



Leumi Reports a NIS 3.3 Billion (\$880 million) Net Income and 9.5% Return on Equity in 2018

The Bank has adopted a dividend distribution policy of up to 50% of the net income;

Dividends and buyback of Leumi shares in 2018 totaled some NIS 2 billion (\$534 million)

- > Net income in 2018 totaled NIS 3,257 million (\$869 million), compared with NIS 3,172 million (\$846 million) in the same period last year – a 2.7% year-over-year increase.
- > Return on equity in 2018 was 9.5%, compared with 9.3% in the same period last year, net of one-time effects. The net income in 2017 was materially affected by the sale of a building in Q4 and by one-time salary expenses. The return on equity last year, without excluding these one-time items, was 9.8%.
- > Common Equity Tier 1 capital ratio as at December 31, 2018 was 11.07%, and the total capital ratio reached 14.54%.
- > Continued improvement in the efficiency ratio – A 60.6% ratio in 2018, compared with 62.9% in the same period last year.
- > Dividends and buybacks – The Bank's Board of Directors approved a dividend distribution policy of no more than 50% of the net income in each quarter, due to the consistent improvement in the business results and the Bank's excess working capital. In addition, the Bank's Board of Directors approved a dividend distribution of 40% of the net income in Q4 2018, in addition to a share buyback of NIS 232 million (\$62 million) during the quarter. Total share buybacks in 2018 reached NIS 700 million (\$187 million).
- > Net interest income, less credit loss expenses, was up by 6.3% in 2018, compared with the same period last year. Credit loss expenses in 2018 reflect 0.19% of net loans to the public, compared with 0.06% in 2017.
- > Total operating expenses in 2018 decreased by NIS 78 million (\$21 million) compared with the same period last year. The decrease arose from both a reduction in salary expenses – which was partially offset by a bonus granted to employees following structural changes and by the benefit in respect of the acquisition of State shares by employees, as well as by a decrease in depreciation expenses.



Continued implementation of the Bank's strategy:

- > Leumi continues to lead the digital banking field in Israel:
 - PEPPER – Leumi's mobile-only digital bank continues to expand its activity in Israel and is examining collaborations overseas.
 - Digital Mortgage – A revolutionary product which enables customers to apply for a mortgage online – easily, efficiently and quickly.
 - VIDEA – A new portfolio management company which enables customers of all banks to manage an online investment portfolio through an advanced digital platform and with some of the lowest management fees in the Israeli market.
- > Operations Division – Officially launched in January 2019, the Operations Division will implement advanced work methods and innovative technologies to upgrade customer service and boost the efficiency ratio.
- > A new and first-of-its kind customer service model in the Israeli banking industry – Leumi recently launched "Leumi 1 for Customers", which allows customers to receive full service at any branch of their choice, regardless of the branch at which their account is held. In addition, customers can book an appointment with a banker, in advance, to avoid waiting in line.
- > Credit growth – Leumi continues to pursue selective credit growth, while maintaining a strict risk management policy and a high quality credit portfolio.
- > Sale of Leumi Card – Leumi is the first Israeli bank to adopt the recommendations of the 'Strum Committee': Leumi Card was sold to US-based investment fund Warburg Pincus and operational agreements were signed with all local credit card companies.
- > 'Goodys' – Leumi recently launched a new customer loyalty program for the Bank's customers, replacing Leumi Card's 'Pinukim' Program. The program allows customers to collect points in respect of credit card purchases and – for the first time – in respect of transactions made via digital channels.
- > Expansion of Leumi in the US – During the year, Leumi completed the sale of 15% of Bank Leumi USA to a strategic partner, with the aim of expanding the subsidiary's business activities in the US.
- > Expansion of LeumiTech – Leumi Group's high-tech banking arm has expanded its activity this year, currently offering financial services in the US also to non-Israeli related technology companies.



Organizational Changes:

- > Mr. Dan Cohen, Head of the Retail Banking Division and Acting Head of the Operations Division, has announced his decision to retire from Leumi, following 27 years within the Group. Cohen is expected to finish his term on March 31, 2019.
- > Mr. Eilon Dachbash will be appointed Head of the Retail Banking Division. Prior to his appointment, Dachbach served as Head of Business Development at the Retail Banking division. The appointment is subject to the approval of the Bank of Israel.
- > Mr. Eyal Ben-Haim will be appointed Head of the Operations Division. Prior to his appointment, Ben-Haim served as Deputy Head of the Operations Division and Chief of Staff.
- > Mrs. Tamar Yassur, Head of the Digital Banking Division, has announced her decision to retire from Leumi, following 12 years within the Group. Yassur is expected to finish her term on March 31, 2019.
- > Leumi's CEO has announced the establishment of a new division: "The Data Division". The new division will be headed by Mr. Ilan Buganim, a member of senior management who currently serves as Chief Technology and Chief Data Officer. The division, alongside leveraging the data assets of Leumi Group, will be responsible for the digital bank 'Pepper' and the Bank's Marketing.
- > The Strategy & Regulation Division, headed by Mr. Hanan Friedman, will be called from now on "The Strategy, Innovation & Transformation Division". The division will additionally lead all measures needed to adapt the Bank's operating model to the ever-changing banking industry and adapt the Bank's value proposition to customers' needs. Whilst doing so, the division will carry out digital innovation across all the Bank's digital channels, in all business lines.
- > The activities of the Digital Banking Division will be split between the Data Division and the Strategy, Innovation & Transformation Division, in order to deepen natural synergies, while maintaining an updated strategic focus.

Leumi President & CEO, Rakefet Russak-Aminoach:

"I would like to thank Danny and Tamar from the bottom of my heart for their great contribution over the years, for their great achievements in leading complex processes and adapting Leumi to next generation banking, and for their support and friendship. I wish them great success in their future endeavors.

