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
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Transmission Date: November 1, 2023
Reference: 2023-01-120792

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 *October 31, 2023*, *Midroog* published the following:

Rating report/notice: *Updated*

1. Rating report or notice

   Rating of the corporation: *Midroog* _______ _______ *stable Aaa.il*
   Comments/Nature of Notice: *Reiteration of BCA at aa1.il*

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

Date	Subject of Rating	Rating	Comments/ Nature of Notice
October 20, 2022	*Bank Leumi le-Israel B.M.*	*Midroog___ Aaa.il stable ___*	*Other Reiteration of BCA at aa1.il ___________*
October 6, 2021	*Bank Leumi le-Israel B.M.*	*Midroog___ Aaa.il stable ___*	*Other Reiteration of BCA at aa1.il ___________*

Explanation: As part of the rating 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
Bonds Series 178	*6040323*	*Midroog*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ___________*
Bonds Series 179	*6040372*	*Midroog*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ___________*

Bonds Series 184	*6040604*	*Midroog*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Leumi Subordinated Bonds (Series 405)	*6040620*	*Midroog*	*Midroog___ Aa2.il stable ___*	*Reiteration 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	Rating	Comments / nature of notice
Bonds Series 178	*6040323*	*October 20 2022*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Bonds Series 178	*6040323*	*October 6 2021*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Bonds Series 179	*6040372*	*October 20 2022*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Bonds Series 179	*6040372*	*May 26 2022*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Bonds Series 179	*6040372*	*January 12 2022*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Bonds Series 179	*6040372*	*October 6 2021*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Bonds Series 184	*6040604*	*October 20 2022*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Reiteration of rating ____________*
Bonds Series 184	*6040604*	*March 23 2022*	*Senior unsecured bonds*	*Midroog___ Aaa.il stable ___*	*Initial rating ____________*
Subordinated bonds (series 405)	*6040620*	*October 20 2022*	*Subordinated bonds*	*Midroog___ Aa2.il stable ___*	*Reiteration of rating ____________*
Subordinated bonds (series 405)	*6040620*	*September 8 2022*	*Subordinated bonds*	*Midroog___ Aa2.il stable ___*	*Reiteration of rating ____________*
Subordinated bonds (series 405)	*6040620*	*March 23 2022*	*Subordinated bonds*	*Midroog___ Aa2.il stable ___*	*Initial rating ____________*

Explanation: As part of the rating 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 rating report:
Monitoring_report_Bank_Leumi_31102023_Sanitized_isa.pdf

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

Name of signatory	Title other
Omer Ziv	*Head of the Capital Markets 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.

Midroog has reiterated the Bank's Baseline Credit Assessment (BCA) at aa1.il with a stable outlook.

Furthermore, Midroog reiterated the rating of the long-term deposits and bonds at Aaa.il, the rating of subordinated capital notes with a contractual loss absorption mechanism (CoCo) at Aa2.il(hyb), and the rating of short-term deposits at P-1.il.
For more information, see 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: Shelly Bainhoren, Position: Bank Secretary
34 Yehuda Halevi Street, Tel Aviv 6513616, Phone: 076-8859419, Electronic Mail: Shelly.Bainhoren@BankLeumi.co.il

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/

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Bank Leumi le-Israel B.M.

-Follow-up | October 2023-

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Bank Leumi le-Israel B.M.

Baseline Credit Assessment (BCA) of the Bank	**aa1.il**	
Long-term deposits and bonds	**Aaa.il**	**Outlook: Stable**
Subordinated bonds with contractual loss absorption mechanism (CoCo)	**Aa2.il(hyb)**	**Outlook: Stable**
Short-term deposits	**P-1.il**	**-**

Midroog reiterates its rating of the Baseline Credit Assessment (BCA) of Bank Leumi le-Israel B.M. (hereinafter - the "Bank") unchanged - aa1.il. The rating of the Bank's long-term deposits and senior debt remains unchanged Aaa.il with a stable outlook, and they continue to reflect an assumption of high external support from the state, which is equivalent to one rating level[1] (notch) of the BCA.

The rating of the subordinated bonds with loss absorption mechanism (CoCo) by way of write-down or partial write-down (classified as Tier 2 capital) was reiterated at Aa2.il (hyb), with a stable outlook. This rating is one notch lower relative to the BCA and two notches lower relative to the senior debt, reflecting the terms of the instrument, including its contractual subordination and loss absorption mechanisms, and without an external support assumption.

In addition, Midroog reiterates the P-1.il rating for short-term deposits.

Key considerations for assessing the baseline credit assessment (BCA) and the Bank's ratings

The assessment of the Bank's baseline credit assessment (BCA) is supported by its good positioning in the local banking system, which is based on a strong brand and significant market share, alongside a wide and diversified customer base, that supports the Bank's good income-generation capabilities. The Bank is a universal bank that provides its customers a range of banking and financial services. The Bank has a conservative risk management policy, that supports its risk profile, which is also reflected in positive credit quality metrics relative to the BCA. However, in view of the effects of the war, we believe that in the short to medium term, it is expected that the quality of the assets of the banking system will be adversely affected due to an increase in the borrowers' risk. Accordingly, the proportion of troubled debts out of the portfolio is expected to increase and in our opinion range between 2.5%-2.9% in 2023-2024. The Bank is

[1] We assess the probability of support as high on par with other banks in the system; however, due to the high BCA, this support cannot be equivalent to more than one notch.

