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: November 5 2019
Reference: 2019-01-94974

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 November 5 2019, Standard & Poor's *other* published the following:

⊙ A rating report/*update* notice

o Notice of withdrawal of rating

1. Rating report or notice

✓ Rating of the corporation: Standard & Poor's *Other* ___A/A-1 ___ *stable* _______
Comments/Nature of Notice: *Reiteration of rating*

Ratings history for the 3 years preceding the date of the rating/notice:

Date	Subject of Rating	Rating	Comments/ Substance of Notice
July 10 2019	Bank Leumi Le-Israel Ltd.	*Standard & Poor's Other ___ A/A-1 Stable*	Rating raised
November 7 2018	Bank Leumi Le-Israel Ltd.	*Standard & Poor's Other ___ A-/A-2 Positive*	Reiteration of rating
January 3 2018	Bank Leumi Le-Israel Ltd.	*Standard & Poor's Other ___ A-/A-2 Positive*	Reiteration of rating

October 24 2017	Bank Leumi Le-Israel Ltd.	*A/A-2 Standard & Poor's Other ___ Positive*	Outlook / forecast raised
December 20 2016	Bank Leumi Le-Israel Ltd.	*A/A-2 Standard & Poor's Other ___ Stable*	Reiteration of rating

Explanation: in the ratings history, outline only the rating history of the rating agency which has rated the subject of the immediate report

✓ Rating of the corporation's bonds:

Security name & type	**TASE Security No.**	**Rating agency**	**Current rating**
___	___	___	___

Rating history in the 3 year prior to the rating date/notice:

Security name & type	**TASE Security No.**	**Date**	**Type of rated security**	**Rating agency**	**Current rating**	**Comments / nature of notice**
___	___	___	___	___	___	___

Explanation: in the ratings history, outline only the rating history of the rating agency which has rated the subject of the immediate report

For further details see attached Ratings Report:
05112019_isa.pdf

2. On _____, ______ announced the withdrawal of rating for: _________

Standard & Poor's has reiterated the Bank's long-term credit rating at A, and the Bank's short-term credit rating at A-1. In addition, it has reiterated the outlook at Stable. For more information, please see the attached full report.

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 Finance Division of the Bank.

Reference numbers of previous reports on the subject (any reference does not constitute inclusion by way of reference):

The corporation's securities are listed for trading on the Tel Aviv Stock Exchange
Abbreviated name: Leumi

Previous names of a reporting entity:

Note: English translations of Immediate Reports of Bank Leumi are for convenience purposes only. In case of any discrepancy between the English translation and the Hebrew original, the Hebrew version shall prevail.
The original Hebrew version is available on the distribution website of the Israel Securities Authority: http://www.magna.isa.gov.il

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Name of Electronic Reporter: David Raoul Sackstein, Position: Advocate, General Secretary
Yehuda Halevi Street 34, Tel Aviv 6513616, Phone: 076-8857984, Facsimile: 076-8859732
Electronic Mail: david.sackstein@bankleumi.co.il

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Bank Leumi le-Israel B.M.

Primary Credit Analyst:
Stephanie Mery, Paris (33) 1-4420-7344; stephanie.mery@spglobal.com

Secondary Contact:
Lena Schwartz, RAMAT-GAN (972) 3-753-9716; lena.schwartz@spglobal.com

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Bank Leumi le-Israel B.M.

SACP	a-

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

\+

Support	+1

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+1

\+

Additional Factors	0

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Strong market position and franchise as one of the two largest banking groups in Israel, with a strong presence in all key business lines and digital banking • Improving efficiency ratios • Large domestic customer deposit base that underpins good funding and liquidity metrics • Sound asset quality indicators	• Regulatory attempts to limit market share, as exhibited by the forced divestment of the credit card subsidiary • Concentration in the real estate sector • Limited ability to diversify or raise fees

Outlook: Stable

The stable outlook on Bank Leumi indicates a limited likelihood of ratings upside or downside over the next 24 months. The ratings already take into account the benefits of our expectation of benign and stable operating conditions in Israel. Therefore, we expect the bank's overall business risk and financial risk profiles to be broadly stable for the foreseeable future.

Downside scenario

Rating pressure could materialize if the Israeli economy, notably the real estate sector, deteriorated markedly. This might follow global or local economic stress or a pronounced escalation in local geopolitical turbulence. Furthermore, we could take a negative rating action if there are major asset quality or operational issues in Leumi's U.S. operations, or if regulatory or legislative decisions, such as the forced recent sale of the bank's credit card subsidiary, have a long-lasting adverse effect on the bank's business position.

Upside scenario

Although unlikely during our two-year outlook period, an upgrade could happen if Leumi materially improved its capital policy or risk profile.

Rationale

We expect the bank to retain its strong market position and good business diversification, benefiting from the supportive economy. The forced divestment of the credit card subsidiary, Leumi Card (renamed Max), might slightly decrease the amount and diversity of non-interest income, but have only a limited impact on the business position in the next three-to-four years, in terms of loss of market share. On June 30, 2019, CEO Rakefet Russak-Aminoach announced her upcoming resignation and Hanan Friedman, previously the head of the strategy, innovation, and transformation division, was appointed president and CEO. We regard Leumi's senior management as experienced and professional and do not expect this top executive change to have a material impact on the bank. We believe Leumi's capitalization is strong and forecast our risk-adjusted capital (RAC) ratio before adjustments will remain comfortably above 10% for the next few years. The bank's capitalization is also likely to benefit from moderate asset growth despite increasing dividends and share buyback plans (about 2% of outstanding shares for up to 700 million Israeli shekels [ILS] in 2019). At the same time--and despite sound asset quality indicators--we consider Leumi's risk position weaker than that of peers operating in countries with a similar economic risk. This distinction points to the rather concentrated nature of the Israeli economy and sensitivity to tail risks associated with real estate concentration. In our base-case scenario, we consider that the risks attached to the economic impact of geopolitical tensions in the region should remain contained and manageable for the bank.

