

## **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  
34 Yehuda Halevi Street, Tel Aviv 651316  
Phone: 076-8858111, 076-889419; Facsimile: 076-8859732  
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Transmission Date: October 31, 2023  
Reference: 2023-01-120285

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

**Supplementary report to a report issued on October 24, 2023 whose reference no. is: 2023-01-118587**

*Key details added/supplemented: Further to the notice issued by the rating agency Moody's on October 24, 2023, whereby following the placement of the rating of the State of Israel under review for downgrade (negative), Moody's placed the Bank (and other banks) under review for downgrade (negative), on October 30, 2023, Moody's published a detailed supplementary rating report in relation to the Bank, which is attached to this report.*

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

On October 24, 2023, Moody's published the following:

A rating report/update notice: *Updated*

1. Rating report or notice

Rating of the corporation: Moody's \_\_\_\_\_ None/NOO

Comments/Nature of Notice: *Review for downgrade (negative) / review of rating (negative)*

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

Date	Subject of Rating	Rating	Comments/ Substance of Notice
September 11, 2023	Bank Leumi le-Israel B.M.	Moody's-A2/P-1, CRR-A1/P-1 _____ stable _____	Affirmation of rating
February 1, 2023	Bank Leumi le-Israel B.M.	Moody's-A2/P-1, CRR-A1/P-1 _____ stable _____	Affirmation of rating
December 9, 2020	Bank Leumi le-Israel B.M.	Moody's-A2/P-1, CRR-A1/P-1 _____ stable _____	Affirmation of rating

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:

[PR\\_481593-23\\_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](#).

*On October 24, 2023 notice was received from Moody's whereby following the placement of the State of Israel on review for downgrade, Moody's also places on review for downgrade the long-term IDR (A2) and short-term IDR (P-1) of the Bank and other Israeli banks, as well as the Bank's counterparty risk rating (CRR) (A1) and the CRR of other Israeli banks.*

*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*

*Address: Yehuda Halevi Street 34, Tel Aviv 6513616, Tel: 076-8858111, Facsimile: 076-8859732 Electronic Mail: [David\\_S@bll.co.il](mailto:David_S@bll.co.il) company's website: [www.leumi.co.il](http://www.leumi.co.il)*

*Previous names of the reporting entity:*

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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/>

## CREDIT OPINION

30 October 2023

Update



Send Your Feedback

### RATINGS

#### Bank Leumi Le-Israel B.M.

Domicile	Tel Aviv, Israel
Long Term CRR	A1 , Possible Downgrade
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2 , Possible Downgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

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 following initiation of rating review

### 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) currently three notches of rating uplift based on our assessment of a very high likelihood of support from the [Government of Israel](#) (A1 review for downgrade), 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.

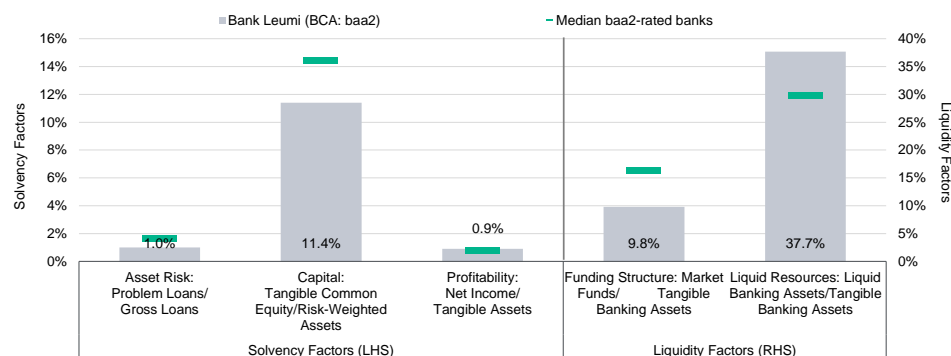
The ongoing military conflict will have an impact on Israel's economy, which will depend on its duration and scale, and therefore on the bank's asset quality and profitability. Profitability, which had been moderate in the past, benefited significantly from higher interest rates and was [well above](#) historical levels prior to the conflict.

At the same time, the BCA also reflects additional downside risks from a significant exposure concentration to the Israeli property market through lending to the real estate sector and residential mortgages.