characterized with a high sectoral credit concentration in relation to the capital absorption buffer that is high relative to both the BCA and banking system, weighing on the Bank's risk profile. In recent years, the Bank's profitability rates are on the rise, in view of high asset quality and good operational efficiency over time as a result of the Bank's implementation of its strategic plan. In that context, it should be noted that as of the first half of 2023, the Bank's profitability was adversely affected by the loss in respect of impairment of the investment in Valley Bank[2] shares, which amounted to NIS 1.1 billion (post-tax). Accordingly, in the first half of 2023, the core return on risk-weighted assets,[3] and the return on assets amounted to approx. 3.3% and 1.0%, respectively. In Midroog's baseline scenario for 2023-2024, we predict that in view of the consequences of the war the Bank's profitability indicators will moderate, to a certain extent, compared with the first half of 2022 and 2023; however, those profitability indicators shall continue to support further increase in equity and improvement of the financial profile, and the core return on risk-weighted assets is expected to range between 2.4%-2.5%, and the return on assets shall range between 0.7%-0.8%. It should be noted that the baseline scenario takes into account further expedients to borrowers due to the war, both on behalf of the regulator and on behalf of the Bank[4].

The Bank is characterized with a relatively wide range of Common Equity Tier 1 capital and overall capital above the regulatory capital requirements), which in our opinion supports the Bank's business flexibility and its growth potential. In the baseline scenario Midroog expects that the capital buffer will remain adequate relative to the BCA, and that the Tier 1 capital adequacy ratio will be approximately 11%. It should be noted that in relation to Midroog's stress scenarios, the Bank's capital buffer absorbs unexpected losses in an adequate manner, and at this stage, is expected to support the Bank's stability throughout the War. The Bank's liquidity profile is favorable relative to the BCA; it is supported by a good, wide and diversified sources structure, which is based on a significant rate of stable (retail) deposits, and inventory of liquid assets. At the same time, the liquidity profile may be affected by a relatively high deposits from institutional entities component, which in our opinion is less stable throughout the economic cycle. In addition, the liquidity coverage ratio is significantly higher than the regulatory threshold (100%), which supports the business flexibility.

The rating of the Bank's long-term deposits and senior debt were assigned at one notch above the BCA, which reflects our assessment that it is highly probable that the state will provide support when required. The rating of the subordinated bonds with loss absorption mechanism (CoCo) by way of write-down or partial write-down is one notch lower relative to the BCA and two notches lower relative to the senior debt,

[2] On September 23, 2021, Bank Leumi Corporation (BLC), a US-incorporated corporation (85% of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley National Corp (hereinafter - "Valley Bank"). Upon completion of the transaction on April 1, 2022, Bank Leumi holds approx. 14.2% of Valley's share capital.

[3] Profit before tax and loan loss expenses to average risk-weighted assets.

[4] It should be noted that the expected rate of return on the assets in the forecast years does not take into account a one-off earning from the sale of "Beit Lin" and "Beit Mani"; the consideration from the sale of the assets is expected to lead to a one-off improvement of 0.1% in this rate (post-tax).

reflecting the terms of the instrument, including its contractual subordination and loss absorption mechanisms, and without an external support assumption.

Rating outlook

The stable outlook of the Bank's ratings reflects Midroog's assessment that the Bank will maintain an adequate financial profile in the forecast years, while maintaining the risk metrics in the credit portfolio as well as loss absorption buffers within a range that is adequate for the rating.

At the same time, the war that broke out in Israel on October 7, 2023 led o a number of consequences and restrictions, including, among other things, partial or full closure of businesses, restrictions on gathering at workplaces and in the education system, as well as a decrease in the workforce, resulting from an extensive recruitment of reservists and a reduction in the number of foreign workers. These steps cause a decrease in activity in the Israeli economy and a decline in the economic activity. Furthermore, as a result of the war the financial markets in Israel slumped and the shekel suffered devaluation. In the opinion of Midroog, this period is characterized by a high degree of uncertainty regarding the development of the war and its economic consequences. Therefore, Midroog may revise the rating's baseline scenario according to developments. For more information on this issue, please read the special report on the "Impact of the "Iron Swords War" on the Credit Repayment Capacity of Issuers Rated by Midroog" (October 2023).[5]

Factors that may lead to downgrading the Bank's BCA and ratings:

- Significant damage to the Bank's business positioning
- Significant deterioration in the quality of the credit portfolio
- Erosion of the capital and profitability buffers and their stability over time

[5] The report can be found on the Midroog website.

Bank Leumi le-Israel B.M., key financial data and ratios, in NIS million and percentages:

