

Leumi Group



First Half 2011 Financial Results Discussion

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The Israeli Economy: Withstanding adverse global financial factors

Strong GDP growth, fueled by private consumption

Declining government budget deficit

Public debt approaching average of OECD countries

Unemployment rate is low and declining

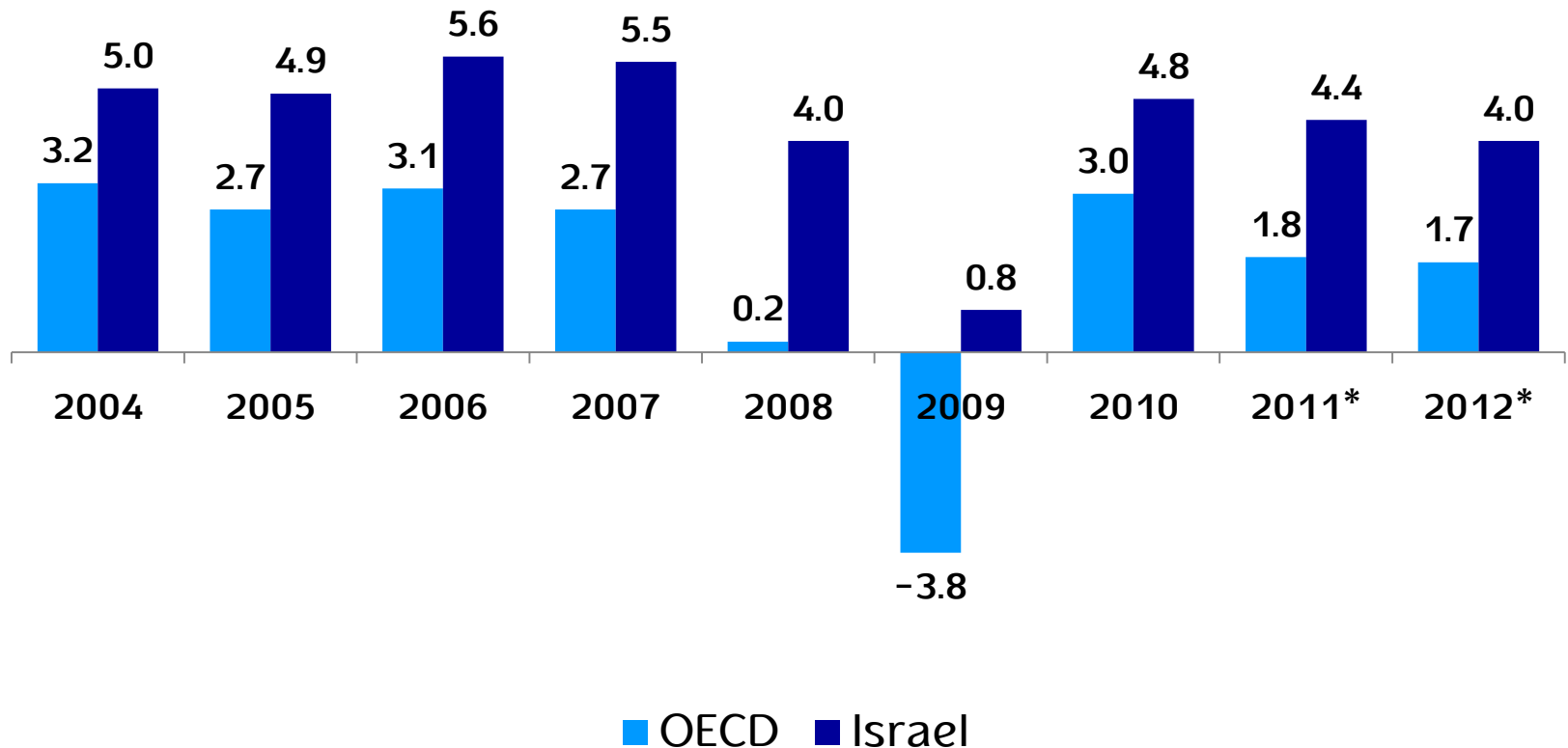
Inflation within price stability target

Main Macroeconomic Variables	2009	2010	2011*
Annual Rates of Change, Real Terms			
GDP	0.8%	4.8%	4.4%
Gross product of the business sector	0.3%	5.8%	5.0%
Private consumption	1.4%	5.3%	3.7%
Public consumption	2.4%	2.5%	2.8%
Investment in fixed assets	-4.1%	13.6%	14.7%
Exports of goods and services	-12.6%	13.4%	6.0%
Imports of goods and services	-14.0%	12.6%	11.6%
Percentage of GDP			
Current account surplus(+)/deficit (-)	3.7%	3.5%	1.1%
Government budget surplus (+)/deficit (-)	-5.1%	-3.7%	-2.8%
Government debt	78.0%	75.0%	73.0%
Annual Average			
Unemployment rate	7.5%	6.6%	6.0%
Additional Data			
Consumer price index, year-end change	3.9%	2.7%	2.7%
Shekel / US\$ average exchange rate	3.93	3.73	3.54
Bank of Israel average interest rate	0.8%	1.6%	3.0%

*Leumi forecast

Israel continues to outpace OECD growth

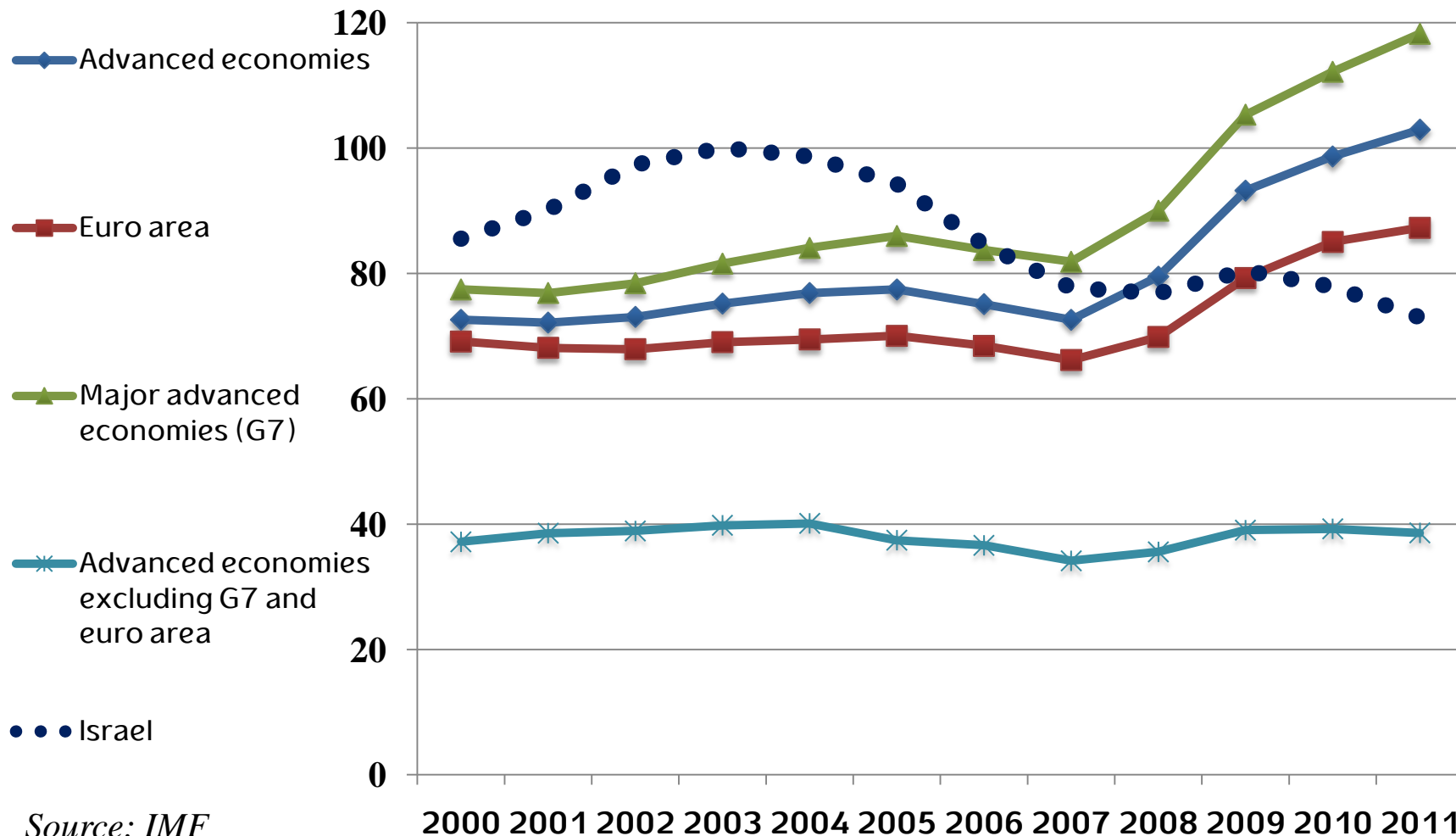
GDP growth in the OECD countries and in Israel



