

## **FITCH AFFIRMS BANK LEUMI AT 'A'; OUTLOOK STABLE**

Fitch Ratings-London-07 February 2018: Fitch Ratings has affirmed Bank Leumi Le Israel B.M.'s (Leumi) Long-Term Issuer Default Rating (IDR) at 'A', Short-Term IDR at F1, and Viability Rating (VR) at 'a-'. The Support Rating and Support Rating Floor are affirmed at '1' and 'A' respectively. The Outlook on the Long-Term IDR is Stable.

### **KEY RATING DRIVERS**

#### **IDRs, SUPPORT RATING AND SUPPORT RATING FLOOR**

Leumi's IDRs, Support Rating (SR) and Support Rating Floor (SRF) reflect Fitch's expectation of an extremely high probability that support will be provided to the bank by the State of Israel if needed. Fitch's expectation of support from the authorities is underpinned by Israel's strong ability to provide support to domestic banks, as reflected in the sovereign's ratings (A+/Stable), combined with Fitch's belief of a strong willingness to do so.

This view is reinforced by the large domestic franchise of Leumi - accounting for about 30% of sector assets - its importance to the Israeli economy, as well as by the absence of a deposit guarantee scheme and of effective recovery and resolution legislation.

#### **VR**

Leumi's VR reflects the bank's strong domestic franchise as the second-largest banking group in Israel by total assets, modest risk appetite, healthy asset quality and only adequate capitalisation.

Profitability is adequate. Given the current concentration in the banking market, competition is limited, providing the leading banks with pricing power in most business sectors, apart from lending to large corporates where competition from alternative sources is more intense. Cost efficiency, which is a weakness of Leumi, is improving as the bank is implementing cost-cutting measures, which should result in further cost savings in the medium-term. On the other hand, revenue diversification and profitability may be negatively affected by the divestment of part or all its credit card operations as required by legislation over the next two to three years.

Leumi's fairly modest risk appetite results in healthy asset quality, which benefits from a growing economy, low unemployment and low interest rates. Reserve coverage of impaired loans was above 100% at end-September 2017 and was strong also when including loans past due by more than 90 days but not impaired.

The bank has been reducing large exposures and generally concentration within its loan book, although some concentrations towards certain economic sectors (such as commercial real estate lending) and towards large groups still remain, and are difficult to avoid, given the structure of the market.

Despite modest buffers over the regulatory requirements, we believe that Leumi's capitalisation is only adequate for the bank's risk profile, sustained by retained earnings. Risk weightings are conservative, in particular for housing loans, which account for around one-third of the bank's loan portfolio.

Leumi benefits from its solid and stable customer deposit base, which fully covers its lending needs. It is able to access local wholesale markets to issue domestic bonds and extend the maturity of its funding. There is little need to access the international capital markets. Its liquidity buffer of cash and high-quality sovereign bonds is comfortable.

## RATING SENSITIVITIES

### IDRS, SUPPORT RATING AND SUPPORT RATING FLOOR

The IDRs, SR and SRF are 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 come into effect in the short-term. The country does not operate a deposit guarantee scheme and the practical implementation of resolution tools, such as bail-in of senior creditors, remains unlikely in Fitch's view.

An upgrade of Israel's Long-Term IDR is unlikely to result in an upgrade in Leumi's Long-Term IDR. In line with our criteria, 'A'/'A-' are typical SRFs for domestic systemically important banks in countries whose sovereigns are rated 'AA' or 'AA-'.

## VR

Leumi's VR would likely be downgraded if the bank's capital falls below the bank's current targets, which could be the case if profitability weakens significantly or if the bank increases its risk appetite. Given the already high rating in the context of the operating environment, an upgrade of the VR is currently unlikely.

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## Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)  
<https://www.fitchratings.com/site/re/891051>

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