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MOODY'S RATINGS

Rating Action: Moody's Ratings affirms ratings of five Israeli banks, changes outlook to stable

03 Feb 2026

Limassol, February 03, 2026 -- Moody's Ratings (Moody's) has today affirmed the Baa1/P-2 long- and short-term deposit ratings of Bank Leumi Le-Israel B.M. (Bank Leumi), Bank Hapoalim B.M. (Bank Hapoalim), Mizrahi Tefahot Bank Ltd. (Mizrahi), Israel Discount Bank Ltd. (IDB) and First International Bank of Israel Ltd. (FIBI). The outlook on the long-term deposit ratings was changed to stable from negative.

At the same time, we affirmed the five banks' baa2 Baseline Credit Assessments (BCAs) and Adjusted BCAs, the Baa1/P-2 long- and short-term Counterparty Risk Ratings (CRR) and the Baa1(cr)/P-2(cr) Counterparty Risk (CR) Assessments. We also affirmed IDB's Baa1 long-term foreign currency senior unsecured debt rating and changed the outlook to stable from negative.

Today's rating action follows the change in the outlook on the Government of Israel to stable from negative and the affirmation of Israel's Baa1 long-term issuer ratings, on 30 January 2026. For more information on the sovereign rating action, please refer to the press release: "Moody's Ratings changes Israel's outlook to stable from negative, affirms Baa1 ratings"; https://ratings.moodys.com/ratings-news/458577.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL518897 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

STABLE OUTLOOK

The change in the outlook to stable on the banks' Baa1 long-term deposit ratings reflects the change in the outlook to stable on the Government of Israel that underpins its capacity to provide support to banks in need and our expectation that the banks' solvency and liquidity will remain steady on the back of improved operating conditions and as Israel's economy rebounds.

Furthermore, we have raised the Macro Profile we assign to Israel to "Strong-" from "Moderate+", reflecting an improved operating environment for banks because of our assessment that Israel's exposure to geopolitical risk has diminished from a very high level, although we expect the geopolitical and security environments to remain fragile.

We expect a strong post-war rebound in Israel's economy in 2026 followed by GDP growth of around 3.0% to 3.5% in 2027 and beyond, a robust level compared to other advanced economies.

RATINGS AFFIRMATION

The affirmation of the banks' BCAs and ratings reflects the demonstrated resilience in their financial performance to date with strong asset quality, stable capital and funding, high liquidity and reported profitability above historical norms.

The resilience of the economy to the conflicts of the past two years, together with prudent underwriting and a strong repayment culture, are evidenced by stable or improved problem loan levels that ranged between 0.4% to 1% of gross loans for the five banks as of September 2025.

Geopolitical risks remain high and could weigh on banks' performance, while sizeable exposure to Israel's property market is also a downside risk to asset quality. Since 2023, the banks have built collective provisions to reflect the conflict-related uncertainty and its impact on borrowers, which can shield them from adverse developments.

The banks' risk-weighted capital levels are below the global peer median but reflect the use of the standardised approach and the Bank of Israel's (BoI) more conservative risk weights for a number of exposures that support loss-absorption buffers. The five banks have also demonstrated stable capital adequacy over time and their ability to enhance buffers in times of uncertainty.

High interest rates, business growth and contained costs and loan loss provisions have supported exceptionally strong recent profitability for Israeli banks with annualised net income to tangible assets of 0.9%-1.3% in the first nine months of 2025. We expect profitability to decline but remain healthy, mainly because of lower interest rates as the BoI cuts benchmark rates, while the authorities are considering the implementation of a levy on banks' profits.

Israeli banks' funding structures have remained stable, benefiting from a large domestic deposit base, mostly from households and small businesses, and access to long-term funding from a developed domestic capital market, while core liquidity remains ample and of high quality. The liquidity coverage ratio of the five banks averaged 128% as of September 2025.

The banks' Baa1 deposit ratings continue to benefit from one notch of government support uplift from their baa2 Adjusted BCAs because of our assumption of a very high probability of support in case of need. This assumption is based on the five large Israeli banking groups' systemic importance and the Israeli government's history of supporting systemically important banks.

BANK-SPECIFIC RATING DRIVERS

BANK LEUMI

We affirmed Bank Leumi's long-term deposit ratings at Baa1, as well as its BCA and Adjusted BCA at baa2.

