

**CREDIT OPINION**

8 October 2024

Update

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**RATINGS**

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

Domicile	Tel Aviv, Israel
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

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 ratings downgrade

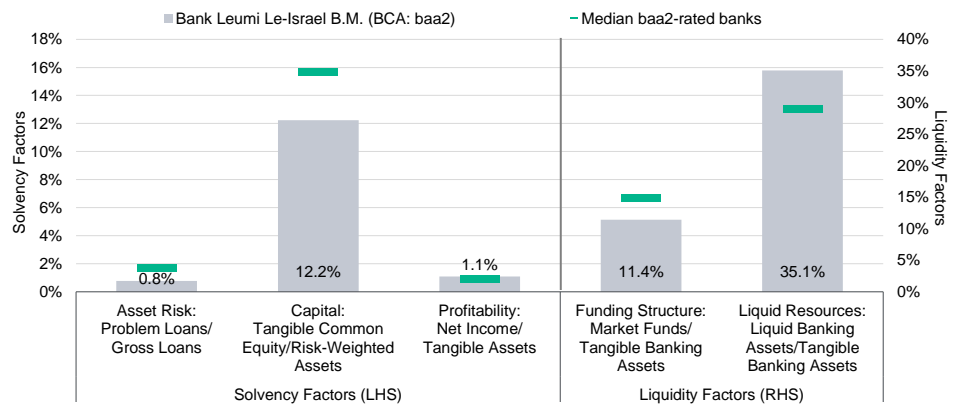
**Summary**

[Bank Leumi Le-Israel B.M.](#) (Bank Leumi)'s Baa1 long-term deposit ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); and (2) one notch of rating uplift based on our assessment of a very high likelihood of support from the [Government of Israel](#) (Baa1 negative), in case of need.

Bank Leumi's baa2 standalone BCA reflects a strong domestic deposit-based funding structure, that comfortably funds lending activities, healthy liquidity and its low problem loans and credit losses over past economic cycles.

High geopolitical risks are captured in the BCA and the negative rating outlook. The BCA also reflects additional downside risks from a significant exposure concentration to the Israeli property market. Capitalisation is moderate although below similarly-rated international peers, but 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 Ratings

## Credit strengths

- » Strong domestic deposit-based funding structure and healthy liquidity
- » Asset quality has been sound, underpinned by a conservative risk appetite
- » Very high likelihood of government support, in case of need, underpins the deposit ratings

## Credit challenges

- » Geopolitical risks have increased and asset quality will likely deteriorate because of the economic impact of the military conflict
- » Large exposure concentration to Israel's property market is also a tail risk

## Rating outlook

The negative outlook on the bank's long-term deposit ratings captures both the negative outlook on the Government of Israel's rating and therefore the potential further weakening of the sovereign's capacity to provide support, together with the risk that the bank's standalone fundamentals may be more severely and sustainably affected because of weaker economic growth and investment climate, and a more adverse impact from the conflict on key sectors and individual borrowers.

## Factors that could lead to an upgrade

- » There is a limited scope for an upgrade of the Bank Leumi's deposit ratings given the negative outlook. We could stabilise the outlook on the bank's ratings in case the outlook on the sovereign rating changes to stable and/or downside risks to the economy and the bank subside.

## Factors that could lead to a downgrade

- » Bank Leumi's long-term deposit ratings could be downgraded if the sovereign rating, or if its standalone BCA is downgraded by more than one notch.
- » The bank's BCA could be downgraded in case of a severe escalation of the conflict and/or an adverse and long-term impact on the economy, or if 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]

