

## 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: January 15, 2024  
Reference: 2024-01-006813

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 December 14, 2023 whose reference no. is: 2023-01-113128**

*Key details added/supplemented: Further to the notice issued by the rating agency Fitch on December 13, 2023, whereby following the placement of the rating of the State of Israel under review for downgrade (negative), Fitch placed the Bank (and other banks) under review for downgrade (negative), on January 15, 2024, Fitch 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 Withdrawal of Rating

On December 13, 2023, Fitch Ratings published the following:

Rating report/notice: *Updated*

1. Rating report or notice

Rating of the corporation: *A/F1+ Fitch Ratings* \_\_\_\_\_ *None/NOO*  
Comments/Nature of Notice: *Rating reiteration*

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

<b>Date</b>	<b>Subject of Rating</b>	<b>Rating</b>	<b>Comments/ Nature of Notice</b>
<i>October 19, 2023</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/F1+ Fitch Ratings None/NOO</i>	<i>Ratings Watch Negative/ Rating review (negative)</i>
<i>January 26, 2023</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/F1+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>
<i>December 22, 2022</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/F1+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>

January 12, 2022	Bank Leumi le-Israel Ltd.	A/F1+ Fitch Ratings Stable	Reiteration of rating
February 16, 2021	Bank Leumi le-Israel Ltd.	A/F1+ Fitch Ratings Stable	Reiteration of rating
January 21, 2021	Bank Leumi le-Israel Ltd.	A/F1+ Fitch Ratings Stable	Reiteration of rating
December 9, 2020	Bank Leumi le-Israel Ltd.	A/F1+ Fitch Ratings Stable	Reiteration of rating

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

Rating of the corporation's bonds:

Security name & type	TASE Security No.	Rating agency	Current rating	Comments / nature of notice
Leumi \$ 2031	6040489	Fitch rating	Other BBB Fitch Rating None/NOO	Reiteration of rating
Leumi \$ 2027	6040687	Fitch rating	Other A Fitch Rating None/NOO	Reiteration of rating
Leumi \$ 2033	6040679	Fitch rating	Other BBB Fitch Rating None/NOO	Reiteration of rating

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

Security name & type	TASE Security No.	Date	Type of rated security	Rating	Comments / nature of notice
Leumi \$ 2031	6040489	October 19, 2023	Bonds	Other BBB Fitch Rating None/NOO	Ratings Watch Negative/ Rating review (negative)
Leumi \$ 2031	6040489	January 26, 2023	Bonds	Other BBB Fitch Rating Stable	Reiteration of rating
Leumi \$ 2031	6040489	December 22, 2022	Bonds	Other BBB Fitch Rating Stable	Reiteration of rating
Leumi \$ 2031	6040489	January 12, 2022	Bonds	Other BBB Fitch Rating Stable	Reiteration of rating
Leumi \$ 2031	6040489	February 16, 2021	Bonds	Other BBB Fitch Rating Stable	Reiteration of rating
Leumi \$ 2031	6040489	January 21, 2021	Bonds	Other BBB Fitch Rating Stable	Reiteration of rating
Leumi \$ 2031	6040489	December 9, 2020	Bonds	Other BBB Fitch Rating Stable	Reiteration of rating
Leumi \$ 2027	6040687	October 19, 2023	Bonds	Other A Fitch Rating None/NOO	Ratings Watch Negative/ Rating review (negative)

Leumi \$ 2027	6040687	January 26, 2023	Bonds	Other A Fitch Rating Stable	Reiteration of rating
Leumi \$ 2027	6040687	December 22, 2022	Bonds	Other A Fitch Rating Stable	Reiteration of rating
Leumi \$ 2027	6040687	July 18, 2022	Bonds	Other A Fitch Rating Stable	Initial rating
Leumi \$ 2033	6040679	October 19, 2023	Bonds	Other BBB Fitch Rating None/NOO	Ratings Watch Negative/ Rating review (negative)
Leumi \$ 2033	6040679	January 26, 2023	Bonds	Other BBB Fitch Rating Stable	Reiteration of rating
Leumi \$ 2033	6040679	January 10, 2023	Bonds	Other BBB Fitch Rating Stable	Initial rating

Explanation: As part of the rating 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:  
[122023170700\\_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](#).

