

**Financial statements of the Leumi Group
for the first half of 2008:**

**Net profit of NIS 1.36
billion (\$405.4 million)
for Leumi for the first
half of 2008**

**Net profit of NIS 889 million (\$265.2 million)
in the second quarter of 2008**

- ▶ Net return on equity in the second quarter: 19.1% (on an annual basis)
- ▶ Net operating profit amounted to NIS 639 million (\$190.6 million) in the second quarter of 2008. Net operating profit for the first half of 2008 amounted to some NIS 1.1 billion (\$331.4 million)
- ▶ Net interest income increased by 8.6% in the first half of 2008 and amounted to NIS 3.9 billion (\$1.17 billion)
- ▶ Leumi's capital adequacy ratio continues to be the highest in the Israeli banking system: 12.4% (Tier I Capital: 8.2%)

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Leumi With You.



The Leumi Group today published its financial statements as of 30 June 2008.

The statements show that the Leumi Group's **net profit** in the second quarter of 2008 amounted to NIS 889 million (\$265.2 million), compared with NIS 913 million (\$272.4 million) in the same period last year, a decline of 2.6%. Net profit for the Leumi Group during the first half of 2008 amounted to NIS 1,359 million (\$405.4 million), compared with NIS 1,830 million (\$545.9 million) in the same period last year, a decline of 25.7%.

The financial statements for the first half of 2008 include a profit from extraordinary items in the amount of NIS 234 million (\$69.8 million) (after taxes), derived from the sale of 20% of the shares in Leumi Card, compared with a profit of NIS 259 million (\$77.3 million) (after taxes) in the corresponding period last year, which was a result of the sale of part of Leumi's provident funds.

Net operating profit in the second quarter of 2008 amounted to NIS 639 million (\$190.6 million), compared with NIS 913 million (\$272.4 million) in the second quarter of 2007, a decline of 30%. Net operating profit during the first half of 2008 amounted to NIS 1,111 million (\$331.4 million), compared with NIS 1,571 million (\$468.7 million) in the same period last year, a decline of 29.3%.

Net return on equity was 19.1% on an annual basis during the second quarter of 2008, compared with 20.9% in the second quarter last year. Net return on equity during the first half of 2008 amounted to 14.1% on an annual basis, compared with 21.0% in the first half of 2007.

The results indicate that there has been continued growth in the Bank's interest income. **Net interest income before provisions for doubtful debts** increased by 8.6% during the first half of 2008, compared with the first half of 2007, amounting to NIS 3,913 million (\$1.17 billion).

The principal data from the financial statements for the first half of 2008 are summarized as follows:

- ▶ **The contribution of companies included on an equity basis** grew during the first half of 2008, by NIS 196 million (\$58.5 million) compared with the first half of 2007, and amounted to NIS 280 million (\$83.5 million).
- ▶ **Total assets of the Leumi Group** on June 30, 2008 amounted to NIS 292.0 billion (\$87.1 billion), compared with NIS 297.0 billion (\$88.6 billion) on June 30, 2007 (a decrease of 1.7%), and with NIS 302.2 billion (\$90.2 billion) on December 31, 2007 (a decrease of 3.4%).
- ▶ **Credit to the public** on June 30, 2008 amounted to NIS 201.7 billion (\$60.2 billion), compared with NIS 193.9 billion (\$57.8 billion) on June 30, 2007 (an increase of 4.0%) and with NIS 198.6 billion (\$59.2 billion) on December 31, 2007 (an increase of 1.6%).

The decline in Leumi's net profit as compared with the first half of 2007 resulted primarily from the following factors:

Leumi's Asset-Backed Securities Portfolio:

- ▶ **Deposits from the public** on June 30, 2008 amounted to NIS 221.8 billion (\$66.2 billion), compared with NIS 236.5 billion (\$70.6 billion) on June 30, 2007 (a decrease of 6.2%) and with NIS 238.0 billion (\$71.0 billion) on December 31, 2007 (a decrease of 6.8%).
- ▶ **The shareholders' equity** of the Group on June 30, 2008 amounted to NIS 20.4 billion (\$6.1 billion), compared with NIS 19.6 billion (\$5.85 billion) on June 30, 2007 (an increase of 4.0%) and compared with NIS 19.5 billion (\$5.82 billion) on December 31, 2007 (an increase of 4.5%).
- ▶ An increase in the provision for doubtful debts to NIS 316 million (\$94.3 million) in the second quarter of 2008 and to NIS 560 million (\$167.1 million) in the first half of 2008, compared with NIS 38 million (\$11.3 million) and NIS 49 million (\$14.6 million), respectively, in the corresponding periods last year.
- ▶ A reduction in operating and other income, in the amount of NIS 267 million (\$79.7 million) during the second quarter of 2008 and of NIS 406 million (\$121.1 million) during the first half of 2008.
- ▶ An increase in operating and other expenses, in the amount of NIS 168 million (\$50.1 million) during the first half of 2008.
- ▶ An effective tax rate that was 11 percentage points higher than in 2007, primarily as a result of the influence of the appreciation of the shekel, and its impact on the tax item on investments abroad.

The aggregate decrease in the value of the capital fund in respect of the asset-backed securities portfolio, (which is classified belonging to the available-for-sale portfolio), amounted to some \$73 million on June 30, 2008, compared with some \$104 million on March 31, 2008. From June 30, 2008 until the end of July 2008, there was an additional decrease in the capital fund of some \$11 million. In the first half of 2008, an amount of some \$27 million was charged to profit and loss as a decline in value which is not temporary in nature. Of this \$24 million was in the second quarter of 2008. This amount was charged to the profit and loss in respect of a decline in value which is not temporary in nature in SCDO (Synthetic Collateralized Debt Obligations) type securities.

The value of the Group's asset-backed securities (both mortgage-backed and non-mortgage-backed) in the available-for-sale portfolio amounts to some \$1.4 billion on June 30, 2008. The asset-backed securities portfolio includes an investment of some \$1.0 billion in mortgage-backed securities primarily issued or guaranteed by U.S. federal agencies and rated AAA by the world's leading rating agencies. The asset-backed securities portfolio also includes securities backed by assets which are not mortgages, of some \$447 million. More than 67% of these debentures are rated AAA and the remainder are rated A- and above. This portfolio includes, *inter alia*, SCDO's of some \$83 million and CLO's (Collateralized Loan Obligations) of some \$306 million.

Leumi Group – selected data:

Profit and Profitability (in NIS millions)						
	6 months			3 months		
	Period ending on June 30			Period ending on June 30		
	2008	2007	Rate of change (%)	2008	2007	Rate of change (%)
Net interest income before provision for doubtful debts	3,913	3,602	8.6	1,953	1,809	8.0
Provision for doubtful debts	560	49	+	316	38	+
Operating and other income	1,715	2,121	(19.1)	864	1,131	(23.6)
Operating and other expenses	3,456	3,288	5.1	1,662	1,656	0.4
Net operating profit	1,111	1,571	(29.3)	639	913	(30.0)
Net profit for the period	1,359	1,830	(25.7)	889	913	(2.6)
Return on net operating profit	11.5%	17.9%	-	13.4%	20.9%	-
Return on net profit	14.1%	21.0%	-	19.1%	20.9%	-

Development of Principal Balance Sheet Items (in NIS billions)					
	30 June 2008	30 June 2007	31 Dec. 2007	% Change as of 30.6.07	% Change as of 31.12.07
Total assets	292.0	297.0	302.2	(1.7)	(3.4)
Credit to the public	201.7	193.9	198.6	4.0	1.6
Deposits from the public	221.8	236.5	238.0	(6.2)	(6.8)
Shareholders' equity	20.4	19.6	19.5	4.0	4.5

Principal Financial Ratios (in %)			
	30 June 2008	30 June 2007	31 Dec. 2007
Credit to the public to total assets	69.1	65.4	65.7
Deposits of the public to total assets	75.9	79.7	78.8
Total shareholders' equity to risk assets (capital adequacy ratio)	12.42	11.89	11.52
Tier I capital to risk assets	8.15	7.78	7.55
Provision for doubtful debts from credit to the public	0.56	0.05	0.20
Financial margin	1.84	1.45	1.71
Operating expenses to total income (efficiency ratio)	61.4	57.4	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 June 30, 2008 which was NIS 3.352.