NIS million	**June 30, 2023**	**June 30, 2022**	**2022**	**2021**	**2020**	**2019**
Loans to the public, gross	415,047	369,811	389,768	347,391	300,631	285,806
Deposits by the public	533,977	532,737	557,084	537,269	447,031	373,644
Total equity capital attributable to the Bank's shareholders	51,771	47,060	49,438	41,610	37,664	35,406
Total assets	686,857	667,680	699,166	656,454	556,035	468,781
Profit before taxes and loan loss expenses	7,383	5,096	11,394	8,429	6,043	6,014
Net income attributable to the Bank's shareholders	3,434	3,601	7,709	6,028	2,102	3,522
(%)						
Exposure to the largest sector relative to Common Equity Tier 1 capital [4]	221%	209%	205%	210%	180%	167%
Troubled debts out of loans to the public, gross	1.7%	1.6%	1.5%	1.9%	2.9%	2.0%
Troubled debts to equity and loan loss provision	12.4%	11.7%	11.0%	13.8%	19.9%	14.3%
Loan loss expense (income) to average loans to the public, gross [1]	0.4%	0.0%	0.1%	(-0.3%)	0.9%	0.2%
Net income attributable to the Bank's shareholders to average assets [1]	1.0%	1.1%	1.1%	1.0%	0.4%	0.8%
Profit before tax and loan loss expenses to average risk-weighted assets [1]	3.3%	2.6%	2.8%	2.4%	1.9%	1.9%
Efficiency ratio	31.0%	40.3%	37.5%	46.8%	53.8%	56.8%
Common equity Tier 1 capital adequacy	11.2%	11.3%	11.5%	11.5%	11.9%	11.9%
Total equity to total assets	7.5%	7.0%	7.1%	6.3%	6.8%	7.6%
Less stable financing sources [2] to total assets	20.6%	22.4%	22.6%	23.3%	17.2%	15.9%
Liquid deposits [3] for deposits by the Public	39%	43%	44%	44%	45%	37%

[1] Calculated on an annual basis (average at beginning and end of period).
[2] Institutional entities' deposits (wholesale), bonds and subordinated bonds with duration of up to one year, and deposits from banks.
[3] Cash and deposits in banks, government bonds of the Israeli government, US treasury notes, and assets backed by the US government.
[4] Distribution before loan loss provisions.

Description of the key considerations for assigning the baseline credit assessment (BCA)

A high business profile and stable revenues contribute to the high revenue recovery capability; on the other hand, the diversification of revenues is low in relation to the BCA

The Bank has long been one of the two largest banking groups in the local banking system, as reflected in a market share of approx. 27% of total loans to the public, approx. 29% of the banking system's total assets, and approx. 28% of the deposits by the public as of June 30, 2023. The Bank's business profile is supported by its being a universal bank, that offers a range of banking and financial services, a wide and diversified customer base, alongside an overall value proposition that addresses a wide range of the public's needs. The Bank has a strong brand, an extensive system of branches, and a value proposition that includes a traditional banking model alongside digital banking, as well as other digital financial services. We believe that in view of the changes in the operating environment of the banking sector in recent years, which have intensified during the Covid-19 pandemic, customers increasingly demand quick, flexible and digital response. We believe that the trend of expansion in digital services in the banking sector in general and in Bank Leumi in particular is set to continue. In addition, in our opinion banks that will not adopt technological innovation and adapt their business model over time might be exposed to a significant exposure in their business positioning in the mid-long term. The stability of the Bank's revenues, as estimated by Midroog, is adequate in relation to BCA, and is affected by the weight of retail revenues[6] (approx. 60% on average in 2020-2022), which contributes to the Bank's ability to generate the revenues and mitigates the volatility of the activity. However, the Bank has a relatively low rate of revenues from fees and commissions, which stood at approx. 17% in the first half of 2023, and reflects a trend of decline compared to previous years; in 2020-2022 this rate stood at 22% on average. The decrease in this rate obscures the visibility of operating income, which we believe to be stable throughout the cycle. In our opinion, the diversification of the Bank's revenue sources has reduced and is currently based on 3 key pillars[7], compared with 4 pillars in recent years; this stems from a decrease in the rate of total net revenues from the households and private banking segment, which stood at 5% in the first half of 2023, compared with 18% on average in 2019-2021. The reduction in the diversification of the Bank's revenue sources is also reflected in the net revenues mix in 2022[8], which included approx. 36% of the housing loans segment, approx. 25% of the medium and large businesses and institutional entities segment, approx. 21% of the small and micro businesses segment, and approx. 13% of the households and private banking segment.

The Bank's risk management policy supports its risk profile; on the other hand, the credit concentration relative to the capital loss-absorption buffer remains high

The Bank's risk management function is comprehensive, and based on a number of underlying risk mitigation principles and controls, that support the outlining of a risk management policy, determining the Bank's risk appetite (in line with its strategy), and monitoring the risks and implementing controls in respect thereof. Credit risks are managed through statistical rating models (consumer credit) and expert

[6] Gross income from interest and non-interest finance income from external parties by supervisory operating segments, and including the households and private banking segments (including housing) and small and micro businesses, net of income from financial management.
[7] Operating segment that constitutes more than 15% of total net revenues (interest income and non-interest finance income from external parties), net of revenues from financial management and other revenues.
[8] By regulatory segments.

assessments (business credit). The Bank is characterized with a high sectoral credit concentration in relation to a capital loss-absorption buffer considering the BCA, which weighs on the Bank's risk profile. Accordingly, the Bank's exposure to the largest sector relative to Common Equity Tier 1 Capital is in respect of the construction and real estate sector (as is the case in all other banks), which constitutes approx. 221% of the common equity Tier 1 capital as of June 30, 2023; this rate is relatively high compared to the peer group (approx. 168%), and has been consistently rising in recent years (approx. 198% on average in 2020-2022). Total exposure to the large borrowers, which constitute more than 5% of the Bank's common equity Tier 1 capital (approx. NIS 2,440 million as of December 31, 2022) decreased compared with previous years, and is estimated by Midroog at approx. 6% of the Bank's common equity Tier 1 capital as of December 31, 2022[9] (approx. 16% on average in 2019-2021). The Bank assesses the market risks by applying the VaR model, using conservative assumptions and in line with all other banks in the system; in order to complement the risk assessment, the Bank applies a number of stress scenarios (including holistic scenarios) of varying degrees of severity. Midroog is of the opinion that the Bank's market risk appetite is in line with the BCA, as reflected in the VaR exposure limit of 2.5% of the Tier 1 capital with regard to the entire Bank's activity in a one-month investment horizon, in accordance with the data as of December 31, 2022[10].

