

# Leumi Group

## First Half 2012 Financial Results Discussion



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# The Israeli economy

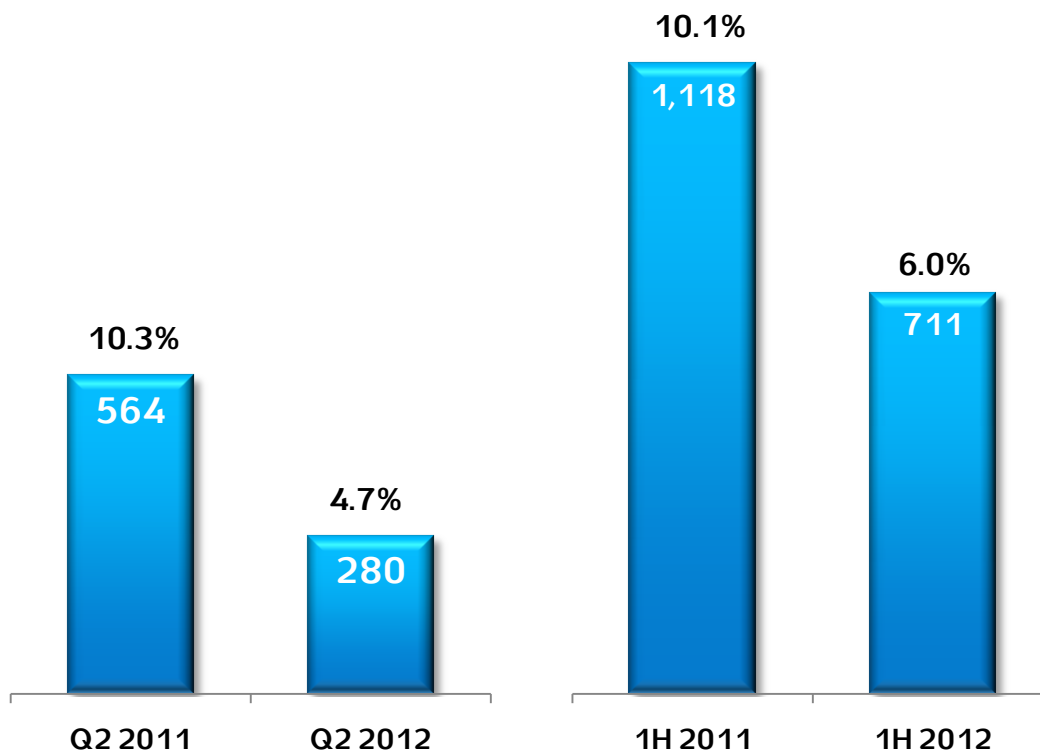
- 3% GDP forecast continues to outpace that of other developed economies
- Government deficit increased due to tax revenue shortfall
- Declining trend of debt/GDP coming to a halt and likely to rise temporarily
- Current account remains balanced
- Unemployment expected to rise slightly
- Inflation remains in 1-3% target
- Shekel depreciated in real terms vis a vis the currency basket

Main Macroeconomic Variables	2011	2012*	2013*
Annual Rates of Change, Real Terms			
GDP	4.8%	2.8%	3.3%
Gross product of the business sector	5.3%	2.8%	3.6%
Percentage of GDP			
Current account surplus(+)/deficit (-)	0.1%	-0.6%	0.0%
Government budget surplus (+)/deficit (-)	-3.3%	-3.9%	-4.3%
Government debt	73.0%	75.0%	76.0%
Annual Average			
Unemployment rate (using new data definitions)	6.9%	7.2%	7.5%
Additional Data			
Consumer price index, year-end change	2.2%	2.6%	1.2%
Shekel / US\$ average exchange rate	3.58	3.91	4.05
Bank of Israel average interest rate	2.9%	2.4%	2.0%

\*Leumi forecast, main scenario

# Net profit and RoE

NIS millions



## Decrease in net profit explained mainly by:

- NIS 587m increase in expenses for credit losses
- NIS 160m impairment in Partner Communications
- NIS 62m decrease in commissions
- Above items partially offset by:
- NIS 165m increase in interest income
- NIS 110m increase in non-interest financing income (after cancelling effect of impairment in Partner Communications)

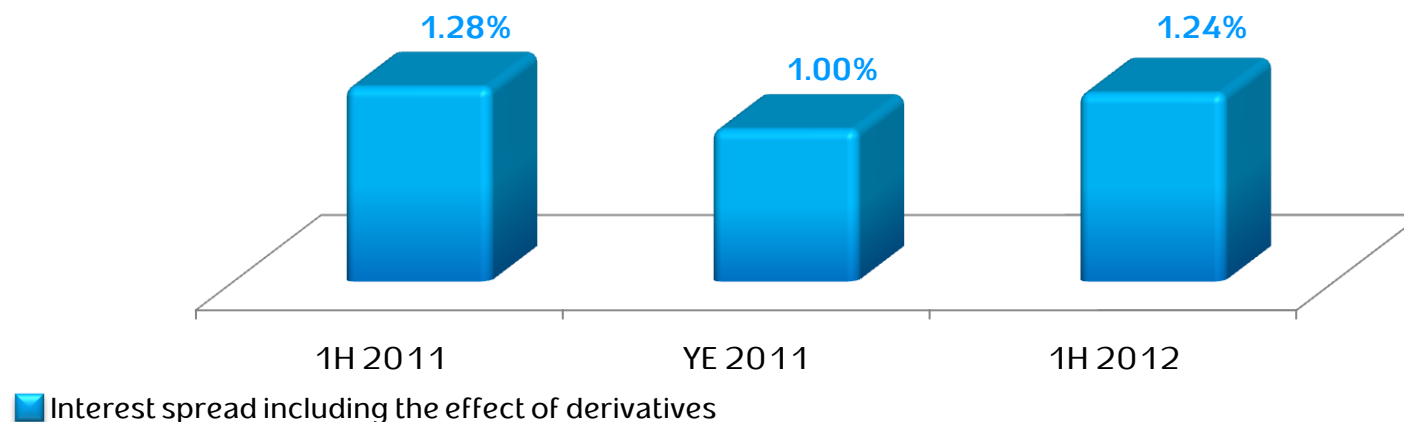
# Financial performance

NIS millions

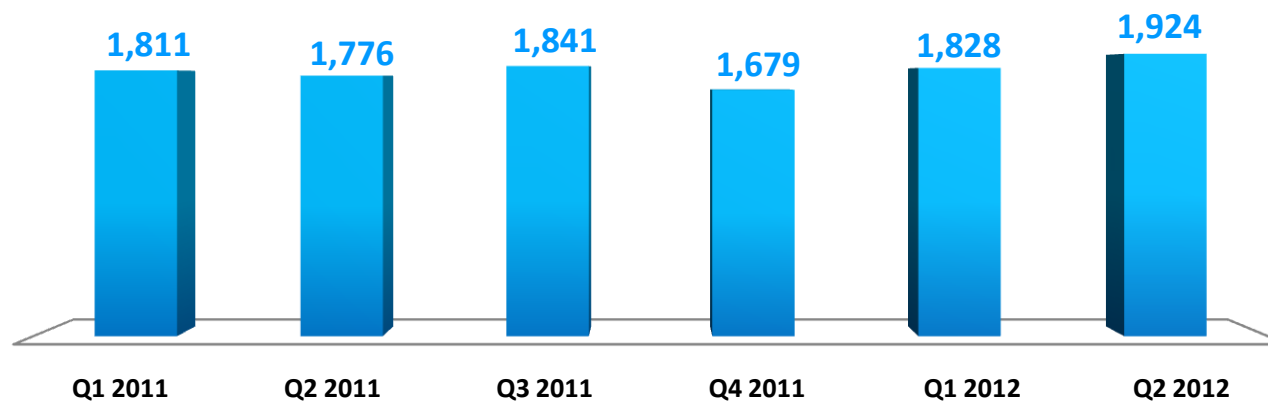
	1H 2012	1H 2011	Δ	Δ%
Net Interest income	3,752	3,587	165	4.6
Noninterest income	2,172	2,297	(125)	(5.4)
Total Income	5,924	5,884	40	0.7
Expenses (income) in respect of credit losses	558	(29)	587	+
Operating and other expenses	4,195	4,165	30	0.7
Pre-tax profit	1,171	1,748	(577)	(33.0)
Provision for tax	465	632	(167)	(26.4)
Profit after tax	706	1,116	(410)	(36.7)
Share of bank in associated companies	24	30	(6)	(20.0)
Net profit attributable to non-controlling interests	(19)	(28)	9	+
Net Profit	711	1,118	(407)	(36.4)