We assess Leumi's funding as average, because its funding profile includes a large and granular deposit base. We assess the bank's liquidity as adequate because we believe the large stock of liquid assets is sufficient to comfortably cover liquidity needs, reducing reliance on short-term wholesale funding.

The long-term rating on Leumi is one notch above the bank's stand-alone credit profile (SACP), reflecting our view of a moderately high likelihood that Israel (AA-/Stable/A-1+) would provide extraordinary support to Leumi in the event of financial distress. We classify the bank as having high systemic importance and consider Israel supportive toward the domestic banking sector.

Anchor:'bbb+' for commercial banks operating in Israel

We use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating to a bank. Our anchor for a commercial bank operating in Israel is 'bbb+', based on the economic risk score of '3' and industry risk score of '4' (on the scale from '1' to '10', '1' being the lowest risk and '10' the highest risk). We base our assessment on the rounded geographical split of the bank's customer loan portfolio as of end-June 2019, 92% of which relates to Israel and 8% to the U.S. We believe that Leumi will keep its geographical lending split stable over the next two years.

We view Israel's economic indicators as supporting the banking sector. The Israeli economy's high income levels, sustained growth, and moderate leverage have underpinned improvements in the banking sector, including business opportunities and growth, strengthening profitability, and stronger asset quality. Although banks have a large exposure to the real estate sector, we see the downside risk as limited following the stabilization of prices in the past two years and the regulator's macroprudential measures.

With regards to industry risk, the Israeli banking sector has an adequate institutional framework and is underpinned by a high and stable share of core retail deposits. There have been attempts to spur competition in retail and the small and midsize enterprise segment, where a handful of large banks have dominant positions. The two largest banks recently had to divest their credit card operations, but it is still too early to predict how the competitive landscape will evolve. In our view, Israeli banks are relatively well placed to face changes in the competitive environment, but this will remain a threat for both bank and nonbank players for the foreseeable future. Operational risks, such as information security and cyber threats, are gaining prominence on banks' and regulators' agendas. We think the Israeli banking system carefully addresses these issues, supported by an extensive regulatory framework and skilled staff.

Table 1

Bank Leumi le-Israel B.M.--Key Figures

	--Year ended Dec. 31--				
(Mil. ILS)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	467,125.0	459,901.0	450,822.0	438,586.0	416,481.0
Customer loans (gross)	281,217.0	275,307.0	271,880.0	266,092.0	265,523.0
Adjusted common equity	34,164.0	33,501.4	30,269.4	29,301.0	27,948.0
Operating revenues	7,321.0	13,535.0	13,388.0	12,934.0	13,404.0
Non-interest expenses	3,896.0	8,115.0	8,415.0	8,580.0	8,831.0
Core earnings	2,035.0	3,295.1	3,140.8	2,786.9	2,752.8

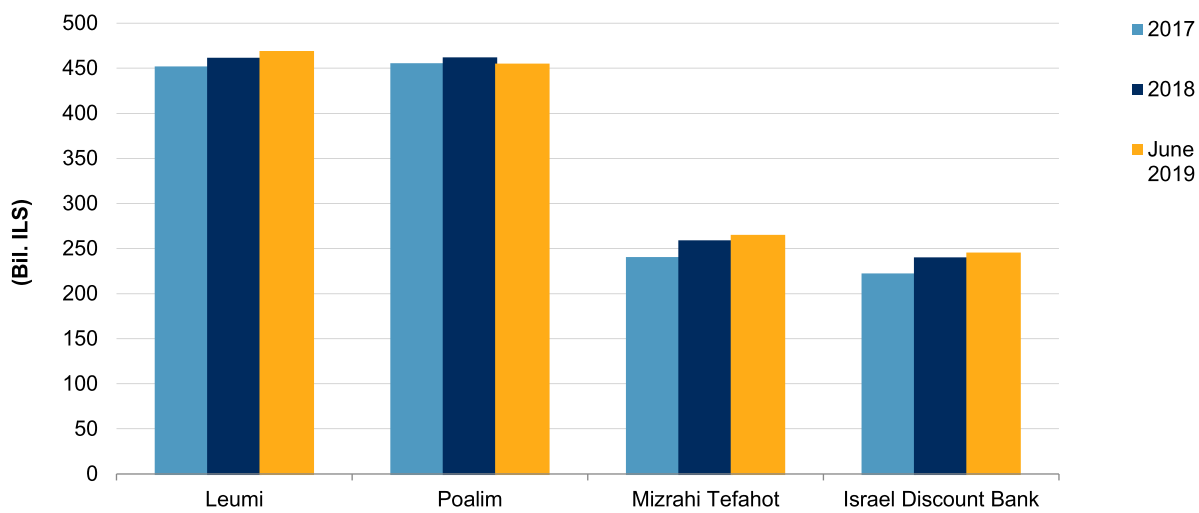
Note: S&P Global Ratings-calculated. *Data as of June 30. ILS--Israeli shekel.

Business position:Strong market position as one of the two largest banking groups in Israel

We assess Leumi as having a strong business position. It benefits from a leading market presence in Israel as one of the two largest banks in the country. Leumi's total assets amounted to ILS468 billion in first-half 2019, while controlling almost 29% of system loans and deposits, and a market share that has been stable for the past years. The bank also relies on a strong physical presence and forward-looking dynamism, with 177 retail branches, 24 business branches managing the activity of middle-market commercial companies, and the LeumiTech Business Center, a centralized platform targeting high tech industry (with significant market share in the still-moderate high tech sector).

