

Translation of Immediate Report

T125
Public

Bank Leumi Le-Israel B.M.
Registration No. 520018078
Securities of the Corporation are listed on The Tel Aviv Stock Exchange
Abbreviated Name: Leumi
34 Yehuda Halevi Street, Tel Aviv 651316
Phone: 076-8858111, 076-889419; Facsimile: 076-8859732
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Transmission Date: January 12 2022
Reference: 2022-01-006316

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 Withdrawal of Rating

On *January 12 2022*, *Fitch Ratings* published the following:

A rating report/update notice: up-to-date

1. Rating report or notice

Rating of the corporation: A/F1+Fitch Ratings___ *stable* _____
Comments/Nature of Notice: *Affirmation of rating* _____

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

Date	Subject of Rating	Rating	Comments/ nature of Notice
February 16 2021	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
January 21 2021	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
December 9 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
June 19 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
April 30 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
February 18 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
December 17 2019	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
July 17 2019	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Upgrading of rating</i>
May 7 2019	Bank Leumi le-Israel B.M.	<i>Fitch Ratings stable</i> _____	<i>Other Review of rating (positive)</i>

May 2 2019	Bank Leumi le-Israel B.M.	A/F1- Fitch Ratings stable _____	Affirmation of rating
January 9 2019	Bank Leumi le-Israel B.M.	A/F1- Fitch Ratings stable _____	Affirmation of rating

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

Rating of the corporation's bonds:

Security name & type	TASE Security No.	Rating agency	Current rating	Comments / nature of notice
Leumi Dollar 2031	6040489	Fitch Ratings	Fitch Ratings _____ _____ stable	Affirmation of rating

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

Security name & type	TASE Security No.	Date	Type of rated security	Current rating	Comments / nature of notice
Leumi Dollar 2031	6040489	January 12 2022	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	January 21 2021	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	December 9, 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	June 19, 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	April 30, 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	February 18 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	January 13, 2020	Bond	Fitch Ratings _____ _____ stable	Initial rating

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

Attached is the Ratings Report:

[Fitch12122 isa.pdf](#)

2. On _____, _____ announced the withdrawal of _____'s rating

Details of signatories authorized to sign on behalf of the corporation:

Name of signatory	Title	other
Omer Ziv	Head of Finance and Accounting Division	

In accordance with Regulation 5 of the Securities Regulations (Periodic and Immediate Reports), 1970, a report filed pursuant to these regulations shall be signed by the corporation's authorized signatories. For a staff position of this matter, see the Authority's website: [click here](#).

Fitch Rating's has affirmed the Bank's long-term IDR at A, affirmed the short-term IDR at F1+, and affirmed the outlook at stable.

For more information, see the attached document.

Reference numbers of previous documents on this subject (this reference does not constitute inclusion by way of reference):

*The securities of the corporation are listed for trading on the Tel Aviv Stock Exchange
Ticker: Leumi*

Address: Yehuda Halevi Street 34, Tel Aviv 6513616, Tel: 076-8858111, 076-8859419.

Facsimile: 076-8859732 Electronic Mail: David_S@bll.co.il company's website:

www.leumi.co.il

Previous names of the reporting entity:

Name of Electronic Reporter: David Raoul Sackstein, Position: Advocate, General Secretary
34 Yehuda Halevi Street, Tel Aviv 6513616, Phone: 076-8857984, Facsimile: 076-8859732
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Note: English translations of Immediate Reports of Bank Leumi are for convenience purposes only. In the case of any discrepancy between the English translation and the Hebrew original, the Hebrew will prevail.

The original Hebrew version is available on the distribution website of the Israel Securities Authority: <http://www.magna.isa.gov.il/>

12 JAN 2022

Fitch Affirms Bank Leumi at 'A'; Outlook Stable

Fitch Ratings - London - 12 Jan 2022: Fitch Ratings has affirmed Bank Leumi Le-Israel B.M.'s (Leumi) Long-Term Issuer Default Rating (IDR) at 'A' with a Stable Outlook, and Viability Rating (VR) at 'a'.

Fitch has withdrawn the bank's '1' Support Rating and 'A' Support Rating Floor as they are no longer relevant to Fitch's coverage following the publication of the updated Bank Rating Criteria in November 2021. In line with the updated criteria, Fitch has assigned a Government Support Rating (GSR) of 'a' to Leumi.

Key Rating Drivers

IDRs and GSR

Leumi's Long-Term IDR is at the same level as the GSR, which itself is in line with the domestic systemically important bank (D-SIB) GSR for Israel, and reflects Fitch's view of a very high probability that Israel (A+/Stable) would provide support to Leumi, if needed. Fitch believes that Israel has a strong ability to support its banking sector and that the sovereign's propensity to support Leumi is high, particularly given the bank's systemic importance in the country with a market share of about 30% of banking-sector assets.

