

# Leumi Group

## Q4 and Full Year 2011 Earnings Review

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# The Israeli economy: still withstanding adverse global financial factors

Main Macroeconomic Variables	2010	2011	2012*
Annual Rates of Change, Real Terms			
GDP	4.8%	4.7%	2.7%
Gross product of the business sector	5.8%	5.2%	2.7%
Private consumption	5.3%	3.6%	2.6%
Public consumption	2.5%	3.7%	2.9%
Investment in fixed assets	13.6%	16.2%	1.1%
Exports of goods and services	13.4%	4.9%	1.6%
Imports of goods and services	12.6%	10.6%	2.0%
Percentage of GDP			
Current account surplus(+)/deficit (-)	3.1%	0.1%	-0.3%
Government budget surplus(+)/deficit (-)	-3.7%	-3.3%	-4.0%
Government debt	75.0%	72.0%	74.0%
Annual Average			
Unemployment rate	6.6%	5.6%	6.0%
Additional Data			
Consumer price index, year-end change	2.7%	2.2%	2.9%
Shekel / US\$ average exchange rate	3.73	3.58	3.84
Bank of Israel average interest rate	1.6%	2.9%	2.7%

# The Israeli economy: strengths and challenges

## Strong economic fundamentals

- A high savings rate
- A conservative banking system
- Exports that are not geared towards consumer goods, along with greater diversification of global trade
- Strong external accounts
- Prudent fiscal policy

## Risks to the economic forecasts

- A Western world led global recession with renewed volatility in global financial markets
- Changes in the regional geopolitical outlook
- Tighter regulation that constricts the availability of credit

# Profit impacted by sharp declines in capital markets

## Net Operating Profit & ROE

NIS millions

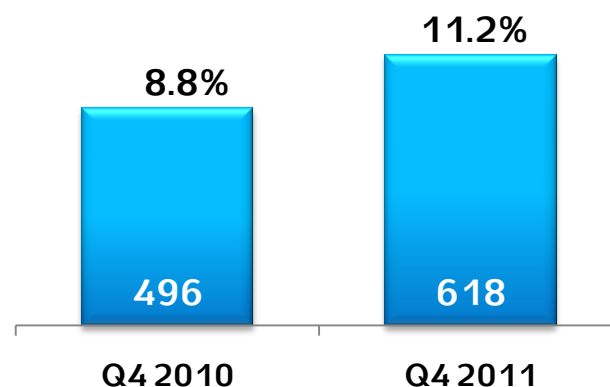
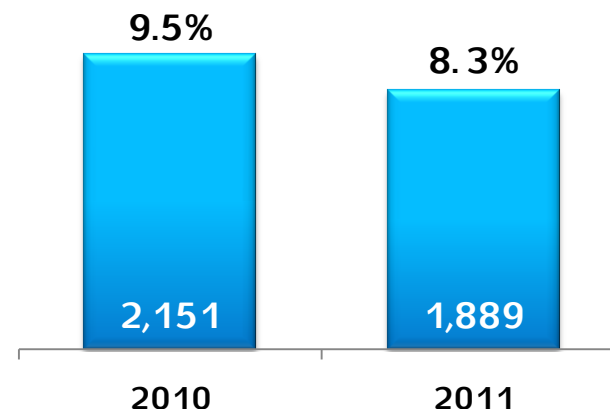
What affected 2011 results in comparison to 2010?

### Positive effects:

- Net Interest Income  
NIS 117 million, of which current activities increased by 14.2%
- Deferred tax balance  
NIS 326 million

### Negative effects:

- Severance pay and provident funds  
(NIS 297 million, after tax)
- Companies included on the equity basis  
(NIS 272 million)
- Partner Communications  
(NIS 239 million)



# Financial performance

## P&L Highlights

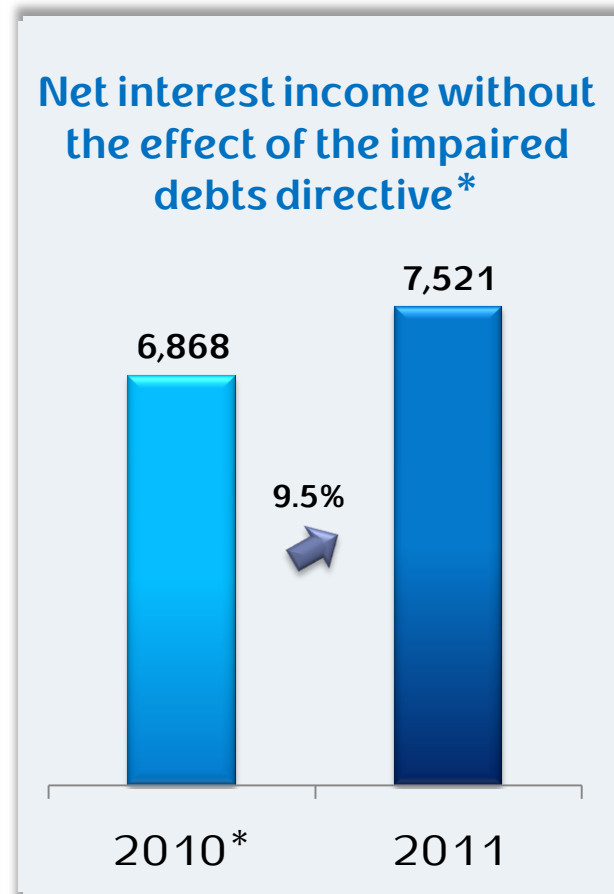
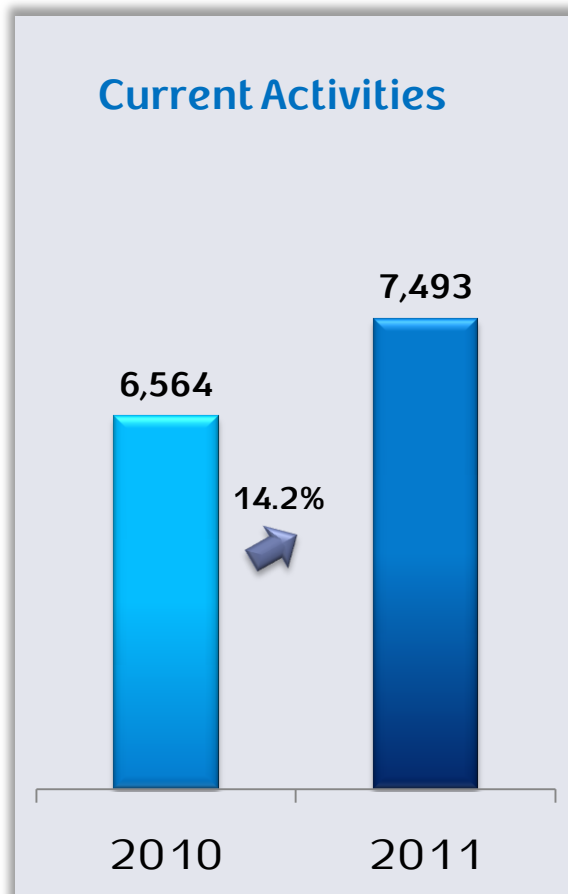
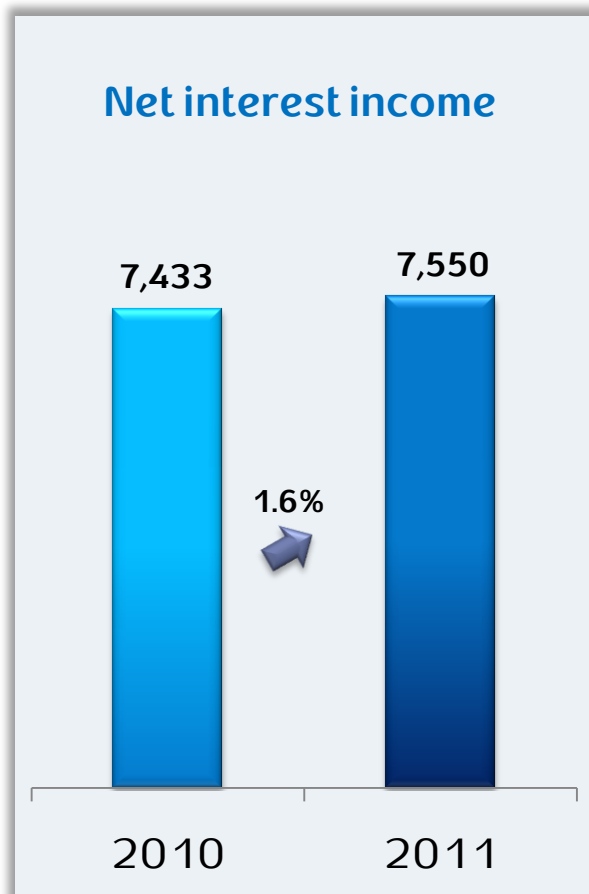
NIS millions

