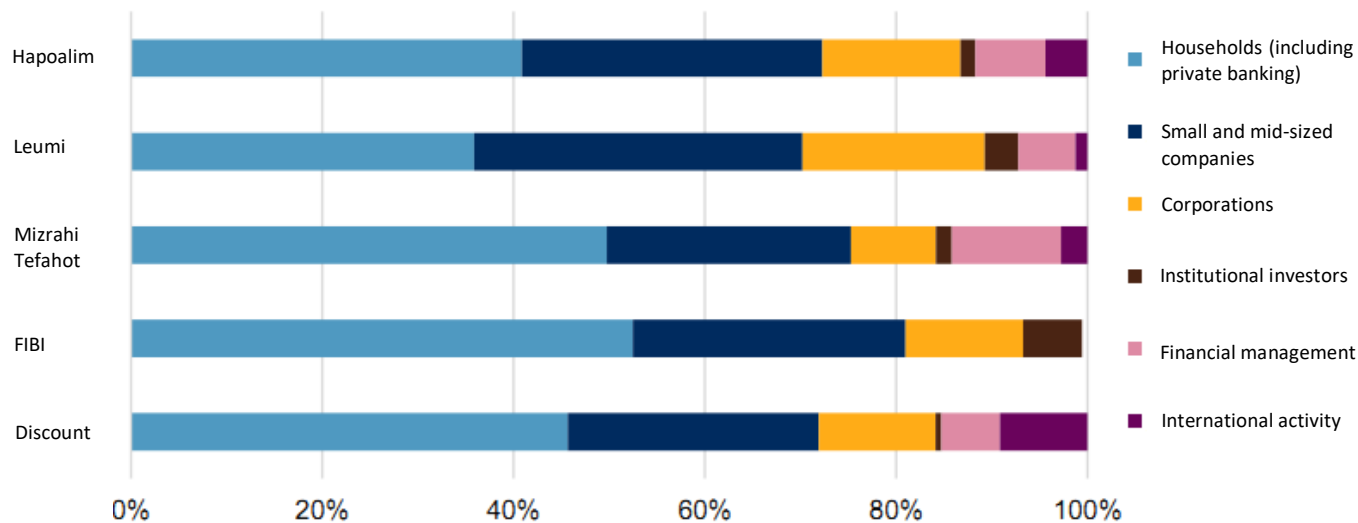
Figure 1: Bank Hapoalim is one of the leading banks in Israel
Market share in domestic deposits (September 30, 2023)



Source: S&P Global Ratings

The Bank's sources of income are well diversified among different sectors (see Figure 2). Mortgages are one of the focus areas of its activity in the domestic market. Despite the erosion of profitability due to growing competition in this area, we expect the risks involved in exposure to mortgages to remain limited, barring escalation of the war. This is due, among other factors, to the full right of recourse to the Bank and the macro-prudential measures taken by the Bank of Israel in the past, which led to stricter underwriting terms and larger capital buffers against mortgages.

Figure 2 – The Bank's diverse income base supports income stability
Distribution of income by segment (September 30, 2023)



