

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: Livnat.EinShay@bll.co.il

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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 Bonds/Rating of a Corporation, or of Withdrawal of Rating

On February 16 2021, Fitch Ratings published the following:

A rating report/update notice:

1. Rating report or notice

Rating of the corporation: A/F1+Fitch Ratings___ *stable* _____
Comments/Nature of Notice: *Affirmation of rating* _____

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

Date	Subject of Rating	Rating	Comments/ nature of Notice
January 21 2021	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
December 9 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
June 19 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
April 30 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
February 18 2020	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
December 17 2019	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
July 17 2019	Bank Leumi le-Israel B.M.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Upgrading of rating</i>
May 7 2019	Bank Leumi le-Israel B.M.	<i>Fitch Ratings stable</i> _____	<i>Other Review of rating (positive)</i>
May 2 2019	Bank Leumi le-Israel B.M.	<i>A/F1- Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
January 9 2019	Bank Leumi le-Israel B.M.	<i>A/F1- Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>

April 26 2018	Bank Leumi le-Israel B.M.	A/F1- Fitch Ratings stable _____	Affirmation of rating
February 7 2018	Bank Leumi le-Israel B.M.	A/F1- Fitch Ratings stable _____	Affirmation of rating

Explanation: As part of the ratings 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
Leumi Dollar 2031	6040489	Fitch Ratings	Fitch Ratings _____ _____ stable	Affirmation 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	Current rating	Comments / nature of notice
Leumi Dollar 2031	6040489	January 21 2021	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	December 9, 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	June 19, 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	April 30, 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	February 18 2020	Bond	Fitch Ratings _____ _____ stable	Affirmation of rating
Leumi Dollar 2031	6040489	January 13, 2020	Bond	Fitch Ratings _____ _____ stable	Initial rating

Explanation: As part of the ratings 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 Ratings Report:

[FitchBankLeumiLeIsraelBM20210216 isa.pdf](#)

2. On _____, _____ announced the withdrawal of _____'s rating

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

Name of signatory	Title	other
Omer Ziv	Head of Finance 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's has affirmed the Bank's long-term IDR at A, affirmed the short-term IDR at F1+, and affirmed the outlook at stable.
For more information, see the 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, Facsimile: 076-8859732 Electronic Mail: Livnat.Ein-Shay@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, 34 Yehuda Halevi Street, Tel Aviv 6513616, Phone: 076-8857984, Facsimile: 076-8859732 Electronic Mail: David.sackstein@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/>

Bank Leumi Le-Israel B.M.

Key Rating Drivers

Sovereign Support Drives Ratings: Bank Leumi Le-Israel B.M.'s (Leumi) Issuer Default Ratings (IDRs) reflect Fitch Ratings' view that there is an extremely high probability of state support from Israel (A+/Stable), if needed. This view considers Israel's strong ability to provide support to domestic banks, combined with Fitch's belief that it has a strong willingness to do so. This is because of Leumi's domestic systemic importance, and the absence of a deposit guarantee scheme and recovery and resolution legislation.

Asset Quality Still Strong: Leumi's non-performing loan ratio increased marginally in 9M20 and was low at 0.9% at end-3Q20, supported by the extensive payment break framework, measures put in place by the government to stimulate the economy, and relaxed guidelines by the Bank of Israel (BOI) on the classifications and provisioning of impaired and restructured loans. We expect non-performing loans to increase significantly to around 3% in 2021 as these support measures are unwound, which would still be commensurate with our current asset-quality score.

Risk Costs Burden Profit: Leumi reported net income of ILS1.2 billion in 9M20, down by 56% yoy. This was mostly driven by an ILS2.3 billion risk charge (of which 88% is in the form of collective provisions), equal to an annualised 104bp of average gross loans, in anticipation of asset-quality deterioration. Policy rate cuts will put pressure on Leumi's interest income, which accounts for over two-thirds of total operating income. Underlying profitability is, however, supported by the bank's strong market position and pricing discipline as well as by tight cost control.

