

Despite the financial crisis and its impact on the Group's business: Net profit of NIS 92 million (\$24.2 million) for Leumi in 2008

March 31, 2009

- ▶ In accordance with the Immediate Report of March 16, 2009 the loss for the fourth quarter of 2008 amounted to NIS 1,183 million (\$311.2 million)
- ▶ Shareholder's equity of the Bank amounted to NIS 18.7 billion (\$4.9 billion) at the end of 2008
- ▶ The Bank's capital adequacy remains high – 11.49%
- ▶ Credit to the public increased by 7.4% in 2008 and amounted to NIS 213.2 billion (\$56.1 billion)
- ▶ Deposits of the public increased by 2.8% in 2008 and amounted to NIS 244.8 billion (\$64.4 billion)
- ▶ In 2008, the Leumi Group's contributions and sponsorships for community and social causes amounted to NIS 28.4 million (\$7.5 million)

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Chairman of the Leumi Board of Directors, Eitan Raff:

2009 is expected to be a year without growth, declining GDP per capita and a sharp increase in unemployment. These developments, along with fact that we do not know whether the peak of the crisis has yet to reach us, or if the worst is behind us, have led to uncertainty and instability in the markets. The new government will need to deal with the crisis from its first day in office, as its continuation could have dangerous consequences for the fabric of Israeli society. We are following the progress of the crisis very closely and are prepared and ready to deal with any development. It is important to remember that the banking system alone will not be able to fill in the large gap that has developed as a result of the cessation of activity in the non-bank credit market, but as a leading player in the Israeli economy, we will endeavor to assist our customers, subject to accepted business parameters and responsible risk management.



President and CEO of the Leumi Group, Galia Maor

The global financial crisis has intensified during the past year and has become one of the most severe financial crises in the past eighty years. The Israeli economy entered the crisis in excellent condition, following four years of accelerated growth. However, we are already seeing indications of the intensity of the crisis and its impact on Israeli businesses and households. Leumi is well-equipped to deal with the crisis, with a solid capital base, a high level of liquidity, a large, high quality customer base, as well as wide and diverse income sources. As managers of other peoples' money, we are committed to act responsibly, to wisely manage risks, and to be, more than ever, attentive to our customers' needs. During this period of uncertainty, we will continue to securely navigate the Leumi Group, for the benefit of our customers, our shareholders, our employees and the entire system.

**The Leumi Group today
published its audited financial
statements for 2008.**

The global financial crisis, characterized by continued declines in share prices on stock markets throughout the world and in Israel, the collapse of leading financial institutions such as Lehman Brothers and Washington Mutual, and the worsening global economic recession all negatively impacted on the condition of the Israeli economy, and on the Leumi Group's businesses in Israel and abroad. The direct consequence of the crisis was a substantial increase in the provisions for doubtful debts, losses from the realization of some of the investments in foreign securities, and large provisions for declines in the value of investments in securities in Israel and abroad.

Nevertheless, the Group finished 2008 with a profit.

The net profit of the Leumi Group in 2008 amounted to NIS 92 million (\$24.2 million), compared with a profit of NIS 3,357 million (\$883 million) in 2007, and this despite a loss of NIS 1,183 million (\$311.2 million) during the fourth quarter of 2008. The net operating loss for 2008 amounted to NIS 158 million (\$4.16 million), compared with a profit of NIS 2,984 million (\$785 million) in 2007.

The decrease in the net profit for 2008 was primarily the result of two key factors:

- ▶ Provisions for the decline in value of the securities investments portfolio and/or losses from the realization of some of the investments, amounting to some NIS 2.3 billion (\$605 million) (some 5% of the portfolio's value).
- ▶ An increase in the provision for doubtful debts in the amount of some NIS 1.7 billion (\$457 million), to some NIS 2.15 billion (\$564.2 million) in 2008 (1.01% of the credit portfolio).