Chart 1

Bank Leumi le-Israel B.M. -- Total Assets



ILS--Israeli shekel. Source: S&P Global Ratings.

Leumi has diversified business lines supported by its significant presence in all segments of the Israeli banking industry, including complementary activities that embrace capital markets services, and investment banking capabilities with a particular focus on equity investments in nonfinancial companies. We believe this wide diversification suggests that the bank handles industry challenges better than peers with the same industry risk--such as smaller banks in Israel, or in Spain or Czech Republic--and mitigates its high geographic concentration.

We expect Leumi to register faster-than-average industry lending growth, in mortgages and corporate in particular, given the bank's temporary capital advantage, which allows it more leeway than some peers experiencing more capital pressure. Leumi now aims to develop its franchise through both traditional and alternative channels. In particular, it targets younger customers through its mobile-only banking platform called Pepper, and is promoting its payment application Pay, recently launched digital mortgage and digital investment management platform Videa.

Moreover, following the U.S. authorities' investigation and a global cross-border regulatory tightening, risk appetite toward large-scale acquisitions or international expansion has decreased, with the bank mainly focusing on existing operations in the U.S. The U.S. subsidiary still makes up a relatively small piece of the overall banking group (contributing to less than 10% of the bank's revenues and/ profits in first-half 2019), and it is operating in a competitive environment that makes it tough to expand. As such, in 2018, the bank sold a 15% stake of its U.S. subsidiary to two strategic investors to bring expertise and accelerate middle-market corporate lending. We nevertheless view the U.S.

subsidiary's concentration in commercial real estate and niche commercial lending strategies--which together make up most of its loan portfolio--as a weakness compared with many U.S. regional banks.

At the same time, we believe the domestic market's maturity and highly competitive nature, paired with regulatory and political scrutiny of banks' activities, might restrict growth prospects. The divestment of Leumi's credit card subsidiary, Leumi Card, as required by regulation might have some impact on the business position over the coming three-to-four years, in terms of loss of market share in consumer lending and markedly decrease the amount and diversity of non-interest income. Leumi Card accounted for approximately 3% of the bank's total lending and 5% of the groups' net profits in the two years before its divestment.

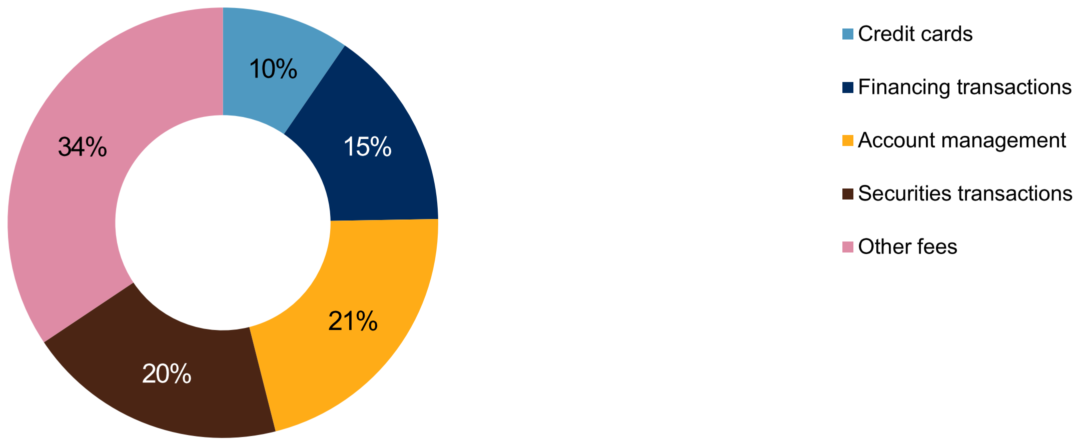
Together with Azrieli Group, Leumi sold Leumi Card to Warburg Pincus, a U.S.-based private equity fund. Under this transaction, Leumi Card was valued at ILS2.5 billion (130% book value; US$680 million) and is to be paid in three installments, over three years.

Merchant fees accounted for about 10% of total fee income at Leumi in first-half 2019 and there will be some impact on fee income. At this stage, it is not clear how much of this will be recovered via interchange fees and distribution and card fees, because Leumi can now work with multiple card providers. Therefore, it is too early to assess whether the forced divestment will be sufficient to substantially erode Leumi's well-entrenched position in consumer and retail banking.

Mr. Friedman was recently appointed as Leumi's next president & CEO, and will replace Ms. Aminoach, who served as CEO of Leumi since May 2012. Mr. Friedman was previously head of the strategy, innovation, and transformation Division at the bank, and was significantly involved in the bank's strategic initiatives such as digital banking or processes streamlining. In that context, and because we regard Leumi's senior management as experienced and professional, we expect continuity in the bank's strategy. Leumi also presents a robust system of checks and balances in decision-making with independent directors that contribute to the bank's strategy.

Chart 2

Bank Leumi le-Israel B.M.--Fee And Commission Revenue
As of June 2019



Source: S&P Global Ratings.

Table 2

Bank Leumi le-Israel B.M.--Business Position					
	--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	7,321.0	13,580.0	13,480.0	13,000.0	13,592.0
Commercial banking/total revenues from business line	42.0	44.6	40.8	38.4	39.6
Retail banking/total revenues from business line	26.3	35.7	35.9	36.9	37.0
Commercial & retail banking/total revenues from business line	68.3	80.3	76.8	75.3	76.6
Other revenues/total revenues from business line	31.7	19.7	23.2	24.7	23.4
Return on average common equity	11.3	9.5	9.8	9.3	10.3

Note: S&P Global Ratings-calculated. *Data as of June 30.