Capitalisation in Line with Risk: At end-3Q20, Leumi's common equity Tier 1 (CET1) ratio remained strong at 11.7% given the bank's conservative calculation of risk-weighted assets under the standardised approach. We expect the bank to continue to operate with moderate management buffers over the temporarily reduced requirement. Capital should be supported by the bank's decision to put dividend distribution and share buy-back plans on hold.

Strong Funding and Liquidity: Leumi's funding and liquidity is a rating strength and benefits from a stable and granular customer deposit base, which fully covers the bank's loan book. The bank is able to access local wholesale markets and also tapped international markets. Its liquidity buffer of cash and high-quality sovereign bonds is comfortable, with a reported liquidity coverage ratio of 137% at end-3Q20 – comfortably above minimum requirements.

Rating Sensitivities

IDRs Sensitive to Support Assumptions: Leumi's IDRs would be affected by a change in Fitch's assumptions about the Israeli authorities' propensity or ability to provide timely support to the bank. A downgrade of Israel's Long-Term IDR is likely to result in a downgrade of the bank's IDRs.

VR Downgrade on Deeper Crisis: We would probably downgrade the VR if the deterioration in asset quality is more severe than under our baseline expectations, if the bank's non-performing loan ratio exceeds 3% over a prolonged period or if deterioration in profitability significantly weakens the bank's capitalisation. If capital fell below the bank's internal tolerance of 9.5% CET1 ratio without a plan to rebuild it sufficiently and swiftly, the VR could be downgraded.

Upside Potential: Improving profitability on the back of a more diversified business model while maintaining strong capital ratios and healthy asset quality, which we do not expect over the next two years, could result in an upgrade of the VR. An upgrade of Israel's Long-Term IDR is unlikely to result in an upgrade of the bank's Long-Term IDR.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+

Viability Rating	a-
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Support Rating	1
Support Rating Floor	A

Sovereign Risk

Long-Term Foreign-Currency IDR	A+
Long-Term Local-Currency IDR	A+
Country Ceiling	AA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Fitch Affirms Bank Leumi at 'A'; Outlook Stable \(December 2020\)](#)

[Fitch Ratings 2021 Outlook: Middle East and North Africa Sovereigns \(December 2020\)](#)

[Fitch Affirms Israel at 'A+'; Outlook Stable \(January 2021\)](#)

[Israel \(January 2021\)](#)

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Ratings Navigator

Bank Leumi Le-Israel B.M.



Ratings Navigator **Banks**

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+		↓	▮	▮	▮	▮	▮	▮	▮	a+	A+	A+
a	▮	↓	▮	▮	▮	▮	▮	▮	▮	a	A	A Stable
a-	▮	↓	▮	▮	▮	▮	▮	▮	▮	a-	A-	A-
bbb+	▮		▮	▮	▮	▮	▮	▮	▮	bbb+	BBB+	BBB+
bbb	▮		▮	▮	▮	▮	▮	▮	▮	bbb	BBB	BBB
bbb-	▮		▮	▮	▮	▮	▮	▮	▮	bbb-	BBB-	BBB-
bb+	▮		▮	▮	▮	▮	▮	▮	▮	bb+	BB+	BB+
bb	▮		▮	▮	▮	▮	▮	▮	▮	bb	BB	BB
bb-	▮		▮	▮	▮	▮	▮	▮	▮	bb-	BB-	BB-
b+	▮		▮	▮	▮	▮	▮	▮	▮	b+	B+	B+
b	▮		▮	▮	▮	▮	▮	▮	▮	b	B	B
b-	▮		▮	▮	▮	▮	▮	▮	▮	b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Navigator Peer Comparison

