



Private Banking
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"Leumi - The Best Private Banking in Israel"

(Euromoney Survey, February 2009)

What's in "Investor's Review"

- Macro Economic Review
- World Macro Review
- Leumi - Tel Aviv Central Branch (800)

Select Indices

	Rate	Return in % April	Return in % 2009
TA 100	745	11.88	32.12
TA 25	812	11.53	24.05
DOW JONES	8,168	7.35	-6.93
NASDAQ	1,717	12.35	8.89
NIKKEI 225	8,828	8.86	-0.35

Correct to 30.04.2009

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INVESTOR'S REVIEW

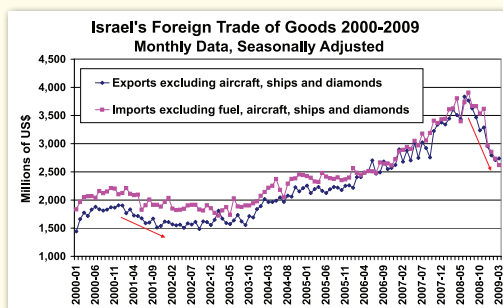
ESPECIALLY FOR LEUMI UK PRIVATE BANKING CLIENTS

Macro Economic

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

Israel's foreign trade – a sharp drop in Q1 imports and exports

The first quarter of the year ended with a sharp decline in both imports and exports of goods, reflecting the global recession that is causing a sharp drop in the volume of global trade upon which the Israeli economy strongly depends.



Consequently, Israel's first quarter trade deficit narrowed by US\$1.5bn compared to the same period last year. The trade deficit excluding ships, aircraft, diamonds, and fuel (factors displaying a high degree of volatility) narrowed US\$0.6bn compared to the last quarter of 2008, equivalent to more than 1% of GDP in annualized terms. This development is expected to be reflected in an improvement in Israel's balance of payments data, which have not yet been published, and also in first quarter growth data (which will be negatively impacted by other factors).

As can be seen in the accompanying graph, the current crisis is characterized by a sharper and faster decline in Israel's foreign trade compared to that of the previous recession at the beginning of the decade. At that time the damage was focused more on the high-tech sectors, while today the damage is more widespread and felt in most sectors of the economy, as the current crisis is more global and deeper than what occurred previously. Looking forward, the substantial decline in foreign trade, especially in exports of goods and services, which serves as an important growth driver for the Israeli economy, is expected to lead to a downward revision in Israel's 2009 growth forecasts to a negative growth rate.

The interest rate of the Bol remains unchanged at 0.5%; with the real short-term rate turning negative

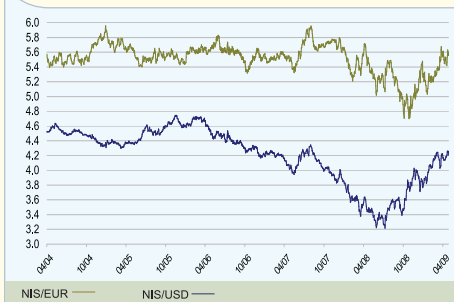
On April 28, the Bol announced its interest rate for May will remain unchanged at 0.5%. Backing up its decision, the Bol noted March's higher-than-expected inflation figure, the beginning of the rise in prices to within the target inflation range already in the near term, and expectations in the capital market and by forecasters for a rise in the interest rate in the coming year. Regarding real economic activity, the Bol mentioned it had revised downwards its 2010 economic growth forecasts, and its Companies Survey (a quarterly survey of approx. 700 companies) to be published soon indicates companies' estimates that the decline in economic activity will be more moderate in the second quarter compared to the first quarter. Regarding the global economy, the central bank noted, "There are signs that the rate of deterioration in the global economy is easing, and there may be the first indications that the situation is stabilizing."

By keeping the interest rate unchanged, the real interest rate in the economy has turned moderately negative. It is possible this rate may decline even further in the near future. Such a low real interest rate supports real economic activity and the return of inflation to within the price stability target range. However, the Bol noted, "The view is being expressed abroad that a strategy needs to be formulated that would enable a less expansionary monetary policy to be pursued." In other words, central banks around the world are already beginning to discuss an exit policy from the current monetary path being pursued. This will prevent as much as possible extreme volatility in the various markets, which during the current crisis the central banks have intervened in significantly.

World Macro

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

Euro and USD vs. NIS



TA25



Oil Prices per Barrel (USD)



Gold Prices (USD)



The positive change in investor sentiment, beginning in mid-March, continued during April. Thus, there was hardly an index that did not turn green while indices that under-performed during March seemed to make a special effort to catch up with the rest of global stocks. This optimism was a result of a number of factors, but more than anything it reflected the intense efforts made by US authorities to calm spirits and restore confidence in their ability to lead the US economy to safety.

One of the main issues on the agenda during the month was the stress tests run by the Fed on the balance sheets of the 19 largest US banks. The purpose of these tests was to discern whether the banks have enough capital to weather further deterioration in economic conditions during the next couple of years. Results were scheduled to be released on May 7. If the tests reveal that a bank is adequately capitalized, all the better, but if not the bank will be required to raise additional capital. Regardless, there will be greater transparency which will create renewed confidence in the ability of these banks to withstand the financial and economic crisis. However this simple logic hasn't worked smoothly and it seems that fear of possible negative implications from banks failing the test caused even greater uncertainty in the markets. The debate which the tests raised emphasized the conflict of interests between the US administration and banks. The priority of the administration, representing the interests of the American people, is stabilizing the financial system. On the other hand, the banks are interested primarily in proving their own financial strength, in order to protect both their shareholders and their business interests. Failing the tests and having to raise more capital means diluting existing shareholders (and perhaps even nationalization) and losing anxious customers.