The quality of the credit portfolio is favorable relative to the BCA, but may be eroded in the forecast year due to the implications of the War

The Bank is characterized by high quality credit portfolio, which supports its future income recovery capabilities, and the potential of creating the capital loss buffer as reflected in favorable risk indicators relative to the BCA, and a relatively high loss absorption buffer that support the performance of the credit portfolio. Accordingly, as of June 30, 2023, the ratio of troubled debts to loans to the public stood at approx. 1.7%. In addition, as of that date the rate of non-performing debts in arrears of over 90 days of total gross loans to the public stood at approx. 0.6%. The balance of the provision as of that date stood at approx. 1.3% compared with 1.4% on average in 2020-2022. Accordingly, the coverage ratio[11] improved and stood at 212% as of June 30, 2023 (approx. 170% as of June 30, 2022), which is high relative to the peer group as of that date (approx. 165%), and reflects a conservative policy as to provisions. We believe that the Bank has a relatively high exposure to the real estate and mortgages sectors, which, on aggregate, accounted for approx. 57.2% of the Bank's total debts[12] as of June 30, 2023 compared with 55.1% in the peer group as of that date. The exposure to the real estate sector alone (excluding mortgages) is characterized by relatively high risk, in view of homogeneous characteristics, and due to high exposure

[9] The ratio was calculated as follows: In accordance with Note 30 to the annual financial statements, Midroog aggregated the balance sheet liability at the highest tier of the credit liability. For the purpose of calculating the ratio, the above liability amount was divided by the Common Equity Tier 1 capital as of December 31, 2022.

[10] According to the Bank's Risk Management Report for 2022, the restriction for 2023 was revised at the beginning of 2023 in accordance with the Bank's risk appetite framework.

[11] The balance of the provision for total non-accrual debts and debts in arrears over 90 days in arrears.

[12] Loans to the public.

relative to the capital loss-absorption buffer, which constitutes approx. 27.3% of the Bank's total debts and is high relative to the peer group as of that date (approx. 17.4%). However, we believe that the Bank is characterized with conservative underwriting processes relative to this sector; this constitutes a somewhat moderating factor in terms of the Bank's industrial concentration risk. The exposure to housing loans constitutes approx. 29.9% of total debts as of that date, and is characterized with conservative underwriting processes in the Bank, as reflected in its ability to maintain a high repayment capacity. Accordingly, the average loan to value rate (LTV) in the Bank's housing loans portfolio,[13] stood at approx. 49% as of June 30, 2023 (a rate that reflects the value of the pledged asset when the credit facility was extended), and the share of the loans with relatively high leveraging rate (LTV higher than 75%) was low - approx. 0.2% of the portfolio as of that date. These data support low probability of default.

Midroog's baseline scenario regarding the quality of the Bank's credit portfolio is based on several macroeconomic exogenous effects,[14] including: (1) GDP growth of approx. 2.3% in 2023 and approx. 2.8% in 2024; (2) an unemployment rate of 3.2%-3.6%; (3) an inflation environment in the range of 4.0%-4.75%; (4) an inflation rate of approx. 3.5% in 2023 and approx. 2.5% in 2024; (5) continued competition by the non-bank debt market with regard to the business and consumer portfolio. Under this scenario, the Bank's credit portfolio is expected to grow at an annual rate of 5%-7% in 2023-2024. In our opinion, this growth will be supported by maintaining significant market shares in commercial-business credit (medium and large businesses) and housing loans, in accordance with the Bank's strategy in recent years.

Midroog examines the development of the Bank's credit portfolio quality in the short and medium term also on the basis of a number of key macroeconomic indicators. In line with the Bank's assessments[15], in view of the effects of the war, we believe that in the short to medium term, it is expected that the quality of the assets of the banking system will be adversely affected due to an increase in the borrowers' risk. Accordingly, the troubled debt rate out of the credit portfolio is expected to increase during the forecast years, and will range, in our opinion at 2.5%-2.9%, with the rate of troubled debts out of the absorption buffers (equity and loan loss provision) expected to stand at approx. 18% in the forecast years (compared with approx. 14.9% on average in 2020-2022). Furthermore, we assume that the loan loss expenses shall range between 0.7% and 0.9% of the credit portfolio in the forecast years. This scenario takes into account a moderation in recovery rates, and an increase in write-offs compared with previous years.

The BCA is supported by continued improvement in the Bank's profitability due to interest rate hikes by the Bank of Israel and relatively high inflation environment, in addition to an expected improvement in profitability during the forecast range due to the War

[13] Out of the total new housing loans portfolio extended by the Bank.
[14] Macroeconomic Forecast of the Research Department, Bank of Israel, October 2023.
[15] For more information, see the Bank's report, which was posted on the MAYA system on October 26, 2023.

