


Leumi Group

Second Quarter 2008 Earnings Review





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Economic activity

*Annual rates
of change in
real terms*

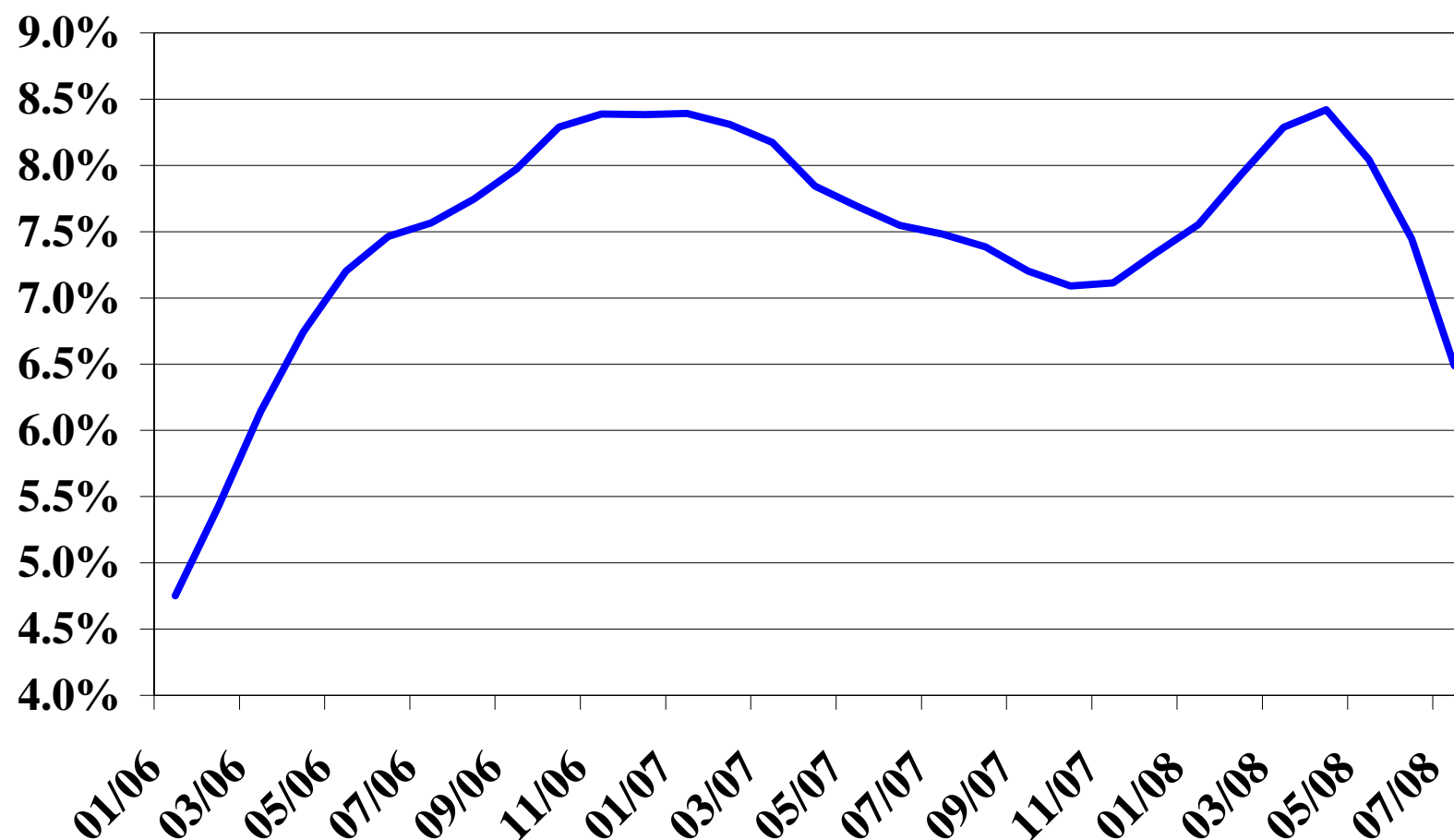
| | 2005 | 2006 | 2007 | 2008 * | 2009 * |
|--------------------------------------|------|-------|-------|--------|--------|
| GDP | 5.3% | 5.2% | 5.3% | 4.7% | 2.7% |
| Gross product of the business sector | 6.5% | 6.5% | 6.1% | 5.7% | 3.1% |
| Private consumption | 4.0% | 4.5% | 6.6% | 5.4% | 4.1% |
| Public consumption | 2.9% | 2.3% | 2.6% | 2.6% | 1.6% |
| Investment in fixed assets | 2.3% | 10.1% | 14.2% | 6.1% | 5.5% |
| Exports of goods and services | 4.3% | 5.9% | 8.4% | 9.6% | 1.7% |
| Imports of goods and services | 3.5% | 3.3% | 12.3% | 7.5% | 3.0% |
| Rate of unemployment | 9.0% | 8.4% | 7.4% | 6.1% | 6.9% |

