



## Fitch Affirms Bank Leumi at 'A'; Outlook Stable

Fitch Ratings - London - 17 December 2019:

Fitch Ratings has affirmed Bank Leumi Le Israel B.M.'s (Leumi) Long-Term Issuer Default Ratings (IDR) at 'A' and Viability Rating (VR) at 'a-'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is at the end of this rating action commentary.

### 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 (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 has a strong willingness to do so.

This view is reinforced by Leumi's large domestic franchise, accounting for about 30% of sector assets, its importance to the Israeli economy, and the government's objective of preserving confidence in the banking sector, especially considering the absence of both a deposit guarantee scheme and effective recovery and resolution legislation. The Stable Outlook reflects stable prospects for the bank, in our view.

Leumi's 'F1+' Short-Term IDR is the higher of the two possible Short-Term IDRs that can be assigned for a 'A' Long-Term IDR. This is because we view the sovereign 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 Leumi (wrong-way risk) as low and have not identified other potential impediments to the prompt flow of funds to Leumi.

#### VR

Leumi's VR reflects the bank's strong domestic franchise as the largest banking group in Israel by total assets, modest risk appetite despite the presence of some industry concentrations, healthy asset quality, resilient earnings and relatively strong capitalisation, particularly in view of the bank's high risk-weight density for its risk profile.

Leumi's asset quality is sound with high degree of stability. This is supported by the bank's fairly modest and strengthened risk appetite and a growing economy with low unemployment and interest rates. Impaired loans plus loans which are 90 days past-due but not impaired are low and reserved at over 100% at end-September 2019. Concentrations have been reducing but are expected to remain a feature of the Israeli economy.

Underlying profitability has been gradually improving, benefiting from the implementation of efficiency plans and low loan impairment charges (LIC). Revenues are underpinned by sound interest margins, supported by the bank's dominant market position and pricing discipline. Revenues rely heavily on net interest income, especially following the loss of fees following the sale of Leumi's credit card business.

We expect that a normalisation of LICs, lower for longer policy rates, lower credit card fees and continued investment costs are likely to exert pressure on future profitability, highlighting the need for continued pricing

and cost discipline. The bank's strong franchise, product mix and its advanced digital presence, however, are likely to counterbalance these pressures in the medium term.

Capitalisation is relatively strong for the bank's risk profile and this is particularly visible in its leverage ratio (7.4% at end-September 2019) and low capital encumbrance to unreserved impaired loans. While the bank is operating with moderate buffers over the regulatory requirements with a common equity Tier 1 ratio of 11.7% at end-September 2019, risk weights are conservative compared with peers and considering Leumi's large on balance sheet liquidity (risk-weighted assets accounted for about 69% of total assets at end-September 2019).

Leumi's funding and liquidity is a relative strength. Our view reflects its stable and quite granular customer deposit base, which fully covers its loan book. The bank is able to access local wholesale markets to extend the maturity of its funding, but the need for this has been limited. There is little need to access international capital markets. Its liquidity buffer of cash and high-quality sovereign bonds is comfortable.

## **RATING SENSITIVITIES**

### **IDRS, SR and SRF**

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 within the next 24 months. 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-' and where support propensity is high.

### **VR**

Leumi's VR would likely be downgraded if the bank's capital falls below its current targeted 10.5%, 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.

Given the already high rating in the context of its company profile, an upgrade of the VR is currently unlikely. However, improving profitability on the back of a more diversified business model while maintaining strong capital ratios and healthy asset quality could allow the bank's VR to be upgraded.

## **Public Ratings with Credit Linkage to other ratings**

Leumi's IDRs, SR and 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.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on Leumi, either due to their nature or the way

in which they are being managed by Leumi. For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

#### RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Bank Leumi Le-Israel B.M.	LT IDR A ● Affirmed		A ●
	ST IDR F1+ Affirmed		F1+
	Viability a- Affirmed		a-
	Support 1 Affirmed		1
	Support Floor A Affirmed		A

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### FITCH RATINGS ANALYSTS

Primary Rating Analyst  
Claudia Nelson  
Senior Director  
+44 20 3530 1191  
Fitch Ratings Ltd  
30 North Colonnade, Canary Wharf  
London E14 5GN

Secondary Rating Analyst  
Maria Shishkina  
Associate Director  
+44 20 3530 1379

Committee Chairperson  
Cristina Torrella Fajas  
Senior Director  
+34 93 323 8405

#### MEDIA CONTACTS

Peter Fitzpatrick  
London  
+44 20 3530 1103  
[peter.fitzpatrick@thefitchgroup.com](mailto:peter.fitzpatrick@thefitchgroup.com)

#### Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

## **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form  
Solicitation Status  
Endorsement Policy

## **DISCLAIMER**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

## **COPYRIGHT**

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings

and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **Endorsement Policy**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

## **Fitch Updates Terms of Use & Privacy Policy**

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)