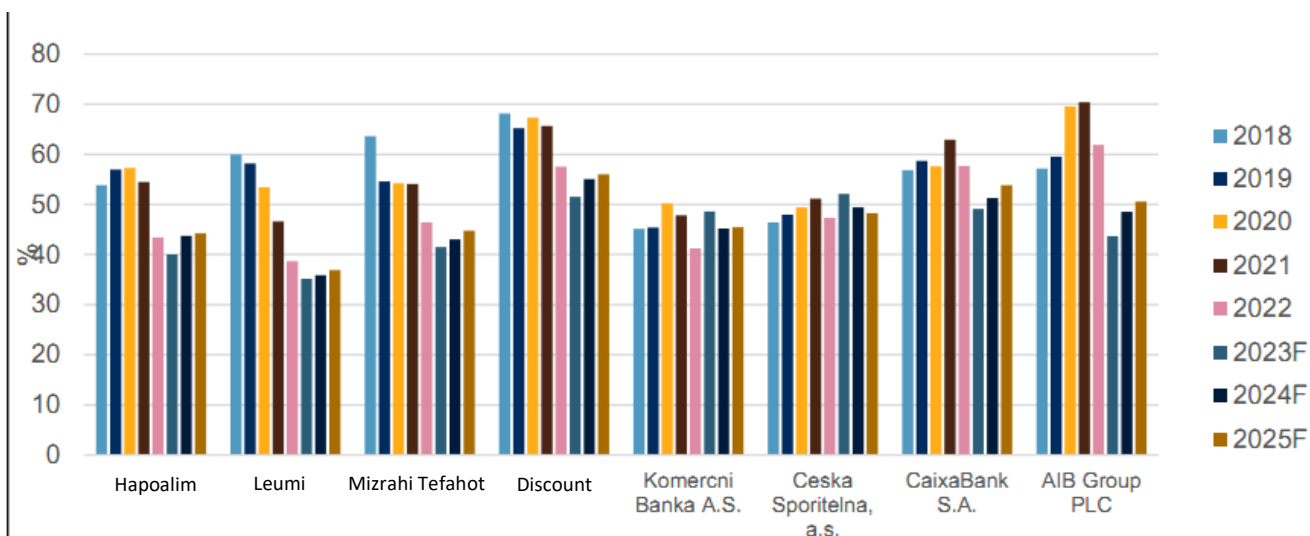
Source: S&P Global Ratings

Beyond the management of the impact of the war in the short term, the Bank's medium-term strategy, within its strategic plan for 2023-2026, encompasses enlargement of its credit portfolio in all areas, through the use of digital channels, and maintaining a limited risk appetite.

We see as a positive the fact that the Bank is also targeting greater efficiency, including a more optimal allocation of capital, modernization of infrastructure, and other cost-reduction measures. In recent years the Bank has succeeded in improving its operational efficiency through streamlining measures and increased digitization (see Figure 3).

The Bank is also planning to gradually build a portfolio of investments in small and mid-sized private companies, through Poalim Equity. The Bank's investment in Poalim Equity totaled NIS 3.8 billion on September 30, 2023, and its investment commitment on that date stood at NIS 1.4 billion. The Bank expects Poalim Equity to support its profitability and diversification. We believe equity investment activity generally entails a higher risk profile than regular lending, but we expect the Bank to manage its exposure to equity risks cautiously.

Figure 3 – The Bank’s efficiency is similar to that of its international peer group
Efficiency ratio (cost/income)



