

## 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: February 19 2020  
Reference: 2020-01-017223

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 18 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: *Reiteration of rating* \_\_\_\_\_

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>
December 19 2019	Bank Leumi Le-Israel Ltd.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Reiteration of rating</i>
July 17 2019	Bank Leumi Le-Israel Ltd.	<i>A/F1+Fitch Ratings stable</i> _____	<i>Upgrading of rating</i>
May 7 2019	Bank Leumi Le-Israel Ltd.	<i>Fitch Ratings stable</i> _____	<i>Other Review of rating (positive)</i>
May 2 2019	Bank Leumi Le-Israel Ltd.	<i>A/F1-Fitch Ratings stable</i> _____	<i>Reiteration of rating</i>
January 9 2019	Bank Leumi Le-Israel Ltd.	<i>A/F1-Fitch Ratings stable</i> _____	<i>Reiteration of rating</i>
April 26 2018	Bank Leumi Le-Israel Ltd.	<i>A/F1-Fitch Ratings stable</i> _____	<i>Reiteration of rating</i>
February 7 2018	Bank Leumi Le-Israel Ltd.	<i>A/F1-Fitch Ratings stable</i> _____	<i>Reiteration of rating</i>
June 21 2017	Bank Leumi Le-Israel Ltd.	<i>A/F1-Fitch Ratings stable</i> _____	<i>Reiteration of rating</i>
February 14 2017	Bank Leumi Le-Israel Ltd.	<i>A/F1-Fitch Ratings stable</i> _____ <i>and VR Upgraded</i>	<i>Upgrading 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	Rating agency	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:

[Fitch Bank Leum isa.pdf](#)

2. On \_\_\_\_\_, \_\_\_\_\_ announced the discontinuance 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	

*Fitch Rating's has reiterated the Bank's long-term IDR at A, and reiterated the short-term IDR at F1+, and reiterated 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)*

*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: 076-8857984, 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/>

# Bank Leumi Le-Israel B.M.

## Key Rating Drivers

**Support Drives Ratings:** Bank Leumi Le-Israel B.M.'s (Leumi) Issuer Default Ratings (IDRs) reflect Fitch Ratings' expectation of an extremely high probability that support would be made available if needed from Israel. This view considers Israel's strong ability to provide support to domestic banks, as reflected in its ratings, 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 of recovery and resolution legislation.

**Large Domestic Franchise:** Leumi's Viability Rating (VR) reflects its strong domestic franchise as the largest banking group in Israel by total assets (about 30% of sector assets), modest risk appetite, healthy asset quality, resilient earnings and fairly strong capitalisation, especially in view of the bank's high risk-weight density for its risk profile. Geographic diversification is limited.

**Asset Quality Sound; Some Concentrations:** Leumi's asset quality is sound with a degree of stability, despite some industry concentrations. It is supported by the bank's fairly modest and strengthened risk appetite, a growing economy, and low unemployment and interest rates. Impaired loans are low and reserved at over 100% at end-3Q19.

**Improving Profitability, but Lower Fees:** Underlying profitability has been improving gradually helped by efficiency plans (staff cuts and property rationalisations) and low loan impairment charges. Revenue is underpinned by sound interest margins, supported by the bank's dominant market position and pricing discipline. It relies heavily on net interest income, especially following the loss of fees from the sale of Leumi's credit card business.

**Relatively Strong Capitalisation:** Capitalisation is fairly strong for its risk profile, with leverage ratio of 7.4% and common equity Tier 1 (CET1) ratio of 11.7% at end-3Q19. The bank's buffer over regulatory requirement is modest, but risk weights are conservative compared with peers and considering large balance-sheet liquidity. Capital encumbrance to unreserved impaired loans is low.

**Strong Funding and Liquidity:** Leumi benefits from a stable and quite granular customer deposit base, which fully covers its loan book. The bank has proven access to local wholesale markets to extend the maturity of its funding and recently tapped international markets with its inaugural subordinated debt issuance. Its liquidity buffer of cash and high-quality sovereign bonds is comfortable.