	2011	2010	Δ%
<b>Net interest income before expenses for credit losses*</b>	7,550	7,433	1.6
<b>Operating and other income</b>	3,736	4,111	(9.1)
<b>Total Income</b>	<b>11,286</b>	<b>11,544</b>	<b>(2.2)</b>
<b>Expenses for credit losses*</b>	734	584	25.7
<b>Operating and other expenses</b>	8,347	7,951	5.0
<b>Companies included on the equity basis</b>	148	420	(64.8)
<b>Operating profit</b>	<b>1,889</b>	<b>2,151</b>	<b>(12.2)</b>
<b>Net profit</b>	<b>1,891</b>	<b>2,334</b>	<b>(19.0)</b>

\* As of Jan. 1, 2011 collection of interest in respect of impaired debts was first recorded in the expenses for credit losses, whereas in the past it was included in net interest income.

# Net interest income

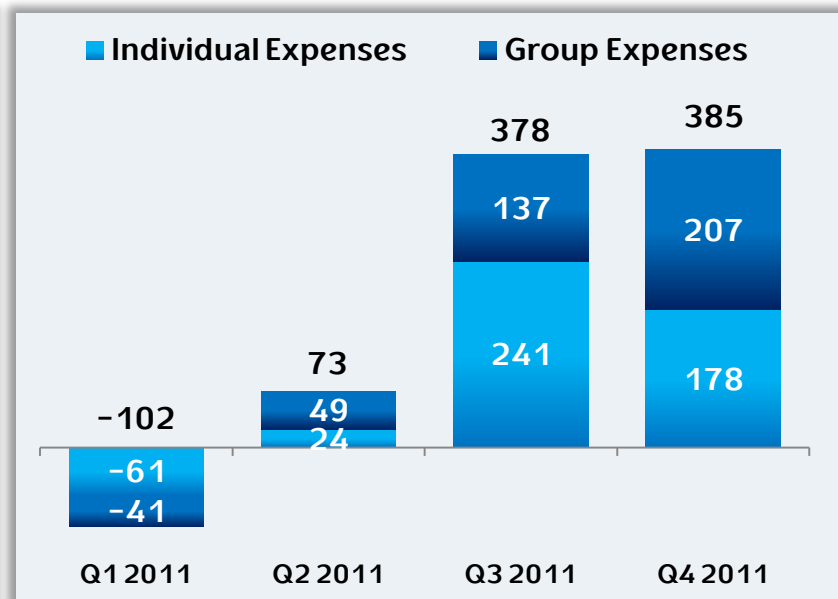
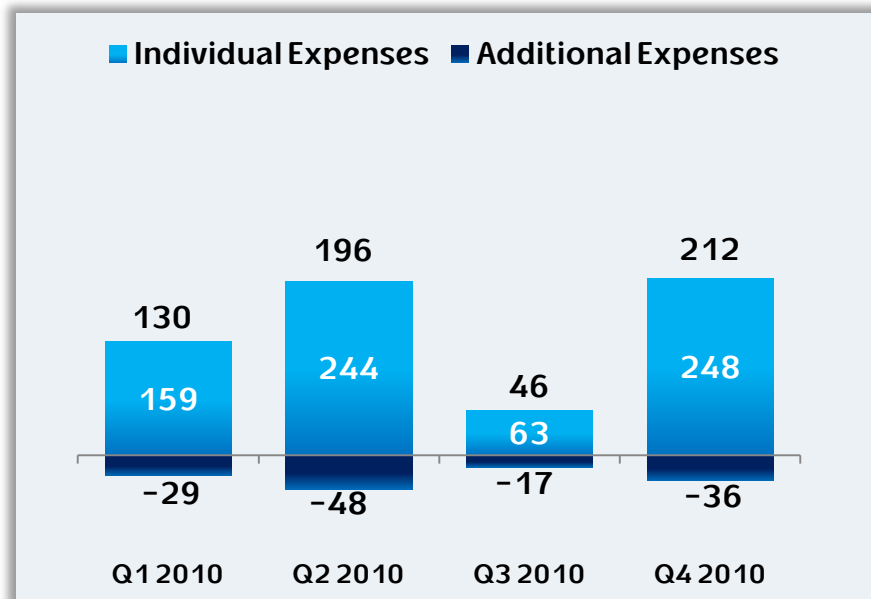
NIS millions



\*From the first quarter of 2011, the Directive for the measurement and disclosure of impaired debts, credit risk and allowance for credit losses, requires that collection of interest in respect of impaired debts be first recorded in the expenses for credit losses, whereas in the past it was included in net interest income.