F – forecast. Source: S&P Global Ratings

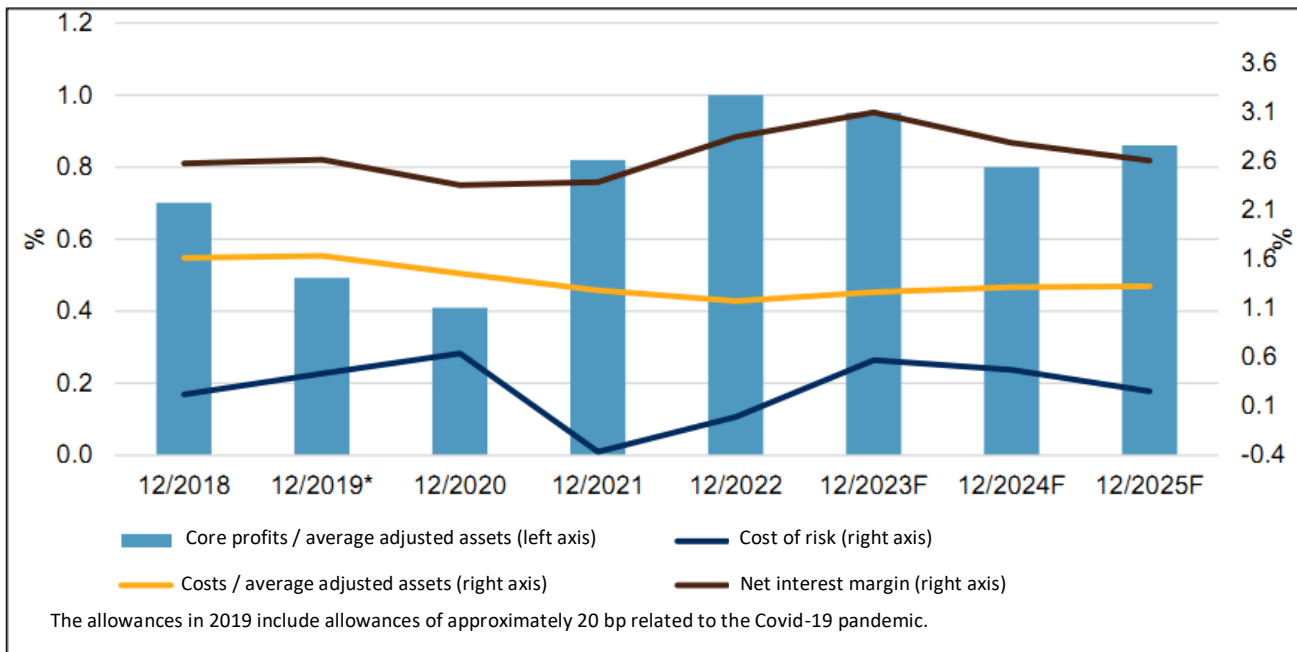
Over the last few years the Bank has gradually reduced its international operations, except in the United States. It returned the banking license of Hapoalim (Switzerland) Ltd., and in September 2023 sold its holding in Bank Pozitif, a small subsidiary in Turkey, with no effect on earnings. International activity accounted for approximately 5% of the Bank’s credit portfolio at the end of September 2023, with the decisive majority originating with the branch in the United States, which primarily focuses on mid-sized companies.

Capital and profitability: Profitability will support the stability of capital in a deteriorating economic environment

The profitability of the Bank has risen as a result of the increase in the interest rate and growth in credit, which expanded income in the last two years. We estimate that profitability will remain durable, but believe that it peaked in the first nine months of 2023, when return on equity was 15.4%. We expect the return on equity of the Bank to decrease to approximately 10%-11% in 2025. Based on these assumptions, we expect the risk-adjusted capital (RAC) ratio of the Bank to gradually rise to approximately 11.0%-11.5% in 2025, from 10.3% on December 31, 2022, due to an expected decrease in future capital needs.

The contraction of the net interest margin had already started in the third quarter of 2023, due to repricing of deposits and a decrease in the contribution of CPI-linked assets. We expect the slower growth of activity, increase in percentage of interest-bearing deposits, and additional interest-rate cuts to weigh on income in the coming quarters. In addition, the high cost of risk will contribute to a decrease in returns, as we expect economic activity in Israel to remain limited in the coming quarters, with tight credit terms.

Figure 4 – The deterioration in asset quality and decrease in the interest rate will weigh on the Bank’s profitability



More specifically, we expect:

- Weak growth in the credit portfolio in the fourth quarter of 2023, and gradual recovery in 2024, leading to approximately 6%-7% growth in 2025.
- A decrease in the net interest margin, from approximately 3.1% in the first nine months of 2023 to approximately 2.5%-2.6% in 2025, with the easing of monetary policy.
- Provisions for credit losses of 55-60 basis points in 2023, due to the effects of the ongoing war, and a gradual decrease to a more normal level of 25-30 basis points in 2025.
- More cautious dividend distribution of approximately 30% of 2023 profits, and a subsequent increase to 40%.
- Developments in risk-adjusted assets according to business developments, and a slightly higher contribution of market risks, due to an increased investment in equity.

We also note that the authorities in Israel are discussing the imposition of a new profit tax on the banking industry. If the tax is imposed according to the current proposals, we estimate that it may have an adverse effect on the capital of the Bank and lead to a decrease of approximately 10-15 basis points in the risk-adjusted capital ratio in 2025.

