BANK LEUMI LE-ISRAEL B.M. AND CONSOLIDATED COMPANIES

Condensed
Financial Statements
as at 31 March 2007
(unaudited)

Bank Leumi le-Israel B.M.
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A. General Developments in the Group’s Business

The Directors’ Report has been prepared in accordance with the public reporting directives of the Supervisor of Banks. The principles applied in preparing the interim reports are consistent with the principles used in preparing the Annual Report as of 31 December 2006. The interim reports should be read in conjunction with the Annual Report for 2006.

Description of the Leumi Group's Business Activities and their General Development

Total assets under the management of the Group (balance sheet items, customers' securities portfolios, and provident and supplementary training funds) amounted to some NIS 720 billion at the end of March 2007, as compared with NIS 695 billion at the end of 2006, an increase of some 3.6%.

Net profit of the Group in the first quarter of the year totaled NIS 917 million, compared with NIS 1,112 million in the corresponding period of 2006, a decrease of 17.5%. The decrease in net profit resulted from a decrease in net profit from extraordinary items, which amounted to NIS 259 million, and derived from the sale of some of the provident funds, as compared with a profit of NIS 712 million during the corresponding period in 2006, and from the sale of the non-banking (real) holdings pursuant to the legal restrictions applicable to the Bank. For further details, see below.

Net operating profit in the first quarter of the year totaled NIS 658 million, compared with NIS 400 million in the first quarter of 2006, an increase of 64.5%

The increase in net operating profit is explained primarily as a result of a decrease in special salary expenses, which amounted to NIS 46 million, compared with NIS 239 million in the corresponding period in 2006, a reduction in provisions for doubtful debts and the improvement in the profitability of a number of subsidiaries in Israel and abroad. On the other hand, as a result of negative exchange rate differentials in respect of investments in overseas subsidiaries, their contributions were reduced and partly offset these increases. In addition, there was a decrease in the contribution of companies included on the equity basis.

Net profit per share in the first quarter of 2007 was NIS 0.65, compared with NIS 0.79 in the corresponding period in 2006 and NIS 2.50 in all of 2006.

Based on data of the banking system as at 31 December 2006, as published by the Bank of Israel, the Leumi Group's share of the five largest banking groups was as follows:

	31.12.2006	31.12.2005	31.12.2004
		in %	
Total assets	30.2	30.2	30.0
Credit to the public	29.9	30.3	29.9
Deposits of the public	30.6	30.5	30.3
Operating profit before tax*	27.7	30.4	34.0
Net operating profit*	25.8	30.7	34.1

* The decrease in the Group's share arises mainly from the volume of extraordinary salary expenses, of which some half arises from the privatization.

Control of the Bank

On 31 March 2007, the State of Israel held 11.94% of the issued share capital of the Bank (fully diluted – 11.26%) and 19.78% of the voting rights in the Bank (fully diluted – 18.66%)

Sale of Shares in the Bank by the State

On 15 November 2005, the Bank was informed by M.I. Holdings Ltd. ("MIH") that, further to the procedure for the sale of up to 20% of the shares of the Bank held by the State, which was published by the Accountant-General of the Ministry of Finance and MIH on 14 September 2005, Barnea Investments B.V. ("Barnea") had been chosen as the preferred bidder. Barnea was incorporated in the Netherlands, and is a wholly owned subsidiary of Barnea S.A.R.L., which was incorporated in Luxembourg, and which is held jointly and indirectly by Stephen Feinberg and Ezra Merkin, through the Cerberus and Gabriel private investment fund groups which are controlled by Mr. Feinberg and Mr. Merkin respectively.

The sale was completed on 24 November 2005 (the "Closing Date"), when Barnea paid some NIS 2.474 billion for 9.99% of the Bank's share capital (NIS 17.51 per share), together with interest, a total of some NIS 2.475 billion.

Of the shares purchased, shares representing 4.99% of the Bank's share capital are being held in trust and Barnea and the trustee have signed a power of attorney empowering the committee appointed pursuant to Section 12 of the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 (the "Committee"), including whoever succeeds it in this capacity, as provided under the said Law, or any other person whom the Minister of Finance shall empower, to (1) participate and vote at all meetings of the Bank by virtue of the said shares and (2) to exercise the right to appoint directors in the Bank with respect to all the shares of the Bank held by Barnea.

