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leumi

# Expansion of Series 403 Subordinated Notes

## March 2019

The presentation does not replace the need to review the latest periodic/quarterly reports in which full information is contained, including forward looking information, as defined in the Israeli Securities Law, and set out in the aforementioned reports.

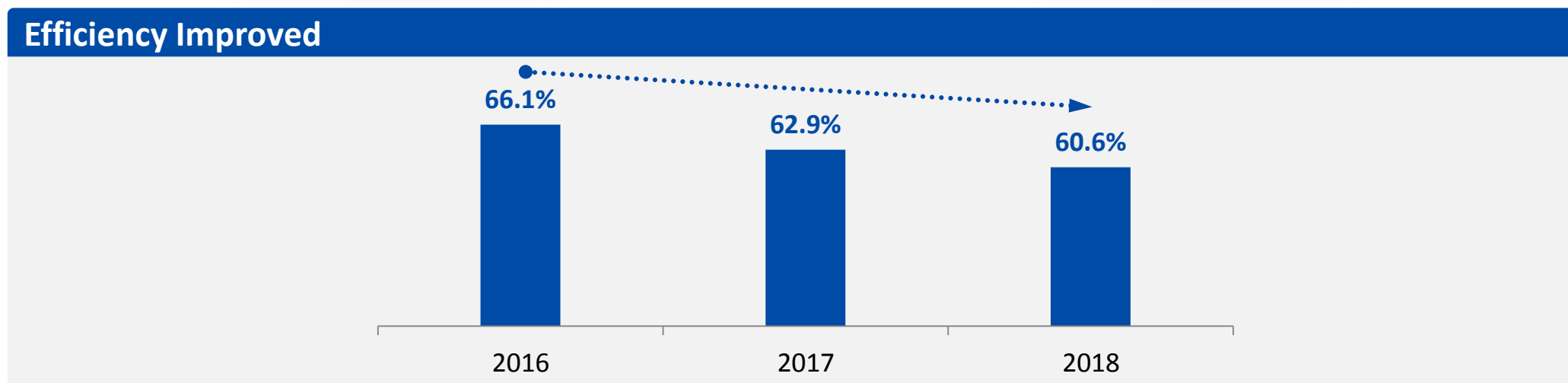
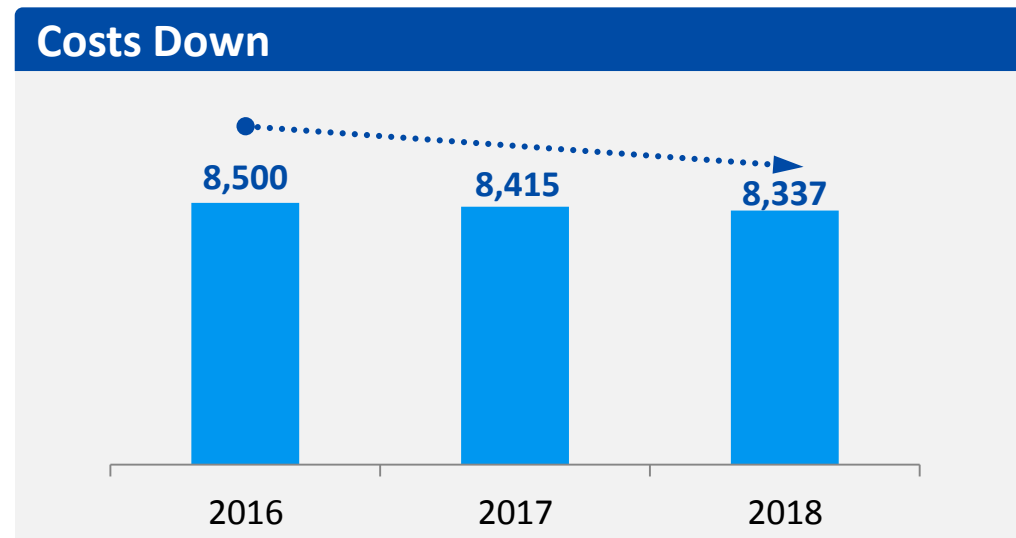
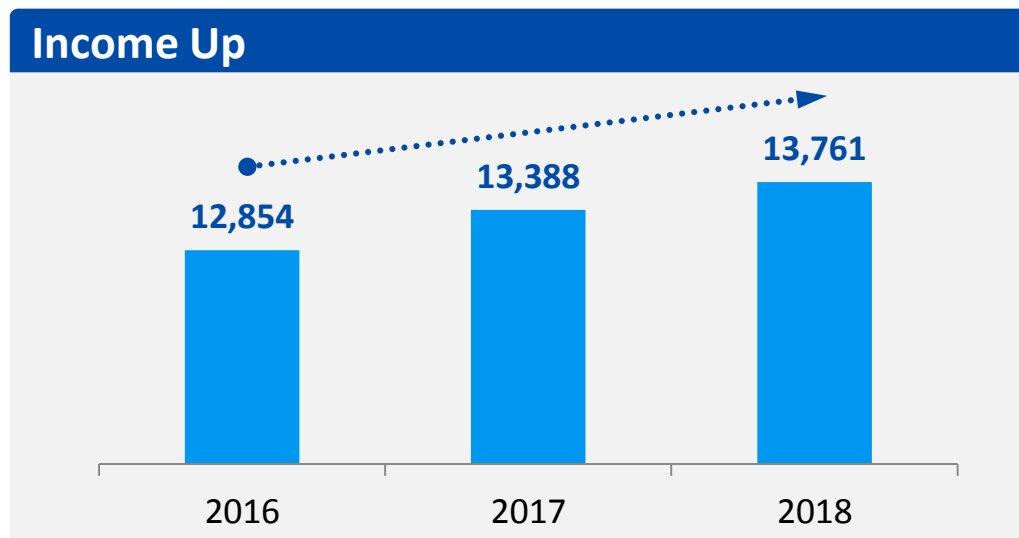
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## 2018: Continued Trend of Improvement in Income and Expenses – Positive Jaws



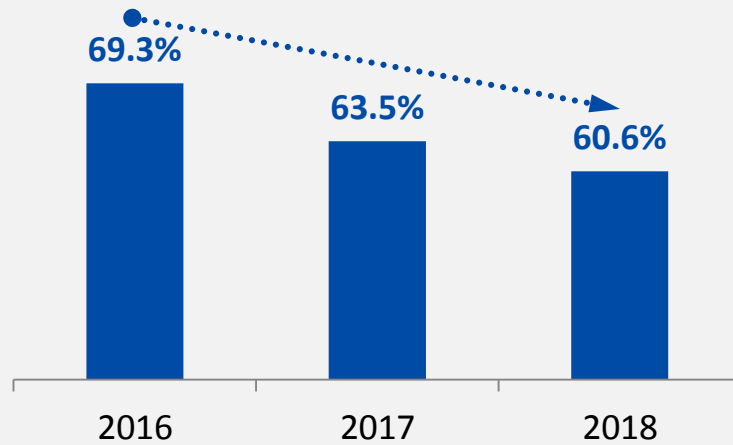
- 2017 includes one-time effects of NIS 189 million pretax. 2016 includes one-time effects of NIS 288 million net of tax.