Peer Group Summary

Peer Group Summary	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating
Bank Leumi Le-Israel B.M.	a ▾	a- ▮	a- ▮	a- ▮	a- ▮	bbb+ ▾	a- ▮	a ▮	a-
Bank Hapoalim B.M.	a ▾	a- ▮	a- ▮	a- ▮	a- ▮	bbb+ ▾	a- ▮	a ▮	a-
AIB Group Public Limited Company	bbb+ ▾	bbb ▮	bbb+ ▾	bbb ▮	bb+ ▾	bbb ▾	bbb ▮	bbb+ ▮	bbb
Bank of Ireland Group Public Limited Company	a- ▾	bbb+ ▮	bbb+ ▾	bbb ▮	bb+ ▮	bbb ▾	bbb ▮	bbb+ ▮	bbb
Ceska Sporitelna	a ▽	a ▽	a ▮	a ▮	a ▽	a ▽	a ▮	a ▮	a
Komerčni Banka	a ▽	a ▽	a ▮	a ▮	a ▽	a ▽	a ▮	a ▮	a

Source: Fitch Ratings

Bar Chart Legend

Vertical bars – VR range of Rating Factor
 Bar Colors – Influence on final VR
 ■ Higher influence
 ■ Moderate influence
 ■ Lower influence

Bar Arrows – Rating Factor Outlook
 ↑ Positive ↓ Negative
 ⇕ Evolving □ Stable

Sovereign Support Assessment

Support Rating Floor	Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	A or A-		
Actual country D-SIB SRF	A		
Support Rating Floor:	A		
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem		✓	
Structure of banking system			✓
Liability structure of banking system	✓		
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance	✓		
Liability structure of bank	✓		
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Leumi's IDRs, Support Rating (SR) and Support Rating Floor (SRF) reflect Fitch's view that there is an extremely high probability of state support from Israel for the bank, if needed. Leumi accounts for about 30% of sector assets and is a domestic systemically important bank. We believe that state support for the country's banks will remain extremely probable as the country does not have resolution legislation or deposit guarantee mechanisms in place. The introduction of a resolution law, which could indicate a reduced propensity to provide support, is in discussion but we do not expect this law to come into effect within the next 24 months.

Significant Changes

Renewed Coronavirus Pressures; Ongoing Support and Rapid Vaccination

Renewed social distancing measures introduced in Israel in late December 2020 and in effect throughout January 2021 slowed the country's economic recovery and resulted in another spike in unemployment, which is likely to put additional pressure on bank's asset quality and necessitate further loan impairment charges. These should be contained by the ongoing government support programmes, including the additional framework for deferring mortgage and consumer payments, aimed at low-income households negatively affected by the crisis, which banks started implementing from 1 January 2021.

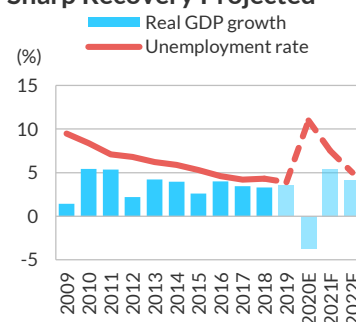
As restrictions are phased out, the future economic recovery will depend among other factors on potential new waves of infection and the effectiveness of the vaccination. Israel's roll out of the vaccine has been rapid so far but the lasting impact on the spread of the virus remains to be seen.

Company Summary

Operating Environment Still Challenging

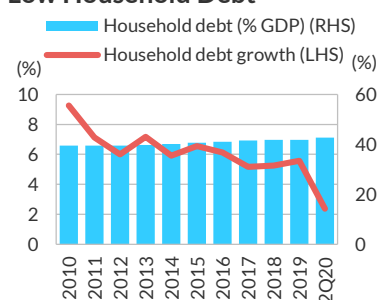
Fitch projects real GDP growth of 5.4% in 2021 and 4.1% in 2022, after a contraction of 3.9% in 2020. Although we consider Leumi to be in a resilient position amid pressures from the current economic and financial fallout, the trend on our assessment of the bank's operating environment, asset quality and earnings remains negative as a reflection of the risks that the

Sharp Recovery Projected



Source: Fitch Ratings

Low Household Debt



Annualised growth for 2Q20
Source: Fitch Ratings, BIS

bank is facing. The negative trend on the operating environment reflects the risk of the coronavirus crisis being prolonged with high unemployment and lower policy rates for longer than previously expected, and the risk GDP does not rebound as fast as we currently forecast.

