

Translation of Immediate Report

T125
Public

Bank Leumi Le-Israel B.M.

Registration No. 520018078

Securities of the Corporation are listed on The Tel Aviv Stock Exchange

Abbreviated Name: Leumi

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Electronic Mail: David_S@bll.co.il

Transmission Date: September 11, 2023

Reference: 2023-01-105444

To: Israel Securities Authority (www.isa.gov.il)
The Tel Aviv Stock Exchange (www.tase.co.il)

Immediate Report of Rating of Bonds/Rating of a Corporation, or of Withdrawal of Rating

On *September 11, 2023*, *Moody's* published the following:

A rating report/update notice: *Updated*

1. Rating report or notice

Rating of the corporation: *Moody's* ____ *stable* ____

Comments/Nature of Notice: *Moody's-A2/P-1, CRR-A1/P-1*

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

Date	Subject of Rating	Rating	Comments/ Substance of Notice
<i>February 1, 2023</i>	<i>Bank Leumi le-Israel B.M.</i>	<i>Moody's-A2/P-1, CRR-A1/P-1 ____ stable ____</i>	<i>Reiteration of rating</i>
<i>December 9, 2020</i>	<i>Bank Leumi le-Israel B.M.</i>	<i>Moody's-A2/P-1, CRR-A1/P-1 ____ stable ____</i>	<i>Reiteration of rating</i>
<i>June 18, 2020</i>	<i>Bank Leumi le-Israel B.M.</i>	<i>Moody's-A2/P-1, CRR-A1/P-1 ____ stable ____</i>	<i>Reiteration of rating</i>
<i>December 17, 2019</i>	<i>Bank Leumi le-Israel B.M.</i>	<i>Moody's-A2/P-1, CRR-A1/P-1 ____ stable ____</i>	<i>Reiteration of rating</i>

Explanation: As part of the ratings history, one should only provide the details of the rating history of the rating agency which is the subject matter of the immediate report.

2. Rating of the corporation's bonds:

Security name & type	TASE Security No.	Rating agency	Current rating	Comments / nature of notice

Rating history in the 3 years prior to the rating/notice date:

Security name & type	TASE Security No.	Date	Type of rated security	Current rating	Comments / nature of notice

Explanation: As part of the ratings history, one should only provide the details of the rating history of the rating agency which is the subject matter of the immediate report.

Attached is the rating report:
[C 1379630 Sanitized isa.pdf](#)

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

Name of signatory	Title	other
Omer Ziv	Head of the Capital Markets Division	

In accordance with Regulation 5 of the Securities Regulations (Periodic and Immediate Reports), 1970, a report filed pursuant to these regulations shall be signed by the corporation's authorized signatories. For a staff position of this matter, see the Authority's website: [click here](#).

Moody's reiterated the Bank's long-term IDR at A2, short-term IDR at P-1, counterparty risk rating (CRR) at A1/Prime-1, and reiterated the outlook at Stable.

For more information, see the attached file.

Reference numbers of previous documents on this subject (this reference does not constitute inclusion by way of reference):

*The securities of the corporation are listed for trading on the Tel Aviv Stock Exchange
Ticker: Leumi*

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Previous names of the reporting entity:

Name of Electronic Reporter: David Raoul Sackstein, Position: Advocate, General Secretary,
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Note: English translations of Immediate Reports of Bank Leumi are for convenience purposes only. In the case of any discrepancy between the English translation and the Hebrew original, the Hebrew will prevail.

The original Hebrew version is available on the distribution website of the Israel Securities Authority: <http://www.magna.isa.gov.il/>

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

11 September 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.

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Bank Leumi Le-Israel B.M.

