



Leumi Group

Third Quarter 2008 Earnings Review



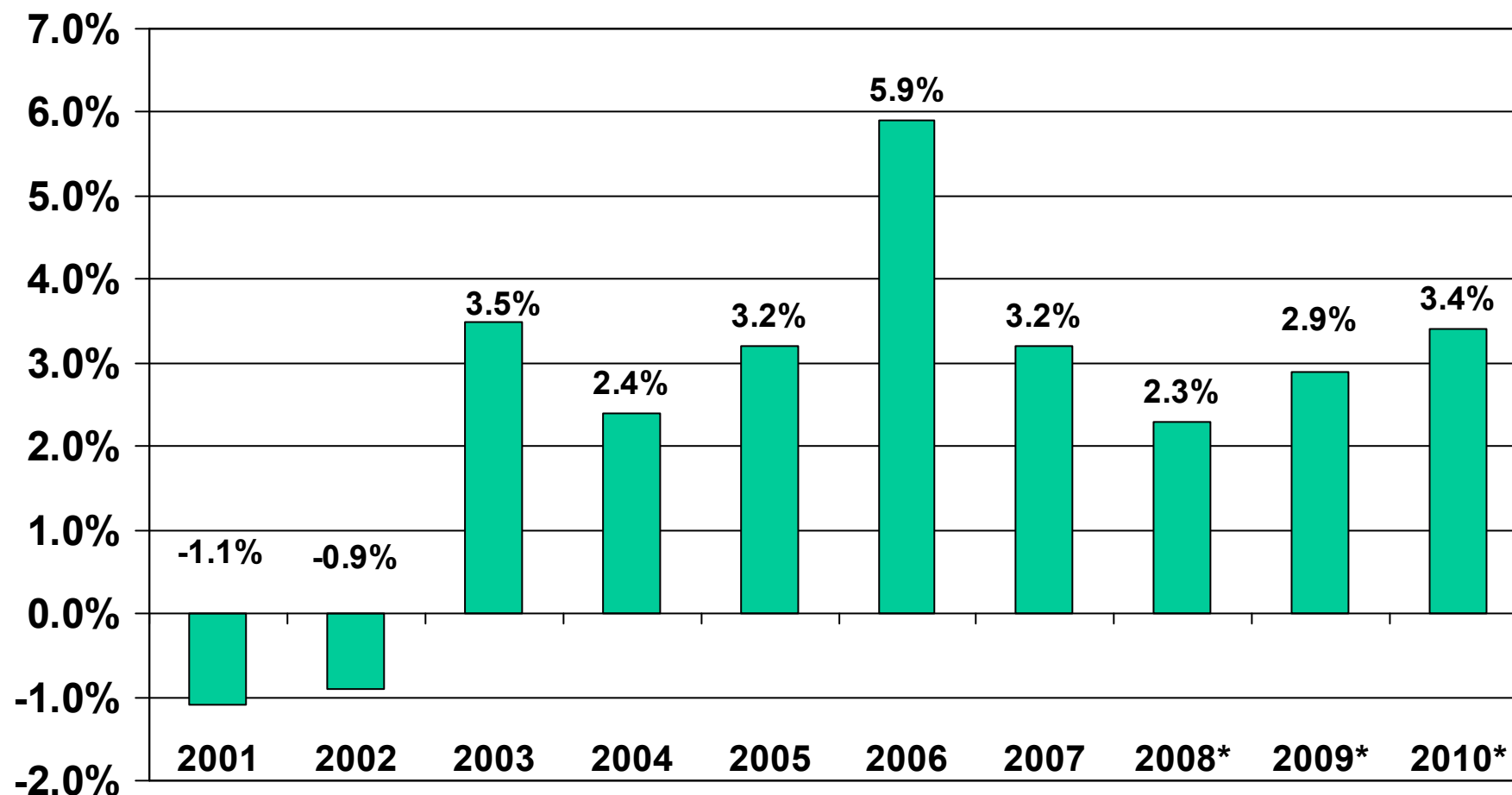


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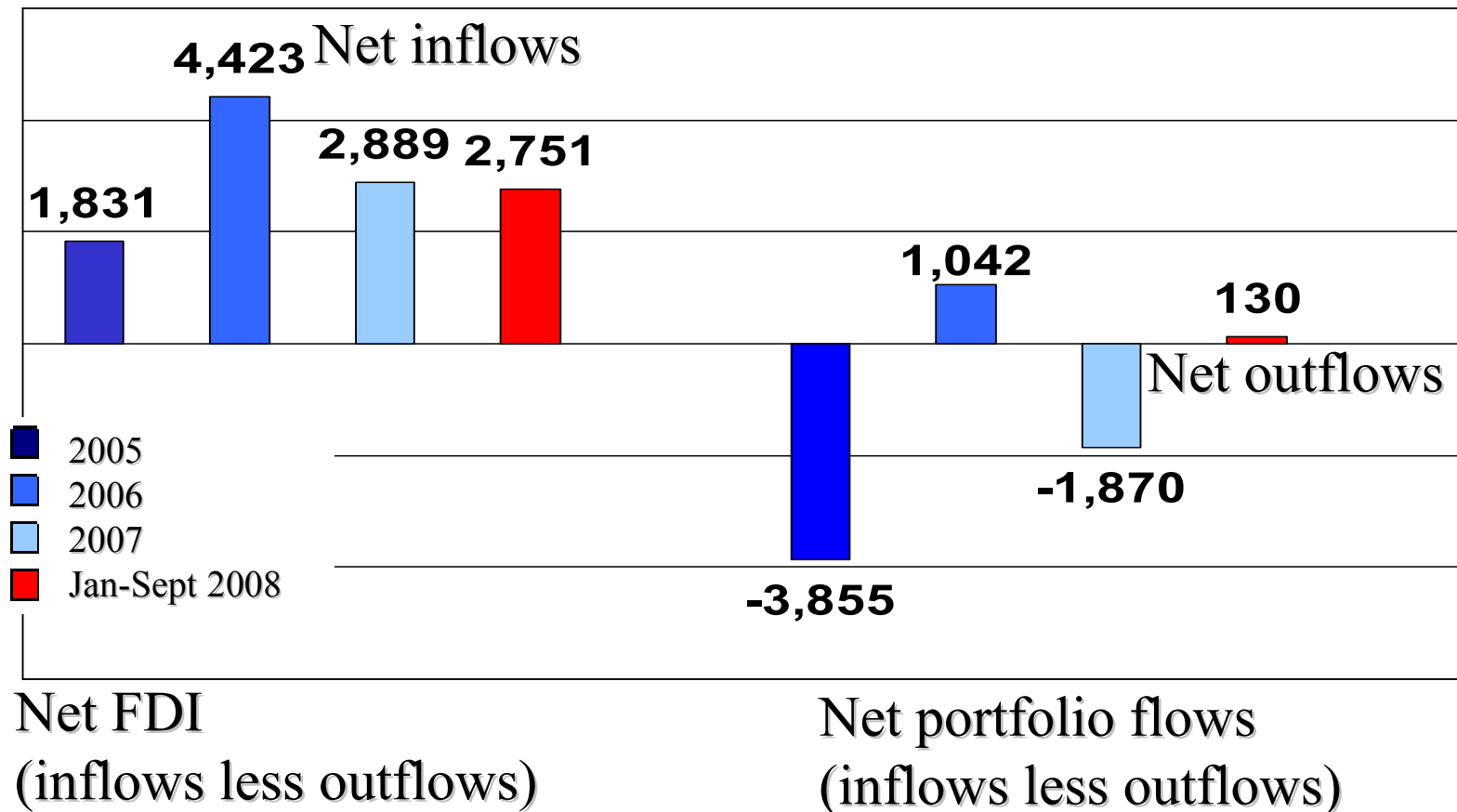
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Current account of deficit(-)/surplus(+) as a % of GDP