## Rating Sensitivities

**IDRs Sensitive to Support Assumptions:** Leumi's IDRs are sensitive to a change in Fitch's view on Israel's propensity or ability to support the bank. While the introduction of a resolution law is in discussion, Fitch does not expect this law to come into effect within the next 24 months. An upgrade of Israel's Long-Term IDR would be unlikely to result in an upgrade of the bank's IDR as 'A' is a typical Support Rating Floor for domestic systemically important banks in countries whose sovereigns are rated 'AA' or 'AA-' and where support propensity is high.

**VR Sensitive to Capital, Profitability:** Capital below Leumi's internal threshold of 10.5% CET1 ratio could result in a VR downgrade, which could be the case if profitability weakens significantly or if the bank increases its risk appetite or distributions. This is not our base case. A VR upgrade is unlikely given the company profile score, but is possible with better profitability and a more diversified business model while maintaining capitalisation and asset quality.

## Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1+

## Local Currency

Viability Rating	a-
Support Rating	1
Support Rating Floor	A

## National

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

## Applicable Criteria

[Bank Rating Criteria \(October 2018\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

## Related Research

[Bank Leumi Le-Israel B.M. - Ratings Navigator \(December 2019\)](#)

[Fitch Affirms Bank Leumi at 'A'; Outlook Stable \(December 2019\)](#)

[Fitch Upgrades Leumi and Hapoalim to 'F1+'; Removes from Under Criteria Observation \(July 2019\)](#)

[Fitch Rates Bank Leumi's Subordinated Tier 2 Notes Final 'BBB' \(January 2020\)](#)

[Operating Environment for Israeli Banks \(January 2020\)](#)

[Israel \(September 2019\)](#)

## Analysts

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## Ratings Navigator – Standalone Assessment

### Bank Leumi Le-Israel B.M.

ESG Relevance:

**Banks**  
Ratings Navigator

	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+	bbb+	a	a-
Ceska Sportelna	a	a	a	a	a	a	a	a	a
Komerčni Banka	a	a	a	a	a	a	a	a	a
AlB Group Public Limited Company	bbb+	bbb	bbb+	bbb	bb+	bbb	bbb	bbb+	bbb
Bank of Ireland Group Public Limited Company	a-	bbb+	bbb+	bbb	bbb-	bbb	bbb	bbb+	bbb

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		
<b>Support Rating Floor:</b>	<b>A</b>		
Support Factors	Positive	Neutral	Negative
<b>Sovereign ability to support system</b>			
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)	✓		
<b>Sovereign propensity to support system</b>			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support		✓	
Government statements of support		✓	
<b>Sovereign propensity to support bank</b>			
Systemic importance	✓		
Liability structure of bank	✓		
Ownership		✓	
Specifics of bank failure		✓	
<b>Policy banks</b>			
Policy role			
Funding guarantees and legal status			
Government ownership			

Leumi's IDRs reflect Fitch's expectation of an extremely high probability that support will be provided to the bank by Israel (A+/Stable/F1+) 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, combined with Fitch's belief that the state would have a strong willingness to provide support.

This view is reinforced by Leumi's high domestic systemic importance as evidenced by its dominant market share of deposits, its importance to the Israeli economy, and the government's objective of preserving confidence in the banking sector. In our view there is an extremely limited possibility to bail in senior creditors, considering the absence of both a deposit guarantee scheme and effective recovery and resolution legislation.

