

Rating Action: Moody's assigns Counterparty Risk Ratings to Israeli banks

20 Jun 2018

Ratings are assigned following 6 June 2018 update to Moody's Banks rating methodology

Limassol, June 20, 2018 -- Moody's Investors Service ("Moody's") has today assigned Counterparty Risk Ratings (CRR) to Bank Hapoalim B.M, Bank Leumi, First International Bank of Israel, Israel Discount Bank and Mizrahi Tefahot Bank.

Moody's CRR are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

In assigning CRRs to the banks subject to this rating action, Moody's starts with the banks' adjusted Baseline Credit Assessment (BCA) and uses the agency's basic Loss-Given-Failure (LGF) approach which is applied to banks in jurisdictions without operational resolution regimes. For these banks Moody's believes that CRR liabilities have a lower probability of default than the bank's deposits and senior unsecured debt as they will more likely be preserved in order to minimize banking system contagion, minimize losses and avoid disruption of critical functions. For this reason, Moody's positions the CRR, prior to government support, one notch above the adjusted BCA.

Furthermore for these banks, Moody's considers the likelihood of government support for CRR liabilities to be in line with Moody's support assumptions on deposits and senior unsecured debt, resulting in additional notches of uplift from their respective adjusted BCAs, reflecting the banks importance to the domestic banking systems.

OUTLOOK

The Counterparty Risk Ratings do not carry outlooks.

What Could Change the Rating Up/Down

The CRR may be upgraded if there is a strengthening in the banks' operating environment or financial fundamentals in a way that will lead to an upgrade of their adjusted BCA or if Moody's revises upwards its assessment of the government's capacity to provide support, captured by an upgrade in the sovereign ratings.

The CRR may be downgraded if there is a weakening in the banks' operating environment or financial fundamentals in a way that will lead to a downgrade of their adjusted BCA or if Moody's revises downwards its assessment of authorities' willingness to provide support or if Moody's revises downwards its assessment of the government's capacity to provide support, captured by a downgrade in the sovereign ratings or related ceilings.

The CRR may also be impacted if Israel implements an operational resolution regime.

LIST OF AFFECTED RATINGS

Issuer: Bank Hapoalim B.M.

Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), Assigned A1
...Short-term Counterparty Risk Rating (Local and Foreign Currency), Assigned P-1

Issuer: Bank Leumi

Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), Assigned A1
...Short-term Counterparty Risk Rating (Local and Foreign Currency), Assigned P-1

Issuer: First International Bank of Israel

Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), Assigned A2
...Short-term Counterparty Risk Rating (Local and Foreign Currency), Assigned P-1

Issuer: Israel Discount Bank

Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), Assigned A3
...Short-term Counterparty Risk Rating (Local and Foreign Currency), Assigned P-2

Issuer: Mizrahi Tefahot Bank

Assignments:

...Long-term Counterparty Risk Rating (Local and Foreign Currency), Assigned A1
...Short-term Counterparty Risk Rating (Local and Foreign Currency), Assigned P-1

The principal methodology used in these ratings was Banks published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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