Israel's banking system is highly concentrated, with the largest five banks accounting for over 96% of system assets. The overall size of the banks' assets accounted for about 120% of the country's GDP at end-2019. Alternative sources of funding are quite developed for corporate customers but are more limited for retail and commercial customers, who still rely on banks. Israel's household debt is low and Fitch does not view its servicing ability to be a medium-term issue.

We consider the regulatory environment in Israel to be developed and transparent. We believe that enforcement of legislation is strong and that supervision of banks in Israel exceeds the international practice standard, both in the scope of the regulation and in the intensity of supervision. This is because of the political consensus in the country in ensuring that the system remains stable during times of crisis and that banks do not fail given the lack of a depositor insurance or guarantee mechanism.

Strong Domestic Franchise, Limited Geographic Diversification

Leumi is Israel's largest retail and commercial bank by total assets (ILS528 billion at end-3Q20) with strong domestic market shares and pricing power across a range of products, benefitting from the concentrated nature of the banking system. Its franchise is supported by its mobile-only bank Pepper, an additional channel to source new customers. The divestment of the credit card company in 2019 has not weakened Leumi's franchise, in our view, as the bank is still in the credit card market and has developed several partnership agreements. The introduction of the credit data bureau in 2019 is aimed at increasing retail competition but we do not expect this to happen in the near term. The bank's geographic diversification is limited.

Stable Universal Business Model

Leumi operates a universal banking model, providing a full range of banking services, including retail, commercial, corporate, private banking and capital markets products. The bank's activities are about equally split between retail, including mortgages, and non-retail segments by loans, whereas profit generation is skewed towards non-retail segments. The capital markets division, which, among other activities, includes proprietary investments and the bank's asset and liability management, was the biggest profit contributor among non-retail segments in 2019-9M20. Leumi's business model is reliant on net interest income, with limited opportunities to increase the relative contribution of fee income because fees are largely subject to limits by the regulator.

The bank's overseas operations are small and represented 8% of net loans and 6% of 9M20 pre-tax profit. In the UK, the bank engages in real estate financing, global commerce and goods. In the US, it focuses on commercial banking, primarily serving local middle-market companies and Israeli companies active in the US.

Well-Articulated Strategy

The bank has benefitted from a stable management team, and there has not been any material strategic shifts following the appointment of a new chief executive in November 2019. Close monitoring and control by the regulator helps to further underpin the stability of the bank's objectives. While focusing on becoming the leading innovative bank in the country, the bank retains a fairly modest risk appetite.

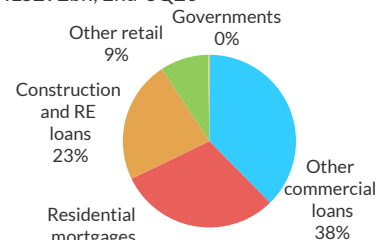
The coronavirus pandemic has not led to changes in the bank's strategy. The bank continues to focus on improving efficiency and growing selectively – particularly in mortgages, the middle-market and the corporate segments. We believe the bank has executed its financial and strategic objectives well and is often ahead of its peers in this regard.

Sound Underwriting, Adequate Controls, Modest Market Risk

Underwriting standards are conservative and generally more stringent than global industry practice. A high proportion of the loan book refers to housing loans is backed by collateral with low loan-to-values (LTVs) and robust valuations, supported by the BOI's regulation limiting LTVs to 75% for first-time buyers and 50% for investors. Leumi's internal restrictions on sectors

Leumi's Gross Loans

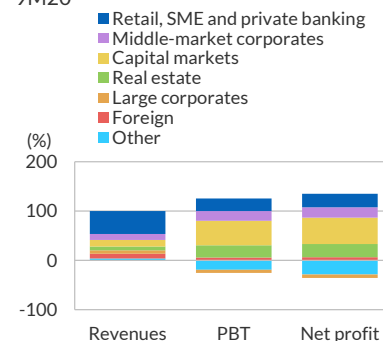
ILS292bn; End-3Q20



Source: Fitch Ratings, Leumi

Income by Segment

9M20



Source: Fitch Ratings, Leumi

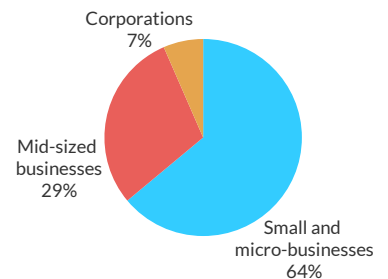
and sub-sectors ensure that the corporate loan portfolio is diverse; however, some industry concentrations remain, the largest being towards construction and real estate sector.