# Expenses for credit losses

NIS millions

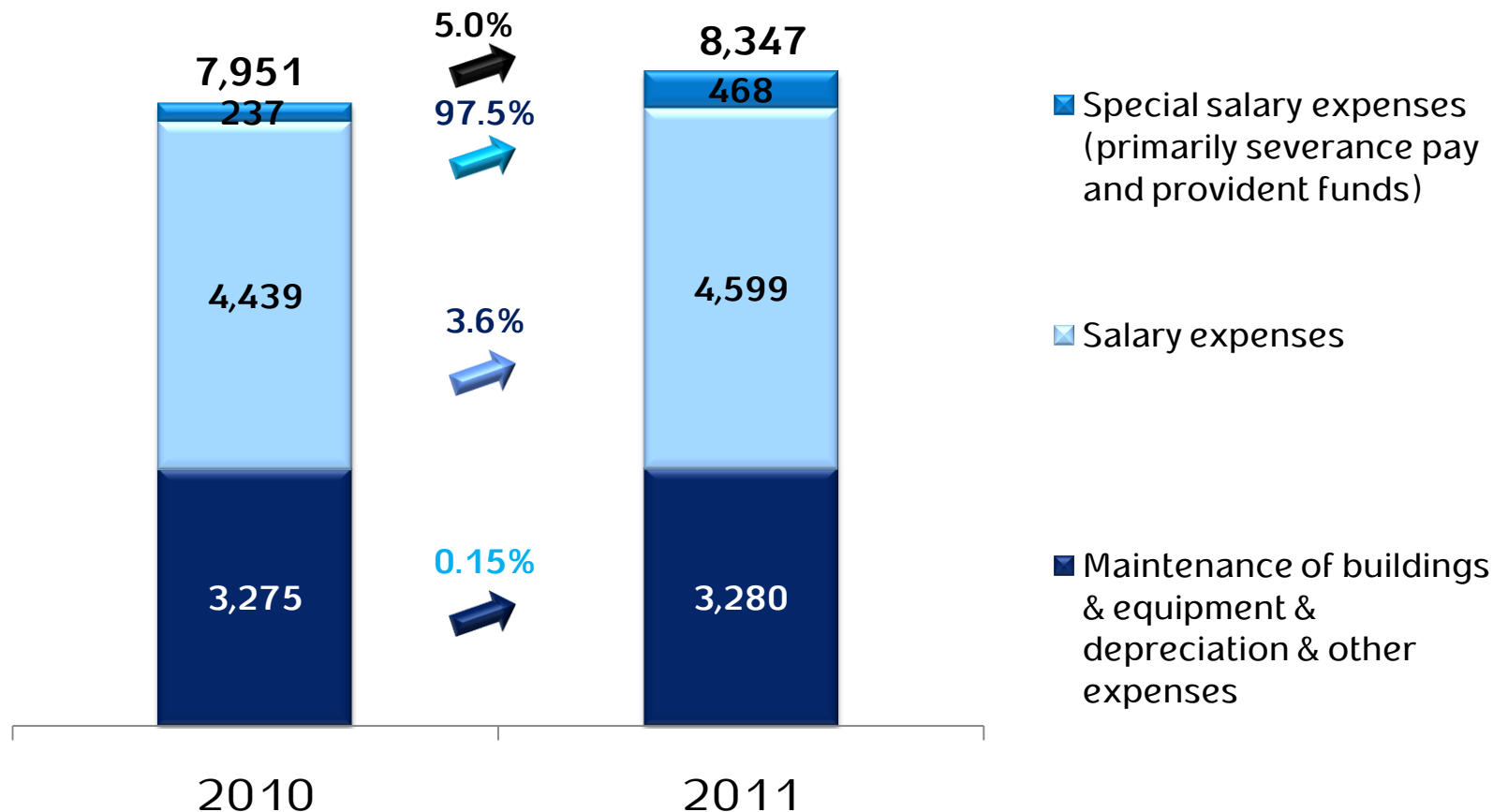


%	2010					2011				
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
Individual expenses/Total credit to the public	0.31	0.46	0.12	0.44	0.32	(0.11)	0.04	0.41	0.30	0.16
Group expenses/Total credit to the public ("Additional" in 2010)	(0.06)	(0.09)	(0.03)	(0.06)	(0.06)	(0.07)	0.09	0.23	0.34	0.14
Total expenses/Total credit to the public	0.25	0.37	0.09	0.38	0.26	(0.18)	0.13	0.64	0.64	0.30



