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CREDIT OPINION

1 February 2023

Update

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RATINGS

Bank Leumi Le-Israel B.M.

Domicile	Tel Aviv, Israel
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
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.

Please see the ratings section at the end of this report

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Bank Leumi Le-Israel B.M.

Update to credit analysis

Summary

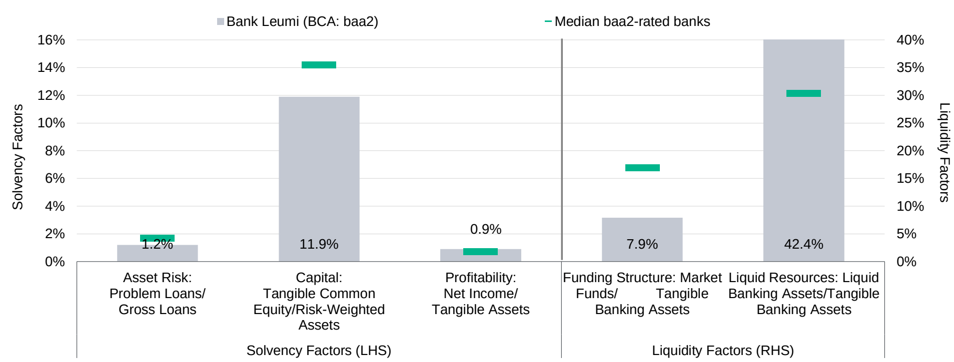
Bank Leumi Le-Israel B.M. (Bank Leumi)'s A2 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) three notches of rating uplift based on our assessment of a very high likelihood of support from the Government of Israel (A1 positive), in case of need.

Bank Leumi's baa2 standalone BCA reflects (1) a strong domestic deposit-based funding structure, that comfortably funds lending activities and healthy liquidity; (2) its low problem loans and credit losses over a whole economic cycle; and (3) moderate capitalisation, with a tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 11.9% as of September 2022, which although is below similarly-rated international peers it mainly reflects Bank of Israel's (BoI) conservative risk weighting.

At the same time, Bank Leumi's BCA also reflects (1) moderate profitability, which however is stable and supported by business growth potential and continued focus on containing costs; and (2) downside risks from a significant exposure concentration to the Israeli property market through lending to the real estate sector and residential mortgages, and persistent geopolitical events.

Exhibit 1

Rating Scorecard - Key financial ratios



These are our Banks Methodology scorecard ratios. Asset Risk and Profitability reflect the weaker of either the latest figure or the three-year and latest figure average. Capital is the latest reported figure. Funding Structure and Liquid Resources reflect the latest fiscal year-end figures.
Source: Moody's Investors Service

Credit strengths

» Strong domestic deposit-based funding structure and healthy liquidity

» Sound asset quality, underpinned by conservative risk appetite

» Very high likelihood of government support, in case of need, underpins the deposit ratings

Credit challenges

» Large exposure to Israel's property market and potential geopolitical tensions are tail risks

» Profitability is moderate

Rating outlook

The stable outlook on Bank Leumi's long-term deposit ratings reflects our expectation that capital levels will remain stable and that the bank's low problem loans and strong funding profile and healthy liquidity balance downside risks, such as those deriving from the exposure to the property market.

Factors that could lead to an upgrade

» Bank Leumi's ratings could be upgraded in the event of a combination of stronger sovereign creditworthiness and an improvement in the bank's standalalone credit profile.

» This improvement could arise from (1) materially stronger capitalisation; (2) sustained large improvements in the bank's profitability without an increase in asset risk; and/or (3) materially lower sector concentration.

Factors that could lead to a downgrade

» Bank Leumi's ratings could be downgraded if operating conditions deteriorate, for example in case of a real estate price correction, higher unemployment and an economic slowdown, and lead to substantial weakening in asset quality.

» Lower capital levels, an increase in the bank's asset risk profile, or any sustained reduction in the bank's recurring earnings power may also put pressure on the ratings.

» There could also be negative rating pressure if we consider that the government's willingness or capacity to provide support has materially declined.