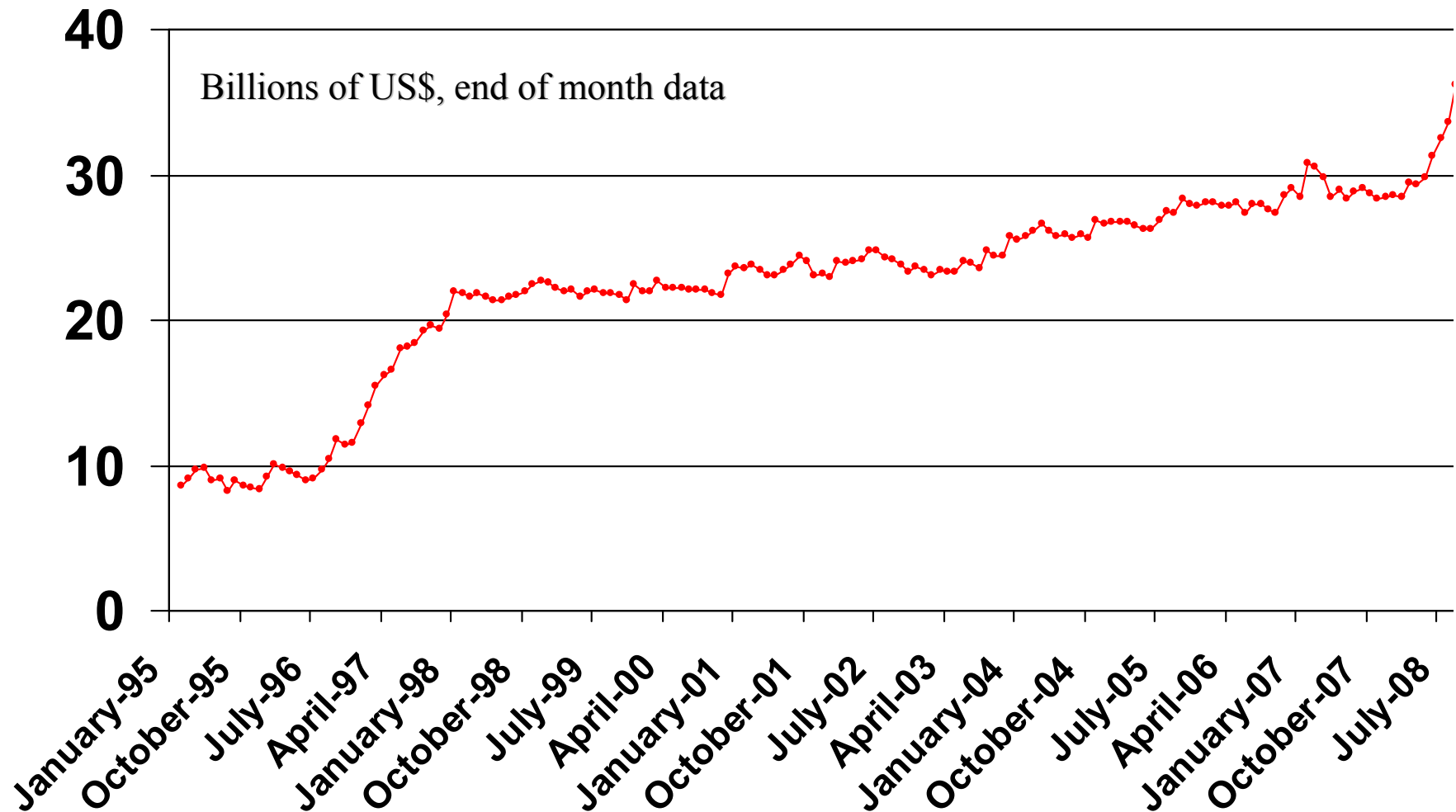


Net capital flows to Israel

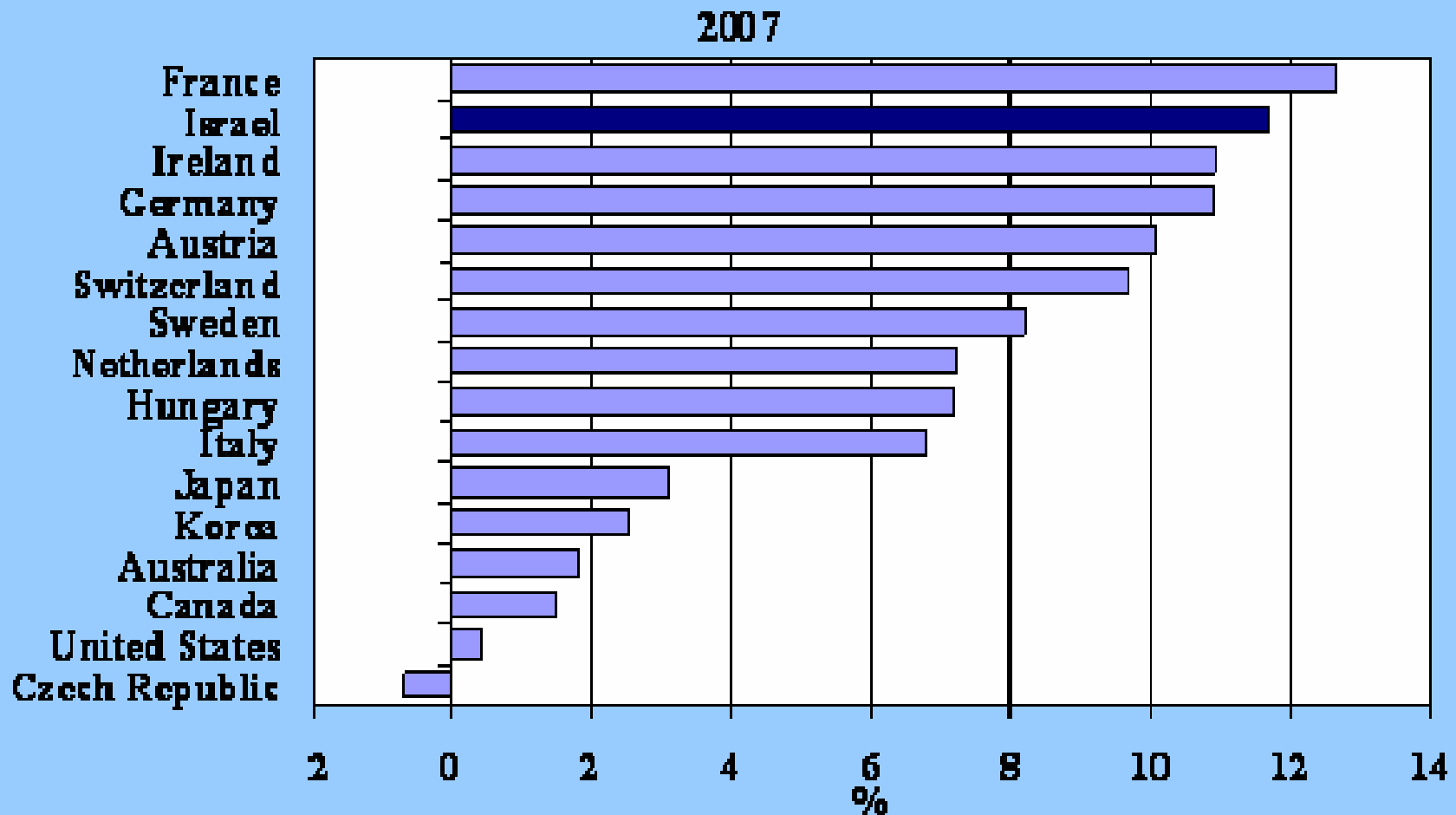
US\$ millions



Bank of Israel FX reserves

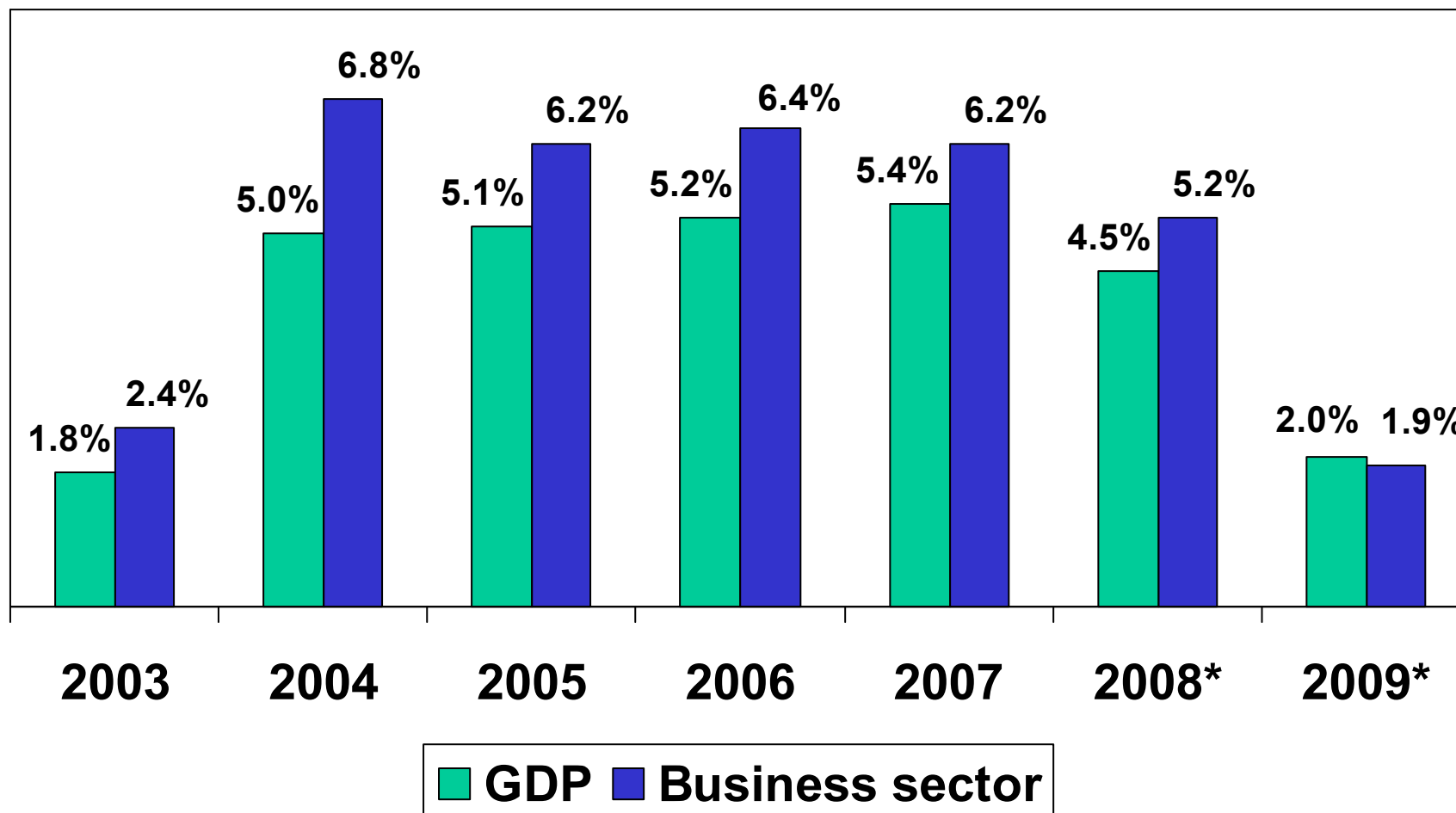


Net household savings rate



GDP: entire economy and business sector

Real term rates of change



Main financial parameters

	2006	2007	2008*	2009*
Consumer price index -year end rate	-0.1%	3.4%	3.6-4.3%	0.4-1.4%
ILS/USD exchange rate – annual average	4.46	4.11	3.58-3.61	3.90-4.10
Bank of Israel interest rate – annual average	5.1%	3.9%	3.5%-3.8%	2.0-2.5%

Principal factors regarding third quarter 2008 results

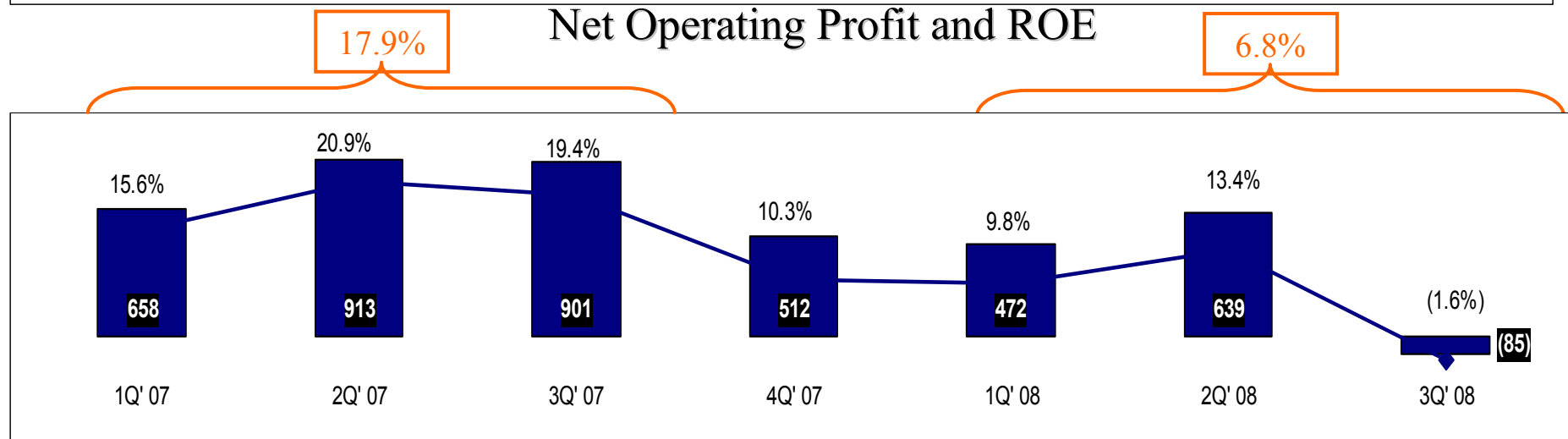
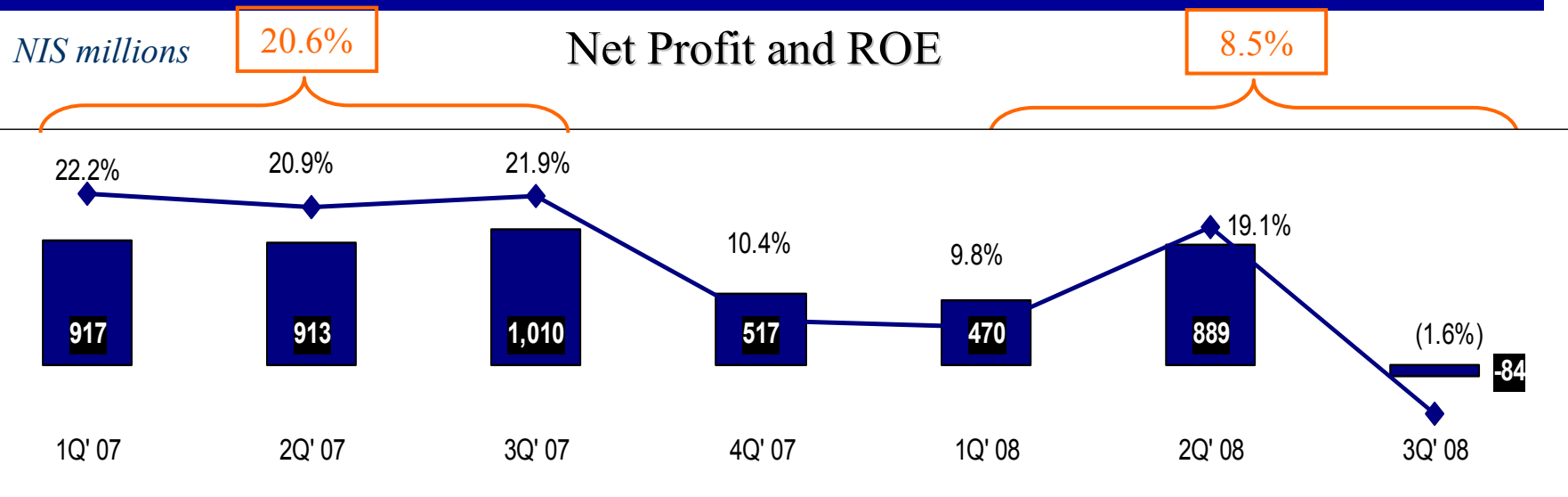
<i>NIS millions</i>	<i>Q3 2008</i>	<i>Q3 2007</i>	<i>Δ</i>
Net Operating Profit	(85)	901	(986)
Losses from investments in debentures	(591)	(112)	(479)
Profits (losses) from investments in shares	(363)	9	(372)
Derivative revaluations	250	210	40
Effect of CPI	157	186	(29)
Special salary expenses	(129)	(69)	(60)
Provision for doubtful debts	(495)	(79)	(416)
Total gross effect			(1,316)
Total net effect according to statutory tax rates			(832)
Special tax effects:			
Foreign exchange rate differentials and hedging transactions	(149)	11	(160)
Cancellation of deferred taxes in respect of shares/options of employees	(80)	-	(80)
Cancellation of the taxation under inflationary conditions law	-	100	(100)
Contribution of companies included on the equity basis	(191)	62	129
Total effect of principal factors			1,043