The Bank's profitability indicators have improved during the past few years, due to, among other things, an increase in the Bank's revenues as a result of a growing credit portfolio, and certain stability in the financial spread, and the implementation of streamlining steps and transitioning to providing services through digital, direct channels, that supported a decrease in the Bank's operating expenses. Thus, as of the first half of 2023, the Bank's operating efficiency ratio stood at approx. 31% (approx. 41% on average in the peer group during that period), which is favorable relative to the BCA and reflects a significant and consistent improvement over the past few years; in 2022, this ratio stood at approx. 37%, with an average of approx. 52% in 2019-2022. As of the first half of 2023, the Bank's profitability was adversely affected by the loss in respect of impairment of the investment in Valley Bank shares, which amounted to NIS 1.1 billion (post-tax). Consequently, the net income attributed to the shareholders in respect of that period amounted to NIS 3,434 million, compared with NIS 3,601 million in the corresponding period last year, with the recording of the one-off loss obscuring the Bank's profitability. Accordingly, in 2022, the core return on risk-weighted assets, and the return on assets amounted to approx. 2.8% and 1.1%, respectively, and in the first half of 2023 they amounted to approx. 3.3% and 1.0%, respectively. The key assumptions regarding the Bank's profitability, on which Midroog's baseline scenario for 2023-2024 was based, are as follows: (1) annual credit portfolio growth of approx. 5%-7%, mainly in the housing loans segment and the corporate segment; (2) interest rate environment of between 4.0%-4.75%, which supports the financial margin; (3) inflation rate of approx. 3.5% in 2023 and approx. 2.5% in 2024; (4) loan loss expenses rate of 0.7%-0.9% in the forecast years in respect of the credit portfolio; (5) continued slow growth in payroll expenses in accordance with the Bank's wage agreements. In this scenario, Midroog predicts that in the forecast years the Bank's profitability indicators will moderate, to a certain extent, compared with the first half of 2022 and 2023; however, those profitability indicators shall continue to support further increase in equity and improvement of the financial profile, and the core return on risk-weighted assets is expected to range between 2.4%-2.5%, and the return on assets shall range between 0.7%-0.8%. It should be noted that the baseline scenario takes into account further expedients to borrowers due to the war, both on behalf of the regulator and on behalf of the Bank. In this context, it should also be noted that the expected rate of return on the assets in the forecast years does not take into account a one-off earning from the sale of "Beit Lin" and "Beit Mani"; the consideration from the sale of the assets is expected to lead to a one-off improvement of 0.1% in this rate (post-tax).

The capital buffer is adequate for BCA and is characterized by a good loss-absorption capacity, in addition to its continuing to build the capital cushion in the forecast range

The Bank is characterized with a capital loss buffer that matches the BCA, and which was created over the years by accumulating profits, net of dividend distribution (a policy of up to 50% of net income and share buyback plan), optimization and management of risk-weighted assets and asset mix. The Bank's Common Equity Tier 1 Capital ratio, which is the primary unexpected loss absorption buffer, and the total capital ratio stood at 11.2% and 14.4%, respectively, as of June 30, 2023, with the Bank maintaining an adequate margin of 103 basis points above the regulatory barrier (Common Equity Tier 1 Capital ratio), as is the case in the peer group (approx. 112 basis points on average). This margin supports the risk profile and has a positive effect on the Bank’s business flexibility and growth potential. In addition, the Bank’s leveraging level, as reflected in an equity to asset ratio of approx. 7.5% as of June 30, 2023, is adequate relative to the BCA. We believe that in view of the volatility in the capital market, the comprehensive income of the Bank, in particular and of the banking system in general might be affected from the adjustment of available-for-sale securities in accordance with their fair value, and from a change in the actuarial liability in respect of employee benefits. Midroog assessed a holistic stress scenario with a one-year horizon with respect to the Bank's loss-absorption buffers relative to its risk profile, assuming different PD and LGD rates for key operating segments, losses from the securities portfolio, erosion of the financial margin, and loss of income from fees and commissions alongside increasing the equity through current profits and non-distribution of dividends. At the end of the scenario, the Bank’s Common Equity Tier 1 Capital ratio will stand at 9.7% - a level that reflects, in our opinion, the Bank’s ability to absorb unexpected losses well, which at this stage is expected to support its stability throughout the war. In the baseline scenario, Midroog expects that the capital buffer will continue to increase, such that the core capital adequacy ratio will be around 11.0%. This ratio will be affected by the following factors: (1) accumulated profits; (2) distribution of a dividend at the rate of up to 50% of the net income in the forecast period; (3) increase in risk-weighted assets at a rate similar to the rate of increase in the credit portfolio.

The liquidity profile is favorable relative to the BCA; it is supported by a good sources structure and a significant inventory of liquid assets

The Bank's source structure, like that of other local banks, mainly relies on a wide retail deposit base, which is characterized by relatively high stability throughout the economic cycle. A substantial component of the Bank’s sources structure is a highly diversified and stable (retail) deposits (approx. 31.1% of households and private banking, and 19.3% of small and micro businesses, as of June 30, 2023) which, in Midroog's opinion, correspond to Midroog’s assessment of the Bank's risk profile. The Bank has a reasonable rate of less stable financing sources[16] out of total assets, as defined by Midroog, which stood at approx. 20.6% as of that date. In addition, in the past year there was an increase in the ratio between loans to the public and deposits by the public, which stood at approx. 78% as of June 30, 2023 (approx. 81% on average in the peer group as of that date), compared with 69% as of June 30, 2022. As of June 30, 2023, the Bank’s NSFR ratio stood at approx. 121%, which is adequate and sufficiently higher than 100%, and supports the Bank’s financing profile.