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

VR

Leumi's VR reflects a strong domestic franchise, modest risk appetite, strong funding and liquidity and adequate capitalisation. It also reflects Fitch's view that risks to asset quality have decreased and that the VR has sufficient headroom to absorb expected deterioration in asset quality over the medium term as pandemic support measures come to an end.

Non-performing loans were 0.96% of gross loans at end-9M21, and this ratio has been stable over the past four years, with minimal impact during the pandemic, due to an extensive payment deferral framework that was implemented by all Israeli banks and by government fiscal stimulus to support borrowers. While we expect the gross impaired loan ratio to increase in 2022, downside risks to asset quality have receded and we do not expect the ratio to exceed 1.5% over the next two years.

Leumi is exposed to market risk through the bank book's structural exposure to interest rates and the consumer price index (CPI), but we view these exposures as moderate in light of the bank's framework

of risk limits. Market risk also arises from equity investments in non-financial companies made through Leumi Partners, which at end-2020 were equal to about 8% of the bank's consolidated common equity Tier 1 (CET1) capital.

Operating profit benefited significantly from releases of loan loss allowances in 9M21, with net releases of ILS729 million representing 10% of operating profit. Israeli banks' large collective provisions raised at the beginning of the pandemic have not been necessary, given the resilience of asset quality, and we expect further releases to benefit profitability in 4Q21 and, potentially, into 2022.

The headroom available in our capitalisation assessment is limited, even though the Bank of Israel reduced banks' capital requirements by 100bp to support lending during the pandemic, resulting in a CET1 requirement for Leumi of 9.18% at end-9M21. The temporary reduction was in place until 31 December 2021. In our view, Leumi's CET1 ratio of 11.83% at end-9M21 represents a sufficient buffer above the higher regulatory threshold, given the very conservative calculation of risk-weighted assets (RWAs) under the standardised approach used by Israeli banks.

Leumi's funding and liquidity are rating strengths. Funding benefits from a stable and granular customer deposit base, which fully funds the bank's loan book and has seen strong deposit inflows since the start of the pandemic. The bank also has proven access to domestic and international wholesale-funding markets. Leumi's liquidity coverage ratio of 131% at end-9M21 was comfortably above the 100% regulatory requirement.

Subordinated Debt

Leumi's USD750 million Tier 2 subordinated notes are rated two notches below the bank's VR to reflect poor recovery prospects in the event of a failure of the bank. We do not apply additional notching as in our opinion the principal loss absorption feature after a breach of a 5% CET1 ratio gives rise to low incremental non-performance risk relative to the bank's VR.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

IDRs and GSR

Leumi's IDRs and GSR are primarily sensitive to a negative change in the sovereign's ability or propensity to support the bank. A downgrade of Israel's Long-Term IDR would likely result in a downgrade of Leumi's IDRs and GSR. A reduced propensity of the Israeli authorities to support the country's largest banks, which could be signalled by the introduction of effective bank-resolution legislation, would also result in a downgrade of the bank's IDRs and GSR.

VR

The most likely trigger for a downgrade of the VR is sharp deterioration of asset quality resulting in a gross impaired loan ratio of above 3% for an extended period, and if at the same time the bank fails to

maintain its CET1 ratio above 10.5% and if any decline below this level is not remedied swiftly. A sharp increase in problem loans not classified as impaired loans could also put pressure on ratings if it indicates structural deterioration in asset quality. Given the bank's exposure to the real-estate sector, a sharp decline in real-estate prices would put pressure on asset quality and therefore on the VR.

Subordinated Debt

We would likely downgrade the Tier 2 subordinated notes if Leumi's VR is downgraded.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

IDRs and GSR

An upgrade of Leumi's IDRs and GSR would require a material strengthening of Israel's ability and propensity to provide support to the bank, which we do not expect. An upgrade of Israel's Long-Term IDR is unlikely to result in an upgrade of the bank's Long-Term IDR and GSR as we typically do not assign GSRs above 'a' for D-SIBs in countries whose sovereigns are rated 'AA' or 'AA-' and where support propensity is high.

VR

An upgrade of Leumi's VR is unlikely given the bank's domestic-focused business model and would notably require a material and structural improvement in profitability that allows the bank to generate operating profit/RWA above 2% on a sustained basis while maintaining a CET1 ratio above its current target and continuing to report healthy asset quality.

Subordinated Debt

We would likely upgrade the Tier 2 subordinated notes if Leumi's VR is upgraded.

VR ADJUSTMENTS

The operating environment score of 'a' has been assigned below the 'aa' category implied score, due to the following adjustment reason: sovereign rating (negative).

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

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

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four

notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

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 IDRs and GSR reflect Fitch's expectation of a very high probability of state support from Israel.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Bank Leumi Le-Israel B.M.	LT IDR	A 	Affirmed	A 
	ST IDR	F1+	Affirmed	F1+
	Viability	a-	Affirmed	a-
	Support	WD	Withdrawn	1
	Support Floor	WD	Withdrawn	A
	Government Support	a	New Rating	
	• subordinated	BBB	Affirmed	BBB

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.12 Nov 2021\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

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