(NIS Millions)

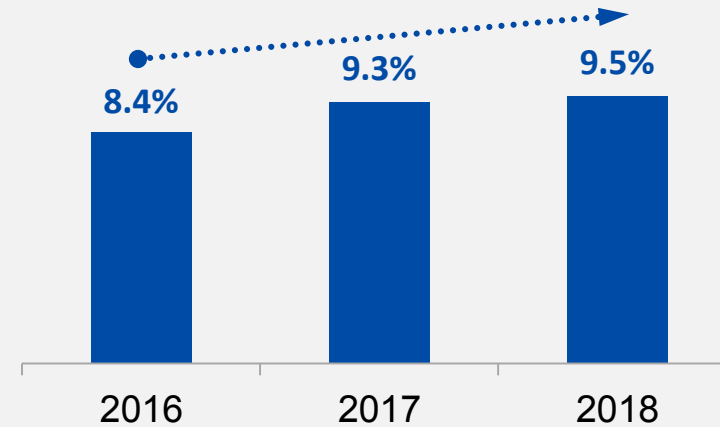


# Strong Operating Leverage and ROE

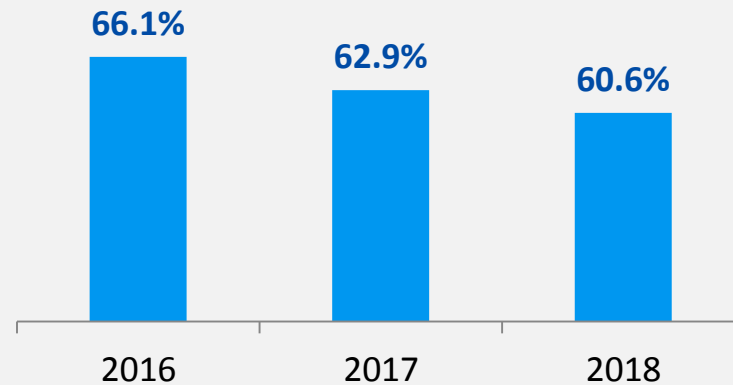
Efficiency Improved\*



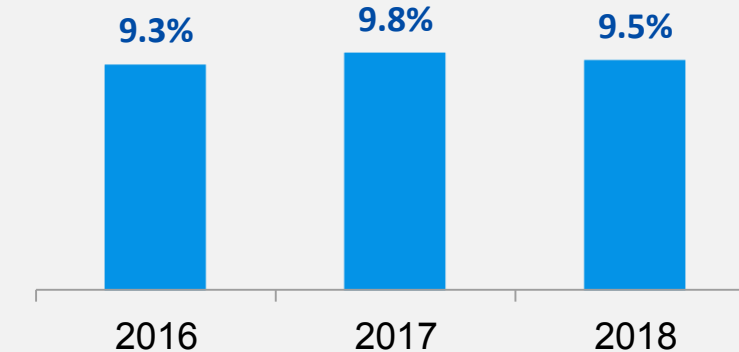
ROE\*



Efficiency Improved



ROE



- 2017 cost-income ratio was adjusted by the profit of selling a major branch and salary expenses recorded as one-time.
- 2016 cost-income ratio was adjusted by income from selling VISA Europe, salary expenses recorded as one-time and an insurance refund



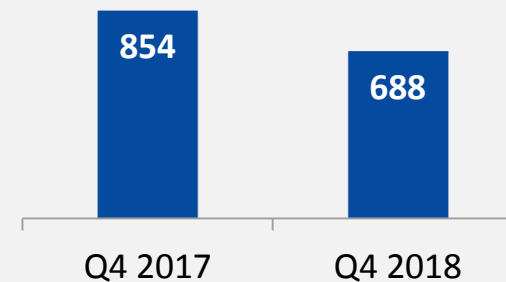
# Year-over-Year Progress of Financial Results

	2018	2017	2016
<b>Net Interest Income</b>	8,890	8,046	7,526
<b>Credit Loss Expenses (income)</b>	519	172	(125)
<b>NII after Credit Losses Expenses</b>	8,371	7,874	7,651
<b>Non-interest Finance Income</b>	682	919	1,282
<b>Commissions and Other income</b>	4,189	4,423	4,046
<b>Operating &amp; Other Expenses</b>	8,337	8,415	8,500
<b>Net Income Attributed to Shareholders</b>	<b>3,257</b>	<b>3,172</b>	<b>2,791</b>
<b>EPS Attributed to Shareholders (fully diluted)</b>	<b>2.15</b>	<b>2.08</b>	<b>1.84</b>

Q4 2017 results included pretax one-time effects of NIS 189m, attributed to a profit from the sale of a major branch and one-time salary expenses.

Excluding this effect, the Q4 2018 results are similar to Q4 2017.

## Net Income



(NIS Millions, EPS in NIS)



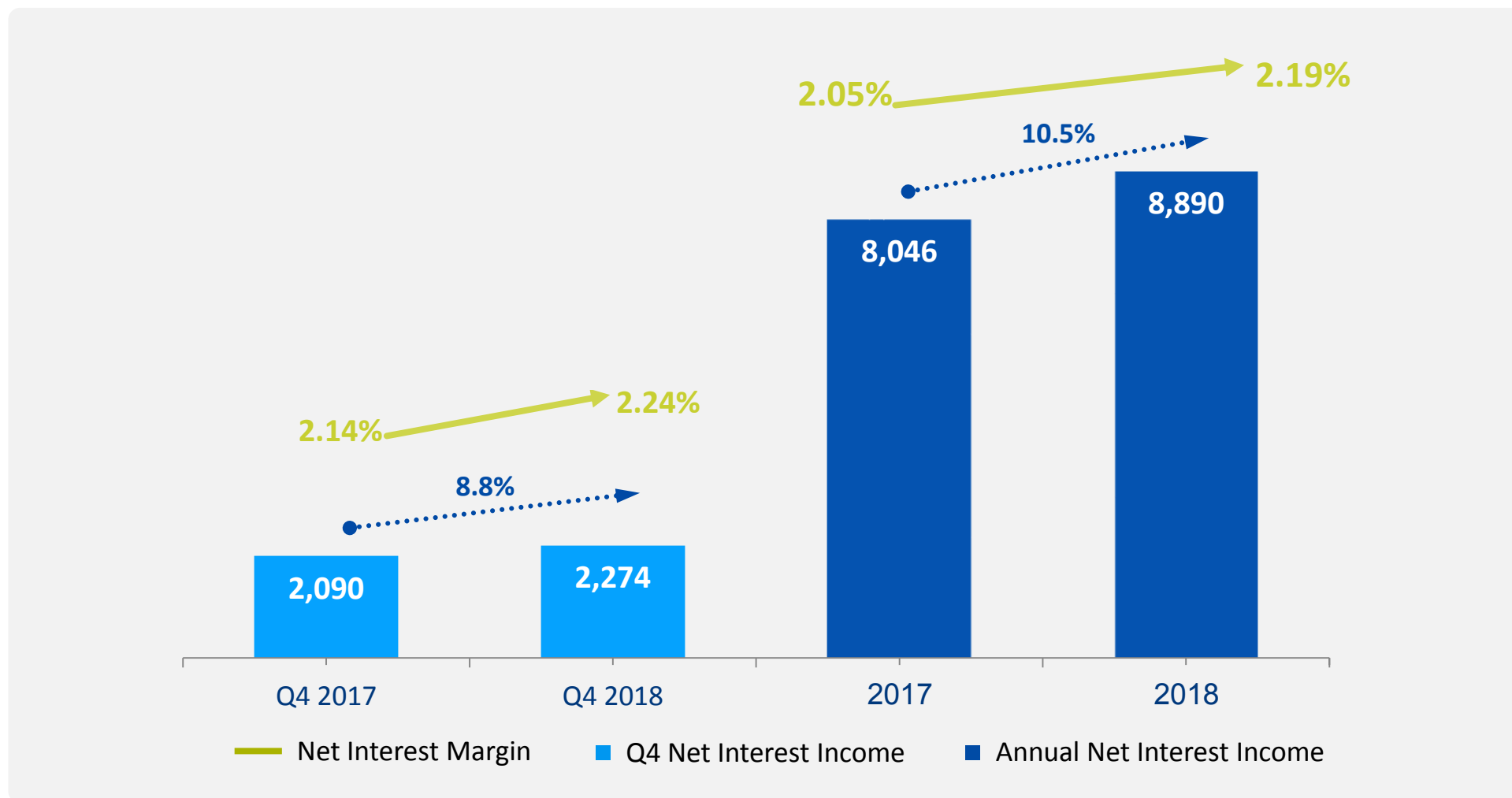
## Multi Year View; Core Business Continues to Improve - Key Financial Metrics