The common equity Tier 1 capital ratio of Bank Hapoalim was 11.53% on September 30, 2023, above the regulatory minimum requirement by 130 basis points. This is the largest spread among banks in Israel, but smaller than at many international banks with the same rating. This is because the regulatory capital ratios of Israeli banks are determined in a more conservative manner than at international banks operating in other developed markets.

Risk profile: Effects of the war and credit portfolio concentration will weigh on asset quality

Bank Hapoalim, like other banks in Israel, is exposed to the economic and financial impacts of the war, which are intensifying the increase in debt service costs.

The deterioration in asset quality began before the Hamas attack, when the NPL ratio rose to approximately 1.1% of total credit on September 30, 2023 (from 0.95% in 2022), due to the effect of more severe credit terms. These ratios are still good relative to international banks in the peer group, and were supported by the strong economic recovery following the Covid-19 pandemic and by cautious underwriting.

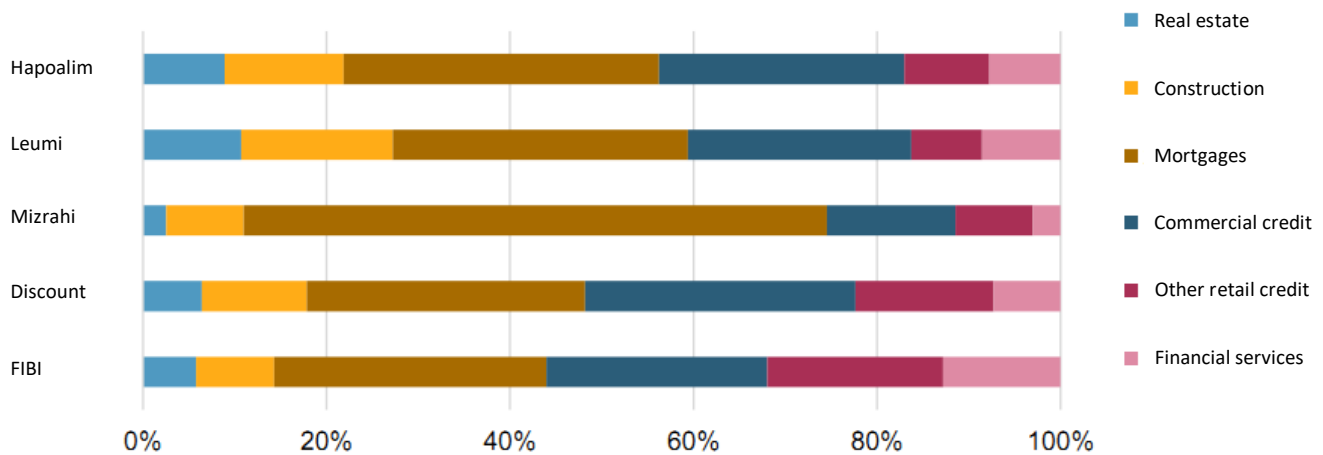
We expect the NPL ratio to rise slightly, to approximately 1.9%-2.0%, in the coming two years. We expect businesses focused on tourism, small and mid-sized companies, unsecured consumer credit, and certain exposures to construction and real estate to be more vulnerable. As part of the support package for population segments affected by the war, the Bank of Israel permitted banks to defer loan payments (see [Risk assessment in the banking industry in Israel](#), January 31, 2024).

As of mid-November 2023, the Bank had deferred loan payments in the amount of approximately NIS 925 million, of a diversified credit portfolio of approximately NIS 17.8 billion. We expect only moderate worsening, in our central scenario, due to the low leverage of borrowers, the sturdy labor market, and the macro-prudential measures by the regulator to limit risk-taking.

However, risks exist due to uncertainty regarding the scope and duration of the war. In this context, the risks are heightened by the potential volatility in the real-estate market.