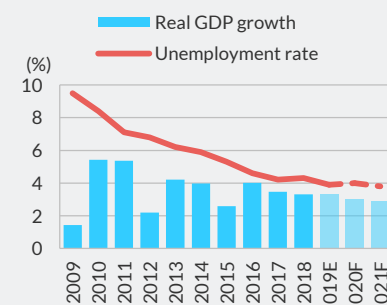
## Significant Changes

### Divestment of Credit Card Business

Pursuant to the Law for Increasing Competition and Reducing Concentration in the Banking industry, Leumi divested its credit card subsidiary Leumi Card in February 2019, which resulted in a lower contribution of net fees and commissions to operating income in 9M19. Management expects at least part of the forgone revenue to be replaced by fees generated through the agreement the bank signed on the joint credit card issuance and operation with Israel Credit Cards Ltd this year.

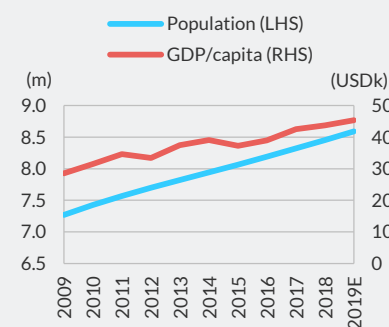
To facilitate the operation of the now independently run credit card companies, a credit bureau became operational in Israel in 2Q19 allowing the sharing of data between credit providers, previously proprietary-owned by the customer's bank. Fitch expects that this will lead to increased competition in retail lending between banks and non-banking financial institutions. Digital competition is also intensifying: the Bank of Israel (BOI) granted a banking licence to an online bank in 3Q19, which would be the first new bank in decades in Israel and could start its operations as early as 2021.

## Robust Growth Projections



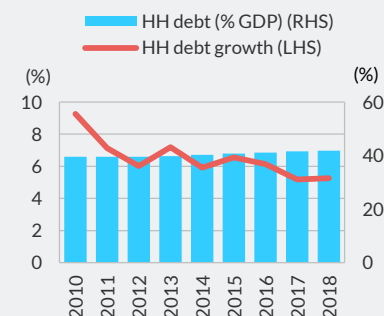
Source: Fitch Ratings

## Increasing GDP per Capita



Source: Fitch Ratings

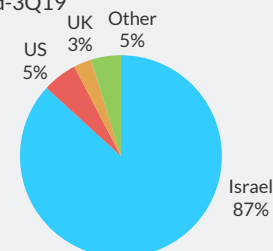
## Low Household Debt



Source: Fitch Ratings, BIS

## Domestic Focus

On-balance sheet exposure by geography, end-3Q19



Source: Fitch Ratings, Leumi

### Further Streamlining and Improving Efficiency

Leumi continued to optimise its organisational structure and completed the sale of the Romanian subsidiary in 2019 following the divestment of its Swiss and Luxembourg activities a year earlier as part of the strategy to disengage from international offshore private banking.

This left the bank with the UK and the US as its main operations outside Israel. The activities in both countries, although small, are long-standing and provide the bank with limited geographic diversification. In Israel, the bank continues to focus on cross-organisational standardisation, simplifying processes, and improving customer services and controls. Its digital proposition and banking services are expanding to reflect the customers' changing behaviour and digital competition. The latter is still quite weak, but we expect it to intensify in the medium term, helped by the regulator's efforts to increase competition in the banking sector in Israel.

### First International Debt Issuance

Leumi tapped international markets in 1Q20 with its inaugural subordinated debt issuance. In doing so, it became the first Israeli bank to expand its investor base to international institutional investors, adding USD750 million of Tier 2 contingent convertible notes to its funding profile, increasing its stability and further diversifying its investor base.

## Company Summary and Key Qualitative Assessment Factors

### Supportive Israeli Operating Environment

In December 2019, we raised the score for operating environment of Israel's banks to a mid-point of 'a' with a stable trend from 'a-'. The revision captured the country's rising GDP per capita and Israel's ranking under the World Bank's Ease of Doing Business. Israel's macroeconomic performance has been strong, with low unemployment, strong growth rates and low inflation. The economy has benefited from supportive monetary and fiscal policies, and growing integration with the global economy. Growth projections remain robust and risks relate to any large security incidents or weakening of world trade.