	ROE*	NIM	COST/INCOME RATIO*	CREDIT LOSS EXPENSES	LEVERAGE RATIO	LCR
2018	9.5%	2.19%	60.6%	0.19%	7.05%	121%
2017	9.3%	2.05%	63.5%	0.06%	6.94%	122%
2016	8.4%	1.95%	69.3%	(0.05)%	6.77%	132%

\* Adjusted to reflect one-time items as per the respective financial statements



# Net Interest Income and Net Interest Margins Continued to Rise

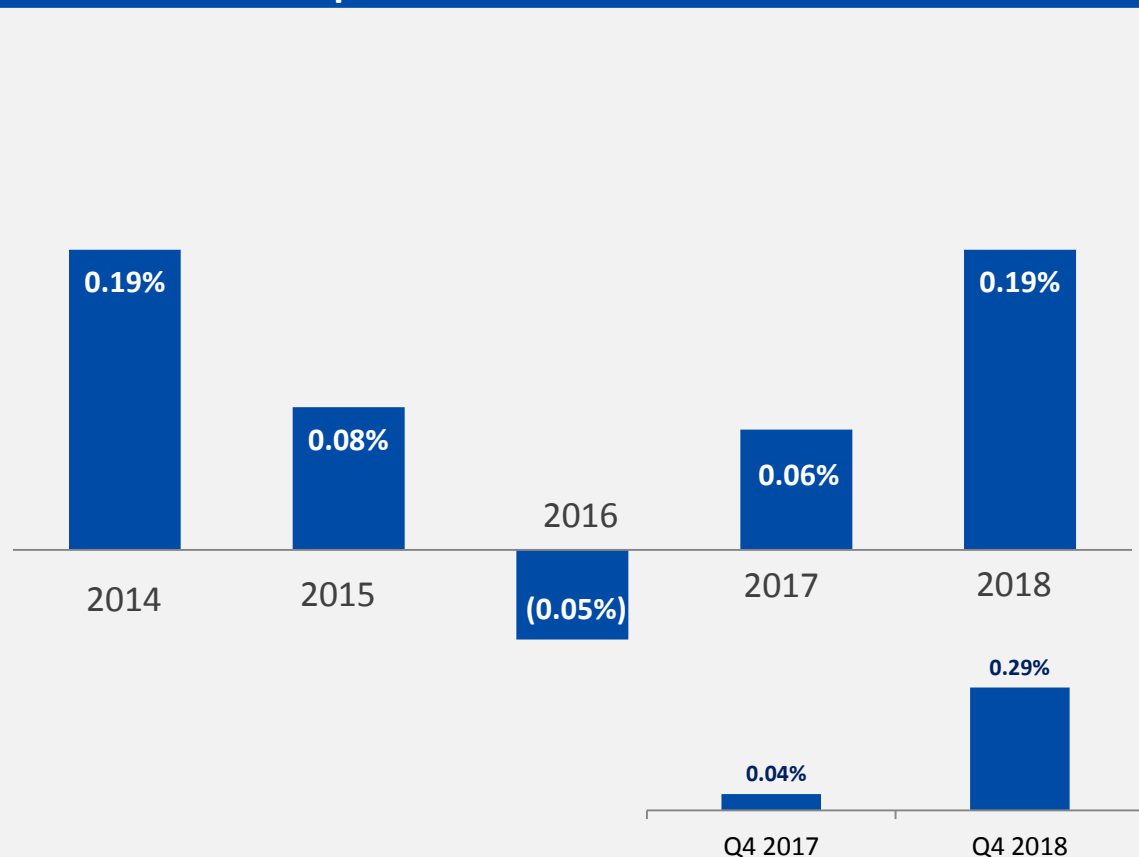


(NIS Millions)



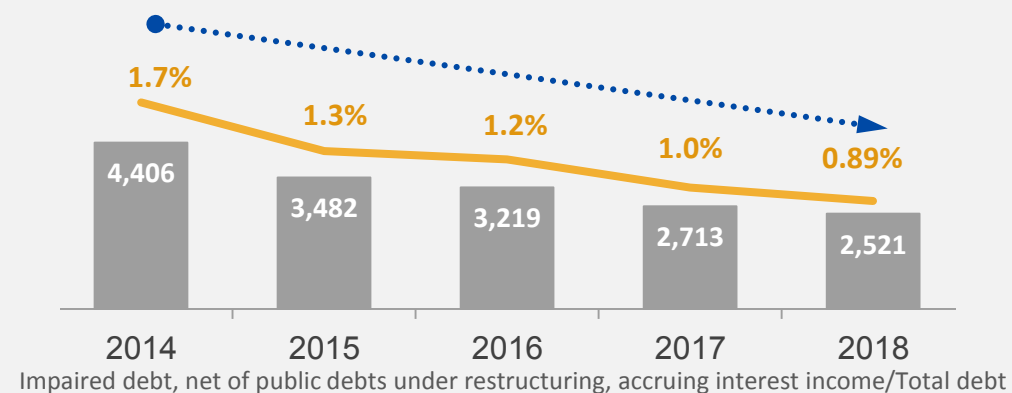
# A Holistic View of our High Quality Credit Portfolio

## Low Credit Loss Expenses

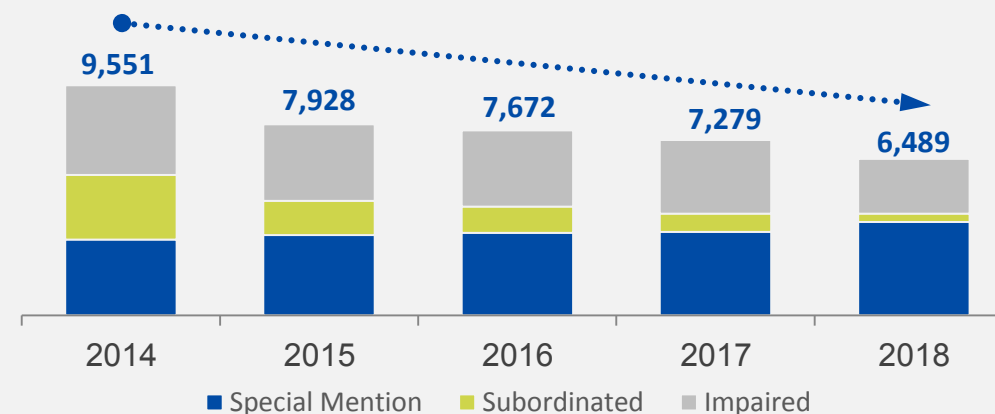


(NIS Millions)