Principal changes in 2008

NIS millions – Net after taxes

Losses from investments in securities	641
Decline in the value of Tower Semiconductor capital notes	75
Foreign exchange differentials	120
Losses of provident and severance pay funds	97
Increase in provisions for doubtful debts compared with 3Q' 2007	584
Various tax effects	140
Others	121
Net effect in the first nine months of 2008	(1,778)

Net profit and net operating profit and ROE (in annual terms)



P&L highlights

NIS millions

	<i>9M 2008</i>	<i>9M 2007</i>	<i>%Δ 9M / 9M</i>
Net interest income before provision	5,404	5,867	(7.9%)
Provision for doubtful debts	1,055	128	+
Operating and other income	2,255	3,030	(25.6%)
Operating and other expenses	5,202	5,073	2.5%
Companies included on the equity basis	471	146	222.6%
Operating profit after tax	1,026	2,472	(58.5%)

Net operating profit* by segment

A well diversified and balanced mix of income sources

NIS millions

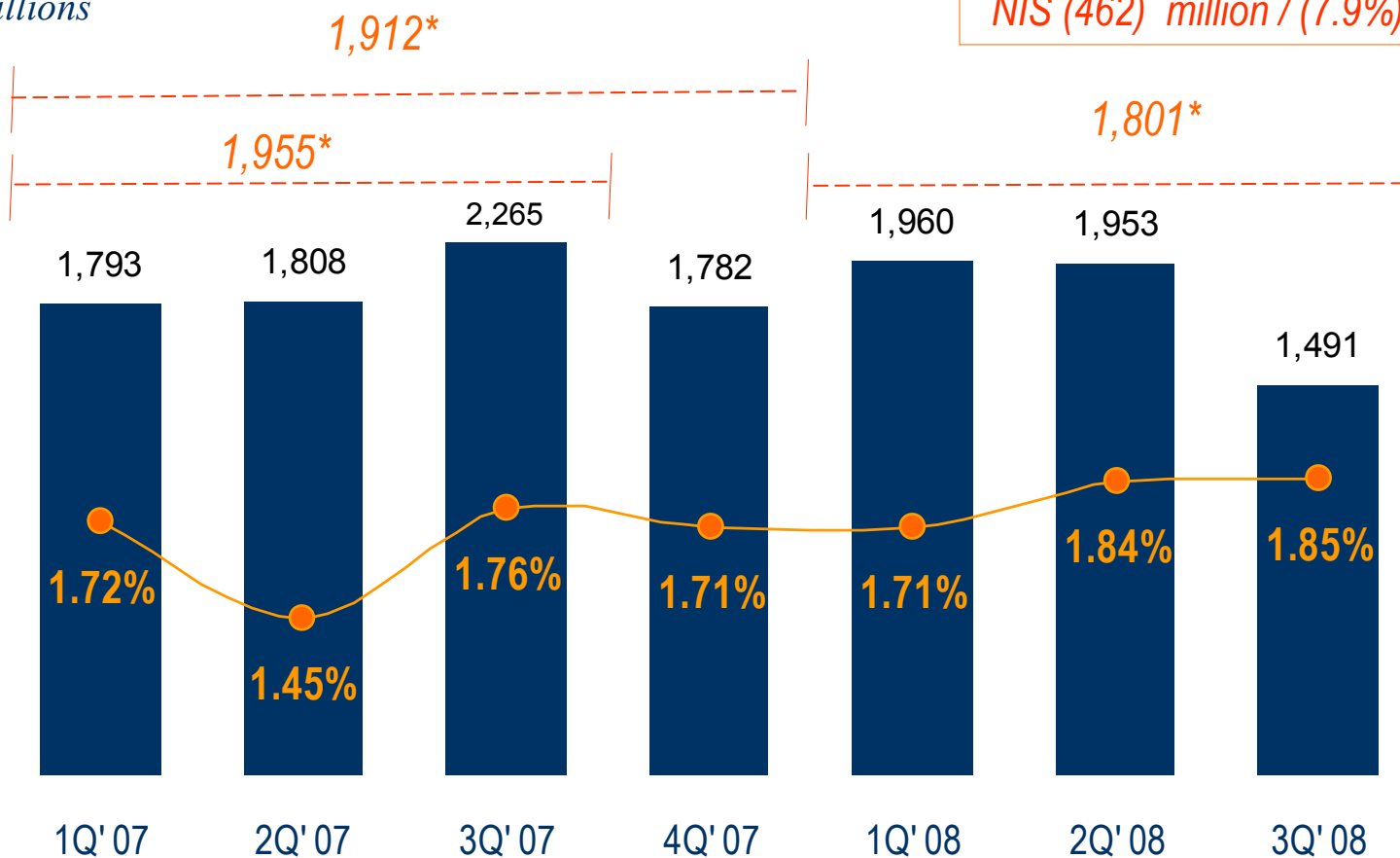
	<i>9M 2008</i>	<i>9M 2007</i>	<i>% Δ</i>	<i>Contribution to profit</i>
Corporate banking	230	675	(65.9)%	18.0%
Construction and real estate	320	275	16.4%	25.1%
Commercial banking	283	309	(8.4)%	22.2%
Small business banking	261	160	63.1%	20.5%
Household banking	520	557	(6.6)%	40.8%
Private banking	42	119	(64.7)%	3.3%
Financial management & others	(381)	471	180.9%	(29.9)%
Total	1,275	2,566	(50.3)%	100.0%

