

## Bank Leumi le-Israel B.M.

**Primary Credit Analyst:**

Pierre Hollegien, Paris + 33 14 075 2513; [Pierre.Hollegien@spglobal.com](mailto:Pierre.Hollegien@spglobal.com)

**Secondary Contacts:**

Regina Argenio, Milan + 39 0272111208; [regina.argenio@spglobal.com](mailto:regina.argenio@spglobal.com)

Matan Benjamin, RAMAT-GAN + 44 20 7176 0106; [matan.benjamin@spglobal.com](mailto:matan.benjamin@spglobal.com)

### Table Of Contents

---

Rating Score Snapshot

Credit Highlights

Outlook

Key Metrics

Anchor: 'bbb' For Banks Operating Only In Israel

Business Position: Leading Domestic Player

Capital And Earnings: Higher-For-Longer Interest Rates Support Profitability

Risk Position: High And Increasing Concentration In Real Estate-Related Lending

Funding And Liquidity: Sound Liquidity And Customer Deposits Underpin The Funding Base

Comparable Ratings Analysis (CRA) Adjustment: One Notch Of Uplift Due To Strong Earnings Capacity

## Table Of Contents (cont.)

---

Support: One Notch Of Uplift For Government Support

Environmental, Social, And Governance

Group Structure, Rated Subsidiaries, And Hybrids

Key Statistics

Related Criteria

Related Research

# Bank Leumi le-Israel B.M.

## Rating Score Snapshot

### Issuer Credit Rating

A-/Negative/A-2

<b>SACP: bbb+</b> →			<b>Support: +1</b> →		<b>Additional factors: 0</b>	
Anchor	bbb		ALAC support	0	<div>Issuer credit rating</div> <div>A-/Negative/A-2</div>	
Business position	Strong	+1	GRE support	0		
Capital and earnings	Adequate	0	Group support	0		
Risk position	Moderate	-1	Sovereign support	+1		
Funding	Adequate	0				
Liquidity	Adequate					
CRA adjustment		+1				

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

## Credit Highlights

### Overview

Key strengths	Key risks
Market leader in Israel, with a strong presence in all key business lines.	Large and growing concentration in the real estate sector, potentially adding pressure to asset quality in a more challenging economic environment.
Large domestic customer deposit base.	Large investment securities and pension liabilities, which create volatility in capitalization.
Resilient profitability despite weakened economic environment.	High geopolitical and security risks.

**Leumi's strong franchise and large and granular deposit base are credit positive.** Leumi is a universal bank that serves the full spectrum of customers in Israel, which provides reasonable earnings and balance-sheet predictability. It benefits from large core deposits base, accounting for about 90% of its funding. Despite some deposit-pricing competition, its revenues remain resilient.

**Higher-for-longer interest rates are a tailwind helping loss-absorption capacity and supporting the bank's capitalization.** Interest rates are also supporting its profitability, as are cost-efficiency initiatives. We expect credit losses to remain high at 40 basis points (bps) per year on average in 2024-2026. Leumi's superior earning capacity represents a strength compared to peers and a buffer at the current rating level. We forecast that Leumi's risk-adjusted capital (RAC) ratio will improve slightly to 8.4%-8.8% in 2026, from 8.4% as of December 2023.

*However, the economic slowdown and uncertain environment coupled with Leumi's stronger-than-peers growth in construction and real estate represent a risk.* We forecast NPLs to increase to about 1.4% by 2026 from a low 0.96% as of March 31, 2024 due to high interest rates and the Israel-Hamas conflict's effects on economic performance. Strong growth in the construction and real estate segment over the past few years are exacerbating tail risk.

We factor into our ratings our view that Israel (A+/Negative/A-1) would provide extraordinary support to the bank in the event of financial distress.

## Outlook

The negative outlook on Leumi mirrors that on the sovereign and reflects our view that an escalation of the war could have negative implications for Leumi's creditworthiness over the next 12-24 months.

### Downside scenario

We could lower the rating on Leumi if we lowered the rating on Israel because we would then consider it less likely that the government would provide extraordinary support to Leumi in case of need. We could also lower the rating on Leumi if we considered that security risks had escalated, with negative consequences for the banking sector and Leumi's asset quality, capitalization, or earnings.

### Upside scenario

We could revise the outlook to stable if we revised the outlook on Israel to stable and thought that security risks and pressures on domestic economic prospects had lessened.

### Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Leumi's hybrids from the stand-alone credit profile (SACP). Therefore, we would lower the rating on the bank's rated subordinated instruments if we were to revise Leumi's SACP downward.

## Key Metrics

### Bank Leumi le-Israel B.M.--Key ratios and forecasts

	--Fiscal year-ended Dec. 31 --				
(%)	2022a	2023a	2024f	2025f	2026f
Growth in customer loans	12.2	9.5	5.4-6.6	7.2-8.8	5.4-6.6
Net interest income/average earning assets (NIM)	2.8	2.9	2.4-2.6	2.1-2.4	1.9-2.1
Cost to income ratio	38.7	32.3	34.5-36.3	36.2-38.1	37.9-39.8
Return on average common equity	16.9	13.5	11.5-12.1	10.3-10.9	9.9-10.4
New loan loss provisions/average customer loans	0.1	0.6	0.5-0.5	0.4-0.4	0.3-0.3
Gross nonperforming assets/customer loans	0.8	1.1	1.5-1.6	1.6-1.7	1.3-1.4

**Bank Leumi le-Israel B.M.--Key ratios and forecasts (cont.)**

	--Fiscal year-ended Dec. 31 --				
(%)	2022a	2023a	2024f	2025f	2026f
Risk-adjusted capital ratio	9.7	8.4	8.5-9.0	8.4-8.9	8.4-8.8

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast. NIM--Net interest margin.

## Anchor: 'bbb' For Banks Operating Only In Israel

We use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for banks operating only in Israel is 'bbb'.

Israel-based banks benefit from the wealthy and diversified domestic economy, but they display some concentration in their lending books and are vulnerable to geopolitical risk. In our view, the material escalation of geopolitical and security risks that Israel faces following the onset of the Israel-Hamas war will affect Israel's economic performance in 2024. We forecast real economic growth at 0.5% in 2024, which, excluding the pandemic year, 2020, will be the weakest performance in decades. While we expect growth will rebound in 2025 by 5%, it remains uncertain whether there could be longer-term scarring for the Israeli economy. In addition, an escalation of conflict could present additional security and social risks for Israel, with a deeper impact on the domestic economy. Economic slowdown, coupled with higher debt service, will impact asset quality, in our view. Israel's real estate sector, which represents a large 20% of banks' loan books, is among the most vulnerable to current developments, in addition to unsecured lending, tourism, small businesses, and the services sector. In this context, we expect credit losses to remain elevated after having reached about 50 bps in 2023.

