Bank Leumi (UK) plc

Leumi Connect

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A promising start to the year

by **Gil Karni,** CEO
Bank Leumi (UK) plc

I am very pleased to welcome you to Bank Leumi (UK)'s Q1 review.

The clear outcome from the past quarter is one of overall growth. Net profits remained strong. Lending to our customers grew by 7.5% – as did our credit facilities, by 10% – from the end of 2017.

Such a positive set of results is clearly down to the hard work of each of our specialist corporate finance desks. Since the last quarter of 2017, our property, commodity, international commercial and hi-tech desks have all boosted their lending to clients. Over the same period, our property finance and commodity desks both generated an increase in deposits.

Meanwhile, our asset-based lending subsidiary, Leumi ABL, also expanded its credit facilities by 8.4% on last quarter.

These findings build on a strong performance for 2017, when we posted a net profit of £12.1 million at year's end. The credit quality of our loans book remains healthy, and promises a stable landscape for the year.

I am, of course, proud to note that the UK Bank's solid results reflect an equally strong showing by the Leumi Group at large. The Group recorded a net quarterly profit of NIS 730 million ($208 million) – a 17.4% increase from the corresponding period last year – as well as annual growth of 2.5% in net credit facilities extended to the public.

On behalf of the Leumi team in London, we look forward to continue working closely with our clients – and to a promising rest of the year.

" The clear outcome from the past quarter is one of overall growth. Net profits remained strong. "

UK-Israel trade: new prospects for commerce in uncertain times

With rising compliance costs in emerging markets and fears of protectionism in developed markets, importers and exporters find themselves caught between a rock and a hard place. But they could find resilient trading opportunities in Israel, suggests Gil Karni, CEO at Bank Leumi (UK) plc.

It is now ten years since the global financial crisis hit, and world trade growth has still not regained its former strength. Before 2008, average annual expansion hovered around the 7-8% mark; by 2016 it had slumped to only 1.3%, according to the World Trade Organization (WTO). Last year saw a slight improvement to 3.6% – but this year will see it weaken again, to 3.2%.

The risk of protectionism in the world's developed markets will certainly not help these figures. In recent months, we have heard the WTO again and again implore governments not to threaten the flow of trade by allowing protectionist words to translate into deeds.

Emerging markets, on the other hand, present importers and exporters with only further challenges. Compliance with ever-more stringent regulatory regimes, such as AML, CFT and KYC, has inflated due-diligence costs – leading many banks to withdraw from jurisdictions worldwide. Where are trading companies to turn?

A resilient market

They could look to Israel. Along with low inflation and a strong currency, the country enjoys the solid sovereign credit ratings ("A1" from Moody's, "A" from Fitch and "A+" from S&P) typical of a developed market. But at the same time, its economic growth rate has far outpaced that of its peers in the OECD: as *Chart 1* shows, the IMF sees GDP expanding by 3.4% this year, on top of a 3.1% increase last year and 4% the year before.

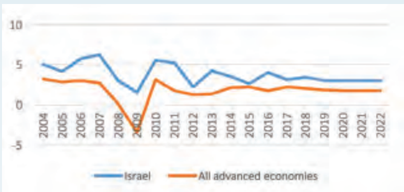

Chart 1: Real GDP growth (annual % charge) - source: IMF

Accompanying this is a growing source of potential consumers and human capital, thanks to Israel's solid population growth rate. As *Chart 2* reveals, this also far outpaces that of the OECD as a whole:

Chart 2: Population growth (annual % charge) - source: OECD

A trade route full of potential

Israel's trade with the UK illustrates the considerable opportunities on offer to both importers and exporters.

For a start, in the UK, Israeli companies can find an important market for their exports, ranging from agricultural goods, precious metals and stones, to chemical products, machinery, pharmaceuticals, cosmetics and medical equipment. That is to say nothing of Israel's world-leading electronics and hi-tech software exports. Britain also allows Israeli companies to bridge time zones and provides them with a springboard to reach markets in Europe and beyond.

In Israel, UK exporters can find an advanced free market economy with demand for machinery, vehicles and aircraft – not to mention the added benefits of shared culture and language, a mature, sophisticated banking sector to provide access to financing, and a robust legal system based on English common law.

> In 2011 the UK Government released a white paper which stressed companies had the opportunity to "exploit the potential synergies between Israel's high levels of innovation and British strengths in design, business growth and finance, as well as the UK's own high technology and scientific strengths."

The numbers don't lie

Small wonder, then, that in 2011 the UK Government released a white paper, titled 'Trade and Investment for Growth', which stressed companies had the opportunity to "exploit the

potential synergies between Israel's high levels of innovation and British strengths in design, business growth and finance, as well as the UK's own high technology and scientific strengths."

It seems companies have taken that paper to heart; since its release, bilateral trade has only grown. By 2016, the volume was calculated at approximately £5.5 billion; last year, a further £6.9 billion was logged – a 25% increase. The UK is now Israel's largest European trading partner and (after the US and Hong Kong) the third most important destination for its exports worldwide.