# Net interest income and interest spread

## Interest margin, accumulated for the period end

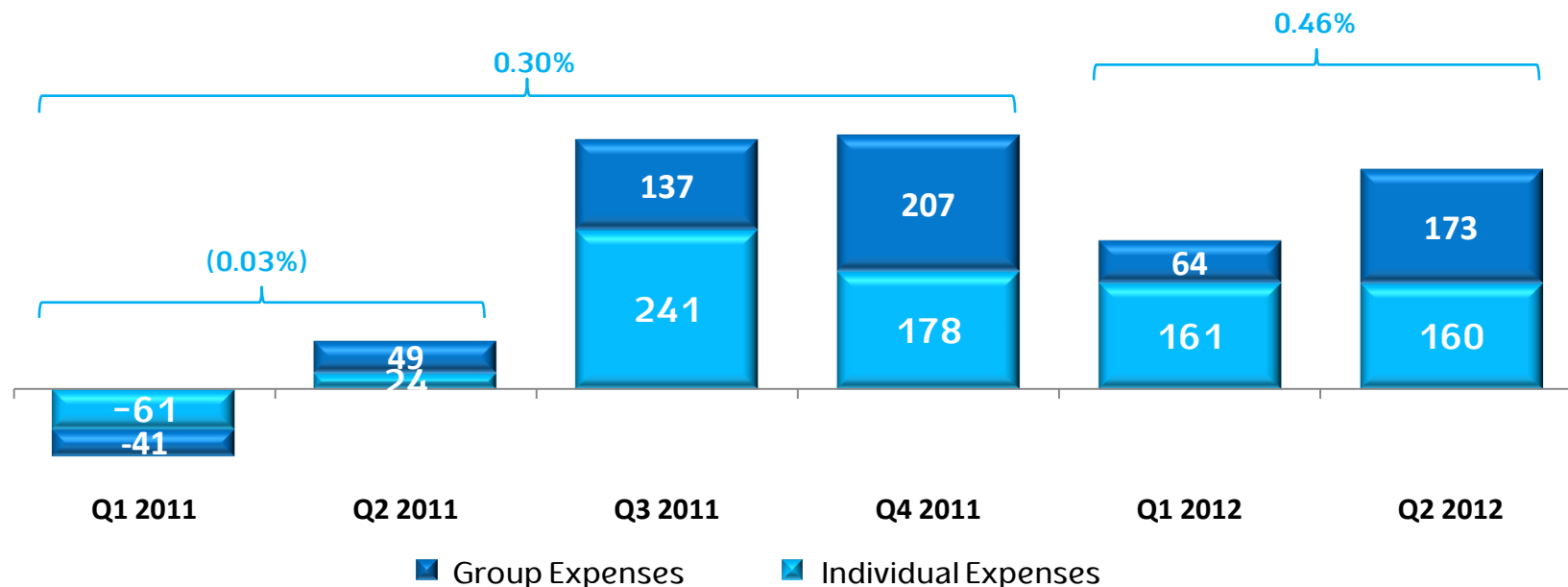


## Net interest income, in NIS millions



# Expenses for credit losses

NIS millions



In %	2011					2012	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Individual expenses/total credit to the public	(0.11)	0.04	0.41	0.30	0.16	0.27	0.27
Group expenses/total credit to the public	(0.07)	0.09	0.23	0.34	0.14	0.10	0.29
Total expenses/total credit to the public	(0.18)	0.13	0.64	0.64	0.30	0.37	0.56

# Non-interest income

NIS millions

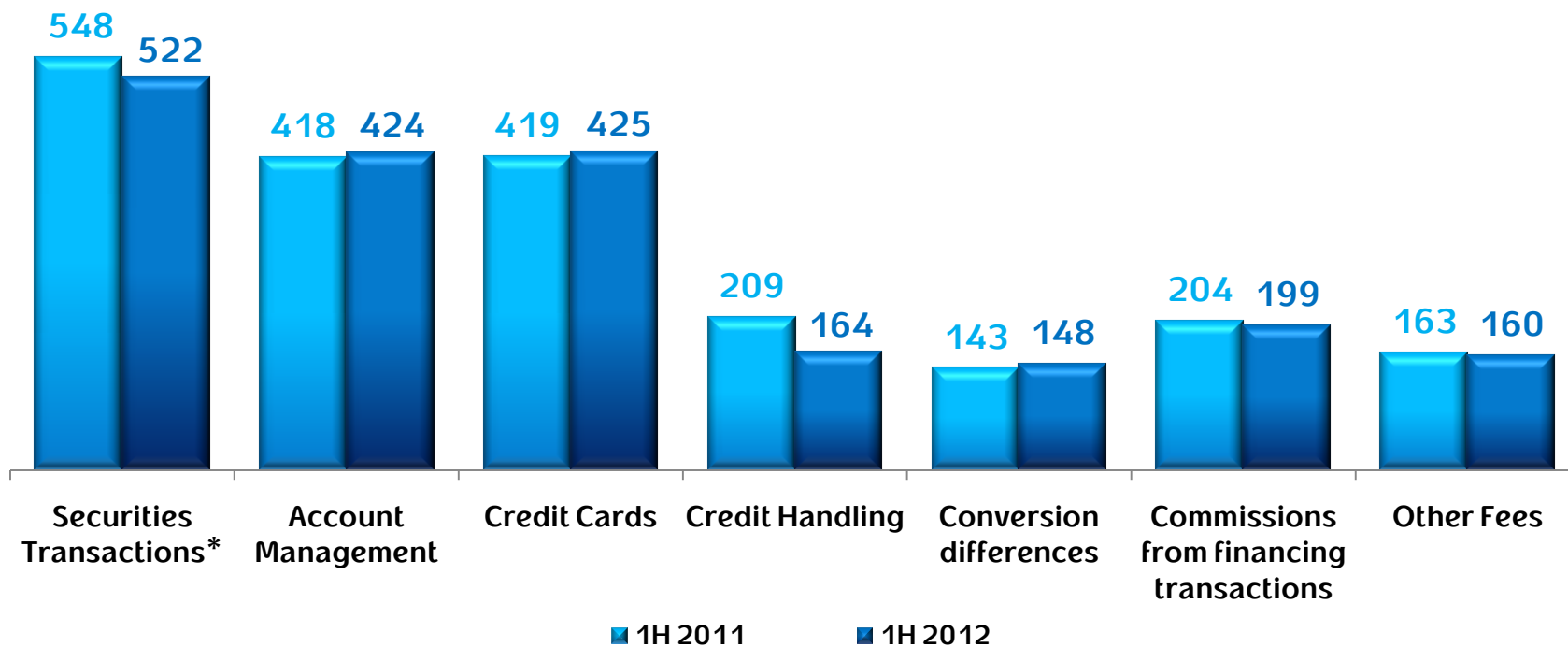
	1H 2012	1H 2011	Δ	Δ%
Operating Commissions	2,042	2,104	(62)	(2.9)
Non-interest financing income*	120	170	(50)	(29.4)
Other income	10	23	(13)	(56.5)
<b>Total</b>	<b>2,172</b>	<b>2,297</b>	<b>(125)</b>	<b>(5.4)</b>