These risks are heightened for Bank Hapoalim and other banks in Israel due to their substantial exposure to the construction and real-estate sectors (see Figure 5), as a result of which their asset quality is sensitive to sharp corrections in these industries. The construction and real-estate industries accounted for approximately 22% of the credit portfolio of the Bank on September 30, 2023, without taking secured loans in the amount of NIS 39.1 billion into consideration. We believe that the risks in these areas are increasing due to a decrease in confidence and in business activity, as well as the decline in output as a result of labor shortages and defense-related risks arising from the war. The risk is particularly high for entrepreneurs and construction companies with limited liquidity reserves and relatively low financial flexibility. All of these factors add to the already high debt service costs and the price reductions, which may increase pressure.

**Figure 5 – Real-estate-related domestic loans constitute 56% of the Bank’s credit portfolio
Distribution of the credit portfolio (September 30, 2023)**



Source: S&P Global Ratings

Most construction loans are for residential projects, which somewhat reduces the risk. We expect this segment to continue to gain support from the structural demand for housing in Israel, on a demographic basis, after security conditions return to normal. The real-estate sector is subject to regulatory supervision, including increased restrictions and oversight, because it is recognized as a potential risk. Exposure to this sector may impair the capital and profitability of the Bank if a significant correction occurs in asset prices, for example, as a result of ongoing impacts of the war on macroeconomic conditions and economic structure.

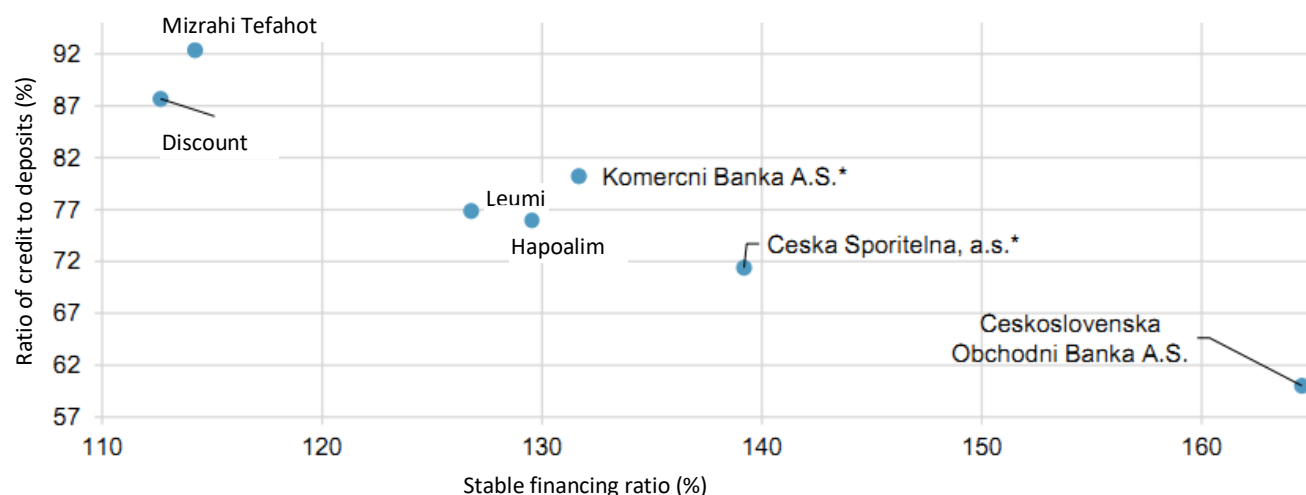
We expect the mortgage portfolio (which constituted approximately 34% of the Bank’s credit portfolio on September 30, 2023) to be more durable. Historically, the frequency of credit defaults among households in Israel has been low compared to other regions, due to the structural housing shortage, which reduces the risk of sharp market corrections, and due to the low unemployment rate. In addition, the Bank maintains a conservative underwriting standard in mortgages (the LTV rate in 61.9% of the portfolio is lower than 60% at signing; the maximum length of a mortgage is 30 years; and the maximum ratio of monthly payments to income is 40%, in principle), and the capital requirements established by the Bank of Israel in the area of mortgages are higher than the Basel levels. However, we expect that some borrowers will struggle to cope with the increases in the interest rate, as most mortgages have floating rates.

