

בנק הפועלים בע"מ

Bank Hapoalim B.M.

Number with the Registrar: 520000118

Securities Authority Tel Aviv Stock Exchange Ltd. Tav 125 Transmitted 16/04/2018
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**Immediate Report on the Rating of Bonds / Rating of a Corporation or
Discontinuation of Rating**

On 16/04/2018 *Moody's* published:

An *up-to-date* rating report / notice

Notice of discontinuation of rating

1. Rating report or notice

Rating of the
Corporation: *Moody's* _____ *stable*

Notice/Nature of
the Notice: *Rating Affirmed* _____

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

Date	Subject of the Rating	Rating	Notes/Nature of the Rating
16/10/2017	<i>Bank Hapoalim B.M.</i>	<i>Moody's Stable</i>	<i>Rating Affirmed</i>
01/05/2017	<i>Bank Hapoalim B.M.</i>	<i>Moody's Stable</i>	<i>Rating Affirmed</i>
03/11/2016	<i>Bank Hapoalim B.M.</i>	<i>Moody's Stable</i>	<i>Rating Affirmed</i>
11/12/2015	<i>Bank Hapoalim B.M.</i>	<i>Moody's Stable</i>	<i>Rating Affirmed</i>
30/06/2015	<i>Bank Hapoalim B.M.</i>	<i>Moody's Stable</i>	<i>Outlook Upgrade</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 Bonds:

Name and Type of Security	Number of the Security on the Stock Exchange	Rating Company	Present Rating	Notes/Nature of the Notice
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_____	_____	_____	_____	_____
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Rating history for the 3 years preceding the rating date / 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
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_____	_____	_____	_____	_____	_____
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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: CO_Bank_Hapoalim_April_2018_isa.pdf

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

Remark: Moody's published a Semiannual Update Report on the Bank, the Long Term Deposit rating remains A2 with a stable outlook.

The names of the signatories on behalf of the Corporation:

Yadin Antebi: Head of Finance – CFO

Karen Mazor, Head of Investor Relations Department.

Signed on April 16th, 2018

The reference numbers of the 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: 20/02/2018

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

Abbreviated Name: Poalim

Address: POB 27, Tel Aviv 6100001 Telephone: 03-567 3800. 03-567 3333, Fax: 03-567 4576

Electronic Mail: ronit.shapira@poalim.co.il Company Website: <http://www.bankhapoalim.co.il>

Previous names of reporting entity:

Name of Electronic Reporter: Shapira Ronit, Her Job Title: Secretary of the Bank, Name of
Employing Company:

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

Electronic Mail: ronit.shapira@poalim.co.il

CREDIT OPINION

16 April 2018

Update

Rate this Research >>

RATINGS

Bank Hapoalim B.M.

Domicile	Israel
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Bank Hapoalim B.M.

Update to credit analysis

Summary

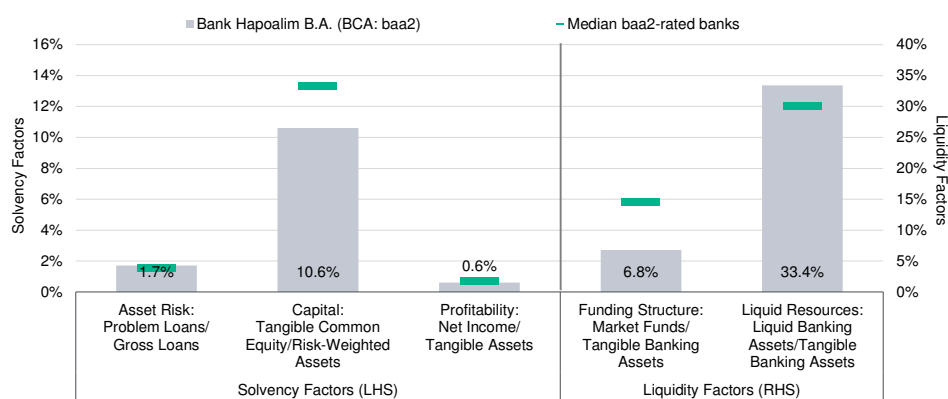
We assign A2/Prime-1 deposit ratings to Bank Hapoalim. The deposit ratings incorporate a three-notch uplift from the bank's baa2 baseline credit assessment (BCA), based on our assessment of a very high likelihood of government support in the event of need.