\* Includes impairment for Partner Communications of NIS 160 million



# Diversified commission revenues

NIS millions



\*Includes financial product distribution commissions

# Non-interest financing income

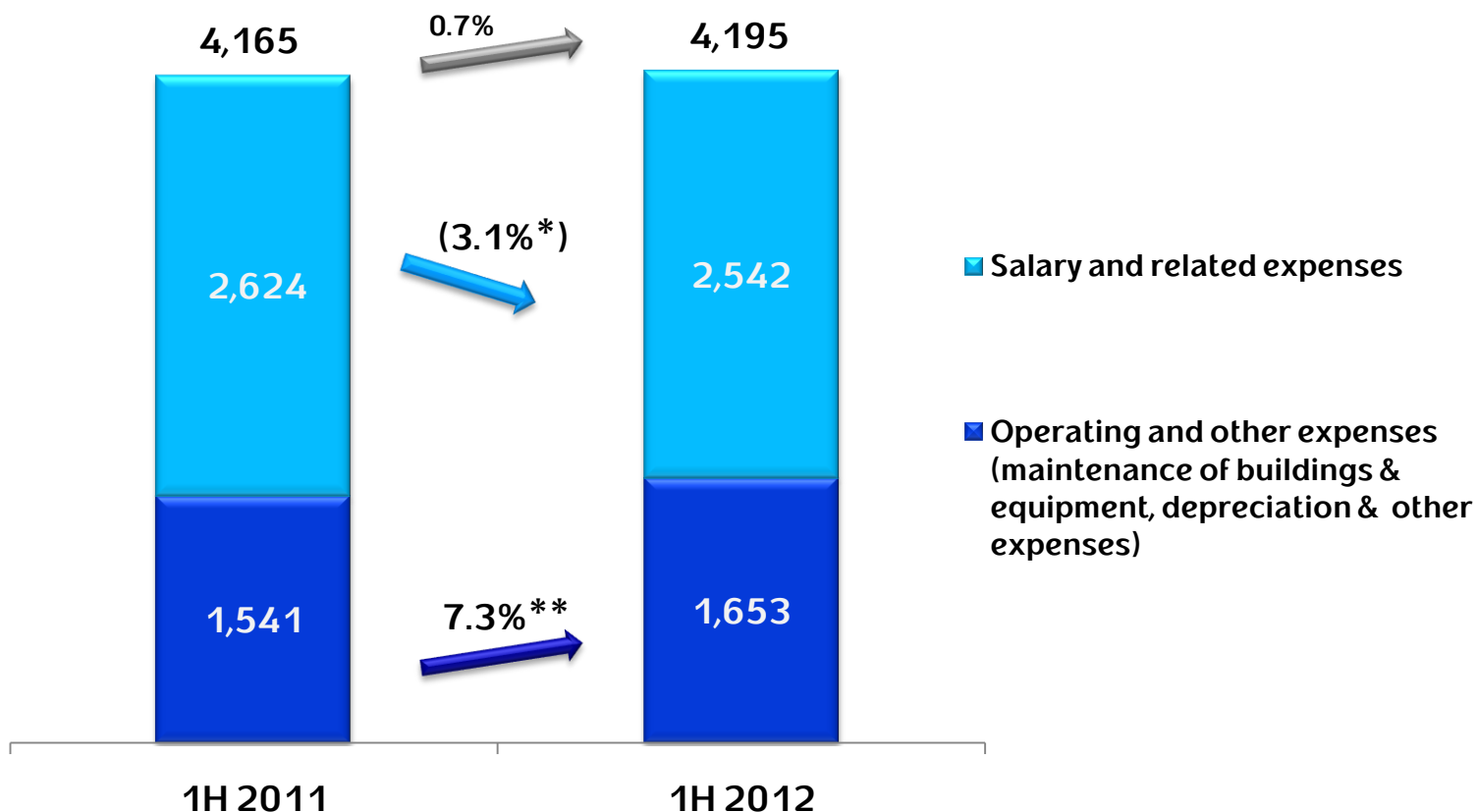
NIS millions

	30.6		Δ	Δ%
	2012	2011		
Income (expenses) in respect of derivatives and exchange rate differentials, net	(54)	11	(65)	-
Profits from sale of available- for -sale bonds, net	126	142	(16)	(11.3)
Profits (losses) from investment in shares, including dividends*	(48)	67	(115)	-
Profits (losses) realized and unrealized from adjustment to fair value of bonds and shares for trading, net	96	(50)	146	+
<b>Total</b>	<b>120</b>	<b>170</b>	<b>(50)</b>	<b>(29.4)</b>