Operational risks have increased, including cyber risk; Bank Hapoalim and other banks may be more exposed to market risks, due to the potential effect of various scenarios of the war on the exchange rate, interest rates, and inflation.

Financing and liquidity: Solid financing base

We believe that Bank Hapoalim benefits from a robust liquidity profile, supported by diversified domestic financing sources, including a strong retail deposit base. These factors support strong financing and liquidity metrics, which have proved durable under the current difficult operational conditions.

Figure 6 – A large deposit base supports the Bank’s financing metrics (September 30, 2023)



Source: S&P Global Ratings

* As of June 2023.

The financing base of Bank Hapoalim is based primarily on deposits, with 92% consisting of core deposits. The deposit structure remained stable, but changed over the last twelve months, with the share of non-interest-bearing deposits falling to approximately 28% as of September 30, 2023, from approximately 41% on September 30, 2022.

Deposits of customers and of small and mid-sized companies accounted for 59% of total deposits on September 30, 2023. Deposits of institutional investors, which have higher potential volatility, accounted for 17% of deposits at that time. Bank Hapoalim’s deposit base has demonstrated its stability during the current conflict and during previous systemic shocks.

The percentage of interbank financing and other wholesale financing has remained low (8.5% of total financing) and stable in recent years.

The Bank also maintains robust liquidity. Liquid banking assets constituted 28% of its total banking assets on September 30, 2023. The Bank held 14% of the assets in cash and deposits with banks, and an additional 20% in securities. Its securities portfolio primarily consists of investments in Israeli government bonds (67%) and, to a lesser extent, in United States government bonds (20%), with only 3% investments in shares.

External support: Potential for government support

The long-term issuer rating of the Bank is supported by its systemic importance in Israel and by the government’s policy of support for the domestic banking system.

Environmental, social, and governance factors

We believe that environmental, social, and governance factors affect the credit quality of Bank Hapoalim in a similar manner to the industry and to other Israeli banks. We believe that the Bank's management is experienced and professional. Environmental and social factors do not affect credit quality differently than at other banks in the industry. With regard to social risk, we note that the Bank has managed labor cutbacks carefully in the past, and we expect that it will continue to do so if further downsizing is considered.

Group structure, rated and hybrid subsidiaries

We rate subordinated notes with a loss-absorption mechanism by deducting one rating level from the independent credit profile of the Bank, due to the risk of default, as we do not expect these instruments to gain the support of the state, and deducting an additional rating level from the domestic rating due to the subordination of the notes. The final rating of these instruments is 'iIAA'.

Financial data and ratios

Table 1.

Bank Hapoalim Ltd. Key Figures (Mil. ILS)

Year	YTD Sep-2023	Annual Dec-2022	Annual Dec-2021	Annual Dec-2020	Annual Dec-2019
Adjusted assets	675,988	665,353	638,781	539,602	463,688
Customer loans (gross)	414,472	396,465	359,703	310,170	299,624
Adjusted common equity	48,812	45,681	40,938	37,845	36,623
Operating revenues	16,421	17,634	14,041	12,860	13,250
Noninterest expenses	6,334	7,654	7,517	7,263	7,548
Core earnings	5,599	6,490	4,829	2,055	2,278

Table 2.

Bank Hapoalim Ltd. Business Position (%)

Year	YTD Sep-2023	Annual Dec-2022	Annual Dec-2021	Annual Dec-2020	Annual Dec-2019
Total revenues from business line (currency in millions)	16,421	17,701	14,155	12,948	13,571
Commercial banking/total revenues from business line	26.36	27.19	27.40	27.49	25.33
Retail banking/total revenues from business line	60.84	49.83	44.06	49.56	57.50
Commercial & retail banking/total revenues from business line	87.20	77.02	71.45	77.05	82.84
Trading and sales income/total revenues from business line	7.59	17.11	23.29	17.93	11.93
Other revenues/total revenues from business line	5.21	5.86	5.26	5.01	5.23
Investment banking/total revenues from business line	7.59	17.11	23.29	17.93	11.93
Return on average common equity	15.43	14.64	11.90	5.27	4.75

Table 3.