The bank's BCA reflects (1) Bank Hapoalim's improving asset quality, with the ratio of non-performing loans¹ (NPLs) to gross loans declining to 1.3% as of December 2017; (2) its strong deposit-based funding structure and sizeable liquidity buffers; and (3) the bank's improving capital adequacy with a reported Common Equity Tier 1 (CET 1) ratio of 11.26% as of December 2017 calculated using the standardised approach.

Bank Hapoalim's ratings also reflect elevated credit risks in view of rising property prices and related concentration to the real estate sector and mortgages, as well as the bank's moderate efficiency.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

- » Strong retail deposit base and good liquidity
- » Good and improving asset quality
- » Improved capital adequacy
- » Very high likelihood of government support, in case of need

Credit challenges

- » Credit risks remain high, despite improving asset quality, in view of rising property prices and related sector concentrations
- » Moderate earnings-generating capacity

Outlook

All ratings carry a stable outlook, with the bank's strong funding and liquidity profile and resilient asset quality balancing high credit risks and moderate profitability.

Factors that could lead to an upgrade

- » Upward pressure on the bank's BCA will originate from improvement in profitability mainly driven by better efficiency and low credit costs, while maintaining its improved capital buffers and strong asset quality.

Factors that could lead to a downgrade

- » Negative pressure could be exerted on the ratings if deteriorating operating conditions lead to a weakening of asset quality and profitability and/or if provisions concerning the US authorities ongoing investigation erode the bank's profitability. Bank Hapoalim's ratings could also be downgraded if we view the government's ability and/or capacity to provide support as materially reduced.

Key indicators

Exhibit 2

Bank Hapoalim B.M. (Consolidated Financials) [1]

	12-17 ²	12-16 ²	12-15 ²	12-14 ²	12-13 ³	CAGR/Avg. ⁴
Total Assets (ILS million)	454,424	448,105	431,638	408,033	380,020	4.6 ⁵
Total Assets (USD million)	130,896	116,432	110,931	104,854	109,484	4.6 ⁵
Tangible Common Equity (ILS million)	35,169	33,277	32,198	29,070	27,731	6.1 ⁵
Tangible Common Equity (USD million)	10,130	8,646	8,275	7,470	7,989	6.1 ⁵
Problem Loans / Gross Loans (%)	1.3	1.7	2.2	2.7	3.5	2.3 ⁶
Tangible Common Equity / Risk Weighted Assets (%)	10.6	10.2	9.1	8.4	8.9	9.6 ⁷
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.2	13.0	16.9	21.8	28.6	17.9 ⁶
Net Interest Margin (%)	2.0	1.9	1.9	2.0	2.1	2.0 ⁶
PPI / Average RWA (%)	1.6	1.6	1.6	1.6	1.5	1.6 ⁷
Net Income / Tangible Assets (%)	0.6	0.6	0.7	0.7	0.7	0.6 ⁶
Cost / Income Ratio (%)	63.9	63.6	60.1	62.1	65.5	63.0 ⁶
Market Funds / Tangible Banking Assets (%)	6.8	7.5	7.7	8.1	7.5	7.5 ⁶
Liquid Banking Assets / Tangible Banking Assets (%)	33.4	33.9	29.6	27.9	28.0	30.5 ⁶

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Gross Loans / Due to Customers (%) 81.9 82.2 88.6 90.7 92.6 87.2⁶

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; LOCAL GAAP [3] Basel II; LOCAL GAAP [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Profile

Bank Hapoalim B.M. (Bank Hapoalim) is the largest bank in Israel with a market share of 29% in terms of total system assets as of December 2017. The bank provides banking and financial services to households, small businesses and large corporate customers. Internationally, commercial banking services are provided in North America to local middle market customers and Israeli companies working abroad by the New York branch. In Europe, Bank Hapoalim provides corporate credit facilities through Bank Hapoalim Luxemburg and Bank Pozitif in Turkey.

In line with its strategy Bank Hapoalim is reducing its international private banking activities through the sale of the customer portfolio of its Swiss subsidiary and the reduction of Bank Pozitif's exposure.

As of December 2017 Bank Hapoalim had total assets of NIS454.4 billion (USD130.9 billion).