The government also granted Barnea an option to purchase a further 10.01% of the capital of the Bank, pursuant to the provisions of the option agreement signed between the government, MIH and Barnea on 23 November 2005 (the "Option Agreement"), and conditional, *inter alia*, on their having obtained all necessary permits from the Bank of Israel and the other relevant supervisory bodies in Israel and overseas for the purchase of the shares and control of the Bank. The option, which took effect from the Closing Date, was exercisable 180 days after the Closing Date, subject to an extension of up to an additional 12 months under certain conditions. On 24 May 2006, MIH advised the Bank that, on the same day, an application had been received from Barnea requesting the extension of the exercise period of the said option for an additional 12 months, until 24 May 2007, and that in said application, Barnea stated, *inter alia*, that they had filed a request with the Bank of Israel for a permit to control the Bank. On 6 July 2006, MIH announced that the date for the exercise of the option had been deferred to 24 May 2007.

The price per share for exercising the option was fixed at NIS 14.70, bearing annual interest of 2%, both price and interest being linked to the CPI and subject to certain adjustments as detailed in the Option Agreement, including in respect of dividends distributed by the Bank, such being linked to the CPI and bearing interest.

On 21 May 2007, the Bank was provided by M.I. Holdings Ltd. with a copy of the letter of Minister Rafi Eitan to the representative of Barnea, in response to the application of Barnea for an additional extension of the exercise period of the option.

The text of the letter is as follows:

"Re: Application of Barnea Ltd. for an Extension for the Exercise of the Option to Purchase Shares of Bank Leumi le-Israel B.M.

With regard to your applications in the above matter, I hereby notify you that by virtue of the authority of the Minister of Finance in accordance with the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993, that has been transferred to me, and following my examination and consideration of the matter with all those concerned, I have reached the conclusion that circumstances justifying the granting of any extension for the exercise of the said option did not exist in this case, and therefore I am not approving your request."

The option therefore expired on 24 May 2007. According to the conditions of the sale procedure, Barnea is required to sell at least 4.99% of the shares of the Bank (of the 9.99% that it purchased) within a year. The State has undertaken that on the expiration of the option as mentioned, it will refrain from selling its remaining shares in the Bank during a period of 90 days from the date of expiration of the option.

For details regarding the issue of options to employees see pages 5.

Capital Resources and Transactions in the Shares of the Bank

Shareholders' Equity of the Group as at 31 March 2007 amounted to NIS 18,499 million, compared with NIS 17,491 million at the end of 2006, an increase of 5.8%. The increase in shareholders' equity derives mainly from the profit for the quarter, and from changes in adjustments in respect of the presentation of securities available for sale according to their fair value.

The securities portfolio (nostro) is mainly composed of government debentures, which generally represent the use of raised sources and the available capital. The major part of the securities portfolio is classified as securities available for sale and is included in the balance sheet on the basis of fair value. The income is recorded in the profit and loss statement on an accrual basis, and the difference between the value on an accrual basis with regard to debentures and on a cost basis with regard to shares and the fair value is recorded directly in a separate item in shareholders' equity, after the deduction of the effect of related taxes.

As a result of adjustments in respect of presentation of securities available for sale according to fair value, a net increase in value of NIS 17 million was recorded in shareholders' equity in the first quarter of the year, compared with a net increase of NIS 145 million in the corresponding period in 2006 (all of the amounts are stated net after the effect of related taxes).

The total net accrued balance of adjustments of securities held in the available for sale portfolio to market value as of 31 March 2007 amounted to NIS 640 million (after the effect of taxes).

According to the principles of the capital adequacy computation, the balance in respect of adjusting securities to fair value does not affect the capital computation for the purpose of the minimum capital ratio, save for losses that have not yet been realized from adjustments to fair value of shares available for sale less the effect of taxes.

Shareholders' Equity relative to Total Assets on 31 March 2007 reached 6.4%, compared with 6.0% on 31 December 2006.

Shareholders' Equity relative to Risk Assets reached 11.88% on 31 March 2007, compared with 11.56% on 31 December 2006. This ratio is higher than the minimum ratio of 9% set by the Supervisor of Banks. The ratio of Tier I capital to risk assets reached 7.76% on 31 March 2007, compared with 7.53% at the end of 2006.

The improvement in the capital adequacy ratios derives primarily from the profits accumulated during the first quarter of the year.