Bank Hapoalim Ltd. Capital and Earnings (%)

Year	YTD Sep-2023	Annual Dec-2022	Annual Dec-2021	Annual Dec-2020	Annual Dec-2019
Tier 1 capital ratio	11.53	11.25	11.02	11.66	11.75
S&P Global Ratings' RAC ratio before diversification	N/A	10.33	10.43	11.15	11.34
S&P Global Ratings' RAC ratio after diversification	N/A	10.06	9.67	10.09	10.58
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Net interest income/operating revenues	75.14	76.37	69.56	68.41	70.33

Year	YTD Sep-2023	Annual Dec-2022	Annual Dec-2021	Annual Dec-2020	Annual Dec-2019
Fee income/operating revenues	18.07	19.21	21.86	22.68	24.45
Market-sensitive income/operating revenues	5.83	3.20	7.61	8.27	4.57
Cost to income ratio	38.57	43.40	53.54	56.48	56.97
Provision operating income/average assets	2.01	1.53	1.11	1.12	1.23
Core earnings/average managed assets	1.11	1.00	0.82	0.41	0.49

Table 4.

Bank Hapoalim Ltd. RACF [Risk-Adjusted Capital Framework] Data (Mil. ILS)

(Mil. ILS)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government and central banks	219,276	1,352	1	2,908	1
Institutions and CCPs	7,430	1,097	15	267	4
Corporate	41,847	7,887	19	10,277	25
Retail	259,509	247,157	95	249,397	96
Of which mortgage	181,520	105,579	58	76,252	42
Securitization§	129,180	66,225	51	36,997	29
Other assets†	26	13	50	26	100
Total credit risk	10,994	20,776	189	20,821	189
Credit valuation adjustment					
Total credit valuation adjustment	--	3,786	--	4,922	--
Market risk					
Equity in the banking book	5,163	5,163	100	39,818	771
Trading book market risk	--	4,007	--	6,011	--
Total market risk	--	9,170	--	45,828	--
Operational risk					
Total operational risk	--	25,020	--	32,822	--
Diversification adjustments					
(Mil. ILS)	Basel III RWA	S&P Global RWA	% of S&P Global RWA		
RWA before diversification	420,740	443,254	100		
Total Diversification/Concentration Adjustments	--	11,704	3		
RWA after diversification	420,740	454,958	103		
Capital ratio					
(Mil. ILS)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)	
Capital ratio before adjustments	46,745	11.1	45,681	10.3	
Capital ratio after adjustments‡	46,745	11.2	45,681	10.0	

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. ILS -- New Israeli Shekel. Sources: Company data as of 'Dec. 31 2022', S&P Global Ratings.

Table 5.**Bank Hapoalim Ltd. Risk Position (%)**

Year	YTD Sep-2023	Annual Dec-2022	Annual Dec-2021	Annual Dec-2020	Annual Dec-2019
Growth in customer loans	6.06	10.22	15.97	3.52	3.79
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	2.66	7.87	10.49	7.24
Total managed assets/adjusted common equity (x)	13.85	14.57	15.60	14.26	12.66
New loan loss provisions/average customer loans	0.47	(0.01)	(0.36)	0.64	0.43
Net charge-offs/average customer loans	0.08	(0.03)	(0.06)	0.09	0.12
Gross nonperforming assets/customer loans + other real estate owned	1.13	1.04	1.20	1.52	1.80
Loan loss reserves/gross nonperforming assets	143.18	134.81	118.12	130.25	87.46