Key indicators

Exhibit 2
Bank Leumi Le-Israel B.M. (Consolidated Financials) [1]

	09-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (ILS Million)	704,117.0	656,454.0	556,035.0	468,781.0	460,780.0	12.0[4]
Total Assets (USD Million)	197,949.7	211,408.1	173,176.5	135,721.2	123,310.4	13.5[4]
Tangible Common Equity (ILS Million)	50,049.0	38,657.2	33,501.1	31,995.7	34,108.8	10.8[4]
Tangible Common Equity (USD Million)	14,070.4	12,449.4	10,433.9	9,263.4	9,127.9	12.2[4]
Problem Loans / Gross Loans (%)	0.7	1.1	1.6	1.2	1.4	1.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.9	10.2	9.9	9.9	10.5	10.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.0	9.0	12.5	9.9	10.2	9.3[5]
Net Interest Margin (%)	1.9	1.7	1.7	1.9	2.0	1.9[5]
PPI / Average RWA (%)	2.4	2.5	2.0	2.0	1.8	2.2[6]
Net Income / Tangible Assets (%)	1.0	1.0	0.5	0.9	0.7	0.8[5]
Cost / Income Ratio (%)	38.5	42.6	48.3	52.7	56.8	47.8[5]
Market Funds / Tangible Banking Assets (%)	12.5	7.9	7.1	5.8	5.6	7.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	36.3	42.4	40.3	33.4	32.6	37.0[5]
Gross Loans / Due to Customers (%)	71.2	64.8	67.4	76.6	75.7	71.1[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Bank Leumi provides banking, financial and nonbanking services to large corporations, middle-market companies, small businesses, households and wealthy customers. It also holds some investments in nonbanking corporations in various fields.

As of September 2022, Bank Leumi was the largest bank in Israel in term of total assets, reporting total consolidated assets of NIS704 billion ($198 billion). As of the same date, Bank Leumi's market share in total system assets was 30%.

The bank was founded in 1902 in London as the Anglo Palestine Company. Until 1954, when the Bank of Israel was established, it served as the financial agent of the State of Israel and issued the country's first currency. In 1950, the bank's name was officially changed to Bank Leumi. The bank's common stock trades on the Tel Aviv Stock Exchange (ticker: LUMI).

In recent years, the bank has focused its activities in Israel, and sold or scaled-back overseas operations. In April 2022, Bank Leumi completed the sale of its US subsidiary, which accounted for around 4% of Bank Leumi's 2021 profits, to New Jersey-based Valley National Bancorp (Valley). The transaction, which reflected a price-to-book value of equity of around 1.4x raised Bank Leumi's regulatory capital ratios by around 0.5 percentage points.

Under the transaction, Valley financed 90% of the acquisition with its shares and the remainder in cash and Bank Leumi became Valley's largest shareholder, holding approximately 14% of Valley's stock. Additionally, the two banks have entered into a cooperation agreement that will allow Bank Leumi to maintain access to the US banking market through Valley.

Detailed credit considerations

Sound asset quality, underpinned by a conservative risk appetite; large exposure to Israel's property market and potential geopolitical tensions are tail risks

