

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: David_S@bll.co.il

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Reference: 2023-01-113128

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 *December 13, 2023*, *Fitch Ratings* published the following:

Rating report/notice: *Updated*

1. Rating report or notice

Rating of the corporation: *A/FI+ Fitch Ratings* _____ *None/NOO*
Comments/Nature of Notice: *Rating reiteration*

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

Date	Subject of Rating	Rating	Comments/ Nature of Notice
<i>October 19, 2023</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/FI+ Fitch Ratings None/NOO</i>	<i>Ratings Watch Negative/ Rating review (negative)</i>
<i>January 26, 2023</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/FI+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>
<i>December 22, 2022</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/FI+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>
<i>January 12, 2022</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/FI+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>
<i>February 16, 2021</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/FI+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>
<i>January 21, 2021</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/FI+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>
<i>December 9, 2020</i>	<i>Bank Leumi le-Israel Ltd.</i>	<i>A/FI+ Fitch Ratings Stable</i>	<i>Reiteration of rating</i>

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
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>Fitch rating</i>	<i>Other BBB Fitch Rating None/NOO</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2027</i>	<i>6040687</i>	<i>Fitch rating</i>	<i>Other A Fitch Rating None/NOO</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2033</i>	<i>6040679</i>	<i>Fitch rating</i>	<i>Other BBB Fitch Rating None/NOO</i>	<i>Reiteration of rating</i>

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
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>October 19, 2023</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating None/NOO</i>	<i>Ratings Watch Negative/ Rating review (negative)</i>
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>January 26, 2023</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>December 22, 2022</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>January 12, 2022</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>February 16, 2021</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>January 21, 2021</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2031</i>	<i>6040489</i>	<i>December 9, 2020</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2027</i>	<i>6040687</i>	<i>October 19, 2023</i>	<i>Bonds</i>	<i>Other A Fitch Rating None/NOO</i>	<i>Ratings Watch Negative/ Rating review (negative)</i>
<i>Leumi \$ 2027</i>	<i>6040687</i>	<i>January 26, 2023</i>	<i>Bonds</i>	<i>Other A Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2027</i>	<i>6040687</i>	<i>December 22, 2022</i>	<i>Bonds</i>	<i>Other A Fitch Rating Stable</i>	<i>Reiteration of rating</i>
<i>Leumi \$ 2027</i>	<i>6040687</i>	<i>July 18, 2022</i>	<i>Bonds</i>	<i>Other A Fitch Rating Stable</i>	<i>Initial rating</i>
<i>Leumi \$ 2033</i>	<i>6040679</i>	<i>October 19, 2023</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating None/NOO</i>	<i>Ratings Watch Negative/ Rating review (negative)</i>
<i>Leumi \$ 2033</i>	<i>6040679</i>	<i>January 26, 2023</i>	<i>Bonds</i>	<i>Other BBB Fitch Rating Stable</i>	<i>Reiteration of rating</i>

Leumi \$ 2033	6040679	January 10, 2023	Bonds	Other BBB Fitch Rating Stable	Initial rating
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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:

[Dece 13 2023 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](#).

Fitch Rating reiterated the Bank's Long-Term IDR at A, and has also reiterated the Short-Term IDR at a level of F1+, and reiterated the outlook at rating watch negative (following the placement of the rating of the State of Israel and other Israeli banks in the rating negative watch).

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
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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/>

13 DEC 2023

Fitch Maintains Bank Leumi's 'A' IDR on Rating Watch Negative

Fitch Ratings - London - 13 Dec 2023: Fitch Ratings is maintaining Bank Leumi Le-Israel B.M.'s ratings including its Long-Term Issuer Default Rating (IDR) of 'A' and Government Support Rating (GSR) of 'a' on Rating Watch Negative (RWN). The bank's Viability Rating (VR) has been affirmed at 'a-'.

Key Rating Drivers

State Support Drives IDRs: Leumi's IDRs reflect Fitch's view of a very high probability that Israel (A+/F1+ on RWN) would provide support to the bank. Fitch believes Israel's ability and propensity to support Leumi are very high, particularly given the systemic importance of the bank, which holds about 30% of the country's banking system assets.

Uncertain Economic Environment: The Israel-Hamas war has caused an initial contraction of economic activity. Our negative outlook on the operating environment reflects the uncertainty around the severity, duration and longer-term impact of the war. The Israeli government and the Bank of Israel have provided a variety of measures to support the economy and the most affected borrowers. Rising interest rates have supported net interest income, but Fitch believes this benefit peaked in 1H23 and will subsequently recede due to rising deposit costs and the Bank of Israel's decision to maintain the key interest rate at 4.75% in November.

