

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 December 9 2020, 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
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.	<i>A/F1- Fitch Ratings stable</i> _____	<i>Affirmation of rating</i>
February 7 2018	Bank Leumi le-Israel B.M.	<i>A/F1- Fitch Ratings 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
<i>Leumi Dollar 2031</i>	6040489	<i>Fitch Ratings</i>	<i>Fitch Ratings _____ _____ stable</i>	<i>Affirmation of rating</i>

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
<i>Leumi Dollar 2031</i>	6040489	<i>June 19, 2020</i>	<i>Bond</i>	<i>Fitch Ratings _____ _____ stable</i>	<i>Affirmation of rating</i>
<i>Leumi Dollar 2031</i>	6040489	<i>April 30, 2020</i>	<i>Bond</i>	<i>Fitch Ratings _____ _____ stable</i>	<i>Affirmation of rating</i>
<i>Leumi Dollar 2031</i>	6040489	<i>February 18 2020</i>	<i>Bond</i>	<i>Fitch Ratings _____ _____ stable</i>	<i>Affirmation of rating</i>
<i>Leumi Dollar 2031</i>	6040489	<i>January 13, 2020</i>	<i>Bond</i>	<i>Fitch Ratings _____ _____ stable</i>	<i>Initial 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.

Attached is the Ratings Report:
[ble - 09 Dece 2020 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.*

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 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/>

09 DEC 2020

Fitch Affirms Bank Leumi at 'A'; Outlook Stable

Fitch Ratings - London - 09 Dec 2020: Fitch Ratings has affirmed Bank Leumi Le-Israel B.M.'s (Leumi) Long-Term Issuer Default Rating (IDR) at 'A' with a Stable Outlook and the bank's Viability Rating (VR) at 'a-'. A full list of rating actions is provided below.

Key Rating Drivers

IDR, SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

Leumi's IDRs, SR and SRF reflect Fitch's expectation of an extremely high probability of state support from Israel (A+/Stable), if needed. Our expectation is underpinned by Israel's ability to support domestic banks, combined with our belief that it has a strong willingness to do so. This view is reinforced by the large franchise of Leumi, its importance to the Israeli economy, and the government's objective of preserving confidence in the banking sector, especially considering the absence of a deposit guarantee scheme and effective recovery and resolution legislation. Leumi accounts for about 30% of sector assets and is a domestic systemically important bank.

The bank's 'F1+' Short-Term IDR is the higher of the two options that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term. We also view the risk for simultaneous deterioration in the liquidity profile of both Israel and its banks as low and have not identified other potential impediments to the prompt flow of funds to the bank.

VR

The VR of Leumi reflects a strong domestic franchise, modest risk appetite despite the presence of some industry concentrations, strong funding and liquidity and sound regulatory capital ratios, particularly in view of its high risk-weight density for its risk profile. The VR also considers our expectation of deteriorating asset quality next year and potentially beyond, albeit from a strong starting point, and pressures on profitability arising from significantly increased risk costs and a lower-for-longer interest rate environment.

Leumi's non-performing loan ratio increased only marginally in 9M20 and remained low at 0.9% at end-3Q20, supported by the extensive payment break framework in place in Israel, 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 in the next year to around 3% as these support measures are unwound, which would still be commensurate with our current asset-quality

score. Most at risk are exposures to commercial and SME clients active in vulnerable sectors, although the impact on asset quality is likely to be broader. Some longer-term impairments are also likely in the mortgage and other personal lending sectors as Fitch expects unemployment to be close to 8% at end-2021 and very volatile over the next quarters.

Leumi reported net income of ILS1.2 billion in 9M20, down by almost 60% yoy, mostly driven by ILS2.3 billion risk charges (of which 88% in the form of collective provisions), equal to an annualised 104bp of average gross loans, in anticipation of asset-quality deterioration. This increased the ratio of total provisions to gross loans to 1.7%, which compares well with international peers', in our view, given the moderate risk profile of the bank's loan book. 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 tight cost control.

To allow higher lending, the BoI has reduced capital requirements for banks by 1pp. Leumi's regulatory common equity Tier 1 (CET1) requirement decreased to 9.24% at end-3Q20. We expect the bank to continue to operate with moderate management buffers over the reduced requirement, and a material reduction in capital buffers would put pressure on the bank's VR. Capital should be supported by the bank's decision to put dividend distribution and share buy-back plans on hold. At end-3Q20, Leumi's CET1 ratio remained strong at 11.7% given the bank's conservative calculation of risk-weighted assets (RWAs) under the standardised approach.

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 earlier this year with a Tier 2 subordinated notes issue. 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.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Leumi's USD750 million Tier 2 subordinated notes are rated two notches below the bank's VR to reflect poor recovery prospects in the event of a failure of the bank. We do not apply additional notching as in our opinion the principal loss absorption feature after a breach of a 5% CET1 ratio gives rise to low incremental non-performance risk relative to the bank's VR.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Leumi's Long- and Short-Term IDRs would be affected by an adverse change in Fitch's assumptions about the Israeli authorities' propensity or ability to provide timely support to the banking sector. A downgrade of Israel's Long-Term IDR would likely result in a downward revision of the bank's SRF and a downgrade of the IDRs. 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.

A downgrade of the VR would most likely be driven by a deeper and more prolonged crisis, resulting in more permanent damage to the bank's earnings and asset quality, which would be difficult to restore within a short period of time. We would likely 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. Capital below the bank's internal CET1 threshold of 9.5% without a plan to rebuild it sufficiently and swiftly, could also lead to a VR downgrade.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

In the event Leumi is able to withstand rating pressure arising from the coronavirus outbreak, an upgrade of the VR would require a material strengthening of its company profile, 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.

An upgrade of Israel's Long-Term IDR is unlikely to result in an upgrade of the bank's Long-Term IDR as we typically do not assign SRFs above 'A' for domestic systemically important banks in countries whose sovereigns are rated 'AA' or 'AA-' and where support propensity is high.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The notes' rating is primarily sensitive to a change in the bank's VR, from which it is notched. The notes' rating is also sensitive to a change in notching should Fitch reassess the notes' loss severity or relative non-performance risk.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

Leumi's IDRs, SR and SRF reflect Fitch's expectation of an extremely high probability of state support from Israel.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means 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.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Bank Leumi Le-Israel B.M.	LT IDR	A 	Affirmed	A 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	ST IDR	F1+	Affirmed	F1+
	Viability	a-	Affirmed	a-
	Support	1	Affirmed	1
	Support Floor	A	Affirmed	A
	• subordinated	BBB	Affirmed	BBB

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

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