The bank's standalone BCA reflects its strong liquidity, stable funding profile benefitting from a significant share of retail and small-business deposits and long-term market funding, low problem loans at 0.4% of gross loans as of September 2025 and contained credit losses over past economic cycles.

The BCA also reflects downside risks from a large exposure concentration to the Israeli property market and exposure to elevated geopolitical risks. Lending to the construction and real estate sector made up 26% of total lending as of September 2025. Capitalisation is moderate with a tangible common equity (TCE)-to-risk-weighted assets (RWAs) of 12.5% as of September 2025.

BANK HAPOALIM

We affirmed Bank Hapoalim's long-term deposit ratings at Baa1 and its BCA and Adjusted BCA at baa2.

The bank's standalone BCA reflects its stable funding structure benefitting from a significant share of retail and small-business deposits and some long-term market funding, sound liquidity, and current low levels of problem loans at 0.5% of gross loans as of September 2025 and contained credit losses through past economic cycles.

The BCA also incorporates downside risks from a large exposure concentration to the Israeli property market, where the construction and real-estate sector represented 21% of gross loans, and exposure to elevated geopolitical risks. Capitalisation is moderate, with a TCE/RWAs ratio of 12.0% as of September 2025.

MIZRAHI

We affirmed Mizrahi's long-term deposit ratings at Baa1 and its BCA and Adjusted BCA at baa2.

The bank's standalone BCA reflects its low-risk residential mortgage-lending focus, which has produced consistently low problem loans, which were 1.0% of gross loans as of September 2025, and credit costs over a number of economic cycles, its stable funding structure benefitting from a significant share of retail and small-business deposits and some long-term market funding, and healthy liquidity.

The BCA also reflects downside risks from a significant exposure concentration to the Israeli property market, where construction and real-estate lending made up 13% of gross loans, and exposure to elevated geopolitical risks. Capitalisation is modest, with a TCE/RWAs ratio of 10.0% as of September 2025.

IDB

We affirmed IDB's long-term deposit and foreign currency senior unsecured ratings at Baa1 and also its BCA and Adjusted BCA at baa2.

The bank's standalone BCA reflects its strong funding structure driven by a significant share of retail and small business deposits and some long-term market funding, along with comfortable liquidity, low problem loans, which were 0.7% of gross loans as of September 2025, and strengthened recurring profitability supported by efficiency gains and good business growth potential.

The BCA also reflects downside risks stemming from relatively large exposure concentration to the Israeli property market, with construction and real-estate loans making up 18% of gross loans, and exposure to elevated geopolitical risks. Capitalisation is modest but stable, with a TCE/RWAs ratio of 10.4% as of September 2025.

FIBI

We affirmed FIBI's long-term deposit ratings at Baa1 as well as its BCA and Adjusted BCA at baa2.

The bank's standalone BCA reflects its low levels of problem loans that were 0.5% of gross as of September 2025 and credit losses over past economic cycles, strong presence in niche segments, and ample liquidity against a higher share of non-operational deposits given its capital market activities.

The BCA also reflects downside risks from a significant exposure concentration to the Israeli property market, whereby construction and real-estate lending comprised 15% of gross loans, and exposure to elevated geopolitical risks. Capitalisation is modest, with a TCE/RWAs ratio of 10.9%.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The banks' long-term deposit ratings could be upgraded in case the sovereign rating is upgraded.

Without impacting deposit ratings, the banks' standalone BCAs could be upgraded from a combination of (1) a further improvement in the operating environment from materially reduced geopolitical risk; (2) stronger capital buffers; (3) significantly higher sustained profitability without an increase in asset risk; and/or (4) materially lower sector concentration.

The banks' long-term deposit ratings could be downgraded if the sovereign rating is downgraded, reflecting a lower capacity to support banks, or we consider that the government's willingness to provide extraordinary support has materially declined.

The banks' BCAs could be downgraded in case of (1) a deterioration in operating conditions, including a resurgence of geopolitical risk or a material real estate price correction; (2) lower capital levels; (3) an increase in their risk profile; (4) a persistent weakening in earning power; and/or (5) weakening funding profiles.

PRIMARY METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2025 and available at https://ratings.moodys.com/rmc-documents/454566. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL518897 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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• UK Endorsement Status

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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