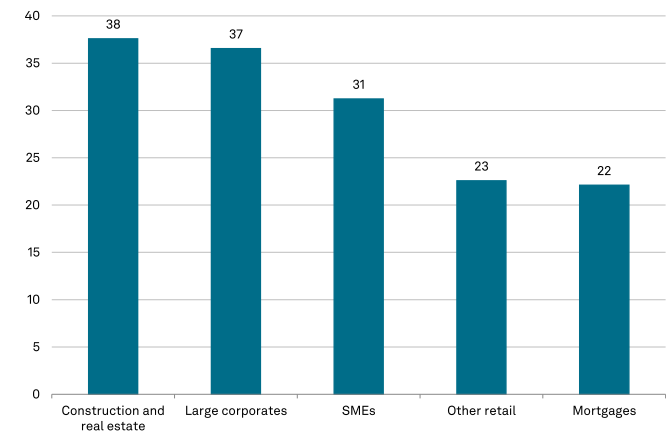
Low funding risk and the proactive regulator support the industry. The Israeli banking sector benefits from a strong funding profile and a net external creditor position, which both provide a cushion in the challenging environment. Prudent regulatory oversight somewhat mitigates risks of concentration and geopolitical instability. Israel-based banks' profitability is benefiting from a recovery in lending growth, high interest rates, and continuous cost-cutting initiatives. Competition among banks and nonbank financial institutions somewhat constrains margins and fees.

## Business Position: Leading Domestic Player

Our assessment of Leumi's business position reflects its strong franchise in its home market, where it enjoys a significant presence in all segments (charts 1 and 2).

Chart 1

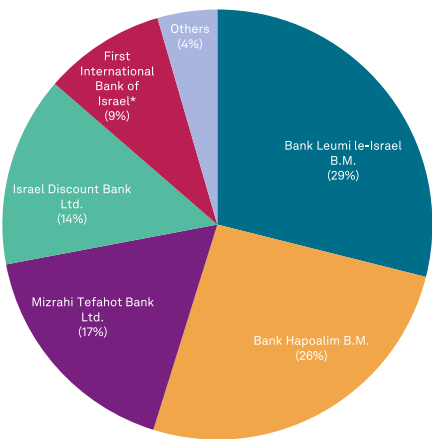
Leumi enjoys a strong market presence in all segments and...  
Market share (%)



Source: S&P Global Ratings.  
Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2

...Is one of the largest banks in Israel  
Domestic deposits market share as of March 31, 2024



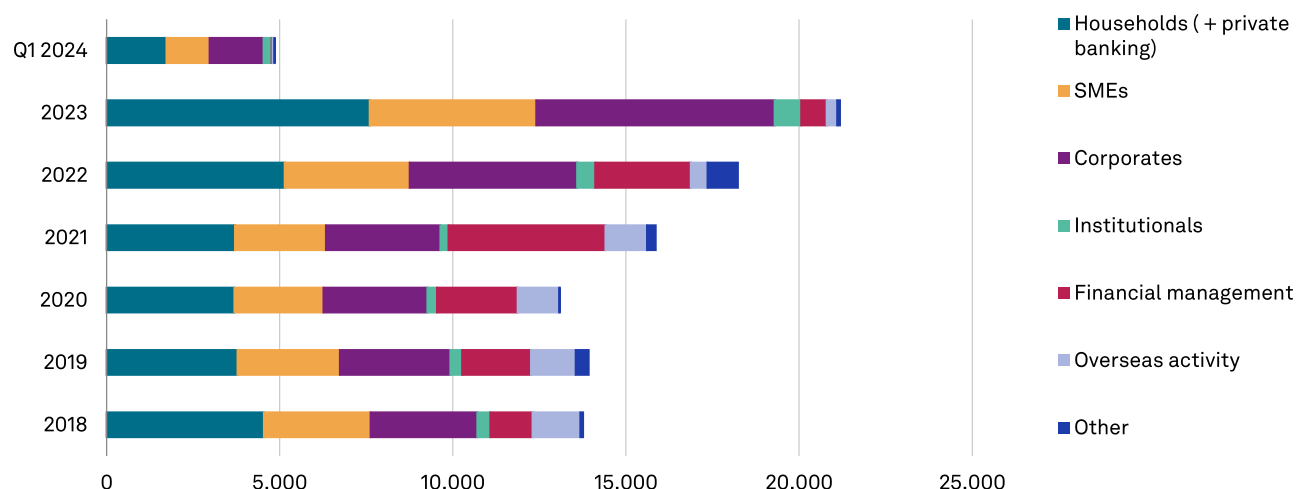
\*Data as of December 2023. Source: S&P Global Ratings.  
Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

The bank aims to maintain its current market shares in most segments while continuing to grow in mortgages, amid recovered demand after negative pressure from high interest rates and conflict. It also wants to grow its exposure to the construction industry, but is taking a more cautious approach. At the same time, Leumi will continue to increase its digitalization and maintain tight cost controls.

Its diversified revenue base provides business stability. However, larger operations than peers in the capital markets and investment banking segments create some volatility in its revenue base (chart 3).

**Chart 3****Leumi's diversified revenues help predictability**

Total income distribution per segment



Q--Quarter. Source: S&amp;P Global Ratings.

Copyright © 2024 by Standard &amp; Poor's Financial Services LLC. All rights reserved.

Leumi has significantly expanded its business after the pandemic, but has mostly focused on construction and real estate segments, which we consider inherently riskier. We acknowledge that underwriting standards have remained conservative, but we think that rapid growth in the real estate segment might expose Leumi to risks amid tougher economic conditions. We expect Leumi's lending growth to slow moderately over the next two-to-three years, due to the economic slowdown, lower confidence, and still-tight financing conditions.

On the international front, Leumi's main exposure is its investment in Valley National Bank (Valley). Leumi cooperates with Valley to serve the U.S. operations of large Israeli companies that are important Leumi customers. It is important for Leumi to have a presence in the U.S. because of the economic, political, and historical ties between the U.S. and Israel.

