

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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25 February 2015
Reference: 2015-01-038068

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: Initial Assessment – Financial Results

1. See attached Annex.
2. Date and time at which the corporation first became aware of the matter being the subject of the report: 24 February 2015 Time: 21:00

Reference numbers of previous documents in this regard (does not constitute incorporation by reference): 2015-01-016267

Name of Electronic Reporter: Yael Rudnicki, Position: Advocate, Group 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/>



25 February 2015

To

Tel Aviv Stock Exchange
Ahuzat Bayit Street 2
Tel Aviv 6525216

To

Israel Securities Authority
Kanfei Nesharim Street 22
Jerusalem 95464

Dear Madam or Sir:

Subject: **Initial Assessment regarding the Financial Results of the Bank for the 4th Quarter of 2014**

Bank Leumi le-Israel B.M. (hereinafter: "the **Bank**") respectfully reports as follows:

1. On 21 January 2015 the Bank published an Immediate Report regarding the signing of a new collective agreement with the Bank's employees' union (reference: 2015-01-016267). This report included an initial estimate regarding the expected effect of the signing of the agreement on the liabilities recorded in the Bank's accounts with respect to employees' rights, mainly due to the effect of the decrease in the mechanism for salary updates. The net estimated decrease, following the effect of the one-time bonus, was a decrease in the amount of some NIS 600 to 700 million in liabilities to employees, of which the initial estimate regarding the contribution to pre-tax profit for the fourth quarter of 2014 was some NIS 400-500 million.
2. On 24 February 2015, the Bank received a letter from the Supervisor of Banks which included a directive (the "Directive"), whereby following examination of the issue and the prevailing circumstances, and in order to reinforce the consistency regarding the manner of treatment of all the changes regarding the employee rights liabilities and the manner in which they are recorded in the profit and loss statement, including in respect of the implementation of accepted US

accounting standards, beginning 1 January 2015, and pursuant to the level of accounting prudence required in the opinion of the Supervisor of Banks under the circumstances, the Bank is required to present, for the first time, the reduction in employee rights liabilities which arises from the change in the said agreement in the Bank's financial statements, beginning 1 January 2015, including in the profit and loss statement, pursuant to the manner of implementation of accepted US accounting standards.

3. In light of the abovementioned Directive, the amount of the profit which was estimated by the Bank to be included in the financial statements for the fourth quarter of 2014 will not be included in this quarter, but will rather be credited directly to the Bank's capital at the beginning of 2015, and will be spread out in profit and loss, in accordance with accepted US accounting standards.
4. In addition, the Directive includes an instruction to change the methodology for calculating retirement age for purposes of accumulation and attribution of the pension benefits in the actuarial calculations of generation "A" Bank employees. Pursuant to the Directive, this change will be dealt with in the financial statements for 2014 as a change in accounting methodology, including in respect of previous accounting periods. According to the Bank's initial estimate, as of 31 December 2014, under said directives, which do not take into actuarial account the effects of the new salary agreement (including the reduction in the salary update mechanism), and were made without changing the capitalization interest rate regarding the capitalization interest in the original calculations, the amount of the reduction from the Bank's capital is expected to amount to an after-tax amount of some NIS 280 million (some NIS 450 million gross, pre-tax).
5. This reduction in capital, which derives from the effect detailed in clause 4 above, will be immediately recorded for capital adequacy purposes, and will not be subject to the transitional directives laid down in Proper Banking Management Directive 299.
6. As a result of the above, and due to other exceptional effects, of which the main ones will be detailed below, the Bank estimates that it will not record a profit in the fourth quarter of 2014. In light of this, the Bank estimates that the overall

- profit for 2014 will be some NIS 1,600 million. The main additional exceptional effects are as follows:
- 6.1. As detailed in the Immediate Report published by the Bank on 27 January 2015 (reference: 2015-01-019978), in light of the report of the Israel Corporation regarding a reduction in the value of the shares of Kenon, a net after-tax effect of some NIS 220 million is expected on the financial statements for the fourth quarter of 2014.
 - 6.2. The Supervisor of Bank's directive, in the circular dated 19 January 2015, regarding "Credit to Individuals", which is expected to increase the provision in respect of individuals in the Leumi Group, in a net after-tax amount of some NIS 110 million.
 - 6.3. The expected provision for credit losses at the Romanian subsidiary, pursuant to the local regulator's instruction, in a net after-tax amount of some NIS 50 million.
7. As detailed in the financial statements as at 30 September 2014, the Bank recorded a provision in respect of the agreement with the US authorities, in an amount of some NIS 1,000 million. If this exceptional provision had not been made, the expected profit for 2014 would amount to some NIS 2,600 million.
 8. It is clarified that this is a preliminary estimation only, and that – because of the complexity of the calculations, in terms of both the relevant accounting and actuarial aspects – it is, by its nature, likely to undergo substantial changes. It is further clarified that, as of the date of publication of this Immediate Report, the External Auditors have not yet completed their audit, and as such the above assessments are not final, and the actual results may be substantially different from the above estimations.

Yours sincerely,

Bank Leumi le-Israel B.M.

By:

Ron Fainaro, Head of Finance Division

Shlomo Goldfarb, Head of Accounting Division