

Bank Leumi Le-Israel B.M.

Update

Key Rating Drivers

Support Drives Ratings: Bank Leumi Le-Israel B.M.'s Issuer Default Ratings (IDRs) reflect Fitch Ratings' view of a very high probability that Israel (A+/RWN/F1+/RWN) would provide support to the bank, if needed. Fitch assesses Israel's ability and propensity to support Leumi as very high, particularly given the bank's systemic importance, with about 30% of banking system assets.

Strong Domestic Franchise: The Viability Rating (VR) reflects Leumi's strong universal banking franchise in Israel as the largest bank by total assets, modest risk appetite, sound funding and liquidity, and adequate capitalisation. It also reflects Fitch's view that asset quality will remain resilient and profitability will continue to improve, supported by loan growth and the higher interest rate environment. The sale of its US subsidiary, Leumi USA, to Valley National Bancorp is consistent with its peers reducing international operations in recent years.

Diversified Business Model: Leumi is the largest bank in Israel by total assets with a stable and diversified business model. It provides a wide range of retail, commercial, capital market and private banking services, with good market shares. Leumi's strong franchise, including its position as market leader in key retail products, provides the group with considerable pricing power.

Market Risk Appetite Above Domestic Peers: Market risk exposure in the banking book is in line with domestic peers and appropriately controlled by internal risk limits. However, the bank is also exposed to market risk from investments in equity securities, which at end-1H23 amounted to about 8.5% of the consolidated common equity Tier 1 (CET1) capital. However, we expect this to remain broadly stable.

Sound Asset Quality: Leumi's impaired loans was 0.6% of gross loans at end-1H23 and benefits from high loan growth in 2022, particularly in mortgages. We expect higher loan impairment charges in 2023 as the loans season as well as due to the macroeconomic impact of the war. Asset quality will also be affected by higher interest rates and high inflation (albeit lower than many other countries), but due to sound underwriting and Israel's resilient operating environment we expect the impaired loans ratio to remain below 1.5% over the next two years.

Strong Profitability: Leumi's operating profit has benefitted from an increase in net interest income due to the strong loan growth (6.5% in 1H23) and improving margins due to higher interest rates. Fitch expects profitability to continue to benefit from higher interest rates and improved efficiency, despite slowing loan demand due to higher mortgage rates and a fall in housing transactions in Israel.

Adequate Capitalisation Buffers: Headroom in our assessment is limited, but capitalisation has remained adequate with a CET1 ratio of 11.2% at end-1H23. We view buffers as adequate because Leumi calculates risk-weighted assets (RWAs) using the standardised approach, which results in fairly high RWA density (RWAs/total assets) of 67% at end-1H23. Our capital assessment also considers Leumi's improved internal capital generation.

Large, Stable Deposit Base: The bank's funding benefits from a stable, granular and low-cost deposit base that exceeds the size of the loan book. It also has proven access to domestic and international debt markets. The 128% liquidity coverage ratio at end-1H23 was adequately above the 100% regulatory requirement.

Leumi's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to a 'A' Long-Term IDR. This is 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 Places Four Israeli Banks on RWN after Sovereign Action \(October 2023\)](#)

[Fitch Places Israel's 'A+' IDRs on Rating Watch Negative \(October 2023\)](#)

[Global Economic Outlook \(September 2023\)](#)

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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 that results in an impaired loan ratio of above 2% for an extended period, combined with the CET1 declining below current levels and weakening internal capital generation 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 IDRs are likely to be affirmed and removed from RWN if Israel's ratings are affirmed and removed from RWN. An upgrade of the IDRs is unlikely due to 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.

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.

Significant Changes from Last Review

Ratings Watch Negative

On 19 October 2023, we placed the support-driven 'A' Long-Term IDRs of four Israeli banks, including Leumi, on RWN following similar action on the sovereign. The RWN reflects the heightened risk of a widening of Israel's current conflict.

The banks' 'F1+' Short-Term IDRs, their 'a' GSRs and 'A' senior debt ratings were also placed on RWN. While the ratings reflect our view of a very high probability that Israel would support the banks, if needed, the RWN reflects the heightened risk that the Israel-Gaza crisis widens.

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				
		20%	10%	20%	15%	25%	10%			
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a RWN	A RWN
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							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 'a' operating environment score has been assigned below the 'aa' category implied score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The 'a-' business profile score has been assigned above the 'bbb' category implied score due to the following adjustment reason: market position (positive).

The 'a-' capitalisation & leverage score has been assigned above the 'bbb' category implied score due to the following adjustment reason: leverage and risk-weight calculation (positive).