Forecast: 2011-2012

Israel's low debt/GDP ratio

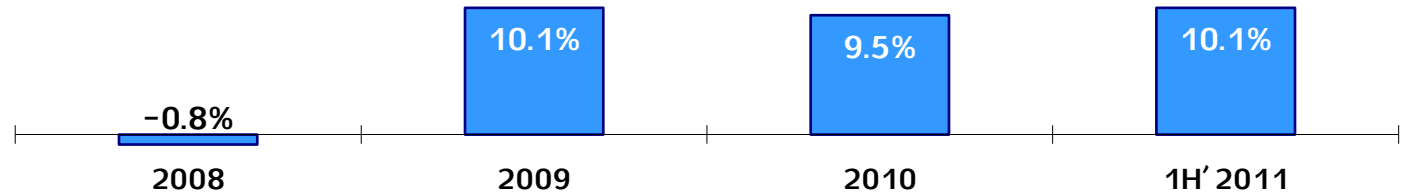
Gross government debt as a percentage of GDP



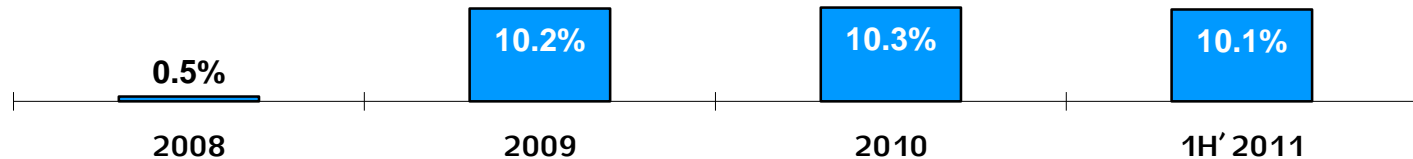
Source: IMF

Consistent profitability following the global financial

Net Operating Profit ROE



Net Profit ROE

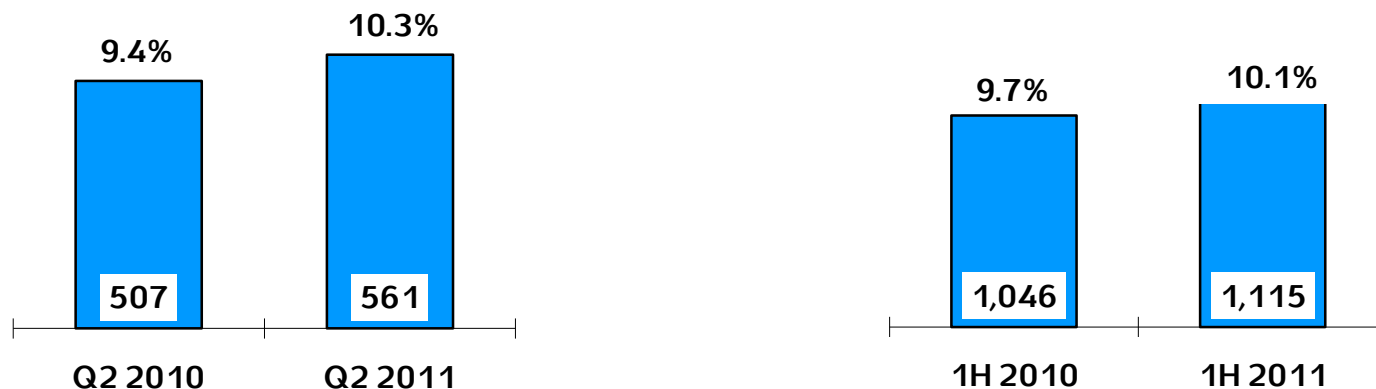


Figures restated following the directive in respect of future expectation of retirements with a benefit in excess of contractual conditions

Solid financials

NIS millions

Net Operating Profit & RoE



Net Profit & RoE



*Q2 2010 includes extraordinary profit in respect of the sale of the Bank's holdings in Paz Oil Company Ltd

Financial performance

NIS millions

P&L Highlights

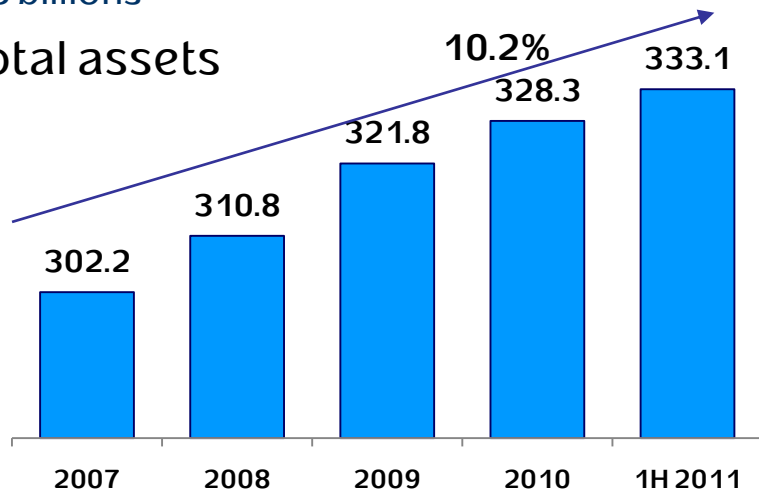
	1H' 11	1H' 10	Δ	Δ%
Net interest income before expenses for credit losses*	3,890	3,446	444	12.9
Operating and other income	1,989	2,038	(49)	(2.4)
Total Income	5,879	5,484	395	7.2
Expenses for credit losses*	(29)	326	(355)	-
Operating and other expenses	4,163	3,851	312	8.1
Companies included on the equity basis	30	202	(172)	(85.1)
Operating profit	1,115	1,046	69	6.6
Net profit	1,118	1,232	(114)	(9.3)

*As of Jan. 1, 2011 the terminology for provision for doubtful debts was amended to expenses in respect of credit losses resulting from the implementation of FAS 114

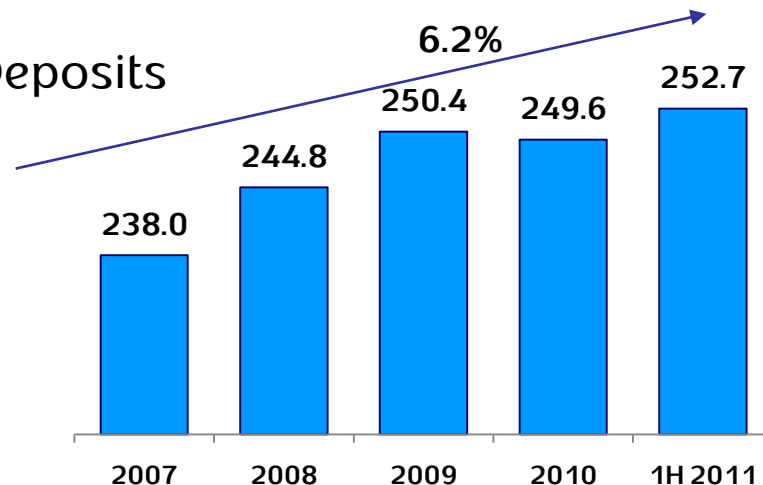
Sustained balance and off-balance sheet growth

