



Private Banking
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What's in "Investor's Review"

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Select Indices

	Rate	Return in % November	Return in % 2008
TA 100	545	-8.17	-50.80
TA 25	617	-7.98	-47.23
DOW JONES	8,149	-3.83	-38.57
NASDAQ	1,398	-9.59	-47.29
NIKKEI 225	7,864	-5.73	-45.14

Correct to 01.12.2008

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INVESTOR'S REVIEW

ESPECIALLY FOR LEUMI PRIVATE BANKING CLIENTS

Macro Economic

By: **Eyal Raz**, Head of Economics Department, Finance and Economics Division, Leumi

The Bank of Israel cut its interest rate to 2.5%

On November 24th, the Bank of Israel (BoI) announced a 50bps cut to its interest rate, to 2.5%. The background behind the bank's decision included the continued downward trend in inflation expectations in the capital market, as well as the decline in inflation forecasts by private forecasters. In addition, the BoI mentioned the substantial decline in economic growth; and they also noted the fall in wages as a reflection of the slowdown in real economic activity. The main factors behind the 50bps cut were the expectations that inflation will fall to around the lower border of the price stability target range (1-3%) in the first half of 2009, the deepening slowdown within expanding areas of economic activity, the high uncertainty in the financial markets, and the expectation that central banks around the world will continue to cut their rates. The substantial drop in the local inflation environment recently has led to an increase in real short-term interest rates, both when calculated on the basis of inflation expectations seen in the capital markets (a calculation that creates various technical problems), and also on the basis of inflation expectations of private forecasters. This interest rate ranged between 2-3% in November, a level that is close to the average seen in recent years (a period in which the economy grew rapidly), but does not reflect expansionary policy when taking into consideration the current state of the economy. Therefore, it appears that even after this recent cut in the BoI's interest rate, the central bank can still be expected to continue to implement expansionary monetary policy, especially given the current state of the economy.

Capital flows – since the beginning of the year the impact has been mainly on financial investments

The latest capital flow data indicate that so far during this year, in which the world economy has been experiencing a crisis, a relatively high level of direct capital inflows into Israel has been maintained – that is to say, those types of capital flows that reflect a long-term outlook on the economy. More specifically, the data from the BoI on activity in the local foreign exchange market and capital flows in the first nine months of 2008 indicate a number of trends: foreign direct investment channeled into Israel through the banks amounted to \$5.1bn, compared to \$5.8bn in all of 2007. In contrast to the continued inflow of these types of investment, which are strategic in nature, portfolio investments by non-residents in publicly traded shares (financial investments) in Israel declined substantially, from \$2.2bn in 2007 to an actual contraction of -\$0.3bn in the first nine months of 2008. Looking at flows in the opposite direction, direct investments overseas by Israelis amounted to \$2.3bn in the January – September 2008 period, which represents a slightly higher annualized rate compared to 2007 (\$2.9bn). Portfolio investments by Israelis in publicly traded shares overseas have fallen sharply: from \$4bn in 2007 to a contraction of -\$0.4bn in January – September 2008. The overall picture putting together the various components of the capital flows indicates that their direction has supported the strengthening of the shekel in the first nine months of 2008, primarily due to the significant decline in the outflow of money from Israel, which was more substantial than the decline in capital inflows. As a word of caution though, we note that the data analyzed do not include figures from October, during which the global financial situation became more severe. It is possible that the deepening of the global economic slowdown will in the future affect the various components of capital flows to Israel by reducing them, even if only temporarily.

World Macro

Euro and USD vs. NIS



By: **Liora Caplan**, Capital Market Research Department, Investment Counseling Division, Leumi

A general lack of confidence in the global financial system and economic concerns continued to influence the markets. Even though prices kept dropping, nevertheless, the slide was not as severe as in October. Some would say the US elections injected some optimism while others might say that price levels today are so low that such steep monthly declines are no longer justified.

Although the US \$ Libor rate (and other Libor rates as well) registered a dramatic decline, the credit freeze continued. Loan criteria have been further tightened and the Fed was under pressure to broaden the CP purchasing program to include more than just the top-rated companies. These two examples do not reflect positively on future economic activity, as the continuation of the credit crunch could lead to a business activity freeze and global economic stagnation.