Further to the announcement of the rating agency Fitch Rating of December 13, 2023, where under following the placement of the rating of the State of Israel in the rating negative watch Fitch placed the Bank (and other banks) in the rating negative watch, on January 15, 2024 Fitch published a supplementary detailed report in relation to the Bank, which is attached to this report.

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, 076-8859419.  
 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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Name of Electronic Reporter: Shelly Bainhoren, Position: Bank Secretary, 34 Yehuda Halevi Street, Tel Aviv 6513616, Phone: 076-8859419, Electronic Mail:  
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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/>

# Bank Leumi Le-Israel B.M.

## Key Rating Drivers

**State Support Drives IDRs:** Bank Leumi Le-Israel B.M.'s Issuer Default Ratings (IDRs) reflect Fitch Ratings' view of a very high probability that Israel would provide support to the bank. Fitch believes Israel's ability and propensity to support Leumi are very high, particularly given the systemic importance of the bank. It holds about 30% of the country's banking system assets.

**Uncertain Economic Environment:** The Israel-Hamas war has caused an initial contraction of economic activity. Our negative outlook on the operating environment reflects uncertainty around the war's severity, duration and longer-term impact. The Israeli government and central bank have implemented measures to support the economy and the most affected borrowers. Fitch expects the benefit of higher interest rates to recede in 2024 due to rising deposit costs.

**Diversified Business Model:** Leumi's Viability Rating (VR) reflects its strong franchise in retail and corporate banking as Israel's largest bank by total assets. Asset quality and earnings are likely to come under pressure from the Israel-Hamas war, but we expect them to remain resilient from a strong starting position. The VR also reflects Leumi's sound funding given its diversified and granular deposit base and adequate capitalisation.

**Market Risk Appetite Above Peers':** Underwriting is similar to domestic peers' and influenced by tight regulatory limits. Market risk exposure in the banking book is in line with peers' and appropriately controlled by internal risk limits. However, the bank is also exposed to market risk from equity investments in non-financial companies, typically made through Leumi Partners. The book value of these investments amounted to 9% of Leumi's consolidated common equity Tier 1 (CET1) capital at end-9M23. We do not expect this exposure to increase significantly.

**Asset-Quality Pressures:** Impaired loans increased to 0.7% of gross loans by end-9M23 (0.6% at end-9M22). We expect asset quality to be affected by the macroeconomic impact of the war. Leumi's loan impairment charge of ILS991 million in 3Q23 reflects its assessment of the likely impact of the war on its loan book and is comparable in size to provisions taken at the start of the pandemic. We expect impaired loans to remain below 1.5% over the next two years.

**Earnings to Weaken:** Leumi's operating profit has benefited from improving margins due to increasing interest rates as well as higher loan balances. However, we expect lower loan growth in 2024, which will only be partially offset by cost-efficiency programmes. We forecast the operating profit to remain above 2% of risk-weighted assets (RWAs) over the next two years. In our view, prudent underwriting and provisioning would reduce the impact of higher loan arrears if the impact of the war is more severe than we currently expect.

**Adequate Capitalisation:** Capital headroom is limited, but its CET1 ratio has remained adequate at 11.30% at end-9M23. We view its 109bp buffer above requirements as adequate because Leumi, like other Israeli banks, calculates RWAs using the standardised approach, which results in fairly high RWAs at 66% of total assets. Our capital assessment also considers Leumi's large buffer of loan loss allowances, strong internal capital generation and additional retained earnings as a result of prudently reducing its dividend payout ratio to 20% for 3Q23.

**Large, Stable Deposit Base:** Leumi has a stable, granular and low-cost deposit base that exceeds the size of the loan book. The bank has not noted material change in its liquidity ratios or funding mix since the outbreak of the Israel-Hamas war. The bank also has proven access to domestic and international debt markets. Its 130% liquidity coverage ratio at end-9M23 was soundly above the 100% minimum regulatory requirement.