\* Includes impairment for Partner Communications of NIS 160 million

# Total operating and other expenses

NIS millions

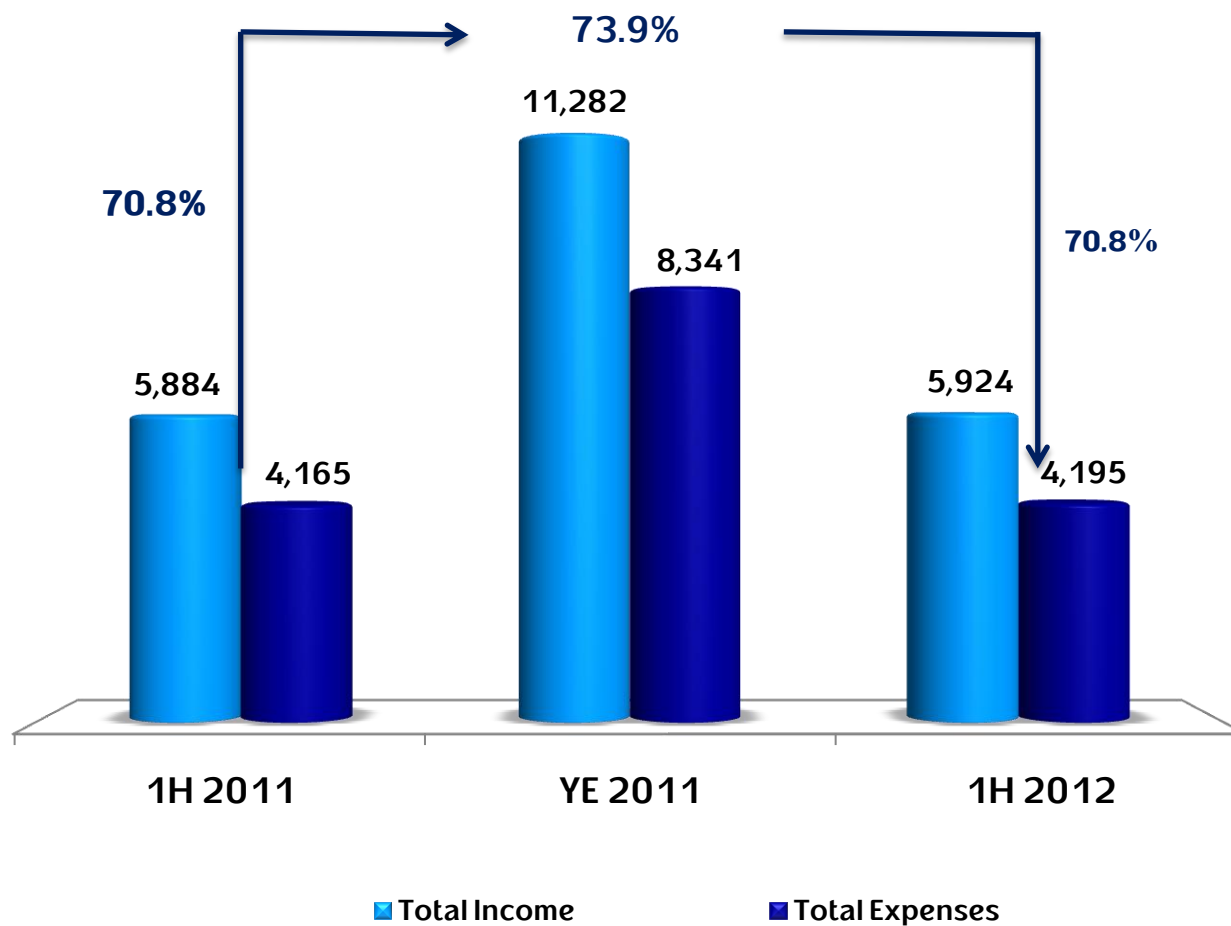


\*Decrease mainly due to profits recorded in 1H 2012 in the severance pay and provident funds, compared with losses in 1H 2011, partially offset by initial merger of Banque Safdie

\*\*Mainly due to initial consolidation of Banque Safdie, cancellation of provisions for legal claims in 1 H 2011, increase in depreciation and building maintenance and computer expenses

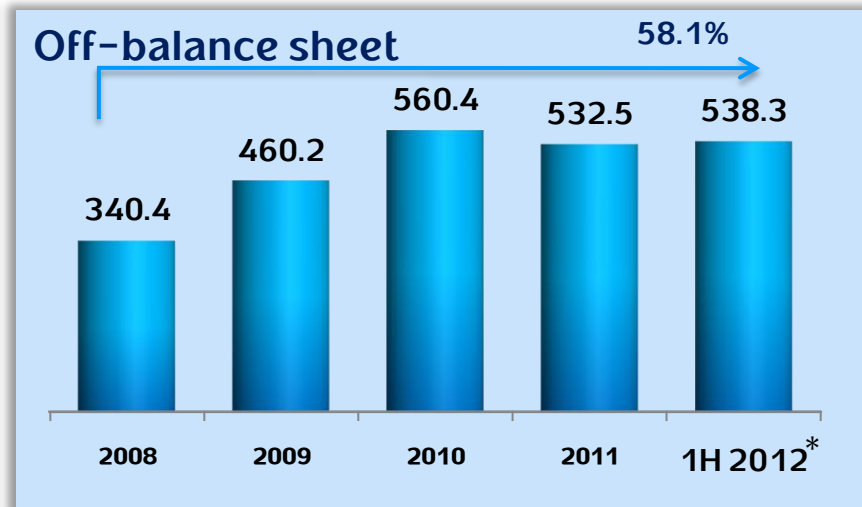
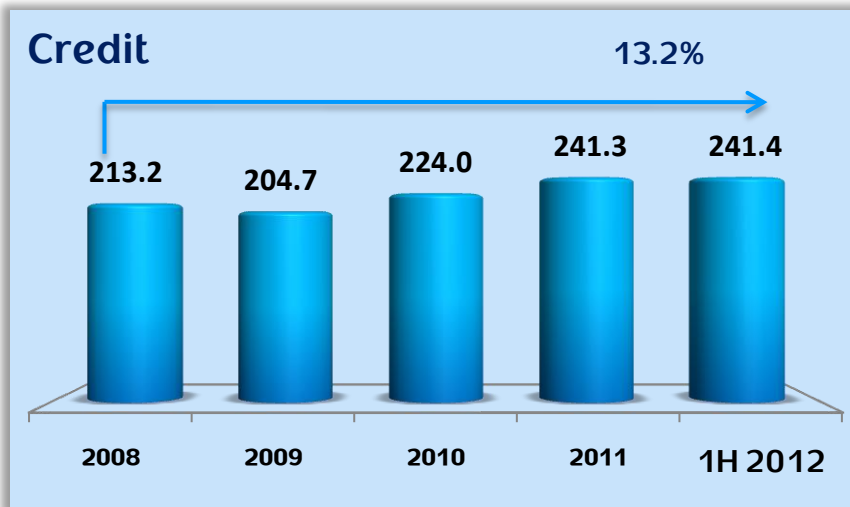
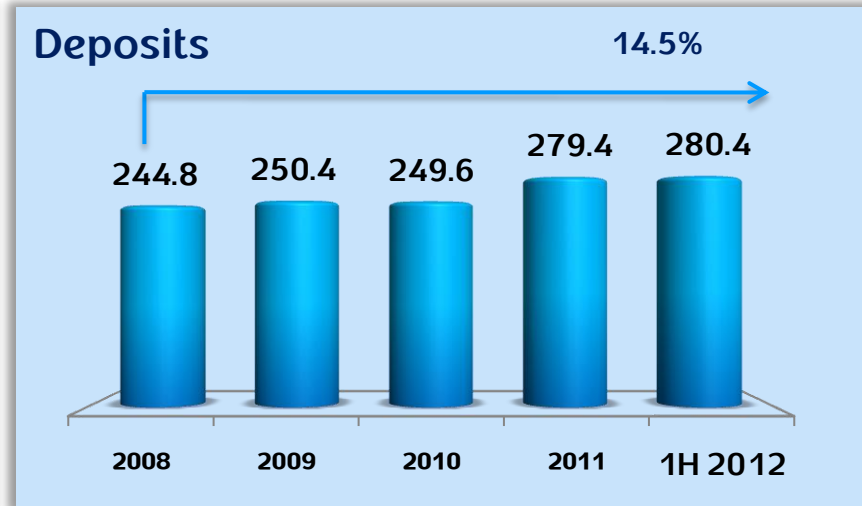
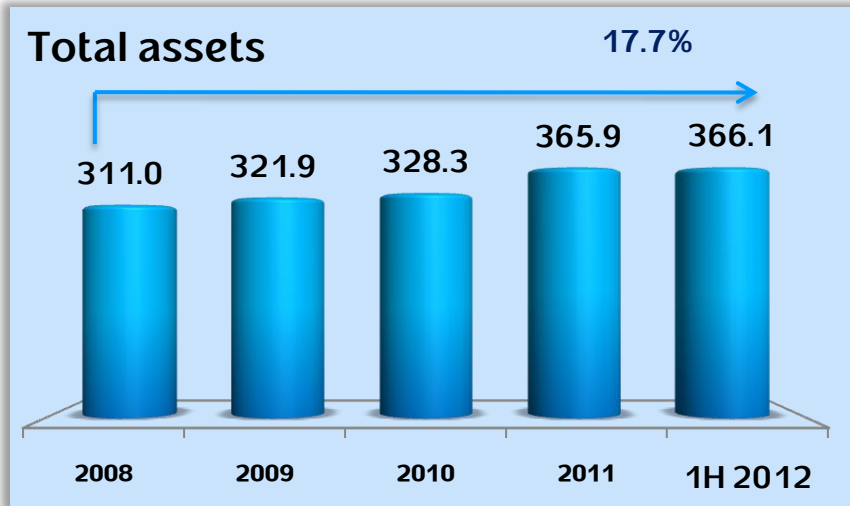
# Cost/Income Ratio