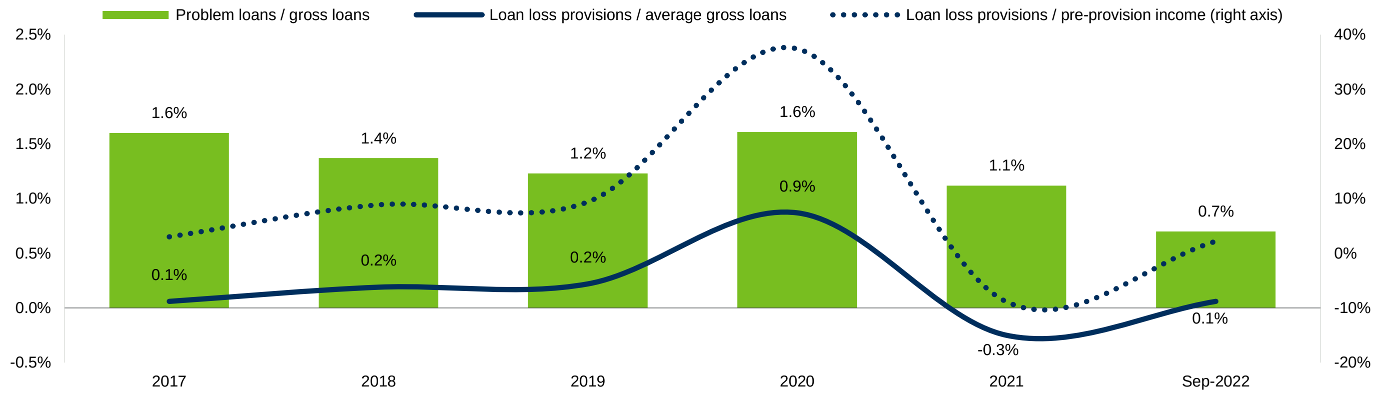
Our assessment of Bank Leumi's Asset Risk reflects its sound loan quality with a low level of problem loans, which will be broadly sustained despite higher problem loan formation in the coming quarters. Our assessment also considers limited single-name concentrations and tight underwriting standards that resulted in modest credit losses over a long period. Persistent geopolitical tensions and a significant and growing exposure to Israel's real estate market through lending along with high property prices remain the key downside risks for the bank's asset quality.

Bank Leumi's problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) declined to 0.7% of gross loans of September 2022 (see Exhibit 3), reflecting strong lending growth and limited new problem loan formation. We expect higher problem loan formation going forward driven by the impact of higher interest rates, inflation and the global economic slowdown on borrowers and as newly originated loans season. Loans grew by an exceptionally high 18% year-over-year in September 2022 that drives some unseasoned risk. But, we expect the bank's asset quality to remain strong overall, supported by a tight labour market, still close to potential GDP growth in 2023 of around 3% in Israel and more contained inflationary pressure than in other advanced economies.

Exhibit 3

Bank Leumi's asset quality is sound with low problem loans and modest credit losses

Evolution of problem loans ratio and annualised credit costs



Source: Moody's Investors Service

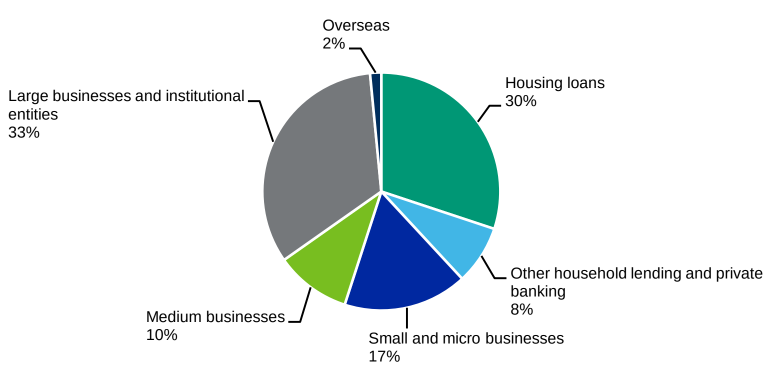
We also expect Bank Leumi's credit costs (loan loss provision expenses to average gross loans) to rise and approach the historical average of 0.3%[1], which includes an entire economic cycle. Following significant provision charge-backs in 2021 equivalent to 0.3% of gross loans, credit costs increased to 0.1% in the nine months to September 2022, driven by an increase in collective provisions, equivalent to 22 basis points, owing to strong loan growth and less favourable macroeconomic outlook assumptions.

Bank Leumi's asset risk benefits from a conservative risk appetite and low single-borrower concentrations with no credit exposure to large borrowers or groups of borrowers whose debt exceeds 15% of the bank's capital. The bank's loan portfolio is relatively diversified within segments in Israel. Residential mortgages accounted for 30% of total loans and medium and large businesses (including institutional entities) for an additional 43% as of September 2022 (see Exhibit 4). The bank's exposure to small businesses[2] in Israel, was 17% and consumer lending was 8%. The bank had gradually reduced its exposure to these two higher risk segments in recent years and resumed moderate growth in recent quarters.

