

## **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

Electronic Mail: Livnat.EinShay@bll.co.il

Transmission Date: July 11 2019

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To: Israel Securities Authority (www.isa.gov.il)  
The Tel Aviv Stock Exchange (www.tase.co.il)

### **Immediate Report of Rating of Bonds/Rating of a Corporation, or of Withdrawal of Rating**

On July 11 2019, Standard & Poor's Maalot published the following:

A rating report/update notice:

1. Rating report or notice

Rating of the corporation: S&P Maalot ilAAA \_\_\_\_ *stable* \_\_\_\_

Comments/Nature of Notice: *Reiteration of rating*

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

Date	Subject of Rating	Rating	Comments/ Substance of Notice
July 11 2018	Bank Leumi Le-Israel Ltd.	<i>S&amp;P Maalot ilAAA ____ stable ____</i>	Reiteration of rating
October 24 2017	Bank Leumi Le-Israel Ltd.	<i>S&amp;P Maalot ilAAA ____ stable</i>	Reiteration of rating
December 21 2016	Bank Leumi Le-Israel Ltd.	<i>S&amp;P Maalot ilAAA ____ stable</i>	Reiteration of rating
January 1 2016	Bank Leumi Le-Israel Ltd.	<i>S&amp;P Maalot ilAAA ____ stable</i>	Reiteration of rating

## 2. Rating of the corporation's bonds:

<b>Security name &amp; type</b>	<b>TASE Security No.</b>	<b>Rating agency</b>	<b>Current rating</b>
Leumi Sub. Bonds 400	6040331	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Leumi Sub. Bonds 401	6040380	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Leumi Sub. Bonds 402	6040398	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Leumi Sub. Bonds 403	6040430	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Leumi Sub. Bonds 404	-----	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Bonds Series 177	6040315	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAAA ___ stable</i>
Bonds Series 178	6040323	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAAA ___ stable</i>
Bonds Series 179	6040372	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAAA ___ stable</i>
Bonds Series 180	6040422	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAAA ___ stable</i>
Sub. Bonds N	6040299	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA+ ___ stable</i>
Capital Notes Series 200	6040141	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Capital Notes Series 201	6040158	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Capital Notes Series 300	6040257	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>
Capital Notes Series 301	6040265	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>

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

<b>Security name &amp; type</b>	<b>TASE Security No.</b>	<b>Date</b>	<b>Type of rated security</b>	<b>Rating agency</b>	<b>Current rating</b>	<b>Comments / nature of notice</b>
Leumi Sub. Bonds 400	6040331	<i>Nov. 7 2018</i>	<i>Contingent subordinated bonds</i>	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>	<i>Reiterated rating</i>
Leumi Sub. Bonds 400	6040331	<i>Oct. 24 2017</i>	<i>Contingent subordinated bonds</i>	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>	<i>Reiterated rating</i>
Leumi Sub. Bonds 400	6040331	<i>Dec. 21 2016</i>	<i>Contingent subordinated bonds</i>	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>	<i>Reiterated rating</i>
Leumi Sub. Bonds 401	6040380	<i>Nov. 7 2018</i>	<i>Contingent subordinated bonds</i>	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>	<i>Reiterated rating</i>
Leumi Sub. Bonds 401	6040380	<i>May 7 2018</i>	<i>Contingent subordinated bonds</i>	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>	<i>First rating</i>
Leumi Sub. Bonds 402	6040398	<i>Nov. 7 2018</i>	<i>Contingent subordinated bonds</i>	<i>S&amp;P Maalot</i>	<i>S&amp;P Maalot ilAA ___ stable</i>	<i>Reiterated rating</i>

Leumi Sub. Bonds 402	6040398	July 5 2018	Contingent subordinated bonds	S&P Maalot	S&P Maalot ilAA ____ stable	First rating
Leumi Sub. Bonds 403	6040430	Jan. 29 2019	Contingent subordinated bonds	S&P Maalot	S&P Maalot ilAA ____ stable	First rating
Bonds Series 177	6040315	Nov. 7 2018	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 177	6040315	Oct. 24 2017	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 177	6040315	Dec. 21 2016	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 177	6040315	Jan. 17 2016	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 178	6040323	Nov. 7 2018	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 178	6040323	Oct. 24 2017	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 178	6040323	Dec. 21 2016	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 178	6040323	Jan. 17 2016	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 179	6040372	Nov. 7 2018	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Bonds Series 179	6040372	May 31 2018	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	First rating
Bonds Series 180	6040422	Jan. 17 2019	Senior unsecured bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Sub. Bonds N	6040299	Nov. 7 2018	Subordinated bonds	S&P Maalot	S&P Maalot ilAAA ____ stable	Reiterated rating
Sub. Bonds N	6040299	Oct. 24 2017	Subordinated bonds	S&P Maalot	S&P Maalot ilAA ____ stable	Reiterated rating
Sub. Bonds N	6040299	Dec. 21 2016	Subordinated bonds	S&P Maalot	S&P Maalot ilAA ____ stable	Reiterated rating
Sub. Bonds N	6040299	Jan. 17 2016	Subordinated bonds	S&P Maalot	S&P Maalot ilAA ____ stable	Reiterated rating
Capital Notes Series 200	6040141	Nov. 7 2018	Subordinated capital notes	S&P Maalot	S&P Maalot ilAAA+ ____ stable	Reiterated rating
Capital Notes Series 200	6040141	Oct. 24 2017	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ____ stable	Reiterated rating
Capital Notes Series 200	6040141	Dec. 21 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ____ stable	Reiterated rating
Capital Notes Series 200	6040141	Jan. 17 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ____ stable	Reiterated rating