**Leumi's exposure to the U.S .**

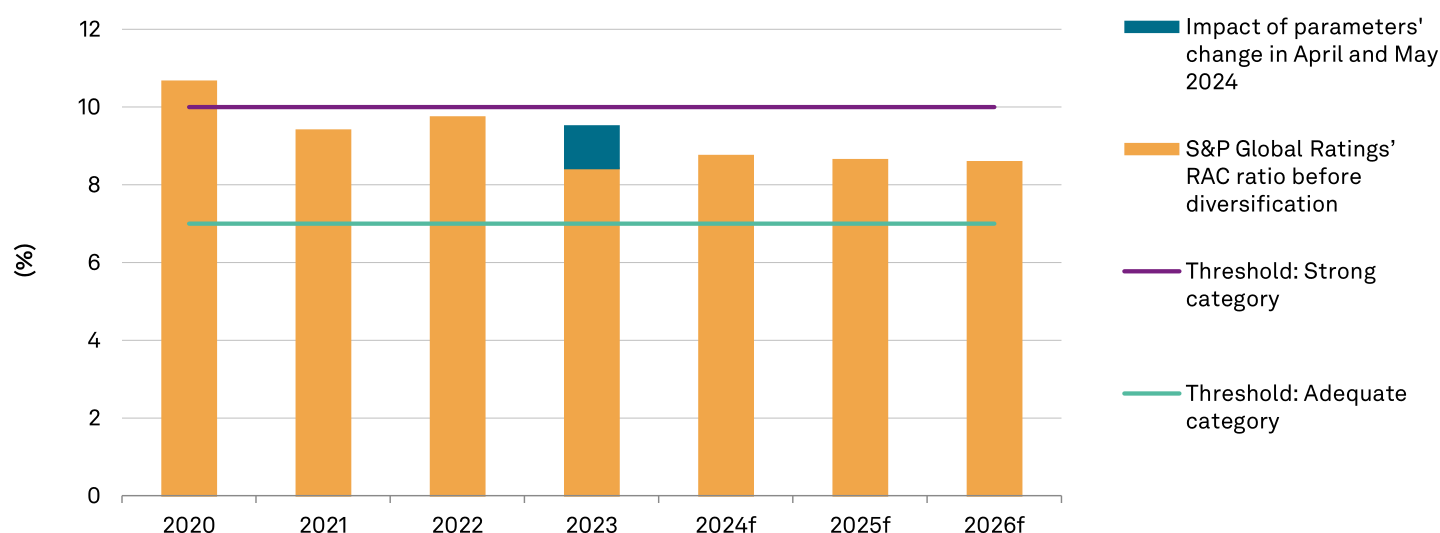
Leumi sold its 85% stake in Bank Leumi USA to Valley on April 1, 2022, in exchange for about 14.2% of Valley and cash, for about US\$1.2 billion. While we think that the sale reduced Leumi's operational risk, we believe it magnified its exposure to the turmoil at U.S. regional banks and added some volatility to the bank's performance given Valley's sizable exposure to CRE of about 5x its capital (see "Outlooks On Five U.S. Regional Banks Revised To Negative From Stable On Commercial Real Estate Risks; Ratings Affirmed," March 26, 2024). Valley's initial ILS3.6 billion investment has been repeatedly written down to reflect Valley's weaker share price performance, in line with other U.S. regional banks. We deduct Leumi's entire investment in Valley--currently estimated at about ILS2 billion--from our measure of capital.

## Capital And Earnings: Higher-For-Longer Interest Rates Support Profitability

We believe Leumi's profitability will continue to support its capital, but we expect it to improve only marginally due to sustained credit growth and an increase in shareholder distributions. We anticipate that Leumi's RAC ratio will slightly progress to about 8.4%-8.8% in 2026, from 8.4% as of December 2023 (pro forma for new BICRA parameters; see "Various Rating Actions On Israeli Banks On Increased Geopolitical Risks; All Outlooks Negative," May 2, 2024; chart 4).

**Chart 4**

**Leumi's RAC has suffered from the ongoing conflict that led to the sovereign downgrade and our lowering of Israel's economic risk in April and May 2024**



f--Forecast. Source: S&P Global Ratings.

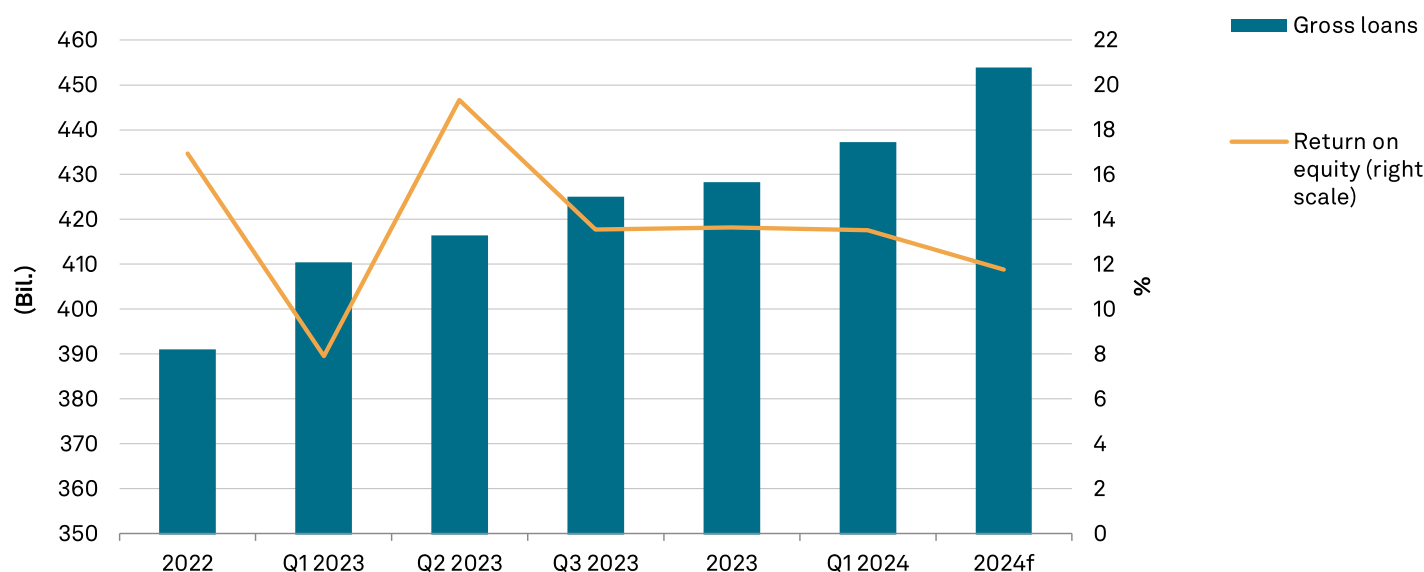
Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Interest rates should remain high for 2024--as a result of the Bank of Israel's cautious approach in this uncertain environment--thereby providing a tailwind to revenues. Assuming geopolitical risk recedes, we expect interest rates to moderately decline from 2025. We anticipate a still-high net interest margin (NIM), lending expansion, and cost-containment measures to sustain return on equity (RoE). We forecast RoE will remain above 10% but be volatile amid provisioning efforts and extraordinary items (chart 5).