Capital and earnings:Capitalization benefits from moderate risk asset growth

We project Leumi's RAC will remain above 10% over the upcoming two years, supporting our view of a strong capital and earnings assessment. With the revision in the BICRA group of Israel to '3' from '4', reflecting our view of the supportive domestic environment, the risk weights that are being applied to the exposures in RAC are lower, leading to a RAC above 10% for the next couple of years.

In our view, Leumi's moderate internal capital generation capability does not present a major rating risk. This is because the bank's management does not target aggressive book growth, and we expect real credit risk costs to remain substantially below our normalized cost estimate in the next two years.

Our RAC projection takes into account the one-time distribution, through a share buyback plan of approximately

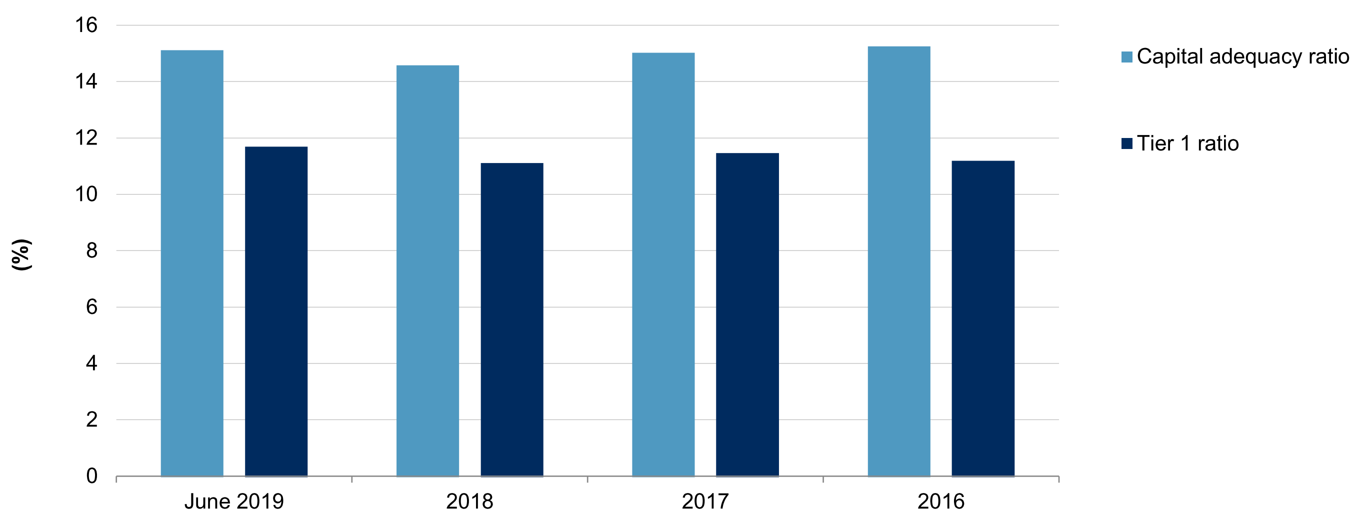
ILS700 million in 2019, of excess capital from profit from the recent sale of Leumi's credit card subsidiary and ensuing release of risk weighed assets. In our base-case scenario, we also take into account the bank's move toward a shareholder friendly policy, through dividend distributions totaling 40% of quarterly profits. However, we believe that Leumi will keep some flexibility in its distribution policy as it operates without a controlling shareholder.

We do not factor into our RAC calculation any major changes in the actuarial valuation of the defined benefit pension fund. We expect Leumi's regulatory capital ratio to be more prone to CPI and discount rate evolution than its main local competitor, given its defined benefit pension fund, although the regulator has smoothed the impact by allowing the bank to use a rolling-eight-quarter discount rate to value its pension obligations.

Israeli banks, unlike banks in many other developed economies, use the conservative standardized approach in calculating risk-weighted assets, as dictated by the Bank of Israel, rather than advanced models. This results in materially lower regulatory capital ratios compared with those of global peers (for instance, an 11.65% tier 1 ratio on June 30, 2019), and low capital surplus above regulatory demands. The bank targets a minimum tier 1 capital ratio around 50 basis points (bps) over the 10.5% minimum Tier 1 regulatory threshold over the upcoming years. We don't regard this as a risk, however, given our understanding that the regulator is comfortable with these narrow margins. We don't expect this to change in the near future.

Chart 3

Bank Leumi le-Israel B.M.--Stable Capital Ratios



Source: S&P Global Ratings.

We expect some acceleration in currently modest loan growth (expected annual credit growth of 5% in 2019), especially in middle market, corporate, and real estate sectors as the bank's capital buffer over minimum regulatory requirements continues to expand.