In spite of the negative aspects of the stress tests, the favorable aspects helped sentiment soar in the past few weeks. Contributing to this trend were the changes to mark-to-market accounting approved in early April by the Financial Accounting Standards Board (FASB). These changes allow companies significant leeway in pricing some investments on their books, including mortgage-backed securities. The measure was applied to some banks' first-quarter results and helped reduce writedowns and boost net income.

First-quarter results also added to the positive sentiment. Although most companies registered a sharp decline in profits, for many of them these results were better than expected. Goldman Sachs, JPMorgan and Citi were among those who positively surprised the markets.

Macro data published this month continued to reflect the difficult state of the economy but were not as negative as the previous month. Q1 preliminary data showed a worse than expected 6.1% decline in GDP (in annual terms). Nevertheless, private consumption surprisingly grew at an annual rate of 2.2%.

The latest developments show that the US authorities' strenuous efforts in containing the crisis are finally having a positive effect on investor confidence. These efforts, alongside the slight improvement in macro data, have translated into impressive stock market returns, but more importantly, a decline in volatility and signs of movement in the credit markets. Nevertheless, sentiment is fragile; therefore the risks, in the short term in particular, are still prevalent.

Leumi - Tel Aviv Central Branch (800)

By: **Dr. Eitan Burstein** – Leumi Training and Personnel Development

On Sunday, June 1, 1923, (17th of Sivan, 5683) Bank Leumi's first Tel Aviv branch was opened on the corner of Herzl and Yehuda Halevy Streets. This was the bank's eighth branch in the Land of Israel and its tenth worldwide (the bank also had branches in London and Beirut).

In retrospect, one can see that the bank's location established Yehuda Halevy and the adjoining streets as the financial center of both the Land of Israel and later of the State of Israel. Currently all the major banks' executive offices are located in Tel Aviv on the parallel streets with names that evoke a national revival: Rothschild, Lillienblum, Ehad Ha'am and Montefiore.

At the time of the opening of the Tel Aviv branch, the bank's (the Anglo-Palestine Company) executive offices and main branch were located in nearby Jaffa on a street named after King George V. Then in 1931, with the development of Tel Aviv, the bank's management resolved to relocate them to the corner of Yehuda Halevy and Herzl Streets.

A perusal of a number of documents indicates that the chance circumstances (an unpaid debt of the landlord) triggered the bank's decision to open the branch in Tel Aviv at its current location. The plot on the corner of Herzl Street and the southern section of Yehuda Halevy Street (24 Yehuda Halevy St.) had been purchased by Nahman Pelman, one of the founders of Tel Aviv, where he constructed his home in 1910.

This building was designated to serve as the bank's first Tel Aviv branch by Levontin and Hoffein. The pogroms that the Arabs instigated against the Jews of Jaffa, which broke out on May 1, 1921 and continued for five days, claiming the lives of 46 Jews, including the writer Yosef Haim Brenner, were apparently the catalyst that led to the decision to establish a branch in Tel Aviv immediately. The opening of this branch was exceptional because of the conservative policy regarding opening new branches. Apart from the Tel Aviv branch, no other branches were opened between 1914 (when a branch was opened in Gaza; the branch was closed shortly afterwards because of the outbreak of war) and 1930 (when a branch was opened in Petach Tikva).

In a letter with an unclear date in 1922, which was found at the Tiberias branch, Baruch Ben Tovim, an employee at that location, thanked the bank's management for "the good tidings to transfer me shortly to Tel Aviv." Apparently, even before the e-mail and mobile phone era, rumors made their way rapidly not only inside tiny Tel Aviv, but also between Jaffa and Tiberias.

Hoffien immediately reported on the building's suitability for serving the branch's customers to the Jüdische Colonial Trust – the bank's parent company, according to documents in the Zionist archives. In these files, there are various architects' plans with a construction budget filed by "Ha Boneh" - the Anglo-Palestinian Construction Company. The correspondence also mentions the attention paid to connecting a new telephone. An interesting item in the file is the 1927 earthquake, which hit Tel Aviv, causing damage that required repairs to the branch. The branch's first manager was Elyahu Levontin, the CEO's son. He served in this position until 1958.

The continuous growth of the bank, which was called the Anglo-Palestine Bank from 1930 onwards, resulted in the building creeping towards Nahalat Binyamin Street. Herzl Street's unique commercial nature and the fact that it was blocked by the Herzlia Gymnasium explain the bank's eastward expansion.

With the previously mentioned resolution to transfer the bank's executive offices to Tel Aviv in 1931, a tender for constructing the building on the location of Pelman's house was published in May of that year. Included in the tender requirements was a "room for safeguarding the employees' bicycles – approx. 50 bicycles." Those were the days. The executive building and the branch were opened two years later.

Later for the purposes of enlarging the branch and the executive building, the structure next to Pelman's house, Sander Cohen's house (Cohen was one of the founders of Tel Aviv) was demolished at 26 Yehuda Halevy Street.

In 1935, the General Mortgage Bank, with a façade facing Yehuda Halevy Street was constructed next to the executive building on the plot on which the Pelman-Kahane home was located. This building later became the location of the executive offices.

Almost all the buildings close to the bank on Yehuda Halevy Street were demolished except for Mannie House (36 Yehuda Halevy Street). The new bank executive office building (Leumi House) was constructed behind and next to Mannie House and was completed in 2003 to honor the 100th anniversary of the opening of the Jaffa branch.



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