Exhibit 4

Bank Leumi's loan book is relatively diversified by segment

Loan book breakdown as of September 2022 (regulatory operating segments)



Source: Bank's financial statements

Nevertheless, sector concentration is high and the bank's asset quality is susceptible to developments in the Israeli property market because of a significant exposure to both residential mortgages (as mentioned above), and to the construction and real estate sector that made up a further 23% of total lending as of September 2022.

House prices in Israel have risen at a rapid rate, growing by 19% year-over-year as of October 2022, the highest pace since 2010, increasing the risk of a correction. But, any near-term price correction would be limited because of a steady growth in new households from a young and growing population. Additionally, for housing loans, risks are mitigated by the low level of household debt, macroprudential measures[3] that enforce tighter underwriting standards (the loan-to-value on the bank's outstanding housing portfolio was a low 48.4% as of September 2022) and high capital buffers against mortgages.

We see significantly higher risk in financing of the construction and real estate sector. Higher interest rates and inflation may strain the repayment capacity of some borrowers, particularly if there is also a drop in property prices. The BoI has taken steps to contain these risks.[4] It has also asked banks to allocate more capital towards riskier exposures by risk weighting new and outstanding loans for land acquisition with a loan-to-value exceeding 80% at 150%, up from 100%[5].

The bank's construction and real estate exposure in Israel grew by an exceptionally high 27% year-over-year as of September 2022 because of strong demand. We expect the pace of exposure growth to moderate going forward. Most of the bank's real estate exposure involved the funding of closed residential construction projects where risk is mitigated by close oversight[6]. Residential projects made up 56% of the bank's total credit risk secured by real estate collateral in Israel as of September 2022. A significant part, around 28%, of the overall exposure to the sector was for the acquisition of land for construction where projects will take several years to complete and there is a risk that they may become uneconomical over time. Bank Leumi is currently working towards reducing the concentration in this sector.

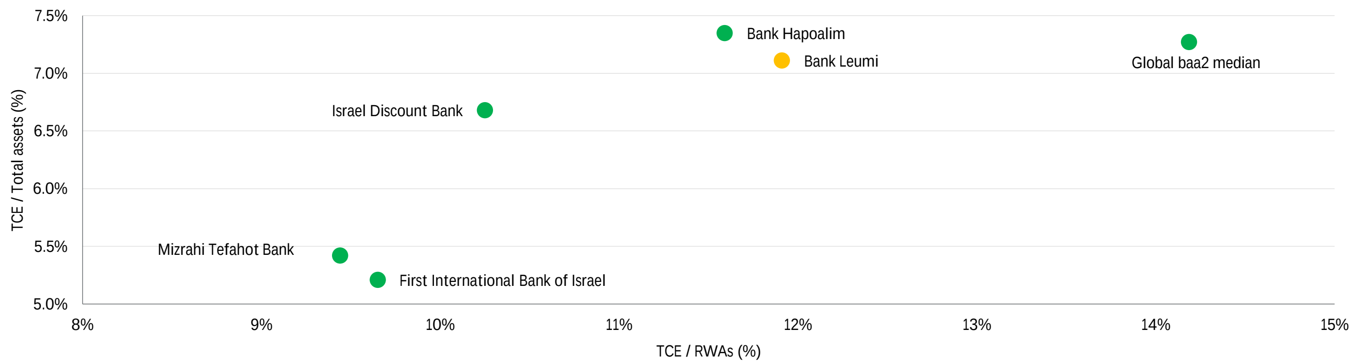
In line with other Israeli banks, our assessment of Bank Leumi's asset risk also takes into account geopolitical tensions that could compromise business confidence and economic activity.

Moderate risk-weighted capitalisation and leverage

We view Bank Leumi's capitalisation as moderate and we expect the bank's capital ratios to remain broadly stable. Although risk-weighted capital metrics are below global peers, the bank's loss-absorption buffers are supported by relatively conservative regulatory risk-weights, especially on mortgage lending. The bank's capital ratios are also more stable compared to banks globally that use a model based approach in calculating credit RWAs.