Detailed credit considerations

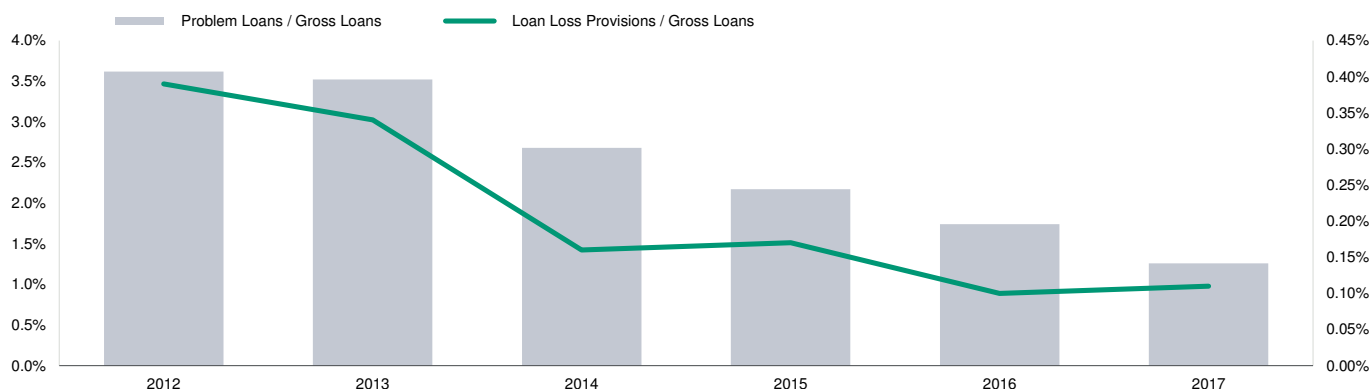
Credit risks remain high, despite improving asset quality, in view of rising real estate prices and related sector concentrations

We expect Bank Hapoalim's asset quality to remain strong, benefitting from the conducive operating environment, the bank's strong underwriting standards as well as a strict regulatory and legal framework that allows banks full recourse to borrowers. The improvement in the bank's asset quality in recent years partly reflects the strong operating environment (as also documented by our "Strong" macro profile score), driven by the country's competitive economy. The economy has shown resilience despite extensive geopolitical challenges and reduced demand for Israeli exports, which account for approximately one-third of GDP. For 2018, Moody's forecasts that the economy will grow by 3.2%, while inflation will pick-up to 1.5%.

As of December 2017, the bank's ratio of NPLs to gross loans declined to 1.3% from 1.7% as of December 2016 (December 2015: 2.2%). The bank's loan-loss provisions remained low at 0.1% of gross-loans, with significant recoveries offsetting the increased collective allowance for credit losses and net charge-offs. We expect a gradual increase of the bank's cost of risk to a more sustainable level of approximately 0.4%-0.5%.

Exhibit 3

Bank Hapoalim's improving asset quality metrics



Source: Bank's financial statements; Moody's Investors Service

The risk profile of Bank Hapoalim's loan book is improving reflecting increased diversification and tightened underwriting standards. Retail loans (including mortgages) grew to 48% of total loans, SMEs/commercial accounted for 23%, large corporates for 24% and overseas loans for 5% as of December 2017. As a result of the bank's strategic focus in retail and SME loans, large exposures to groups

of connected borrowers which were previously a concern have been eliminated. As of December 2017 the bank did not have exposures to borrower groups exceeding 15% of its equity (Dec 2013: 49.1%).

Overall domestic credit growth in 2017 was 3.5%, in line with GDP growth. Credit growth was mainly driven by loans to households and small and mid-sized businesses. Credit to large corporations declined. New mortgages granted during 2017 with a loan-to-value ratio greater than 60% increased to 27.5% of the total compared to 24.5% in 2016. However, no mortgages having a payment-to-income ratio higher than 40% were given.

Credit risks remain high, owing to rising real estate prices in Israel. Property prices have increased by more than 100% since end-2007 leaving the banks vulnerable to a potential sharp correction. Further banks' asset quality is vulnerable to significant, more than 5%, rise in interest rates or to a potential weakening in economic activity, which could lead to higher unemployment. Bank Hapoalim's exposure to mortgages and loans to the domestic construction and real estate sectors accounted for 38% of total credit to the public as of December 2017.

The bank has a conservative market risk policy. Bank Hapoalim's securities portfolio (accounting for 14% of total assets as of December 2017) is primarily a liquidity buffer invested in Israeli government securities (62%). Approximately only 3% of the securities portfolio is invested in shares.