Additionally, the effective tax reduced the profit by NIS 410 million (\$107.8 million), as a result of non-deductible expenses, exchange rate differentials for investments abroad which are not recognized for tax purposes and timing differences for deferred taxes. On the other hand, the increase in the Group's share of the profits included on the equity basis of NIS 65 million (\$17.1 million), net, partially offset the negative effects.

**Additional data from
the financial
statements:**

- ▶ Total financial assets of the public under management of the Leumi Group, balance sheet and off-balance sheet, reached some NIS 653 billion (\$171.8 billion) on December 31, 2008, compared with NIS 764 billion (\$201 billion) at the end of 2007 (a decrease of 14.5%).
- ▶ Total assets of the Leumi Group on December 31, 2008 amounted to NIS 310.8 billion (\$81.7 billion), compared with NIS 302.2 billion (\$79.5 billion) at the end of 2007 (an increase of 2.9%).
- ▶ Credit to the public on December 31, 2008 amounted to NIS 213.2 billion (\$56.1 billion), compared with NIS 198.6 billion (\$52.2 billion) at the end of 2007 (an increase of 7.4 %).
- ▶ Deposits from the public on December 31, 2008 amounted to some NIS 244.8 billion (\$64.4 billion), compared with NIS 238.0 billion (\$62.6 billion) at the end of 2007 (an increase of 2.8%).

The Leumi Group's Securities Portfolio:

- ▶ The shareholders' equity of the Group on December 31, 2008 amounted to NIS 18.7 billion (\$4.9 billion), compared with NIS 19.5 billion (\$5.1 billion) at the end of 2007 (a decrease of 4.5%).
- ▶ The ratio of shareholders' equity to risk assets (capital adequacy) remained high and reached 11.49% on December 31, 2008, similar to the end of 2007.

The total of Leumi's securities portfolio on December 31, 2008 amounted to NIS 44.9 billion (\$11.8 billion). NIS 16.5 billion (\$4.3 billion) of the total portfolio is invested in Israeli government debentures, NIS 4.6 billion (\$1.2 billion) is invested in the debentures of foreign governments and NIS 15.1 billion (\$4.0 billion) is invested in debentures of banks and financial institutions that were issued abroad.

During the past year, the Bank carried out of a series of measures in order to reduce the risk in the nostro portfolio. Among other things, the following measures were taken:

- ▶ Reduction of the exposure to foreign commercial banks.
- ▶ Purchase of AAA rated government debentures.
- ▶ Deposits were increased in central banks in the United States and Europe.
- ▶ The portfolios of securities investments have been conservatively examined and investments with high risk potential have been realized.
- ▶ The portfolio of credit default swaps has been reduced.
- ▶ A high level of liquidity has been maintained.

Leumi's portfolio of Asset-Backed Securities

- ▶ The value of the Group's asset-backed securities portfolio (both mortgage-backed and non-mortgage-backed) amounted to some \$1.2 billion (NIS 4.4 billion) on December 31, 2008. The asset-backed securities portfolio includes an investment of some \$870 million (NIS 3.4 billion) in mortgage-backed securities, primarily issued by federal agencies of the United States or guaranteed by them, as well as asset-backed securities which are not mortgage-backed (primarily SCDO and CLO type debentures) in the amount of some \$238 million (NIS 903 million).
- ▶ The accumulated decline in value of the capital fund due to the asset-backed securities portfolio and its classification as available-for-sale amounted to some \$49 million (NIS 186 million) at the end of 2008. During 2008, some \$211 million (NIS 776 million) was charged to the profit and loss statement as a decline in value which is not temporary in nature. Of this amount, some \$130 million (NIS 497 million) was charged during the fourth quarter of 2008.

Summary of the 2008
results of the subsidiaries
in the Leumi Group



Leumi Mortgage Bank:

Leumi Mortgage Bank ended 2008 with a net profit of NIS 126 million (\$33.1 million), compared with NIS 219 million (\$57.6 million) in 2007, a decrease of 42.5%. The net return on equity was 6.1% in 2008. Credit to the public, which represents the Bank's main activity, amounted to NIS 39.8 billion (\$10.5 billion) on 31 December 2008, compared with NIS 35.8 billion (\$9.4 billion) at the end of 2007, an increase of 11.2%.