# 2.1% YoY increase in total operating and other expenses (after neutralizing special salary expenses)

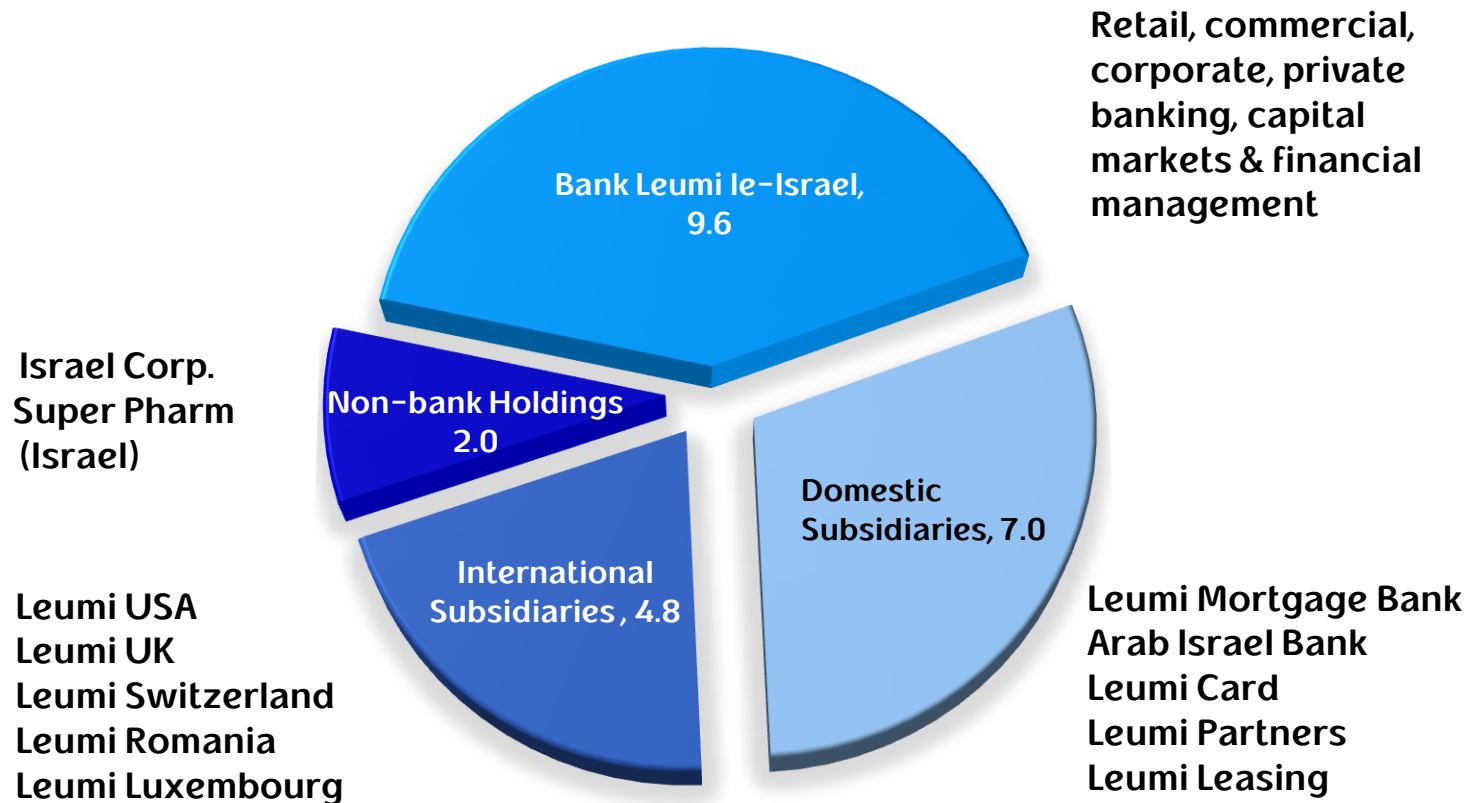
NIS millions



# A diversified business model

## The Bank and its major investee companies, by invested capital

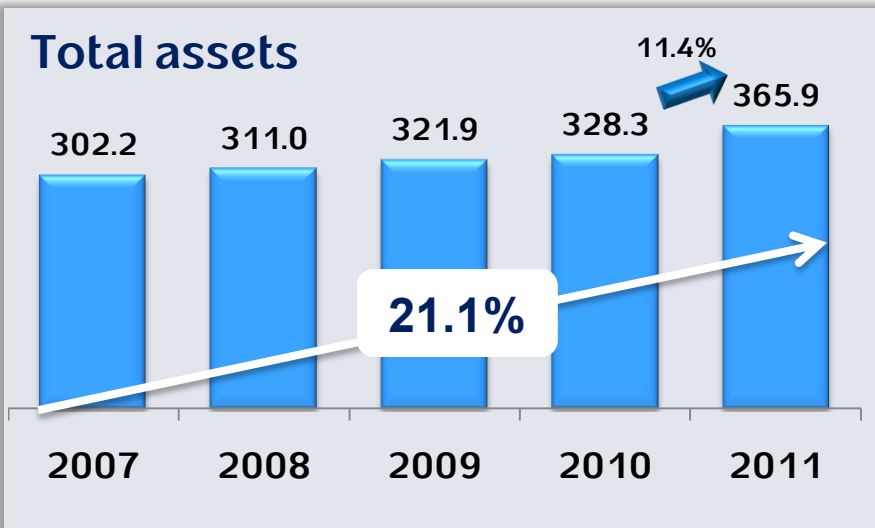
NIS billions, 31.12.2011



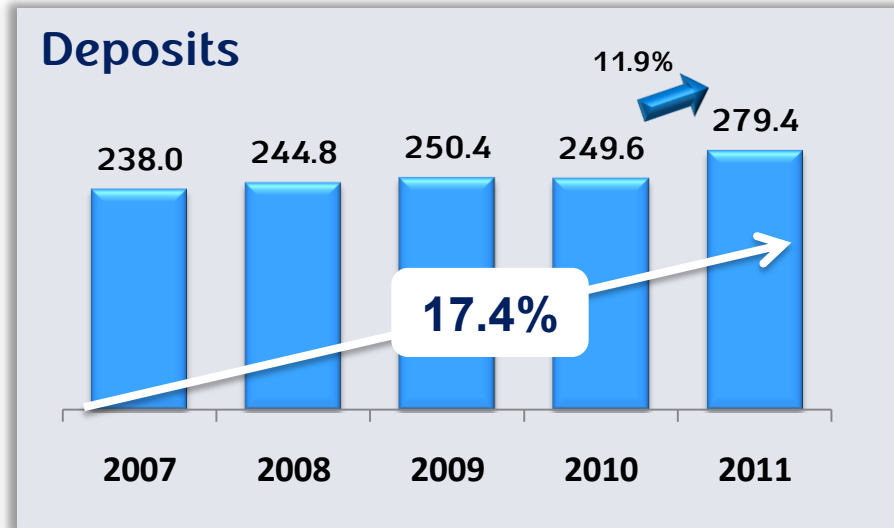
# Sustained balance and off-balance sheet growth