*Annual
average*

**Leumi's forecast*

The state of the economy index

year-on-year rate of change



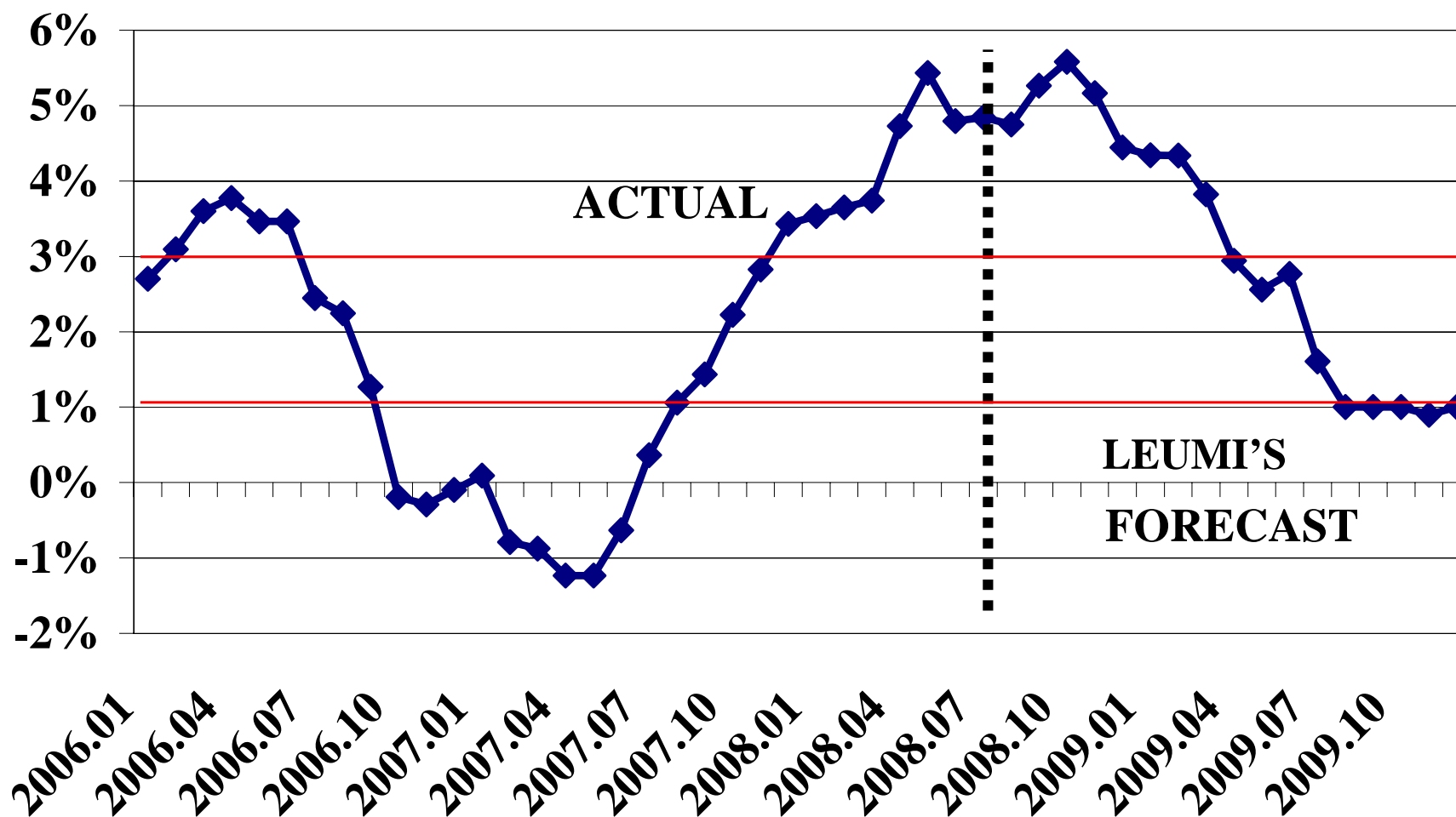
Balance of payments and the budget

| | | 2005 | 2006 | 2007 | 2008* | 2009* |
|--------------------------|--|-------|-------|-------|-------|-------|
| <i>Percentage of GDP</i> | Current account surplus(+) | 3.3% | 6.0% | 3.1% | 1.1% | 0.1% |
| | Government budget surplus(+)/ deficit(-) | -2.0% | -0.8% | 0.0% | -1.6% | -1.7% |
| | Government debt | 93.5% | 84.5% | 78.5% | 75.0 | 74.8% |
| <i>Billions of US\$</i> | Foreign direct investment inflows (+) | 4.8 | 14.7 | 9.7 | 8.6 | ... |
| | Foreign direct investment outflows(-) | -2.9 | -15.0 | -6.8 | -4.7 | ... |
| | Net FDI inflows(+)/ outflows (-) | 1.9 | -0.3 | 2.9 | 3.9 | ... |

Main financial parameters

| | 2006 | 2007 | 2008* | 2009* |
|--|-------|-------|------------|------------|
| Consumer price index (year end rate) | -0.1% | 3.4% | 4.0-5.0% | 0.8-1.8% |
| ILS/USD exchange rate – annual average | 4.46 | 4.11 | 3.50-3.60 | 3.58-3.68 |
| ILS/USD exchange rate – annual average rate of appreciation (-) / depreciation (+) | -0.7% | -7.8% | -13~-14% | -2 ~ -3% |
| Bank of Israel interest rate – annual average | 5.1% | 3.9% | 3.7%-4.2% | 3.75-4.25% |
| Bank of Israel interest rate – year end | 4.50% | 4.25% | 4.00-4.50% | 3.75-4.25% |
| 10 year Shekel bond (Shachar) – yield to maturity – year average | 5.6% | 5.4% | 5.6%-6.1% | 5.4-5.9% |

The year-on-year rate of inflation



The Leumi Group

| <i>NIS millions</i> | <i>Q2 2008</i> | <i>Q2 2007</i> | <i>1H 2008</i> | <i>1H 2007</i> | <i>1H % change</i> | <i>1H ROE</i> |
|-------------------------|--------------------|--------------------|--------------------|--------------------|------------------------|-------------------|
| Net profit | 889 | 913 | 1,359 | 1,830 | (25.7%) | 14.1% |
| Net operating profit | 639 | 913 | 1,111 | 1,571 | (29.3%) | 11.5% |

