

## Translation of Immediate Report

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

### **Immediate Report of Rating of Debentures/Rating of Corporation, or of Withdrawal of Rating**

On 1 April 2015, Fitch Ratings published

A rating report/notice *update*:

1. Rating report or notice

Rating of corporation: Other Fitch Ratings \_\_\_\_\_ *stable*

Comments/Substance of Notice: *Confirmation of rating*

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

<b>Date</b>	<b>Subject of Rating</b>	<b>Rating</b>	<b>Comments/ Substance of Notice</b>
19 June 2014	Bank Leumi Le-Israel Ltd.	Other Fitch Ratings _____ Stable	Confirmation of rating
23 May 2013	Bank Leumi Le-Israel Ltd.	Other Fitch Ratings _____ Stable	Confirmation of rating
21 May 2012	Bank Leumi Le-Israel Ltd.	Other Fitch Ratings _____ Stable	Confirmation of rating

*Explanation: The ratings history should specify only the ratings history of the ratings company which is the subject of the Immediate Report*

Attached hereto is the Rating Report: Appendix – Press Release 1April2015

The Fitch Ratings company confirmed the Bank's long term rating (Long term IDR) at the A- level and the short term rating (Short term IDR) at the F1 level. It also confirmed the outlook as stable. See the attached complete ratings report.

The report was signed on behalf of the corporation, in accordance with Regulation 5 of the Securities (Periodic and Immediate Reports), 1970, by Ron Fainaro, Head of the Finance Division at the Bank.

**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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## **FITCH AFFIRMS BANK LEUMI & BANK HAPOALIM AT 'A-'**

Fitch Ratings-London-01 April 2015: Fitch Ratings has affirmed Bank Leumi Le Israel B.M.'s (Leumi) and Bank Hapoalim B.M.'s (Hapoalim) Long-term Issuer Default Ratings (IDRs) at 'A-' with Stable Outlooks. Both banks' Viability Ratings (VRs) have been affirmed at 'bbb+'. A full list of rating actions is provided at the end of the rating action commentary.

### **KEY RATING DRIVERS - IDRs, SUPPORT RATING FLOORS AND SUPPORT RATINGS**

The two banks' Long- and Short-term IDRs are support-driven. Their IDRs, Support Ratings (SRs) and Support Rating Floors (SRFs) reflect Fitch's expectation of an extremely high probability of support for the banks, if needed, from the State of Israel (A/Stable).

Fitch's expectation of support from the authorities is underpinned by Israel's strong ability to provide support to its banks, as reflected in its ratings, combined with Fitch's belief that there would be a strong willingness to do so. This view is reinforced by the banks' large domestic franchises (accounting for a combined 60% of the banking sector assets and liabilities) and their importance to the Israeli economy.

### **RATING SENSITIVITIES-IDRs, SRs AND SRFs**

The IDRs, SRs and SRFs are potentially sensitive to a change in Fitch's assumptions around the Israeli authorities' propensity or ability to provide timely support to the banking sector. While the introduction of a resolution law is in discussion, Fitch does not expect this law to become functional in the short-term. The country does not operate a deposit guarantee system and the practical implementation of resolution tools, such as bail-in of senior creditors, remains unlikely in Fitch's view.

### **KEY RATING DRIVERS - VRs**

Leumi's and Hapoalim's VRs factor in the significant, although declining, concentrations of their loan portfolios in terms of sector and/or single-name exposures, and moderate capital levels. The ratings also consider their large deposit bases, healthy asset quality, and reasonable profitability.

Credit concentrations by economic sector, and in some instances by obligor, remain in both banks, and are reflected in Fitch's assessment of the banks' risk appetite, which is a factor of high importance when analysing the banks' respective VRs. The banking sector has reduced large exposures, supported by prudential regulations, although Fitch believes that concentration levels are likely to remain a feature of Israel's fairly small economy. Given ample deposit funding, and generally limited possibilities to grow in core areas where the banks already have leading franchises, they have at times expanded in some higher-risk -and margin segments; this is also factored into Fitch's assessment of risk appetite.

Leumi's and Hapoalim's capitalisation are moderate. Risk-weighted ratios are fairly low, although mainly driven by high risk weights under the standardised approach. Leverage, as measured on a non-risk weighted basis, compares well internationally for both banks. From January 2015, Israeli banks need to meet a minimum Basel III Tier 1 ratio of 9%, increasing to 10% from January 2017 for the two largest banks (applicable to banks with over 20% of banking sector assets). Fitch expects both banks will comfortably meet these regulatory requirements.

Leumi's and Hapoalim's strong liquidity and mainly deposit-funded lending support the ratings. Both banks' liquidity buffers consist of cash and high quality sovereign bonds. Funding is reliant on fairly stable customer deposits, which entirely cover lending needs as reflected in loan-to-deposit ratios being consistently below 100% at both banks. Wholesale funding remains limited.

Asset quality continued to perform well in 2014, with low levels of impaired loans and increasing coverage ratios. Low interest rates and a fairly benign operating environment support asset quality. Fitch expects commercial real estate lending to be stable in 2015, although risks arising from the large individual exposures remain, in Fitch's view.

Profitability is sound and has remained stable despite low interest rates, although cost efficiency is weak compared with similarly rated international peers. Fitch believes that profitability will be supported by low loan impairment charges and additional cost cutting in 2015, offsetting the low interest rates and limited growth in corporate lending.

#### RATING SENSITIVITIES-VRs

The VRs take into account both banks' improving capitalisation through internal capital generation and a progressive reduction of credit concentrations. A downgrade of the VRs would most likely be driven by increased risk appetite, either abroad or for higher-risk sectors in Israel, or large losses affecting capitalisation. Given the already high ratings in the context of their operating environment, an upgrade of the VRs is currently unlikely.

The rating actions are as follows:

#### Leumi

Long-Term IDR: affirmed at 'A-'; Stable Outlook

Short-Term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'bbb+'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A-'

#### Hapoalim

Long-Term IDR: affirmed at 'A-'; Stable Outlook

Short-Term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'bbb+'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A-'

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable criteria, "Global Bank Rating Criteria", dated 20 March 2015, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Global Bank Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=863501](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501)

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