Bank Leumi's TCE/RWAs ratio was 11.9% as of September 2022, below the median level of similarly-rated international peers (see Exhibit 5). However, the BoI's conservative approach to risk-weighting results in higher loss-absorption buffers than capital ratios show. Israeli banks use the standardised approach to risk-weighting and mortgages are further risk-weighted according to loan-to-value, resulting in an average risk weight of over 50% in Israel. This mortgage loan risk weight is significantly higher than the risk weights applied by banks in other developed markets that use the internal ratings-based approach and the 35% normally used in the standardised approach. The bank's TCE-to-total assets ratio was 7.1% as of September 2022, more aligned with global peers.

Exhibit 5
Bank Leumi's risk-weighted capitalisation is lower than global peers, mainly because of more conservative risk weighting
Risk-weighted capitalisation and leverage of Israeli banks and the global median as of September 2022



Source: Moody's Investors Service

Bank Leumi reported a Common Equity Tier 1 (CET1) ratio of 11.4% as of September 2022, sufficiently exceeding the 10.2% minimum regulatory requirement and the bank's internal minimum threshold of 10.5% that incorporates risks identified in the supervisory review process and a stress scenario. Capital metrics benefited from Bank Leumi's US subsidiary sale and a capital raising of NIS2.75 billion in the second quarter of 2022. The increase, along with lower profit distributions at 20% of net profits, allowed Bank Leumi to sustain strong business growth and mitigate the interim impact on regulatory capital of unrealised losses from higher yields on its available for sale bond portfolio[7]. Under the bank's dividend policy, Bank Leumi may distribute up to 50% of net profits in each quarter, supplemented by share buybacks. The reported Basel leverage ratio was 6.3% as of September 2022, above the 5.5% minimum regulatory requirement that applied at that time[8].

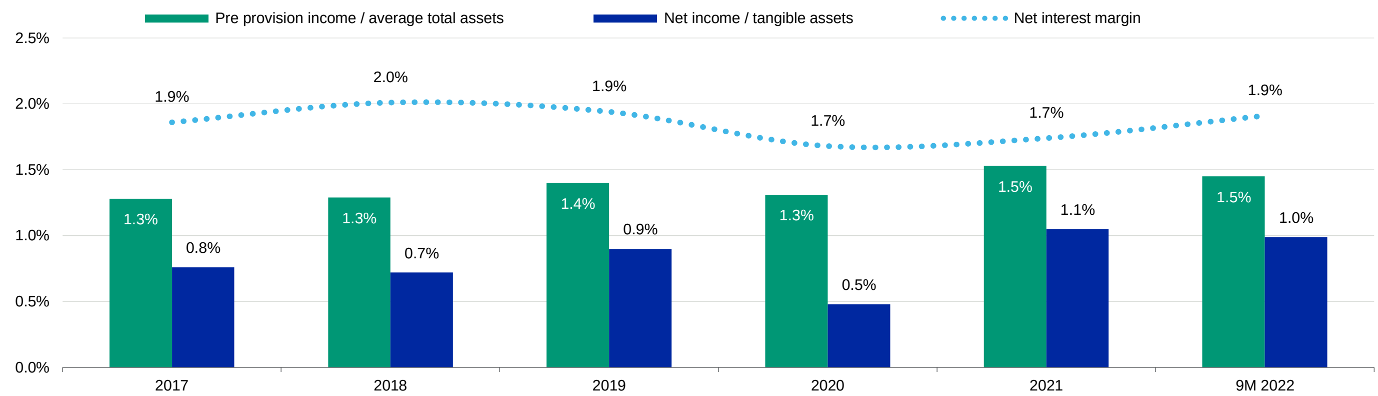
Looking ahead, we expect the bank's capital ratios to remain broadly stable. The bank's sufficient internal capital generation from stronger profitability will offset ongoing, but moderate, loan growth, a resumption of profit distributions in line with the bank's dividend policy as well as the impact of regulatory developments. For example, Bank Leumi estimated the higher risk weight on financing land acquisition at high loan-to-value would reduce its CET1 ratio by 20 basis points with the impact spread until the second quarter of 2023. Additionally, Bank Leumi recently obtained regulatory approval to use a different method[9] to measure the bank's pension liabilities for regulatory capital purposes effective 1 July 2022, which will reduce the volatility in the bank's capital levels from movements in market interest rates.