Leumi's 'F1+' Short-Term IDR is the higher of two possible options that map to an 'A' Long-Term IDR because we view the sovereign's propensity to support as more certain in the near term.

## Ratings

### Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+

Long-Term IDR (xgs)	A-(xgs)
Short-Term IDR (xgs)	F1(xgs)

Viability Rating	a-
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Government Support Rating	a
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### Sovereign Risk

Long-Term Foreign-Currency IDR	A+
Long-Term Local-Currency IDR	A+
Country Ceiling	AA

### Watches

Long-Term Foreign-Currency IDR	Negative
Short-Term Foreign-Currency IDR	Negative
Government Support Rating	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

## Applicable Criteria

[Bank Rating Criteria \(September 2023\)](#)

## Related Research

- [Fitch Maintains Bank Leumi's 'A' IDR on Rating Watch Negative \(December 2023\)](#)
- [Global Economic Outlook \(December 2023\)](#)
- [Fitch Places Four Israeli Banks on RWN after Sovereign Action \(October 2023\)](#)
- [Fitch Places Israel's 'A+' IDRs on Rating Watch Negative \(October 2023\)](#)

## Analysts

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of the sovereign rating is likely to result in a downgrade of Leumi's Government Support Rating (GSR) and IDRs.

A sharp deterioration of asset quality as a result of the war that would result in an impaired loans ratio of above 2% for an extended period, combined with the CET1 declining below current levels, and weakening internal capital generation, funding stability or liquidity could result in a VR downgrade. Given the bank's significant exposure to the real estate sector, a sharp decline in real estate prices would put pressure on asset quality and therefore on the VR.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Leumi's GSR and IDRs are likely to be affirmed and removed from Rating Watch Negative (RWN) if Israel's ratings are affirmed and removed from RWN. An upgrade of the GSR and IDRs is unlikely due to the war and the RWN on the sovereign IDRs.

A VR upgrade is unlikely given the bank's geographical concentration and would require a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWAs while also maintaining materially higher capital ratios, which we do not expect.

## Other Debt and Issuer Ratings

Rating level	Rating	Outlook
Senior Unsecured: Long Term	A	Watch Negative
Subordinated: Long Term	BBB	


Source: Fitch Ratings

Leumi's senior unsecured notes are rated in line with the Long-Term IDR, as they constitute the bank's unsecured and unsubordinated obligations.

Leumi's Tier 2 subordinated notes are rated two notches below the bank's VR to reflect poor recovery prospects in the event of a failure or non-performance of the bank.

The Long-Term IDR (xgs) of 'A-(xgs)' is at the level of the VR. The Short-Term IDR (xsg) of 'F1(xgs)' is the higher of two possible options that map to a 'A-' Long-Term IDR (xgs) due to Leumi's 'a' funding and liquidity score.

Ratings Navigator

Bank Leumi Le-Israel B.M.							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%	aaa	aaa	aaa	AAA
							aa+	aa+	aa+	AA+
							aa	aa	aa	AA
							aa-	aa-	aa-	AA-
							a+	a+	a+	A+
							a	a	a RWN	A RWN
							a-	a-	a-	A-
							bbb+	bbb+	bbb+	BBB+
							bbb	bbb	bbb	BBB
							bbb-	bbb-	bbb-	BBB-
							bb+	bb+	bb+	BB+
							bb	bb	bb	BB
							bb-	bb-	bb-	BB-
							b+	b+	b+	B+
							b	b	b	B
							b-	b-	b-	B-
							ccc+	ccc+	ccc+	CCC+
							ccc	ccc	ccc	CCC
							ccc-	ccc-	ccc-	CCC-
							cc	cc	cc	CC
							c	c	c	C
							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'a' is below the 'aa' implied category score for the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The business profile score of 'a-' is above the 'bbb' implied category score for the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'a-' is above the 'bbb' implied category score for the following adjustment reason: leverage and risk-weight calculation (positive).