P&L highlights

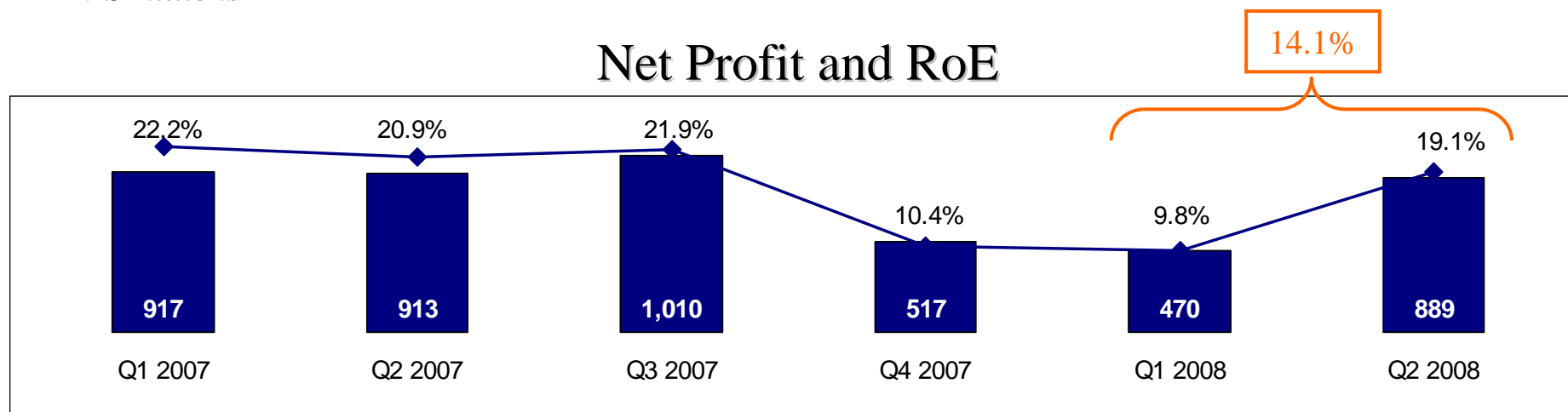
NIS millions

| | <i>1H 2008</i> | <i>1 H 2007</i> | <i>% change</i> |
|--|----------------|-----------------|---------------------|
| Net interest income before provision | 3,913 | 3,602 | 8.6% |
| Provision for doubtful debts | 560 | 49 | + |
| Operating and other income | 1,715 | 2,121 | (19.1%) |
| Operating and other expenses | 3,456 | 3,288 | 5.1% |
| -after adjustments | 3,327 | 3,164 | 5.2% |
| Companies included on the equity basis | 280 | 84 | 233.3% |
| Operating profit after tax | 1,111 | 1,571 | (29.3%) |
| Net operating profit after adjustments | 1,178 | 1,632 | (27.8%) |

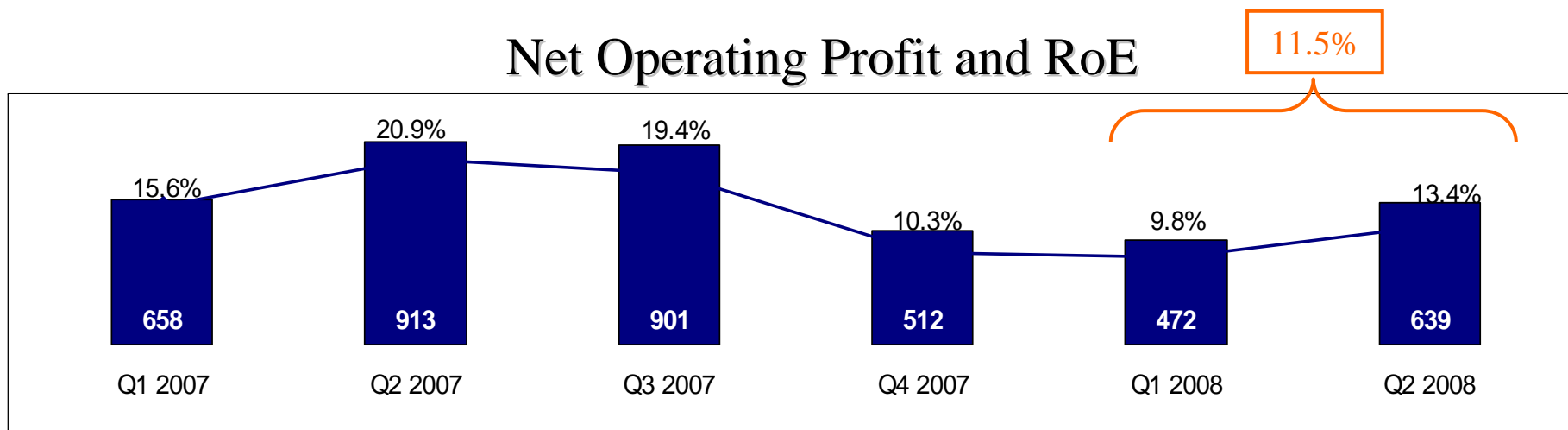
Net Profit and net operating profit and RoE (in annual terms)

NIS millions

Net Profit and RoE



Net Operating Profit and RoE



Sustained profitability levels

NIS millions

| | 2007 | | | | 2008 | |
|---|------|------|-------|------|------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Net operating profit | 658 | 913 | 901 | 512 | 472 | 639 |
| Effect of the known CPI* | 9 | (11) | (115) | - | (16) | (109) |
| Adjustment of derivatives to market value* | 47 | 41 | (129) | 70 | 106 | 14 |
| Profit from sale of debentures and adjustments to market value of tradable debentures * | (52) | (50) | 69 | (20) | (64) | 53 |
| Difference between the severance obligations and the reserves* | 7 | (7) | - | - | 91 | (36) |
| Exchange rate differentials in respect of financing overseas investments (tax effect) | 25 | (35) | 62 | 63 | 82 | 78 |
| Total adjustments | 36 | (62) | (113) | 113 | 199 | 0 |
| Net operating profit after adjustments | 694 | 851 | 788 | 625 | 671 | 639 |