Leumi Card:

Leumi Card finished 2008 with a net profit of NIS 146 million (\$38.4 million), compared with NIS 104 million (\$27.4 million) in 2007, an increase of 40%. The company's income amounted to NIS 679 million (\$178.6 million) in 2008, compared with NIS 619 million (\$162.8 million) in 2007 – an increase of 10%. The number of valid credit cards held by customers grew by some 9% and amounted to some 1.6 million at the end of 2008, of which some 1.4 million are active.



Arab Israel Bank:

Arab Israel Bank ended 2008 with a net profit of NIS 73.5 million (\$19.3 million), compared with NIS 88.5 million (\$23.3 million) in 2007, a decrease of 16.9%. The net return on equity was 19.5% in 2008. The Bank's total income amounted to NIS 336.6 million (\$88.5 million) in 2008, compared with NIS 312.8 million (\$82.3 million) in 2007, an increase of 7.6%.



Bank Leumi USA:

Bank Leumi USA ended 2008 with a net profit of \$19 million, compared with \$30.5 million in 2007, a decrease of 37%. The Bank's total assets amounted to \$ 5.8 billion at the end of 2008, similar to the end of 2007. Total credit to the public grew by some 3.7% and amounted to some \$3.6 billion at the end of 2008. Shareholders' equity amounted to some \$464 million at the end of 2008.



Bank Leumi (UK):

Bank Leumi UK ended 2008 with a net loss of £4.0 million, compared with a profit of £12.1 million in 2007. The Bank's total assets increased by 11% and amounted to £1.6 billion. The Bank's shareholders' equity amounted to £96 million at the end of 2008.



Bank Leumi Switzerland:

Bank Leumi Switzerland ended 2008 with a net profit of CHF 4 million, compared with CHF 11 million in 2007. Total assets under management amounted to CHF 5.3 billion at the end of 2008, compared with CHF 5.7 billion at the end of 2007. The Bank's total assets amounted to CHF 1,070 million at the end of 2008, compared with CHF 956 million at the end of 2007.



Contribution to the community

Bank Leumi Romania:

Bank Leumi Romania finished 2008 with a net profit of \$3 million, compared with a profit of some \$0.5 million in 2007. Total assets managed by the Bank grew by some 24% compared to 2007, and amounted to some \$474 million at 31 December 2008. The Bank's shareholders' equity amounted to \$87 million at 31 December 2008.

Bank Leumi Luxembourg:

Bank Leumi Luxembourg ended 2008 with a loss of €14.1 million, compared with a profit of €2.3 million in 2007. Total assets under management amounted to €498 million at the end of 2008, compared with €505 million at the end of 2007. Total assets amounted to €740 million at the end of 2008.

Leumi, which was established in 1902 as the financial arm of the Zionist movement, has always made a point, since its formation, to be an active partner in the community in which it is located. As part of its ethos the Bank donates to different institutions and organizations in the areas of education, community, culture, art and health. In the past few years, the Bank has accentuated its support of education, encouraging entrepreneurship and the development of leadership of youth in outlying areas.

Leumi is ranked in the top tenth percentile of the economy's leading companies that are rated by Ma'ale Social Responsibility Index. The Ma'ale rating examines the economy's leading companies in terms of their compliance with social responsibility criteria. The rating is based on detailed criteria in four key areas out of the all the areas of social responsibility for businesses: environmental protection, business ethics, work environment and human rights and community relations.