## Company Summary and Key Qualitative Factors

### Operating Environment

The government and the central bank implemented measures soon after the outbreak of the Israel-Hamas war to support the economy as well as the borrowers most affected by the war. Central bank intervention in the currency market, supported by its high foreign-exchange reserves, reduced volatility in the shekel. Israeli banks do not have high foreign-currency exposures, but the intervention supported wider macroeconomic stability. Both the government and the central bank have announced loan guarantee schemes and low-cost funding to support the most affected industries, such as hospitality and tourism.

We expect that support programmes, which are similar to those created during the Covid-19 pandemic, will be extended and adapted as necessary to support economic recovery from the initial impact of the war. They are generally supportive of banks' asset quality, in our view. However, we placed the operating environment score on a negative outlook to reflect the high level of uncertainty around the war's longer-term impact. For example, widening of the conflict would present downside risks to the operating environment, and this could put pressure on our assessment of Leumi's risk and financial profile.

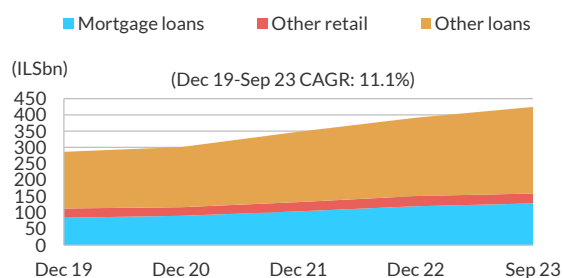
### Business Profile

Leumi is Israel's largest bank by total assets, although it is only slightly larger than the second-largest bank. Leumi's universal banking business model provides a wide range of retail, commercial, capital market and private banking services, with high domestic market shares across all these segments. It also holds equity stakes in non-financial businesses via its private equity subsidiary, Leumi Partners.

Leumi's business model is diversified by client segment but remains reliant on net interest income. Non-interest income is mainly from account fees, fees on financing transactions and commissions on client trading. The Bank of Israel, Leumi's regulator, is highly focused on stimulating competition and reducing some of these charges, particularly for retail and SME customers, so we do not expect fees to grow as quickly as net interest income.

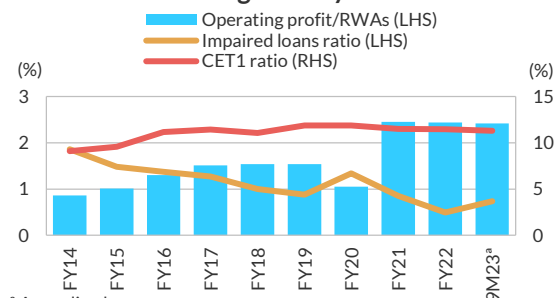
In April 2022, Leumi completed the sale of its US subsidiary, Leumi USA, to Valley National Bancorp (Valley), a regional US bank. Leumi now owns a 14.1% equity stake in Valley, making Leumi the largest shareholder, and has the right to appoint two representatives to Valley's board of directors. This arrangement reduces Leumi's direct foreign lending exposure, with the stake in Valley accounted for as an equity investment. Like peers, Leumi has reduced its international operations in recent years. We expect it to focus on domestic growth, although the ownership stake in Valley provides Leumi with collaboration opportunities, such as participation in some larger loans, to support Leumi clients doing business in the US.

### Loan Book Breakdown



CAGR: compound annual growth rate  
Source: Fitch Ratings, Fitch Solutions, Leumi

### Performance Through the Cycle



\* Annualised  
Source: Fitch Ratings, Fitch Solutions, Leumi



## Risk Profile

Loan underwriting standards are generally conservative, more stringent than global peers, and similar to the other large Israeli banks. A high proportion of the loan book is secured at low loan-to-value (LTV) ratios – maximum 75% LTV for first-time buyer mortgage loans – and the collateral is subject to robust valuations. Loan loss allowances are high, due partly to conservative provisioning policies required by the regulator, and sector concentrations are also subject to regulatory limits.