If anyone still had doubts that Europe is in the midst of a recession, formal "proof" arrived during November as negative Q3 GDP data were published. Japan registered a second consecutive quarter of GDP contraction as well, while in the US the Q3 figure was revised down to -0.5%. Other economic data published during the month reveal a rather gloomy picture as different sentiment, production, sales and employment indicators, within the US and without, all registered further declines. In an attempt to reduce the effects on the real economy, central banks continued cutting interest rates, including the EU, the UK, Australia, Switzerland, China, India and South Korea.

Various fiscal steps were taken as well, as Germany, Italy, Spain, Portugal and South Korea, among others, announced new rescue/stimulus plans. China's announcement of a 4 trillion Yuan (\$586bn) plan, to be spent by the end of 2010, brought a huge sigh of relief in local markets. The announcement helped local stock prices to rise during November. In the US, after JPMorgan, Citigroup, Fannie Mae and Freddie Mac announced that they are planning to reconsider terms on mortgages and postpone foreclosures, Secretary Paulson announced that the \$350bn left from TARP money will not be spent on buying Mortgage Backed Securities (MBS's), the original destination for the funds. This announcement dealt a real blow to stock markets and financial companies in particular and eventually brought the need for an immediate stabilizing plan for Citigroup. This consisted of a \$20bn cash injection and a government guarantee for \$306bn in "troubled" assets in return for \$27bn in Citigroup's preferred shares. A few days later, Paulson announced a plan to inject the markets with another \$800bn, \$600bn of which will be used to buy GSE- (mainly Fannie Mae and Freddie Mac) issued or backed loans while the remaining \$200bn will be handed out in loans. These loans will be collateralized by assets backed by credit card, student and car loans. In the EU, after many attempts to address the crisis in a united effort, finally there was an agreement on a shared fund consisting of €200bn.

We believe that the current quarter and Q1 2009 will be especially difficult and think that reaching the bottom in the US real estate sector is crucial. If we have learned anything from the past month, it is the crucial need of getting the MBS market moving, because as long as these assets do not have viable prices, financial companies remain in danger.

TA25



Oil Prices per Barrel (USD)



Gold Prices (USD)



“The Leumi Way” – Leumi’s Ethical Code

Leumi was established as part of the dream of the revival of the Jewish people in their homeland and linked its fate to that of the State of Israel. For over a century, Leumi has integrated its commitment to Zionist values with its commitment to professional financial management.

As a large and leading business in Israel, whose activities contribute to shaping the social and economic environment of the country, Leumi also assumes the role of demonstrating positive ethical practices.

"The Leumi Way" is a document, which defines Leumi's Code of Ethics. This document contains the guiding principles for the way in which we realize the spirit of Leumi, its values and ethics, and defines clear rules of conduct for doing so.

"The Leumi Way" guides us in reaching the ethical values that we believe in and to which we aspire. Its strength is in that it provides two complementary standards:

1) The People Standard

We at Leumi act both separately and as a group for the benefit of people, placing an emphasis on the human and moral values to which we adhere:

Integrity, respect, humanity, fairness, tolerance.

We at Leumi behave with integrity, honesty and openness and we are meticulously honest in our personal, organizational and business activities.

We at Leumi respect other people, their sensitivities, values, traditions and beliefs, and we do not offend them. We behave with personal and business etiquette, with politeness, sensitivity and respect, creating and promoting a pleasant working atmosphere.

We at Leumi make it a point to give service that is both warm and friendly with everyone with whom we are in contact.

We at Leumi act with maximum fairness that is free of any bias in all fields of our endeavors: for the benefit of our customers, in our in-house relationships with our colleagues, with those who are responsible to us and

those to whom we are responsible, and in our contacts with those around us: shareholders, state authorities, suppliers and competitors.

We at Leumi relate to our fellow man with tolerance. We do not discriminate against a customer, employee or supplier because of sex, age, religion, belief, political opinion, sexual orientation, marital status, finances, social standing, or for any other reason. We listen to the needs of special groups and provide them with a unique response.

These values give us our organizational strength, and from them we gain the trust of our clients and the public.

2) The Business Standard

We at Leumi aspire to reach our objectives and common goals. We emphasize the following principles and business values to which we adhere:

Responsibility, obligation, partnership, professionalism, excellence.

We at Leumi are committed to our customers' benefit, and with this, we aspire to achieve the objectives and targets we set for ourselves. We act to realize our vision and our contribution to society.