Issue of Subordinated Capital Notes

In March 2007, Leumi Finance Company Ltd. issued subordinated capital notes in the amount of NIS 428.4 million, bearing an annual interest rate of 4.1%, linked to the CPI and in May 2007, it issued an amount of NIS 514.5 million, bearing an annual interest rate of 4.1%, linked to the CPI – a total of NIS 943 million was issued.

Issue of Options to Employees

On 2 February 2006, the Bank's General Meeting approved a plan for the issue of options to eligible employees, as determined in the outline published by the Bank on 24 January 2006 (the "Outline"). In accordance with this program, on 14 February 2006, 84,853,960 options, exercisable into 84,853,960 ordinary shares of the Bank, were allotted. The balance of options as at 31 March 2007 was 84,387,827. The said options are subject to all the provisions of the Outline, including:

1. The options will be exercisable in two equal tranches, the first tranche at the end of two years from the date of the allotment of the options and the second tranche as from the end of the second year from the date of the allotment of the options and up to the end of the third year from the date of the allotment of the options.

2. The options were issued to the employees free of consideration.

3. The exercise price per share will be NIS 13.465 and will be linked to the CPI (commencing from September 2005). The price will be adjusted for the distribution of dividends (the amounts of which will be linked to the CPI), bonus shares and the bonus element of rights issues, should there be any.

In respect of the issue of the said options, the Bank records salary expenses in accordance with the fair value of the options with the addition of salaries tax and national insurance contributions. This expense is recorded in the Bank's Financial Statements over a period of two years from the date of allotment.

During the first quarter of the year, the Bank recorded NIS 53 million as salary expenses in its profit and loss statement, as compared with some NIS 40 million during the corresponding period in 2006.

Distribution of Dividends

A. Dividend Policy for 2006-2007

On 29 March 2006 the Bank's Board of Directors resolved to determine the following dividend policy:

It is the intention of the Board of Directors to recommend to the General Meeting the distribution of an annual dividend, for the years 2006 and 2007, in an amount constituting at least 50% of the net annual distributable profit of the Bank, should there be no adverse change in the profits of the Bank and/or in its business and financial position and/or in the general position of the economy and/or in the legal and fiscal environment.

All dividend distributions will comply with the provisions of the Companies Law, 1999, which provides, *inter alia*, that the Bank may make a distribution out of its profits provided that there is no reasonable concern that the distribution will prevent the Bank from meeting its present and anticipated obligations, when they become due. Moreover, the Bank is required to comply with the limits laid down by the Supervisor of Banks such as: a minimum capital ratio of not less than 9%, compliance with the requirements of Section 23A of the Banking (Licensing) Law, 1981, which set limits on the percentage of equity that a banking corporation may invest in non-banking (real) corporations, and also compliance with the limits determined by the Supervisor of Banks regarding granting credit as a percentage of equity and the limits he set regarding dividend distributions, such as: no dividend will be distributed if the non-monetary assets exceed equity or if the dividend distribution will cause such a situation; no dividend will be distributed out of capital reserves or positive differentials arising from the translation of the financial statements of autonomous overseas units; or where one or more of the last three calendar years ended with a loss.

The aforementioned policy declaration does not constitute any undertaking towards any third party (including concerning the dates of payment of the dividend or the rates of dividends in the future).

Certain declarations appearing above in this section contain "forward-looking information". For the meaning of this term, see the section "Description of the Banking Corporation's Business and Forward-Looking Information in the Directors Report" on pages 11-12 below.

B. Dividend for 2006

The Special General Meeting of Shareholders convened on 14 February 2007 approved the Board of Directors’ recommendation of 24 December 2006, regarding the distribution of a cash dividend at the rate of some 101.6% of the net profit for the first nine months of 2006 (some NIS 2.5 billion), at the rate of 176.8% of the paid-up capital. The dividend constitutes 70.7% of the net profit for 2006.

The dividend was paid on 28 February 2007 to shareholders of record on 15 February 2007 (the record date). The stock traded “ex” dividend on 18 February 2007. The dividend was at the rate of NIS 1.768 for every ordinary share of NIS 1.0 par value.