	06-24 <sup>2</sup>	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (ILS Million)	734,039.0	731,497.0	699,166.0	656,454.0	556,035.0	8.3 <sup>4</sup>
Total Assets (USD Million)	194,850.0	203,142.8	198,148.2	211,408.1	173,176.5	3.4 <sup>4</sup>
Tangible Common Equity (ILS Million)	60,640.0	55,692.2	51,322.6	38,657.2	33,501.1	18.5 <sup>4</sup>
Tangible Common Equity (USD Million)	16,096.8	15,466.2	14,545.2	12,449.4	10,433.9	13.2 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.6	0.9	0.5	1.1	1.6	0.9 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	12.2	11.6	11.9	10.2	9.9	11.2 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	3.9	6.0	3.5	9.0	12.5	7.0 <sup>5</sup>
Net Interest Margin (%)	2.2	2.3	2.0	1.7	1.7	2.0 <sup>5</sup>
PPI / Average RWA (%)	3.3	3.3	2.7	2.5	2.0	2.8 <sup>6</sup>
Net Income / Tangible Assets (%)	1.3	1.0	1.1	1.0	0.5	1.0 <sup>5</sup>
Cost / Income Ratio (%)	28.5	28.5	35.9	42.6	48.3	36.8 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	9.6	11.4	9.8	7.9	7.1	9.2 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	33.3	35.1	37.7	42.4	40.3	37.8 <sup>5</sup>
Gross Loans / Due to Customers (%)	76.1	75.4	70.1	64.8	67.4	70.8 <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 Ratings 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 2024, Bank Leumi was the largest bank in Israel in term of total assets with a 29% market share, reporting total consolidated assets of NIS734 billion (\$195 billion).

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). 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 allows 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 price of Valley since the beginning of 2024, Bank Leumi recorded an impairment of its investment in Valley in the amount of approximately NIS0.6 billion after tax in Q2 2024.

### 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 8 April 2024. 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.

## Detailed credit considerations

### Sound asset quality that will likely deteriorate

Bank Leumi's sound asset quality will deteriorate from strong levels because of the damage to Israel's economy caused by the military conflict that has already lasted longer than most of its previous conflicts. The bank is provisioning against downside scenarios.

Additionally to risks from the impact of geopolitical tensions on the economy and borrowers and similarly to other Israeli banks, the bank's significant exposure to [Israel's property market](#) through its lending activities is also a downside risk for its asset quality.

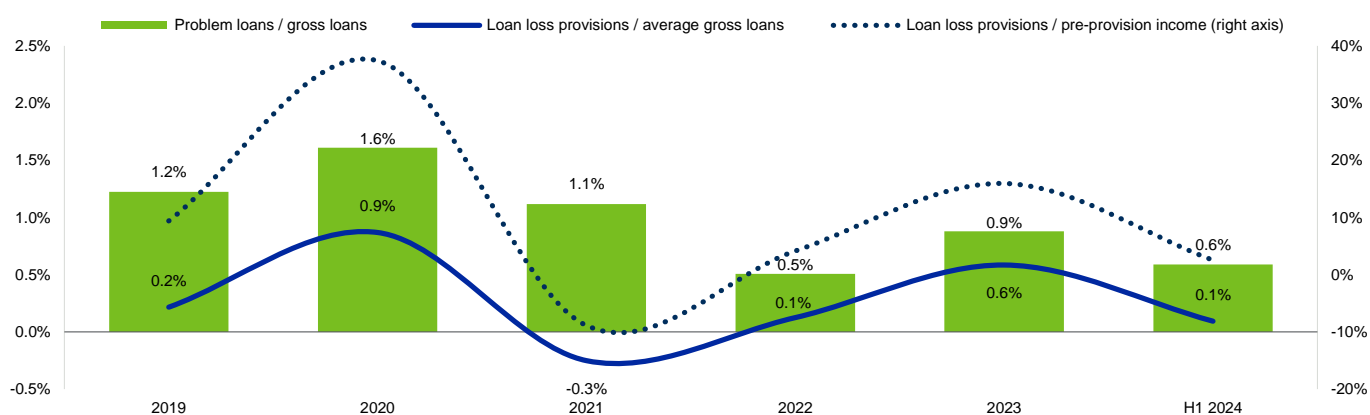
Our assessment also considers the bank's modest credit losses over a long period, with a cost of risk averaging 0.3% in the period 2006-2019 (before the pandemic and including an entire economic cycle), as well as relatively tight underwriting standards supported by proactive oversight by the Bol and limited single-name concentrations (with no exposures exceeding 15% of its capital as of June 2024).