NIS billions

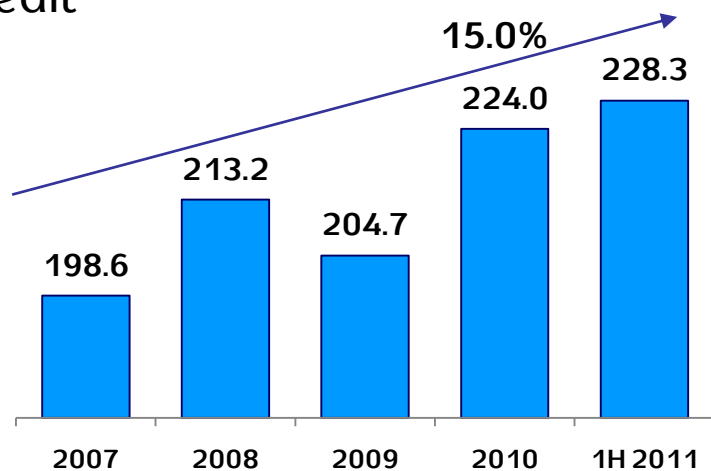
Total assets



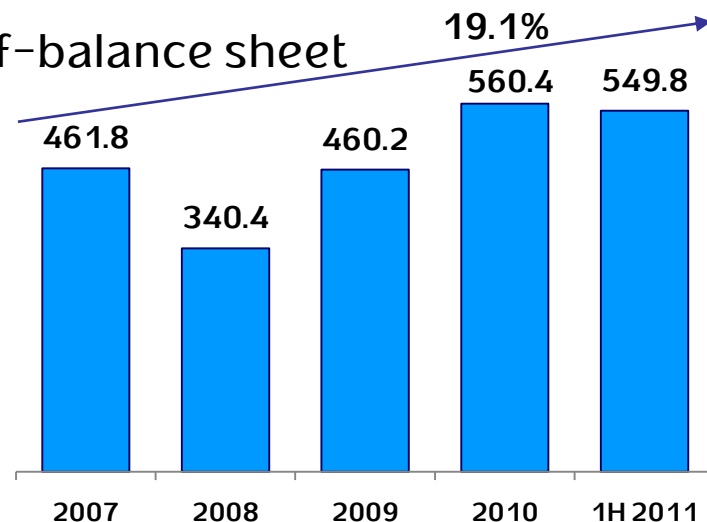
Deposits



Credit

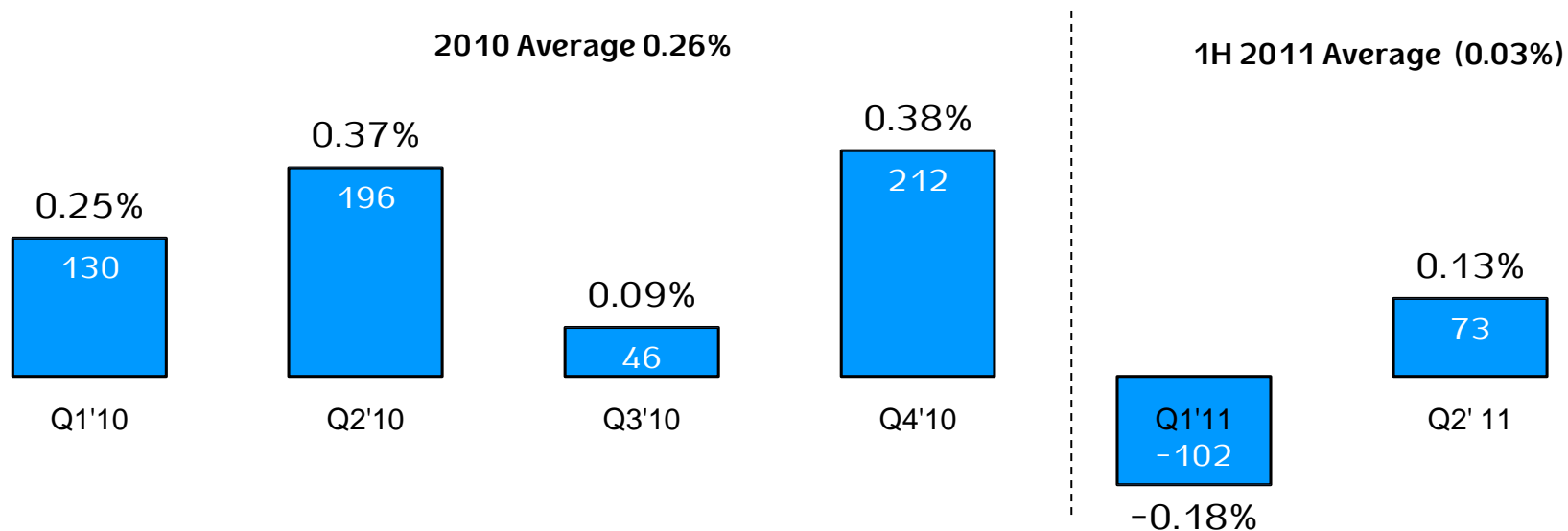


Off-balance sheet



Expenses for credit losses (Provision for doubtful debts)

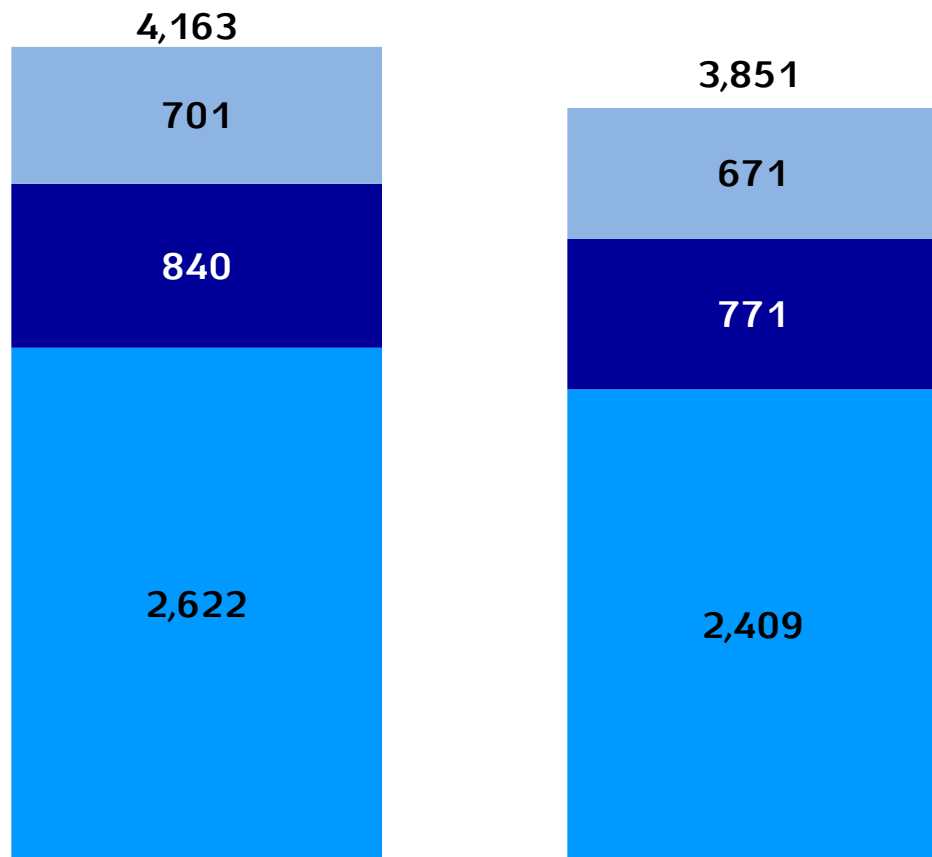
NIS millions



	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Q2'11
Individual expenses	159	244	63	248	(61)	24
Group expenses (additional in 2010)	(29)	(48)	(17)	(36)	(41)	49
Total	130	196	46	212	(102)	73