[16] Bank deposits, deposits from institutional entities and bonds and subordinated bonds payable within the 12 next months.

The Bank's liquidity buffer comprises a favorable inventory of liquid assets[17] to total deposits in relation to the BCA, which stood at approx. 39% as of June 30, 2023, and supports the Bank's good liquidity. This inventory includes mainly cash and bank deposits and a securities portfolio. This portfolio constitutes approx. 17% of total assets as of that date, and is characterized by a reasonable (credit) risk level, given a relatively high component of Israeli government bonds (approx. 55%) and US government bonds (approx. 11%). The portfolio constitutes a tool for absorbing excess sources and for the management of the Bank's various market exposures; however, it exposes the Bank to interest rate risk. The Bank's liquidity management is also supported by a relatively high liquidity coverage ratio (LCR) of approx. 128% as of June 30, 2023 (approx. 131% of the peer group average as of that date), which is significantly higher than the regulatory threshold (100%). This ratio also supports the Bank's liquidity ratio and its business flexibility. Midroog expects that the Bank's sources structure and good liquidity will be maintained over the forecast period, in view of, among other things, its assessment that the local savings culture is not expected to change, and in view of the growth potential of the credit portfolio.

Other considerations

ESG considerations

Environmental considerations - we believe that, at this stage, the Banking system's exposure to environmental risks is relatively moderate.

Social considerations - in our opinion, the Banking system's is exposed to moderate social risks. However, we see a development in information security, customer privacy and cyber risks; but those risks are partially mitigated by significant investment in technology and by the banking system's extensive experience in handling sensitive customer data. Penalties and reputational damage constitute another social risk. Furthermore, strict labor laws and strong trade unions in the banking system limit the workforce flexibility and increase payroll costs. However, the banks did cut jobs and employees by way of early retirement plans, and integrated cost control that allowed them to mitigate those challenges.

Corporate governance considerations - in our opinion, corporate governance considerations have a material effect on the banking system. These risks constitute a key credit consideration, since corporate governance weaknesses might lead to a deterioration in the Bank's credit repayment capacity, whereas strong corporate governance may have a positive impact on the Bank's credit repayment capacity. The regulatory framework in which the banks operate mitigates the corporate governance risks; this framework outlines internal control functions and tight controls on behalf of the regulator.

[17] Cash and bank deposits. Israeli government and US government bonds, and assets backed by the US government.

Structural considerations and external support

Assessing the relative expected loss hierarchy

According to Midroog's methodology, the rating of the Bank's subordinated debt (subordinated bonds) is based on the Bank's BCA, which serves as the underlying factor in rating the Bank's liabilities, and reflects the risk of default and the Bank's ability to service its obligations independently, without assuming external support. Midroog adjusts the rating relative to the BCA to the credit risk of the subordinated debt instrument, according to its specific characteristics – taking into account the extent of the instrument's structural subordination, the loss absorption mechanisms set out in the instrument's terms, and the uncertainty regarding their point of activation (based on the contractual trigger or at the discretion of the Banking Supervision Department). Midroog downgrades the Bank’s BCA by one notch for the rating of the subordinated bonds with loss absorption mechanism (CoCo). The downward notching reflects the legal-contractual subordination of these subordinated bonds relative to the Bank's other liabilities (other than Tier 1 instruments and equity), and the contractual loss absorption mechanism. Given the Bank's BCA (aa1.il), the current capital adequacy level - Common Equity Tier 1 capital (of approx. 11.%2 as of June 30, 2023), the anticipated capital adequacy level (~11%), and the favorable liquidity profile relative to the BCA, the uncertainty regarding the probability of reaching the “point of non-viability”[18] is low, and therefore it was not reflected in a further notch downgrade.

External support

The rating of the deposits and senior debt was assigned a one-notch upgrade, due to the high probability of external support from the government, in accordance with Midroog's JDA model. The assumption of the probability of external support is based on the following considerations: The banking system’s high level of importance for the local economy and the payment system, and the need to maintain its stability; the high concentration of the banking and financial system; the relatively high connectivity between the banking system and institutional entities; the local financial system being a key credit provider to the government; some degree of uncertainty regarding the behavior and confidence of the different debtors in relation to bail-ins close to the point of non-viability, in the absence of past experience. Furthermore, the State of Israel has previously proven its willingness to support failing banks, and we do not assume any change in this policy.

[18] Trigger event for non-viability: 1. Notice of the Banking Supervision Department to the effect that the conversion/write-down of the security is necessary in order to avoid the point of non-viability. 2. Providing external support, without which the Bank will reach the point of non-viability. It should be noted that the Banking Supervision Department has not yet defined the “point of non-viability”.

About the Bank

Bank Leumi le-Israel B.M. and its subsidiaries constitute one of Israel's two largest banking groups. The Bank is organized into three main business lines, focused on different market segments, with each business line specializing in the provision of banking and financial services to a specific customer segment: retail banking, corporate and commercial banking, capital markets and financial management.