Bank Leumi's problem loans (defined as non-accruing loans and accruing loans that are more than 90 days overdue) remained low at 0.6% of gross loans as of June 2024 (see Exhibit 3). Credit costs (loan loss provision expenses to average gross loans) increased to 0.6% in 2023 from very low levels in 2021 and 2022, mainly driven by collective provisions that reflected deterioration in macroeconomic indicators and increased risk in sectors most exposed to the conflict. Credit costs declined to 0.1% in the first six months of 2024, driven by collective provisions that were partly offset by recoveries.

Exhibit 3

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

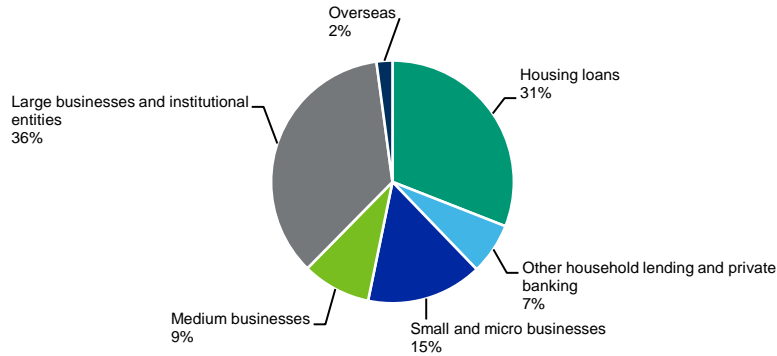
Evolution of problem loans ratio and annualised credit costs



Source: Moody's Ratings

The bank's loan portfolio is relatively diversified within segments in Israel. Low-risk residential mortgages, with an average loan-to-value of 49% as of June 2024, accounted for 31% of total gross loans and medium and large businesses (including institutional entities) for an additional 45% as of June 2024 (see Exhibit 4). The bank's exposure to small businesses<sup>1</sup> in Israel, was 15% and consumer lending was 7%. Loan growth (mainly in mortgages, middle-market and corporate) moderated to 9% in 2023, although still higher than peers, and 3% in the first half of 2024, from a double digit growth in 2022, driving some unseasoned risk.

Exhibit 4  
**Bank Leumi's loan book is relatively diversified by segment**  
 Loan book breakdown as of June 2024 (gross loans, regulatory operating segments)



Source: Bank's financial statements

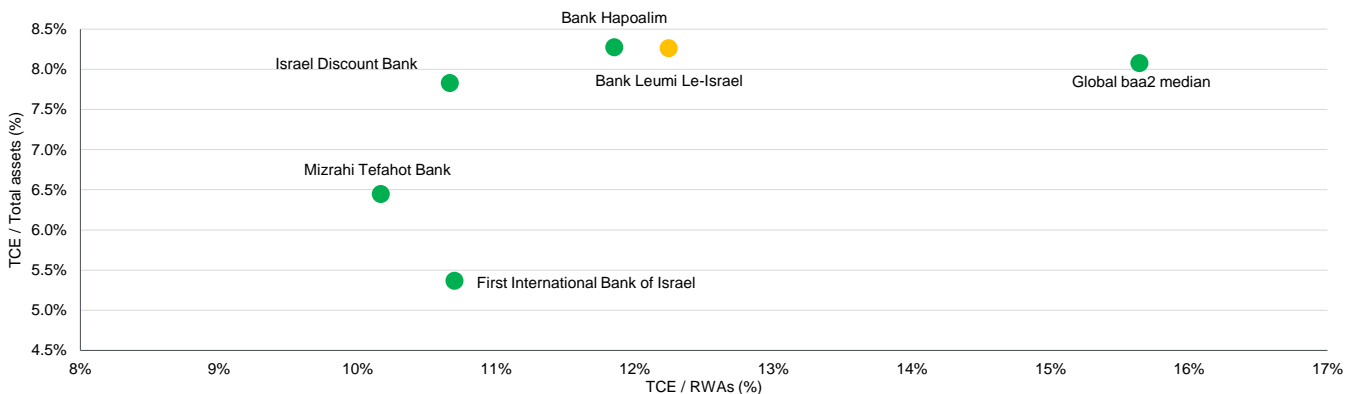
Sector concentration to real estate is high, which exposes the bank to the risk of a sustained disruption in activity in the sector, as well as the risk of a sharp property price correction together with reduced ability of borrowers to service their loans. In addition to mortgages, lending to the construction and real estate sector made up a further 26% of total lending as of June 2024<sup>2</sup>, the highest in the system, and the bank's exposure grew by a high 9% year-over-year as of June 2024. However, residential projects made up 61% of the bank's total credit risk secured by real estate in Israel as of June 2024, where risk is mitigated by close oversight of closed residential construction. Also, underwriting criteria are relatively conservative. 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 conservative regulatory risk-weights. Mortgages are risk-weighted according to their loan-to-value and have an average risk weight of over 50% in Israel, which is higher than the 35% risk weight normally used in the standardised approach. The bank's capital ratios are also more stable compared to banks globally that use a model based approach in calculating credit risk-weighted assets (RWAs).