Net operating profit* by segment

A well diversified and balanced mix of income sources

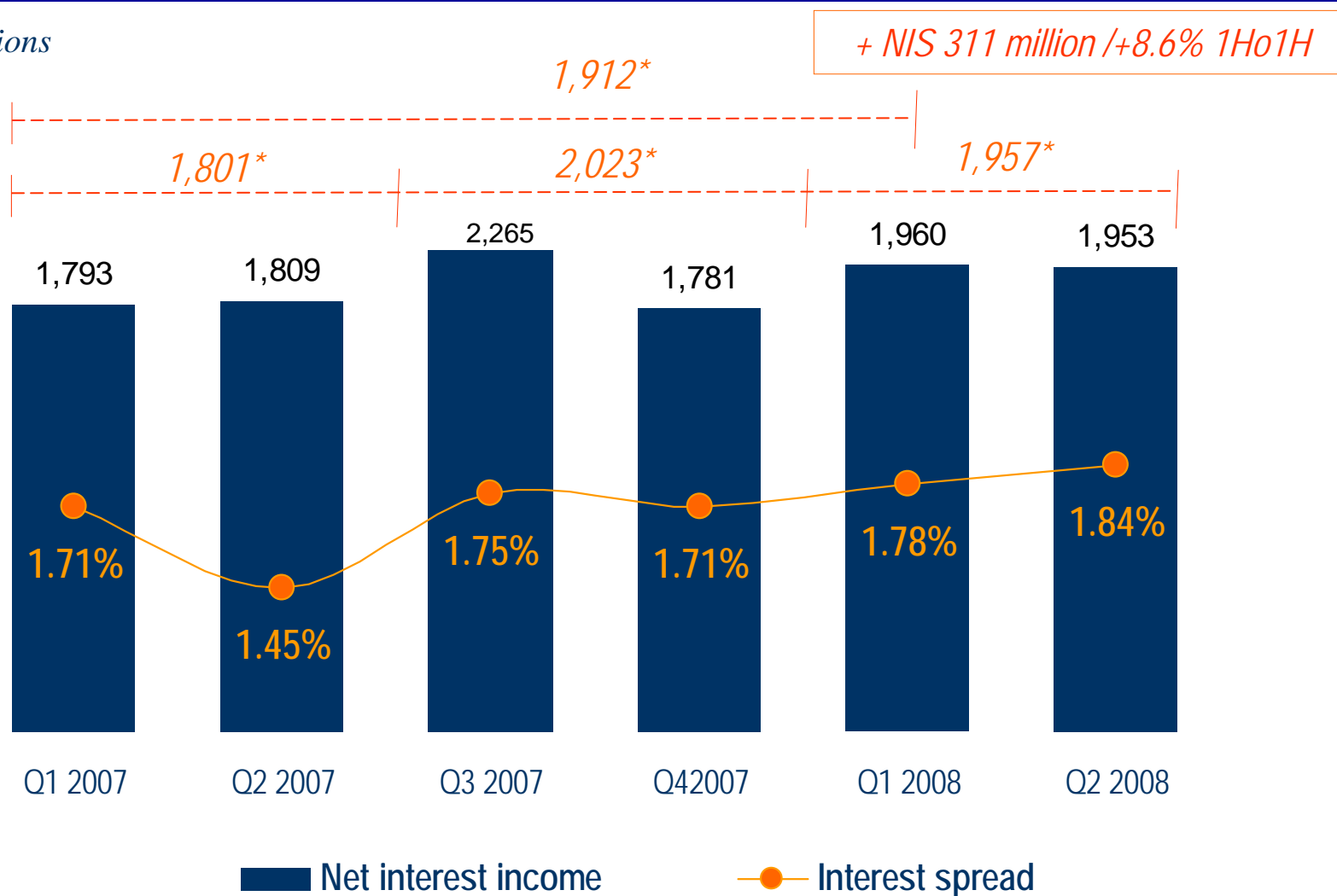
NIS millions

| | <i>1H 2008</i> | <i>1 H 2007</i> | <i>% change</i> | <i>Contribution to profit</i> |
|-------------------------------|----------------|-----------------|-----------------|-------------------------------|
| Corporate banking | 235 | 503 | -53.3% | 19.9% |
| Construction and real estate | 223 | 162 | 37.7% | 18.9% |
| Commercial banking | 195 | 207 | -5.8% | 16.6% |
| Small business banking | 182 | 128 | 42.2% | 15.4% |
| Household banking | 314 | 302 | 4% | 26.7% |
| Private banking | 61 | 70 | -12.9% | 5.2% |
| Financial management & others | -32 | 260 | (-) | -2.7% |
| Total | 1,178 | 1,632 | -27.8% | 100.0% |

**Adjusted for special salary expenses*

Net interest income & interest spread accumulated for the period ending:

NIS millions

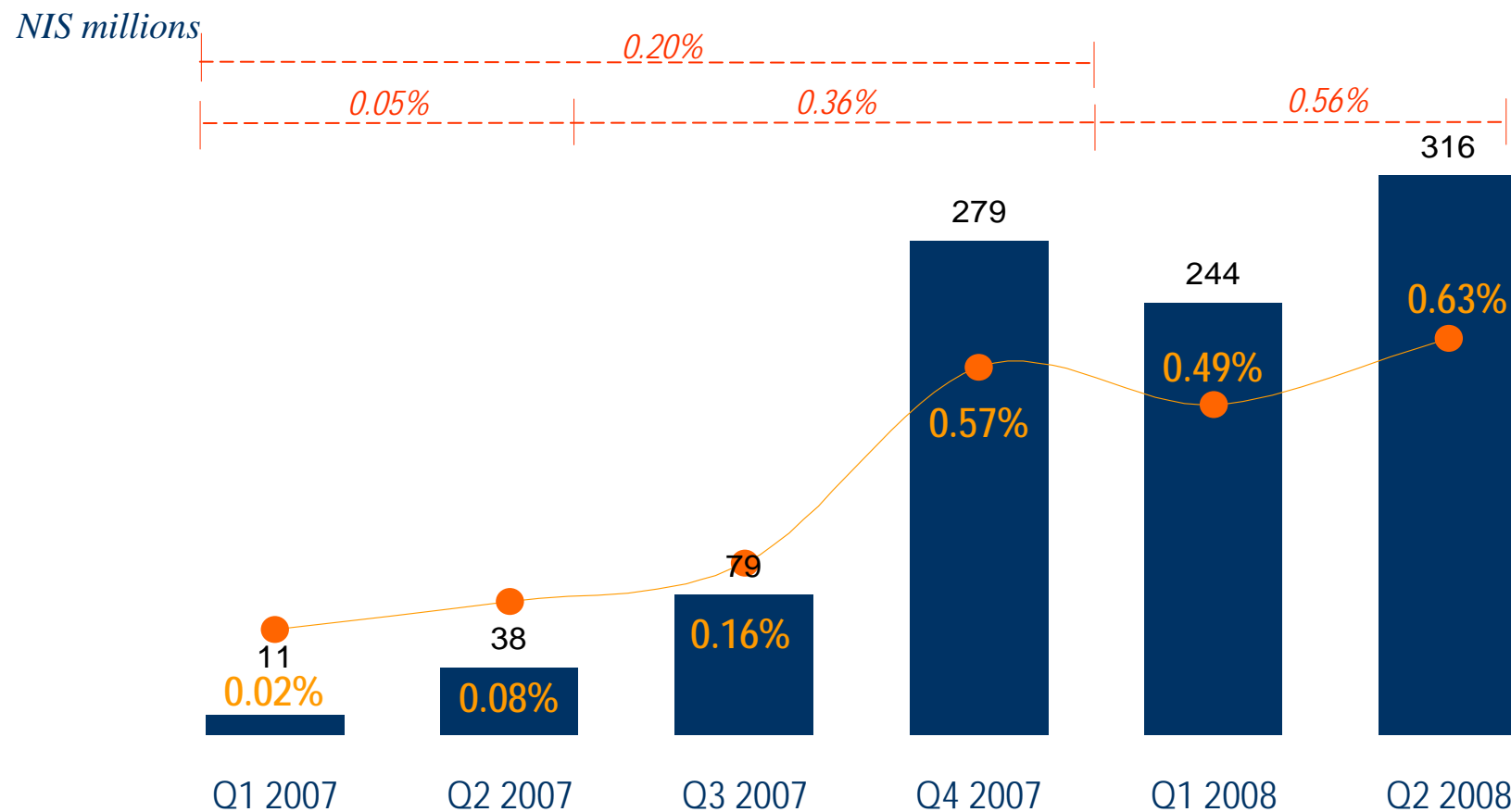


Development of net interest income

NIS millions

| | 30.06.08 | 30.06.07 | % change |
|---|--------------|--------------|-------------|
| Current activities | 3,552 | 3,338 | 6.4% |
| Collection and reduction of interest in respect of problem loans | 336 | 237 | 41.8% |
| Profit from sale of debentures and adjustments to market value of tradable debentures | 18 | 165 | (89.1%) |
| Adjustment of derivatives to fair value | (190) | (142) | 33.8% |
| Effect of the known CPI | 197 | 4 | + |
| Total | 3,913 | 3,602 | 8.6% |

Provision for doubtful debts



■ Provision for doubtful debts —●— Rate of provisions to total credit to the public in annual terms

Main data: provisions for doubtful debts

NIS millions

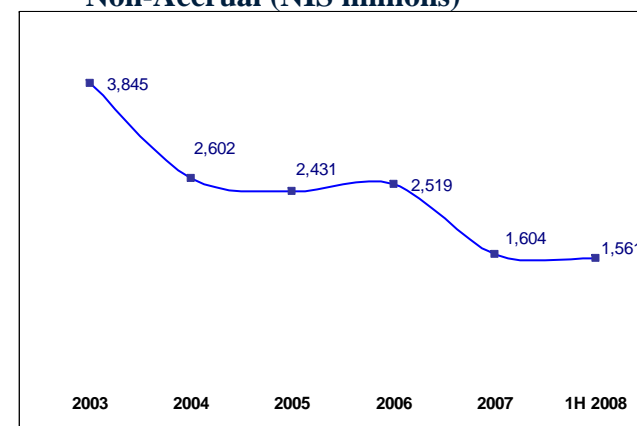
| | 1H 2008 | 1H 2007 | <i>change</i> |
|--|---------|---------|---------------|
| Specific provision during the period | 977 | 555 | 422 |
| Reduction/ Collection of specific provisions | (397) | (458) | (61) |
| Net addition recorded to the profit and loss statement | 580 | 97 | 483 |
| Net addition recorded to the profit and loss statement as additional provision | (20) | (48) | 28 |
| Total provision for doubtful debts | 560 | 49 | 511 |

Problematic debts: a sharp decrease in NPLs

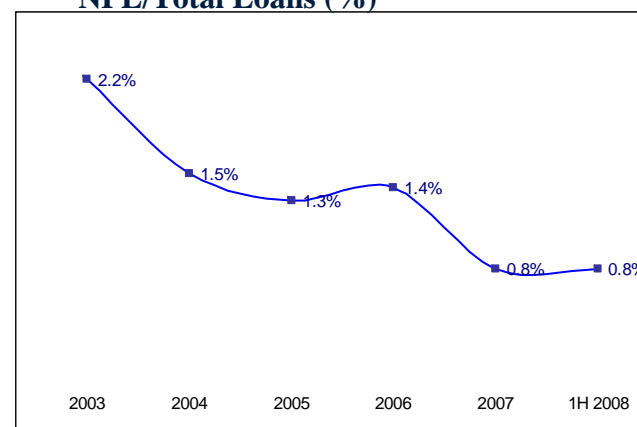
NIS millions

| | 30.06.08 | 31.12.07 | % Change |
|---|----------|----------|-------------|
| Non-accrual | 1,561 | 1,604 | (2.7%) |
| Restructured or to be restructured | 565 | 1,014 | (44.3%) |
| In temporary arrears | 685 | 764 | (10.3%) |
| Under special supervision* | 10,238 | 9,618 | 6.4% |
| Total balance sheet credit risk | 13,049 | 13,000 | 0.4% |
| Off balance sheet credit risk | 2,403 | 2,442 | (1.6%) |
| Other assets in respect of derivatives of problem borrowers | 57 | 32 | 78.1% |
| Total overall credit | 15,509 | 15,474 | 0.2% |

Non-Accrual (NIS millions)



NPL/Total Loans (%)



*Including classified debts according to Directive 325 in the amount of NIS 2,336 million (NIS 1,775 million in 2007)

Operating and other income

NIS millions

| | 1H 2008 | 1H 2007 | Difference |
|--|---------|---------|------------|
| Operating Commissions | 1,684 | 1,653 | 31 |
| Profit/Loss from investments in shares | (115) | 225 | (340) |
| Other Income | 146 | 243 | (97) |
| Total | 1,715 | 2,121 | (406) |