The pharmaceuticals trade is a particularly notable example; consider the fact that one in seven of the drugs prescribed by the NHS now comes from an Israeli company. The trade in tech is another; for those Israeli entrepreneurs who have built an industry considered second only to Silicon Valley, London remains the "go-to" destination for their international expansion – thanks in no small part to both markets enjoying similar access to funds, skills, consumers and capital.

Over the past two years, there has also been a 28% rise in the numbers of Israeli companies establishing operations on British soil. This takes the total to around 300, of which a tenth are currently listed on the London Stock Exchange. At the same time, this activity has generated a 33.5% increase in Israeli investment in Britain – which now attracts the bulk of Israeli foreign direct investment flows to Europe – in addition to creating 12.8% more jobs in the country.

Charting the uncharted

At Bank Leumi (UK) we've seen this process at first hand. For example, only this year we financed the £14.75 million acquisition of a British flavours company – Flavours & Essences, based in Blackburn – by Frutarom, an Israeli fine ingredients company pursuing its global expansion. (Frutarom has also made headlines recently given its own $7.1 billion acquisition by ingredients manufacturer, International Flavors & Fragrances.) Beyond food, we have accompanied trade flows in everything from clothing and cosmetics to capital goods, software and satellite technology. In this respect, we support the working capital needs of two UK subsidiaries of a listed Israeli maker of PVC and polycarbonate sheets, used in the roofing and cladding industries – which, in turn, helps the British manufacturers to sell in the domestic market and export across Western Europe.

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Indeed, the benefits of such cooperation extend across the globe. Over a period of five years, for instance, we provided financing to the UK daughter company of an Israeli producer of additives, compounds and colour masterbatches used in the thermoplastics industry. In 2016, this helped the British firm to begin expanding its international presence with a new manufacturing plant in China.

Of course, with all new markets come new challenges, and it is not unlikely that, for most companies, this particular trade route will be relatively off the map. Being unaccustomed with the local market can raise the perception of risk, and reduce the confidence to engage in trade – even though payment and credit risks in Israel are actually low.

But banking partners can support them with crucial local knowledge of both the British and Israeli markets – along with the trade and commercial finance, working capital and acquisition finance and treasury services necessary for day-to-day operations. That is why, as the UK subsidiary of Israel's largest bank, we seek to bridge the gap between London and Tel Aviv.

In uncertain times for cross-border commerce, companies should be on the hunt for resilient markets. They could find one in Israel.

As the world celebrates 'the beautiful game', world trade faces pressures

by Sarah Ryman, Chartered MCSI, Treasury and Global Markets

UNITED STATES

The historic talks between President Trump and North Korean leader Kim Jong-Un saw them enter into a joint agreement in a hope to evoke nuclear disarmament and reduce tensions within Korea. But just as the world thought the impending trade war between the US and China couldn't get any worse, President Trump announced tariffs on $50bn worth of Chinese goods, and a threat for a further $200bn. He also upset British, Canadian, Mexican and European allies with import tariffs that result in duties of 25% on steel and 10% on aluminium.

The Federal Reserve continued its bid to normalise monetary policy, raising its key interest rate during June. Officials' projections point to two more hikes during 2018. The US Central Bank moved the target range for its federal funds rate from 1.75% to 2%, stating that the economy "is doing well" and that the overall growth outlook "remains favourable" despite concerns that a potential trade war could dent global growth.

UK

Improved weather and the royal wedding seemed to raise the UK's feel-good factor, with May's retail sales at a massive 4.4% annual increase. However, continuing Brexit uncertainty is fuelling negative sentiment, with the British Chambers of Commerce downgrading growth expectations and warning that the UK could suffer its worst year of growth since 2009.

Consumer Price Index inflation rose to an annual rate of 2.4% in May, while UK unemployment remained at a four-decade low. With inflation seemingly stalling, this could hold the Bank of England back from changing interest rates imminently. Economists on the rate-setting Monetary Policy Committee (MPC) deferred May's widely expected hike after sluggish GDP growth disappointed, and the market now awaits further indications of when a rise might materialise. June's MPC vote suggested a slightly more optimistic view, with three dissident members voting to raise interest rates citing encouraging economic activity and a more positive outlook. However Brexit management is likely to remain a key determinent going forward.

EUROPE

As well as announcing the end of its quantitative easing bond purchases, the European Central Bank (ECB) plans to reduce asset purchases from €30bn per month to €15bn from September to December, with net purchases ceasing at the end of December. The Bank also changed its guidance on the future path of interest rates, explaining that whilst rates remained unchanged, this will continue "at least through the summer of 2019", emphasising that the end of the programme will be "subject to incoming data". To avoid a sell-off, the stock of government and corporate bonds owned by the bank will remain steady "for an extended period of time".

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GOLD

Gold has retreated since January and April's highs of over 1365 and currently trades around a six-month low of 1253.5. Despite deepening concerns about a global trade war, it appears that gold's reputation as a safe haven asset has not won through yet. Stock markets remain volatile and inflation has been slow to pick up, despite higher oil prices, and gold is often bought as a protection against inflation. Additionally, US interest rates have risen steadily since January, making holding gold less attractive since it provides no fixed income return, whereas a three-month Treasury bill currently yields in excess of 1.9%.

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