Bank Leumi's tangible common equity (TCE)/RWAs ratio was 12.2% as of June 2024, below the global peer median (see Exhibit 5). The bank's TCE-to-total assets ratio was 8.3% as of June 2024 and in-line with global peers. The reported Basel leverage ratio was 7.0% as of June 2024, above the 5.5% minimum regulatory requirement that applied at that time.

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 2024



Source: Moody's Ratings

Bank Leumi also reported a Common Equity Tier 1 (CET1) ratio of 12.0% as of June 2024, the highest level in recent years, and substantially exceeding the 10.2% minimum regulatory requirement and the bank's internal minimum threshold of 10.6%. Similarly to other periods of high volatility and in line with the BoI's guidance, Bank Leumi distributed earnings below its dividend policy (of up to 50% of net profits in each quarter, supplemented by share buybacks) in each of the last four quarters, building up its capital buffers.

Although the downgrade of Israel's sovereign rating will increase the risk-weights we use in our capital ratio to 50% and lower it by around 30 basis points in Q3 2024, provided high profitability continues and together with muted credit growth we expect capital levels to continue to rise overall. We expect them to gradually decline back to historical levels once uncertainty subsides.

Through adjustments in earnings distributions, capital raising and RWAs management, Bank Leumi has demonstrated its ability to maintain steady capital ratios over time.

### Profitability is moderate and supported by strong revenue generating capacity and cost control

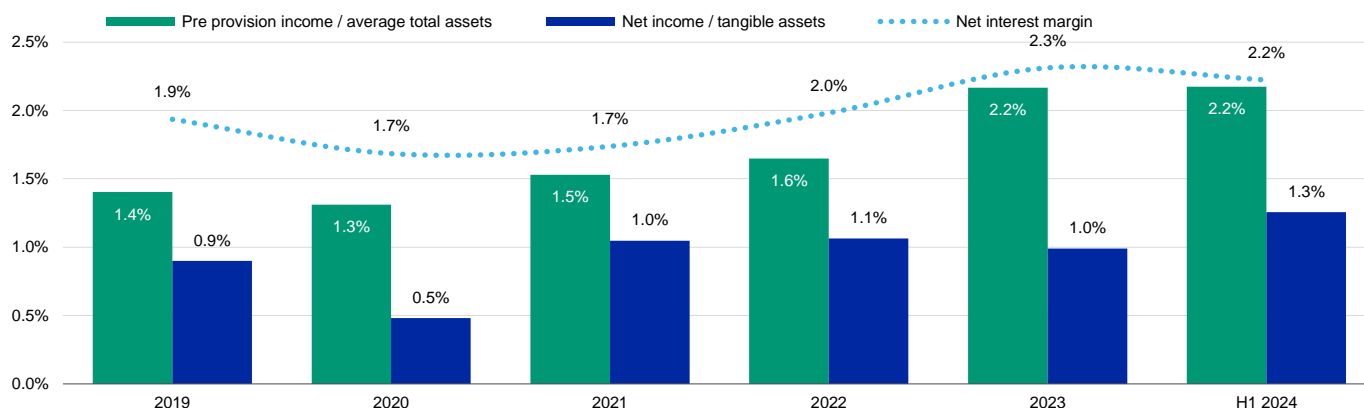
Bank Leumi's ongoing profitability is moderate, supported by strong revenue generating capacity given its established franchise and long-term business growth potential in Israel. Tight cost control and operating [efficiency gains](#) also support sustainable profitability and the bank's ability to resist [growing competition](#), income headwinds, and to withstand and recover from shocks. Following successive streamlining initiatives, which included headcount reduction and real estate downsizing and strong business growth, the bank's reported a cost-to-income ratio was 29% for the first six months of 2024<sup>3</sup>, one of the lowest levels ever reported.