Update to credit analysis

Summary

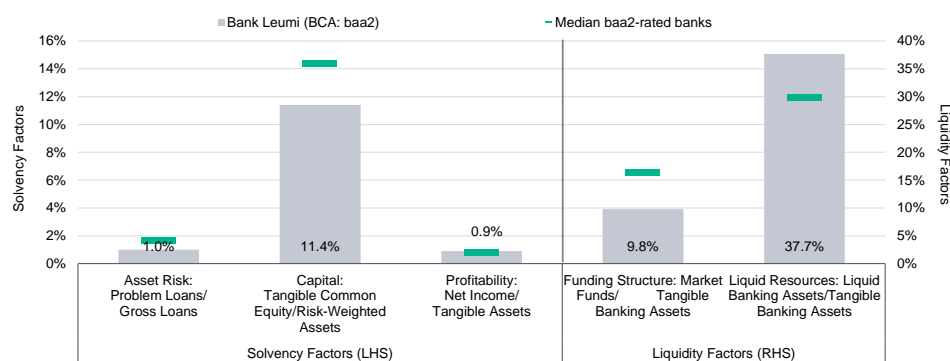
[Bank Leumi Le-Israel B.M.](#) (Bank Leumi)'s A2 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) three notches of rating uplift based on our assessment of a very high likelihood of support from the [Government of Israel](#) (A1 stable), in case of need.

Bank Leumi's baa2 standalone BCA reflects a strong domestic deposit-based funding structure, that comfortably funds lending activities and healthy liquidity and its low problem loans and credit losses over a whole economic cycle. At the same time, the BCA also reflects 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.

Profitability and capitalisation are moderate. The bank's tangible common equity (TCE)/risk-weighted assets (RWAs) ratio was 11.4% as of June 2023, which although is below similarly-rated international peers it mainly reflects Bank of Israel's (BoI) conservative risk weighting.

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

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 recent 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 standalone 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 significant real estate price correction, higher unemployment and an economic slowdown, and lead to substantial weakening in asset quality.
- » Lower capital levels, a deterioration 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.
- » The bank's ratings could also be downgraded if we consider that the government's willingness or capacity to provide support has materially declined. We gauge capacity to provide support based on the Israeli government's rating.

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

Key indicators

Exhibit 2

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

	06-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (ILS Million)	686,857.0	699,166.0	656,454.0	556,035.0	468,781.0	11.5 ⁴
Total Assets (USD Million)	185,089.3	198,148.2	211,408.1	173,176.5	135,721.2	9.3 ⁴
Tangible Common Equity (ILS Million)	53,641.0	51,322.6	38,657.2	33,501.1	31,995.7	15.9 ⁴
Tangible Common Equity (USD Million)	14,454.8	14,545.2	12,449.4	10,433.9	9,263.4	13.6 ⁴
Problem Loans / Gross Loans (%)	0.6	0.5	1.1	1.6	1.2	1.0 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	11.4	11.9	10.2	9.9	9.9	10.7 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.4	3.5	9.0	12.5	9.9	7.9 ⁵
Net Interest Margin (%)	2.4	2.0	1.7	1.7	1.9	2.0 ⁵
PPI / Average RWA (%)	3.4	2.7	2.5	2.0	2.0	2.6 ⁶
Net Income / Tangible Assets (%)	1.1	1.1	1.0	0.5	0.9	0.9 ⁵
Cost / Income Ratio (%)	27.4	35.9	42.6	48.3	52.7	41.4 ⁵
Market Funds / Tangible Banking Assets (%)	10.9	9.8	7.9	7.1	5.8	8.3 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	32.7	37.7	42.4	40.3	33.4	37.3 ⁵
Gross Loans / Due to Customers (%)	77.9	70.1	64.8	67.4	76.6	71.4 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 June 2023, Bank Leumi was the largest bank in Israel in term of total assets, reporting total consolidated assets of NIS687 billion (\$185 billion). As of the same date, Bank Leumi's market share in total system assets was 29%.

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](#) to New Jersey-based Valley National Bancorp (Valley).

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.

Following the transaction, the bank's investment in Valley's shares is recorded according to the equity method. Because of significant decline in the share prices of regional US banks, Bank Leumi recognized an impairment loss on its investment in Valley in the first quarter of 2023 amounting to NIS1.1 billion, after tax, equivalent to 0.16% of total assets.