Customer loan growth in 9M23 has been relatively balanced by sector, ranging from 15.7% in large corporates to 5.9% in mid-market corporates and 7.2% in mortgage loans. International exposures—about 6% of customer loans—are mainly in the US and consist largely of construction and real estate loans and loans to Israeli corporations doing business abroad.

Leumi's exposure to equity market risk, through ownership of large equity stakes in nonfinancial companies and mutual funds, is slightly higher than that of peers, although we do not expect the bank to significantly increase its exposure to these types of equity investments. About half of the equity exposure is in marketable funds, while the other half is in non-marketable investments, where market prices are unavailable and valuations are driven by models and therefore less certain. The investments are recorded at historical cost.

Leumi's investment in Valley – book value and market value both about 5% of CET1 capital at end-9M23 – also carries some equity market risk. In 1Q23 the book value was impaired by ILS1.1 billion when Valley's share price declined significantly, along with those of many other US regional banks, following the failure of Silicon Valley Bank. The shares now trade above Leumi's book value (as of 11 January 2024), but a significant fall in the share price could result in further impairment, which would reduce Leumi's profitability.

Other market risks consist mainly of interest-rate risk and exposure to the CPI in the banking book. These exposures are appropriately monitored and managed within risk limits through both natural hedges and derivative overlays, in our view. The bank's positive net CPI position increases earnings during periods of higher inflation. Leumi does not have large net foreign-exchange exposures, so foreign-exchange risk is limited.

We view risk controls as robust, although we recognise downside risks as a result of the war. In particular, operational risk, including cyber risk, is elevated. In addition, Leumi and other banks may be more exposed to market risks because of the potential impact of different war scenarios on the exchange rate, interest rates and inflation.

## Financial Profile

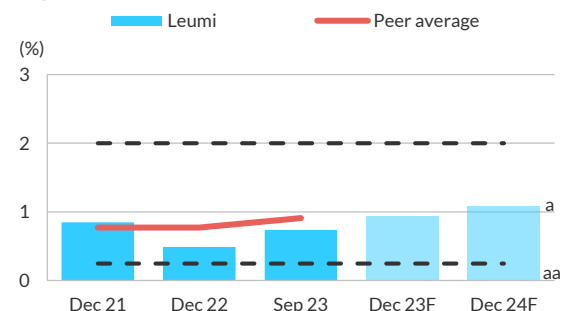
### Asset Quality

Residential mortgages have grown as a percentage of the loan book in recent years due to high levels of house price growth and population growth in Israel, and house price growth in particular accelerated during the pandemic. Mortgage loans expanded by 7.2% in 9M23, but we expect growth to be lower in 2024 because housing transactions have been declining throughout 2023, reaching a 15-year low in 2Q23. Arrears remain very low on a historical basis and below pre-pandemic levels.

Leumi's exposure to other lending segments is diversified by economic sector and similar to domestic peers, representing broad exposure to the domestic economy. Large exposures to single borrowers or groups of related entities have declined in recent years, due partly to regulatory initiatives. Leumi's large borrower exposures are lower than some domestic peers, although they are high against those of international peers. Fitch estimates that total credit exposure (on- and off-balance-sheet) of Leumi to the 20 largest borrowers represented about 100% of CET1 capital at end-2022.

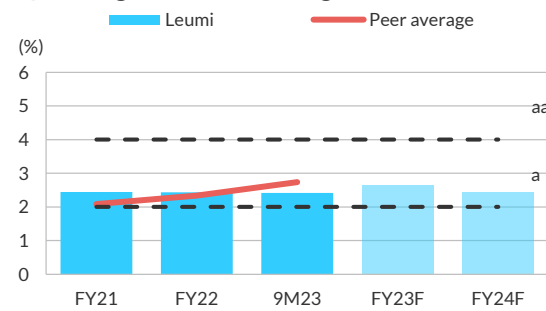
We forecast the impaired loans ratio to remain below 1.5%, although there are downside risks given the uncertainty introduced by the war. For example, a prolonged conflict could result in cash flow pressures in the construction sector where travel restrictions affecting Palestinian workers have reduced construction capacity by about 50%. Loans to hotels and other tourism-focused businesses could also see increased arrears if international visitors are slow to return to the country.

### Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

### Earnings and Profitability

Net interest income in 9M23 was 29% higher yoy, as the net interest margin widened following several increases in interest rates by the central bank. Financing income also benefited from Leumi's exposure to CPI-linked assets, including mortgage loans, which saw higher CPI-linked earnings yoy. Net interest margins peaked in 2Q23 and decreased in 3Q23 due to pressure on deposit pricing.

Profitability in 1Q23 was affected by an ILS1.1 billion impairment of Leumi's stake in Valley. This followed a sharp decline in Valley's share price, which was similar to the decline in other regional US banks following the failure of Silicon Valley Bank. The ILS2.8 billion market value of Leumi's shares in Valley was above their ILS2.4 billion book value as of 11 January 2024. If the share price were to decline significantly, or if the value of the US dollar, in which the shares are quoted, were to significantly weaken, then further impairments could affect Leumi's future profitability.

We expect risk-adjusted operating profitability to decline in 2024, due to a lower net interest margin and lower loan growth, but to remain above 2%. Prudent provisioning policies result in large loan loss allowances relative to the riskiness of the loan book, in our view, and therefore provide a large buffer to absorb material asset-quality deterioration before profitability is affected.

Leumi expects to record a capital gain related to the sale of its office premises in Tel Aviv, as it is moving to a new headquarters. The gain, which is likely in 1Q24, would not have an impact on our core earnings metric, operating profit/RWAs, as we exclude non-recurring gains, and it is not included in our forecast of this ratio.

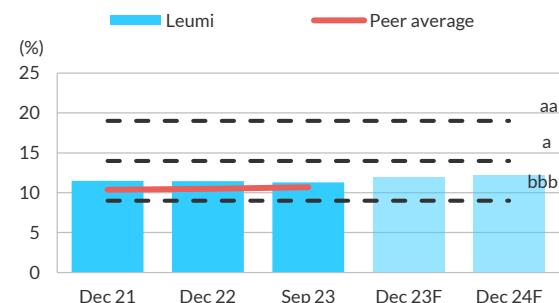
### Capital and Leverage

Leumi’s capitalisation is adequate for its risk profile. The 11.30% CET1 ratio at end-9M23 represents a fairly small buffer over the minimum requirement of 10.21%. The buffer is tighter than at many similarly rated international peers. However, high risk-weights under the standardised approach mitigate the risk of RWA inflation, in our view. Prudent provisioning policies also provide a large buffer to absorb asset-quality deterioration, as does the bank’s improved capital generation, which is why we view the buffer as adequate.

The total capital ratio increased to 14.42% by end-9M23, and benefits from the increase in the collective loan loss provision, increasing the buffer over the 13.5% total capital requirement. The Bank of Israel has not set a Tier 1 capital requirement for Israeli banks, and therefore Leumi has no outstanding Tier 1 instruments and only issues Tier 2 instruments for the purpose of meeting total capital requirements.

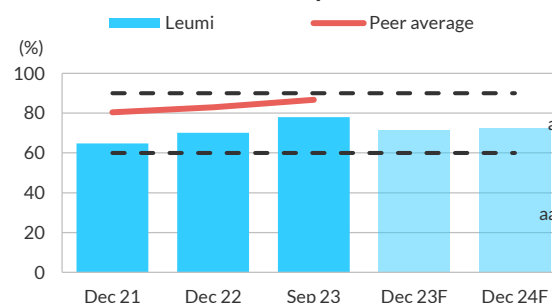
The Basel leverage ratio of 6.7% at end-9M23 was adequately above the 5.5% minimum requirement. This requirement was due to return to the pre-pandemic level of 6.0% on 1 January 2024, but in November 2023 the regulator indicated that the lower requirement of 5.5% might remain in place until 2026 due to the war.

#### CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

#### Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

### Funding and Liquidity

Leumi has a solid and stable funding base consisting mostly of customer deposits, which represented 90% of total non-equity funding at end-9M23. The loans/deposits ratio increased to 78% by end-9M23, from 71% a year earlier, as deposits grew more slowly than loans. Israeli banks have had to increasingly pass interest-rate increases on to depositors, and Leumi’s interest expense on customer deposits increased to 2.8% in 9M23 from 0.8% at the start of the year.

Wholesale funding needs are limited, although the bank has proven access to both domestic and international capital markets. Liquidity is strong in both domestic and foreign currency, with a consolidated liquidity coverage ratio of 130% at end-9M23.

We see the potential for pressure on our assessment of funding if the macroeconomic impact of the war is more negative than our current expectations. This is because a deterioration in the operating environment could result in less favourable wholesale funding conditions and put pressure on deposits, though we have not observed this to date.

#### Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch’s forward view on the bank’s core financial metrics per Fitch’s Bank Rating Criteria. They are based on a combination of Fitch’s macroeconomic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch’s forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or M&A activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch’s core financial metrics for banks operating in the environments that Fitch scores in the ‘aa’ category. Light-blue columns represent Fitch’s forecasts. Peer average includes Bank Hapoalim B.M. (VR: a-), Mizrahi Tefahot Bank Ltd (a-), Israel Discount Bank Limited (a-).

## Financials

### Summary Financials

	30 Sep 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end	Year end
	(USDm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>						
Net interest and dividend income	3,188	12,192	13,251	10,374	8,733	8,873
Net fees and commissions	732	2,801	3,404	3,384	3,163	3,225
Other operating income	30	116	981	1,988	1,171	1,322
Total operating income	3,951	15,109	17,636	15,746	13,067	13,420
Operating costs	1,316	5,034	6,704	7,306	6,928	7,908
Pre-impairment operating profit	2,635	10,075	10,932	8,440	6,139	5,512
Loan and other impairment charges	459	1,755	545	-746	2,651	648
Operating profit	2,176	8,320	10,387	9,186	3,488	4,864
Other non-operating items (net)	n.a.	n.a.	896	156	-10	526
Tax	816	3,119	3,564	3,275	1,356	1,830
Net income	1,360	5,201	7,719	6,067	2,122	3,560
Other comprehensive income	24	93	-380	-117	682	-1,349
Fitch comprehensive income	1,384	5,294	7,339	5,950	2,804	2,211
<b>Summary balance sheet</b>						
<b>Assets</b>						
Gross loans	111,096	424,833	390,877	348,331	301,263	286,550
- Of which impaired	823	3,146	1,908	2,949	4,034	2,531
Loan loss allowances	1,626	6,216	4,986	4,512	5,290	3,328
Net loans	109,471	418,617	385,891	343,819	295,973	283,222
Interbank	n.a.	n.a.	17,948	13,558	9,429	11,552
Derivatives	8,529	32,615	26,638	14,027	15,252	10,970
Other securities and earning assets	36,189	138,387	90,931	90,487	96,111	87,184
Total earning assets	154,189	589,619	521,408	461,891	416,765	392,928
Cash and due from banks	26,493	101,311	168,621	183,844	126,765	64,661
Other assets	2,571	9,831	9,137	10,719	12,505	11,545
Total assets	183,253	700,761	699,166	656,454	556,035	469,134
<b>Liabilities</b>						
Customer deposits	142,451	544,732	557,331	537,569	447,239	373,959
Interbank and other short-term funding	8,609	32,921	26,258	27,652	15,748	6,652
Other long-term funding	7,209	27,569	27,805	15,428	16,303	19,958
Trading liabilities and derivatives	7,454	28,503	23,311	15,551	17,315	11,528
Total funding and derivatives	165,723	633,725	634,705	596,200	496,605	412,097
Other liabilities	3,795	14,513	15,018	18,202	21,335	21,163
Total equity	13,735	52,523	49,443	42,052	38,095	35,874
Total liabilities and equity	183,253	700,761	699,166	656,454	556,035	469,134
Exchange rate		USD1 = ILS3.824	USD1 = ILS3.519	USD1 = ILS3.15	USD1 = ILS3.222	USD1 = ILS3.463