Bank Leumi le-Israel B.M. and its Subsidiaries and Affiliates

Principal Data of the Leumi Group

	Jan. - March 2007	Jan. - March 2006	Year 2006
Income, Expenses and Profit (NIS millions):			
Net interest income before provision for doubtful debts	**1,793**	1,645	6,922
Provision for doubtful debts	**11**	201	933
Total operating and other income	**988**	940	3,871
Total operating and other expenses	**1,630**	1,821	7,257
Of which: Costs of Voluntary Retirement	**-**	3	175
Operating profit before taxes	**1,140**	563	2,603
Provision for taxes	**520**	240	1,320
Net operating profit	**658**	400	1,454
After-tax net profit (loss) from extraordinary items	**259**	712	2,080
Net profit for the period	**917**	1,112	3,534
Proposed dividend	**-**	-	2,500
Net profit per share (in NIS)	**0.65**	0.79	2.50
Assets and Liabilities at End of Period (NIS millions):			
Total assets	**290,289**	(f) 276,494	289,341
Credit to the public	**185,848**	(f) 181,458	183,800
Securities	**47,211**	48,365	46,375
Deposits of the public	**226,861**	221,807	231,823
Shareholders' equity	**18,499**	17,283	17,491
Major Financial Ratios in Annual Terms (%):			
Credit to the public / Total assets	**64.0**	(f) 65.6	63.5
Securities / Total assets	**16.3**	(f) 17.5	16.0
Deposits of the public / Total assets	**78.2**	(f) 80.2	80.1
Shareholders' equity (excluding minority interest) / Total assets	**6.4**	(f) 6.3	6.0
Shareholders' equity / Risk assets (a)	**11.88**	12.01	11.56
Tier I capital / Risk assets	**7.76**	7.81	7.53
Net profit / Shareholders' equity (excluding minority interest) (c) (d)	**22.2**	30.4	20.1
Net operating profit / Shareholders' equity (excluding minority interest) (c) (d)	**15.6**	10.3	8.3
Rate of tax provision from the profit	**45.6**	42.6	50.7
Provision for doubtful debts / Credit to the public (d)	**0.024**	(f) 0.44	0.51
Provision for doubtful debts / Total credit risk (d)	**0.016**	(f) 0.30	0.34
Net interest income before provision for doubtful debts / Total assets (d)	**2.49**	(f) 2.40	2.39
Total income / Total assets (b)	**3.89**	(f) 3.79	3.73
Total income / Total assets managed by the group (b) (d) (e)	**1.55**	(f) 1.59	1.55
Total operating and other expenses / Total assets (d)	**2.27**	(f) 2.66	2.51
Total expenses / Total assets managed by the group (d) (e)	**0.91**	(f) 1.12	1.04
Net profit / Total average assets (d)	**1.28**	(f) 1.62	1.29
Net operating profit / Total average assets (d)	**0.91**	(f) 0.58	0.53
Financial margin including income and expenses from derivative financial instruments	**1.71**	(f) 1.55	1.85
Operating expenses (excluding costs of voluntary retirement) / Total income (b)	**58.6**	70.3	65.6
Operating and other income / Operating and other expenses (excluding costs of voluntary retirement)	**60.6**	51.7	54.7
Operating and other income / Total income (b)	**35.5**	36.4	35.9

(a) Shareholders' equity - plus minority interest and less investments in the capital of companies included on the equity basis and various adjustments.
(b) Total income - net interest income before provision for doubtful debts plus operating and other income.
(c) Shareholders' Equity – at the beginning of the period.
(d) On an annual basis.
(e) Includes off-balance sheet activities.
(f) As a result of the change to the Directives of Bank of Israel with regard to open credit card transactions, as credit to public, the data was restated.

B. Other Information

Principal Developments in the Economy*

General

During the first quarter of 2007, the economy continued its rapid growth trend, with a further fall in the unemployment rate, to 7.7% of the civilian population. GDP increased at a rate of about 4.7% in comparison with the corresponding period in 2006 and at an annual rate of some 6.3% in comparison with the last quarter of 2006. The growth included most branches of the economy, with the tourism sector which was affected by the hostilities in the north also experiencing an improvement in recent months. The growth of the economy during the reported period was based on the expansion of domestic demand (mainly for private consumption and investments) and on the growth of exports. The economy's underlying positive conditions, together with the global weakening of the dollar, had the effect of strengthening the shekel against the dollar and against the currency basket, which led to a decrease in inflation and to the continued deviation from the price stability target. Consequently, the Bank of Israel lowered the interest rate (down to 3.75% in May), in an attempt to improve the chances of bringing inflation within the target range. Prices rose in the capital market during the first quarter of the year, both with respect to shares and debentures, and this process accelerated during the month of April. The share indices peaked, and the yields to redemption of debentures, especially long-term debentures, reached their lowest point in recent years.