We at Leumi show involvement and take responsibility for the execution of tasks whether personally, by our unit or by the organization, for the success of our customers and for achieving the objectives common to us all.

We at Leumi act in cooperation with employees and within the various units in the Bank and within the Group. Our feeling of partnership with our customers is expressed through an understanding of and identification with their needs, and constant concern for their welfare.

For more information, please visit our website:
www.bankleumi.com
under the Investor Relations section.

Going Further – Bank Leumi (UK) plc*

Leumi Private Banking

Leumi Private Banking is proud to protect and enhance the wealth of its international clients and their families through a comprehensive range of private banking, investment and trust services.

We welcome new clients.

Banking Services

We offer a full range of banking services in all major currencies, accept deposits for sums of £50,000 and above (or equivalent in other currencies), and provide payment services, cheque books and charge cards.

Investment services

For sums of £250,000 and above (or equivalent in other currencies) we offer both Advisory and Execution Only Services. We can offer investment advice on fund choice and also asset allocation and portfolio valuations in all the major currencies. Invested cash can be held in the currency of your choice.

Wealth Planning Solutions and Fiduciary Services

We structure, establish and administer trusts, private investment companies registered in various locations, and foundations, through our subsidiary in Jersey.

Treasury and Dealing Services

Our Private Banking Relationship Managers, in conjunction with our Dealing Room, are able to offer a full dealing service and provide you with the latest market information. In addition they can offer a range of options, future and derivative strategies for sophisticated investors.

Foreign Exchange Services

We offer immediate competitive pricing in all major currencies, covering spot and forward periods and swaps trades. We offer access to a range of derivative instruments as investments, or for protection against interest, exchange, and equity risk. Our treasury team is positioned to facilitate timely execution.

Lending

We provide lending facilities against portfolios of securities, bank guarantees, UK properties, cash deposit, and on a back-to-back basis (a loan backed by a deposit held in the same or different jurisdiction).

Executive Mortgages

We offer a flexible five-year, interest only mortgage with a multi-currency option intended for UK and expatriate high net worth individuals for the purchase of their residential property in the UK.

*Bank Leumi (UK) plc is authorised and regulated by the Financial Services Authority

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Leumi Jersey

Bank Leumi (Jersey) Limited** provides a full range of private banking services for clients who are looking for an offshore location with security, confidentiality and in a stable, reputable environment. We have an experienced team who are able to provide a flexible and focused approach to meeting individual clients' needs.

Additional services available from our offices in Jersey:

From Bank Leumi (Jersey) Limited Banking for Non-Domiciliaries

We routinely provide accounts where capital and income are segregated. This, combined with our attractive interest rate, should prove to be particularly beneficial to clients who are not UK domiciled but resident there. It may also be attractive in other circumstances.

Offshore Custody

We are able to provide offshore global custody arrangements for trusts, companies and individuals, whose planning include such requirements.

Offshore Executive Mortgages

This product is most applicable for UK residents who are not domiciled for tax purposes in the UK and who have foreign earnings. These clients may purchase residential or investment property in the UK using a Bank Leumi (Jersey) Limited flexible five year, interest only mortgage with a multi-currency option.

From Leumi Overseas Trust Corporation Limited*** Fiduciary Services

The formation and administration of Trusts, Foundations and Companies is at the core of our service. Whether the goal is to provide an orderly transfer of assets to future generations, to maximise returns by investing within a tax-efficient structure, or any other aspect of international planning, we can assist in the establishing and managing the most appropriate holding vehicle.

Family Office Services

The idea of having one overall focal point for many areas of planning and investment is appealing to many clients and we are able to provide this service from one office. As an enhancement, we are able to provide Private Trust Company services, where family members may be closely involved in the trustee decision making – giving an element of control if required.

Wealth Planning Solutions

Working in conjunction with tax advisors, we can provide a wide range of solutions for families or companies looking to efficiently manage and protect assets whilst planning for the future. Wherever there is a requirement for fiduciary services from an experienced team, in a reputable and stable jurisdiction, we will be able to assist.

**Bank Leumi (Jersey) Limited is regulated by the Jersey Financial Services Commission in the conduct of Investment Business and to carry on Deposit Taking Business under the Banking Business (Jersey) Law 1991.

For more information phone: 01534 702 525

***Leumi Overseas Trust Corporation Limited is regulated by the Jersey Financial Services Commission in the conduct of Trust Company Business.

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