In addition to the Bank's business lines, Leumi operates through subsidiaries in Israel and abroad: Activity of Israeli subsidiaries – mainly includes non-financial investment, underwriting and investment banking activities carried out by Leumi Partners Ltd. Activity of the subsidiary abroad - Leumi UK (hereinafter - "BLUK"), which mainly engages in extending loans to corporate and commercial customers, and small businesses. On September 23, 2021, Bank Leumi Corporation (BLC), a US-incorporated corporation (85% of which is held by the Bank), which wholly owns BLUSA, entered into a merger agreement with Valley National Bankcorp (hereinafter - "Valley Bank"). Following the completion of the transaction and execution of the merger procedures, BLC was merged into Valley and BLUSA was merged into Valley Bank. Upon completion of the transaction on April 1, 2022, Bank Leumi holds approx. 14.2% of Valley's share capital, but the Bank is not a controlling shareholder; however, as of this report's publication date, it is the largest shareholder. The Bank does not have a controlling core. The Bank's President and CEO is Hanan Friedman, Adv., and the Chairman of the Board of Directors is Dr. Shmuel Ben Zvi.

The subordinated bonds and bonds rated by Midroog*:

Series	Security No.	Rating	Rating outlook	Final repayment date
Series 178	6040323	Aaa.il	Stable	March 31, 2024
Series 179	6040372	Aaa.il	Stable	June 30, 2026
Series 184	6040604	Aaa.il	Stable	May 5, 2030
Series 405	6040620	Aa2.il(hyb)	Stable	March 27, 2033

**Issued by Bank Leumi le-Israel B.M.*

Internal Baseline Credit (BCA) Assessment Matrix

			Midroog's forecast as of June 30, 2023 [1]				
Category	**Parameter**	**Sub-parameter**	**Measurement [1]**	**Score**	**Measurement**	**Score**	**Other considerations**
Business profile	**Business positioning**		-	aaa.il	-	aaa.il	
	Revenue stability	Retail revenues %	76%	aa.il	~76%	aa.il	*Rate of income from fees and commissions*
	Revenue diversification	Number of business lines with over 15% of total revenues	3	a.il	3	a.il	
Risk profile	**Corporate Governance**		-	aa.il	-	aa.il	
	Risk management policy		-	aa.il	-	aa.il	
	Concentration of the credit portfolio	The largest segment to common equity Tier 1 capital	221%	a.il	~221%	a.il	*Real estate sector*
	Concentration of the credit portfolio	Large borrowers to common equity Tier 1 capital	Approx. 6%*	aa.il	5%-15%	aa.il	
	Market risk appetite	VAR limit to common equity Tier 1 capital	*2.5%	aaa.il	<5%	aaa.il	
Financial profile	**Quality of assets**	Troubled debts to loans to the public, gross	1.7%	aaa.il	2.5%-2.9%	aa.il	
		Troubled debts to equity and loan loss provision	12.4%	aaa.il	~18%	aaa.il	Coverage ratio
	Profitability	Net income to average assets	1.0%	aa.il	0.7%-0.8%	aa.il	
		Profit before tax and loan loss expenses to average risk-weighted assets.	3.5%	aaa.il	2.4%-2.5%	aaa.il	
		Efficiency ratio	31.0%	aaa.il	~38%	aaa.il	
	Capital adequacy	Common Equity Tier 1 capital to risk weighted assets	11.2%	aa.il	~11%	aa.il	
		Equity to total assets	7.5%	aa.il	7.5%-7.7%	aa.il	
	Financing and liquidity	Less stable financing to total assets	20.6%	aa.il	~20.6%	aa.il	
		Liquid assets to deposits by the public	39%	aaa.il	~39%	aaa.il	
Derivative baseline credit assessment						**aa1.il**	
Actual baseline credit assessment						**aa1.il**	

[1] The metrics presented in the table are after Midroog's adjustments and are not necessarily identical to those presented by the Company. Midroog's forecast includes Midroog's assessments with regard to the issuer in accordance with Midroog's baseline scenario, rather than the issuer's assessments.
** According to December 31, 2022*

Rating of the Bank's debts

	Internal Baseline Credit (BCA) Assessment	Support from owners and/or related parties	Adjusted BCA	Subordination and loss absorption mechanism	State support	Final rating
Deposits and bonds	aa1.il	0	aa1.il	0	+1	Aaa.il
Subordinated bonds with contractual loss absorption mechanism (Tier 2 capital)	aa1.il	0	aa1.il	-1	0	Aa2.il(hyb)

Related reports

Bank Leumi le-Israel B.M. - Related reports

Banks' Rating - Methodology Report, September 2019

Impact of the "Iron Swords War" on the Credit Repayment Capacity of Issuers Rated by Midroog" - special report October 2023

Promoting the Competition in the Banking System - special report, February 2023

Guidelines for assessing environmental, social and corporate governance risks as part of credit ratings - methodology report, February 2022

Affiliations and holdings table

Midroog's rating scales and definitions

The reports are published on Midroog's website www.midroog.co.il

General information

Date of the rating report:	October 31, 2023
Date of previous rating update:	November 15, 2022
Publication date of initial rating	February 18, 2007
Rating initiated by:	Bank Leumi le-Israel B.M.
Rating paid for by:	Bank Leumi le-Israel B.M.

Information from the issuer

Midroog's rating is based, among other things, on information received from authorized parties at the Issuer.