In response to the pandemic, Leumi has further tightened its underwriting processes and enhanced its credit and market-development monitoring, providing assistance to customers in temporary difficulties and in accordance with the BOI support frameworks. The regulator's move to allow banks to increase their limits for exposure to construction and real estate to 22% of the loan book from the previous 20% (including infrastructure, this was 24%) will result in even higher concentration towards this sector. This will be temporary, however, as banks will have until end-September 2022 to decrease it back to 20%. Leumi, being dominant in this segment, manages the limit through insurance and syndication and robust risk control framework.

Leumi's growth has been well-balanced, supported by sustainable internal capital generation. The coronavirus crisis has negatively affected the bank's loan growth, particularly in the corporate sector; however, the balance sheet grew by 16% yoy at end-3Q20. This was driven by the significant increase in deposits. This has not triggered a reassessment of securities investment guidelines, which we already view as conservative. The bank's exposure to market risk is modest, and mainly consists of structural interest rate risk. We believe it is appropriately managed through hedging. A high 45% of the securities portfolio at end-3Q20 is invested in Israeli government bonds, followed by investment in US government bonds (13%) and asset-backed and mortgage-backed securities (10%), largely issued or backed by US government agencies. The bank's trading book is not material.

State-Backed Loans Extended

ILS5bn; End-3Q20



Source: Fitch Ratings, Leumi

Summary Financials and Key Ratios

	30 Sep 20		31 Dec 19	31 Dec 18	31 Dec 17
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,893	6,514.0	8,873.0	8,906.0	8,062.0
Net fees and commissions	714	2,457.0	3,225.0	4,121.0	4,052.0
Other operating income	169	580.0	1,322.0	730.0	1,064.0
Total operating income	2,776	9,551.0	13,420.0	13,757.0	13,178.0
Operating costs	1,517	5,221.0	7,908.0	8,337.0	8,415.0
Pre-impairment operating profit	1,258	4,330.0	5,512.0	5,420.0	4,763.0
Loan and other impairment charges	684	2,352.0	648.0	519.0	172.0
Operating profit	575	1,978.0	4,864.0	4,901.0	4,591.0
Other non-operating items (net)	n.a.	n.a.	526.0	40.0	302.0
Tax	219	752.0	1,830.0	1,619.0	1,692.0
Net income	356	1,226.0	3,560.0	3,322.0	3,201.0
Other comprehensive income	310	1,066.0	-1,349.0	893.0	-735.0
Fitch comprehensive income	666	2,292.0	2,211.0	4,215.0	2,466.0
Summary balance sheet					
Assets					
Gross loans	84,913	292,187.0	286,550.0	275,307.0	271,880.0
- Of which impaired	800	2,753.0	2,531.0	2,751.0	3,455.0
Loan loss allowances	1,478	5,087.0	3,328.0	3,352.0	3,213.0
Net loans	83,435	287,100.0	283,222.0	271,955.0	268,667.0
Interbank	n.a.	n.a.	11,552.0	13,213.0	8,985.0
Derivatives	3,647	12,551.0	10,970.0	12,750.0	9,573.0
Other securities and earning assets	28,567	98,298.0	87,184.0	76,451.0	79,267.0
Total earning assets	115,649	397,949.0	392,928.0	374,369.0	366,492.0
Cash and due from banks	34,163	117,555.0	64,661.0	68,206.0	73,082.0
Other assets	3,646	12,546.0	11,545.0	18,082.0	11,264.0
Total assets	153,458	528,050.0	469,134.0	460,657.0	450,838.0
Liabilities					
Customer deposits	124,193	427,347.0	373,959.0	364,591.0	362,930.0
Interbank and other short-term funding	3,307	11,380.0	6,652.0	6,460.0	5,714.0
Other long-term funding	5,047	17,368.0	19,958.0	17,798.0	15,577.0
Trading liabilities and derivatives	3,940	13,559.0	11,528.0	12,089.0	9,740.0
Total funding	136,488	469,654.0	412,097.0	400,938.0	393,961.0
Other liabilities	6,049	20,813.0	21,163.0	23,558.0	23,324.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	10,922	37,583.0	35,874.0	36,161.0	33,553.0
Total liabilities and equity	153,458	528,050.0	469,134.0	460,657.0	450,838.0
Exchange rate		USD1 = ILS3.441	USD1 = ILS3.463	USD1 = ILS3.771	USD1 = ILS3.467