Source: Fitch Ratings, Fitch Solutions, Bank Leumi Le-Israel

## Key Ratios

	30 Sep 23	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
<b>Ratios (annualised as appropriate)</b>					
<b>Profitability</b>					
Operating profit/risk-weighted assets	2.4	2.4	2.5	1.1	1.5
Net interest income/average earning assets	3.0	2.7	2.4	2.2	2.4
Non-interest expense/gross revenue	31.3	38.9	46.7	53.0	58.9
Net income/average equity	13.7	16.8	14.9	5.7	9.9
<b>Asset quality</b>					
Impaired loans ratio	0.7	0.5	0.9	1.3	0.9
Growth in gross loans	8.7	12.2	15.6	5.1	4.1
Loan loss allowances/impaired loans	197.6	261.3	153.0	131.1	131.5
Loan impairment charges/average gross loans	0.6	0.1	-0.3	0.9	0.2
<b>Capitalisation</b>					
Common equity Tier 1 ratio	11.3	11.5	11.5	11.9	11.9
Tangible common equity/tangible assets	7.5	7.0	6.4	6.8	7.6
Basel leverage ratio	6.7	6.4	6.1	6.6	7.3
Net impaired loans/common equity Tier 1	-5.9	-6.3	-3.6	-3.2	-2.1
<b>Funding and liquidity</b>					
Gross loans/customer deposits	78.0	70.1	64.8	67.4	76.6
Liquidity coverage ratio	130.0	131.0	124.0	137.0	123.0
Customer deposits/total non-equity funding	90.0	91.2	92.6	93.3	93.4
Net stable funding ratio	118.0	128.0	131.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Bank Leumi Le-Israel

## Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a to a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	a
<b>Government ability to support D-SIBs</b>	
Sovereign Rating	A+/ RWN
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
<b>Government propensity to support D-SIBs</b>	
Resolution legislation	Neutral
Support stance	Neutral
<b>Government propensity to support bank</b>	
Systemic importance	Positive
Liability structure	Positive
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.  
■ Higher influence ■ Moderate influence ■ Lower influence

Leumi's IDRs are driven by its GSR, which is in line with the domestic systemically important bank (D-SIB) GSR for Israel and reflects Fitch's view of a very high probability that Israel would provide support to Leumi, if needed. In Fitch's view, Israel has a strong ability to support its banking sector, and its propensity to support Leumi is high, particularly given the Leumi's systemic importance in the country with a market share of about 30% of banking-sector assets.

Leumi's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

## Environmental, Social and Governance Considerations

### Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation		Overall ESG Scale			
Bank Leumi Le-Israel B.M. has 5 ESG potential rating drivers		key driver	0	issues	5
<ul style="list-style-type: none"> <li>Bank Leumi Le-Israel B.M. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.</li> <li>Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>		driver	0	issues	4
		potential driver	5	issues	3
		not a rating driver	4	issues	2
			5	issues	1

### Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale	<b>How to Read This Page</b> ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.  <b>The Environmental (E), Social (S) and Governance (G) tables</b> break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.  <b>The Credit-Relevant ESG Derivation table</b> shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.  <b>Classification</b> of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).  <b>Sector references</b> in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.
GHG Emissions & Air Quality	1	n.a.	n.a.	5	
Energy Management	1	n.a.	n.a.	4	
Water & Wastewater Management	1	n.a.	n.a.	3	
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2	
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1	

### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale	<b>How to Read This Page</b> ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.  <b>The Environmental (E), Social (S) and Governance (G) tables</b> break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.  <b>The Credit-Relevant ESG Derivation table</b> shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.  <b>Classification</b> of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).  <b>Sector references</b> in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5	
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3	
Employee Wellbeing	1	n.a.	n.a.	2	
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1	

### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5	5 Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4	4 Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3	3 Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	2 Irrelevant to the entity rating but relevant to the sector.
				1	1 Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/topics/esg/products#esg-relevance-scores](http://www.fitchratings.com/topics/esg/products#esg-relevance-scores).

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