The bank's net income to tangible assets was an annualised 1.3%<sup>4</sup> in the first half of 2024 and 1.0% for 2023 (see Exhibit 6), higher than the average of 0.8% over the period 2017-2019, because of higher interest rates and contained costs. In the coming quarters, profitability will decline from recent exceptionally high levels because of subdued credit growth, higher bank taxes for 2024 and 2025 and potentially increased provisions in case macroeconomic expectations deteriorate. Still overall high interest rates, with the BoI's research department [expecting](#) that the policy rate will be 4.25% in the first quarter of 2025 compared to 4.5% currently, will be supportive of a healthy net interest margin and revenues.

Exhibit 6

#### Bank Leumi's profitability is moderate

##### Evolution of profitability metrics



Profits included the gain from the sale of Bank Leumi USA in 2022 and the impairment loss on the investment in Valley in 2023 and H1 2024. H1 2024 figures exclude capital gains from the sale of headquarters.

Source: Moody's Ratings

The bank's net interest margin according to our calculations narrowed slightly to 2.2% in the first six months of 2024 from 2.3% in 2023, driven by the customer shift to higher-yielding deposit accounts, with the bank's non-interest bearing deposits accounting for 25% of total deposits as of June 2024 compared to 35% at end-2022. Margins are still higher than the 2021 level because rate hikes allowed the bank to unlock the value from its low-cost core deposit base.

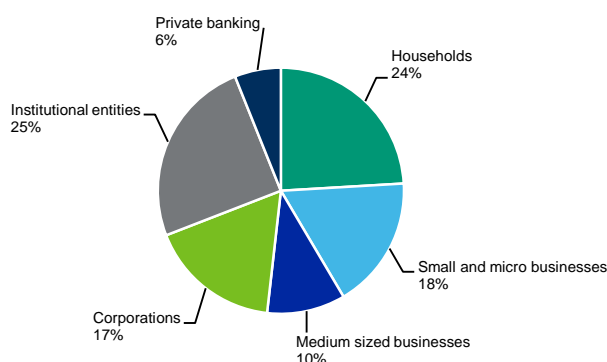
### Strong domestic deposit-based funding structure and healthy liquidity

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 79% of total assets as of June 2024 and comfortably funded the bank's lending activities. Bank Leumi's net-loans-to-deposits ratio was 75% as of June 2024.

Deposits are relatively granular. Deposits from households (excluding private banking) and small businesses (based on regulatory operating segments) made up 42% of total deposits as of June 2024. 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. However, Bank Leumi's deposit base has proven to be stable during past systemic shocks, and the risk of shekel-denominated deposit outflows is limited, given the closed shekel market.

Exhibit 7

#### Granular household and small business deposits make up a large part of Bank Leumi's deposit base Breakdown of deposits by segment as of June 2024



Source: Bank's financial statements

The bank has relatively low reliance on potentially more confidence-sensitive market funding at around 10% of tangible banking assets as of June 2024, including some senior issuances and derivative balances that are mainly driven by customer activity. Bonds and subordinated notes stood at NIS29.4billion (4% of total assets) as of June 2024, providing term funding. These balances are mainly sourced from the local capital market and allow for better matching of assets and liabilities.