## Substantial Improvement in NPL Ratio



## Continuous Positive Trend in Problem Debts

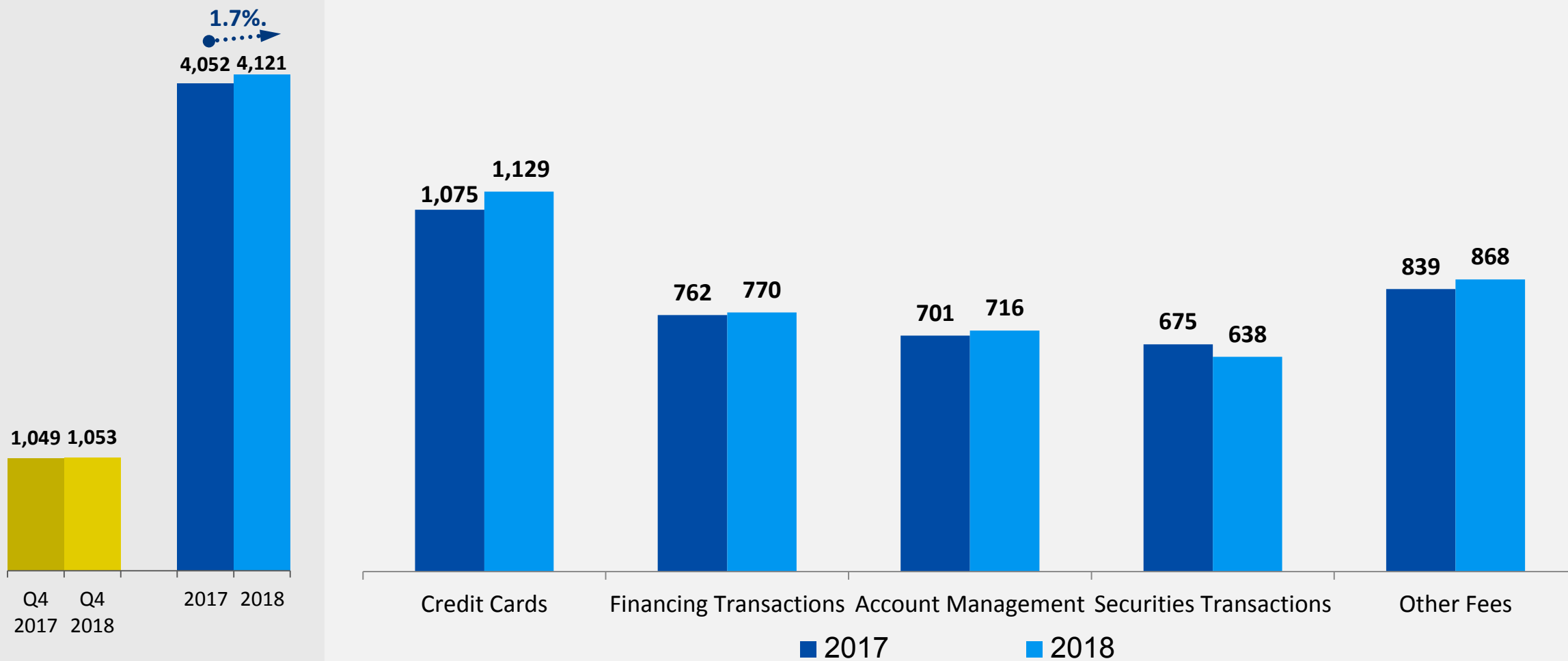


Leumi Card NIS 297 Million distributed proportionally in 2018





# Fees and Commissions Up Year-over-Year

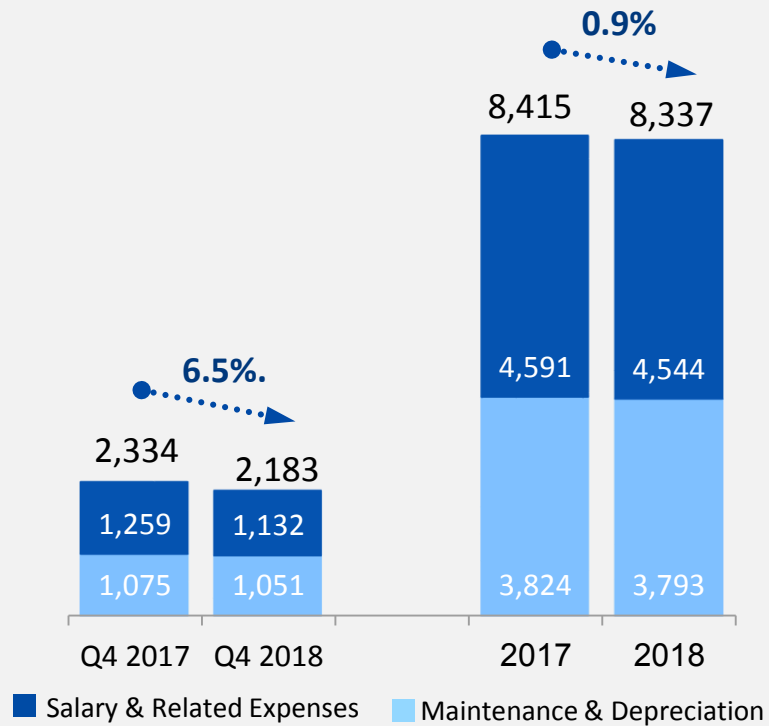


(NIS Millions)