Chart 5

## Profitability should remain resilient



f--Forecast. Q--Quarter. Source: S&P Global Ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

In our forecast we factor in:

- NIM gradually declining toward about 2.0% in 2026 from 2.89% as of December 2023 balancing still-sustained lending growth, at about 6%-7%, and a high portion of interest-bearing customer deposits.
- Muted fee performance in 2024, resuming thereafter due to its diversified fees-based business.
- Still-high credit losses, although moderately declining to about 40 bps on average in 2024-2026.
- We also take into account the new windfall tax for the sector that will extend until end-2025.
- An increased payout ratio of 40%-45% over the three-year period.

Leumi's regulatory capital and leverage ratios are comfortably above regulatory requirements. The group's CET 1 ratio stood at a historically high 11.98% as of March 2024, above the minimum target of 10.23%. We do not expect the bank would maintain its current level of capitalization in a more stable geopolitical environment, as it usually works with narrow buffers. This is because Israeli banks use the standardized approach to calculating risk-weighted assets and apply the BOI's more conservative requirements to some real-estate-related exposures. We don't regard this as a risk because we understand that the regulator is comfortable with these narrow margins and that the bank is not willing to approach the minimum threshold.

Capitalization is more volatile than peers' due to the large securities portfolio and defined benefit pension fund, which are sensitive to interest rate developments. Interest rates have the opposite effect on mark-to-market evaluations of the

bank's securities accounted at fair value and on unrecognized losses for employee benefits. Unrealized losses associated with Leumi's bonds reached about ILS1.70 billion as of March 31, 2024, versus a gain of about ILS874 million as of December 2021, while unrecognized losses for employee benefits declined to ILS743 million as of March 31, 2024, from a high ILS3.5 billion as of December 2021.

### Regulatory Capital Ratio Calculations

The BOI calculates its regulatory capital ratio differently to how we calculate RAC. BOI fully captures unrealized losses or gains on securities accounted at fair value in its regulatory capital calculation. Since July 2022, the BOI has allowed Leumi to spread over four quarters the net amount of the change in the value of assets designated for hedging its employee-benefits liability derived from movement in the discount rate (the bank does not disclose the amount).

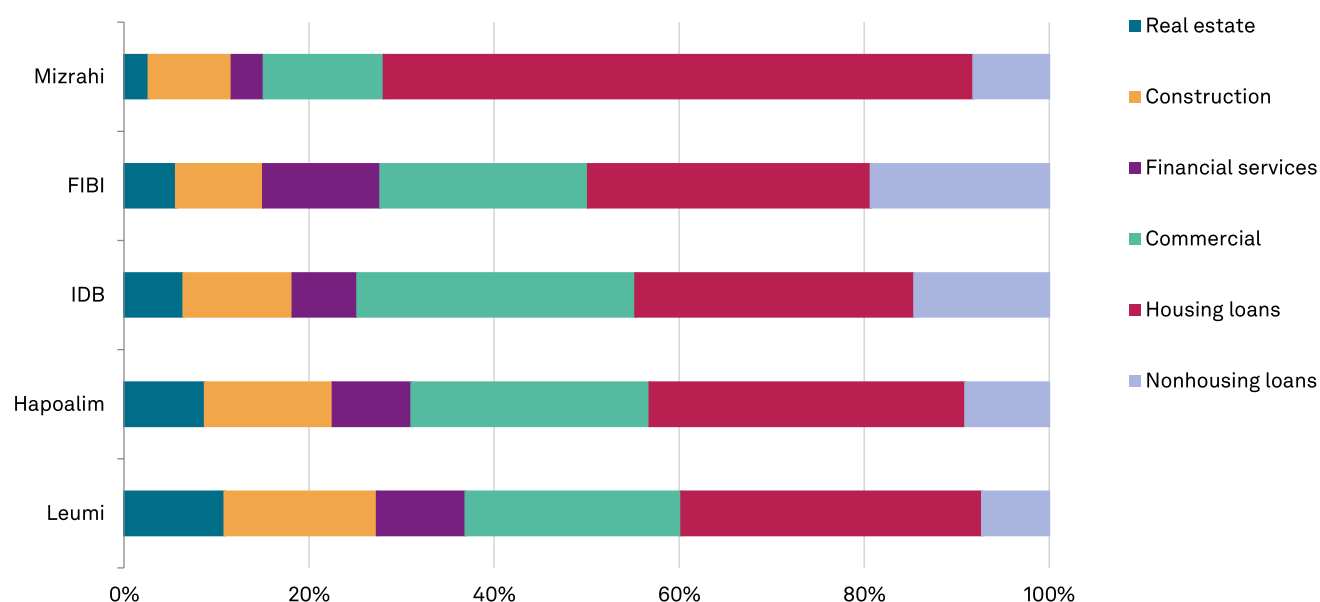
In our RAC calculation, we neutralize unrealized losses or gains on securities accounted at fair value. This is because counting unrealized gains and losses in total adjusted capital (TAC) would create more volatility in the RAC ratio and could distort the true picture of a bank's capital adequacy in cases where unrealized gains and losses are unlikely to be realized. Still, while we do not reflect unrealized losses and gains in TAC, we consider their magnitude, their impact on liquidity, and the probability that they could result in realized losses. At the same time, we reduce banks' TAC by the full amount of unrecognized losses for employee benefits.