The bank is faced with heightened litigation risks in connection with the investigation of the US authorities regarding allegations that some of the Group's customers (who are US taxpayers) could have breached US tax laws. The bank is currently in negotiations with both the US Department of Justice (DOJ) and the New York Department of Financial Services (NYDFS) aiming to settle the case in the coming months. While Bank Hapoalim has set aside provisions amounting to USD348 million in relation to both investigations, the settlement amount may significantly exceed the current provisions. This may have a material, one-off negative impact on the bank's profitability once fully settled.

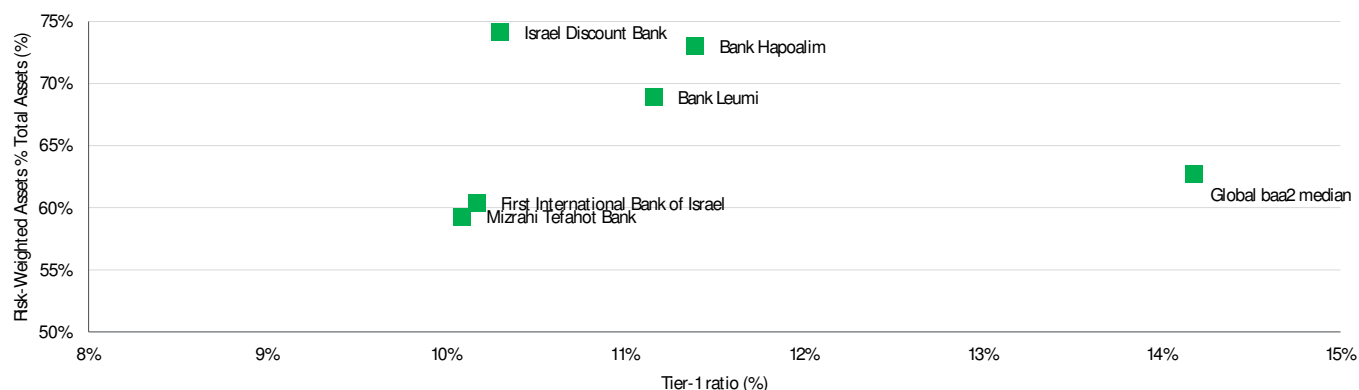
Improved capital adequacy

Bank Hapoalim's CET 1 ratio under Basel III increased to 11.26% as of December 2017, exceeding both its 10.23% minimum regulatory requirement², and its higher internal target of 10.75%. The bank's 'fully-loaded' CET 1 ratio, after deducting transitional provisions and the adjustment in respect of its efficiency plan, is 11.01%.

Although the bank's Tier 1 ratio is lower than similarly-rated global peers, we note the more conservative standardised approach to calculate capital adequacy ratios used by Bank Hapoalim. The domestic regulator does not allow the application of the more advanced internal ratings-based (IRB) approach which would result in a higher Tier 1 ratio according to the bank's calculations. Bank Hapoalim's equity-to-assets ratio of 7.9% as of December 2017 is broadly in-line with similarly rated peers. Bank Hapoalim also scores well under our stress scenario analysis.

Exhibit 4

Bank Hapoalim's capitalisation against domestic and global peers



Note: All Israeli banks are as of December 2017, except First International Bank of Israel is as of September 2017

Source: Banks' financial statements; Moody's Investors Service

We expect the bank's capital buffers to grow modestly going forward, a result of a moderate growth in assets and higher dividend payments. In April 2017, Bank Hapoalim announced that it received regulatory approval to raise the dividend payout to 40% of net profits beginning Q1 2017.

Moderate earnings-generating capacity

The bank's earnings-generating capacity is moderate, as indicated by its return on average assets of 0.6% and return on equity of 7.6% for 2017. The bank's profitability in 2017 has been negatively affected by the additional provisions amounting to NIS557 million (approximately USD160 million) taken in relation to the US authorities investigation as well as costs related to the discontinuation of the bank's private banking activity in Switzerland totaling NIS131 million. Excluding these, the bank's return on equity was 9.44%.

Bank Hapoalim's core profitability in 2017 benefited from higher net interest income, a result of the positive CPI and growth in higher-yielding segments such as SMEs and consumer lending, and the bank's cost control efforts. These were offset by lower non-interest income (the bank reported high non-recurring gains related to the sale of rights in Visa Europe and sale of loans in 2016) and slightly higher loan-loss provisioning requirements.