NIS billions

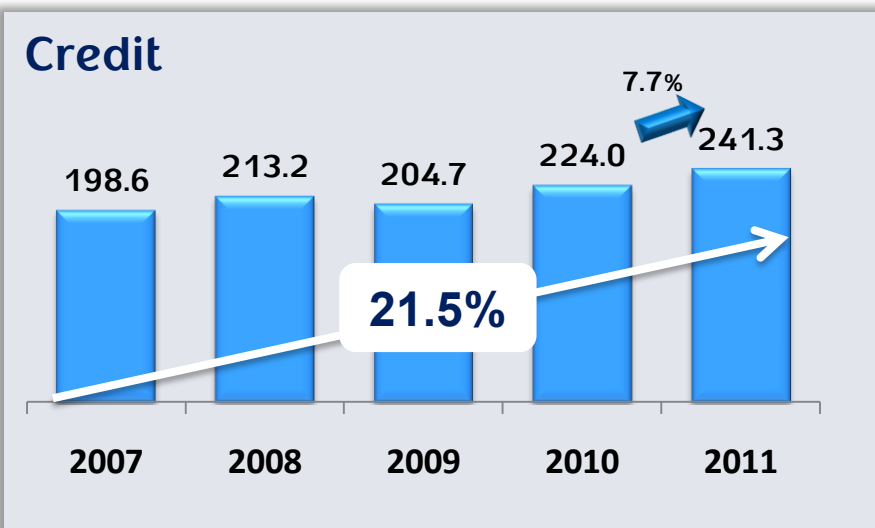
## Total assets



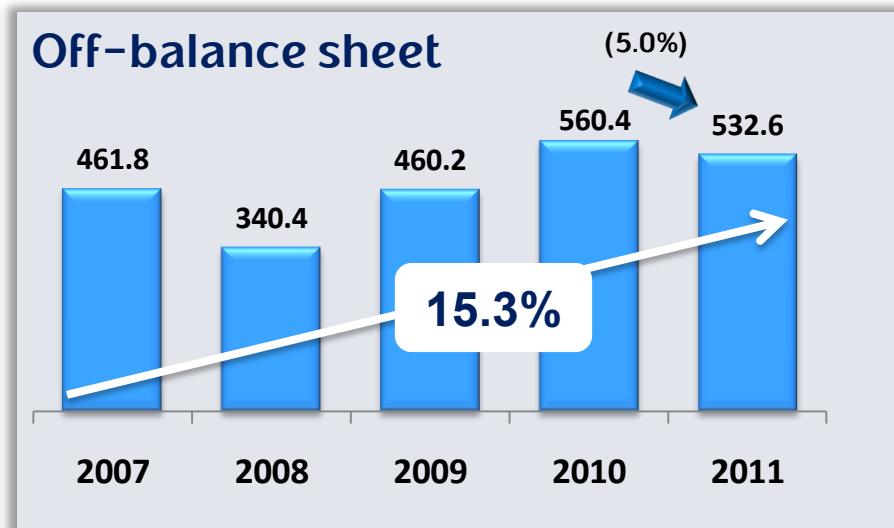
## Deposits



## Credit



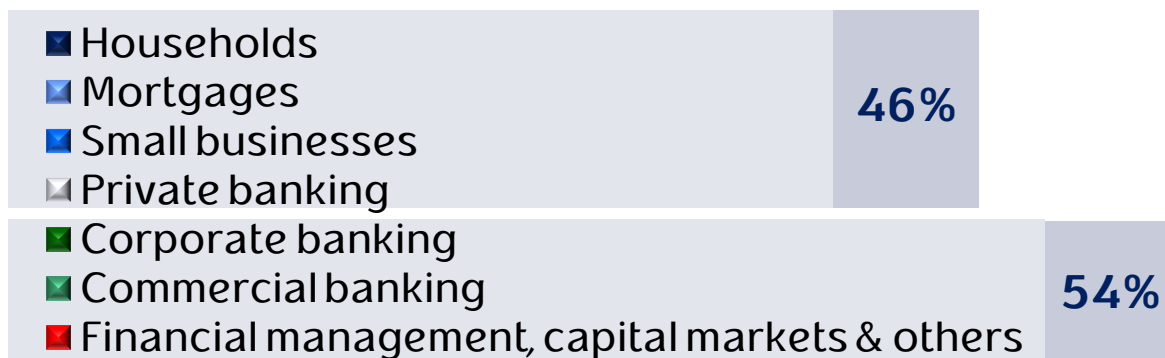
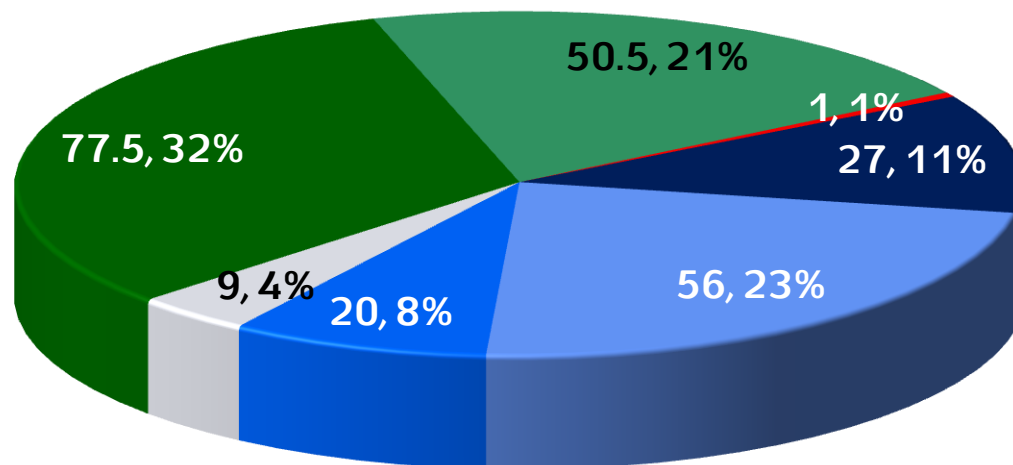
## Off-balance sheet



# Diversified credit portfolio

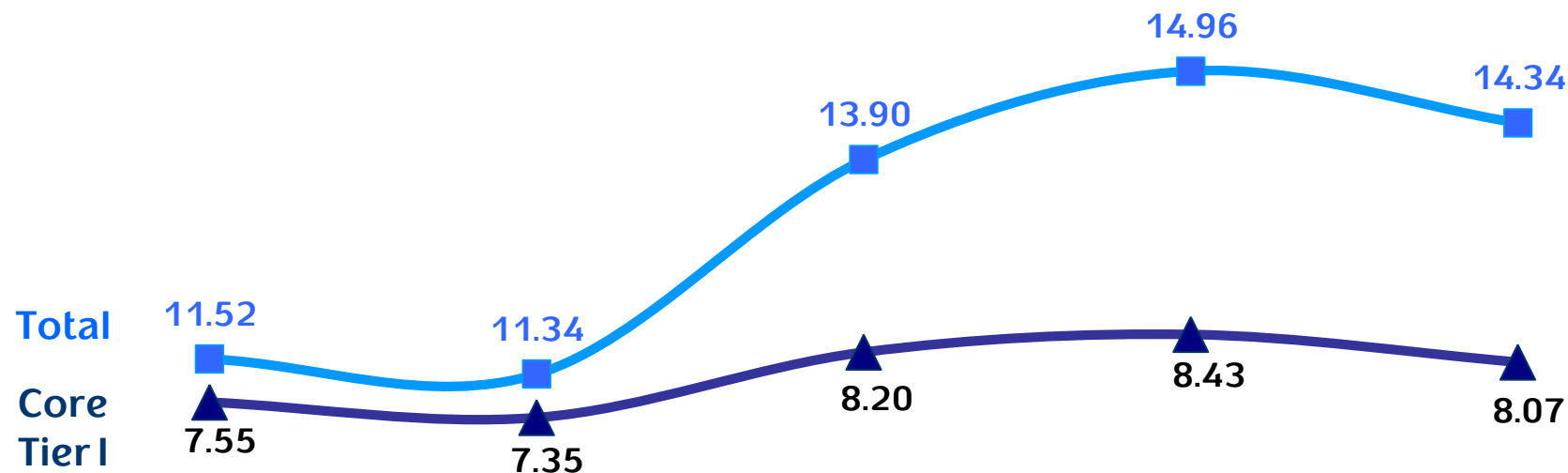
## Composition of loan portfolio by segment

NIS billions, %, 31.12.2011



# Solid capital position: well-positioned for growth and for the evolving regulatory environment

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)

# Focused strategy to increase value for stakeholders

Position Leumi at the forefront of retail banking in Israel by increasing market share in growth segments and small businesses

Expand the scope and range of business services to institutional customers

Strengthen Leumi's leading position in the middle market sector

Improve profitability of overseas subsidiaries

Improve flexibility of human resource management and the efficiency of the IT, procurement, construction and maintenance systems

Continue to upgrade Group risk management capabilities and pricing ability

# Reducing Costs

**Objective:** To save an estimated NIS 350–400 million per annum

**Implementation Period:** 2012–2014

- 800 position reduction in the workforce in the bank in Israel based on natural retirement and reduction of recruitment (mainly from the “Advancing Together” initiative)
- 10% overall reduction in branch floor space in Israel
- 10% reduction in annual procurement expenses in Israel
- Restraint in routine expenditures of the Leumi Group

## **Additional Initiatives:**

- Merger of Leumi Mortgage Bank into Bank Leumi

# 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



# Fundamental strengths of the Leumi Group

Diversified  
business  
model

Leading  
market  
position

High quality  
loan portfolio

Low leverage  
& high liquidity

Strong capital  
position

Sophisticated  
digital  
platform

Highly  
educated  
workforce

# Appendix

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# Israel's leading banking group

31.12.2011

- **Assets:** \$96b
- **Credit:** \$63b
- **Deposits:** \$73b
- **Equity:** \$6.1b
- **AuM:** \$235b

- ~30% market share in Israel
- 270 branches in Israel
- 61 offices in 17 countries
- 13,633 employees

- **Market Cap:** \$4.9b\*
- **ROE:** 8.3%
- **CAR:** 14.34%
- **Core Tier 1 Ratio:** 8.07%

Leumi has been recognized for its excellence by:



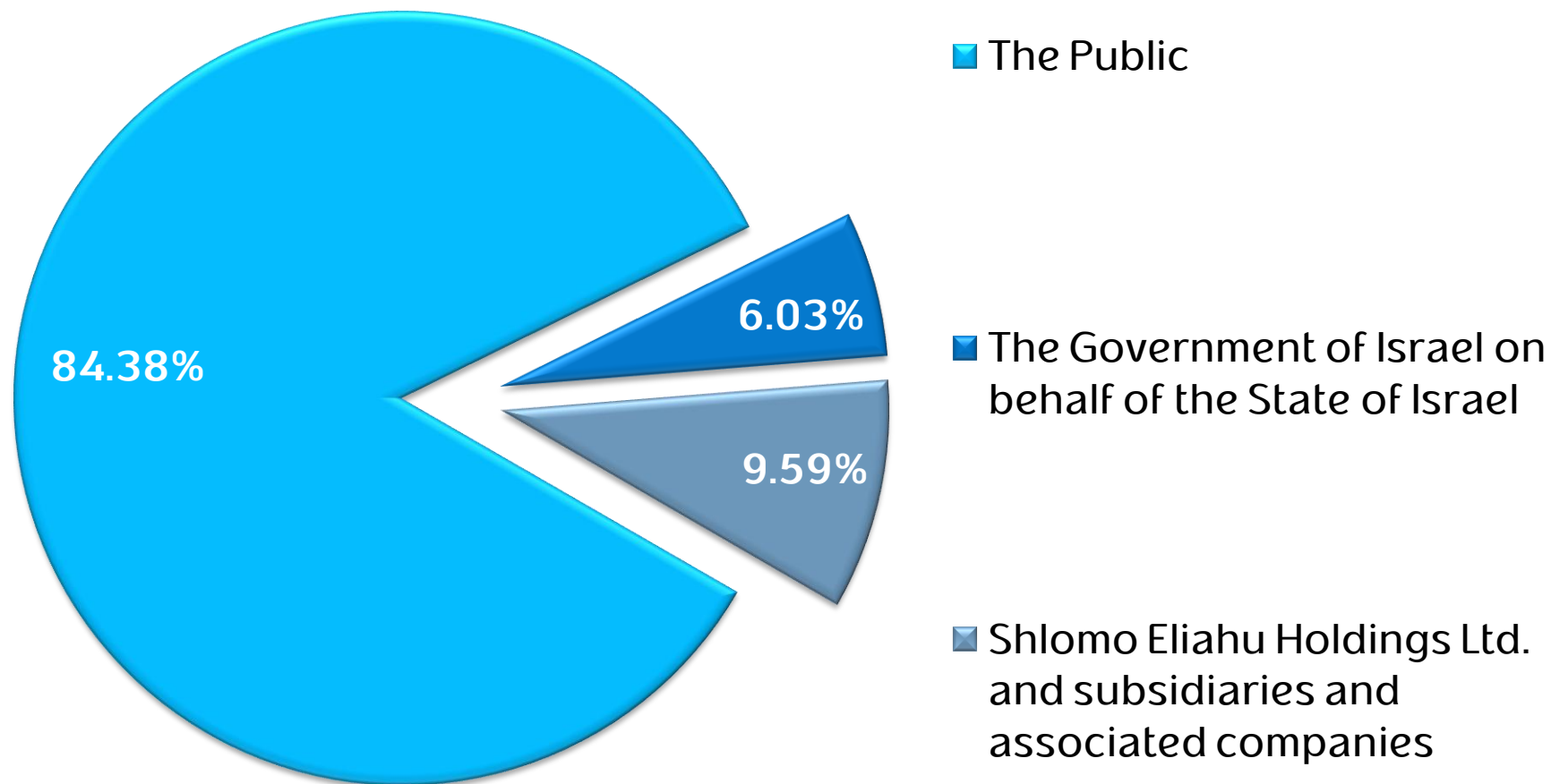
\* At 26.3.2012

# Solid international credit ratings

		Long-term	Long-term outlook	Short-term	Latest update
State of Israel foreign currency	Moody's	A1	stable	P-1	May 2011
	S&P	A+	stable	A-1	Sep 2011
	Fitch	A	stable	F1	May 2011
Leumi foreign currency	Moody's	A2	stable	P-1	Jan 2012
	S&P	BBB+	stable	A-2	Dec 2011
	Fitch	A-	stable	F2	July 2011
Leumi domestic currency	Moody's	A2	stable	P-1	May 2011

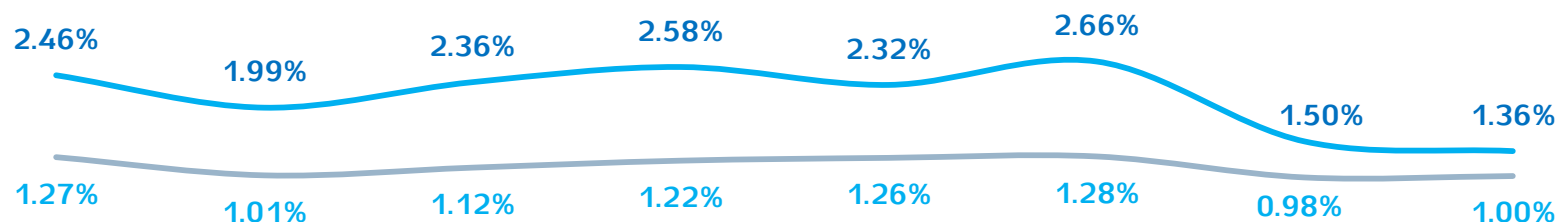
# The largest free float of all Israeli banks

List of interested persons (fully diluted) as at March 27, 2012



# Net interest income: 14.2% increase in current activities

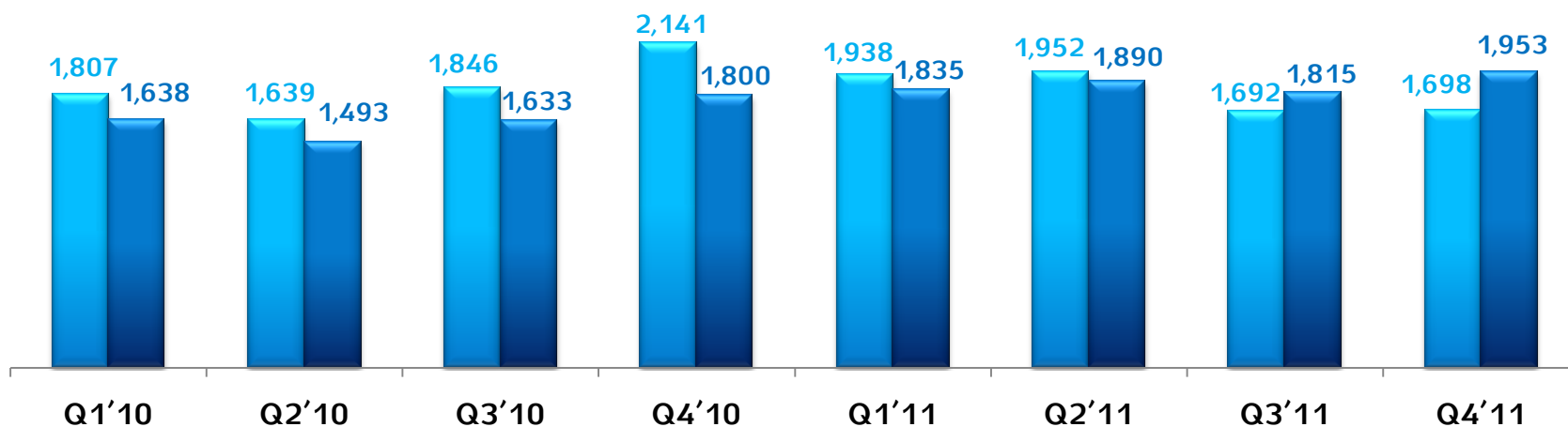
NIS millions; accumulated for the period end



— Interest margin excluding the effect of derivatives — Interest margin including the effect of derivatives