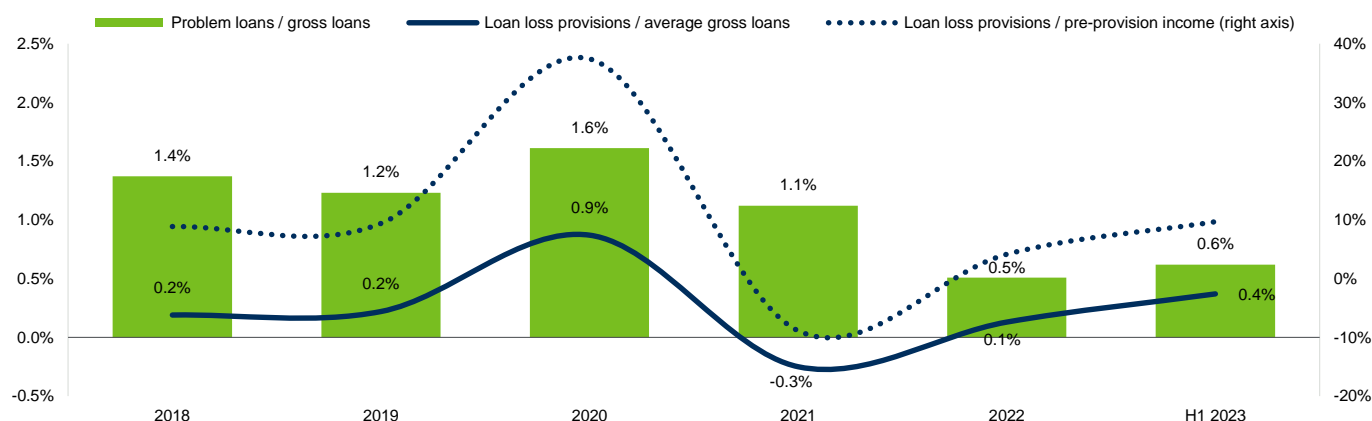
Detailed credit considerations

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 currently low level of problem loans and modest credit losses over a long period. These trends and our assessment are driven by tight underwriting standards and limited single-name concentrations. Persistent geopolitical tensions and a significant 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) were just 0.6% of gross loans as of June 2023 (see Exhibit 3), reflecting strong lending growth and limited new problem loan formation. [We expect](#) higher problem loan formation going forward because of reduced loan affordability as a result of higher interest rates, a more challenging macroeconomic environment and as newly originated loans season. Loans continued to grow strongly by 12% year-over-year in June 2023 that drives some unseasoned risk. But, we expect the bank's asset quality to remain strong overall, supported by a tight labour market and real GDP growth of around 3% annually in 2023 and 2024.

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

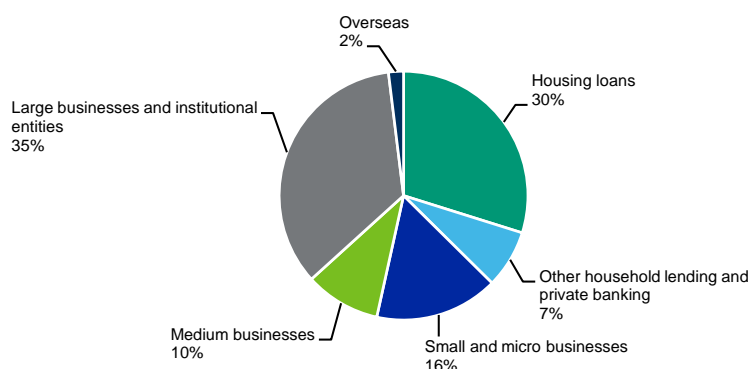
We also expect Bank Leumi's credit costs (loan loss provision expenses to average gross loans) to remain close to the historical average of 0.3%¹, which includes an entire economic cycle, rising from unsustainably low levels in the last two years. Following significant provision charge-backs in 2021 equivalent to 0.3% of gross loans and low credit costs of 0.1% in 2022, credit costs increased to 0.4% in the first six months of 2023, driven by an increase in collective provisions, owing to the macroeconomic uncertainty.