4% YoY increase in total operating and other expenses (after neutralizing special salary expenses)

NIS millions



1H'11

1H'10

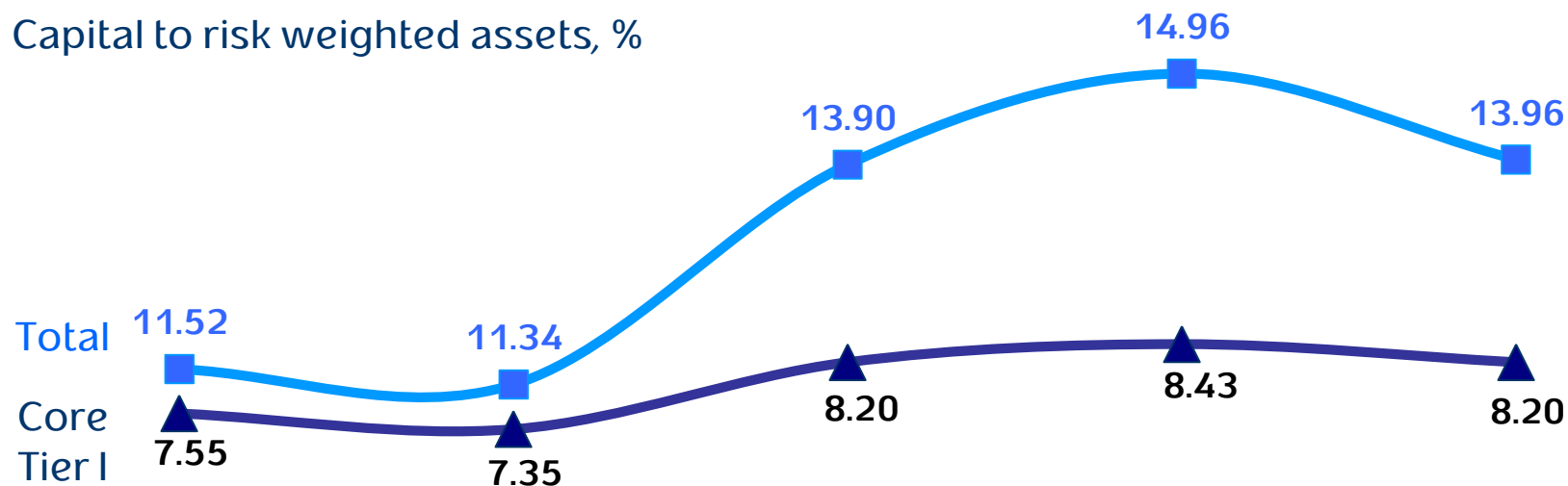
- Salaries and related expenses
- Building & equipment maintenance & depreciations
- Other expenses

Salaries and related expenses constitute 63% of total expenses

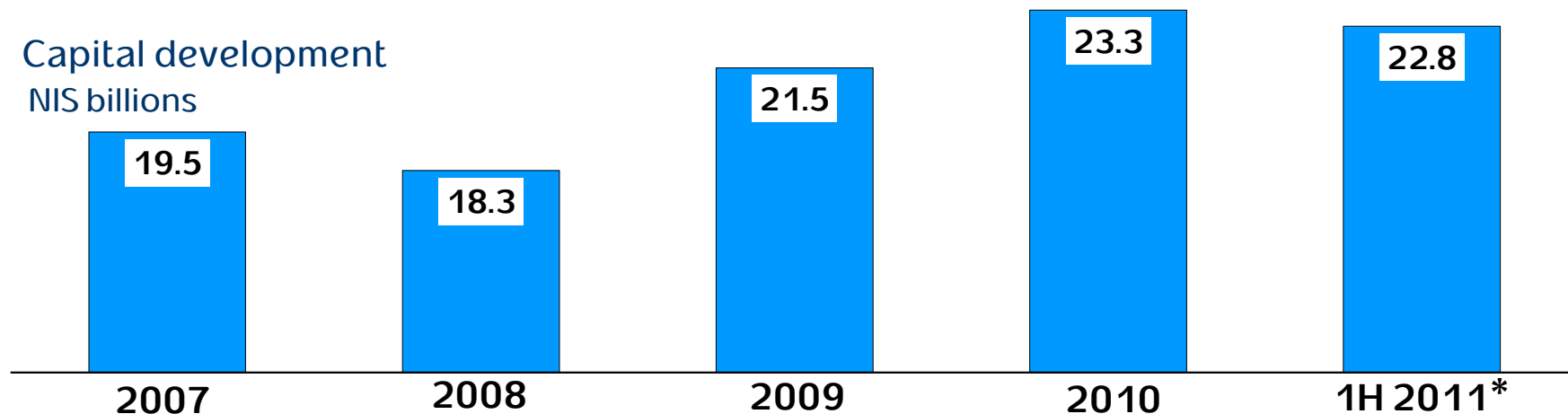
8.8% increase in salary expenses is reduced to **2.1%** primarily after neutralizing the decrease in the returns of the severance pay fund and pension fund