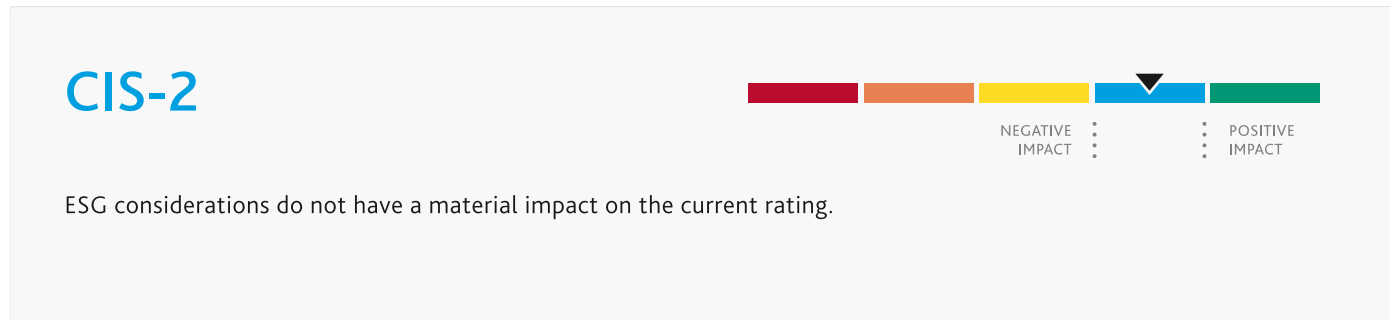
The bank also maintains a healthy level of liquidity. Liquid assets made up 33% of total assets as of June 2024. Cash and interbank placements accounted for 18% of total assets, and securities for a further 16% as of June 2024. Israeli government bonds made up 51% of the bank's securities portfolio, and US government bonds an additional 12%. Bank Leumi reported a liquidity coverage ratio of 130% and a net stable funding ratio of 118% as of June 2024, both of which were substantially above the 100% minimum regulatory requirement.

## ESG considerations

Bank Leumi Le-Israel B.M.'s ESG credit impact score is CIS-2

Exhibit 8

### ESG credit impact score



Source: Moody's Ratings

Bank Leumi's **CIS-2** indicates that ESG factors are not material to the current ratings because a high level of government support mitigates the impact from ESG risks, which have lately increased (especially social risks) because of the military conflict and the high customer relations risks in Israel.

Exhibit 9

### ESG issuer profile scores



Source: Moody's Ratings

#### 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 Moody's.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 Baa1 deposit ratings incorporate one notch 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 supporting systemically important banks in case of need.

## 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 10

### Rating Factors

Macro Factors							
Weighted Macro Profile	Moderate	100%					
	+						
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.8%	a2	↓↓	ba1	Sector concentration	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	12.3%	baa2	↔	baa3	Stress capital resilience	Nominal leverage	
Profitability							
Net Income / Tangible Assets	1.1%	baa2	↓	ba1	Expected trend		
Combined Solvency Score		baa1		ba1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	11.4%	baa1	↔	baa2	Deposit quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	35.1%	a3	↓	baa1	Expected trend		
Combined Liquidity Score		baa1		baa2			
Financial Profile				baa3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Baa1			
BCA Scorecard-indicated Outcome - Range				baa2 - ba1			
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	-	Baa1	Baa1	
Counterparty Risk Assessment	1	0	baa1 (cr)	-	Baa1(cr)		
Deposits	0	0	baa2	-	Baa1	Baa1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 11

Category	Moody's Rating
<b>BANK LEUMI LE-ISRAEL B.M.</b>	
Outlook	Negative
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)

Source: Moody's Ratings

## Endnotes

- 1 The regulatory definition of small businesses includes businesses with an annual turnover up to NIS50 million.
- 2 Banks' total construction and real estate exposure excluding national infrastructure is capped at 22% of total exposure to the public (on and off-balance sheet) by the BoI.
- 3 This includes the capital gains from the sale of headquarters.
- 4 Adjusted for the capital gains from the sale of headquarters.

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