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 gross loans and medium and large businesses (including institutional entities) for an additional 45% as of June 2023 (see Exhibit 4). The bank's exposure to small businesses² in Israel, was 16% and consumer lending was 7%. 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 June 2023 (gross loans, regulatory operating segments)



Source: Bank's financial statements

Nevertheless, sector concentration to real estate is high and the bank's asset quality is susceptible to the risk of a sharp property price correction together with a reduced ability of borrowers to service their loans. In addition to the exposure to residential mortgages, lending to the construction and real estate sector made up a further 25% of total lending as of June 2023.

House price growth in Israel peaked at a high 20% year-over-year as of September 2022 with fewer real estate transactions and a marginal decrease in prices in recent months. 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 (1) banks' full recourse to borrowers and a strong repayment culture; (2) the low level of housing debt at around 34% of GDP³; and (3) macroprudential measures⁴ that enforce tighter underwriting standards and high capital buffers against mortgages. The loan-to-value on the bank's outstanding housing portfolio was a low 49% as of June 2023.

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.⁵ 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%.⁶

The bank's construction and real estate exposure in Israel grew by an exceptionally high 19% year-over-year as of June 2023 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 oversight⁷. Residential projects made up 60% of the bank's total credit risk secured by real estate collateral in Israel as of June 2023. A significant part, around 23%, 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.

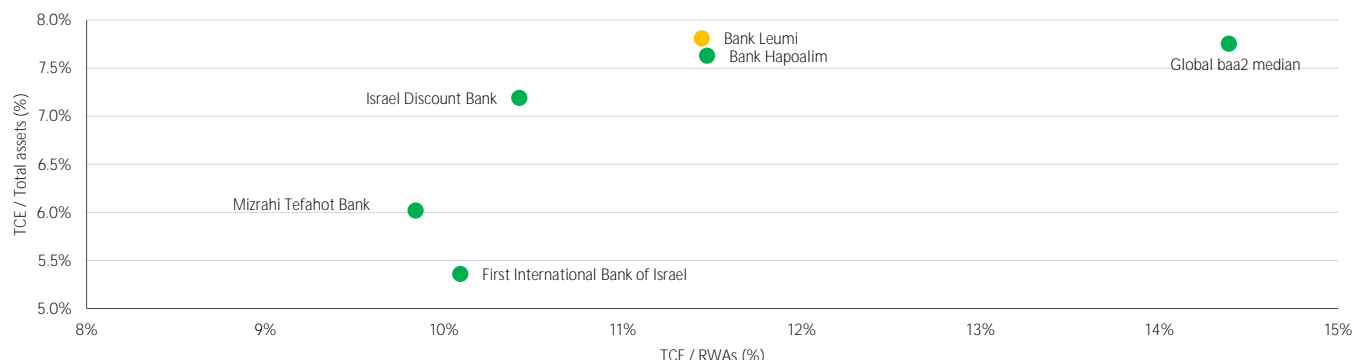
Bank Leumi's TCE/RWAs ratio was 11.4% as of June 2023, below the median level of similarly-rated international peers (see Exhibit 5). However, the BoI's conservative approach to risk-weighting results in higher loss-absorption buffers than capital ratios show. Israeli banks use the standardised approach 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 7.8% as of June 2023, more aligned with global peers. The reported Basel leverage ratio was 6.7% as of June 2023, above the 5.5% minimum regulatory requirement that applied at that time⁸.