**Adjusted for special salary expenses*

Net interest income impacted by losses of investments in debentures

NIS millions

NIS (462) million / (7.9%) 9M/ 9M



Net interest income

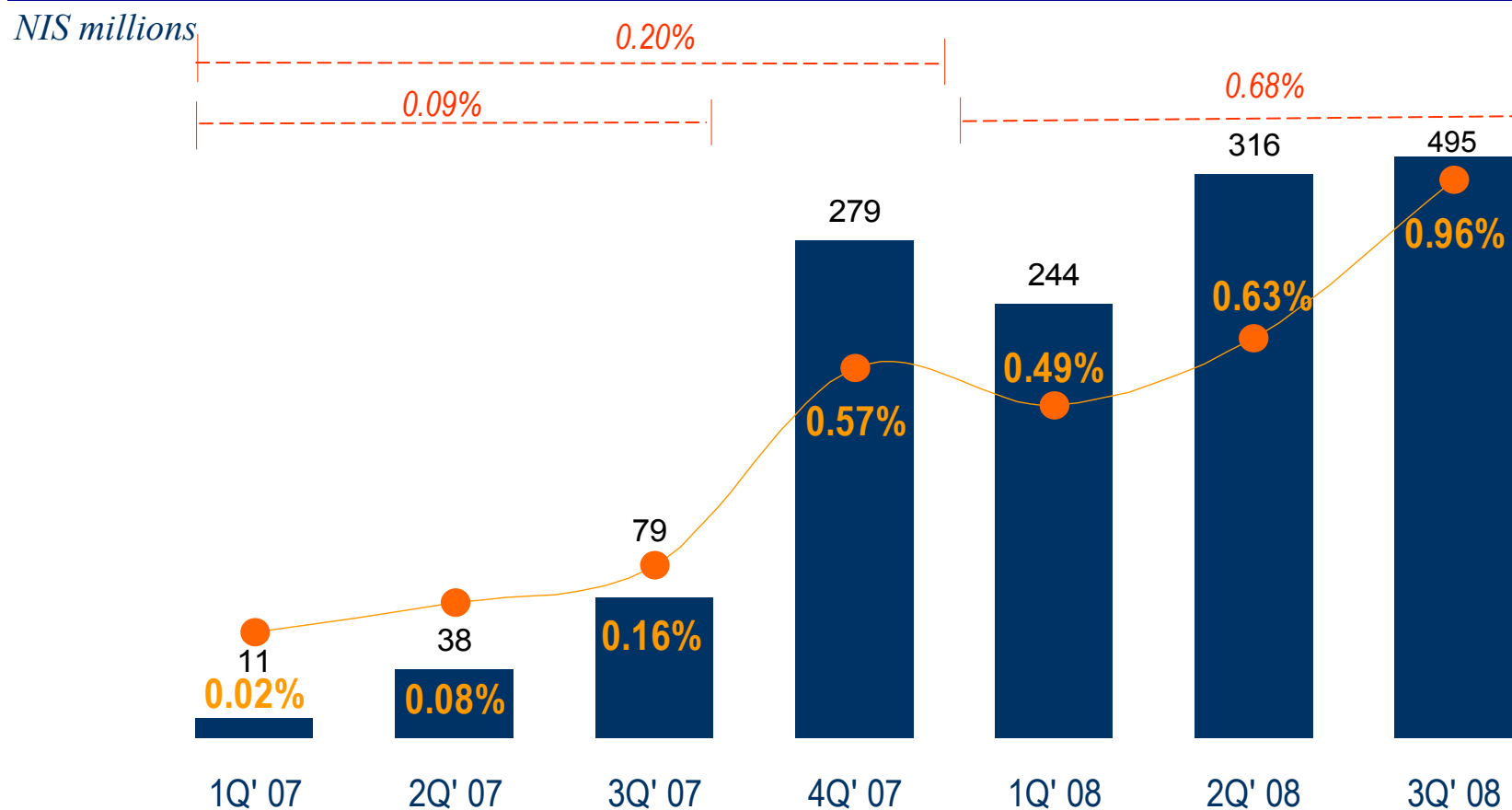
Interest spread

Development of net interest income

NIS millions

	30.09.08	30.09.07	% Δ
Current activities	5,148	5,218	(1.3)
Collection and reduction of interest in respect of problem loans	416	340	22.4
Profit (losses) from sale of available-for-sale debentures and from adjustments to market value of debentures for trading	(573)	53	-
Adjustment to fair value of derivatives	59	66	(10.6)
Effect of the known CPI	354	190	86.3
Total	5,404	5,867	(7.9)

Provision for doubtful debts



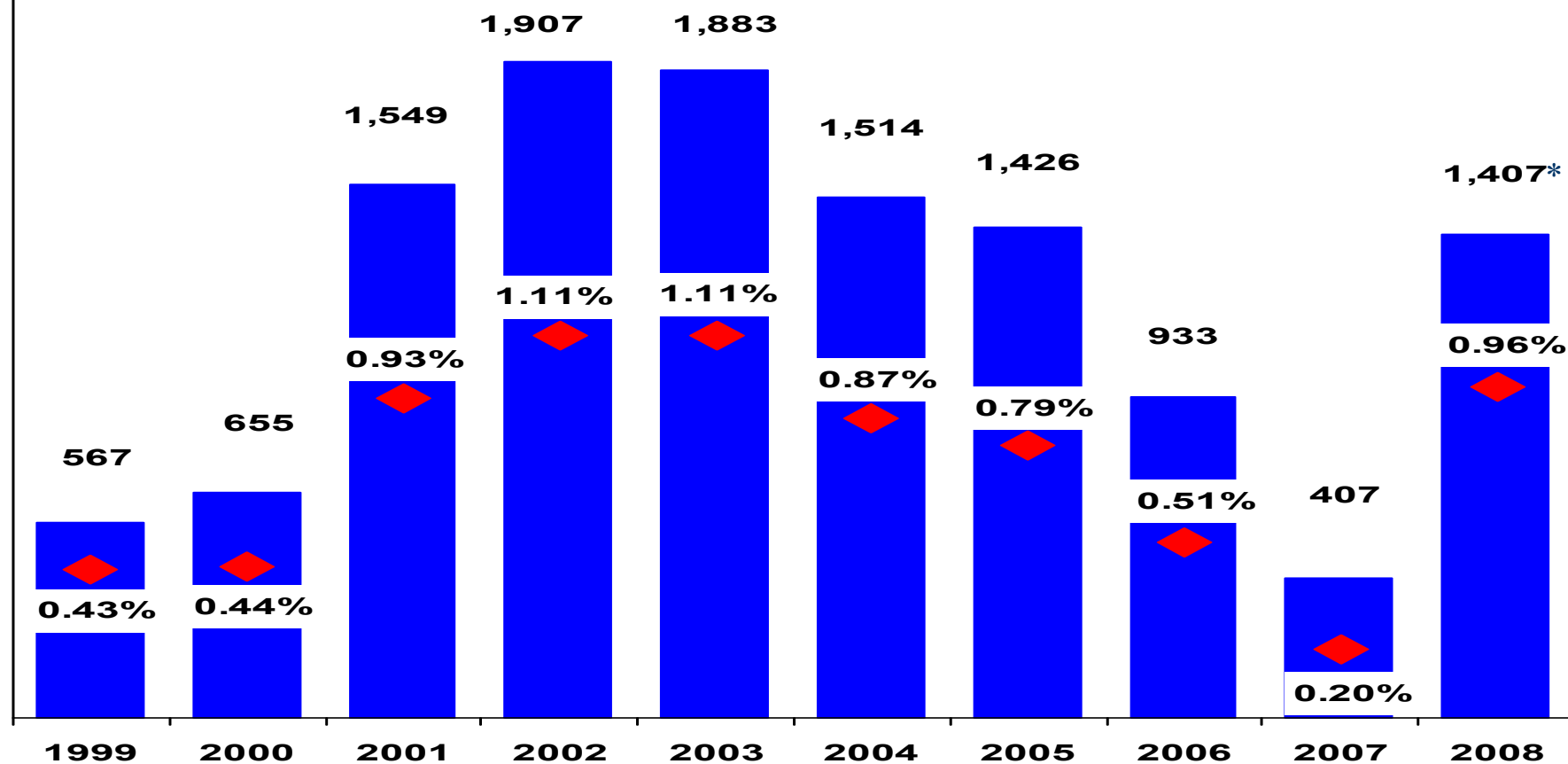
■ Provision for doubtful debts ● Rate of provisions to total credit to the public in annual terms