### Risk Position: High And Increasing Concentration In Real Estate-Related Lending

We view Leumi's risk position as reflecting its higher-than-peers concentration. A key risk factor for Leumi and many of its local peers is its high exposure to property-related lending (see chart 6), namely for construction (16% of portfolio as of March 2024) and real estate loans (11%). We acknowledge that total exposure to construction and real estate is below the regulatory limit of 22%, when accounting for risk mitigation techniques.

**Chart 6****Leumi's domestic property-related lending exposure is a source of risk**

Loans breakdown, March 31, 2024



Source: S&amp;P Global Ratings.

Copyright © 2024 by Standard &amp; Poor's Financial Services LLC. All rights reserved.

Housing carries lower risk, in our view, but we are mindful of the strong growth of both the sector and real estate prices over the past couple of years, which only temporarily slowed down in 2023 amid high interest rates and the conflict's consequences for confidence and security risk.

Moderate loan-to-value ratios (averaging 48.4% as of March 2024), conservative underwriting standards, and sustained housing demand due to demographic dynamics somewhat mitigate these risks.

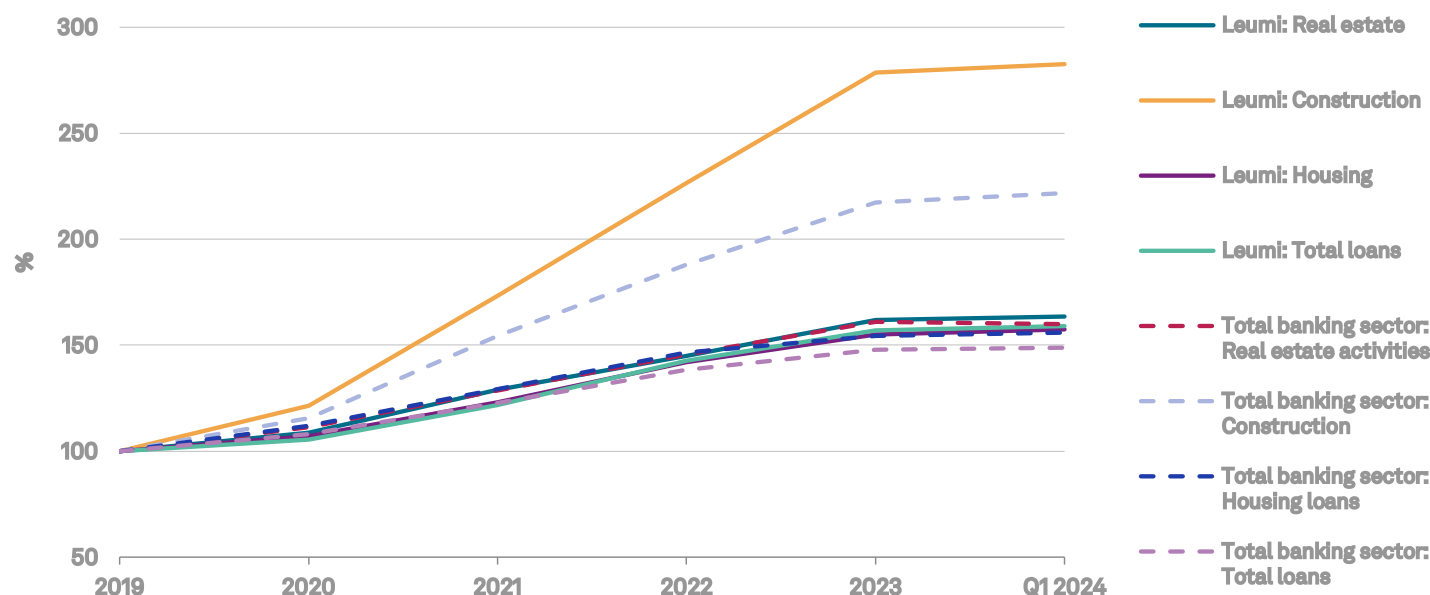
We consider the bank's high exposure to construction and income-producing real estate as riskier, particularly considering Leumi's strong growth in the segment over the past few years (chart 7). About 60% of Leumi's exposure is concentrated in residential property projects and most of the loans have a maturity of under three years, thereby mitigating some of the risk. However, the unseasoned portfolio, and the fact that recent projects might rely on pricing assumptions that could prove to be challenging amid the weakened macroeconomic conditions, still represent a risk, in our view.

Offices and shopping malls have been resilient during the pandemic, but we still see a risk of oversupply coming from the worsened economic conditions and reduced attractiveness of the country for FDI, particularly in the high tech sector.

Chart 7

**Leumi has outgrown the sector in construction and real estate lending**

Domestic loans only



Total banking sector data is an estimate based on Leumi, Hapoalim, Mizrahi, IDB, and FIBI data.

Q--Quarter. Source: S&P Global Ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

So far, Leumi's asset quality metrics have remained strong. Its nonperforming loans (NPL) ratio reached 0.96% as of March 31, 2024, higher than 0.77% in 2022 but still lower than the December 2021 ratio of 1.12%. That said, because of the economic slowdown and strong growth in construction and real estate, we still think its asset quality indicators will deteriorate. We acknowledge that supporting measures allowing customer to defer payments have impacted about 6% of Leumi's loans. The bank has estimated a related cost of potentially NIS440 million, although customer utilization was only about 42% in May 2024.

We forecast NPLs to increase to about 1.4% by 2026 and credit losses to remain at about 50 bps in 2024, then gradually reduce to 30 bps in 2026. Leumi's high level of reserves, amounting to about 1.6% of total loans, mitigates risks.

Risk could increase if Leumi continues to outgrow its exposure to construction and commercial real estate or if the risk of oversupply in the retail and office segments materializes.