Profitability is moderate, but will continue to benefit from higher interest rates

Bank Leumi's ongoing profitability is moderate, but stable and supported by strong revenue generating capacity given its established franchise and Israel's robust economic growth potential and population growth that afford new business opportunities. These factors, coupled with ongoing focus on cost containment, support sustainable profitability and the bank's ability to resist growing competition and income headwinds. We expect Bank Leumi's profitability will continue to benefit from higher policy interest rates, which widen net interest margins.

The bank's net income to tangible assets was an annualised 1.0% in the nine months to September 2022 and 1.1% in 2021 (see Exhibit 6), higher than the pre-pandemic average of 0.8% over the period 2017-2019. Stronger profits were driven by strong revenue growth because of loan growth, an expanding net interest margin and higher CPI benefiting returns from the bank's net long CPI position (deriving mainly from CPI-linked mortgages). The bank's net interest margin increased to 1.9% in the nine months to September 2022 from 1.7% in 2021. Credit costs increased against provision releases in 2021, but remained unsustainably low. The bank's bottom line profitability also benefited from some non-recurring items during 2021 and 2022, a trend that will continue over the next few quarters[10].

Exhibit 6
Bank Leumi's profitability is moderate but will benefit from higher interest rates
Evolution of profitability metrics



Source: Moody's Investors Service

Rising policy interest rates will be net positive for Bank Leumi's profitability. Higher interest rates will allow the bank to unlock value from its low-cost core deposit base, with non-interest bearing deposits accounting for 31% of total deposits as of September 2022, supporting its net interest margin and net interest income, while earning will continue to benefit from higher CPI.[11] However, credit growth will moderate and credit costs will increase because of reduced loan affordability from the higher interest rates.

Bank Leumi's ongoing cost focus will also support profitability, but we do not expect material additional improvements in the bank's operating cost base, given ongoing investments in IT and digitalisation, as well as cost inflation. Bank Leumi reduced employee numbers by 24% over the period 2017-2021 through a multi-year streamlining program and continues to focus on containing staff and real estate footprint costs. As a result of these initiatives together with strong asset growth, Bank Leumi's cost efficiency improved significantly in recent years. The bank reported a cost-to-income ratio of 40% in the nine months to September 2022, the lowest level ever reported, or 42% excluding the gain on the sale of its US subsidiary.

These trends together with Bank Leumi's digitalisation efforts and efforts to create new revenue sources position the bank favourably against intensifying competition and income headwinds. Israeli authorities continue to implement measures to promote competition, including facilitating the establishment of new banks and non-bank competitors, and to lower the cost of banking services for households and small businesses.

Strong domestic deposit-based funding structure and healthy liquidity

Bank Leumi's funding structure is strong and made up of a large and stable deposit base in Israel helped by the country's strong savings culture. Customer deposits were equivalent to 78% of total assets as of September 2022 and comfortably funded the bank's lending activities. Bank Leumi's net-loans-to-deposits ratio stood at 71% as of September 2022.

Granular deposits from households and small businesses (based on regulatory operating segments and excluding private banking) made up 41% of total deposits as of September 2022. However, our assessment also takes into account that as of the same date, 25% of total deposits were sourced from institutional investors that would be more vulnerable to a loss in depositor confidence.

The bank remains a large net interbank placer and has relatively low reliance on potentially more confidence-sensitive market funding. Market funds accounted for 12.5% of tangible banking assets as of September 2022 including some senior issuances and higher derivative balances, which are mainly driven by customer activity. Bonds and subordinated notes stood at NIS27.6billion (4% of total assets) as of September 2022, providing term funding. These balances are mainly sourced from the local capital market and allow for better matching of assets and liabilities. In January 2023, the bank completed a $500 million Tier 2 subordinated green bond issuance from institutional investors abroad and in Israel, further diversifying its funding sources.