Bank Hapoalim's profitability is broadly in line with those of similarly rated international peers. However, a credit weakness of all Israeli banks is their high cost base. Bank Hapoalim's 2017 cost-to-income ratio worsened to 63.9%, mainly owing to the one off costs the bank incurred. Although the 61.0% cost to income ratio excluding one-off items is amongst the best reported by rated banks in Israel, it remains below the efficiency ratio reported by similarly rated banks.

Between end 2012 to end of 2016, through three different efficiency programs, the bank reduced its work force by over 2,100 employees (which represents a 16% reduction). To further reduce its operational costs, the bank announced in October 2016 an early-retirement scheme, the fourth of its kind, taking advantage of capital incentives offered by the regulator to banks that introduce multi-year efficiency plans. Under the plan, the bank expects around 1,500 employees to retire during 2017-2020, with a decline of 455 in employees during 2017. This plan is set to generate cost savings of NIS 350 million from 2021 onwards. Upon completion of the new scheme in early 2021, the bank will have cut its workforce by 26% compared with the end of 2012. The bank has also significantly reduced its number of branches by 17% since 2012.

As a result of exiting the activities in Switzerland, Hapoalim is likely to incur additional costs in following reporting periods until the bank fully completes the exit process

Strong retail deposit base and good liquidity

Bank Hapoalim exhibits a sound liquidity profile that supports its ratings. The bank's liquidity profile is underscored by a large and granular deposit base, a large stock of liquid assets and good levels of equity and long-term sources of funds.

Further to the liquidity buffer from its securities portfolio mentioned above, Bank Hapoalim kept 19% of assets in the form of cash and deposits from banks, maintaining its aggregate liquidity buffers at 33% of total assets as of December 2017. These sizeable liquidity buffers mitigate to a great extent the liquidity risk arising from the bank's short-term deposit funding.

Bank Hapoalim is mainly deposit funded with a reliance on retail deposits (consumer and small business) which accounted for 61% of its deposits as of December 2017. The bank's deposit base grew by 2.6% during 2017. Although the bulk of deposits are of a short-term nature, both domestic and foreign deposits have proven to be stable during past shocks in Israel.

The bank also has approximately NIS29.1 billion (6.4% of total assets) of bonds and subordinated notes outstanding as of December 2017. These balances were sourced mainly from the local capital market and allow for better matching of the bank's assets and liabilities maturities.

Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to system-wide trends and market shares from the central bank. Bank-specific figures originate from the banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#) published on 13 June 2017.

Support and structural considerations

Government support considerations

We assume a very high likelihood of government support for Bank Hapoalim's rated deposits. This reflects the Israeli government's long standing practice of injecting capital into systemically important banks in case of need. This is particularly the case for Bank Hapoalim given its 29% share of the domestic market and the resultant material systemic consequences of an unsupported failure. Therefore, we incorporate three notches of government support into our deposit ratings, rating them at A2.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Bank Hapoalim's CR Assessment is positioned at A1(cr)/Prime-1(cr).

The CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of baa2, reflecting our view that its probability of default is lower than that of deposits. We expect that senior obligations represented by the CR Assessment will be more likely preserved in order to limit contagion, minimise losses and avoid disruption of critical functions.

The CR Assessment also benefits from three notches of systemic support, in line with our support assumptions on deposits. This reflects our view that any support provided by governmental authorities to a bank which benefits deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our assumption that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 5

Bank Hapoalim B.M.

Macro Factors

Weighted Macro Profile	Strong	100%
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Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.7%	a2	← →	baa2	Sector concentration	
Capital						
TCE / RWA	10.6%	baa3	← →	baa3	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.6%	baa3	← →	baa3	Return on assets	
Combined Solvency Score		baa1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	6.8%	a1	← →	a2	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.4%	a3	← →	a3	Stock of liquid assets	
Combined Liquidity Score		a2		a2		
Financial Profile				baa2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				A1		
Scorecard Calculated BCA range				baa1-baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Assessment	1	0	baa1 (cr)	3	A1 (cr)	--
Deposits	0	0	baa2	3	A2	A2

Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
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BANK HAPOALIM B.M.

Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)

Source: Moody's Investors Service

Endnotes

- 1 We include in NPL impaired loans plus other loans over 90 days overdue
- 2 10% minimum plus 1% capital add-on against its mortgage portfolio.

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