In addition, I wish great success to the incoming members of senior management. I have no doubt that their contribution will assist Leumi to continue leading the industry and provide our customers the best value proposition".



An improvement in balance sheet parameters:

- > Leumi Group's shareholders' equity as at December 31, 2018 totaled NIS 35.3 billion (\$9.4 billion), compared with NIS 33.2 billion (\$8.9 billion) as at December 31, 2017.
- > Net credit to the public as at December 31, 2018 totaled NIS 279.2 billion (\$74.5 billion), compared with NIS 268.0 billion (\$71.5 billion) as at December 31, 2017.
- > Deposits from the public as at December 31, 2018 reached NIS 364.6 billion (\$97.2 billion), compared with NIS 362.5 billion (\$96.7 billion) as at December 31, 2017.
- > Leverage ratio as at December 31, 2018 was 7.05%, compared with the minimum threshold of 6% required by the Bank of Israel.
- > Liquidity coverage ratio as at December 31, 2018 was 121%, compared with the minimum threshold of 100% required by the Bank of Israel.

Leumi Chairman of the Board, Mr. David Brodet:



"Leumi Group is ending 2018 with excellent results. During the year, Leumi became the Bank with the highest market cap in Israel. Following consistent implementation of a winning strategy, alongside corporate restructuring measures we took in recent years, the Bank's Board of Directors has decided to approve a new dividend distribution policy, according to which the Bank's shareholders will receive a dividend of up to 50% of each quarter's net income, a 10 percentage point increase over the dividend rate during 2018.

In the past year, Leumi Group is coping with numerous changes – from both within and without – while leading consistent and structured processes with the aim of continuing to lead the Israeli banking industry. I am proud to say that Leumi is the first bank in Israel to implement in practice the Strum Reform, with the completion of the sale of Leumi Card.

This is the last time I am signing off the financial statements as Chairman of the Board, following nine fruitful and challenging years. I can honestly say that the Bank's achievements over these years gives me great satisfaction. Leumi has undergone – and is still undergoing – significant changes, and its business results place it in a more profitable, efficient, stable and innovative position to face tomorrow's challenges".



Leumi President & CEO, Rakefet Russak-Aminoach:



“The strong business results we are presenting today stem from numerous measures we have undertaken at Leumi in recent years. These measures are generating continuous improvement in our core activity, in each of our business lines.

The consistent improvement in our business results, in addition to the Bank’s excess capital, allowed us to distribute NIS 1.3 billion in dividends this year, in addition to implementing a NIS 700 million share buyback. These steps reflect the faith of the Executive Management and the Board of Directors in the robustness of the Bank and in the strategic plan we have developed for the upcoming years.

The global banking industry is undergoing vast changes which are impacting business models and require us to adjust Leumi to an ever-changing world and to evolving customer needs. Whilst doing so, we continue to invest in upgrading our digital value propositions, whether through our digital bank PEPPER or through the development of innovative products which enable smart, efficient and cost-effective financial conduct.

This year, we launched ‘Digital Mortgage’ and VIDEA –an online portfolio management company. At the same time, we recently launched a new and unique customer service model, which enables our customers to receive full service at any Leumi branch – regardless of the branch at which their account is held – and avoid waiting in line by scheduling a meeting in advance.

I believe that in the coming years, the pace of change in the banking industry will accelerate, with the entry of additional players – both local and global – into the financial domain. This requires us to be creative, to keep re-examining our operating model and to constantly change, so we can continue leading the local banking industry.

With a clear business vision, robust capital ratio, high return and with the highest-quality employees in the industry – Leumi is well-positioned to achieve this target.”



Leumi Group – Principal Data from the Financial Statements

Profit and Profitability (in NIS millions)

	For the year ended December 31		Change	
	2018	2017	NIS millions	%
Net interest income	8,890	8,046	844	10.5
Credit loss expenses	519	172	347	+
Non-interest income	4,871	5,342	(471)	(8.8)
Operating and other expenses	8,337	8,415	(78)	(0.9)
Profit before taxes	4,905	4,801	104	2.2
Provision for tax	1,619	1,692	(73)	(4.3)
Profit after tax	3,286	3,109	177	5.7
The Bank's share in profits of companies included on equity basis	36	92	(56)	(60.9)
Net profit attributed to non-controlling interests	(65)	(29)	(36)	-
Net profit attributed to shareholders of the banking corporation	3,257	3,172	85	2.7
Return on equity	9.5%	9.8%		
Profit per share (NIS)	2.15	2.08		

Development of Balance Sheet Items (in NIS millions)

	As at December 31		Change in %
	2018	2017	
Net Credit to the public	279,215 ^(a)	267,952	4.2
Deposits of the public	364,591	362,478	0.6
Shareholders' equity	35,305	33,167	6.4
Total assets	460,657	450,838	2.2

Principal Financial Ratios (%)

	As at December 31	
	2018	2017
Net credit to the public to total assets	60.6 ^(a)	59.4
Deposits of the public to total assets	79.1	80.4
Total equity to risk assets	14.54	14.99
Total Tier 1 equity to risk assets	11.07	11.43
Leverage ratio	7.05	6.94
Liquidity coverage ratio	121	122
Expenses in respect of credit losses out of net credit to the public	0.19	0.06
Total operating and other expenses to total income (efficiency ratio)	60.6	62.9
Net interest margin (NIM)	2.19	2.05

a) Including credit by Leumi Card which is classified as a held-for-sale asset as of March 31, 2018.

The data in this press release has been converted into US dollars solely for convenience purposes, at the representative exchange rate published by the Bank of Israel on December 31, 2018, NIS 3.748.