NIS millions



# Long-term balance and off-balance sheet growth

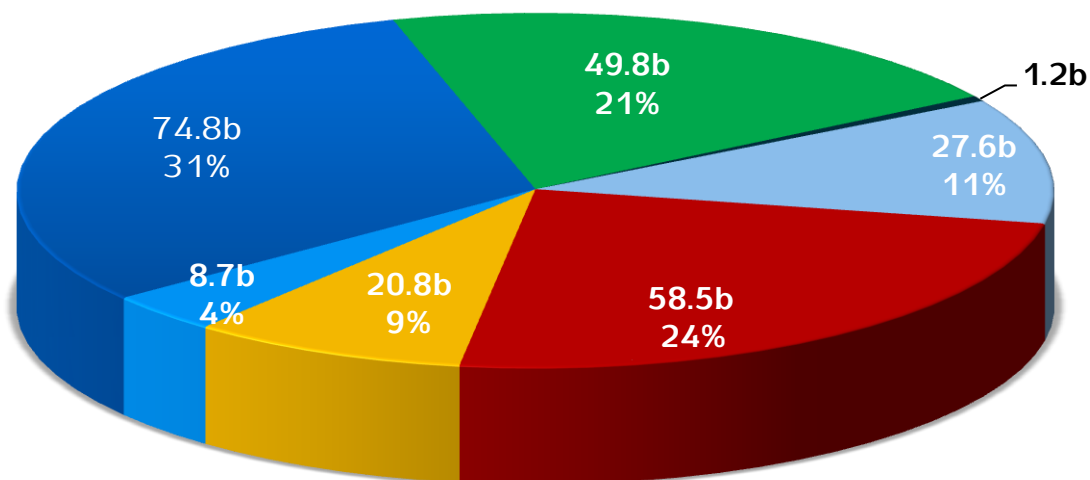
NIS millions



\* Increase mainly reflects initial merger with Banque Safdie

# Diversified credit portfolio

Composition of loan portfolio by segment, NIS billions, %, 30.6.2012



Households

Mortgages

Small businesses

Private banking

Corporate banking

Commercial banking

Financial management, capital markets & others

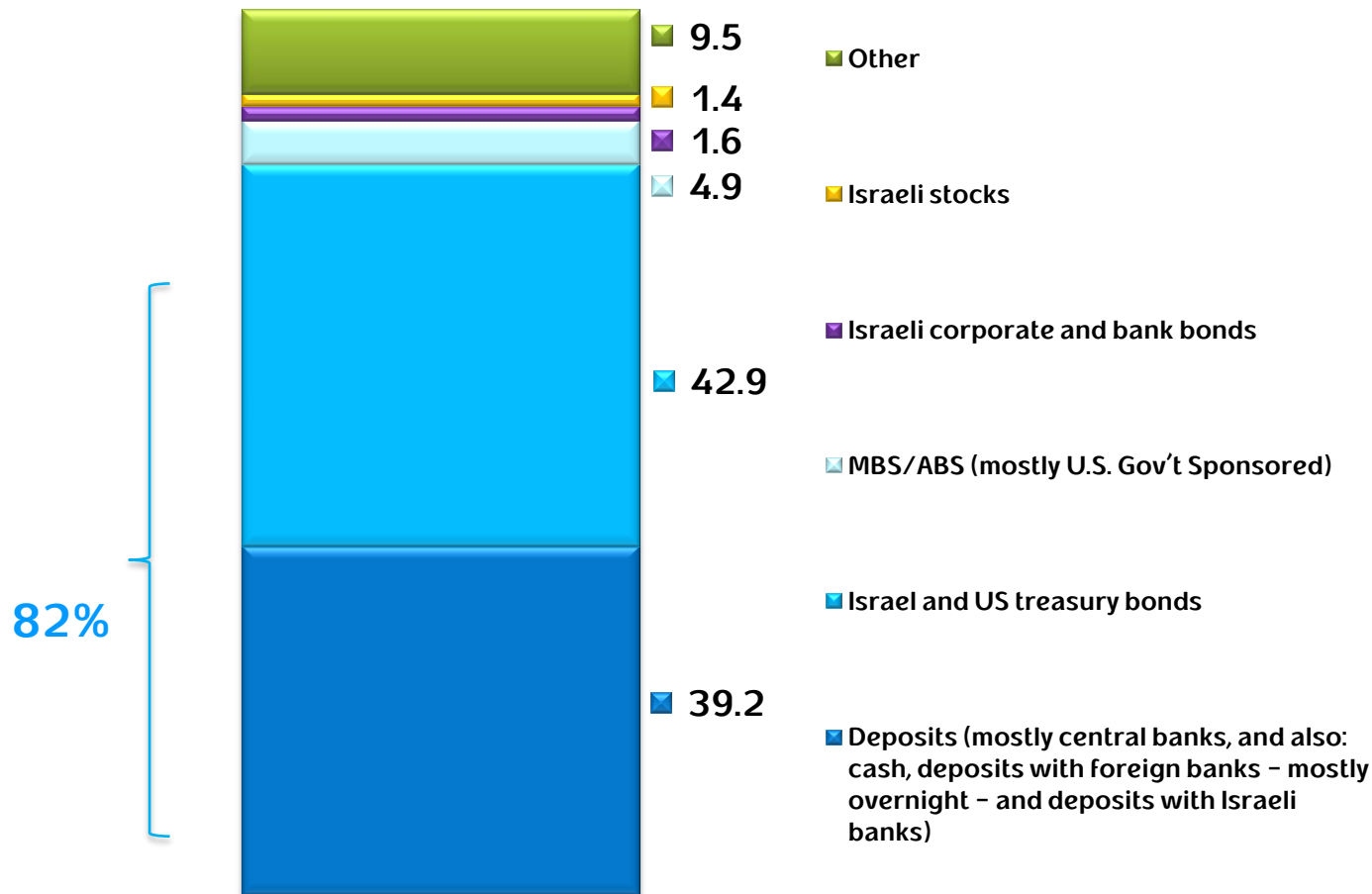
**48%**

**52%**

# 82% of nostro investments in Israel & US gov't bonds and deposits

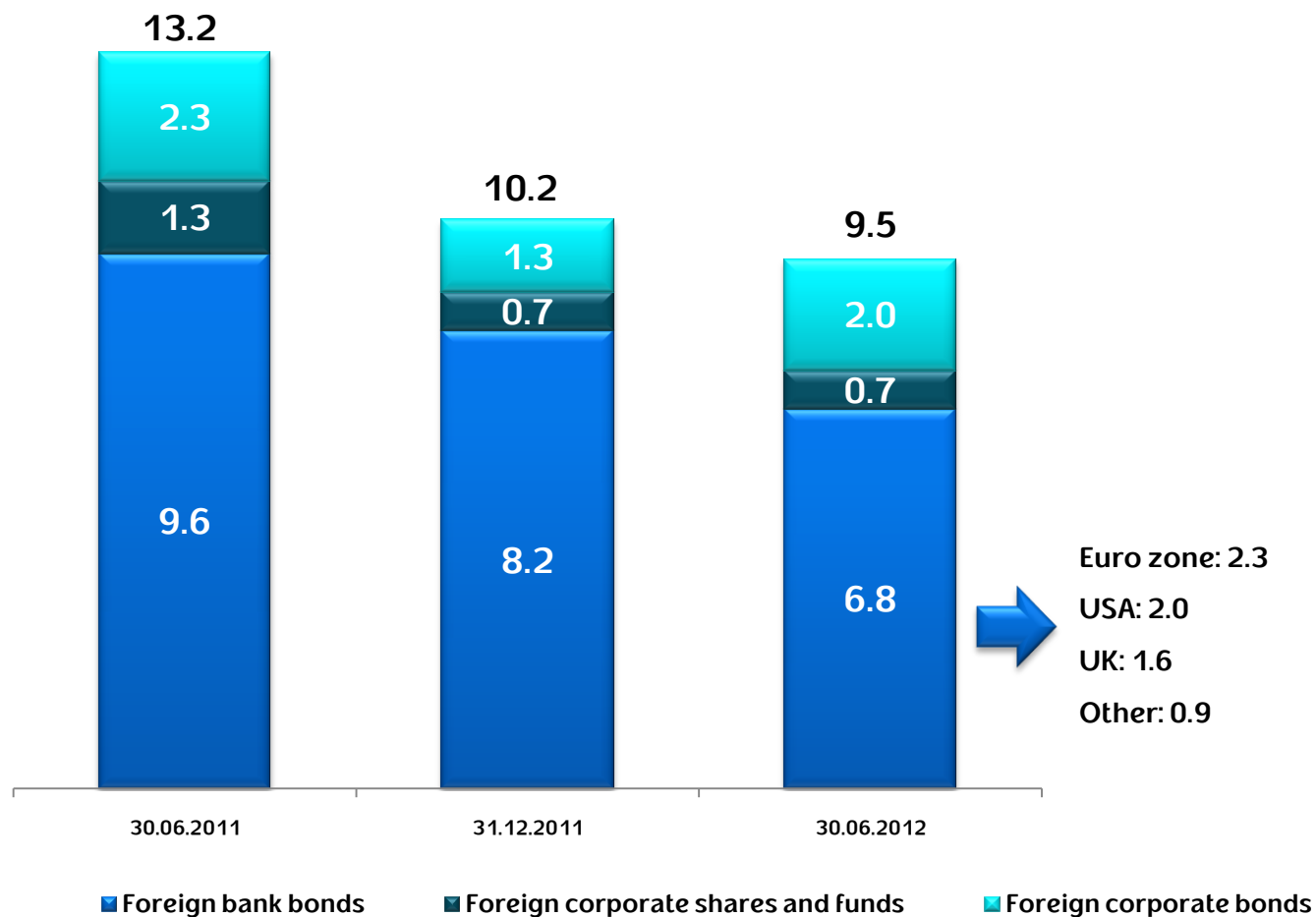
NIS billions, 30.06.2012

## NIS 99.5 billion nostro portfolio



# Composition of "Other" (foreign exposure to corporate shares & funds and corporate & bank bonds)

NIS billions





# Exposure to certain foreign countries

NIS millions, 30.6.2012

Country	Credit to the public	Bank bonds and others	Bank deposits	Other	Total as at	
					30.6.2012	31.12.2011
Greece	3	-	-	-	3	6
Ireland	4	2	-	-	6	8
Italy	59	240 <sup>1</sup>	10	7	316	472
Portugal	-	-	-	-	-	-
Spain	115	188 <sup>2</sup>	3	7	313	510
<b>Total</b>	<b>181</b>	<b>430<sup>3</sup></b>	<b>13</b>	<b>14</b>	<b>638</b>	<b>996</b>