Capitalisation is 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 has been consistently stable and 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
- » Asset quality has been sound, underpinned by conservative risk appetite
- » Very high likelihood of government support, in case of need, underpins the deposit ratings

## Credit challenges

- » Given the crystallisation of geopolitical risks, asset quality will likely deteriorate and profitability will decline
- » Large exposure to Israel's property market is also a tail risk

## Rating outlook

The bank's ratings are on review for downgrade, reflecting the review for downgrade on the Government of Israel's A1 rating.

## Factors that could lead to an upgrade

- » Potential for an upgrade of Bank Leumi's ratings is limited, as indicated by the review for downgrade. However, the ratings could be confirmed at their current level if Israel's A1 issuer rating were confirmed. This would also depend upon the bank's standalone fundamentals, notably solvency and liquidity, being maintained.

## Factors that could lead to a downgrade

- » Bank Leumi's ratings could be downgraded if the sovereign rating is downgraded, given the significant government support uplift that is incorporated in the bank's ratings.
- » Bank Leumi's ratings could also be downgraded in case of a prolonged and wider conflict that could have a significant impact on the bank's operating environment and standalone fundamentals, or the bank's performance proves more volatile than in previous conflicts and economic crises.

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

[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, that will likely deteriorate

Bank Leumi's sound asset quality will likely deteriorate, although the extent of this will depend on the ongoing military conflict's duration and scale, actions by the authorities to mitigate its impact on affected businesses and households and the potential for any lasting economic damage.

Additionally to risks from geopolitical tensions and similarly to other Israeli banks, the bank's significant exposure to [Israel's property market](#) through its lending activities along with recent high property prices<sup>1</sup> is also a downside risk for its asset quality. However, our

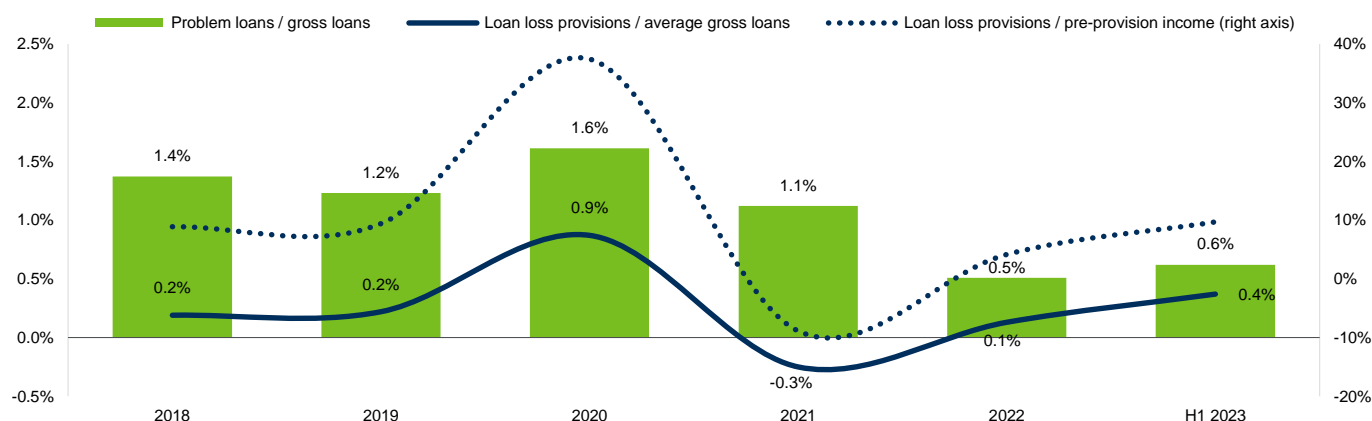
assessment also reflects the bank's modest credit losses over a long period as well as tight underwriting standards and limited single-name concentrations.

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. Beyond the impact of the conflict, we also [expect](#) some problem loan formation because of higher interest rates and as the bank's newly originated loans season. Loans continued to grow strongly by 12% year-over-year in June 2023.