Israel's banking system is highly concentrated with the largest five banks accounting for over 95% of system assets. The overall size of the banks' assets accounted for about 120% of the country's GDP at end-2018. Alternative sources of funding are quite developed for corporate customers but more limited for retail and commercial customers, which continue to 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 that of 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.

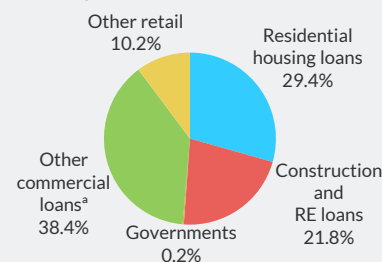
### Strong Domestic Franchise, Limited Geographic Diversification

Leumi is Israel's largest retail and commercial bank by total assets (ILS455 billion at end-3Q19) 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, offering an enhanced digital presence and an additional channel to source new customers. The divestment of the credit card company has not weakened Leumi's franchise, in our view. The bank continues to be present in the credit card market and has developed several partnership agreements. Nonetheless, we expect competition to increase following the establishment of the credit data bureau.

### Stable Universal Business Model

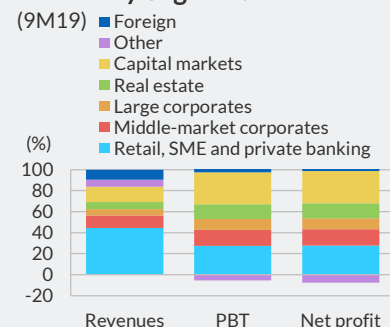
Leumi operates a universal banking model providing a full range of banking services, including retail, commercial, corporate, private banking and capital markets products. The bank's activities are broadly equally split between retail and non-retail segments by loans, whereas profit generation is skewed towards non-retail segments, of which capital markets division is the biggest contributor. Leumi's business model is reliant on net interest income, more so with the divestment of the credit card subsidiary. The bank's overseas operations are small and

**Leumi's Gross Loans**  
(End-3Q19)



<sup>a</sup> Including financial services  
Source: Fitch Ratings, Leumi

### Income by Segment



represent less than 10% of net loans. In the UK, the bank engages in real estate financing, global commerce and goods. In the US, it aims to become a more flexible and agile business focusing on commercial banking, primarily serving local middle-market companies.

### **Credible Management with Well-Articulated Strategy**

The bank has benefited from a stable management team for many years, and we do not expect material strategic shifts following the appointment of the new chief executive, in office since November 2019. We believe that Leumi's strategic objectives are generally well articulated, although not always clearly quantified compared to some of its international peers, but may shift modestly over time. 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 modest risk appetite.

In recent years, the bank's efforts centred on improving efficiency, reducing concentrations by growing selectively, in particular in mortgages, the middle-market and in the corporate segments. We believe the bank has executed its financial and strategic objectives well and often ahead of its peers.

### **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 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 and sub-sectors ensure the diversification of the corporate loan portfolio, however some industry concentrations remain, the largest being towards construction and real estate sector.

The regulator limits the banks' exposure to construction and real estate to 20% of the loan book, which Leumi, being a dominant player in this segment, manages through insurance and syndication. Moves to increase this limit slightly to allow for further PPP infrastructure loans are likely to result in increased concentrations towards this sector. We consider Leumi's risk control framework to be robust.

Leumi's growth has been well-balanced, supported by sustainable and internal capital generation. The bank's exposure to market risk is modest, which mainly consists of structural IR risk. We believe it is appropriately managed through hedging. Securities investment guidelines are conservative. A high 50% of the securities portfolio are invested in Israeli government bonds, followed by the US government bonds (13%) and ABS/MBS (11%), largely issued or backed by the US government agencies. The bank's trading book is not material.