A leading capital position

Capital to risk weighted assets, %



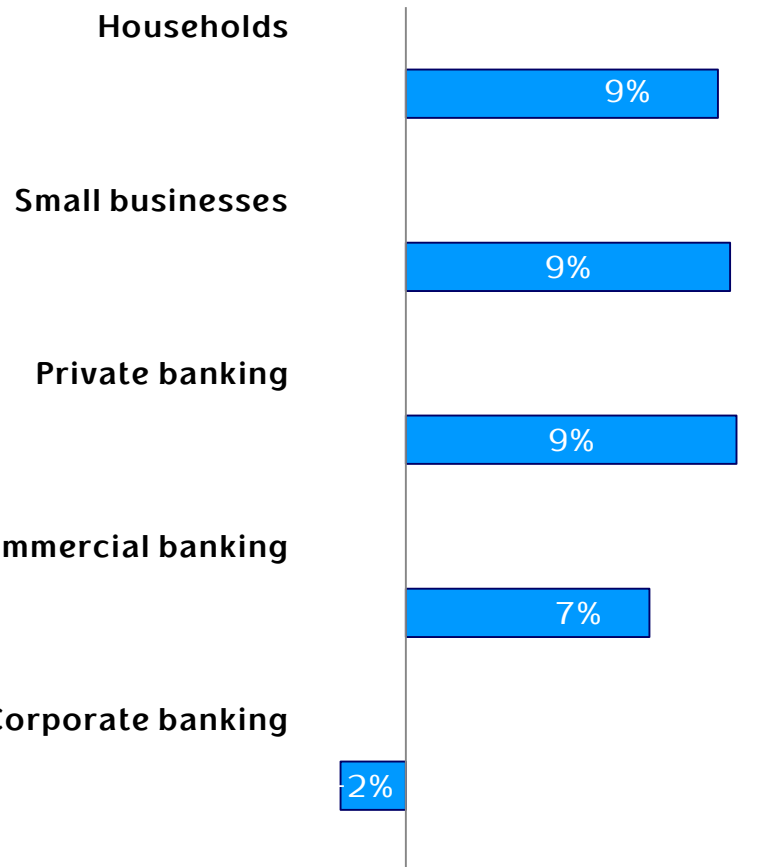
Capital development
NIS billions



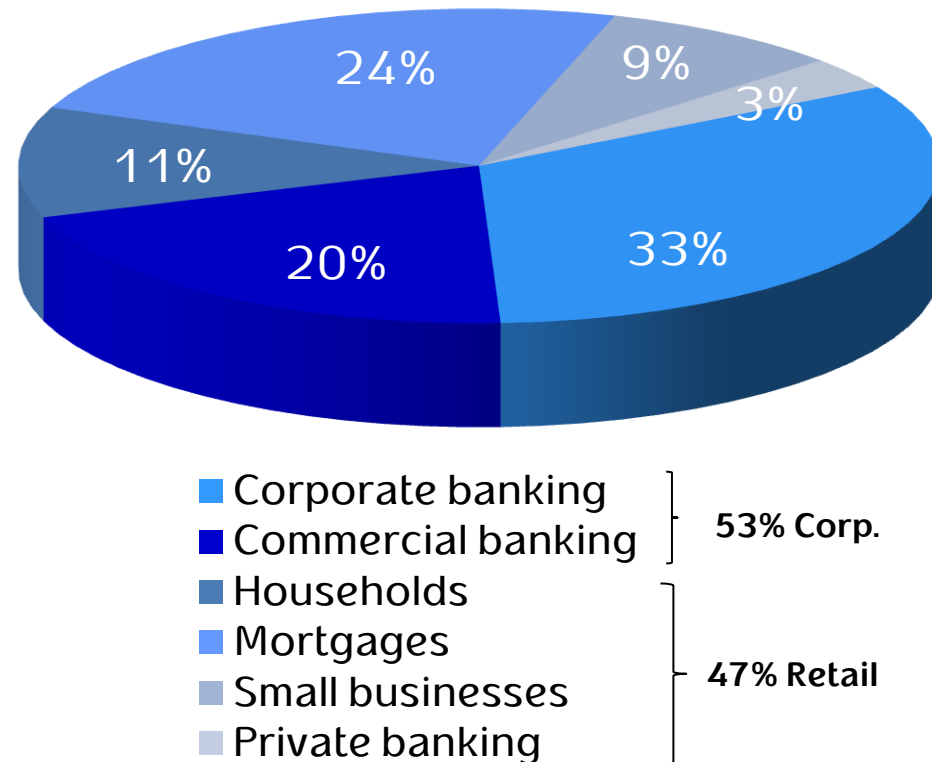
*Decline in capital primarily impacted by implementation of new directives, a decrease in the value of the available-for-sale portfolio and a dividend distribution

Increased diversification of credit portfolio

Growth of loan portfolio by segment
2005–1H 2011, CAGR, %



Composition of loan portfolio by segment, 1H'11



Building on diversification & core banking activities

NIS millions

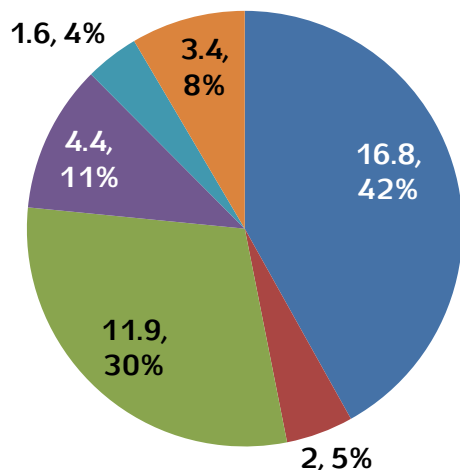
Net operating profit	1H 2011	1H 2010	Δ%	Contribution to profit %
Households	195	95	105.3	17.5
Small businesses	184	126	46.0	16.5
Corporate banking	522	519	0.6	46.8
Commercial banking	234	208	12.5	21.0
Private banking	105	52	101.9	9.4
Financial management –capital markets and others	(125)	46	–	(11.2)
Total	1,115	1,046	6.6	100

Low risk: 62% of nostro investments are with governments and central banks

30 June 2011, NIS billions, %

NIS 40.1 billion securities portfolio
by asset class

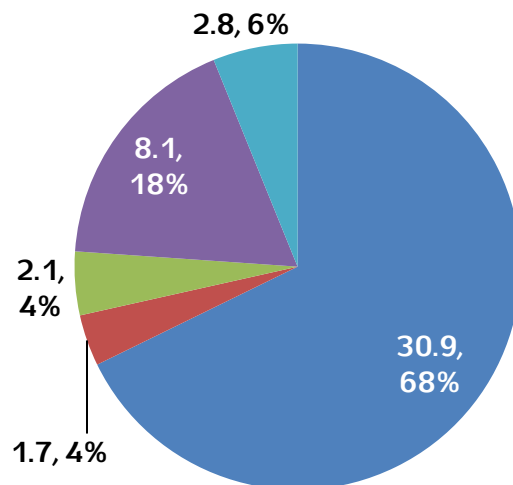
47% Governments



- Israeli Government Bonds
- Foreign Governments
- Bonds of Foreign Banks, Companies

NIS 45.6 billion deposits
with banks

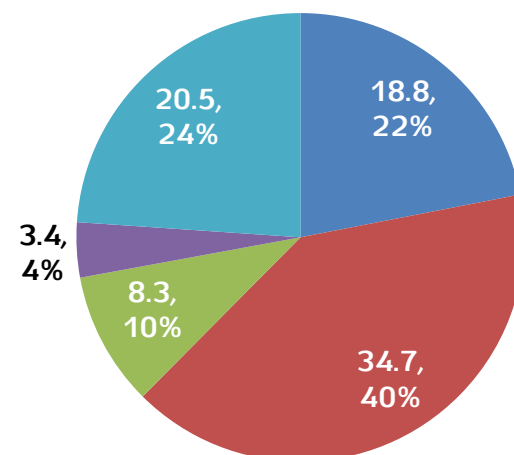
76% Central Banks & Cash



- Bank of Israel
- Central Banks
- Cash
- Banks and Fis
- Banks in Israel

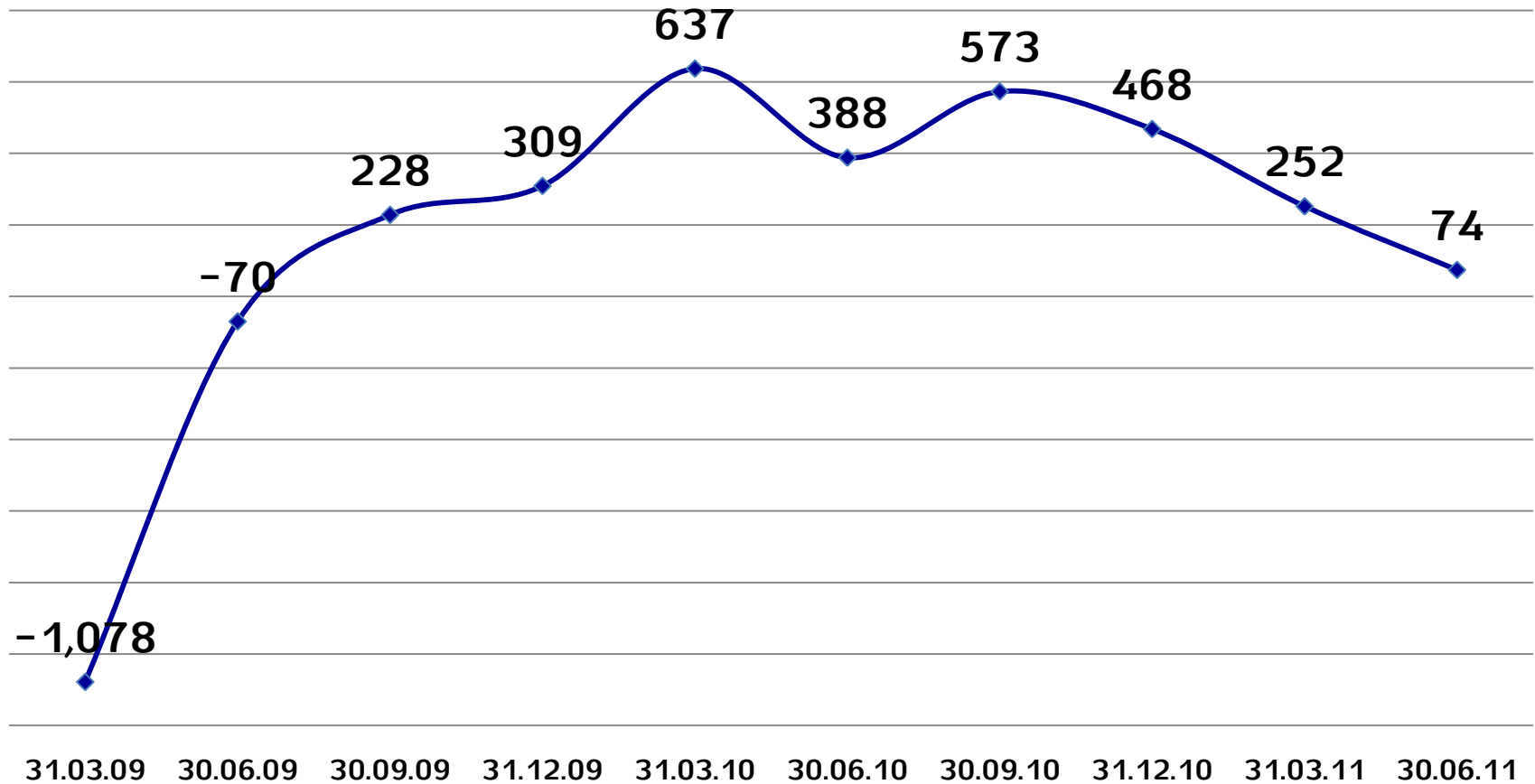
NIS 85.7 billion nostro portfolio
by counterparty