Capital Notes Series 201	6040158	Nov. 7 2018	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 201	6040158	Oct. 24 2017	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 201	6040158	Dec. 21 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 201	6040158	Jan. 17 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 300	6040257	Nov. 7 2018	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 300	6040257	Oct. 24 2017	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 300	6040257	Dec. 21 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 300	6040257	Jan. 17 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 301	6040265	Nov. 7 2018	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 301	6040265	Oct. 24 2017	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 301	6040265	Dec. 21 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating
Capital Notes Series 301	6040265	Jan. 17 2016	Subordinated capital notes	S&P Maalot	S&P Maalot ilAA ___ stable	Reiterated rating

For further details see attached Ratings Report:

[1172019\\_isa.pdf](#)

Standard & Poor's has reiterated the Bank's long-term IDR at ilAAA and reiterated the outlook as Stable.

Note: The report was issued prior to the issuance of Subordinated Bonds Series 404 – for more information, please see the immediate reports regarding the Shelf Offering Report dated July 4 2019 (Ref. No. 2019-01-068461) and July 9 2019 (Ref. No. 2019-01-070630).

The report was signed on behalf of the corporation, in accordance with Regulation 5 of the Securities (Periodic and Immediate Reports) Regulations, 1970, by Mr. Omer Ziv, Head of the Finance Division of the Bank.

**Note: English translations of Immediate Reports of Bank Leumi are for convenience purposes only. In case of any discrepancy between the English translation and the Hebrew original, the Hebrew version shall prevail.**

**The original Hebrew version is available on the distribution website of the Israel Securities**

**Authority: <http://www.magna.isa.gov.il>**

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Name of Electronic Reporter: David Raoul Sackstein, Position: Advocate, General Secretary

Yehuda Halevi Street 34, Tel Aviv 6513616, Phone: 076-8857984, Facsimile: 076-8859732

Electronic Mail: [david.sackstein@bankleumi.co.il](mailto:david.sackstein@bankleumi.co.il)

# Maalot

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## S&P Global Ratings

# Bank Leumi of Israel Ltd.

July 11, 2019

### Reiteration of Rating

**Reiteration of 'ilAAA' rating on the back of a supportive business environment and improved operating results; The outlook is stable**

Primary credit analyst:

Lena Schwartz, Ramat Gan, +972-3-7539716 [lena.schwartz@spglobal.com](mailto:lana.schwartz@spglobal.com)

### Secondary contact person:

Stephanie Mery, Paris, +33-144-207344 [stephanie.mary@spglobal.com](mailto:stephanie.mary@spglobal.com)

### Table of Contents

Summary of rating action	2
Rating action	2
Rationale	2
Outlook	5
Downside scenario	5
Methodology and related articles	6

## **Bank Leumi of Israel Ltd.**

### **Reiteration of 'ilAAA' rating on the back of a supportive business environment and improved operating results; The outlook is stable**

#### **Summary of rating action**

- We expect the Israeli economy to continue to support the banking sector's improving financial performance, characterized by strong asset quality and cost of risk at historical lows
- Macroprudential measures and government-led supply-side initiatives have led to some stability of house prices over the past two years, reducing the risk of economic imbalances.
- Banks have gradually diversified their credit exposures and now have more balanced loan books, and single-name concentration has decreased, reducing risks in a downside scenario.
- At the same time, we see some risks stemming from the commercial real estate sector's increase in supply in recent years, as well as heightening competition from nonbank players in unsecured retail lending.
- We believe these improvements represent an overall strengthening of the Israeli banking sector, which we now assess in our Banking Industry Country Risk Assessment (BICRA) group '3', versus group '4' previously. ^The BICRA score serves as the basis for rating Israel-based banks, i.e., as the ratings' baseline.
- We reiterate Bank Leumi's issuer rating, 'ilAAA', with a stable outlook. The reiteration reflects the strengthening of Bank Leumi within the 'ilAAA' rating group and our credit stability assessment for the next two years.