Exhibit 5

Bank Leumi's risk-weighted capitalisation is lower than global peers, mainly because of more conservative risk weights

Risk-weighted capitalisation and leverage of Israeli banks and the global median as of June 2023



Source: Moody's Investors Service

Bank Leumi reported a Common Equity Tier 1 (CET1) ratio of 11.2% as of June 2023, 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 declined slightly compared to the end of 2022 (CET1 ratio: 11.5%) because of strong RWAs growth of 7% in the first six months of 2023, the impairment loss in Valley's shares, as mentioned above, which was equivalent to around 24 basis points of RWAs as well as earnings distributions. Bank Leumi distributed a dividend equivalent to 30% of profits in the first quarter of 2023 and a dividend combined with a share buyback equivalent to 40% of profits in the second quarter of 2023. Under the bank's dividend policy, Bank Leumi may distribute up to 50% of net profits in each quarter, supplemented by share buybacks.

Bank Leumi's capital levels are susceptible to any material rises in yields that lead to unrealised losses in the bank's available-for-sale bond portfolio, which constitutes around 80% of the bank's total bond portfolio as of June 2023. These losses are however mostly offset by the positive effect from a decrease in actuarial liabilities for employee benefits⁹. Following material unrealized losses in 2022, the bank's bond portfolio reported unrealized gains in the first six months of 2023, despite continued increases in the shekel and dollar interest rates.

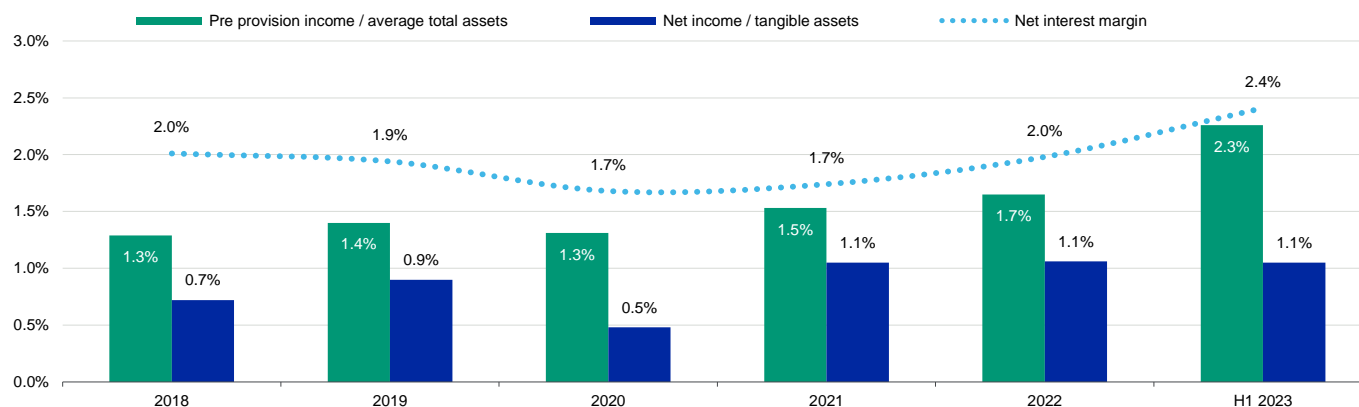
Looking ahead, we expect the bank's capital ratios to remain broadly stable. The bank's sufficient internal capital generation from stronger profitability will offset ongoing, but more moderate, loan growth and profit distributions in line with the bank's dividend policy. Bank Leumi has demonstrated its ability to maintain steady capital ratios over time, including through RWAs management, capital raising and adjustments in earnings distributions.

Profitability is moderate but stable, supported by business growth potential and continued focus on containing costs

Bank Leumi's ongoing profitability is moderate, but broadly 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. Together with Bank Leumi's strong cost focus and ongoing digitalisation they allow it to resist growing 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.

The bank's net income to tangible assets was an annualised 1.1% in the first six months of 2023 and for the full year 2022 (see Exhibit 6), [higher than the usual](#) and the 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). Profits in 2022 also benefited from the sale of Bank Leumi USA.