62% Govt's & Central Banks



- Governments
- Central Banks & Cash
- MBS/ABS and Other Bonds
- Shares and Funds
- Comm'l Banks and FIs

Other Comprehensive Income*



* Net balances in shareholders' equity (net adjustments in respect of available-for-sale securities)

Exposure to certain foreign countries

30 June 2011, NIS millions

Country	Credit to the public	Bonds	Bank deposits	Other	Total
Portugal	–	–	–	–	–
Ireland	6	57	–	1	64
Greece	10	–	–	1	11
Spain	9	453	18	37	517
Total	25	510	18	39	592

Current environment in banking sector presents significant challenges

Increasing regulatory pressure

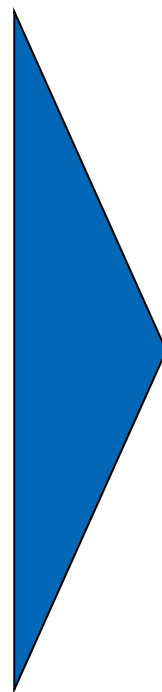
- Higher capital requirements
- Tougher liquidity requirements
- Higher funding costs

Challenging economic environment

- Fundamental issues in Europe and US yet to be resolved
- Mixed economic growth prospects

A new customer imperative

- Shifting behaviors and preferences
- Fueled by technological innovation and the digital revolution



How to grow or even maintain profitability levels?

Leumi is well positioned in this challenging environment

- ✓ Diversified business model
- ✓ Market leading position
- ✓ High quality loan portfolio
- ✓ Conservative nostro portfolio
- ✓ Low leverage and high liquidity
- ✓ Strong capital position

Key targets

- Increase Leumi's market share in the retail sector by targeting high potential segments, such as small businesses, the young, and ultra-Orthodox segments.
- Maintain Leumi's leadership position in the middle market sector
- Broaden the scope and volume of business services to institutional customers
- Implement substantial cost saving and efficiency initiatives, such as the "Advancing Together" project in the Retail Banking Division
- Improve the profitability of overseas subsidiaries by streamlining activities and creating economies of scale
- Continue to upgrade risk management capabilities, tools and processes

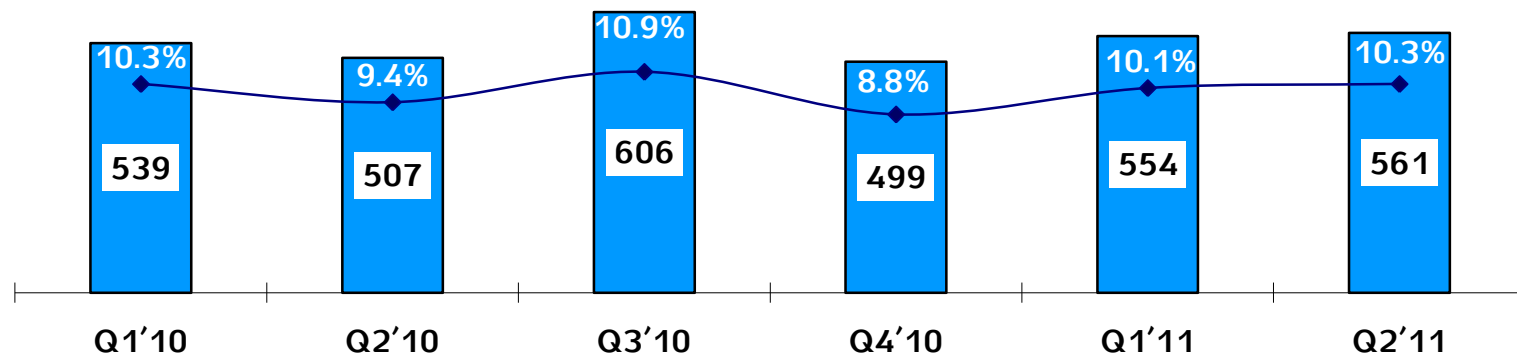
Appendix: Additional financial data

- Net operating profit and net profit by quarter
- Net interest income
- Problematic debts
- Indices according to the directive for the measurement and disclosure of impaired debts, credit risk and allowance for credit losses
- Total operating and other income
- Operating commissions
- Cost/Income Ratio

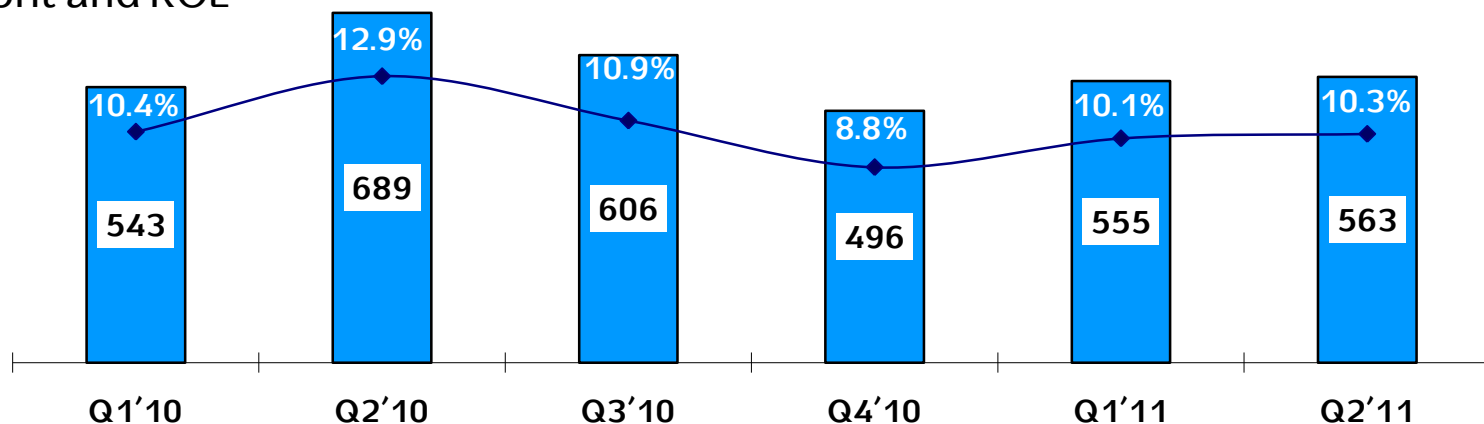
Sustainable growth while strengthening capital