The bank also maintains a healthy level of liquidity. Liquid assets made up 36% of total assets as of September 2022. Cash and interbank placements accounted for 26% of total assets, and securities for a further 11% as of September 2022. Israeli government bonds made up 41% of the bank's securities portfolio, and US government bonds an additional 11%. Bank Leumi reported a liquidity coverage ratio of 127% and a net stable funding ratio of 126% as of September 2022, both of which were substantially above the 100% minimum regulatory requirement.

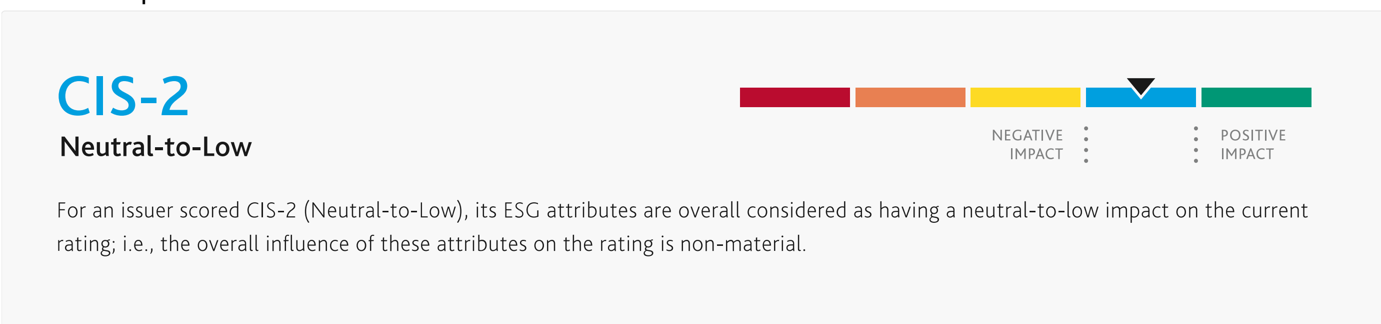
Source of facts and figures cited in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank-specific figures originate from the banks' reports and are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to Financial Statement Adjustments in the Analysis of Financial Institutions published on 9 August 2018. We do not use the Bank of Israel's exchange rates in converting figures from Israeli shekel into US dollars, so US dollar figures may differ from bank reported figures.

ESG considerations

Bank Leumi Le-Israel B.M.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

Bank Leumi's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the limited credit impact from environmental and social risk factors on the ratings to date, as well as, neutral-to-low governance risks.

Exhibit 8
ESG Issuer Profile Scores

Source: Moody's Investors Service

Environmental

Bank Leumi faces moderate exposure to environmental risks, mainly because of its portfolio exposure to carbon transition risks as a diversified bank and one of Israel's two largest banks with a significant corporate exposure. In line with its peers, Bank Leumi faces growing business risks and stakeholder pressure to meet broader carbon transition goals. Bank Leumi is engaging in further developing its climate risk and relevant portfolio management capabilities and increasing its green financing.

Social

Bank Leumi faces high social risks from customer relations, similarly to banks globally, and there is a growing focus on consumer protection in Israel. High cyber and personal data risks are mitigated by a sound IT framework. A relatively young and growing population in Israel affords business opportunities for the bank. However, the authorities are taking steps to promote competition and to reduce the cost of financial services for households and small business, which will weigh on the bank's profitability. Strict labour laws and strong employee unions in Israel limit staffing flexibility and drive up costs. The bank has reduced employee posts through successive early retirement plans and implements stringent cost control, which has allowed it to mitigate these challenges.

Governance

Bank Leumi faces neutral-to-low governance risks, and its risk management, policies and procedures are in line with industry practices and commensurate with its universal banking model, while the bank provides timely and detailed external reporting. The bank's financial strategy is conservative, under the oversight of a proactive and hands-on regulator.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support considerations

Bank Leumi's A2 deposit ratings incorporate three notches of government support uplift from the bank's baa2 Adjusted BCA because of our expectation of a very high probability of support from the Israeli authorities, in case of need. This expectation is based on Bank Leumi's systemic importance as the country's largest banking group and the Israeli government's long standing practice of injecting capital into systemically important banks in case of need.