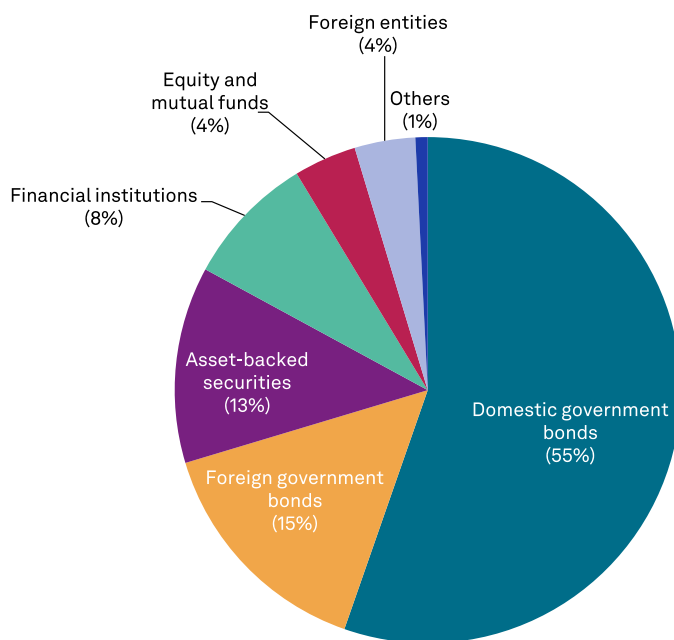
Interest-rate risk is managed using the nostro portfolio, taking into account pension liabilities changes to interest rates. Based on sensitivity analysis published by the bank, as of March 31, 2024, a simultaneous decline of 1% in interest rates would lead to a positive impact on the net fair value of the financial instruments (adjusted for non-monetary items and the effect of the employee benefits liability) of about ILS1.7 billion and about a ILS2.5 billion decline for a

1% increase. Securities are quite diversified (chart 8) and about ILS6.5 billion is invested in equity, which carries a high 823% risk weight in our capital calculation.

#### Chart 8

#### Bank Leumi le-Israel B.M. securities portfolio is quite diversified, although bringing some volatility

Securities portfolio breakdown as of March 31, 2024



Source: S&P Global Ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Operational risks are material, but not bank specific. They mainly relate to the geopolitical tensions in the region and potential damage to the bank in case of tail events. We reflect these risks—including the latest developments since the third quarter of 2023—in our anchor for Israeli banks. Leumi has not experienced any major successful cyber-attacks but attempts have increased particularly since the last quarter of 2023. The bank continues to strengthen its cyber risk management framework.

## Funding And Liquidity: Sound Liquidity And Customer Deposits Underpin The Funding Base

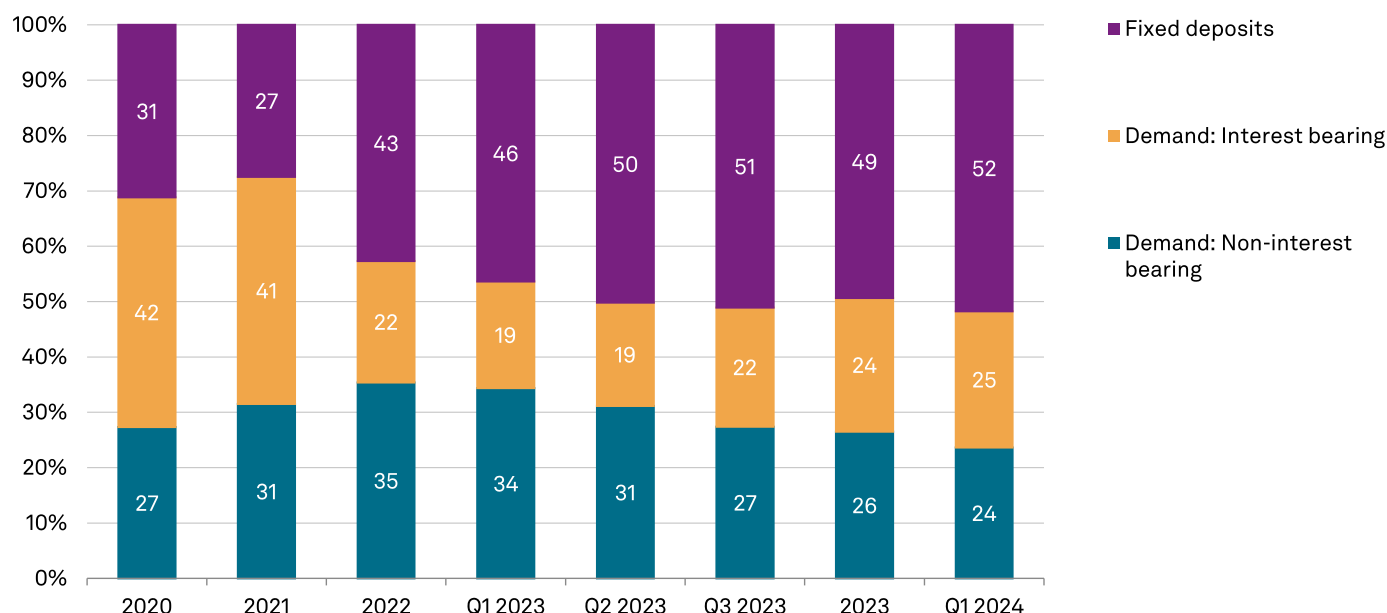
Leumi's solid funding and liquidity metrics provide a cushion in a volatile operating environment.

Its funding base is 90% composed of core deposits, which we see as highly diverse and stable. Corporate and institutional entities' deposits, accounting for about 53% of total domestic deposits, have a good track record of stability, but imply some deposit-pricing competition (chart 9). They were the main driver of deposit growth in the first

quarter of 2024 and may gain weight in the future as Leumi seeks to fund its strong lending growth. Despite this, Leumi has maintained strong profitability.

**Chart 9**

**The share of noninterest bearing deposits has declined**



Source: S&P Global Ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Due to its large deposits base, Leumi does not rely materially on wholesale funding to finance long-term customer assets. As of March 31, 2024, total wholesale funding stood at 9.33% of Leumi's funding base.