Diversified Business Model: Leumi's VR reflects its strong franchise in retail and corporate banking as Israel's largest bank by total assets. Asset quality and earnings are likely to come under pressure from the Israel-Hamas war, but we expect them to remain resilient from a strong starting position. The VR also reflects Leumi's sound funding given its diversified and granular deposit base and adequate capitalisation.

Market Risk Appetite Above Peers': Underwriting standards are similar to domestic peers' and influenced by tight regulatory limits. Leumi's market risk exposure in the banking book is in line with domestic peers' and appropriately controlled by internal risk limits.

However, 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-September 2023. We do not expect this exposure to increase significantly.

Asset-Quality Pressures: Leumi's impaired loans increased to 0.7% of gross loans at end-September 2023 (0.6% at end-9M22), due to increased interest rates, the seasoning of loans originated in 2022,

and above-target inflation.

We expect asset quality to be affected by the macro-economic impact of the Israel-Hamas war. Leumi's loan impairment charge of ILS991 million for 3Q23 reflects the bank's assessment of the likely impact of the war on its loan portfolio and is comparable in size to provisions taken at the start of the pandemic in 1Q20. Despite increased credit risk, we expect impaired loans to remain below 1.5% over the next two years due to sound underwriting and Israel's resilient operating environment.

Earnings to Weaken: Leumi's operating profit has benefitted from improving margins due to increasing interest rates as well as higher loan balances. However, we expect lower loan growth in 2024, which will only be partially offset by cost-efficiency programmes. We forecast the operating profit to remain above 2% of risk-weighted assets (RWAs) over the next two years. In our view, prudent underwriting and provisioning policies would reduce the impact on profitability from higher loan arrears should the war result in a more severe macroeconomic deterioration than we currently expect.

Adequate Capitalisation: Capital headroom is limited, but its CET1 ratio has remained adequate at 11.30% at end-9M23. We view its 109bp buffer above regulatory requirements as adequate because Leumi, like other Israeli banks, calculates RWAs using the standardised approach, which results in fairly high RWAs at 66% of total assets. Our capital assessment also considers Leumi's large buffer of loan loss allowances, strong internal capital generation and additional retained earnings as a result of prudently reducing its dividend pay-out ratio to 20% for 3Q23.

Large, Stable Deposit Base: Leumi has a stable, granular and low-cost deposit base that exceeds the size of the loan book. Since the outbreak of the Israel-Hamas war, the bank has not noted material change in its liquidity ratios or funding mix. The bank also has proven access to domestic and international debt markets. Its 130% liquidity coverage ratio at end-9M23 was soundly above the 100% minimum regulatory requirement.

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

Rating Sensitivities

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

A downgrade of the sovereign rating is likely to result in a downgrade of Leumi's GSR and IDRs.

A sharp deterioration of asset quality as a result of the war that would result in an impaired loan ratio of above 2% for an extended period, combined with the CET1 declining below current levels, and weakening internal capital generation, funding stability or liquidity could result in a VR downgrade. Given the bank's significant exposure to the real estate sector, a sharp decline in real estate prices would put pressure on asset quality and therefore on the VR.

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

Leumi's GSR and IDRs are likely to be affirmed and removed from RWN if Israel's ratings are affirmed and removed from RWN. An upgrade of the GSR and IDRs is unlikely due to the war and the RWN on the sovereign IDRs.

A VR upgrade is unlikely given the bank's geographical concentration and would require a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWAs while also maintaining materially higher capital ratios, which we do not expect.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Senior Debt

Leumi's senior unsecured notes are rated in line with the Long-Term IDR as they constitute the bank's unsecured and unsubordinated obligations.

Subordinated Debt

Leumi's 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.

IDRs (xgs)

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

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Senior Debt

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

Subordinated Debt

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

IDRs (xgs)

The IDRs (xgs) are sensitive to changes in the bank's VR.

VR ADJUSTMENTS

The operating environment score of 'a' is below the 'aa' implied category score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

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

The capitalisation & leverage score of 'a-' is above the 'bbb' implied category score due to 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 IDRs and GSR reflect Fitch's expectation of a very high probability of state support from Israel.

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>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Bank Leumi Le-Israel B.M.	LT IDR	A	Rating Watch Maintained	A
	ST IDR	F1+	Rating Watch Maintained	F1+
	Viability	a-	Affirmed	a-
	Government Support	a	Rating Watch Maintained	a
	LT IDR (xgs)	A-(xgs)	Affirmed	A-(xgs)
	ST IDR (xgs)	F1(xgs)	Affirmed	F1(xgs)
	• subordinated	BBB	Affirmed	BBB
• senior unsecured	LT	A	Rating Watch Maintained	A

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

Solicitation Status

Endorsement Status

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

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