Financials

Financial Statements

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm)	6 months - interim (ILSm)	Year end (ILSm)	Year end (ILSm)	Year end (ILSm)	Year end (ILSm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	2,227	8,241	13,251	10,374	8,733	8,873
Net fees and commissions	497	1,838	3,404	3,384	3,163	3,225
Other operating income	-85	-316	981	1,988	1,171	1,322
Total operating income	2,639	9,763	17,636	15,746	13,067	13,420
Operating costs	895	3,312	6,704	7,306	6,928	7,908
Pre-impairment operating profit	1,744	6,451	10,932	8,440	6,139	5,512
Loan and other impairment charges	206	764	545	-746	2,651	648
Operating profit	1,537	5,687	10,387	9,186	3,488	4,864
Other non-operating items (net)	n.a.	n.a.	896	156	-10	526
Tax	609	2,253	3,564	3,275	1,356	1,830
Net income	928	3,434	7,719	6,067	2,122	3,560
Other comprehensive income	18	68	-380	-117	682	-1,349
Fitch comprehensive income	946	3,502	7,339	5,950	2,804	2,211
Summary balance sheet						
Assets						
Gross loans	112,498	416,241	390,877	348,331	301,263	286,550
- Of which impaired	655	2,422	1,908	2,949	4,034	2,531
Loan loss allowances	1,482	5,482	4,986	4,512	5,290	3,328
Net loans	111,016	410,759	385,891	343,819	295,973	283,222
Interbank	n.a.	n.a.	17,948	13,558	9,429	11,552
Derivatives	7,074	26,173	26,638	14,027	15,252	10,970
Other securities and earning assets	33,323	123,294	90,931	90,487	96,111	87,184
Total earning assets	151,412	560,226	521,408	461,891	416,765	392,928
Cash and due from banks	31,535	116,678	168,621	183,844	126,765	64,661
Other assets	2,690	9,953	9,137	10,719	12,505	11,545
Total assets	185,637	686,857	699,166	656,454	556,035	469,134
Liabilities						
Customer deposits	144,369	534,167	557,331	537,569	447,239	373,959
Interbank and other short-term funding	8,324	30,800	26,258	27,652	15,748	6,652
Other long-term funding	8,536	31,585	27,805	15,428	16,303	19,958
Trading liabilities and derivatives	6,245	23,107	23,311	15,551	17,315	11,528
Total funding and derivatives	167,475	619,659	634,705	596,200	496,605	412,097
Other liabilities	4,168	15,422	15,018	18,202	21,335	21,163
Total equity	13,994	51,776	49,443	42,052	38,095	35,874
Total liabilities and equity	185,637	686,857	699,166	656,454	556,035	469,134
Exchange rate		USD1 = ILS3.7	USD1 = ILS3.519	USD1 = ILS3.15	USD1 = ILS3.222	USD1 = ILS3.463

Source: Fitch Ratings, Fitch Solutions, Bank Leumi Le-Israel B.M.

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (% , annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.5	2.4	2.5	1.1	1.5
Net interest income/average earning assets	3.1	2.7	2.4	2.2	2.4
Non-interest expense/gross revenue	30.9	38.9	46.7	53.0	58.9
Net income/average equity	13.8	16.8	14.9	5.7	9.9
Asset quality					
Impaired loans ratio	0.6	0.5	0.9	1.3	0.9
Growth in gross loans	6.5	12.2	15.6	5.1	4.1
Loan loss allowances/impaired loans	226.3	261.3	153.0	131.1	131.5
Loan impairment charges/average gross loans	0.4	0.1	-0.3	0.9	0.2
Capitalisation					
Common equity Tier 1 ratio	11.2	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	-6.0	-6.3	-3.6	-3.2	-2.1
Funding and liquidity					
Gross loans/customer deposits	77.9	70.1	64.8	67.4	76.6
Liquidity coverage ratio	128.0	131.0	124.0	137.0	123.0
Customer deposits/total non-equity funding	89.5	91.2	92.6	93.3	93.4
Net stable funding ratio	121.0	128.0	131.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Bank Leumi Le-Israel B.M.

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
Government ability to support D-SIBs	
Sovereign Rating	A+/ RWN
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
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 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 a '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

Bank Leumi Le-Israel B.M. has 5 ESG potential rating drivers

- 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.
- Governance is minimally relevant to the rating and is not currently a driver.

	key driver	0	issues	5	
	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
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

How to Read This Page

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.

The Environmental (E), Social (S) and Governance (G) tables 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.

The Credit-Relevant ESG Derivation table 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.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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

Classification 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).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

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.
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.
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.
2	Irrelevant to the entity rating but relevant to the sector.
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 <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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