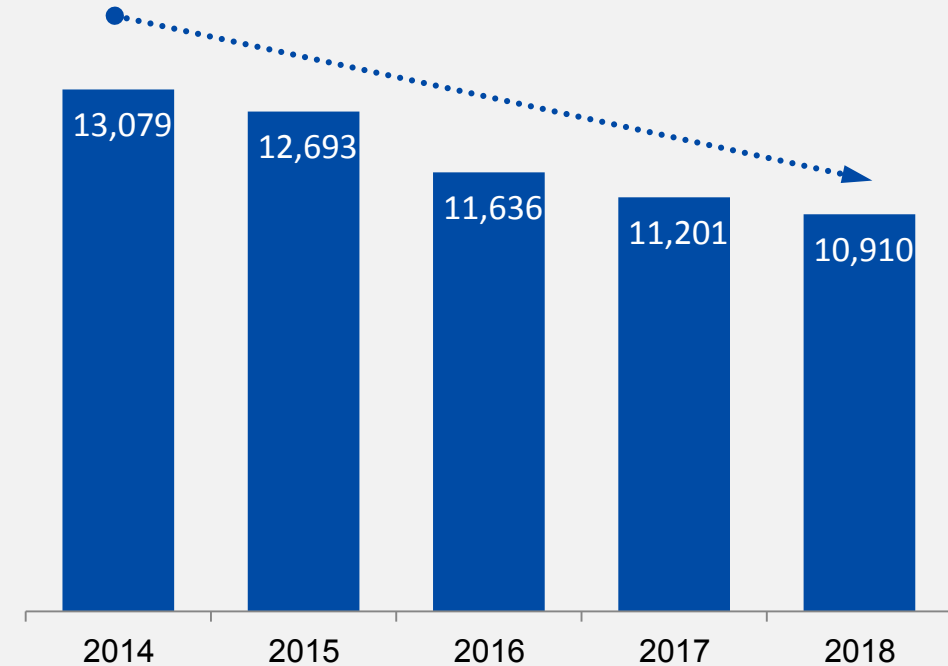


# Continued Focus on Improving Efficiency

## Disciplined Cost Structure



## Number of Positions Continued to Fall

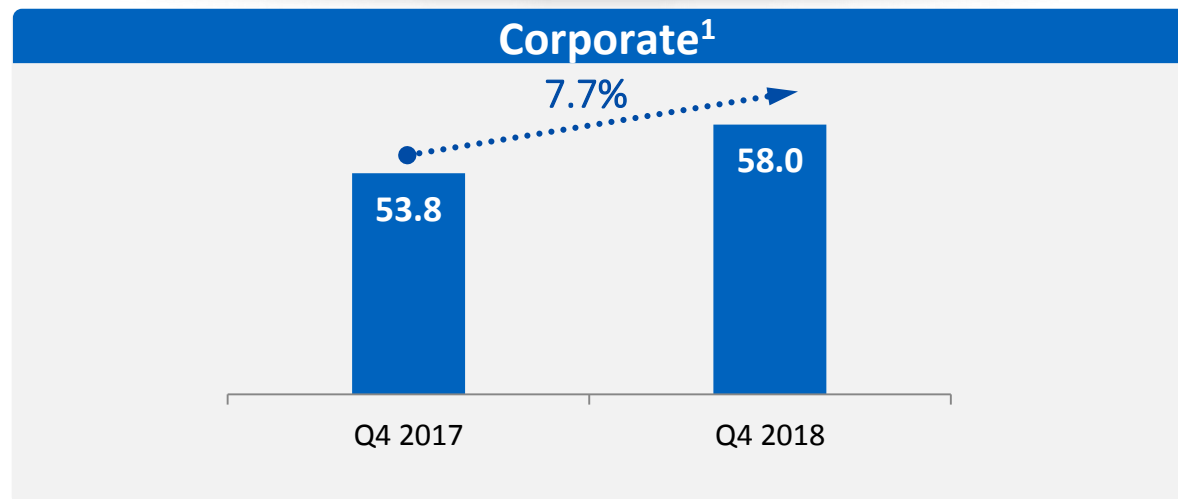
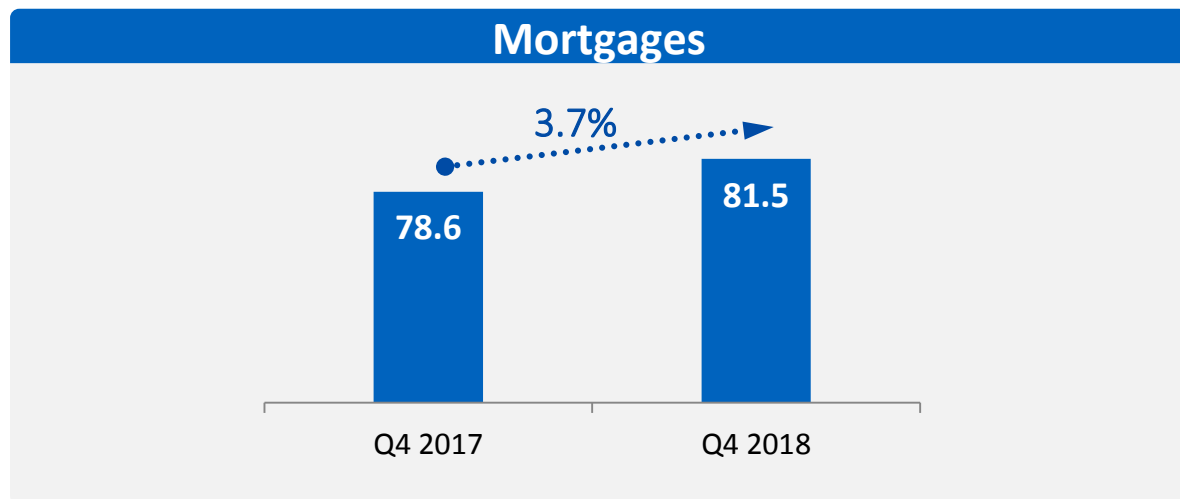
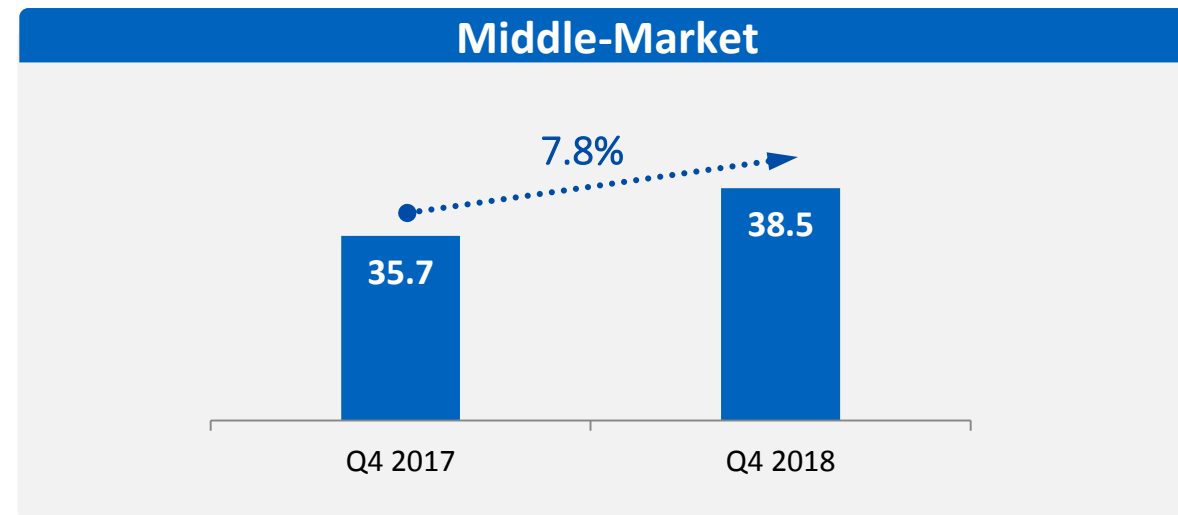
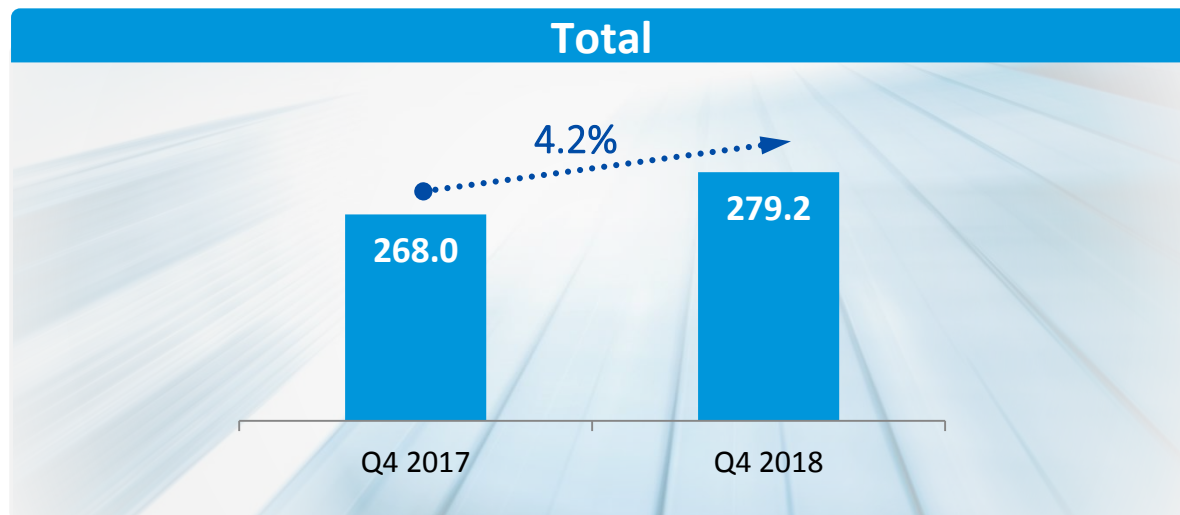


(NIS Millions)

- In 2017 our presentation featured one-time effects of NIS 76 million of which NIS 43 million was attributed to bonuses.
- In 2018, an additional bonus was recorded, due to structural changes.
- As a result, they are not presented in the 2018 financial statements as one-time items for both 2017 and 2018.