Development of provision for doubtful debts

NIS millions

■ Provision for doubtful debts

◆ Rate of provisions to total credit to the public

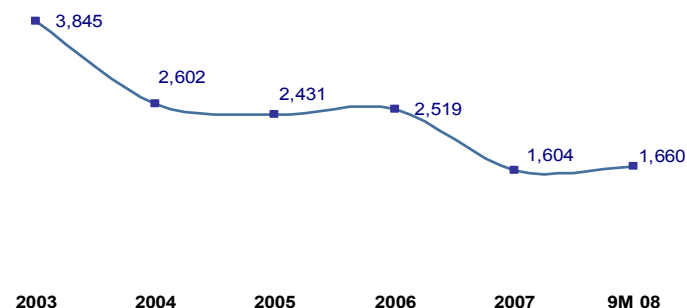


Problematic debts

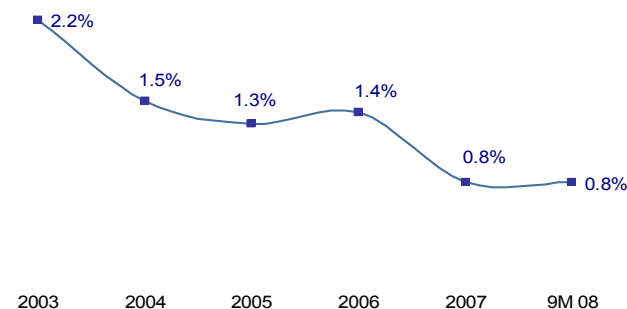
NIS millions

	30.09.08	31.12.07	% Δ
Non-accrual	1,660	1,604	3.5%
Restructured or to be restructured	457	1,014	(55.0 %)
In temporary arrears	614	764	(19.6 %)
Under special supervision*	12,223	9,618	27.1 %
Total balance sheet credit risk	14,954	13,000	15.0 %
Off balance sheet credit risk	3,604	2,442	47.6 %
Other assets in respect of derivatives of problem borrowers	210	32	+
Total overall credit	18,768	15,474	21.3 %

Non-Accrual (NIS millions)



NPL/Total Loans (%)



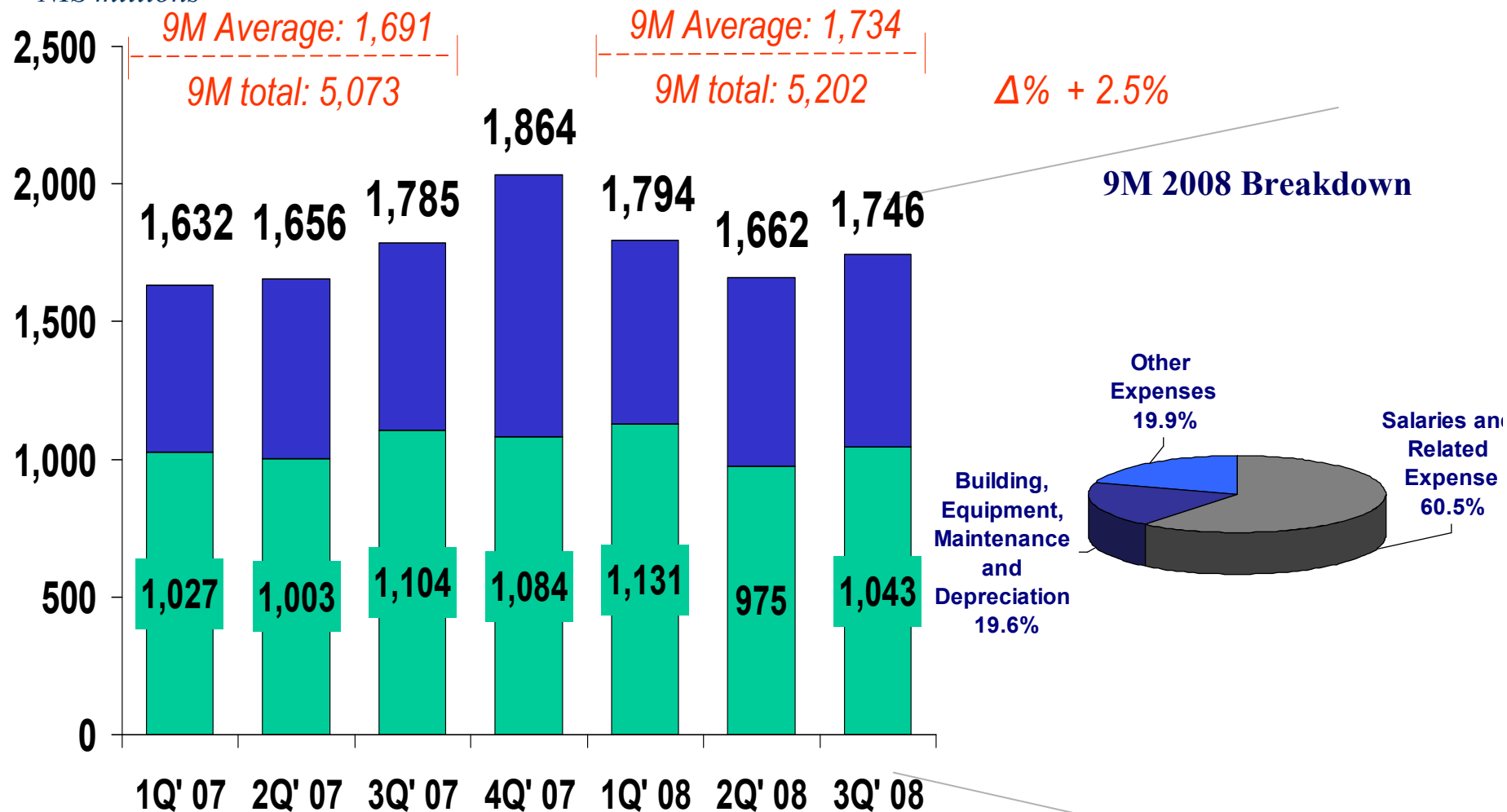
*Including classified debts according to Directive 325 in the amount of NIS 1,839 million (NIS 1,821 million in 2007)

Operating & other income

<i>NIS millions</i>	<i>9M 2008</i>	<i>9M 2007</i>	<i>Change</i>	<i>% Δ</i>
Operating Commissions	2,524	2,487	37	1.5
Profit/Loss from investments in shares	(478)	234	(712)	-
Other Income	209	309	(100)	(32.4)
Total	2,255	3,030	(775)	(25.6)