Note: 2017–2019 figures are based on the bank's original statements.

Source: Fitch Ratings, Fitch Solutions, Leumi

Summary Financials and Key Ratios

	30 Sep 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.8	1.5	1.5	1.5
Net interest income/average earning assets	2.2	2.4	2.5	2.2
Non-interest expense/gross revenue	54.6	58.9	60.8	64.3
Net income/average equity	4.5	9.9	9.5	9.8
Asset quality				
Impaired loans ratio	0.9	0.9	1.0	1.3
Growth in gross loans	2.0	4.1	1.3	2.2
Loan loss allowances/impaired loans	184.8	131.5	121.9	93.0
Loan impairment charges/average gross loans	1.0	0.2	0.2	0.1
Capitalisation				
Common equity Tier 1 ratio	11.7	11.9	11.1	11.4
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	11.3	11.3	11.0
Tangible common equity/tangible assets	7.1	7.6	7.8	7.4
Basel leverage ratio	6.7	7.3	7.1	6.9
Net impaired loans/common equity Tier 1	-6.1	-2.1	-1.7	0.7
Net impaired loans/Fitch Core Capital	n.a.	-2.2	-1.7	0.7
Funding and liquidity				
Loans/customer deposits	68.4	76.6	75.5	74.9
Liquidity coverage ratio	137.0	123.0	121.0	122.0
Customer deposits/funding	93.7	93.4	93.8	94.5
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Note: 2017–2019 figures are based on the bank's original statements.

Source: Fitch Ratings, Fitch Solutions, Leumi

Key Financial Metrics – Latest Developments

Still Sound Asset Quality; High Risk Charges to Offset Deterioration

Although Leumi's asset quality is still sound, as reflected in its low impaired loans ratio of 0.94% at end-3Q20 (up from 0.88% at end-2019), we believe that asset non-performance in future quarters are likely to be higher than in our previous through-the-cycle expectations. This drives the negative trend on our assessment of Leumi's asset quality.

As payment breaks and other borrower support measures are wound down, it will become clearer which borrowers' repayment capacity has been permanently damaged by the health crisis. Most at risk are SMEs and larger businesses in those industries hit particularly hard by the pandemic, such as aviation, tourism, hospitality and leisure and energy, although the impact on asset quality is likely to be broader. In anticipation of that Leumi took a ILS2.3 billion loan impairment charge in 9M20 (equivalent to 104bp of average gross loans, up from 22bp in 9M19), mostly in the form of collective provisions, increasing the balance of loan-loss provisions to gross loans to 1.75% from 1.16% at end-2019.

Mortgages (30% of gross customer loans at end-3Q20) still performed well, supported by low interest rates, high borrowers' debt servicing capacity – given the still relatively modest household leverage in Israel – and payment breaks. While the mortgage portfolio's performance could deteriorate once payment breaks end and government income support fades, this risk is, in our view, mitigated by low LTV mortgages (the average unindexed LTV of the outstanding mortgage portfolio was 45% at end-3Q20) and the small proportion of loans on payment breaks (10% at end-3Q20). While the risk profile of consumer loans (9% of gross customer loans) is higher than that of mortgages, it is of good quality, with low arrears (1.2% NPL ratio) and high reserves (67% specific loan-loss provision coverage).