Exhibit 6

Bank Leumi's profitability is moderate**Evolution of profitability metrics**

Source: Moody's Investors Service

The bank's net interest margin widened to 2.4% in the first six months of 2023 from 2.0% in 2022 and 1.7% in 2021 because of rising policy rates in Israel and the US that have allowed the bank to unlock the value from its low-cost core deposit base. However, we expect limited further upside from higher interest rates because of a gradual shift from current accounts to costlier time deposits, with the bank's non-interest bearing deposits accounting for 31% of total deposits as of June 2023 compared to 35% at the end of 2022, and banks starting to pay an interest on current accounts following ongoing pressure by the authorities.

As a result of deposit repricing and customer migration to costlier deposits, and combined with a moderation in lending activity, higher provisions from unsustainably low levels as mentioned above and operating cost inflation including higher wages due to the bank's new collective agreement, we expect Bank Leumi's profitability will gradually revert closer to historical levels. Bank Leumi's bottom line profitability will, however, benefit in the coming quarters from the sale of its headquarters which will generate a pre-tax capital gain of around NIS800 million, equivalent to 0.12% of assets.

We expect Bank Leumi to maintain its cost focus in order to mitigate operating cost inflation, as well as ongoing investments in IT and digitalisation. Following successive [past streamlining initiatives](#)¹⁰ and strong business growth, the bank's reported cost-to-income ratio was 31% for the first six months of 2023, the lowest level ever reported. We expect improvements in the bank's cost-to-income ratio to taper off going forward as revenue growth slows down and expense growth rises.

Strong domestic deposit-based funding structure and healthy liquidity

Bank Leumi's funding structure is strong and made up of a large deposit base in Israel helped by the country's strong savings culture. Customer deposits were equivalent to 78% of total assets as of June 2023 and comfortably funded the bank's lending activities. Bank Leumi's net-loans-to-deposits ratio remained generally low at 77% as of June 2023, despite a slight increase from 70% at the end of 2022 following strong loan growth and a reduction in deposits.

Deposits are relatively granular. Deposits from households and small businesses (based on regulatory operating segments) made up 44% of total deposits as of June 2023. Our assessment also takes into account that as of the same date, 21% of total deposits were sourced from institutional investors that would be more vulnerable to a loss in depositor confidence. While there was decline in deposits during the first six months of 2023, these were mainly from institutional investors and corporates while the bank's core deposits continued to grow.

The bank remains a large net interbank placer and has relatively low reliance on potentially more confidence-sensitive market funding. Market funds accounted for 10.9% of tangible banking assets as of June 2023 including some senior issuances and higher derivative balances, which are mainly driven by customer activity. Bonds and subordinated notes stood at NIS31.6 billion (5% of total assets) as of June 2023, 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 33% of total assets as of June 2023. Cash and interbank placements accounted for 17% of total assets, and securities for a further 17% as of June 2023. The bank rebalanced its liquid assets portfolio towards securities from cash in order to benefit from higher rates. Israeli government bonds made up 55% of the bank's securities portfolio, and US government bonds an additional 11%. Bank Leumi reported a liquidity coverage ratio of 128% and a net stable funding ratio of 121% as of June 2023, 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

CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Bank Leumi's **CIS-2** indicates that ESG considerations have no material impact on the current ratings.

Exhibit 8

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-4

Highly Negative



GOVERNANCE

G-2

Neutral-to-Low



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 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 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	1.0%	aa3	↓↓	baa2	Sector concentration	Loan growth
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.4%	baa2	↓	baa3	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	9.8%	a2	↔	a3	Deposit quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.7%	a2	↓	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 Based on 2022 figures.
- 4 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.
- 5 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.
- 6 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.
- 7 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.
- 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 Bank Leumi recently obtained regulatory approval to use a different method 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. 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 reduced employee numbers by 15% over the period 2019-2022, as well as real estate footprint costs. The reduction in the employee numbers in 2022 includes employees of Leumi USA which was merged into Valley Bank in April 2022.

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