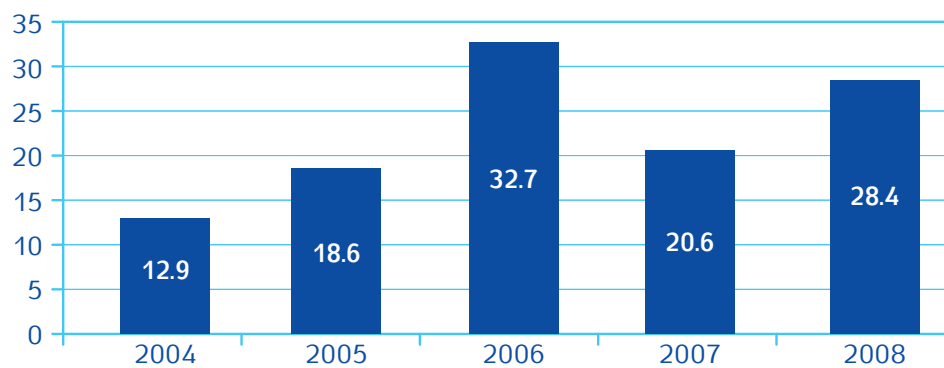
As part of its overall commitment to the community, Leumi encourages its employees to become involved with the community, and provides them with the infrastructure and the opportunity to volunteer and to contribute. Hundreds of employees are involved in voluntary activities carried out in the framework of "Leumi Tomorrow," "Young Entrepreneurs," and other projects initiated by the Bank, and these employees serve as models that the pupils can emulate. Thanks to raised awareness at Leumi of the subject of contribution to the community, branches and units have been initiating independent local projects, with the backing of Leumi's management.

Set out below is a breakdown of donations and sponsorships in 2008 according to various categories:

In 2008, the Leumi Group's contributions and sponsorships for community and social causes amounted to NIS 28.4 million (\$7.5 million). Of this NIS 23.3 million (\$6.1 million) was in the form of donations. In the past five years (2004-2008), the Leumi Group's contributions and sponsorships for social causes amounted to NIS 113 million (\$29.7 million).

- Education, children and youth - NIS 13.2 million
- Culture and art - NIS 7.5 million
- Community and society - NIS 7.0 million
- Health - NIS 0.7 million

**Contributions and sponsorships:
NIS 113 million in the last 5 years
(NIS millions)**



Leumi Group – selected financial statement data

Profit and Profitability (in NIS millions)						
	Year ended December 31			Three months ended December 31		
	2008	2007	Rate of Change	2008	2007	Rate of Change
Net interest income before provision for doubtful debts	6,380	7,648	(16.6)	976	1,781	(45.2)
Provision for doubtful debts	2,145	407	+	1,090	279	+
Operating and other income	2,800	4,222	(33.7)	545	1,192	(54.3)
Operating and other expenses	7,003	6,937	1.0	1,801	1,864	(3.4)
Net operating profit	(158)	2,984	-	(1,184)	512	-
Net profit for the period	92	3,357	(97.3)	(1,183)	517	-
Return on net operating profit	(0.8%)	15.4%				
Return on net profit	0.5%	17.4%				

Development of Principal Balance Sheet Items (in NIS billions)			
	As at Dec. 31, 2008	As at Dec. 31, 2007	Rate of change
Total assets	310.8	302.2	2.9
Credit to the public	213.2	198.6	7.4
Deposits of the public	244.8	238.0	2.8
Shareholders' equity	18.7	19.5	(4.5)

Principal Financial Ratios (%)		
	Year ended December 31	
	2008	2007
Credit to the public to total assets	68.6	65.7
Deposits of the public to total assets	78.8	78.8
Total shareholders' equity to risk assets (capital adequacy ratio)	11.49	11.52
Tier 1 capital to risk assets	7.51	7.55
Provision for doubtful debts from credit to the public	1.01	0.20
Financial margin	1.63	1.71
Operating expenses to total income (efficiency ratio)	76.3	58.4

The data in this Press Release has been converted into dollars solely for convenience, at the representative rate of exchange published by the Bank of Israel prevailing on December 31, 2008, which was NIS 3.802.