

RATING ACTION COMMENTARY**Fitch Revises Leumi's Outlook to Stable; Affirms IDR at 'A-'**

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Fitch Ratings - London - 29 Oct 2025: Fitch Ratings has revised Bank Leumi Le-Israel B.M.'s (Leumi) Outlook to Stable, from Negative, while affirming its Long-Term Issuer Default Rating (IDR) at 'A-'. At the same time, Fitch has affirmed its Viability Rating (VR) at 'a-'. A full list of rating actions is below.

The Outlook revision reflects the resilience of Leumi's financial profile to Israel's operating environment challenges since the start of the war and our view that downside risks have reduced. Economic activity has returned mostly to normal, providing growth opportunities to Israeli banks while containing asset quality pressures. Downside risks to our operating environment assessment for the country's banks are linked to the sovereign ratings (A/Negative/F1+).

KEY RATING DRIVERS

Diversified Business Model: Leumi's Long-Term IDR is driven by its VR and reflects its strong franchise in retail and corporate banking in Israel as the largest domestic bank and better-than-expected resilience of asset quality and earnings through the war. The VR also reflects the bank's sound funding profile, backed by its diversified and granular deposit base, and adequate capitalisation.

High Probability of Government Support: Leumi's IDRs are also underpinned by potential government support, which is reflected in a Government Support Rating of 'a-'. The state has strong incentives to provide support given the bank's systemic importance in the country, with about 30% of banking system assets.

Close Regulatory Oversight: Leumi's underwriting standards are conservative, helped by prudent regulatory limits and oversight. Like other banks in the country, Leumi has material exposure to the construction and real estate sectors, which are vulnerable to the disruption from the war. However, such exposure is driven by high population growth, which supports housing credit demand and mitigates risks.

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-2024. We do not expect this exposure to increase significantly.

Asset Quality Remains Sound: Leumi's impaired loans ratio (end-1H25: 0.4%) compares favourably with those of both domestic and international peers. We expect higher loan impairment charges as loans season, given high loan growth in recent years. Asset quality will be supported by declining interest rates, sound underwriting standards and a resilient operating environment. We expect the impaired loans ratio to remain below 1% in the next two years. Asset quality is also underpinned by a high coverage of impaired loans by loan loss allowances (over 300%), although we expect this to trend down but remain above 200%.

Resilient Earnings Continue: Net interest income has benefitted from loan growth and higher interest rates in recent years. Higher inflation has also supported income, given the bank's net long exposure to the consumer price index. We expect profitability resilience to continue, helped by sound loan growth and the bank's continuous focus on improving efficiency. We forecast its operating profitability to remain above 2.5% of risk-weighted asset for the next two years, benefitting also from limited loan impairment charges, underpinned by substantial loan loss allowances.

Capital Buffers Adequate: Leumi's capitalisation is adequate, with a CET1 ratio of 12.3% at end-1H25. We expect its 204bp buffer above the regulatory minimum requirement to normalise to pre-war levels, at about 100bp-150bp, but to remain adequate given the high risk-weighted assets density from using the standardised approach (63% at end-1H25), prudent provisioning and resilient internal capital generation.

Large, Stable Deposit Base: Leumi's funding and liquidity score is driven by government support and our expectation that the government's propensity to provide support is more certain in the near term, given the systemic importance of Leumi. As a result, a lower funding and liquidity score would not trigger a downgrade of the bank's 'F1' Short-Term IDR, which is the higher of two possible Short-Term IDRs that map to an 'A-' Long-Term IDR.

Leumi's funding and liquidity profile is also underpinned by its stable, granular and diversified deposit base. The bank also has proven access to domestic and international debt markets. Liquidity is sound, with a liquidity coverage ratio of 130% at end-1H25.

RATING SENSITIVITIES

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

Leumi's Long-Term IDR would be downgraded if its GSR and VR were downgraded. A downgrade of the bank's GSR would be triggered by a downgrade of the sovereign rating, which could also trigger a downgrade of the VR if it sharply increased pressure on the financial profile. This reflects the contagion risk resulting from the links between the sovereign, the operating environment and country's banks' performance.

The most likely trigger for a downgrade of Leumi's VR would be a deterioration of asset quality that results in an impaired-loan ratio of above 2% for an extended period, combined with a CET1 ratio declining below current levels and weakening internal capital generation.

The Short-Term IDR would be downgraded if the sovereign's Short-Term IDR was downgraded by at least two notches.

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

An upgrade of Leumi's IDRs is unlikely due to the negative outlook on the operating environment for local banks, which is sensitive to the drivers of a downgrade of the sovereign rating. In addition, upside is limited by the bank's geographical concentration and the requirement of a substantial strengthening of its business and financial profiles.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Leumi's senior unsecured notes are rated in line with the Long-Term IDR. This reflects our view that a default on senior unsecured debt equates to a default of the bank. It also reflects Fitch's expectation of average recovery prospects.

Its 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 options that map to a 'A-' Long-Term IDR (xgs) due to Leumi's 'a' funding and liquidity score.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The senior ratings are sensitive to changes in the bank's Long-Term IDR.

The subordinated ratings are sensitive to changes in the bank's VR.

The Short-Term IDR (xgs) is sensitive to a lower funding and liquidity score.

The Long-Term IDR (xgs) is sensitive to changes in the bank's VR.

VR ADJUSTMENTS

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 earnings and profitability score of 'bbb+' is below the 'a' implied category score for the following adjustment reason: earnings stability (negative).

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).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Leumi's GSR is linked to Israel's Long-Term IDR while its Short-Term IDR is linked to the sovereign's Short-Term IDR.

ESG CONSIDERATIONS

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>.

RATING ACTIONS

ENTITY / DEBT 

RATING 

PRIOR 

Bank Leumi Le-Israel B.M.	LT IDR	A- Rating	Outlook Stable	A- Rating
		Affirmed		Outlook Negative
	ST IDR	F1	Affirmed	F1
	Viability	a-	Affirmed	a-
	Government Support	a-	Affirmed	a-
	LT IDR (xgs)	A-(xgs)	Affirmed	A-(xgs)
	ST IDR (xgs)	F1(xgs)	Affirmed	F1(xgs)
subordinated	LT	BBB	Affirmed	BBB
senior unsecured	LT	A-	Affirmed	A-
senior unsecured	LT (xgs)	A-(xgs)	Affirmed	A-(xgs)

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 21 Mar 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bank Leumi Le-Israel B.M. UK Issued, EU Endorsed

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