Table 6.**Bank Hapoalim Ltd. Funding and Liquidity (%)**

Year	YTD Sep-2023	Annual Dec-2022	Annual Dec-2021	Annual Dec-2020	Annual Dec-2019
Core deposits/funding base	76.12	72.95	67.44	69.73	81.39
Customer loans (net)/customer deposits	95.01	95.40	96.58	97.71	97.83
Long-term funding ratio	129.60	134.46	144.29	140.56	124.83
Stable funding ratio	5.41	4.97	3.68	2.49	2.38
Short-term wholesale funding/funding base	125.00	130.00	136.00	N/A	N/A
Regulatory net stable funding ratio	6.08	7.05	10.96	15.65	13.18
Broad liquid assets/short-term wholesale funding (x)	28.50	30.86	35.80	33.71	26.60
Broad liquid assets/total assets	35.96	38.32	43.49	41.72	34.05
Broad liquid assets/customer deposits	37.56	41.10	49.40	48.81	39.33
Net broad liquid assets/short-term customer deposits	1.24	1.22	1.24	1.40	1.21
Regulatory liquidity coverage ratio (LCR) (x)	63.78	58.18	50.53	37.64	30.82
Short-term wholesale funding/total wholesale funding	76.12	72.95	67.44	69.73	81.39

Data are based on S&P Global Ratings adjusted number and ratios. N/A – not applicable.

Methodology and related articles

- [Methodology – General: Rating Principles of S&P](#), February 16, 2011
- [Methodology – General: Methodology for Linking Long Term and Short Term Ratings](#), April 7, 2017
- [Methodology: Methodology for Assessment of Risk Adjusted Capital Adequacy of Financial Institutions](#), July 20, 2017
- [Methodology – General: Rating of Companies in a Group](#), July 1, 2019
- [Methodology – General: Credit Risks Arising from Environmental, Social, and Corporate Governance Factors](#), October 10, 2021
- [Methodology: Financial Institutions Rating Methodology](#), December 9, 2021
- [Methodology: Methodology for Assessment of Banking Industry Risk](#), December 9, 2021
- [Methodology – General: Rating Hybrid Capital](#), March 2, 2022
- [Methodology – General: Credit Rating on Domestic Scales](#), June 8, 2023
- [Opinions and Interpretation: The Relationship Between the Global Rating Scale and the Israeli Rating Scale](#), June 26, 2018
- [Rating Scales and Definitions: Definitions of S&P Global Ratings Rating Scales](#), June 9, 2023

List of ratings

BANK HAPOALIM B.M.	RATING	FIRST RATING PUBLICATION DATE	LAST RATING UPDATE DATE
ISSUER RATING(S)			
Long term	ilAAA\Stable	01/08/1998	31/10/2023
ISSUE RATING(S)			
<u>Hybrid subordinated debt</u>			
Subordinated notes with a loss-absorption mechanism Series G	ilAA	09/11/2022	31/10/2023
Subordinated notes with a loss-absorption mechanism Series I	ilAA	19/03/2019	31/10/2023
Subordinated notes with a loss-absorption mechanism Series J	ilAA	20/04/2020	31/10/2023
Subordinated notes with a loss-absorption mechanism Series K	ilAA	19/11/2023	19/11/2023
Subordinated notes with a loss-absorption mechanism Series E	ilAA	03/08/2020	31/10/2023
Subordinated notes with a loss-absorption mechanism Series F	ilAA	01/03/2022	31/10/2023
<u>Unsecured senior debt</u>			
Series 100, 200	ilAAA	29/11/2021	31/10/2023
Series 202	ilAAA	08/04/2018	31/10/2023
Series 203	ilAAA	15/11/2018	31/10/2023
Series 101	ilAAA	09/11/2022	31/10/2023
Series 201	ilAAA	09/11/2022	31/10/2023
ISSUER'S RATING HISTORY			
<u>Long term</u>			
October 07, 2014	ilAAA\Stable		
December 16, 2010	ilAA+\Stable		
April 30, 2009	ilAA+\Negative		
May 01, 2008	ilAAA\Negative		
February 28, 2007	ilAAA\Stable		
May 14, 2006	ilAAA		
February 20, 2003	ilAA+		
August 01, 1998	ilAAA		
FURTHER DETAILS			
Time of occurrence	12/02/2024	13:11	
Time when occurrence first became known	12/02/2024	13:11	
Rating initiator	The rated company		

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