Construction and real estate activities dominate the non-retail loan book. The impaired loan ratio in this sector is still low at 1%, helped by support measures, prudent lending policies and active portfolio monitoring. Single-name concentration is reasonable. The securities portfolio is large (18% of total assets at end-3Q20), but skewed towards Israeli and US government bonds.

Earnings Challenges

The trend on earnings and profitability remains negative, reflecting the still-high uncertainty and significant risk to earnings from the pandemic. The pressure on Leumi's interest income, which accounts for almost two-thirds of the bank's total operating income, comes from reduced interest rates as well as the lower consumer price index (CPI), increased risk charges and potentially lower business volumes going forward, especially in the case of renewed and prolonged lockdowns. Leumi's pre-pandemic profitability was fairly stable. It was helped by the bank's pricing power in most business sectors resulting in fairly consistent revenue streams, with an improving cost/income ratio as a result of the efficiency plans introduced by the management.

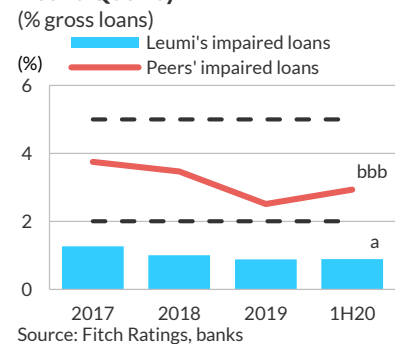
Leumi's revenue streams are less diverse than some of its international peers because local regulation prohibits Israeli banks from owning asset management subsidiaries. The bank's domestic focus is unlikely to change in the near to medium term in our view. Performance in 9M20 was supported by higher fees and commissions following increased transaction volumes, particularly in 1Q20. However, performance was negatively affected by high risk charges, a decrease in CPI compared to the same period last year, lower interest rates, 1Q20 losses from market fluctuations and the effect of derivatives and exchange rate differentials.

We expect risk charges to remain high in the coming quarters, policy rates to stay low and fee income to normalise. Together with continued investment costs this is likely to exert pressure on profitability, highlighting the need for continued pricing and cost discipline. The bank's strong franchise and product mix, and its advanced digital presence, however, are likely to counterbalance these pressures in the medium term.

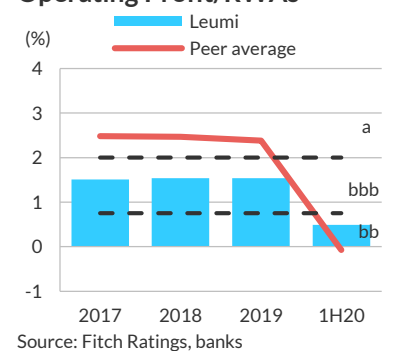
Adequate Capitalisation in Line with Bank's Risks

Leumi's capitalisation has been gradually strengthening in recent years. While market growth rates are mature, the bank has been returning excess capital to shareholders through dividend distributions and share-buybacks, most recently in March 2020. These were, however, put on hold in accordance with BOI guidance. To allow higher lending the regulator also temporarily

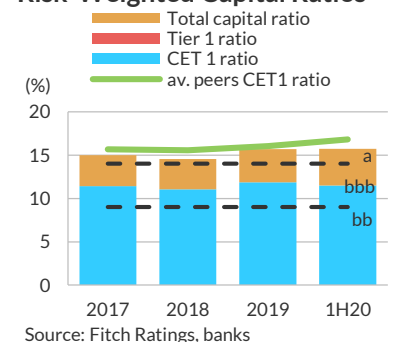
Asset Quality



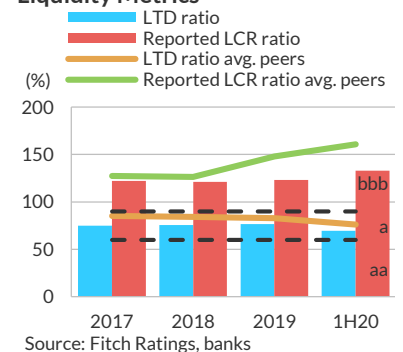
Operating Profit/RWAs



Risk-Weighted Capital Ratios



Liquidity Metrics



reduced capital and leverage requirements for banks by 1pp and 0.5pp, respectively. Leumi has therefore revised its internal tolerance threshold for the CET1 capital ratio down to 9.5% from 10.5% previously.