#### **Rating action**

On July 11, 2019, S&P Maalot reiterated Bank Leumi's issuer rating, 'ilAAA'. The rating outlook is stable. At the same time, S&P Maalot confirmed the rating of the unsecured senior bond series, '+ilAA', and of the Subordinated Bonds series with the loss absorption mechanism - 'ilAA'.

**2 | November 7, 2018**

**Reiteration of Rating**

## **Rationale**

The Israeli economy's high income level, sustained growth, and moderate leverage have underpinned improvements in the banking sector, including business opportunities and growth, strengthening profitability, and stronger asset quality. Although banks have a large exposure to the real estate sector, we see risks as more limited following the stabilization of prices in the past two years and the regulator's macroprudential measures. We believe these improvements represent an overall strengthening of the Israeli banking sector, which we now assess in our Banking Industry Country Risk Assessment (BICRA) group '3', versus group '4' previously. ^The BICRA score serves as the basis for rating Israel-based banks, i.e., as the ratings' baseline. We therefore raised the baseline for the ratings of Israeli banks.

The Israeli economy has not faced a recession in the past 15 years, and GDP in U.S. dollar terms has increased by over 55% since 2010 to above \$40,000, with the unemployment rate remaining at historical lows. External fundamentals remain strong, with a positive current account and an improving net creditor position. At the same time, as a small open economy in the Middle East, Israel remains exposed to geopolitical shocks and a rise in global protectionist sentiment.

Israeli banks have diversified their credit exposures and showed a limited appetite for growth over the past five years, resulting in sound asset quality. Systemwide, nonperforming loans declined to 1.2% and the cost of risk - to 0.2% in 2018.

Israeli banks' large exposure to real estate remains a potential risk. Lending to construction and commercial real estate accounted for about 16% of total bank loans as at the end of 2018, and it increased by 11% in 2018. The commercial real estate sector appears relatively healthy, supported by the rising demand for office space from the services industry and the continual increase in private consumption. At the same time, low interest rates support real estate players' financial position. Rapid growth of office space construction in 2018, after a 16-year record high of completions, creates a risk of oversupply in the next few years, in our view. We consider that shopping malls may be under more pressure because the growing use of e-commerce is taking a toll on retailers, and some cities appear to have an oversupply of retail space. That said, we believe institutional investors, such as insurance companies and pension funds, are more exposed to this segment than banks.



We see exposure to residential mortgage lending as a relatively lower risk. The regulator has imposed higher capital requirements for mortgage loans, strict limits on the floating rate portion of new loans, and a cap on the loan-to-value ratio of 75%, among various other measures to curb risks. We do not envisage a sharp correction in house prices under our base case, but rather a more moderate growth pace than in the past decade, given the government's recent supply-boosting measures.

High single-name corporate borrower concentration has declined markedly over past years. Holding company structures have gradually been dismantled, and large corporates have deleveraged or increasingly tap nonbank funding sources. However, we still see some risks related to the concentration in the credit portfolios, partly due to the economy's small size and less diversified structure.

In our view, risk in the unsecured consumer lending portfolio is currently low, given the low household debt at 42% of GDP and moderate level of expense for credit losses at 0.8% in 2018. However, the financial strength of Israeli households, in aggregate, masks high disparities in wealth and income. Moreover, the rising number of nonbank players in this segment increases supply, which potentially leads to a greater debt burden for the lower-income decile households. This could increase the financial vulnerability of households and trigger higher credit losses in a downturn scenario.

The trend for industry risk in Israel is stable. We expect banks' profitability will remain sound on the back of solid growth and improving operating efficiency. Furthermore, we anticipate revenues will gradually improve over the next two years due to slightly higher interest rates, solid private-sector credit growth of about 5%, and slow margin improvement, supported by a better lending mix. Banks are addressing historically moderate efficiency by embracing digitization, closing branches, and reducing headcount. The key challenge for Israeli banks remains coping with investment costs for IT, compliance, and regulation, and financial-technology (Fintech) competition, potentially disrupting business models. There have been attempts to spur competition in retail and the small and midsize enterprise (SME) segment, where a handful of large banks have dominant positions. The two largest banks recently had to divest their credit card operations, but it is still too early to predict how the competitive landscape will evolve. In our view, Israeli banks are currently relatively well placed to face

## **Bank Leumi of Israel Ltd.**

changes in the competitive environment, but it will remain a risk factor for both bank and nonbank players in the foreseeable future. Operational risks, such as information security and cyber threats, are gaining prominence on banks' and regulators' agendas. We believe the Israeli banking system carefully addresses these issues, supported by extensive regulatory framework and skilled resources.