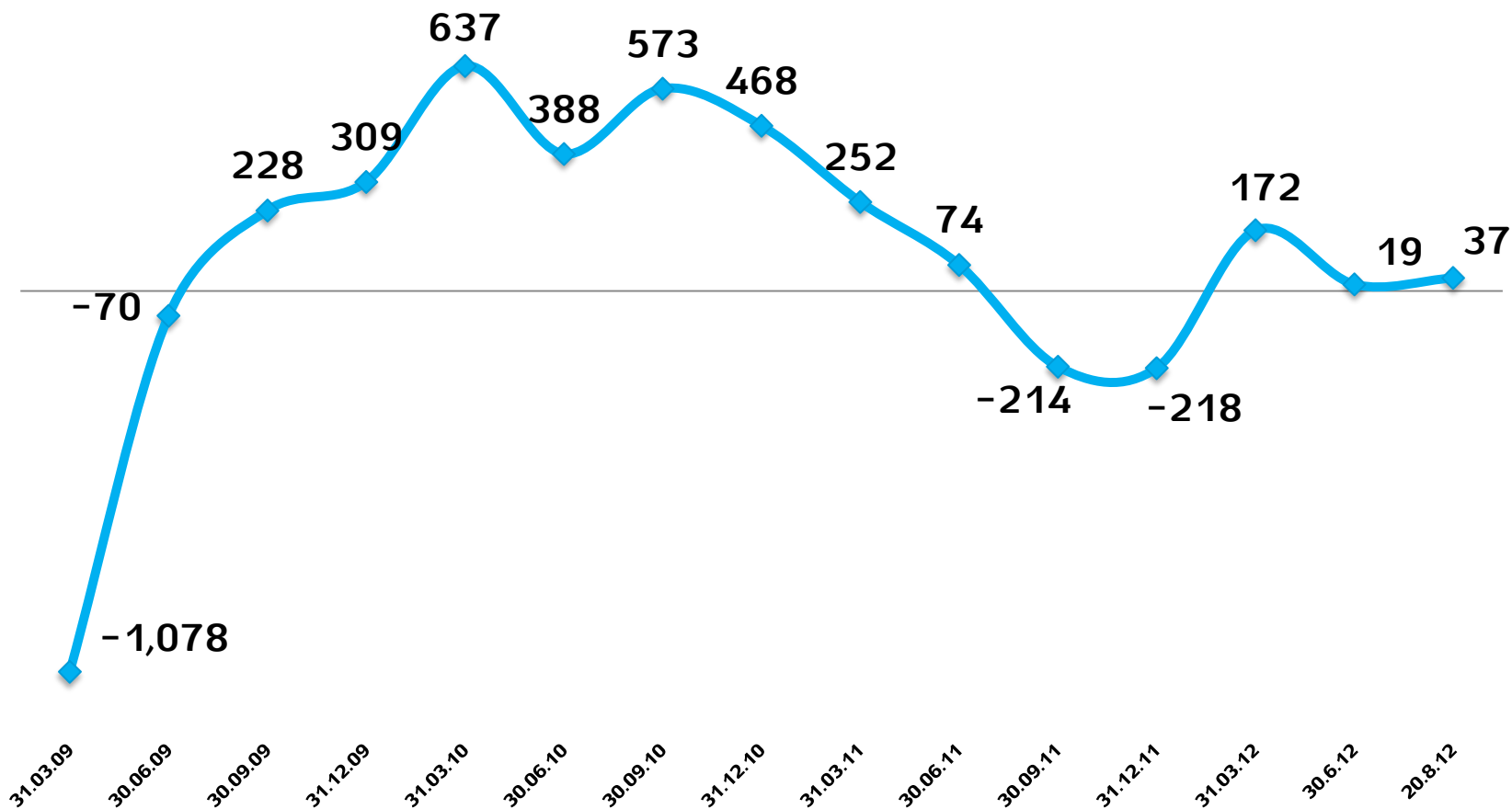
1. Exposure is to bonds of Bank Intesa

2. Most of the bond exposure is to Santander Bank, the majority of whose revenues are from sources outside of Spain

3. A reduction of NIS 37.1 million since year end, 46%.

# Other Comprehensive Income\*

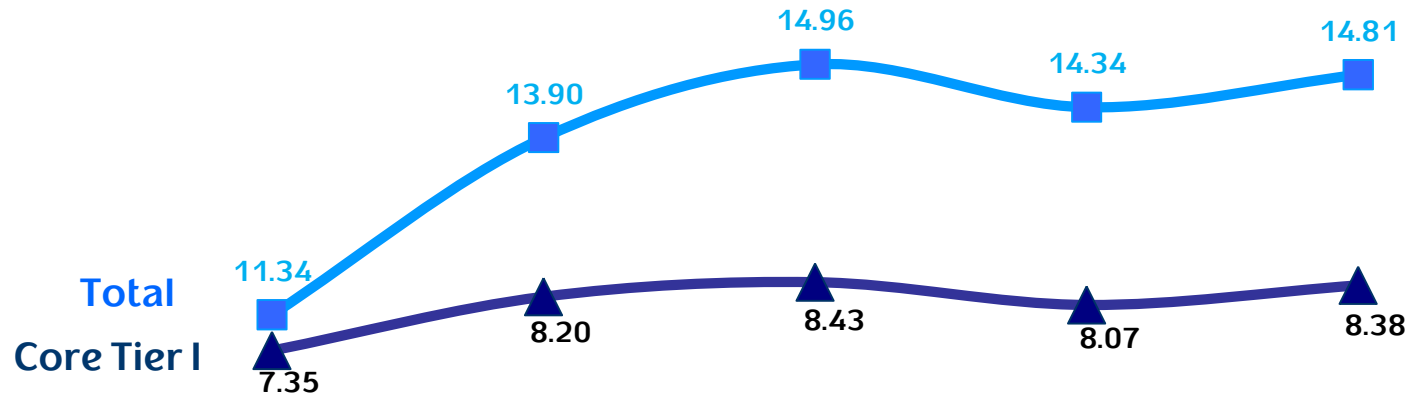
NIS millions



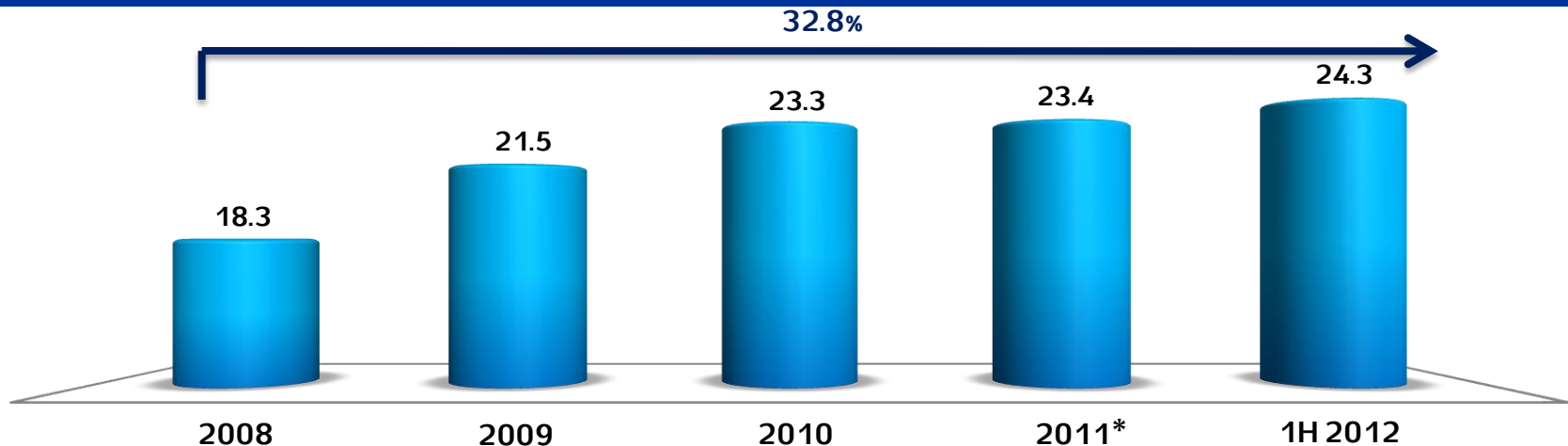
\* Net balances in capital (net adjustments in respect of available-for-sale securities)

# Capital: positioned to meet regulatory requirements

## Capital to risk weighted assets, %



## Capital development, NIS billions



\*The increase in capital mainly derives from the profit for the year, which was partially offset by implementation of new directives (NIS 721m), a decrease in the value of the available-for-sale securities portfolio (NIS 686m) and a dividend distribution (NIS 400m).

# Structural strengths

- Diversified business model
- Market leading position
- Quality & diversified loan portfolio
- Conservative nostro portfolio
- Low leverage and high liquidity
- Strong capital position

## Slide:

- 22: Strong and stable credit ratings
- 23: Problem debts
- 24: Net profit of the Group's principal profit centers
- 25: Net profit by segment: Building on diversification
- 26: Contribution to net profit of main Israeli subsidiaries
- 27: Contribution to net profit of main foreign subsidiaries

# Strong and stable credit ratings

	Fitch	Moody's	S&P
State of Israel	A	A1	A+
Bank Leumi	A-	A2	BBB+

Ratings on long term debt (deposits) of Bank Leumi, as at August 30, 2012. Current ratings in place since: Fitch, Feb. 2008; Moody's, April 2011; S&P, April 2009. Current rating outlook of all three rating agencies is stable.

# Problem debts

NIS millions

	30.06.2012			31.12.2011		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
Impaired debts	5,614	309	5,923	5,118	369	5,487
Substandard debts	1,860	221	2,081	1,118	78	1,196
Special mention debts	2,730	514	3,244	3,570	473	4,043
<b>Total</b>	<b>10,204</b>	<b>1,044</b>	<b>11,248</b>	<b>9,806</b>	<b>920</b>	<b>10,726</b>

# Net profit of the Group's principal profit centers

NIS millions

	1H 2012	1H 2011	% change
<b>The Bank</b>	360	675	(46.7)
<b>Consolidated companies in Israel*</b>	237	374	(36.6)
<b>Consolidated companies abroad</b>	109	48	127.1
<b>Companies included on equity basis (mostly Israel Corp. Ltd.)</b>	5	21	(76.2)
<b>Net profit</b>	711	1,118	(36.4)

\* Excluding impairment in Partner Communications, consolidated companies in Israel would have shown a 6.1% increase in profits



