

## 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

Transmission Date: December 9 2020  
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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 *December 9 2020*, *Moody's* published the following:

A rating report/update notice:

1. Rating report or notice

Rating of the corporation: *Moody's \_\_\_ stable \_\_\_\_\_*  
Comments/Nature of Notice: *Moody's-A2/P-1, CRR-A1/P-1*

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

<b>Date</b>	<b>Subject of Rating</b>	<b>Rating</b>	<b>Comments/ nature of Notice</b>
June 18 2020	Bank Leumi le-Israel B.M.	<i>Moody's-A2/P-1, CRR-A1/P-1 Stable</i>	<i>Affirmation of rating</i>
December 17 2019	Bank Leumi le-Israel B.M.	<i>Moody's-A2/P-1, CRR-A1/P-1 Stable</i>	<i>Affirmation of rating</i>
June 17 2019	Bank Leumi le-Israel B.M.	<i>Moody's-A2/P-1, CRR-A1/P-1 Stable</i>	<i>Affirmation of rating</i>
December 18 2018	Bank Leumi le-Israel B.M.	<i>Moody's-A2/P-1, CRR-A1/P-1 Stable</i>	<i>Affirmation of rating</i>
July 4 2018	Bank Leumi le-Israel B.M.	<i>Moody's-A2/P-1, CRR-A1/P-1 Stable</i>	<i>Affirmation of rating</i>
June 20 2018	Bank Leumi le-Israel B.M.	<i>Moody's-A2/P-1, CRR-A1/P-1 Stable</i>	<i>New additional rating</i>
January 18 2018	Bank Leumi le-Israel B.M.	<i>Moody's-A2/P-1, Stable</i>	<i>Affirmation of rating</i>

**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

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

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:

[atings\\_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](#).

Moody's has affirmed the Bank's long-term IDR at A2, affirmed the short-term IDR at P-1, affirmed the Bank's CRR at A1/Prime-1, and affirmed the outlook at stable.  
For more information, see the attached document.

The report was signed on behalf of the corporation, in accordance with Regulation 5 of the Securities (Periodic and Immediate Reports) Regulations, 1970, by Mr. Omer Ziv, Head of the Bank's Finance Division.

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](mailto:Livnat.Ein-Shay@bll.co.il) company's website: [www.leumi.co.il](http://www.leumi.co.il)

Previous names of the reporting entity:

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Name of Electronic Reporter: Livnat Libby Wilder, Position: Secretary of the Bank  
34 Yehuda Halevi Street, Tel Aviv 6513616, Phone: 076-8859419, Facsimile: 076-8859732  
Electronic Mail: [livnat.ein-shay@bll.co.il](mailto:livnat.ein-shay@bll.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/>**

**Rating Action: Moody's affirms two Israeli banks' ratings; outlook is stable**

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09 Dec 2020

Limassol, December 09, 2020 -- Moody's Investors Service (Moody's) has today affirmed the A2/P-1 deposit ratings of Bank Leumi and Bank Hapoalim B.M. (Bank Hapoalim) and maintained the stable outlook on the long-term deposit ratings. Concurrently, the rating agency also affirmed the two Israeli banks' baa2 standalone Baseline Credit Assessment (BCA) and Adjusted BCA, their A1(cr)/P-1(cr) Counterparty Risk (CR) Assessments and A1/P-1 Counterparty Risk Ratings.

Today's rating action reflects Moody's view that the banks' current credit profiles will be sustained, with their capitalisation remaining adequate and broadly stable despite some deterioration in asset quality and profitability, because of the coronavirus-induced economic downturn. Both banks benefit from a stable deposit funding base, sound liquidity and resilient core profitability, supported by established franchises as Israel's two largest banking groups.

A full list of affected ratings and assessments can be found at the end of this press release.

**RATINGS RATIONALE**

**-- RATING AFFIRMATIONS**

The affirmation of Bank Leumi's and Bank Hapoalim's ratings and assessments reflects their resilient financial profiles supported by adequate capital, a favourable funding profile, ample liquidity and strong revenue generating capacity and despite the impact on asset quality and profitability from the economic contraction this year and a rise in unemployment. The Israeli economy's underlying strengths also position it to recover strongly from the crisis.

The coronavirus-induced economic downturn will lead to some asset quality deterioration as support measures for businesses and households are gradually lifted, and continue to weigh on the banks' bottom-line profitability, with the impact more pronounced the longer the disruption lasts. However, the deterioration in asset quality will be from recent strong levels and mitigated by tight underwriting standards including lower single-name concentrations and deleveraging from higher risk segments in recent years, as well as, a significant built-up of collective provisions ahead of the expected deterioration. Allowances on non-impaired loans reached 1.5-1.6% of gross non-impaired loans for the two banks in September 2020. Both banks' exposure to the most vulnerable sectors, such as hotels and transportation, is also modest.