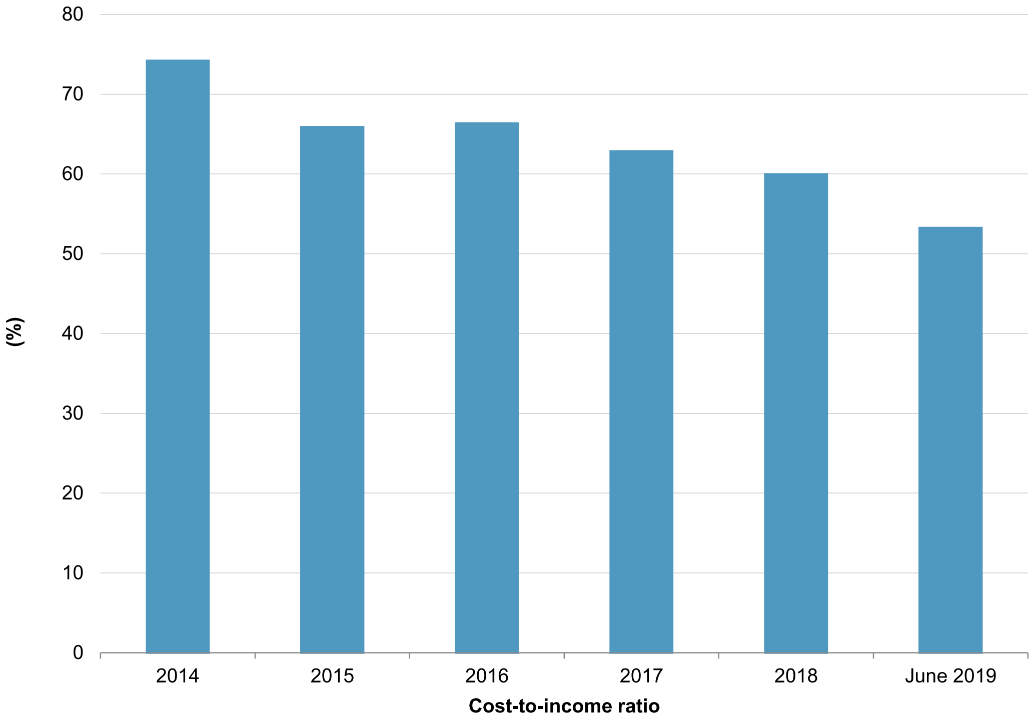
We estimate that credit losses will increase from current low levels, which we view as not sustainable in the next two years, because the bank will record fewer recoveries. We expect the cost-of-risk ratio to stabilize at about 30 bps over 2019-2020, being at 19 bps in the first half of 2019.

Given the high concentration of real estate and mortgage lending in the overall business mix, adverse developments in the property market--while not our base-case scenario--might pose a risk to the capital forecast. We also expect that the continued low-interest-rate environment will continue to strain Leumi's overall interest margins, but the underlying core margin will benefit moderately from the shifting business mix into higher-margin sectors.

Continued improvement in operational efficiency is a key management goal, and the bank has progressed in this regard. In recent years, Leumi implemented efficiency plans resulting in a substantial reduction in number of employees and an improvement in operational efficiency. The cost income ratio has improved to 53% in the first half of 2019 from close to 70% in 2013. The bank's union has a history of achieving above-industry-average wage settlements, however, and Leumi reached a new wage agreement with workers in second-quarter 2019.In third-quarter 2019, Leumi also announced accelerated headcount reduction. Although efficiency-positive in the long term, this could bring one-off expenses in 2019, in turn reducing annual profits. In first-quarter 2019, the bank centralized processes and operational activities in a new operations division, which should streamline back-office operations, and in third-quarter 2019 it launched relocation of its heardquarters outside Tel Aviv. Making further inroads in operational efficiency will also depend on the bank leveraging significant IT investment of the past few years, both in core banking systems and front ends interfaces, such as Pepper mobile-only bank. We also expect some of the profits from the Leumi Card divestment to be invested in IT systems enhancement.

Chart 4

Bank Leumi le-Israel B.M.--Improving Cost-To-Income Ratio



Source: S&P Global Ratings.

Table 3

Bank Leumi le-Israel B.M.--Capital And Earnings

		--Year-ended Dec. 31--			
(%)	2019*	2018	2017	2016	2015
Tier 1 capital ratio	11.7	11.1	11.4	11.2	9.6
S&P Global Ratings' RAC ratio before diversification	N/A	9.1	9.4	9.1	9.0
S&P Global Ratings' RAC ratio after diversification	N/A	8.3	8.4	8.4	8.9
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	62.6	65.7	60.1	58.2	53.1
Fee income/operating revenues	N/A	28.8	30.3	30.7	30.5
Market-sensitive income/operating revenues	N/A	5.0	6.9	9.9	11.9
Noninterest expenses/operating revenues	53.2	60.0	62.9	66.3	65.9
Preprovision operating income/average assets	1.5	1.2	1.1	1.0	1.1
Core earnings/average managed assets	0.9	0.7	0.7	0.7	0.7

Note: S&P Global Ratings-calculated. *Data as of June 30. N/A--Not applicable.

Table 4

Bank Leumi le-Israel B.M.--Risk Adjusted Capital Framework Data

(Mil. ILS)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	130,096.1	5,511.2	4.2	2,088.1	1.6
Of which regional governments and local authorities	12,416.1	3,664.8	29.5	448.0	3.6
Institutions and CCPs	26,029.7	4,820.7	18.5	7,705.2	29.6
Corporate	183,560.5	173,223.7	94.4	173,980.6	94.8
Retail	127,437.5	80,354.4	63.1	70,093.6	55.0
Of which mortgage	80,804.5	45,082.6	55.8	29,913.2	37.0
Securitization§	2,014.7	411.3	20.4	411.3	20.4
Other assets†	9,217.6	22,315.8	242.1	20,277.2	220.0
Total credit risk	478,356.0	286,637.1	59.9	274,556.0	57.4
Credit valuation adjustment					
Total credit valuation adjustment	--	1,518.0	--	0.0	--
Market risk					
Equity in the banking book	7,305.4	681.8	9.3	59,051.5	808.3
Trading book market risk	--	6,294.6	--	9,442.0	--
Total market risk	--	6,976.4	--	68,493.5	--
Operational risk					
Total operational risk	--	22,712.9	--	25,378.1	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	317,844.4	--	368,427.6	100.0
Total Diversification/ Concentration Adjustments	--	--	--	36,772.3	10.0
RWA after diversification	--	317,844.4	--	405,199.9	110.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		35,190.0	11.1	33,501.4	9.1
Capital ratio after adjustments‡		35,190.0	11.1	33,501.4	8.3

Note: S&P Global Ratings-calculated. With the revision in the BICRA group of Israel to '3' from '4', reflecting our view of the supportive domestic environment, the risk weights that are being applied to the exposures in RAC are lower, leading to a RAC above 10% for the next couple of years. *Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. ILS--Israeli new shekel. Sources: Company data, S&P Global Ratings.