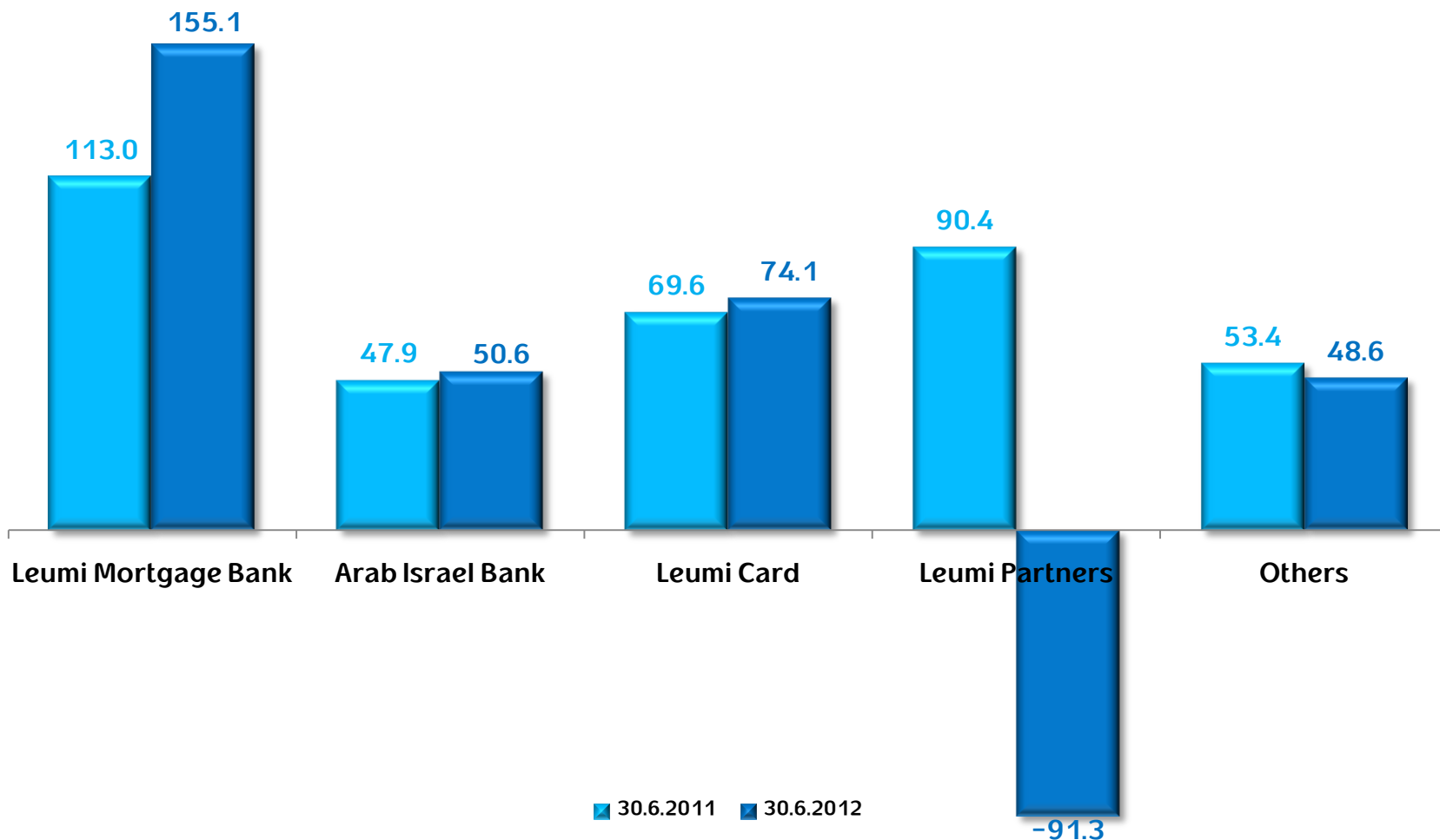
# Net profit by segment: Building on diversification

NIS millions

	For the three months ended			For the six months ended		
Segment	30 June 2012	30 June 2011	Δ%	30 June 2012	30 June 2011	Δ%
Households	141	85	65.9	262	195	34.4
Small businesses	58	88	(34.1)	150	184	(18.5)
Corporate banking	107	185	(42.2)	213	522	(59.2)
Commercial banking	96	87	10.3	240	234	2.6
Private banking	2	45	(95.6)	26	105	(75.2)
Financial management:						
- Capital markets	(77)	16	-	(4)	(113)	+
- Non-bank investments	(37)	72	-	(136)	30	-
Other	(10)	(14)	+	(40)	(39)	-
<b>Total</b>	<b>280</b>	<b>564</b>	<b>(50.4)</b>	<b>711</b>	<b>1,118</b>	<b>(36.4)</b>

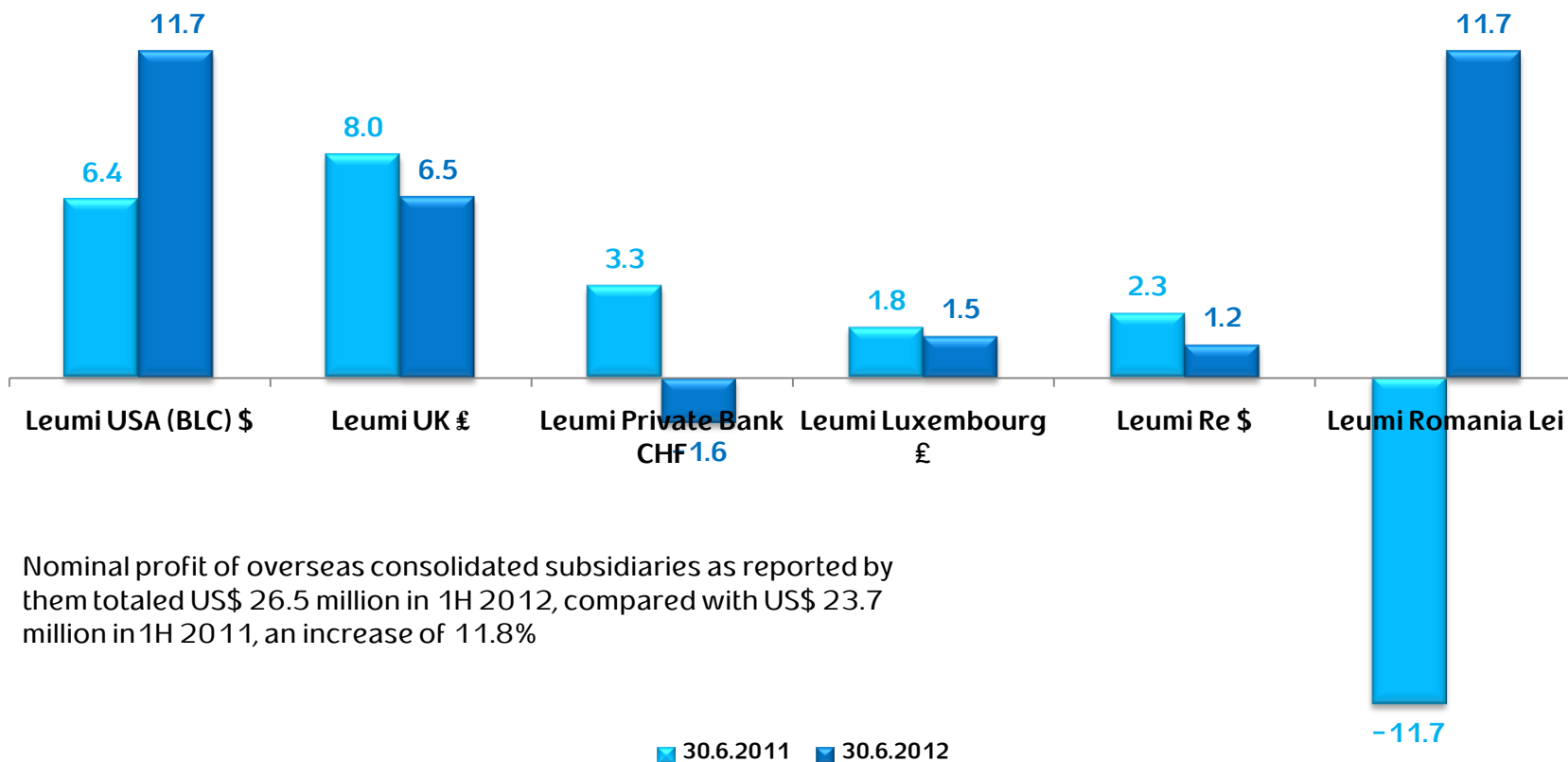
# Contribution to net profit of main Israeli subsidiaries

NIS millions



# Contribution to net profit of main foreign subsidiaries

In local currency



## Thank You Investor Relations

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