Exhibit 3

### Bank Leumi's asset quality has been sound with low problem loans and modest credit losses

Evolution of problem loans ratio and annualised credit costs



Source: Moody's Investors Service

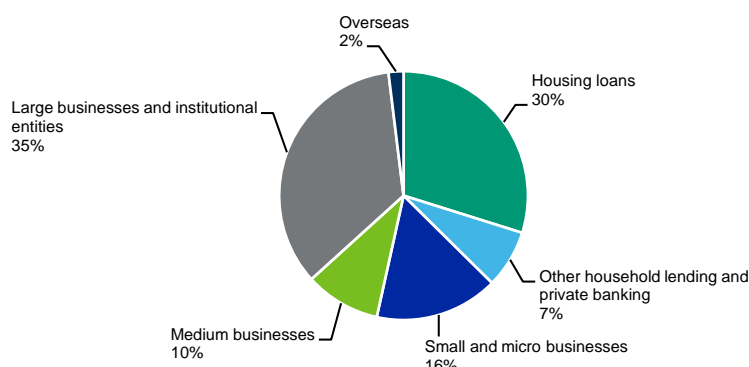
We also expect Bank Leumi's credit costs (loan loss provision expenses to average gross loans) to also likely rise above the historical average of 0.3%<sup>2</sup>, which includes an entire economic cycle, and from unsustainably low levels in the last two years. Following significant provision charge-backs 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. According to preliminary estimates and incorporating regulatory guidance, the bank expects to book loan loss provisions equivalent to NIS800-NIS1,100 million in its third quarter financial results, equivalent to 0.2%-0.28% of gross loans, as part of its collective provisions in order to reflect the uncertainty and deterioration in macroeconomic indicators.

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 businesses<sup>3</sup> 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. It is also still uncertain what impact the conflict will have on the sector. 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.

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 GDP<sup>4</sup>; and (3) macroprudential measures<sup>5</sup> 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.

There is higher risk in financing of the construction and real estate sector. The bank's construction and real estate exposure in Israel grew by 19% year-over-year as of June 2023 because of strong demand. Residential projects made up 60% of the bank's total credit risk secured by real estate collateral in Israel as of June 2023. These are mostly closed construction projects where risk is mitigated by close oversight<sup>6</sup>. 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. Bank Leumi is working towards reducing the concentration in this sector.

**Moderate risk-weighted capitalisation and leverage**

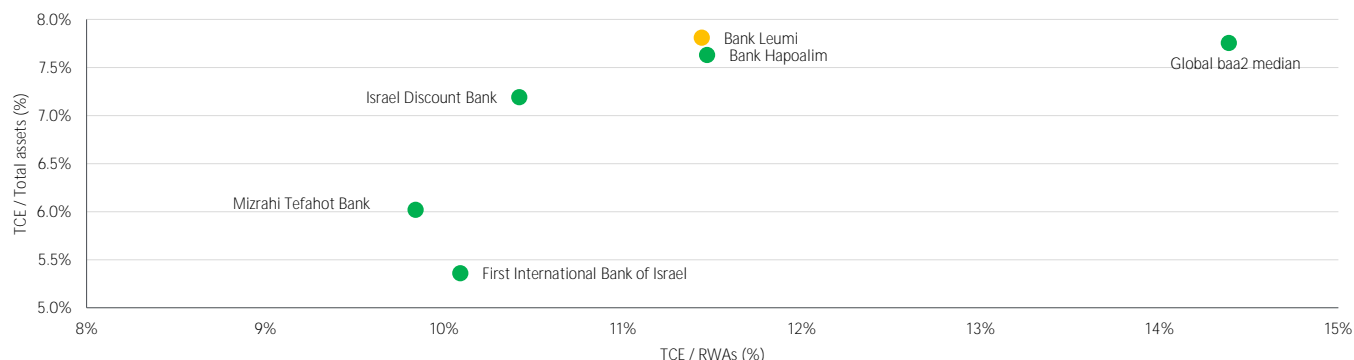
We view Bank Leumi's capitalisation as moderate. Although risk-weighted capital metrics are below global peers, the bank's loss-absorption buffers are supported by relatively conservative regulatory risk-weights, especially on mortgage lending. The bank's capital ratios are also more stable compared 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 time<sup>7</sup>.



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 has demonstrated its ability to maintain steady capital ratios over time, including through RWAs management, capital raising and adjustments in earnings distributions. Similarly to other periods of high volatility, we also expect the bank to retain more profits while the economic and financial impact of the conflict remains uncertain, which will support its capital metrics and loss absorbing buffers.