## Summary Financials and Key Ratios

	30 Sep 19 9 months - 3rd quarter (ILSm)	31 Dec 18 Year end (ILSm)	31 Dec 17 Year end (ILSm)	31 Dec 16 <sup>a</sup> Year end (ILSm)
<b>Summary income statement</b>				
Net interest & dividend income	6,692.0	8,906.0	8,062.0	7,536.0
Net fees & commissions	2,426.0	4,121.0	4,052.0	3,967.0
Other operating income	982.0	730.0	1,064.0	880.0
Total operating income	10,100.0	13,757.0	13,178.0	12,383.0
Operating costs	5,832.0	8,337.0	8,415.0	8,722.0
Pre-impairment operating profit	4,268.0	5,420.0	4,763.0	3,661.0
Loan & other impairment charges	451.0	519.0	172.0	-125.0
Operating profit	3,817.0	4,901.0	4,591.0	3,786.0
Other non-operating items (net)	437.0	40.0	302.0	759.0
Tax	1,444.0	1,619.0	1,692.0	1,717.0
Net income	2,810.0	3,322.0	3,201.0	2,828.0
Other comprehensive income	-1,377.0	893.0	-735.0	-864.0
Fitch comprehensive income	1,433.0	4,215.0	2,466.0	1,964.0
<b>Summary balance sheet</b>				
Gross loans	283,622.0	275,307.0	271,880.0	266,092.0
- Of which impaired	2,385.0	2,751.0	3,455.0	3,653.0
Loan-loss allowances	3,272.0	3,352.0	3,213.0	3,537.0
Net loans	280,350.0	271,955.0	268,667.0	262,555.0
Interbank	n.a.	13,213.0	8,985.0	5,198.0
Derivatives	12,321.0	12,750.0	9,573.0	10,654.0
Other securities & earning assets	87,455.0	76,451.0	79,267.0	79,386.0
Total earning assets	380,126.0	374,369.0	366,492.0	357,793.0
Cash & due from banks	62,809.0	68,206.0	73,082.0	69,559.0
Other assets	11,573.0	18,082.0	11,264.0	11,251.0
Total assets	454,508.0	460,657.0	450,838.0	438,603.0
<b>Liabilities</b>				
Customer deposits	359,360.0	364,591.0	362,930.0	346,854.0
Interbank and other short-term funding	5,026.0	6,460.0	5,714.0	4,833.0
Other long-term funding	20,002.0	17,798.0	15,577.0	21,714.0
Trading liabilities & derivatives	13,251.0	12,089.0	9,740.0	10,677.0
Total funding	397,639.0	400,938.0	393,961.0	384,078.0
Other liabilities	21,266.0	23,558.0	23,324.0	21,885.0
Pref. shares & hybrid capital	n.a.	n.a.	n.a.	926.0
Total equity	35,603.0	36,161.0	33,553.0	31,714.0
Total liabilities & equity	454,508.0	460,657.0	450,838.0	438,603.0
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/RWAs	1.6	1.5	1.5	1.3
NII/average earning assets	2.4	2.5	2.2	2.1

**Summary Financials and Key Ratios (Cont.)**

	30 Sep 19 9 months - 3rd quarter (ILSm)	31 Dec 18 Year end (ILSm)	31 Dec 17 Year end (ILSm)	31 Dec 16 <sup>a</sup> Year end (ILSm)
Non-interest expense/gross revenue	57.6	60.8	64.3	70.6
Net income/average equity	10.4	9.5	9.8	9.3
<b>Asset quality</b>				
Impaired loans ratio	0.8	1.0	1.3	1.4
Growth in gross loans	3.0	1.3	2.2	0.2
Loan-loss allowances/impaired loans	137.2	121.9	93.0	96.8
Loan impairment charges/average gross loans	0.2	0.2	0.1	-0.1
<b>Capitalisation</b>				
Fitch Core Capital ratio	11.3	11.3	11.0	10.9
TCE ratio	7.8	7.8	7.4	7.2
CET1 ratio	11.7	11.1	11.4	11.2
Basel leverage ratio	7.4	7.1	6.9	6.8
Net impaired loans/FCC	-2.5	-1.7	0.7	0.4
<b>Funding &amp; liquidity</b>				
Loans/customer deposits	78.9	75.5	74.9	76.7
LCR	121.0	121.0	122.0	132.0
Customer deposits/funding	93.5	93.8	94.5	92.7
NSFR	n.a.	n.a.	n.a.	n.a.