# Responsible Growth with a Focus on Selected Segments

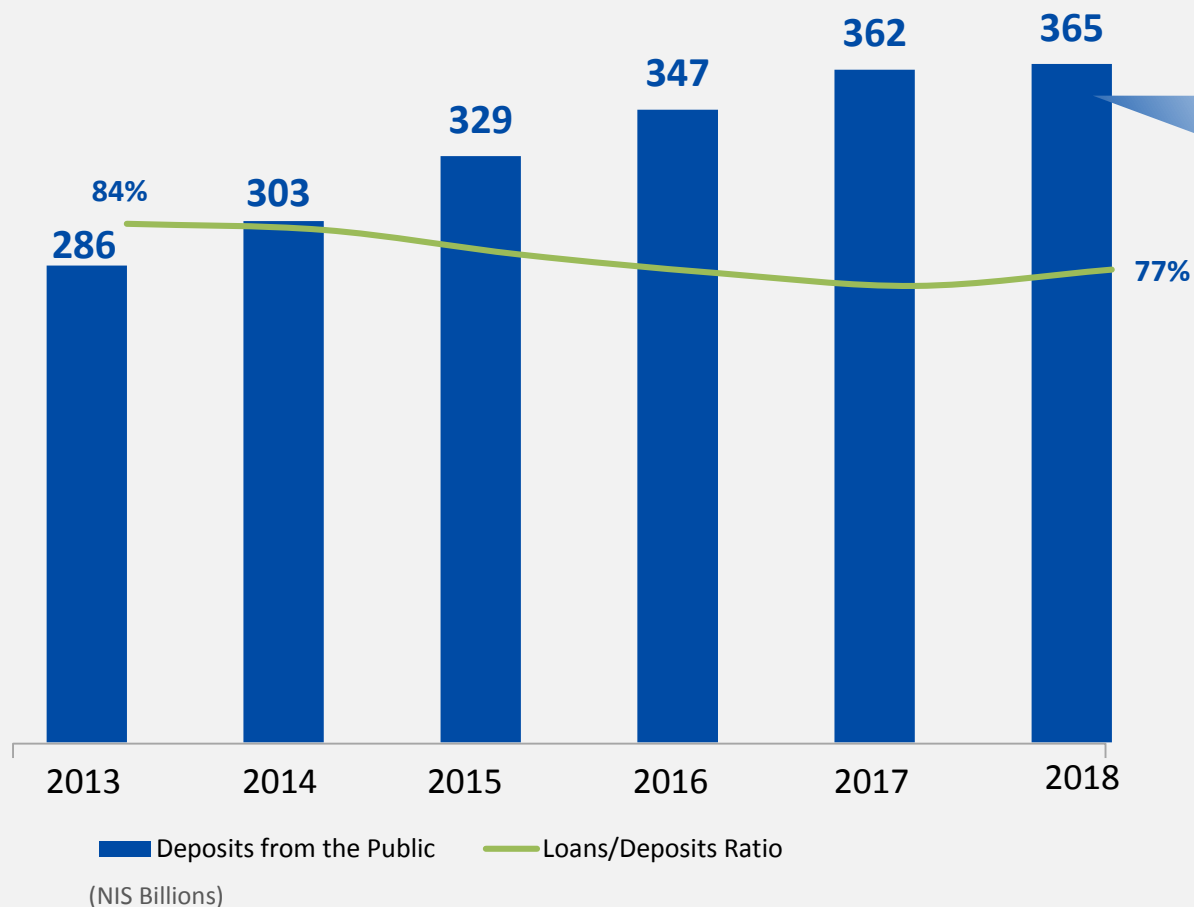


(NIS Billions)

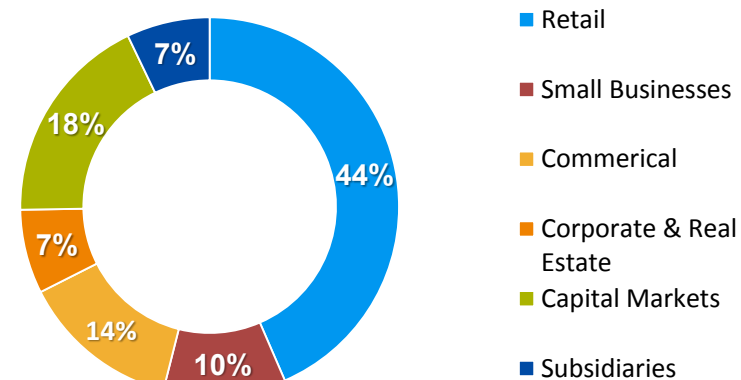
11 <sup>1</sup>Corporate includes Corporate and Real-Estate; most of the growth came from Real-Estate  
Data Includes held-for-sale assets



# Solid and Diverse Deposit Base. Conservative, Well-funded Portfolio

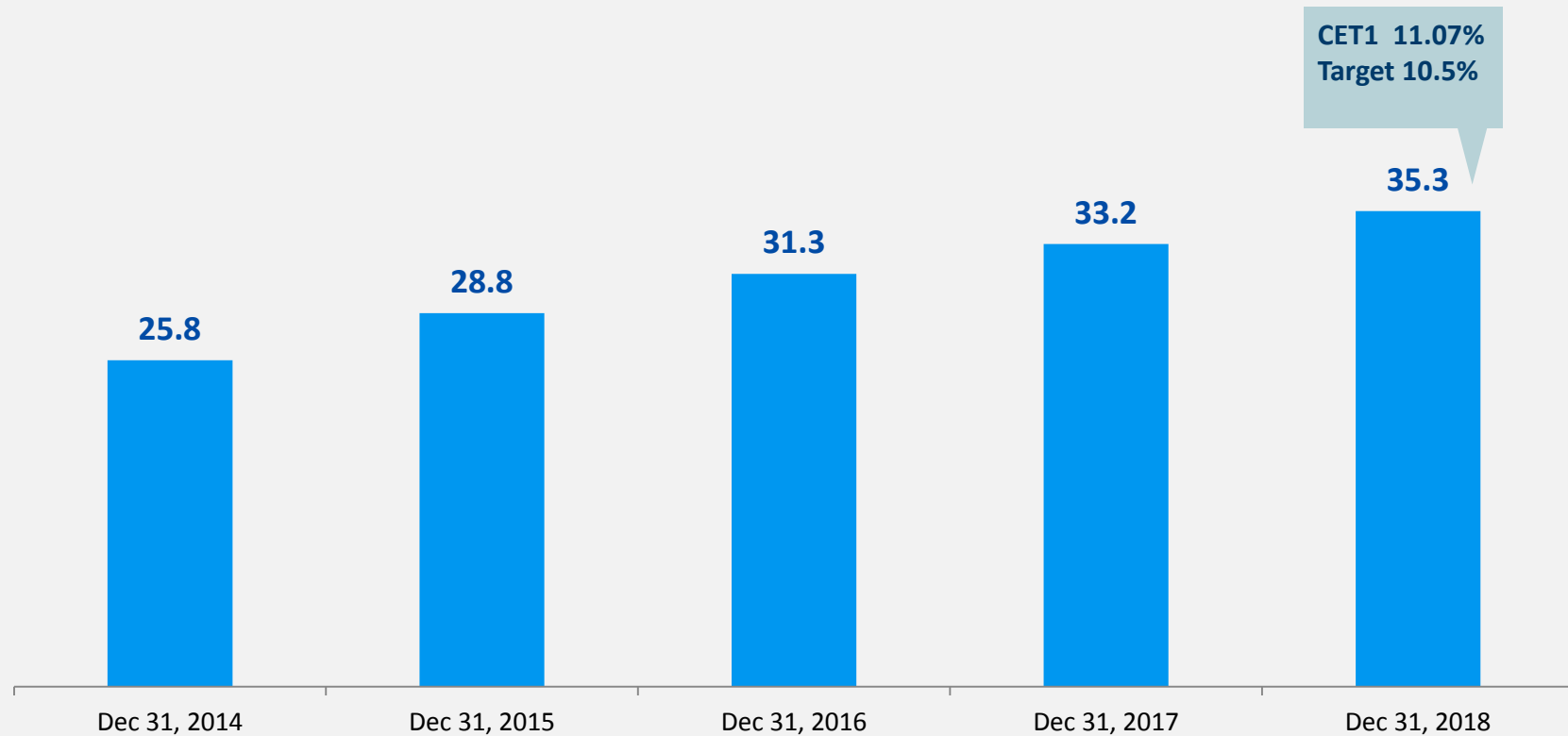


Deposits from the Public Dec 31, 2018



# Strong Capital Generation and Adequacy Ratios

## Capital Up, CET1 Well-above Target



(NIS Billions)