NIS millions

Net Operating Profit and ROE*



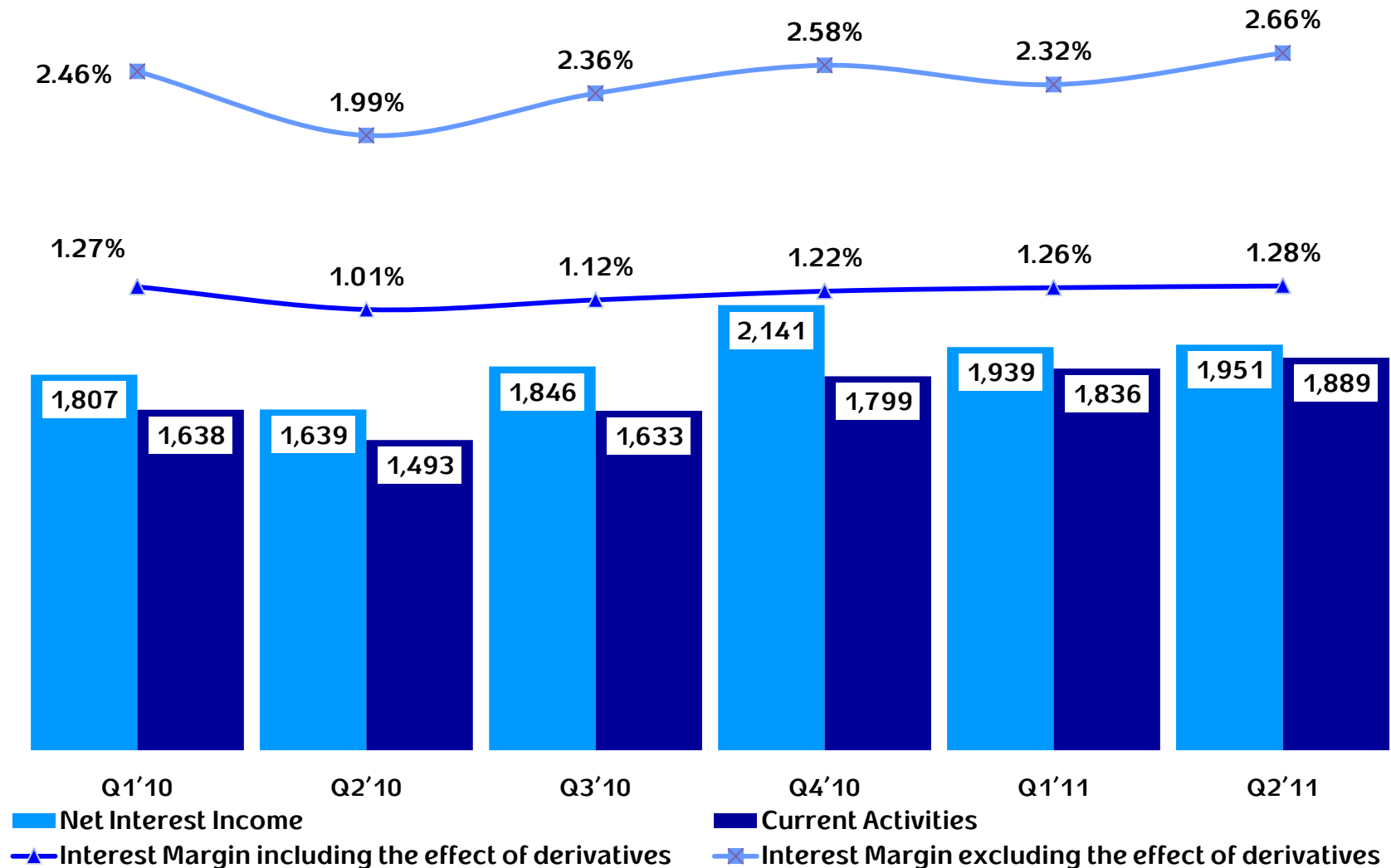
Net Profit and ROE*



- * 1. Effective Jan. 1, 2011 net profit and net operating profit attributable to the shareholders of the banking corporation.
2. All figures on this slide have been restated as per the directives regarding the strengthening of internal control on financial reporting of employee rights

Net interest income remains impacted by low interest rate environment

NIS millions



Problematic Debts

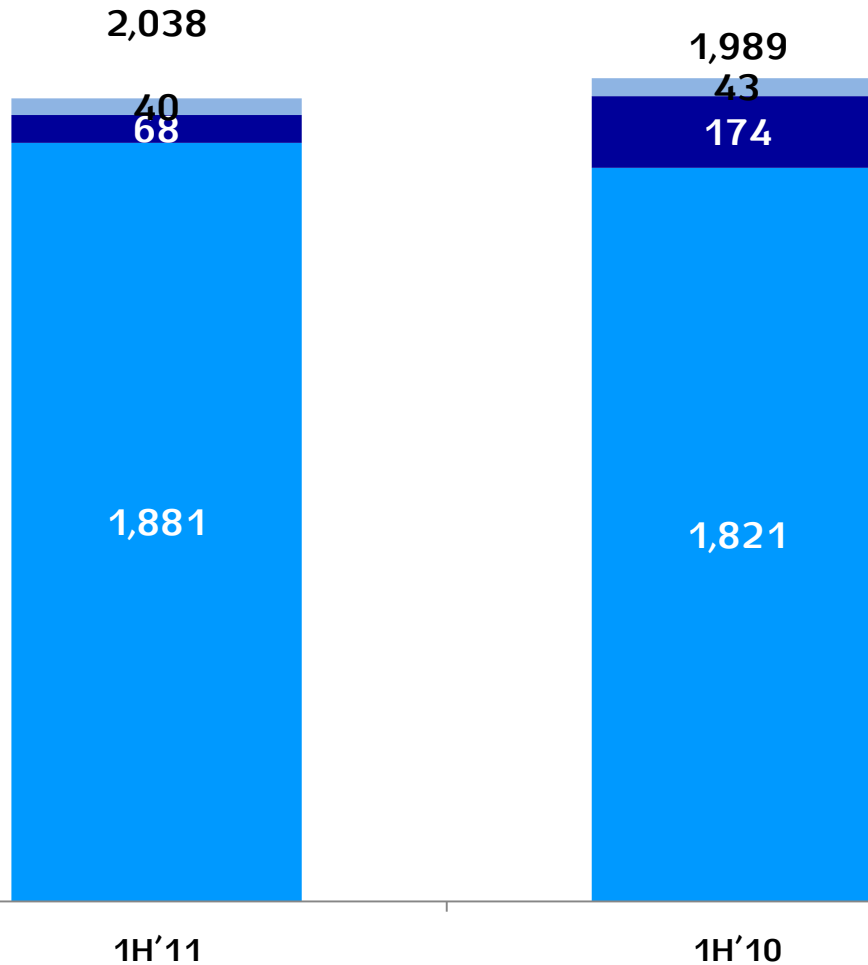
	30.06.11	31.12.10
A. Problematic Debts		
Impaired	4,982	5,723
Substandard	810	969
Special mention	3,427	3,142
Total balance sheet credit	9,219	9,834
Off-balance sheet credit risk	897	1,610
Bonds of problematic borrowers	401	942
Other assets in respect of derivative instruments of problematic borrowers	13	13
Total overall credit risk	10,530	12,399
B. Aggregate allowances for credit losses		
Individual allowances	2,328	3,379
Group allowances	2,372	2,396
C. Non-performing (before allowances)	7,205	9,001
Interest bearing impaired debts	128	65