Baseline Credit Assessment (BCA)

aaa.il	**Issuers or issues rated aaa.il have, in Midroog's judgment, the highest internal or standalone (independent) financial strength relative to other local issuers, absent of any possible external support from an affiliate company or the state.**
aa.il	**Issuers or issues rated aa.il have, in Midroog's judgment, very high internal or standalone (independent) financial strength relative to other local issuers, absent of any possible external support from an affiliate company or the state.**
a.il	**Issuers or issues rated a.il have, in Midroog's judgment, high internal or standalone (independent) financial strength relative to other local issuers, absent of any possible external support from an affiliate company or the state.**
baa.il	**Issuers or issues rated baa.il have, in Midroog's judgment, moderate internal or standalone (independent) financial strength relative to other local issuers, absent of any possible external support from an affiliate company or the state, and could involve certain speculative characteristics.**
ba.il	**Issuers or issues rated ba.il have, in Midroog's judgment, weak internal or standalone (independent) financial strength relative to other local issuers, absent of any possible external support from an affiliate company or the state, and involve certain speculative characteristics.**
b.il	**Issuers or issues rated b.il have, in Midroog's judgment, very weak internal or standalone (independent) financial strength relative to other local issuers, absent of any possible external support from an affiliate company or the state, and involve certain speculative characteristics.**
caa.il	**Issuers or issues rated caa.il have, in Midroog's judgment, excessively weak internal or standalone (independent) financial strength relative to other local issuers, absent of any possible external support from an affiliate company or the state, and involve very significant speculative characteristics.**
ca.il	**Issuers or issues rated ca.il have, in Midroog's judgment, extremely weak internal or standalone (independent) financial strength, absent of any possible external support from an affiliate or the state, and are very near insolvency, with some prospect of recovery of principal and interest.**
c.il	**Issuer or issues rated c.il have, in Midroog's judgment, the weakest internal or standalone (independent) financial strength, absent of any possible external support from an affiliate company or the state, and are usually insolvent with little prospect of recovery of principal and interest.**

Note: Midroog uses numeric modifiers 1, 2 and 3 in each rating category from aa.il to caa.il. The modifier ‘1’ indicates that the obligation ranks in the higher end of its rating category, which is denoted by letters. The variable ‘2’ indicates that it ranks in the middle of its rating category and the modifier ‘3’ indicates that the obligation ranks in the lower end of that category, denoted by letters.

Unlike previous publications until now, Midroog does not publish a rating outlook for Baseline Credit Assessment (BCA) in order to differentiate the BCA from the credit rating.

Local Long-Term Rating Scale

Aaa.il	**Issuers or issues rated Aaa.il have, in Midroog's judgment, the highest creditworthiness relative to other local issuers.**
Aa.il	**Issuers or issues rated Aa.il have, in Midroog's judgment, very high creditworthiness relative to other local issuers.**
A.il	**Issuers or issues rated A.il have, in Midroog's judgment, high creditworthiness relative to other local issuers.**
Baa.il	**Issuers or issues rated Baa.il have, in Midroog's judgment, moderate creditworthiness relative to other local issuers, and could involve certain speculative characteristics.**
Ba.il	**Issuers or issues rated Ba.il have, in Midroog's judgment, weak creditworthiness relative to other local issuers, and they involve certain speculative characteristics.**
B.il	**Issuers or issues rated B.il have, in Midroog's judgment, very weak creditworthiness relative to other local issuers, and they involve certain speculative characteristics.**
Caa.il	**Issuers or issues rated Ba.il have, in Midroog's judgment, excessively weak creditworthiness relative to other local issuers, and they involve certain speculative characteristics.**
Ca.il	**Issuers or issues rated Ca.il have, in Midroog's judgment, extremely weak creditworthiness compared to other local issuers, and are very near insolvency, with some prospect of recovery of principal and interest.**
C.il	**Issuers or issues rated C.il have, in Midroog's judgment, the weakest creditworthiness, and are usually insolvent with little prospect of recovery of principal and interest.**

Note: Midroog uses numeric modifiers 1, 2, and 3 for each rating category from Aa.il to Caa.il. The modifier '1' indicates that the obligation ranks in the higher end of its rating category, which is denoted by letters. The variable '2' indicates that it ranks in the middle of its rating category and the variable '3' indicates that the obligation ranks in the lower end of that category, denoted by letters.

Local Short-Term Rating Scale

P-1.il	**Issuers rated Prime-1.il, in Midroog's judgment, have very good ability to repay short-term obligations relative to other local issuers.**
P-2.il	**Issuers rated Prime-2.il, in Midroog's judgment, have good ability to repay short-term obligations relative to other local issuers.**
P-3.il	**Issuers rated Prime-3.il, in Midroog's judgment, have moderate ability to repay short-term obligations relative to other local issuers.**
NP.il	**Issuers rated Not Prime.il do not belong to any of the Prime categories.**

Link between the Long-Term and Short-Term Rating Scales

The following table presents the long-term ratings consistent with short-term ratings, when such long-term ratings exist[19]

Short-term rating	Long-term rating
Prime-1.il	Aaa.il, Aa1.il, Aa2.il, Aa3.il, A1.il, A2.il, A3.il
Prime-2.il	A3.il, Baa1.il, Baa2.il
Prime-3.il	Baa2.il, Baa3.il
NotPrime	Ba1.il,Ba2.il,Ba3.il B1.il,B2.il,B3.il Caa1.il,Caa2.il,Caa3.il Ca.il C.il

[19] Short-term structured financing ratings are normally based on the short-term rating of the entity providing liquidity to the transaction or on the estimated cash flow to repay the rated liability.

The ratings issued by Midroog represent Midroog’s subjective opinions about the relative credit risk of entities, commitments, debts and/or debt-like financial instruments, as of the date of publication or provision, and as long as Midroog has not changed or withdrawn the rating, all the materials, products, services and information published or provided by Midroog (hereinafter - “Midroog’s Materials”) may include a subjective opinion, as mentioned above.
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