Counterparty Risk (CR) Assessment

Bank Leumi's CR Assessment is A1(cr)/P-1(cr)

Prior to government support, the CR Assessment is positioned one notch above the bank's baa2 Adjusted BCA, reflecting our view that its probability of default is lower than that of deposits. Senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimise losses and avoid disruption of critical functions. The CR Assessment also benefits from government support uplift, in line with our support assumptions on deposits.

Counterparty Risk Ratings (CRRs)

Bank Leumi's CRR is A1/P-1

For jurisdictions with a non-operational resolution regime, such as Israel, the starting point for the CRR is one notch above the bank's Adjusted BCA. The CRRs also benefit from three notches of government support uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our Bank 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 9
Bank Leumi Le-Israel B.M.

Macro Factors		
Weighted Macro Profile	**Strong**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.2%	a1	↓	baa2	Sector concentration	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.9%	baa2	↓	baa3	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	0.9%	baa2	↓	baa3	Expected trend	
Combined Solvency Score		a3		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	7.9%	a2	↔	a3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	42.4%	a1	↓↓	a3	Expected trend	
Combined Liquidity Score		a2		a3		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				A1		
BCA Scorecard-indicated Outcome - 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 Rating	1	0	baa1	3	A1	A1
Counterparty Risk Assessment	1	0	baa1 (cr)	3	A1(cr)	
Deposits	0	0	baa2	3	A2	A2

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
BANK LEUMI LE-ISRAEL B.M.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
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 Average is for the period in the run-up to the pandemic, 2006-2019. Credit costs increased to 0.9% in 2020, but more than 70% of the provisions booked during 2020 were collective provisions.

2 The regulatory definition of small businesses includes businesses with an annual turnover up to NIS50 million.

3 The measures include loan-to-value limits of 75% for sole dwellings and 70% for the rest but for non-investment purposes, a monthly repayment cap at 50% of a borrower's monthly salary and a limit on the variable-rate part of the mortgage at two-thirds of the loan. Higher risk-weights for the calculation of regulatory capital metrics for mortgages with higher loan-to-value and repayment ratios also encourage tighter underwriting.

4 The regulator has instructed banks to scale up their monitoring of borrowers, improve and expand reporting on their exposure to the sector, and increase their collective provisions against performing exposures.

5 The regulation relates to land acquired for the purpose of development of construction. This excludes agricultural land with no planning horizon or without a request for planning consent; and acquisition of land that is designated for self-use in case of the borrower not being classified in the construction and real estate sector.

6 The closed financing structure mitigates risks because credit is managed in a separate account dedicated to the project that is separate from the rest of the borrower's banking activity and from which the developer cannot withdraw funds without the bank's consent. There is external oversight of construction progress by inspectors approved by the bank, who track the pace of progress on-site and monitor expenditure and income in accordance with the planned budget.

7 The unrealised losses on the bank's available-for-sale portfolio in other comprehensive income were more than offset by a reduction in the actuarial liability for employee benefits, but at the time this positive impact would be recognised in regulatory capital with a time lag over eight quarters.

8 In November 2020, the authorities lowered the bank's leverage ratio requirement to 5.5%, from 6% previously. This relief has been extended until the end of 2023, and the leverage ratio requirement will return to 6% within two quarters after that date.

9 According to the new method, the bank will calculate each quarter the change in the pension liabilities resulting from movements in the discount interest rate, net of the change in the value of assets pre-designated to hedge these liabilities. The change in the net pension liabilities, after tax, will be spread in a linear fashion, over four quarters.

10 Bank Leumi reported an income of NIS645 million net of tax in the first six months of 2022 following the sale of its US subsidiary. The bank will also record a pre-tax capital gain of NIS524 million in 2023 as a result of the sale of one of its headquarter buildings announced in April 2022.

11 In its September 2022 financials, Bank Leumi indicated that its financing income would potentially gain NIS0.9 billion (around $260 million) based on a 1% parallel increase in interest rates in Israel and abroad, which is equivalent to 0.1% of assets. It's likely that the effect from subsequent rate hikes will diminish because of changes in customer behaviour, such as shifts to interest bearing time deposits and to the money market.

REPORT NUMBER 1355572

CLIENT SERVICES

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