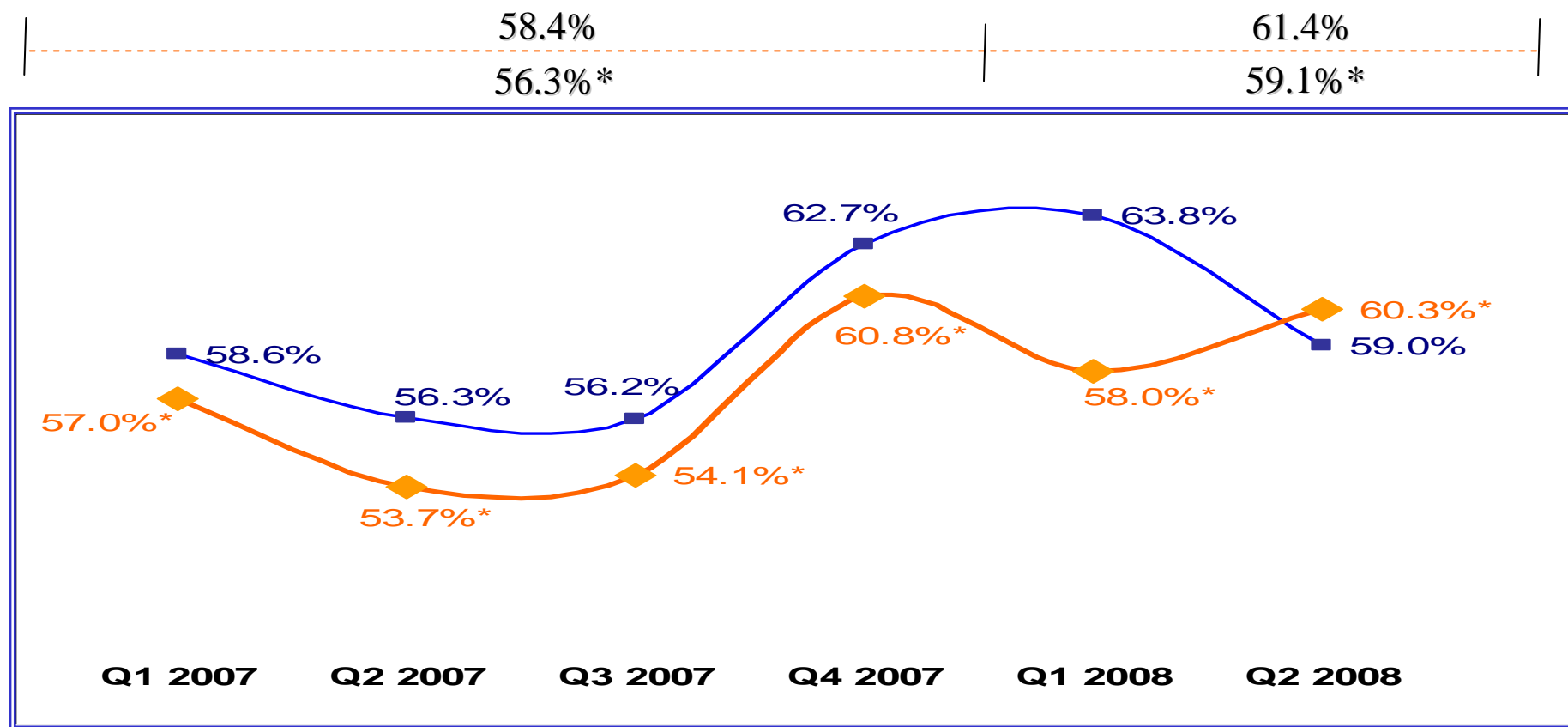
Development of operating and other expenses

NIS millions

1H 2008 1H 2007 % change

| | | | |
|---|-------|-------|-------|
| Salary expenses | 2,106 | 2,031 | 3.7% |
| Of these: special expenses | 129 | 124 | 4.0% |
| Salary expenses after neutralizing special expenses | 1,977 | 1,907 | 3.7% |
| Maintenance of building and equipment | 415 | 378 | 9.8% |
| Depreciation expenses | 252 | 225 | 12.0% |
| Other expenses | 683 | 654 | 4.4% |
| Total operating and other expenses | 3,456 | 3,288 | 5.1% |
| Total operating and other expenses after neutralizing special salary expenses | 3,327 | 3,164 | 5.2% |

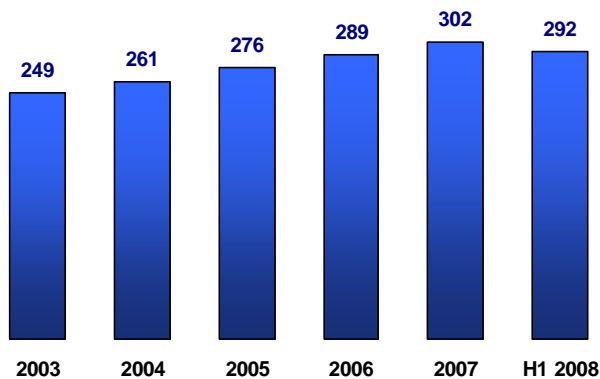
Efficiency ratio



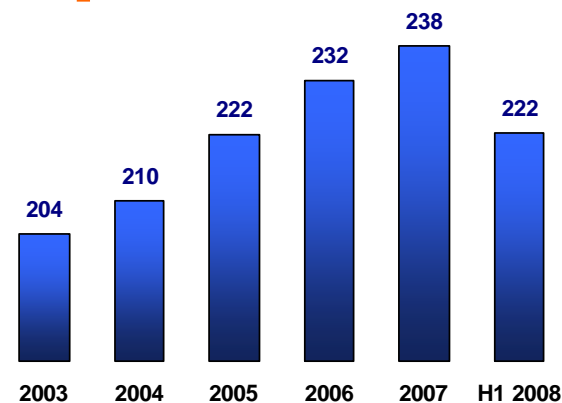
The appreciation of the Shekel had a strong influence on balance sheet and off-balance sheet growth