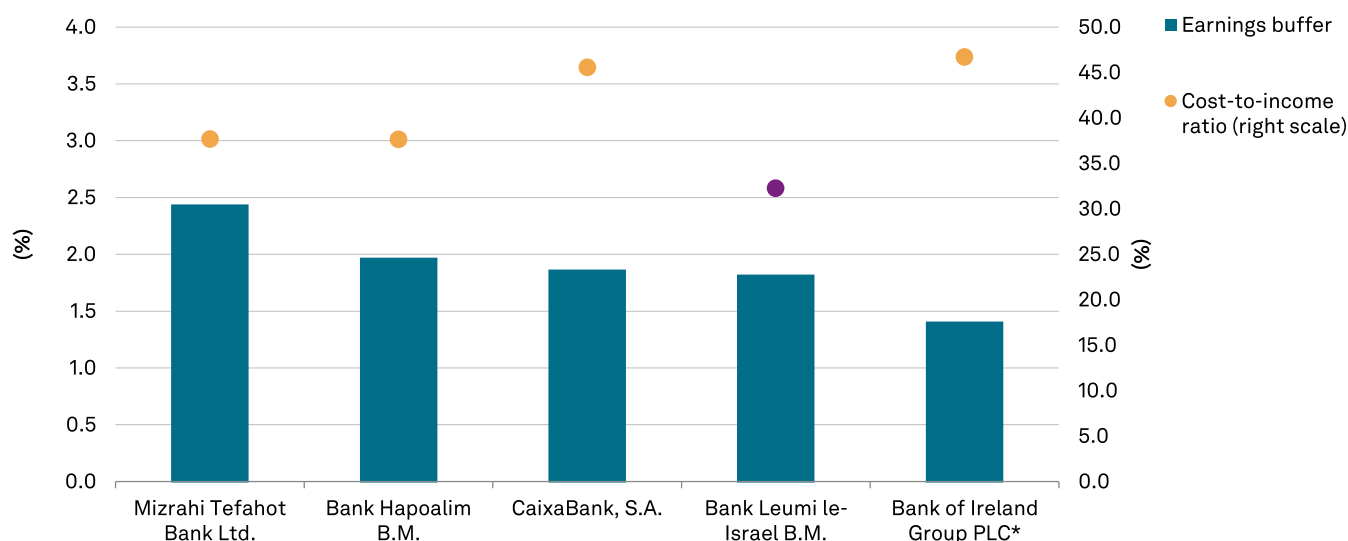
The bank's liquid-assets cushion is material. Cash, central bank, and other bank placements and investment securities constituted about 38% of assets on March 31, 2024.

## Comparable Ratings Analysis (CRA) Adjustment: One Notch Of Uplift Due To Strong Earnings Capacity

We factor one notch of uplift into Leumi's stand-alone credit profile (SACP) because we consider the bank's creditworthiness to be more in line with peers with a 'bbb+' SACP. This is also because of the bank's risk-adjusted earnings and operating efficiency being better than most peers'. Despite the geopolitical risk, we project Leumi's earnings buffer and profitability indicators will remain solid in the next couple of years. The bank's three-year average earnings buffer (1.7% as of end-2023) indicates greater capacity of earnings to cover normalized losses through the credit cycle (see chart 10).

Chart 10

### Leumi overperforms peers on efficiency and maintains sufficient earnings buffer 2023



\*Earnings buffer as of 2022 for BOI. Source: S&P Global Ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

## Support: One Notch Of Uplift For Government Support

The long-term rating on Leumi is one notch higher than the SACP, reflecting our view that the bank has high systemic importance in Israel and that the government is supportive of the domestic banking sector. We would reconsider our assessment of government support if the regulatory authorities introduced an updated bank resolution framework. However, we do not anticipate such a development in the medium term.

## Environmental, Social, And Governance

We think that environmental, social, and governance credit factors influence Leumi's credit quality similarly to its industry and local peers. The bank has established a sustainability strategy, policy, and framework, and environmental, social, and governance factors are becoming an important consideration in its lending or investment decisions.

Over the past couple of years, some changes have occurred at the top management level, but we anticipate continuity in the bank's strategy. We regard the management team as professional and experienced. Leumi also presents a robust system of checks and balances in decision-making, with independent directors that contribute to the bank's strategy. Environmental and social factors do not affect Leumi's credit quality differently to its industry peers. We expect that

the bank's investment in digitalization will contribute to Leumi's staff reduction, but we believe that it will handle early retirements carefully.

## Group Structure, Rated Subsidiaries, And Hybrids

We rate Leumi's hybrid instruments by applying our standard notching from the SACP as we do not expect these instruments to benefit from state support. This means that we rate the Tier 2 subordinated contingent capital notes 'BBB-' by deducting one notch for default risk and one notch for subordination from the SACP.

## Key Statistics

**Table 1**

Bank Leumi le-Israel B.M.--Key figures					
	--Year-ended Dec. 31--				
(Mil. ILS)	2024*	2023	2022	2021	2020
Adjusted assets	753,673.0	730,886.0	698,109.0	656,440.0	556,020.0
Customer loans (gross)	436,924.0	428,009.0	390,877.0	348,331.0	301,263.0
Adjusted common equity	54,471.0	51,721.0	45,903.8	38,843.2	34,586.2
Operating revenues	5,478.0	21,359.0	17,663.0	15,802.0	12,968.0
Noninterest expenses	1,825.0	6,894.0	6,834.0	7,425.0	6,928.0
Core earnings	2,228.4	7,707.7	7,067.7	5,967.6	2,128.1

\*Data as of March 31. ILS--ILS-New Israeli Sheqel.

**Table 2**

Bank Leumi le-Israel B.M.--Business position					
	--Year-ended Dec. 31--				
(%)	2024*	2023	2022	2021	2020
Loan market share in country of domicile	--	--	--	--	--
Deposit market share in country of domicile	--	--	--	--	--
Total revenues from business line (currency in millions)	6,335.0	21,395.0	18,631.0	15,965.0	12,969.0
Commercial banking/total revenues from business line	44.9	57.6	48.0	42.8	50.7
Retail banking/total revenues from business line	29.3	35.5	27.7	24.0	28.6
Commercial & retail banking/total revenues from business line	74.2	93.1	75.8	66.8	79.3
Trading and sales income/total revenues from business line	--	--	--	--	--
Corporate finance/total revenues from business line	--	--	--	--	--
Brokerage/total revenues from business line	--	--	--	--	--
Insurance activities/total revenues from business line	--	--	--	--	--
Agency services/total revenues from business line	--	--	--	--	--
Payments and settlements/total revenues from business line	--	--	--	--	--
Asset management/total revenues from business line	--	--	--	--	--
Other revenues/total revenues from business line	25.8	6.9	24.2	33.2	20.7
Investment banking/total revenues from business line	--	--	--	--	--



Table 2

Bank Leumi le-Israel B.M.--Business position (cont.)					
(%)	--Year-ended Dec. 31--				
	2024*	2023	2022	2021	2020
Return on average common equity	20.0	13.5	16.9	15.2	5.8

\*Data as of March 31.