Operating expenses

NIS millions



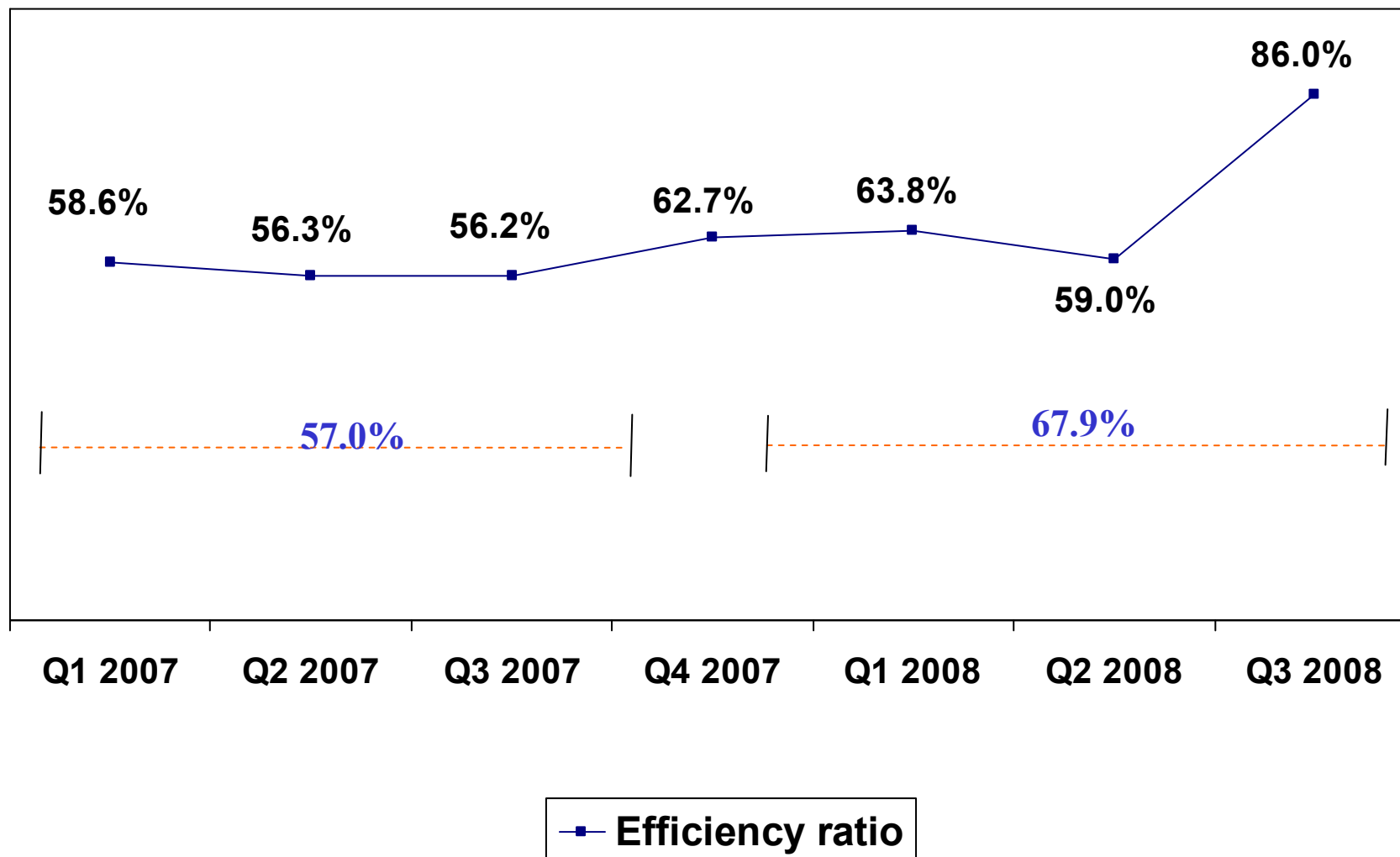
Special salary expenses

NIS millions

9M 2008 9M 2007

Expenses related to the issuance of options to employees	(2)	196
Recorded benefit due to the sale of shares to employees	(50)	(3)
Supplementary provisions for severance pay & pensions	296	-
Total	244	193

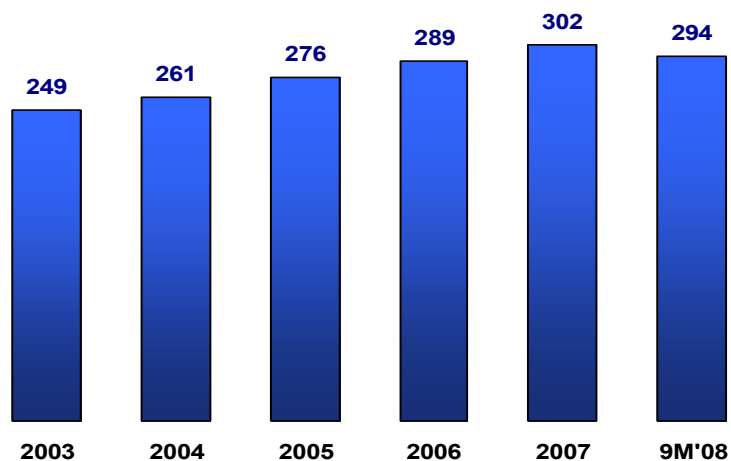
Efficiency ratio



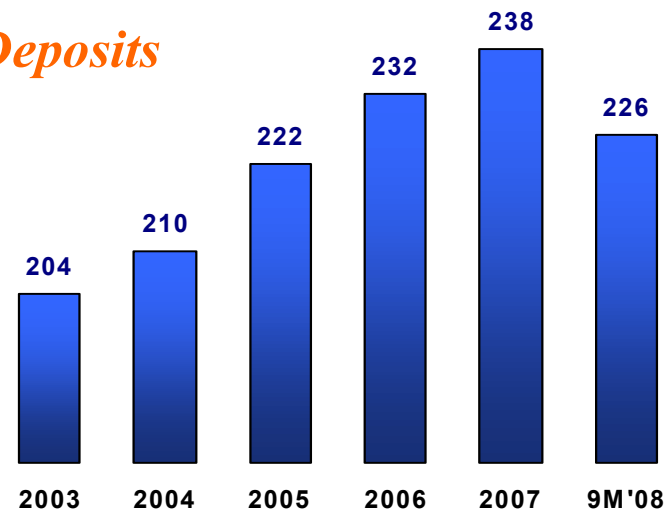
Balance sheet and off-balance sheet growth

NIS billions

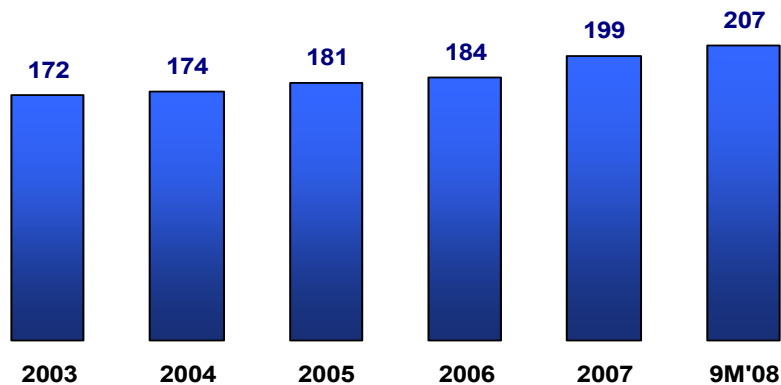
Total assets



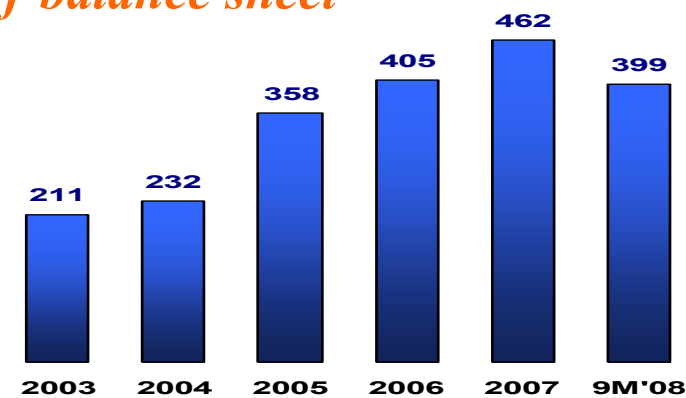
Deposits



Loans



Off-balance sheet



Development of credit according to segments

NIS billions

30/09/08

31/12/07

% Δ

Households	22.1	20.7	6.6%
Mortgages	39.8	36.6	8.8%
Small businesses	18.0	17.7	1.3 % (1)
Commercial banking	33.8	36.7	(8.0) %(2)
Corporate banking	57.4	52.8	8.7 % (3)
Construction & real-estate	28.2	25.5	10.3 % (4)
Private banking	6.5	7.1	(8.9) %
Financial management, capital markets and other	1.7	1.3	30.0%
Total	207.5	198.4	4.5%

