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Public

Translation of Immediate Report

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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6 May 2010
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To: Israel Securities Authority (www.isa.gov.il)
The Tel Aviv Stock Exchange (www.tase.co.il)

Immediate Report regarding an Event or Matter falling outside the Ordinary Course of Business of the Corporation

Regulation 36(a) of the Securities (Periodic and Immediate Reports) Regulations, 1970

Nature of the Event: Confirmation of the Rating of the Bank and of a Subsidiary

The S&P Maalot rating agency has announced the confirmation of the rating for the Bank and for Leumi Mortgage Bank Ltd., and a change in the ratings forecast, in accordance with the attached notice.

Date and time at which the corporation first became aware of the matter being the subject of the report: 5 May 2010 Time: 18:30.

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5 May 2010

Bank Leumi le-Israel
Leumi Mortgage Bank

Confirmation of the iIAA+ rating and change of the ratings forecast, to stable

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Summary:

- The Bank Leumi le-Israel's financial profile has shown relative strength, compared to the economic slow-down in Israel
- We are confirming the iIAA+ rating for Bank Leumi le-Israel and the iIAA+ rating for its core company, Leumi Mortgage Bank Ltd., and we are changing the ratings forecast from negative to stable.
- The stable forecast reflects our belief that Bank Leumi's financial performance is expected to improve over the course of 2010, and that the expected pressure regarding the loan portfolio will be manageable.

Rating activity

On 5 May 2010, Standard and Poor's Maalot confirmed the iIAA+ issuer's rating for Bank Leumi le-Israel B.M. and the iIAA+ issuer's rating for its subsidiary, Leumi Mortgage Bank Ltd., and, at the same time, changed the ratings forecast from negative to stable.

Main considerations regarding the rating

The change of the ratings forecast to stable reflects our view that Leumi's financial profile has shown relative resilience towards the economic slow-down in Israel. In our opinion, the change in the ratings forecast also reflects support for Leumi's financial profile, which will come from the recovery of the Israeli economy, which will, in our estimation, grow by 3.4%-3.5% during the years 2010-2010.

Leumi's rating continues to be based on our estimation of its high competitive level and of its local brand-name; the Bank's strong liquidity level; and the mix of its income base. The

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rating is restricted, because of the relatively high credit risk due to the concentration of its activity in the local market, and its exposure with respect to commercial credit, primarily to leveraged conglomerates in certain branches. In our view, the indications of the quality of its assets are sufficient. The Bank's rating includes the mature character of the Israeli banking market and its limited potential for growth over the medium-term. The Bank's capital ratios have improved in light of the limited growth of its risk assets and the non-distribution of a dividend. Nevertheless, we estimate that the concentration in the Israeli market requires a higher capital cushion than is required for other developed countries.

Provisions for doubtful debts remain relatively high, at the level of 0.74% of the average customer loan; although such provisions did decline in comparison to the 1.01% at which they had stood in 2008. Although Bank Leumi continues to have a large problem loan portfolio, the level of problem credit (which includes loans that are in arrears for over 90 days, loans in reorganization and loans that are temporarily in arrears) rose only minimally, to 6.1% of the total credit, as of 31 December 2009, up from 5.5% at the end of 2008 – and these were accompanied by only a few write-offs.

The Bank's financial performance began to recover during the course of 2009; however, the Bank's (net) interest income is still influenced by the low margin ratio prevailing in the economy, and from a decline in credit activity. For the year 2010, our base-line scenario is for continued recovery in Leumi's financial results, as a result of the Group's broad income mix and an increase in credit to be granted by Leumi. On the other hand, this growth could lead to an increase in Leumi's provisions. Capital gains from the sale of non-bank holdings might also support the recovery of financial results this year.

In light of Leumi's substantial importance for the local finance system in Israel, S&P views Bank Leumi as being systematically important to the State of Israel. Our estimation is that the Israeli government favors intervention in the banking system if needed, and we expect that the government will support Bank Leumi if there is a need, as has been proven in the past. In light of this, the Bank's long-term rating includes a one-notch increase in the Bank's standalone rating.

The rating for Leumi Mortgage Bank is based on our having defined it as a core company within the Leumi Group. According to S&P's methodology, the rating of a subsidiary which is defined as a core activity of the parent company will be identical to that of the parent company. Leumi Mortgage Bank's rating is the same as that of Bank Leumi – "ilAA+." The definition of Leumi Mortgage Bank as a core subsidiary within the Leumi Group is primarily the result of the operating, organizational and financial integration of the two companies.

Ratings forecast

The change in the ratings forecast to stable reflects our belief that Bank Leumi's financial profile has shown relative strength compared to the slowdown of the Israeli economy, and it is expected to continue in this direction so long as the Israeli economy continues to recover. In addition, we believe that the stable forecast is supported by the expected improvement in the Bank's profitability, resulting from its varied mix of income types, and from the

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expansion of credit during the course of 2010. We estimate that the potential for harm to the quality of the Bank's assets is manageable.

The renewal of the pressure on Bank Leumi's financial profile – a renewed slowdown in the local economy and in its activity environment, which would lead to the Bank's assets, financial performance and capital all being harmed – could put downward pressure on the ratings. A significant increase in the level of political uncertainty in Israel could also impact on the Bank's profile and could have a negative impact on the Bank's rating and on that of Leumi Mortgage Bank.

We do not see a significant chance for the ratings to be raised in the short-term, although continued improvement in Bank Leumi's results and of the Israeli economy's performance, accompanied by an increase in the quality of the Bank's credit assets and maintenance of good liquidity could be factors that would support the raising of the Group's rating. Stronger capital ratios could also constitute a point of a strengthening of the rating.

List of ratings

Ratification of rating, change in forecast

	Current rating	Previous rating
Bank Leumi le-Israel	ilAA+/stable	ilAA+/negative
Rating for subordinated debentures	ilAA/stable	ilAA/negative
Upper Tier II capital (private offering)	ilA	ilA
Upper Tier II capital (Series 300 and 301)	ilA+	ilA+
Leumi Mortgage Bank	ilAA+/stable	ilAA+/negative
Rating for subordinated debentures	ilAA/stable	ilAA/negative

Standard & Poor's Maalot ratings are based on information received from the company and from other sources that Standard & Poor's Maalot believes to be reliable. Standard & Poor's Maalot does not audit the information it receives and does not verify its accuracy or completeness

It is hereby clarified that the Standard & Poor's Maalot rating does not reflect risks relating to and/or arising from breaches, in the form of acts or omissions, of any of the obligations contained in the debentures documents and/or relating to and/or arising from the inaccuracy or incorrectness of any of the representations contained in the documents relating to the debenture offering that is the subject of this rating, in the Standard & Poor's Maalot report or in the facts forming the basis for the opinions given to Standard & Poor's Maalot as a condition for receiving the rating, fraudulent or deceptive acts or omissions, or any other act that is in violation of the law.

The ratings may be revised as a result of changes in the information received or for other reasons. The rating should not be viewed as an expression of an opinion regarding the price of the securities on the primary or secondary market. The rating should not be viewed as an expression of an opinion regarding the advisability of buying, selling or holding any security.

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