<sup>a</sup>Based on 2016 accounts as initially published by the bank.

Source: Fitch Ratings

## Key Financial Metrics – Latest Developments

### Sound Asset Quality Despite Some Concentrations and Rising Risk Costs

Our assessment of Leumi’s asset quality reflects the bank’s low impaired loans and loan losses through the cycle. Mortgages (29% of gross customer loans at end-3Q19) show a healthy performance, with no impairments, supported by low interest rates and high borrowers’ debt servicing capacity given the still relatively modest household leverage in Israel. Furthermore, low LTVs (the average unindexed LTV of the outstanding mortgage portfolio was 45% at end-3Q19) mitigate the risk of performance deterioration in case of interest rates rising (although we do not expect interest rates to rise in the near term). Other personal loans decreased in 3Q19 due to the sale of Leumi Card. While their risk profile is higher than that of mortgages, they are of good quality (1.1% impaired loan ratio at end-3Q19) with low arrears and high reserves (51% specific loan loss provision coverage).

Construction and real estate activities dominate the non-retail loan book. Low impaired loan ratio in this sector of 1% at end-3Q19 is a reflection of prudent lending policies and active portfolio monitoring. Single-name concentration is reasonable. The securities portfolio is large (19% of total assets at end-3Q19), but skewed towards Israeli and US government bonds.

### Solid Earnings and Profitability on Franchise Strength

Leumi’s profitability has been relatively stable through the cycle helped by the bank’s pricing power in most business segments resulting in relatively consistent revenue streams. Efficiency continued to improve with falling cost-to-income ratio (CIR) and costs to average assets, reflecting the cost-cutting measures that the bank is implementing under its efficiency plans. Overall profitability has been supported by low risk charges in recent years, which are however expected by the bank’s management to normalise in the range of 20bp-25bp a year as write-backs moderate.

Leumi’s revenue streams are less diversified than some of its international peers as local regulation prohibits Israeli banks to have asset management subsidiaries and as a result of the bank’s domestic focus, which is unlikely to change in the near to medium term in our view. Net interest income accounted for almost two-thirds of operating income in 9M19 and was supported by loan growth and positive CPI. We expect that a normalisation of risk charges, lower for longer policy rates, lower credit card fees and continued investment costs are 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.

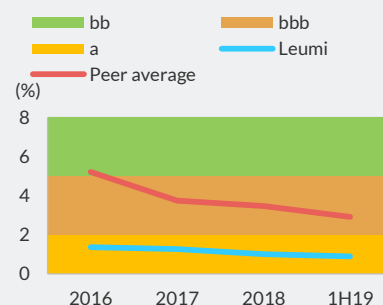
### High Risk-Weights Compensate Modest Capital Buffers

Leumi’s capitalisation is strong having gradually strengthened over the years. Capital ratios are maintained with moderate buffers over the regulatory minimum requirements. This is compensated by regulatory risk weights, which are high (69% at end-3Q19) compared with international peers and considering Leumi’s large on-balance-sheet liquidity buffer. High risk-weights partly compensate the lack of geographic diversification in our view.

At end-3Q19, Leumi’s CET1 ratio was 11.73% against 10% minimum requirement for large Israeli banks. Including buffers, which include capital held against outstanding housing loans, Leumi’s total minimum CET1 requirement was 10.26% at end-3Q19. Given Leumi’s fairly stable business model and performance, and generally supportive operating environment, the bank’s management set the internal threshold of 10.5% for CET1 ratio, with the aim of distributing excess capital in the form of regular dividends and one-off share buy-backs, two of which were carried out in 2018 and 2019.