(1) After neutralizing the effect of segmentation, an increase of 6.5%

(2) After neutralizing the effect of segmentation, a decrease of 1.7%

(3) After neutralizing the effect of segmentation, an increase of 3.8%

(4) After neutralizing the effect of segmentation, an increase of 8.5%

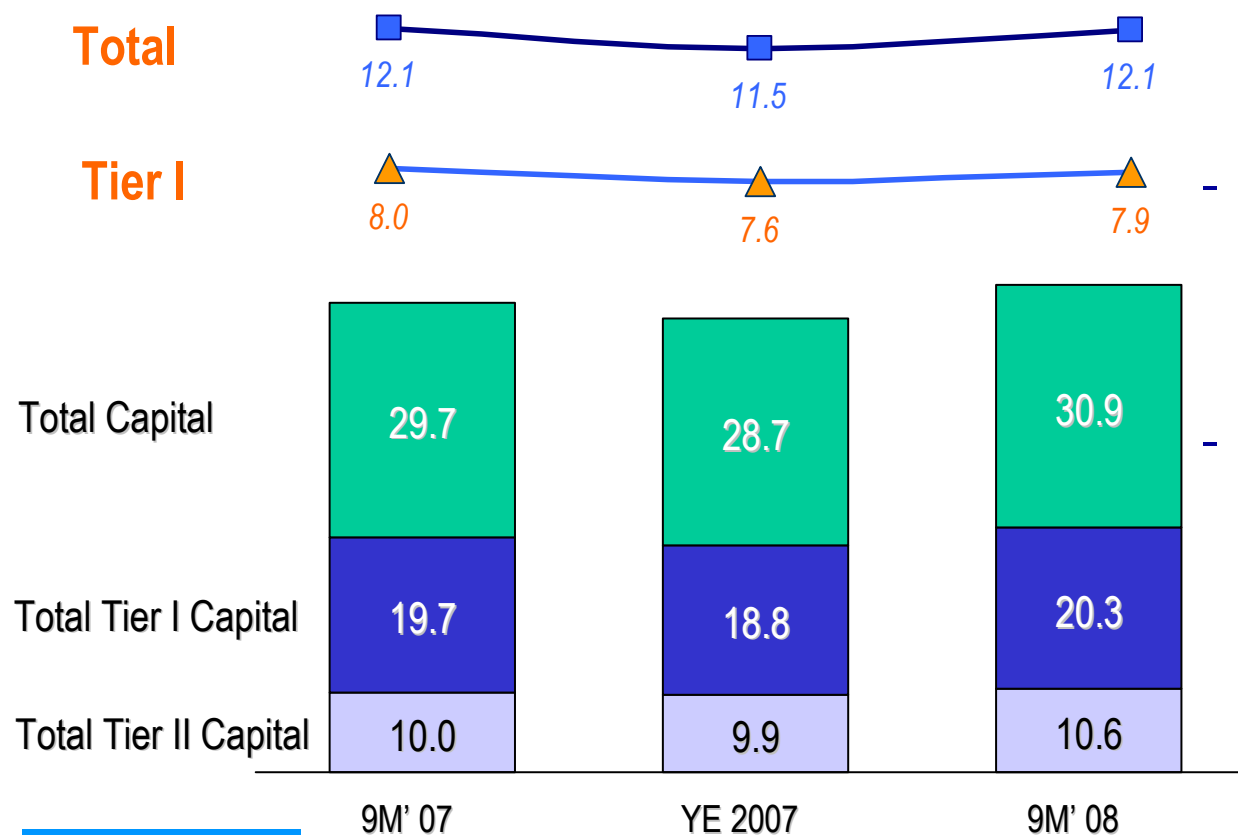
Capital accounts

<i>NIS millions</i>	<i>Movement</i>				
	<i>3Q'08</i>	<i>2Q'08</i>	<i>4Q' 07</i>	<i>3Q'08</i>	<i>9M 2008</i>
Shares	243	529	1,161	(286)	(918)
Israeli government debentures	14	61	20	(47)	(6)
Foreign government debentures	3	1	1	2	2
Other debentures	(1,522) *	(700) *	(387) *	(822)	(1,135)
Other debt instruments	(35)	(29)	(30)	(6)	(5)
Total	(1,297)	(138)	765	(1,159)	(2,062)
Related taxes	471	53	(263)	418	734
Total, net	(826)	(85)	502	(741)	1,328

*Of which, NIS (61) million was in mortgage-backed debentures as at 30 Sept. 2008, compared with NIS (36) million as at 30 June 2008 and NIS (47) million at the end of 2007.

Capital strength – a competitive advantage

NIS billions



- Solid capital base and highest capital adequacy ratio in Israeli bank system
- Well above the 9% minimum required
- Strongly positioned to “weather the storm” and take advantage of growth opportunities

Strong credit ratings...

<i>foreign currency</i>		Long term	Short term	Outlook
<i>State of Israel</i>	Moody's	A1	P-1	stable
	S&P	A	A-1	stable
	Fitch	A	F1	stable
<i>Leumi</i>	Moody's	A1	P-1	stable
	S&P	A-	A-2	stable
	Fitch	A-	F2	stable

...affirms the fundamental strength of the Israeli economy and the Bank at a time when many developed & emerging markets are experiencing downgrades

Asset-backed securities (MBS and ABS)

In US\$ millions at 30/09/2008

<i>Mortgage-backed securities (MBS): Pass-through securities:</i>	<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>
Securities guaranteed by GNMA	23.8	0.0	-	23.8
Securities issued by FNMA and FHLMC	335.3	1.0	(5.2)	331.1
Securities issued by others	3.0	0	0	3.0
Total Interim MBS	362.1	1.0	(5.2)	357.9
<i>Other mortgage-backed securities (Including CMOs and STRIPPED MBS):</i>				
Securities issued by FNMA, FHLMC or GNMA, or guaranteed by these entities	519.1	1.6	(8.2)	512.5
Other mortgage-backed securities	24.9	-	(6.6)	18.3
Total Interim MBS	544.0	1.6	(14.8)	530.8
Asset-backed securities (ABS)*	408.6	0	(69.6)	339.0
Total asset-backed securities available for sale	1,314.7	2.6	(89.6)	1,227.7

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

Balance sheet performance

In debentures	9M 2008	9M 2007
Credit / Total assets	70.6	65.1
Deposits / Total assets	76.9	78.5
Credit / Deposits	91.8	82.9
Securities / Total assets	14.1	15.4
NPL / Total assets	0.6	1.0
Capital adequacy	12.1	12.1

...financially sound and strong with moderate risk appetite