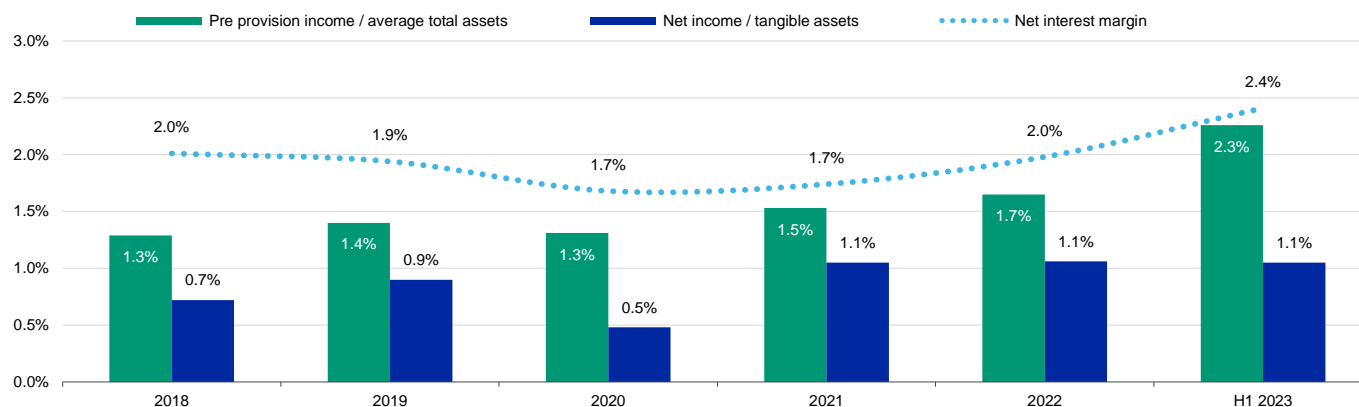
### Profitability is moderate but stable, and will decline from recent high levels

Profitability will decline from recent exceptionally high levels because of higher cost of risk, lower credit growth and support measures to customers affected by the conflict.<sup>8</sup>

Our assessment continues to reflect Bank Leumi's moderate and broadly stable ongoing profitability supported by strong revenue generating capacity given its established franchise and business growth potential in Israel. Operating [efficiency gains](#) also support sustainable profitability and the bank's ability to resist [growing competition](#), income headwinds and its ability to withstand and recover from shocks. Following successive streamlining initiatives<sup>9</sup> 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.

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. Even before the conflict, we expected 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.

**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 are not material to the current ratings because a very high level of government support mitigates the impact of ESG factors. In particular, social risks for the bank have increased and are high because of the military conflict in addition to high customer relations risks.

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, related to societal and demographic trends as well as from customer relations. The current military conflict may cause a severe disruption of the economy and impact the bank's financial performance, depending on its duration and scale. However, a relatively young and growing population in Israel affords business opportunities for the bank. Further, Bank Leumi faces high customer relations risk because of the considerable focus on consumer protection in Israel, exposing banks to potential fines from regulators and litigation from customers. High cyber and personal data risks are mitigated by a sound IT framework.

## 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 continue to 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. A potential weakening of the sovereign's capacity to provide support, indicated by a downgrade of the Government of Israel's rating, may reduce the support uplift incorporated in the bank's ratings.

### 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						
<b>Weighted Macro Profile</b>	<b>Strong</b>	<b>100%</b>				
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	↓↓	baa3	Sector concentration	Expected trend
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
<b>BANK LEUMI LE-ISRAEL B.M.</b>	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	A1/P-1 <sup>1</sup>
Bank Deposits	A2/P-1 <sup>1</sup>
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr) <sup>1</sup>

[1] Rating(s) within this class was/were placed on review on October 24 2023

Source: Moody's Investors Service

## Endnotes

- 1 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.
- 2 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.
- 3 The regulatory definition of small businesses includes businesses with an annual turnover up to NIS50 million.
- 4 Based on 2022 figures.
- 5 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.
- 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 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.
- 8 On 15 October 2023, the BoI set out a [comprehensive outline](#) to support bank customers during this period. The measures include a 3-month deferral of loan repayments without accruing interest for a specific set of households and small businesses that are most affected by the conflict. All other bank customers can also defer repayments but with interest accruing. Individual banks are additionally offering more customised solutions.
- 9 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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