2010 Current Activities Average: 1,641

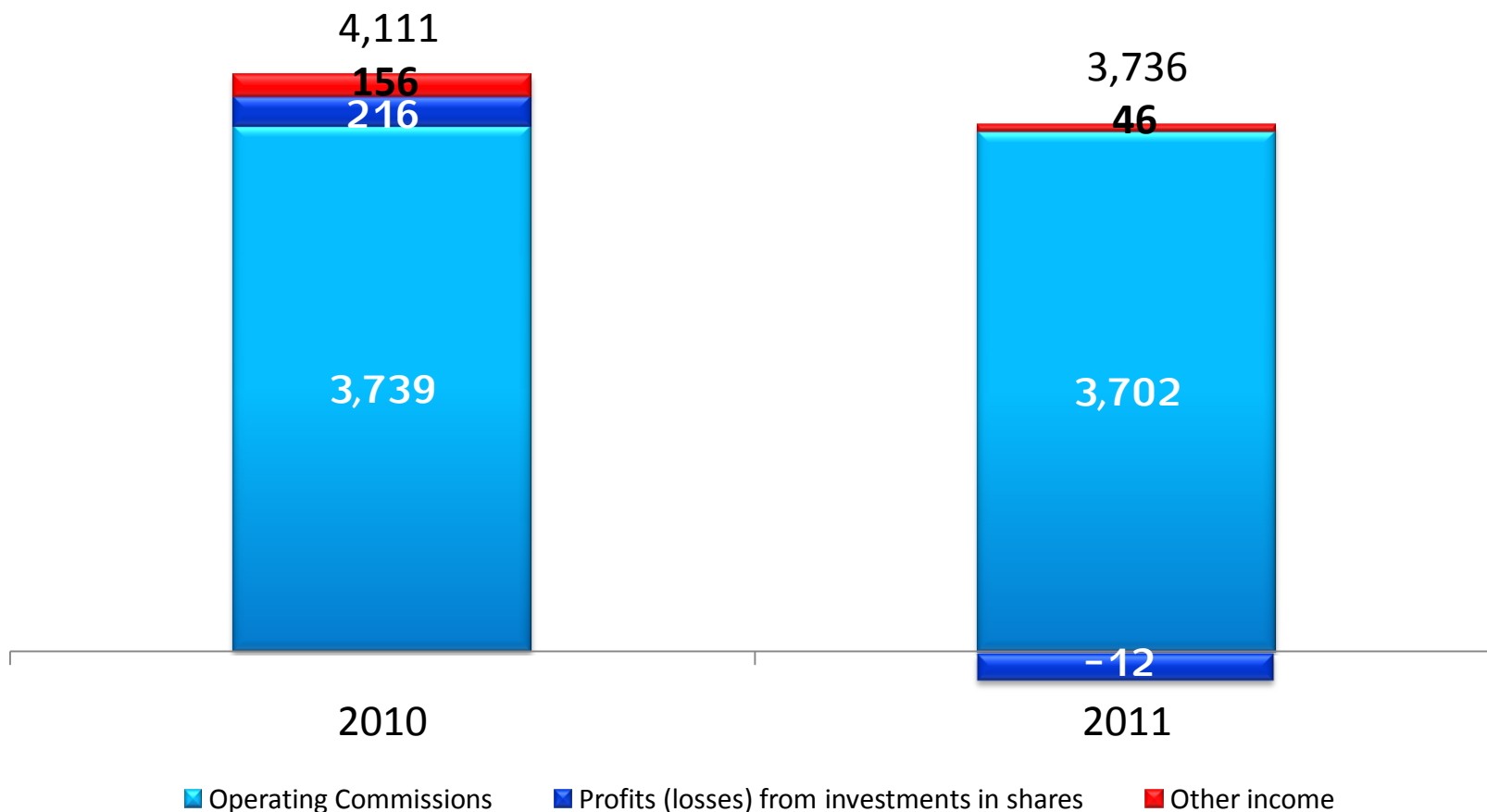
2011 Current Activities Average :1,873



■ Net Interest Income ■ Current Activities

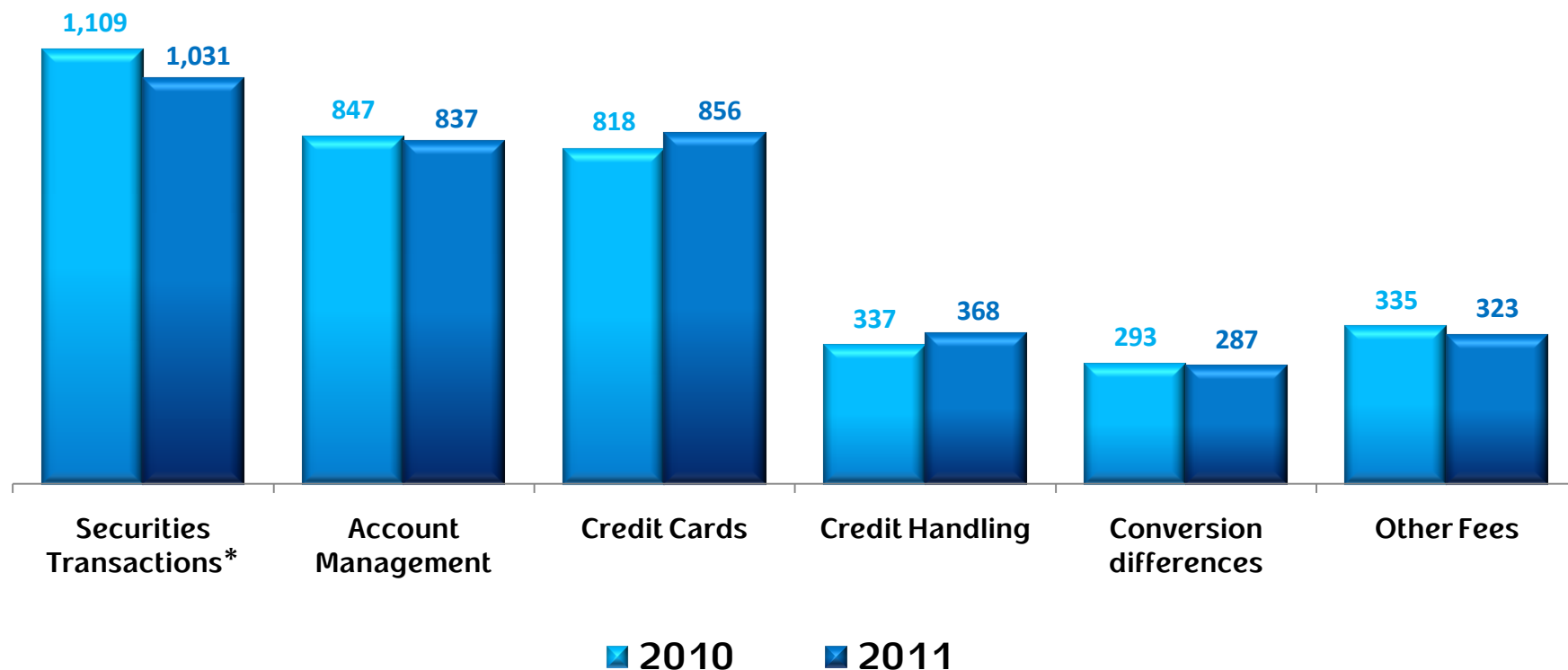
# Operating and other income

NIS millions



# Operating commissions

NIS millions



\*Includes financial product distribution commissions



# Low risk: 73 % of nostro investments are in Israel government bonds, US sovereign bonds, central banks & cash

NIS billions, 31.12.2011

Other

Israeli Corporate Bonds (0.9b) & Israeli Stocks (1.8b) & Israeli bank bonds (0.6b)

MBS/ABS (mostly U.S. Gov't Sponsored)