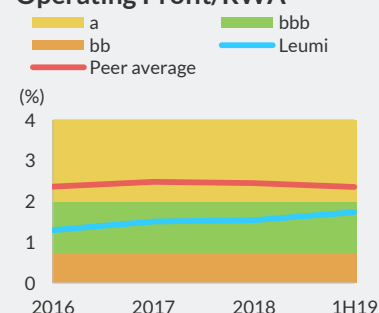
Capital is of good quality, predominantly consisting of share capital and retained earnings complemented with Basel III-compliant Tier 2 contingent convertible notes. Our assessment of capital benefits from a low level of impaired loans encumbrance and adequate internal capital generation.

### Impaired Loans Ratio



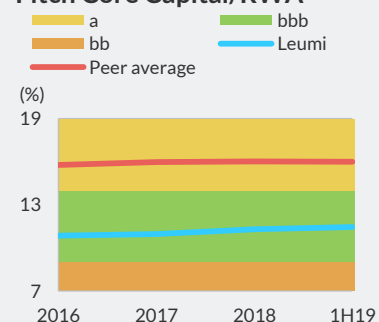
Source: Fitch Ratings, Leumi

### Operating Profit/RWA



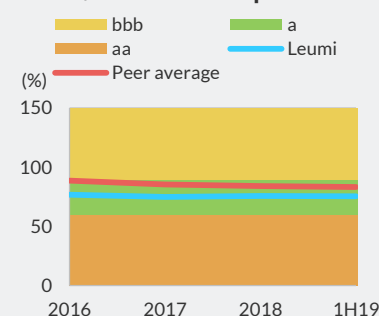
Source: Fitch Ratings, Leumi

### Fitch Core Capital/RWA



Source: Fitch Ratings, Leumi

### Loans/ Customer Deposits



Source: Fitch Ratings, Leumi

## Funding Is a Rating Strength

Leumi has a solid and stable funding base, mostly made up of customer deposits, with limited wholesale funding needs. Customer deposits are quite granular, with no large concentrations. They have been stable historically, including the periods of economic stress and political instability, despite the absence of a deposit guarantee scheme in Israel. A large share of customer deposits (69% at end-3Q19) 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 ILS20 billion of senior and subordinated bonds issued on the local wholesale market to increase funding maturity.

At end-3Q19, the bank reported a liquidity coverage ratio of 121% against the regulatory requirement of 100%. The bank maintains a solid liquidity buffer, with cash and deposits with central banks of ILS63 billion, or 14% of the bank's total assets. The bank can also pledge eligible securities with the Bol or the Federal Reserve in case of need.

## Notes on Charts

Background chart colours show indicative quantitative ranges and implied scores for Fitch's core financial metrics corresponding to an 'a'-category operating environments, which apply to all peers except for AIB Group Public Limited Company (AIBG). The peer average includes this sample of relevant domestic and foreign banks – 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).

## Environmental, Social and Governance Considerations

The highest level of ESG credit relevance for Leumi is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the banks under review, either due to their nature or to the way in which they are being managed by the banks.

### FitchRatings Bank Leumi Le-Israel B.M.

**Banks**  
Ratings Navigator

#### Credit-Relevant ESG Derivation

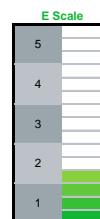
Bank Leumi Le-Israel B.M. has 5 ESG potential rating drivers

- 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		
	4	issues	2		
not a rating driver	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 left-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.

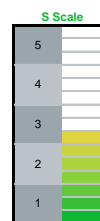
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general 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 criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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

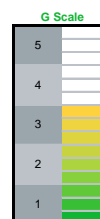
#### Social (S)

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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