The reiteration of Bank Leumi's rating reflects the Bank's solid business position as one of Israel's largest banks, its stable profitability and stable financing and liquidity profile, on the back of the supportive economic environment.

We believe that improvement of the banking sector's risk in Israel will support the Bank's profitability and credit quality. Specifically, we expect the Risk Assessment Code (RAC) ratio before adjustments to remain significantly higher than 10% in the near future. Bank Leumi's capital base is also expected to benefit from the continued credit growth, despite the increase in the dividend rate and the Bank's buyback plan. Nevertheless, and despite the indicators reflecting a stable asset quality, we believe that the risk underlying Bank Leumi's activity is higher than that of banks operating in countries with similar economic risk due to the centralized nature of the Israeli economy, despite the Bank's higher asset quality. According to our baseline scenario, the risks associated with the economic impacts of the regional geopolitical tensions will remain in place.

On June 30, 2019, the Bank's President and CEO, Ms. Rakefet Russak Aminoach, announced her resignation. Due to the stability and professionalism of senior management, we do not expect this move to have a material effect on the Bank's performance.

We reiterate the rating of the Bank's unsecured senior debt - 'ilAAA', which is the same as its issuer rating, and the rating of the subordinate debt, ilAA+, which is one notch below the issuer rating. The rating of the Bank's hybrid instruments remains unchanged, reflecting the Bank's stand-alone credit profile (SACP), as well as the risk of converting the principal into shares of the Bank and subordination to other debt instruments.

### **Outlook**

The stable outlook on Bank Leumi indicates a limited likelihood of ratings change over the next 24 months. The Bank's current ratings already take into account our expectations of a supportive and stable business environment in Israel, and we expect the Bank's business,

## **Bank Leumi of Israel Ltd.**

financial, and risk profile to remain broadly stable in the foreseeable future.

### **Downside scenario**

Rating pressure could materialize if the Israeli economy, notably the real estate sector, deteriorated markedly. Such weakening might be triggered by global or local economic stress or by a pronounced escalation in local geopolitical situation. Furthermore, we could take a negative rating action if there are major asset quality or operational issues in its U.S. operations, or if regulatory or legislative decisions, such as the recent sale of the Bank's credit card subsidiary, had a long-lasting adverse effect on the Bank's business position.

**Methodology and related articles**

- Methodology - General: Use Of Credit Watch And Outlooks - September 14 2009.
- Banks: Rating Methodology And Assumptions - November 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions - November 9, 2011
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17 2013
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings

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(Selective Default) - October 24, 2013

- Methodology For Linking Long-Term And Short-Term Ratings - April 7 2017
- Risk-Adjusted Capital Framework Methodology - July 20 2017
- Methodology For National And Regional Scale Credit Ratings - June 25 2018
- Methodology For Hybrid Debt Rating - July 1 2019
- Group Rating Methodology Published - July 1 2019
- S&P Global Ratings Definitions - October 31 2018
- Opinions and Interpretation: The Correlation Between the Global Rating Scale and the Israeli Rating Scale - June 26, 2018

## Bank Leumi of Israel Ltd.

### List of ratings

#### Bank Leumi of Israel Ltd.

##### Issuer's Rating(s)

Long term	ilAAA\Stable
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##### Issuance's Rating(s)

###### Hybrid subordinated debt

Subordinated bonds with loss absorption mechanism Series 400, 401, 402, 403	ilAA
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Series 404	ilAA
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Subordinated capital notes Series 300, 301	ilAA
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###### Unsecured senior debt

Bonds – Series 177, 178, 179	ilAAA
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Bonds – Series 180	ilAAA
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###### Subordinated debt

Subordinated bonds Series N	ilAA+
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##### Issuer's Rating History

Long term	
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October 07, 2014	ilAAA\Stable
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May 5, 2010	ilAA+\Stable
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April 30, 2009	ilAA+\Negative
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June 21, 2007	ilAAA\Stable
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May 14, 2006	ilAAA
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February 1, 2003	ilAA+
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May 1, 1998	ilAAA
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## Bank Leumi of Israel Ltd.

### Additional details

Date and time on which the event took place	11/07/2019 14:47
Date and time on which the event first became known	11/07/2019 14:47
Entity that initiated the rating	The rating company

### **Monitoring of Credit Ratings**

We regularly monitor developments that may affect the credit rating of issuers or specific bond series rated by us, with the aim of ensuring that the rating is updated regularly and to identify the criteria that may bring about a change in rating.

S&P Maalot is the commercial name of "S&P Global Ratings Maalot Ltd." To view the list of the most up-to-date ratings and for further information about the credit rating monitoring policy, please go to S&P Global Ratings Maalot Ltd.'s website at [www.maalot.co.il](http://www.maalot.co.il).

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## **Bank Leumi of Israel Ltd.**

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