NIS billions

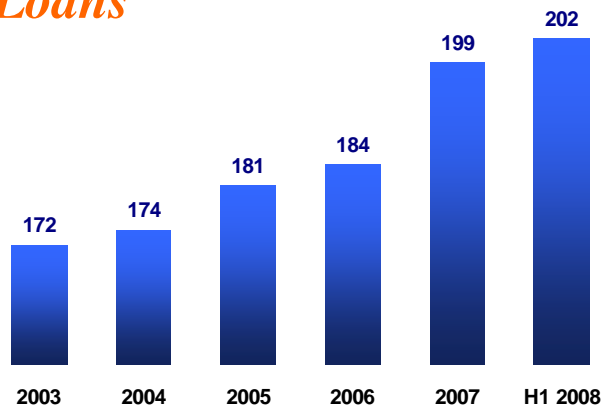
Total assets



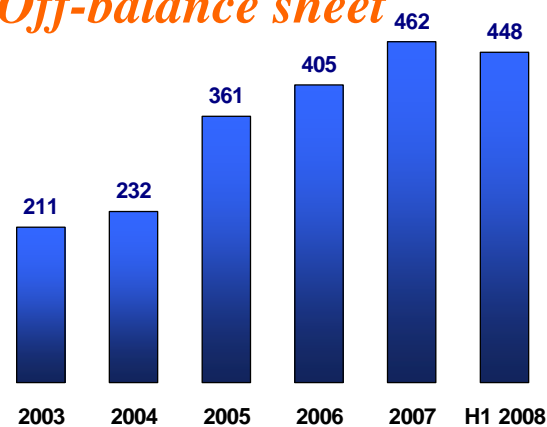
Deposits



Loans

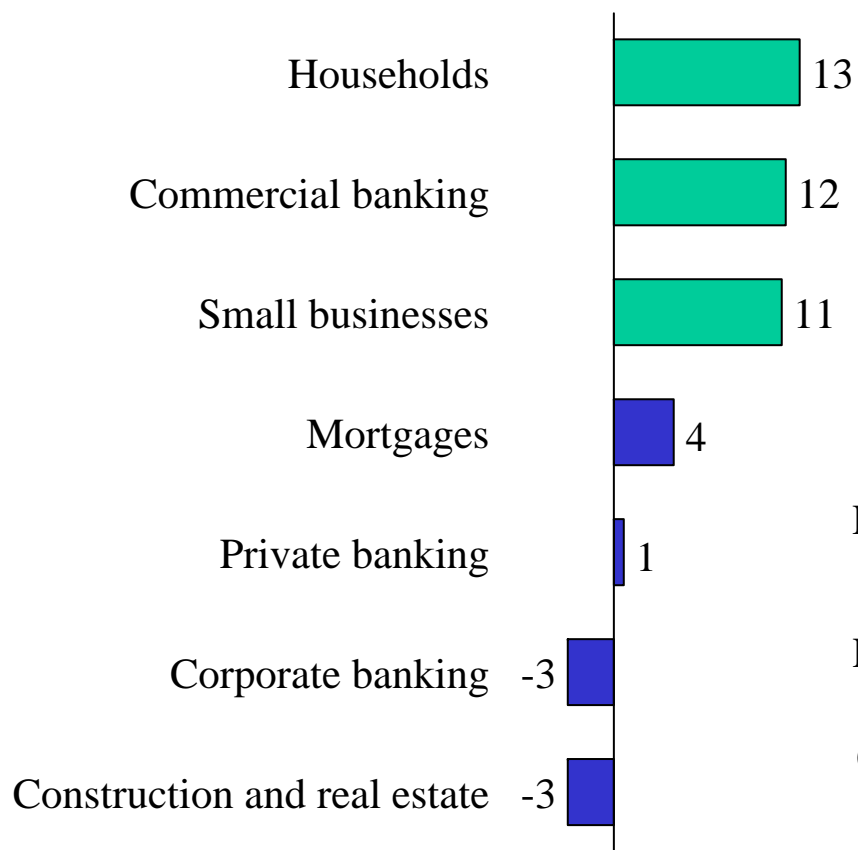


Off-balance sheet

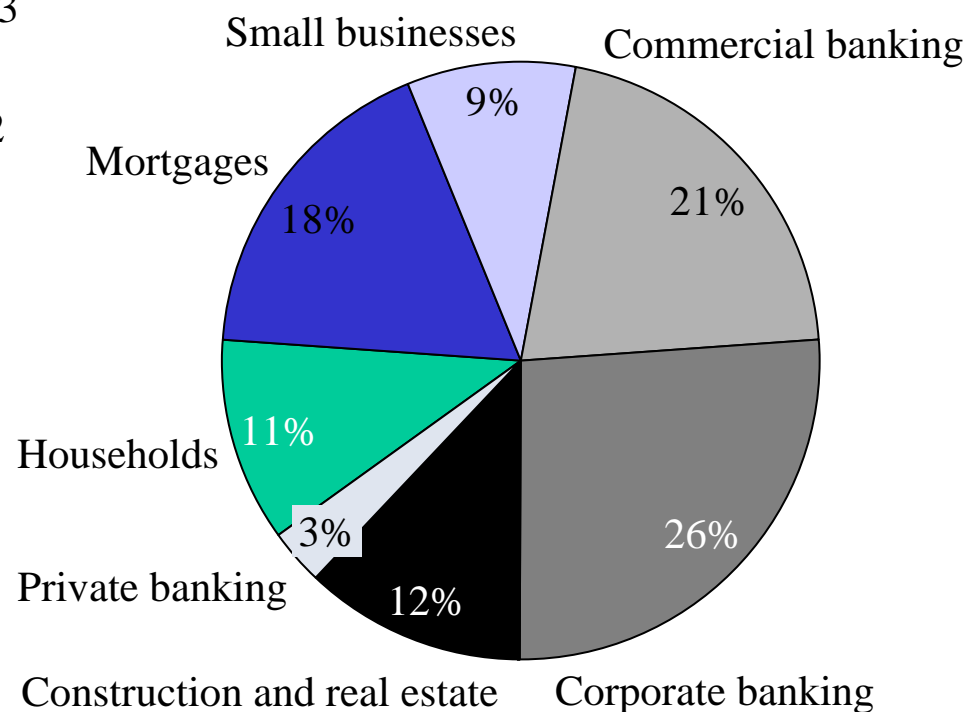


In recent years we increased the diversification of our credit portfolio and focused on higher RoE segments

YoY growth of loan portfolio by segment
2003-2007, CAGR (%)