Current ratings continue to incorporate downside risks from persistent geopolitical event risks and high systemic risks relating to banks' significant exposure to the property market in Israel. The banks have large and growing direct and indirect exposure to real estate through residential mortgages and real estate and construction loans, which together accounted for over half of their total credit in Israel. The housing market, however, is continuing to display resilience in the current crisis, supported by a structurally limited supply of new housing units. Risks for mortgages are also mitigated by low household debt, macroprudential measures that support underwriting standards and high capital buffers against mortgages. Credit risk is higher in banks' exposure to the construction and real estate sector that made up around 18-21% of their loans to the public in Israel as of September 2020. Moody's sees this higher risk particularly in lending for office space and commercial real estate given the potential fallout from the coronavirus pandemic. However, public commercial real estate companies in Israel are predominantly financed through the capital markets instead of domestic bank lending.

Capital levels are moderate compared to international peers, but loss-absorption buffers are supported by relatively conservative regulatory risk-weights, especially on mortgage lending whereby the average risk weighting is over 50%. Moody's expects the banks' capital buffers to remain broadly stable despite the negative impact of the coronavirus outbreak on the banks' profitability, supported by the temporary suspension of dividend payments and share buyback programs, and with the significant buffer of collective provisions already in place.

The two banks' moderate profitability is supported by strong franchises in Israel but pressured by the economic

downturn, which leads to elevated credit costs and lower business volumes, as well as, lower policy rates. Operating efficiency improved in recent years, operating expenses were 1.7% of assets in 2019 for both banks (excluding one-offs), but remained relatively weaker than global peers. The banks are focusing on further efficiency measures and cost cutting initiatives that will help to somewhat offset profitability pressures.

The banks benefit from a favourable funding structure supported by a large and granular deposit base with a high proportion of retail deposits helped by Israel's strong savings culture, which comfortably funds their loan portfolios, and healthy liquidity levels.

The affirmation also takes into account the 'very high' likelihood of extraordinary support from the Government of Israel (A1 stable) based on the banks' systemic importance and the Israeli government's long standing practice of injecting capital into systemically important banks in case of need.

#### -- STABLE OUTLOOK

The stable outlook on the banks' A2 long-term deposit ratings reflects Moody's expectation that the banks' capitalisation will remain broadly unchanged against the expected pressure on asset quality and profitability in the context of the coronavirus-induced economic downturn.

#### -- ISSUER-SPECIFIC RATING DRIVERS

##### --- Bank Leumi

Bank Leumi's baa2 standalone BCA reflects (1) its strong asset quality, with problem loans (defined as impaired loans and loans more than 90 days overdue) at 1.3% of gross loans as of September 2020; (2) a strong retail deposit-based funding structure and healthy liquidity, with liquid banking assets (mainly cash, interbank and securities) at 40% of tangible banking assets, and a net loans-to-deposits ratio at 67%; and (3) moderate capitalisation, with a tangible common equity (TCE)/risk-weighted assets (RWAs) ratio of 10.8%.

##### --- Bank Hapoalim B.M.

Bank Hapoalim's baa2 standalone BCA reflects the bank's (1) strong deposit-based funding structure and sound liquidity with aggregate liquidity buffers at 38% of total assets as of September 2020; (2) adequate capitalisation, with a tangible common equity TCE/RWAs ratio of 11.1% as of September 2020; and (3) recently low level of problem loans at 1.6% of gross loans as of September 2020.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the banks' ratings could originate from a sustained improvement in their profitability, mainly driven by enhanced efficiency and lower credit costs and stronger capital buffers.

The banks' ratings could face downward pressure if deteriorating operating conditions lead to material weakening of asset quality and profitability, and therefore a material reduction in the banks' capital levels. An increase in the banks' asset risk profile or a persistent weakening in the banks' recurring earnings power could also put pressure on the ratings.

There could also be negative rating pressure if Moody's considers that the government's willingness or capacity to provide support has materially declined.

#### LIST OF AFFECTED RATINGS

..Issuer: Bank Hapoalim B.M.

##### Affirmations:

...Adjusted Baseline Credit Assessment, Affirmed baa2

...Baseline Credit Assessment, Affirmed baa2

...Long-term Counterparty Risk Assessment, Affirmed A1(cr)

...Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

...Long-term Counterparty Risk Rating, Affirmed A1

...Short-term Counterparty Risk Rating, Affirmed P-1

...Short-term Bank Deposit Rating, Affirmed P-1

...Long-term Bank Deposit Rating, Affirmed A2, Outlook Remains Stable

Outlook Action:

...Outlook, Remains Stable

..Issuer: Bank Leumi

Affirmations:

...Adjusted Baseline Credit Assessment, Affirmed baa2

...Baseline Credit Assessment, Affirmed baa2

...Long-term Counterparty Risk Assessment, Affirmed A1(cr)

...Short-term Counterparty Risk Assessment, Affirmed P-1(cr)

...Long-term Counterparty Risk Rating, Affirmed A1

...Short-term Counterparty Risk Rating, Affirmed P-1

...Short-term Bank Deposit Rating, Affirmed P-1

...Long-term Bank Deposit Rating, Affirmed A2, Outlook Remains Stable

Outlook Action:

...Outlook, Remains Stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1147865](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865) . Alternatively, please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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