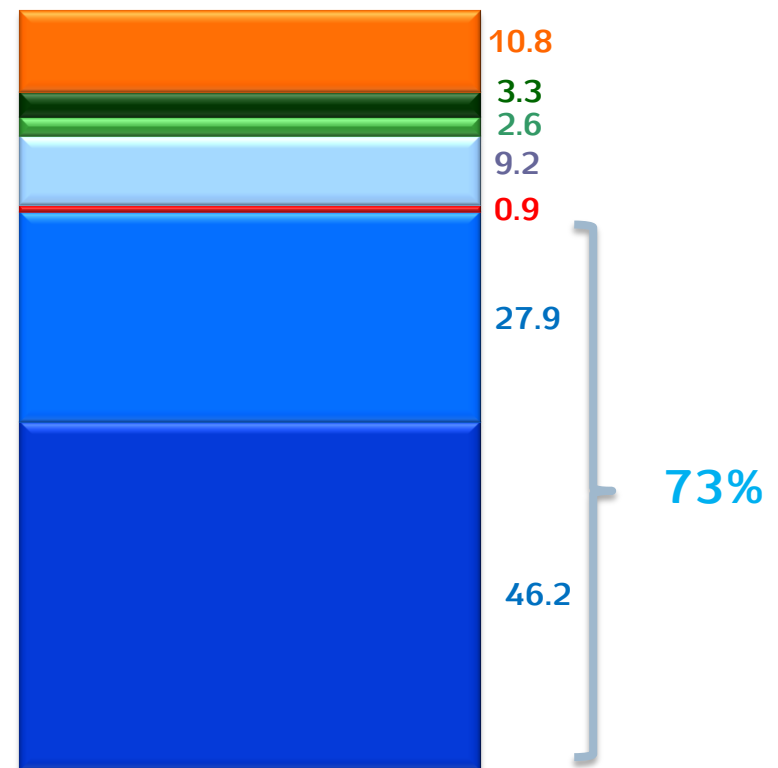
Deposits with Foreign Banks (mostly overnight)

Deposits with Israeli Banks

Gov't of Israel Bonds

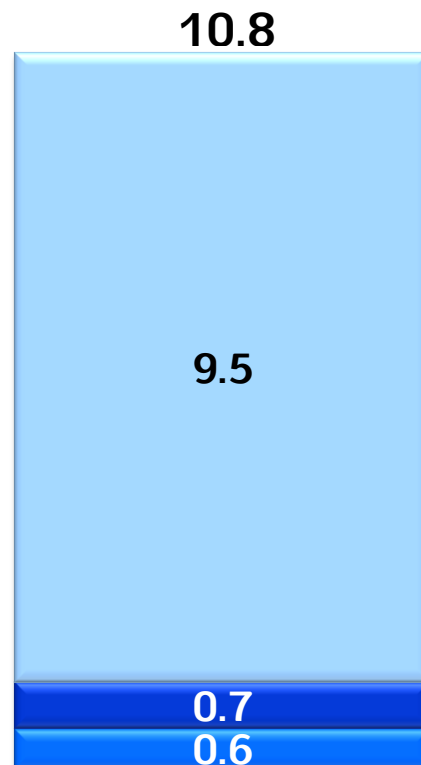
Central Banks (40.8b) & Cash (2.1b) & US sovereign bonds (3.3)

## NIS 100.9 billion nostro portfolio



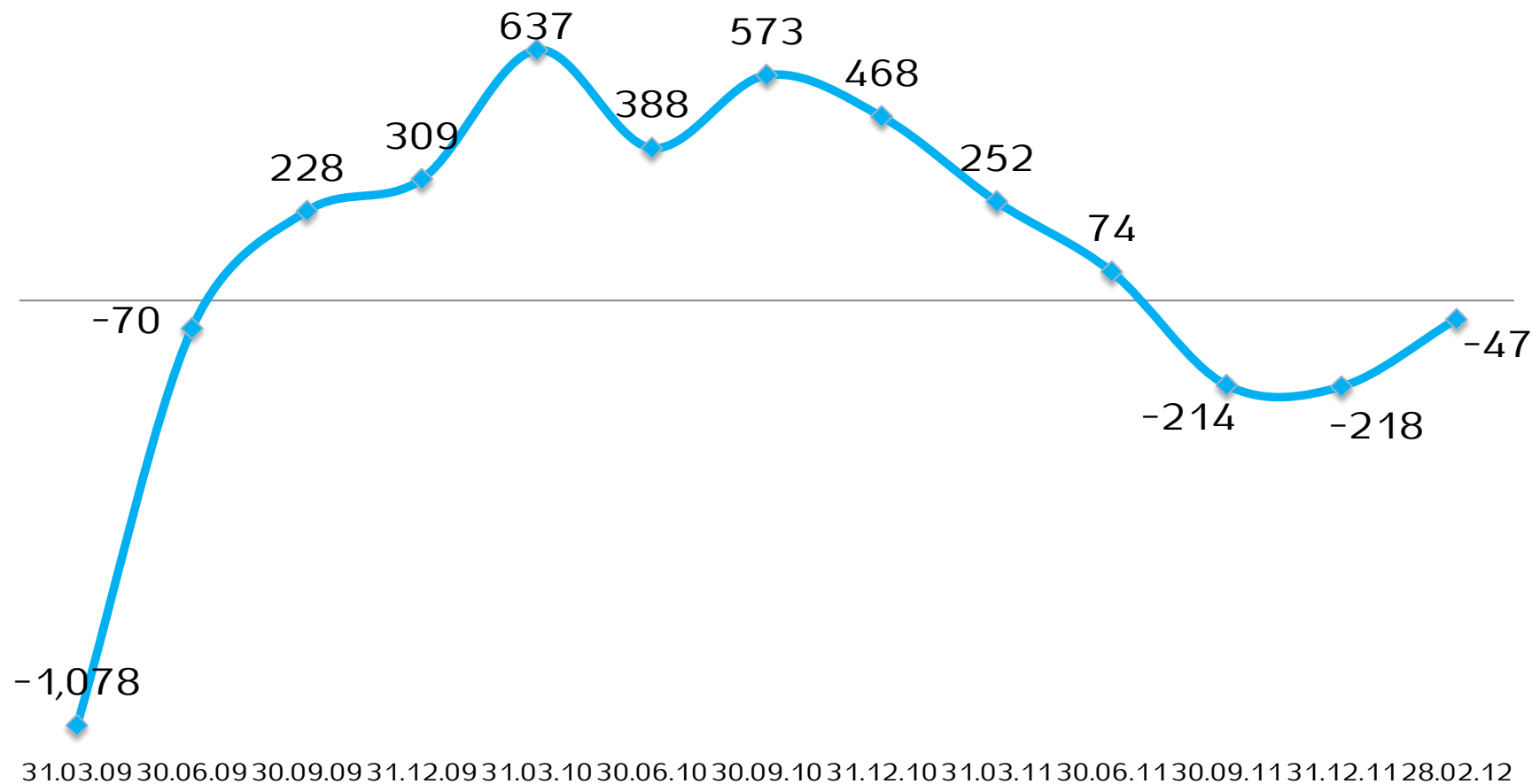
# Composition of "Other" (foreign sovereign bonds, foreign shares & funds, bonds of foreign banks, FI's and corporates)

NIS Billions, 31.12.2011



- Bonds of foreign banks, financial institutions and corporates
- Foreign shares/funds
- Foreign sovereign bonds (not USA)

# Other Comprehensive Income\*



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

# Exposure to certain foreign countries (GIIPS)

NIS millions, 31.12.2011

Country	Credit to the public	Bonds	Bank deposits	Other	Total
Portugal	-	-	-	-	-
Ireland	6	2	-	-	8
Italy	80	359	18	15	472
Greece	6	-	-	-	6
Spain	42	440	18	10	510
Total	134	801	36	25	996

# Thank You

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