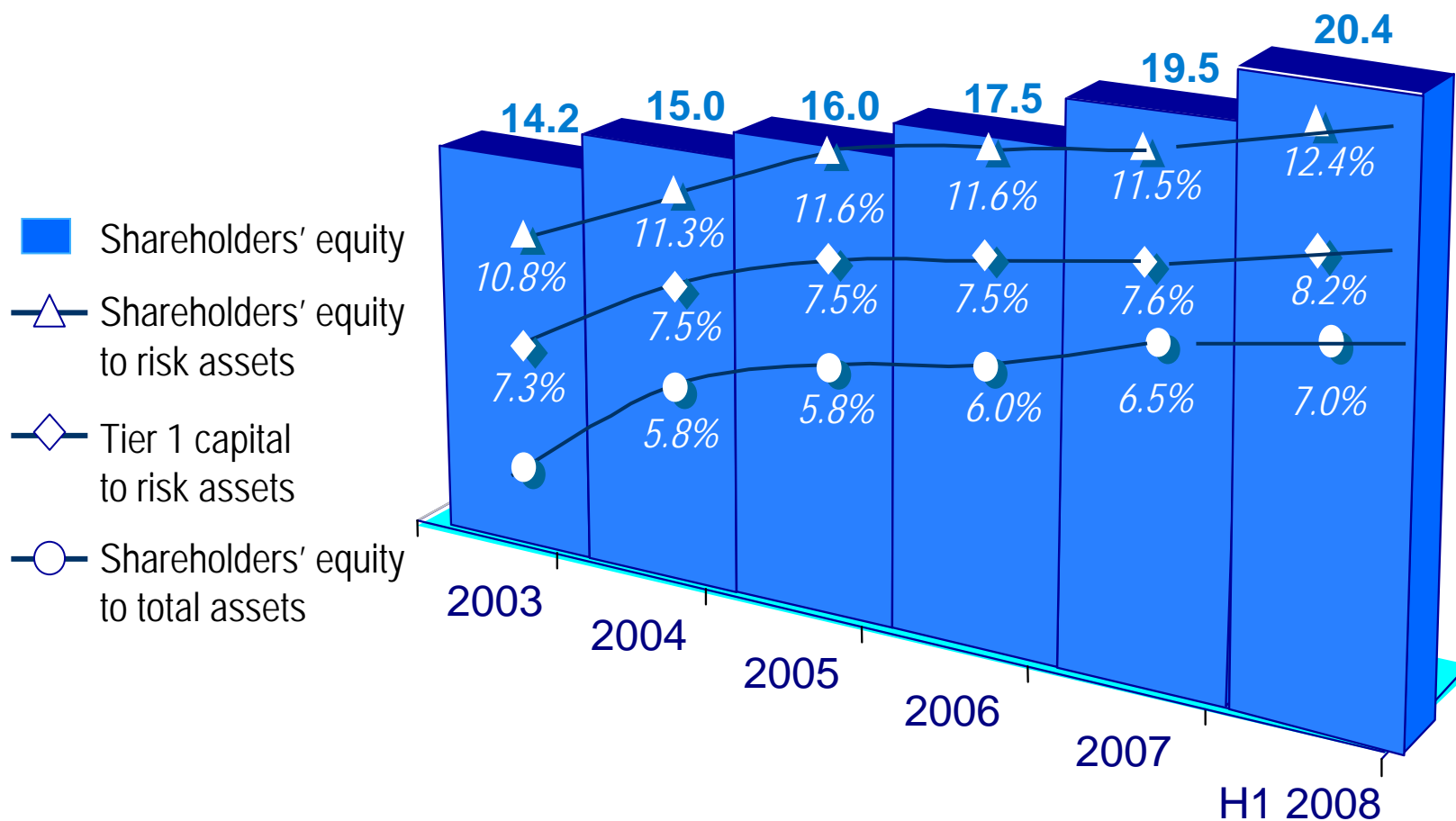


Composition of loan portfolio by segment
2007, %



Solid capital base and highest capital adequacy ratio in the Israeli banking system

NIS billions



Asset-backed securities (MBS and ABS)

In US\$ millions at 30/06/2008

| | <i>Amortized Costs</i> | <i>Unrealized profits from adjustments to fair value</i> | <i>Unrealized losses from adjustments to fair value</i> | <i>Amount in balance sheet (fair value)</i> |
|--|----------------------------|--|---|---|
| <i>Mortgage-backed securities (MBS):</i> | | | | |
| <i>Pass-through securities:</i> | | | | |
| Securities guaranteed by GNMA | 25.2 | 0.2 | 0.1 | 25.3 |
| Securities issued by FNMA and FHLMC | 352.3 | 0.8 | 4.6 | 348.5 |
| Securities issued by others | 3.0 | - | - | 2.9 |
| Total Interim MBS | 380.5 | 1.0 | 4.7 | 376.8 |
| <i>Other mortgage-backed securities (Including CMOs and STRIPPED MBS):</i> | | | | |
| Securities issued by FNMA, FHLMC or GNMA, or guaranteed by these entities | 544.1 | 2.3 | 5.1 | 541.3 |
| Other mortgage-backed securities | 26.7 | - | 4.7 | 22.1 |
| Total Interim MBS | 570.8 | 2.3 | 9.8 | 563.3 |
| Asset-backed securities (ABS)* | 507.2 | 0.2 | 63.0 | 444.4 |
| Total asset-backed securities available for sale | 1,458.5 | 3.5 | 77.6 | 1,384.5 |

Bank Leumi: Israel's largest and most profitable bank...

| <i>NIS millions</i> | <i>1H 2008</i> | <i>1H 2007</i> |
|----------------------------------|----------------|----------------|
| Balance sheet performance | | |
| Credit / Total assets | 69.1% | 65.4% |
| Deposits / Total assets | 75.9% | 79.7% |
| Credit / Deposits | 91.0% | 82.0% |
| Securities / Total assets | 14.9% | 15.3% |
| NPL / Total assets | 0.5% | 0.8% |
| Capital adequacy | 12.4% | 11.9% |

...financially sound and strong with moderate risk appetite

Our consistent and conservative risk management practices are paying off in the current environment



Negligible exposure to sub prime/credit crisis



Strong capital position and liquid balance sheet



Well diversified business model



Low NPL ratio