Table 3

Bank Leumi le-Israel B.M.--Capital and earnings					
(%)	--Year-ended Dec. 31--				
	2024*	2023	2022	2021	2020
Tier 1 capital ratio	--	--	11.5	11.5	11.9
S&P Global Ratings' RAC ratio before diversification	--	--	9.7	9.4	10.7
S&P Global Ratings' RAC ratio after diversification	--	--	8.8	8.8	9.4
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	68.8	74.9	74.8	65.5	67.3
Fee income/operating revenues	17.1	17.5	20.0	22.2	24.4
Market-sensitive income/operating revenues	13.4	6.0	2.9	10.8	7.9
Cost to income ratio	33.3	32.3	38.7	47.0	53.4
Preprovision operating income/average assets	2.0	2.0	1.6	1.4	1.2
Core earnings/average managed assets	1.2	1.1	1.0	1.0	0.4

\*Data as of March 31.

Table 4

Bank Leumi le-Israel B.M.--Risk-adjusted capital framework (RACF) data					
(Mil. ILS)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
<b>Credit risk</b>					
Government & central banks	222,505	5,018	2	3,695	2
Of which regional governments and local authorities	11,057	4,012	36	398	4
Institutions and CCPs	66,445	11,531	17	16,285	25
Corporate	291,005	274,931	94	328,214	113
Retail	170,328	100,275	59	67,420	40
Of which mortgage	130,126	70,021	54	37,268	29
Securitization§	4,012	938	23	938	23
Other assets†	8,979	18,280	204	23,767	265
Total credit risk	763,275	410,971	54	440,320	58
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	2,989	--	3,885	--
<b>Market Risk</b>					
Equity in the banking book	6,477	12,439	192	53,280	823
Trading book market risk	--	5,834	--	8,750	--
Total market risk	--	18,272	--	62,030	--

Table 4

Bank Leumi le-Israel B.M.--Risk-adjusted capital framework (RACF) data (cont.)					
(Mil. ILS)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
<b>Operational risk</b>					
Total operational risk	--	29,943	--	38,462	--
(Mil. ILS)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
<b>Diversification adjustments</b>					
RWA before diversification	--	462,176	--	544,697	100
Total Diversification/ Concentration Adjustments	--	--	--	62,399	11
RWA after diversification	--	462,176	--	607,095	111
(Mil. ILS)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio		Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA	Standard & Poor's RWA
Capital ratio before adjustments		53,892	11.7	51,721	9.5
Capital ratio after adjustments†		53,892	11.7	51,721	8.5
*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. ILS -- New Israeli Shekel. Sources: Company data as of Dec. 31 2023, S&P Global Ratings.					

Table 5

Bank Leumi le-Israel B.M.--Risk position					
(%)	--Year-ended Dec. 31--				
	2024*	2023	2022	2021	2020
Growth in customer loans	8.3	9.5	12.2	15.6	5.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	--	--	10.7	7.4	13.4
Total managed assets/adjusted common equity (x)	13.8	14.1	15.2	16.9	16.1
New loan loss provisions/average customer loans	0.2	0.6	0.1	(0.3)	0.9
Net charge-offs/average customer loans	0.0	0.1	0.1	(0.0)	0.2
Gross nonperforming assets/customer loans + other real estate owned	1.0	1.1	0.8	1.1	1.6
Loan loss reserves/gross nonperforming assets	166.0	137.1	165.5	115.7	109.6

\*Data as of March 31.

Table 6

Bank Leumi le-Israel B.M.--Funding and liquidity					
(%)	--Year-ended Dec. 31--				
	2024*	2023	2022	2021	2020
Core deposits/funding base	90.7	89.4	91.1	92.5	93.1
Customer loans (net)/customer deposits	72.2	74.2	69.2	64.0	66.2
Long-term funding ratio	95.7	93.8	94.9	95.0	96.4
Stable funding ratio	134.5	130.0	137.3	145.3	140.3
Short-term wholesale funding/funding base	4.6	6.8	5.5	5.4	3.9

Table 6

Bank Leumi le-Israel B.M.--Funding and liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2024*	2023	2022	2021	2020
Regulatory net stable funding ratio	119.0	118.0	128.0	131.0	--
Broad liquid assets/short-term wholesale funding (x)	7.5	5.0	6.7	7.8	10.1
Broad liquid assets/total assets	30.4	29.6	32.0	36.9	34.4
Broad liquid assets/customer deposits	38.5	38.1	40.1	45.1	42.8
Net broad liquid assets/short-term customer deposits	41.8	38.1	42.6	49.1	48.3
Regulatory liquidity coverage ratio (LCR) (%)	133.0	1.2	1.3	1.2	1.4
Short-term wholesale funding/total wholesale funding	49.6	63.7	61.3	71.1	57.2
Narrow liquid assets/3-month wholesale funding (x)	--	--	--	--	--

\*Data as of March 31.

Bank Leumi le Israel--Rating component scores	
Issuer credit rating	A-/Negative/A-2
SACP	bbb+
Anchor	bbb
Economic risk	4
Industry risk	4
Business position	Strong
Capital and earnings	Adequate
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	1
Support	1
ALAC support	0
GRE support	0
Group support	0
Sovereign support	1
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

## Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Various Rating Actions On Israeli Banks On Increased Geopolitical Risks; All Outlooks Negative, May 02, 2024
- Israel Long-Term Ratings Lowered To 'A+' From 'AA-' On Heightened Geopolitical Risk; Outlook Negative, April 18, 2024
- Banking Industry Country Risk Assessment: Israel, Jan. 31, 2024
- Outlooks On Israeli Banks Revised To Negative On Increased Geopolitical Risk; Ratings Affirmed, Oct. 31, 2023
- Outlooks On Five U.S. Regional Banks Revised To Negative From Stable On Commercial Real Estate Risks; Ratings Affirmed, March 26, 2024

### Ratings Detail (As Of August 1, 2024)\*

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

Issuer Credit Rating	A-/Negative/A-2
Junior Subordinated	BBB-
Senior Unsecured	A-

#### Issuer Credit Ratings History

02-May-2024	Foreign Currency	A-/Negative/A-2
31-Oct-2023		A/Negative/A-1
10-Jul-2019		A/Stable/A-1
02-May-2024	Local Currency	A-/Negative/A-2
31-Oct-2023		A/Negative/A-1
10-Jul-2019		A/Stable/A-1

#### Sovereign Rating

Israel	A+/Negative/A-1
--------	-----------------

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.spglobal.com/ratings](http://www.spglobal.com/ratings) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.