# High Share Returns via Dividend and Buyback; Dividend Policy up to 50%

**The Board of Directors has adopted a dividend policy of up to 50%**

## **2018 returns to shareholders**

- 40% quarterly dividend payout
- NIS 700 million buyback

**Total Dividends and Buyback at over NIS 2 billion; equal to ~60% effective profit distribution**





# Leumi Card Sale Completed in February 2019 – a Snapshot of the Expected Impact

## 2018: Leumi Card Impact on Results

Leumi's Net Income	3,009
Impact of Leumi Card	158
Total Net Income	3,257

**2019: The profit from selling Leumi Card is expected to be higher than Leumi Card's impact on Leumi's results**

## 2019 onwards:

- Improved operating agreements with Leumi Card, Isracard and VISA CAL
- Yield from the use of the sale proceeds
- Potential distribution of some of the excess capital from the sale



# Wrapping Up 2018 – Strong Financial Results

Continued improvement in profitability from core business:

- - NII and NIM up
  - Expenses down
  - C/I ratio dropped

- Selective loan growth while focusing primarily on lower risk sectors

- Digital - Offering innovative and diverse solutions

- Robust Capital Adequacy – dividend policy updated to 50%  
Total payout ~60% of Net Income in 2018

Looking Ahead – Q1 2019:

- - Positive Financial Markets
  - Bank of Israel raised Interest rate to 0.25%
  - Profits from Leumi Card sale to be recorded
  - Negative CPI