Risk position:Risks adequately covered by capital buffer

Our assessment of Leumi's risk position is moderate, which is similar to that of other large Israeli banks.

Compared with other larger and more diversified peers operating in other countries with a similar economic risk, and despite sound asset quality indicators, we consider Leumi's risk exposures as more concentrated. This reflects geographical focus on Israel and the relatively concentrated nature of the local economy. Given the high concentration in commercial real estate and mortgage lending in the overall business mix (47% in first-half 2019), adverse developments in the property market might expose the bank to downside risk. However, Leumi has made continued efforts to de-risk and diversify credit risk by reducing exposure single borrowers' concentration and leveraged lending.

We expect credit growth to remain moderate in 2019-2020, albeit slightly higher than in the recent past. Although no longer constrained by the need to build capital, book growth will also be constrained by the higher dividend payout ratio and capital management initiatives.

Although Leumi and its local peers have high exposure to property-related lending, we now see the downside risk as more limited following the stabilization of prices in the past two years and the regulator's macroprudential measures. We do not envisage a sharp correction in house prices in our base-case scenario, but rather a more moderate growth pace than in the past decade given the government's recent supply-boosting measures. Measures from the Bank of Israel also help mitigate the risks inherent in large mortgage exposures, because the country has very low loan-to-value ratios by developed market standards for residential mortgages, which are fully amortizing. Macroprudential measures cover also payment-to-income tests and cap the amount of floating rate debt a borrower may take.

The bank's lending to construction and commercial real estate accounts for about 16% of total bank loans as at June 2019, although at Leumi, construction is mainly residential. The commercial real estate sector appears relatively healthy, supported by the rising demand for office space from services industry and the continual increase in private consumption. At the same time, the low interest rates support real estate players' financial position. Conversely, rapid growth of office space construction in 2018, after a 16-year record high of completions, could create a risk of oversupply in the next few years, in our view. Furthermore, shopping malls may be under more pressure because the growing use of e-commerce is taking a toll on retailers, and some cities appear to have an oversupply of retail space.

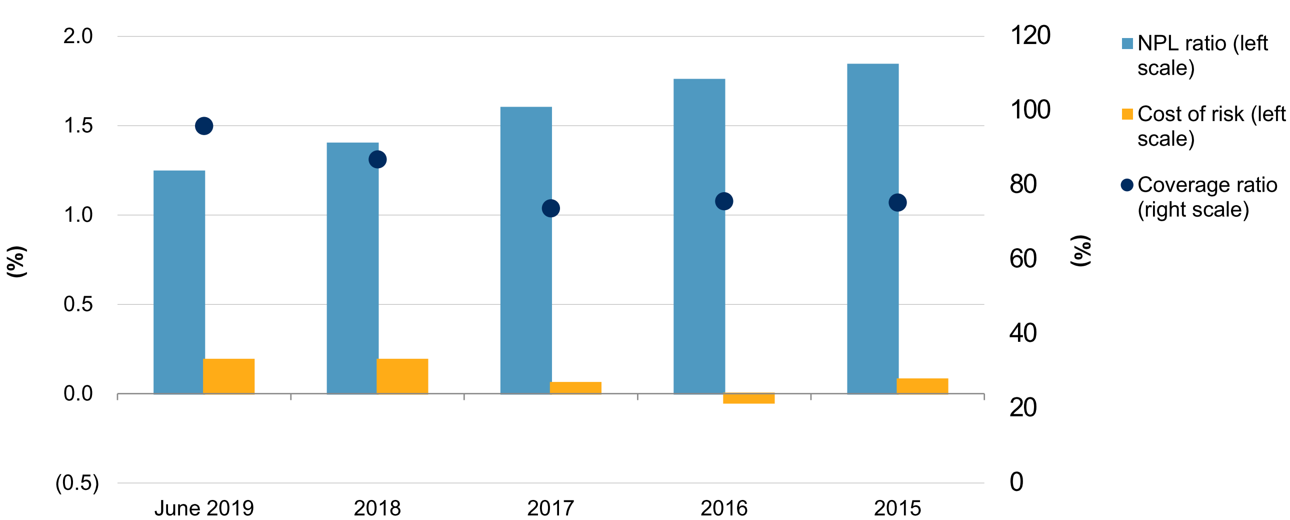
The bank has recently adopted a cautious stance toward consumer credit, a traditional growth engine in recent years in the industry as a whole. We also view this type of credit as having a higher risk profile, which is reflected in its higher interest margins that have recently fed through into higher provisions. The recently adopted insolvency law could in particular hinder collection processes, and strong consumer lending growth from nonbank players could weigh on retail lending credit quality. We consider that the still relatively low household leverage relative to GDP and the bank's recent tightening of underwriting and slowdown in lending in this segment is significantly mitigating credit risks. We also highlight that Leumi's retail lending is more heavily weighted to mortgages and its recent loss experience in consumer and small business credit has been lower than industry averages.

Given the small size of Israel's economy, the bank's position as one of the country's largest corporate lenders means that single-name-borrower concentrations also represent a source of incremental risk, compared with banks in larger countries with more diverse economies. However, Leumi has traditionally had a strong middle market franchise where risks are more diversified. The gradual dismantling of domestic holding company structures coupled with active market for risk-transfer to institutional investors and the bond market, is also allowing the bank flexibility in managing its corporate exposures.