Indices of credit risk according to the new directives

In percentage	30 June 2011	31 December 2010
Balance of impaired credit to the public not accruing interest income as a percentage of the balance of credit to the public	3.1	3.9
Balance of credit to the public which is not impaired in arrears of 90 days or more as a percentage of the balance of the credit to the public	0.7	0.5
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public	1.9	2.4
Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of impaired credit to the public not accruing interest income	60.8	60.5
Problem commercial credit risk in respect of credit to the public as a percentage of total credit risk in respect of credit to the public	3.3	4.5

Total operating and other income

NIS millions



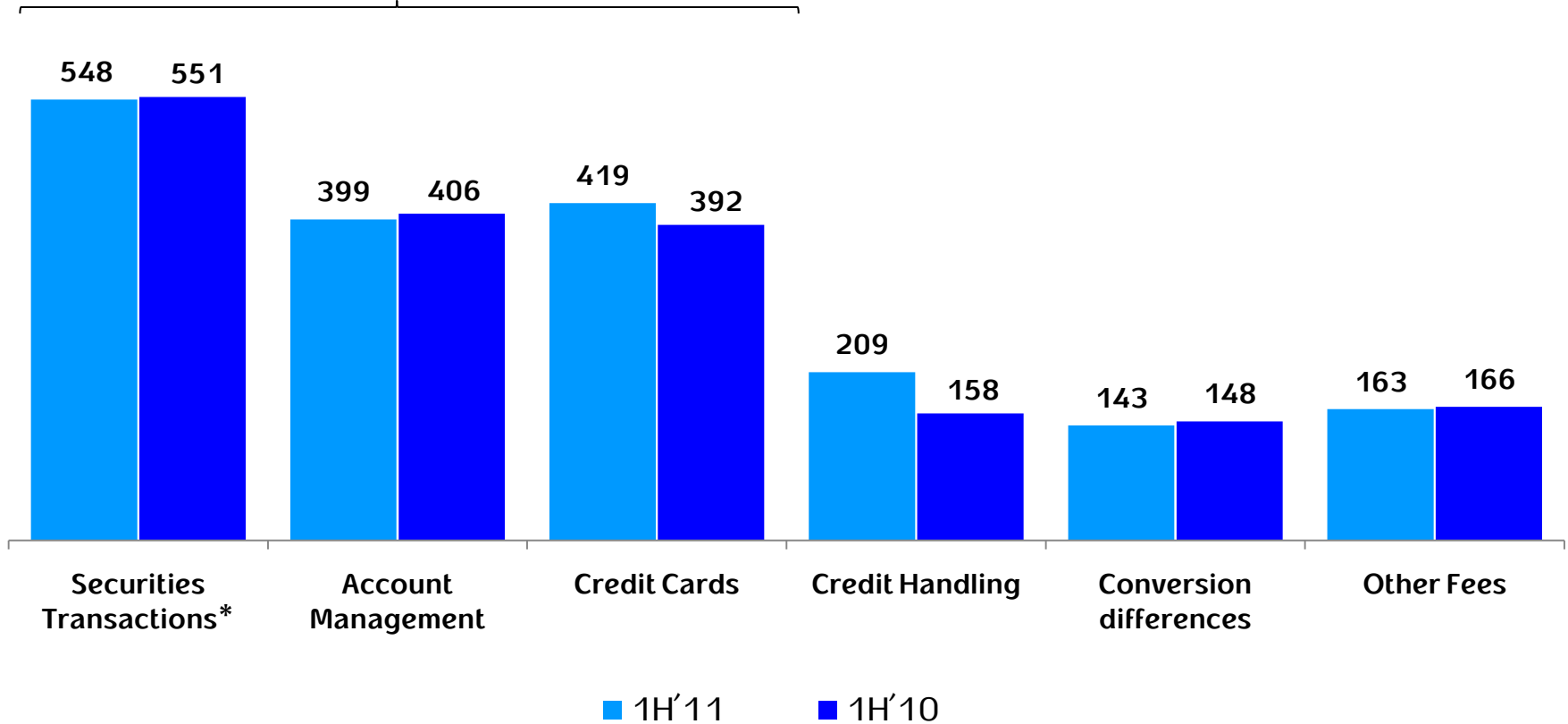
- YoY mainly impacted by capital market activities
- Income from commissions increased by 3%

■ Operating commissions ■ Profits from investments in shares ■ Other income

Operating commissions constitute 94% of total operating income

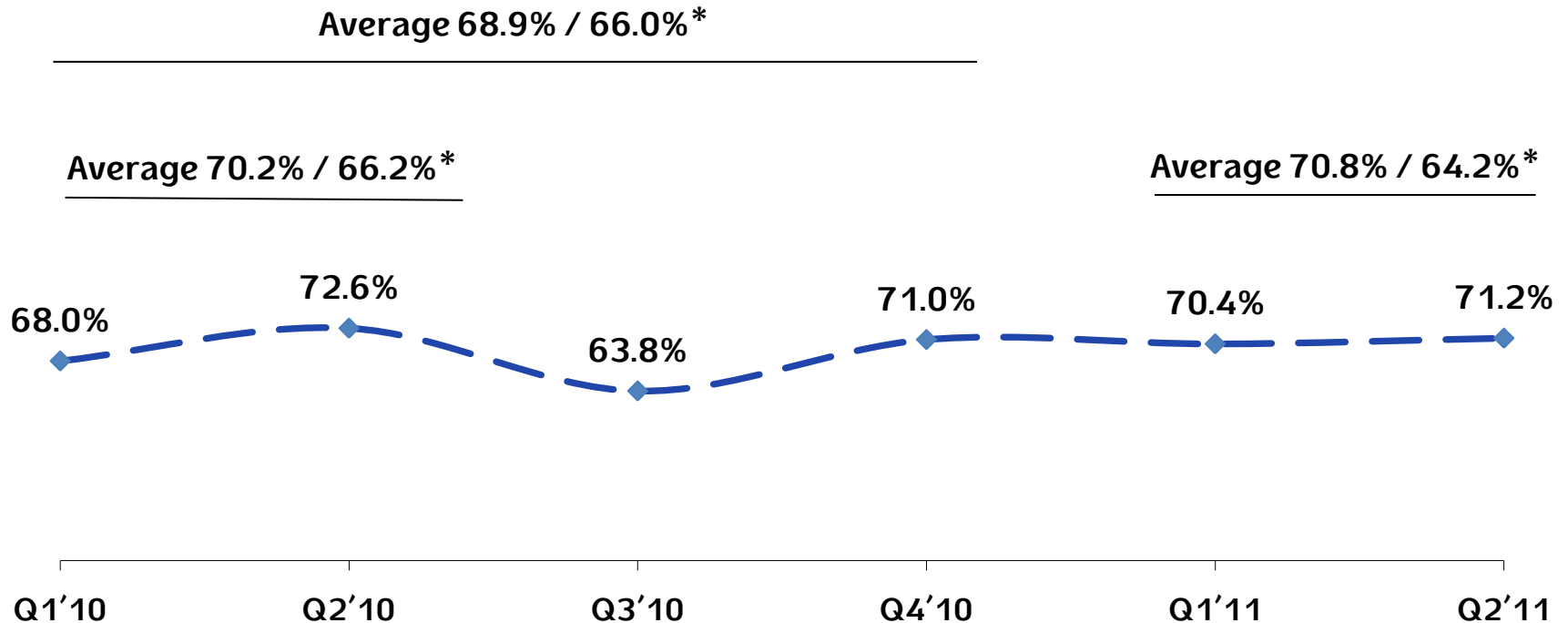
NIS millions

73%



*Includes financial product distribution commissions

Cost/Income ratio



The directive regarding the strengthening of internal control on financial reporting of employee rights was implemented as of 30 June 2011 and presented as a restatement of retained earnings as of 31 December 2008

*Upon neutralizing special salary expenses

Thank You

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Wherever you wish to go, Leumi is with you