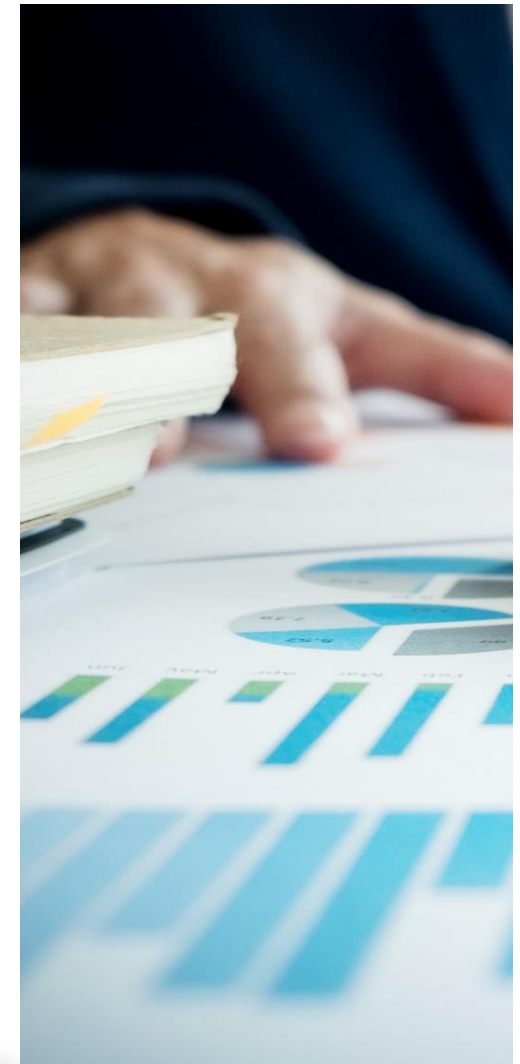


# Expansion of Subordinated Notes (CoCo), series 403 Rated iIAA

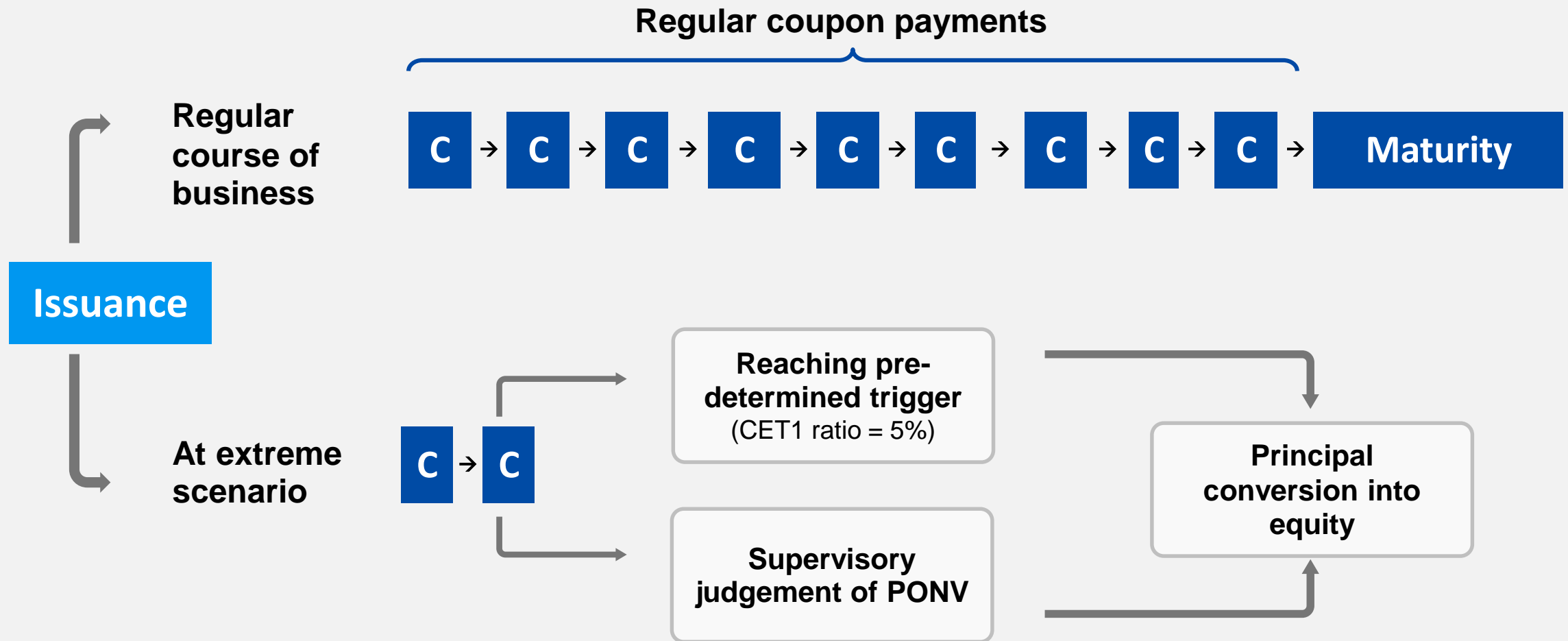


## Main Parameters of Series 403, rated ilAA by S&P Maalot

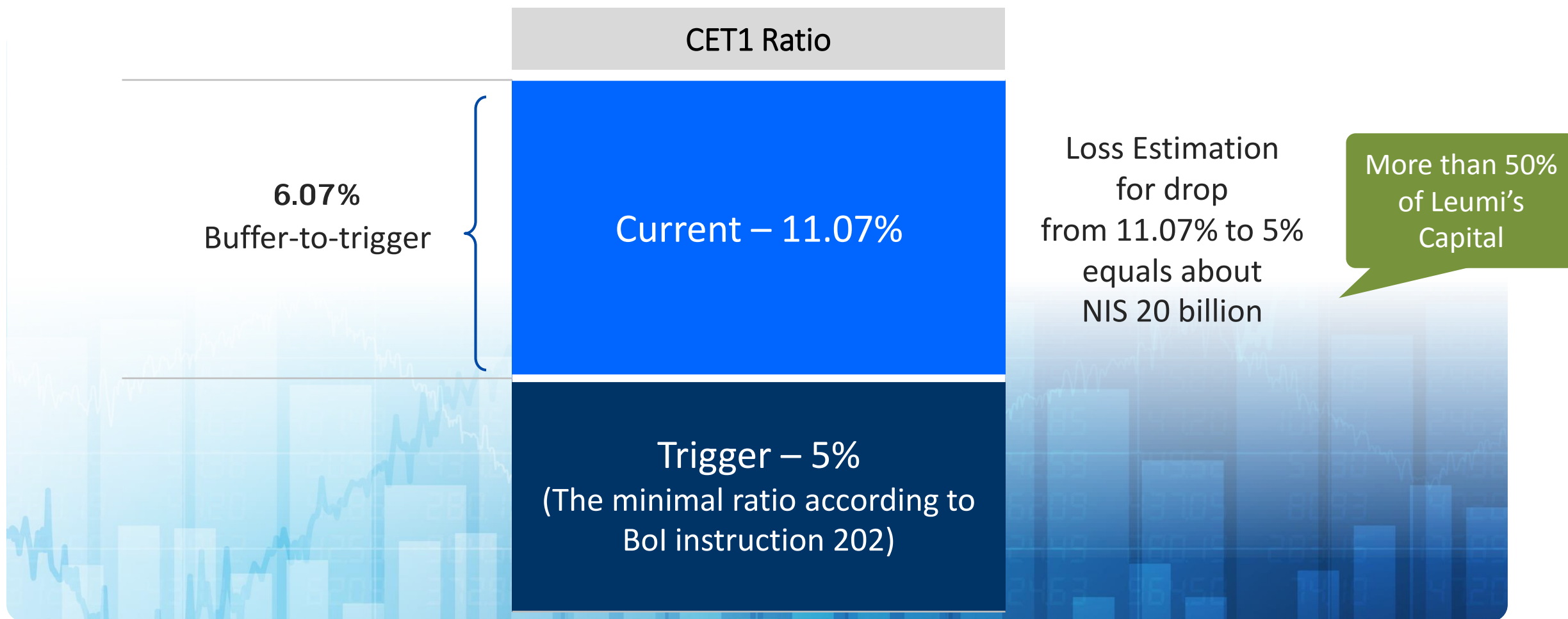
<b>Maturity</b>	11 Years Option for early redemption (full/partial) six years after issuance (January 2025)
<b>Capital tier</b>	Fully recognized for inclusion in Tier 2 during first six years, after which will be amortized by 20% each year if not redeemed at optional early redemption date
<b>Interest</b>	2.42% - Fixed NIS, linked to CPI (no floor) Interest to be adjusted at optional early redemption date: 2.42% plus the difference between anchor interest rate (CPI-linked 5-yr government yield) at early redemption and anchor interest rate at issuance (0.033%)
<b>Mechanism</b>	Conversion to shares at the higher of: market price or predetermined floor price
<b>Coupon</b>	Annual
<b>Trigger</b>	The earlier of 5% CET1 or discretion of Israel's Supervisor of Banks
<b>Trustee</b>	Strauss Lazer & Co.



# COCO - Contingent Convertible Capital Instrument



# Leumi's Resiliency - Broad Buffer-to-Trigger



## Leumi's Resilience – None of the Exposures to the Risk Factors is Defined as High

Risk	Severity
Total credit risk	Medium
Total market risk	Medium-low
Liquidity risk	Low
Operational risk	Medium
Legal and compliance risk	Medium
Global systematic risk	Medium-high
Domestic systematic risk	Medium

Severity is derived from the estimated impact of various scenarios on the Group's CET1, and a relevant subjective evaluation.



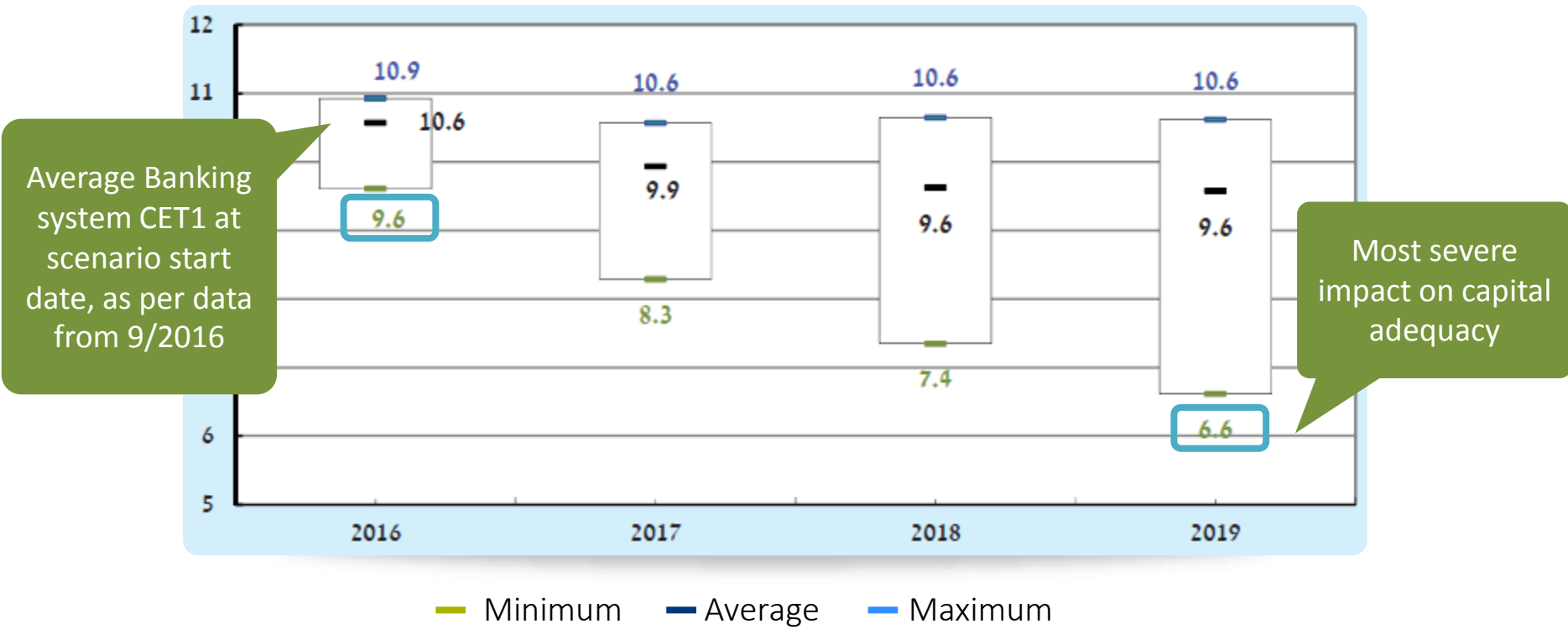


# Boi's Systemic Stress Test Results Indicate the Banking System is Resilient, at a Time of a Severe Domestic Crisis

Stress Scenario Describes an Adverse Domestic Macro-economic Crisis, Following a Crisis in Europe

Main parameters used in Boi's stress test and maximum data:	
GDP	-5%
Unemployment	10.8%
NIS/USD	+9%
Long-term yields	3.76%
Stock market index	-50%
Housing prices	-35%

Annual CET1 (min./max/avg.) at a stress scenario, performed in 2016 (last available)



## Leumi's Stability is High

### Capital

- Broad buffer-to-trigger
- Bol stress tests indicate that Capital adequacy, even in the weakest bank in Israel, is far above 5% in worst case scenario
- Leumi's NIS 16 billion pension liability mitigates the impact of scenarios that include rising long-term interest rates

### Liquidity

- High LCR (121%) – supporting liquidity needs at a liquidity crisis





THANK YOU