Nonperforming assets at Leumi continued to decrease, amounting to 1.24% of total loans as of the first half of 2019, which we consider very good in a global comparison and adequate compared with local peers. Although we expect the economic environment in Israel will remain broadly supportive, we don't forecast asset quality will improve further over the next few years. We believe the cost of risk bottomed out last year, after reaching unsustainably low levels due to sufficient recoveries in the corporate segment. We expect loan loss provisions will increase somewhat in the next couple of years, to about 30 bps from about 20 bps in first-half 2019, but will remain contained overall. Nevertheless, our estimate of losses does not include the impact of the upcoming adoption of the current expected credit losses (CECL) accounting standard on Jan.1, 2022. We understand that banks will have a preparation phase, so the impact on provisions, reported nonperforming loans (NPLs), and regulatory capital ratios will only become clear during the run up to, and final implementation of, CECL. We consider the bank's coverage ratio of nonperforming loans and 90 day past due loans of 96% on June 30, 2019, to be broadly in line with global standards.

Chart 5

Bank Leumi le-Israel B.M.--Asset Quality Metrics



Source: S&P Global Ratings. NPL--Nonperforming loans.

A key non-credit risk for Leumi is the volatility in the actuarial valuation of its defined benefits pension offered to employees until the end of 1999. Previously, the fund's size and the sharp decline in discount rates have acted as a drag on the bank's capital building. However, given current low interest rates, the valuation adjustment would be positive for capital building should rates increase.

Operational risks are material, but not bank-specific. They mainly relate to the geopolitical tensions in the region and potential damage to the bank in case of tail events. We reflect these risks in our anchor assessment for Israeli banks. In our view, Leumi is adequately protecting itself from cyber risks.

Table 5

Bank Leumi le-Israel B.M.--Risk Position					
	--Year ended Dec. 31--				
(%)	2019*	2018	2017	2016	2015
Growth in customer loans	4.3	1.3	2.2	0.2	3.3
Total managed assets/adjusted common equity (x)	13.7	13.8	14.9	15.0	14.9
New loan loss provisions/average customer loans	0.2	0.2	0.1	(0.0)	0.1
Net charge-offs/average customer loans	0.2	0.1	0.1	0.0	0.2
Gross nonperforming assets/customer loans + other real estate owned	1.2	1.4	1.6	1.8	1.8
Loan loss reserves/gross nonperforming assets	96.0	87.0	73.8	75.7	75.3

Note: S&P Global Ratings-calculated. *Data as of June 30.

Funding and liquidity: Sound liquidity, supported by a deep domestic funding base and comfortable liquidity indicators

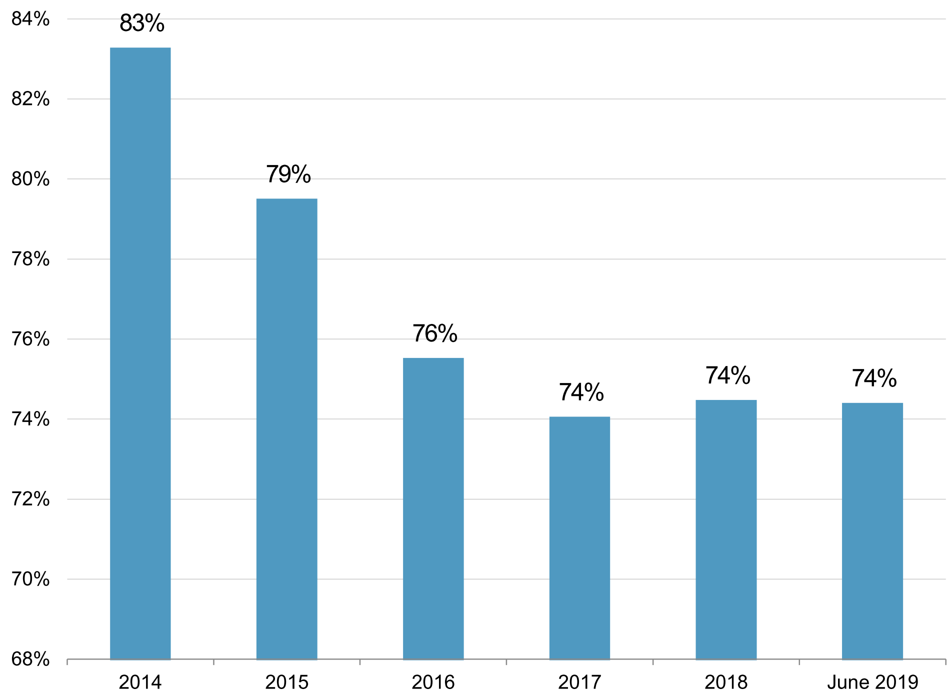
We assess Leumi's funding as average and its liquidity as adequate. As of the first half of 2019, customer deposits were fully funding loans, with the ratio of total loans to customer deposits at 74%, which we think is not out of line with broad industry average also better than some peers.

Also for the first half of 2019, Leumi's stable funding ratio was 132%, close to the local industry average. We believe the funding profile, both at the bank and industry wide, are sound. We regard this as a strength for our overall banking industry assessment for Israel and reflect this in the anchor assessment.

Leumi benefits from sound liquidity, supported by its deep domestic funding base, which is highly diverse and dominated by retail deposits with moderate deposit-pricing competition.

Chart 6

Bank Leumi le-Israel B.M.--Customer Loans To Deposit Ratio



Source: S&P Global Ratings.

Liquid asset cushions are material, with cash, central bank, and other bank placements, and investment securities (two-thirds of which consist of Israeli and foreign governments bonds) constituting a sizable one-third of assets on June 30, 2019. Leumi is a net placer of funds on the interbank market.