With a CET1 capital ratio of 11.71% at end-3Q20, Leumi's capital buffer was comfortably over its 9.24% requirement. However, once the requirements are restored, we expect the bank to operate with modest management buffers – as was the case pre-pandemic. This is, however, compensated by the regulatory risk weights, which are high (63% at end-3Q20) both when compared to international peers and when considering Leumi's large on-balance sheet liquidity buffer. High risk weights also partly compensate for the lack of geographic diversification.

Capital is of good quality, predominantly consisting of share capital and retained earnings, and total regulatory capital is complemented with Basel III-compliant Tier 2 contingent convertible notes. Leumi's leverage ratio came down to 6.66% at end-3Q20 from 7.35% at end-2019, driven by the substantial increase in total assets, mainly in cash and deposits with banks and securities. However, it is still comfortably above the reduced requirement of 5.5%.

The introduction of accounting principles on current expected loan losses (CECL) is expected in Israel on 1 January 2022. The first-time impact, which the bank is not yet able to quantify as not all the principles have been finalised, can be spread over three years (with 75% add-back to CET1 capital in the first year of introduction, decreasing by 25pp annually thereafter).

Funding is a Rating Strength

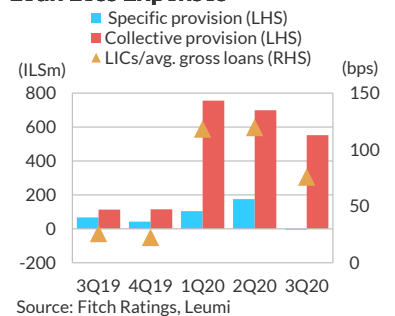
Leumi's funding profile is a strength for the rating due to a solid and stable funding base, and limited wholesale funding needs. Customer deposits are quite granular, with no large concentrations and no reliance on any particular sector. Deposits increased in 9M20 by 14.3% from end-2019, driven by retail and business customers diverting funds from capital markets and becoming more cautious in their spending habits. A large share of customer deposits (69% at end-3Q20) is in local currency and about a third of deposits are in US dollars, mostly from local export-oriented businesses. Deposit funding is supplemented with ILS17 billion of senior and subordinated bonds (4% of total funding) issued on the local wholesale market to increase funding maturity.

At end-3Q20, the bank reported a liquidity coverage ratio of 137%, supported by a solid liquidity buffer, with cash and deposits with central banks of ILS118 billion, amounting to a high 22% of the bank's total assets. The bank can also pledge eligible securities with the BOI or the Federal Reserve if necessary.

Notes on Charts

Black dashed lines in the charts on the previous page represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. This applies to all peers except for AIB Group Public Limited Company (VR: 'bbb'), whose operating environment is scored differently. The peer average includes Bank Hapoalim B.M. (VR: a-), Ceska Sporitelna (a), Komerčni Banka (a), Bank of Ireland Group Public Limited Company (bbb) and AIB Group Public Limited Company (bbb).

Loan Loss Expenses



Environmental, Social and Governance Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings Bank Leumi Le-Israel B.M.

Credit-Relevant ESG Derivation

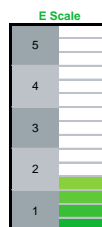
Bank Leumi Le-Israel B.M. has 5 ESG potential rating drivers

- Bank Leumi Le-Israel B.M. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

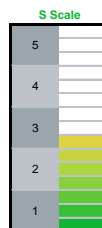
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

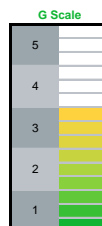
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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