Apart from its deposit funding base, the bank has recourse to wholesale funding, issuing bonds, subordinated notes, and hybrid instruments in the domestic market. As of the first half of 2019, debt issues outstanding stood at below 6% of total funding. Leumi's ratio of broad liquid assets to short-term wholesale funding was 22x as of end-June 2019, indicating its low reliance on such funding.

Chart 7

Bank Leumi le-Israel B.M.--Stable Funding And Liquidity Metrics

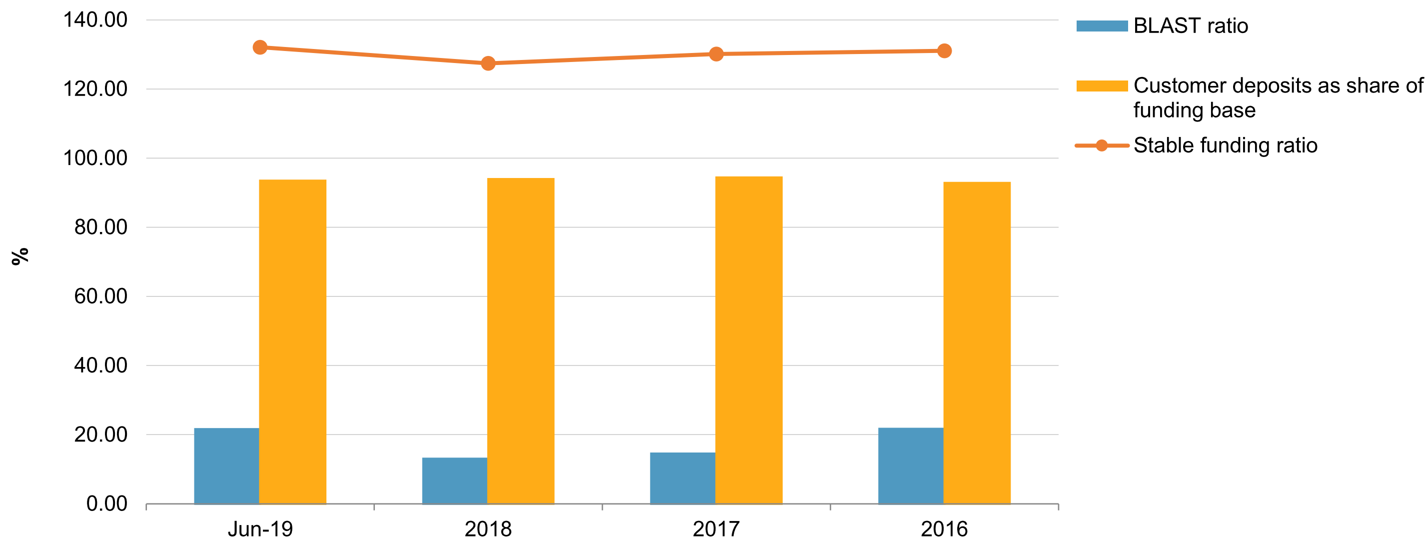


Table 6

Bank Leumi le-Israel B.M.--Funding And Liquidity					
	--Year ended Dec. 31--				
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	93.5	93.9	94.5	92.9	92.7
Customer loans (net)/customer deposits	74.4	74.4	74.0	75.5	79.5
Long-term funding ratio	98.6	97.8	97.9	98.6	98.3
Stable funding ratio	132.1	127.4	130.2	131.1	124.4
Short-term wholesale funding/funding base	1.5	2.4	2.3	1.5	1.8
Broad liquid assets/short-term wholesale funding (x)	21.6	13.1	14.5	21.7	15.8
Net broad liquid assets/short-term customer deposits	42.0	38.5	40.9	42.2	36.1
Short-term wholesale funding/total wholesale funding	23.4	39.6	41.2	21.3	24.6

Note: S&P Global Ratings-calculated. *Data as of June 30.

Support

The long-term rating is one notch higher than the SACP, reflecting the bank's high systemic importance in Israel, which we classify as supportive toward its banking sector. In our view, there is a moderately high likelihood that the government would provide extraordinary support to the bank if necessary. We believe both the government and the central bank acknowledge the importance of a stable sector. In our opinion, should the need arise, the central bank's facilities have adequate capacity to support the industry's funding or capital needs.

Other matters

The sale of Leumi Card was completed in February this year, so it does not appear in the bank's balance sheet as of June 2019. However, the gain on sale is being recorded in the income statement as a non-interest finance income of the bank. In the June 2019 report, prior period statements have excluded Leumi Cards data for comparative analysis, labelled as "Pro Forma Information Excluding Leumi Card."

Subsidiary ratings

We regard Bank Leumi USA as a highly strategic important subsidiary and, in our view, government support from Israel would also accrue to the U.S. subsidiary if needed. Our rating on Bank Leumi USA reflects our belief the parent would support it under almost all foreseeable circumstances if it came under stress. We rate the bank one notch below the supported group credit profile of 'a'.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Banking Industry Country Risk Assessment: Israel, Aug. 6, 2019
- Summary: Israel, Aug 2, 2019
- Positive Rating Actions On Three Israeli Banks On The Supportive Operating Environment And Better Financial Performance, July 10, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	**bbb+**	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 5, 2019)*

Bank Leumi le-Israel B.M.		
Issuer Credit Rating		A/Stable/A-1
Issuer Credit Ratings History		
10-Jul-2019	*Foreign Currency*	A/Stable/A-1
24-Oct-2017		A-/Positive/A-2
07-Oct-2014		A-/Stable/A-2
10-Jul-2019	*Local Currency*	A/Stable/A-1
24-Oct-2017		A-/Positive/A-2
07-Oct-2014		A-/Stable/A-2
Sovereign Rating		
Israel		AA-/Stable/A-1+
Related Entities		
Bank Leumi USA		
Issuer Credit Rating		A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.