The Business Product and Economic Sectors

During the first quarter of 2007, Israel's business sector product expanded at a rapid real rate of some 5.1%, compared with the corresponding period in 2006, and at an annual rate of some 7.0% in comparison with the last quarter of 2006. This increase was influenced by an expansion in most sectors of the economy. The Bank of Israel's companies survey for the first quarter of 2007 also indicates a continued upswing in economic activity. Nevertheless, the survey, which is based on qualitative rather than quantitative questions, reflects a certain slowdown relative to the period preceding the hostilities in the north. Looking forward, the expectations are that the second quarter will show further expansion in all sectors, including the hotel sector, which recorded a reduction of activity this quarter, as compared with the corresponding quarter last year.

During the first quarter of the year, overnights in hotels fell by 3% compared with the first quarter of 2006, due to a reduction of some 8% in the number of hotel tourists nights spent. Nevertheless, during recent months, following the end of the hostilities in the north, there has been some improvement, and in March 2007 the number of hotel nights, when seasonal factors are discounted, reached the average level for the second quarter of the previous year (which preceded the hostilities).

The State Budget and its Financing

During the first three months of 2007 there was a surplus in the State Budget of some NIS 6.4 billion, compared with a target deficit for all of 2007 of some NIS 18.7 billion (representing some 2.9% of the GDP). The budget surplus is explained, *inter alia*, by the significant increase in tax revenues, with revenues from direct taxes rising by some 9.8% and revenues

* Data sources: publications of the Central Bureau of Statistics, the Bank of Israel, the Ministry of Finance and the Tel Aviv Stock Exchange

from indirect taxes increasing by some 7.6%, in comparison with the corresponding period in 2006.

Foreign Trade, Capital Flows and Exchange Rates

A decrease of some 6% was recorded in Israel's trade deficit during the first quarter of the year, as compared with the deficit in the corresponding period in 2006. This reduction is explained by the more rapid increase in exports (primarily industrial exports) as compared with imported goods, with most of the sub-industries involved in industrial exports experiencing expansion. A review of the export developments according to Israel's principal trade regions shows a marked rise in exports to Europe as compared with a more moderate increase in exports to the United States, while exports to Asia (mostly to India, China and South Korea) rose significantly. It appears that this phenomenon can be explained mainly by the slowdown in the American economy (and the weakening of the United States dollar) as compared with the relatively rapid growth in Europe and the continued accelerated growth in Asian economies.

During the reported period, the volume of foreign currency investments in Israel by foreign residents and of foreign currency investments by Israeli residents abroad contracted, in comparison with previous quarters, with the net financial account (in the context of the non-banking private sector) indicating that the investments of Israeli residents abroad exceeded those of foreign residents in Israel by some US$ 1.3 billion.

During the first three months of the year, the shekel strengthened against the dollar by some 1.7% and against the basket of currencies by some 1.4%. Apparently, the positive background conditions of the Israeli economy – which include the improvement in foreign trade, the surplus in the current account of the balance of payments and the rapid growth of the economy, alongside a certain weakening of the dollar throughout the world, have worked to strengthen the shekel, with capital flows not as prominent as they were last year as a significant element. The dollar weakened more sharply against the shekel in April, at the rate of more than 3.2%, and the basket of currencies weakened by some 2.6%.

The Bank of Israel has announced that beginning on May 1, 2007, the basket of currencies exchange rate would no longer be published. The termination of publication of the rate means that the current calculation of the exchange rate will be discontinued and the weights of the currencies that comprise the basket will not be updated.

In the first three months of the year, the volume of foreign currency credit extended to the public at the **Bank** decreased by US$ 106 million (1.4%).

At the end of March 2007, the public's foreign currency and foreign currency-linked deposits at the **Bank** amounted to some US$ 19.7 billion, compared with US$ 19.3 billion at the end of 2006.

The value of the foreign securities portfolio of the **Bank's** customers increased during the same period, from some US$ 7.8 billion at the end of 2006 to US$ 8.5 billion at the end of March 2007, an increase of 9%. Foreign currency conversion turnovers increased from some US$ 20.2 billion in the months January to March 2006 to some US$ 25.3 billion in the months January to March 2007, an increase of some 25%.

Inflation and Monetary Policy

During the first three months of 2007, the Consumer Price Index (CPI) dropped by 0.2%, while in the 12 months ending March 2007, its decrease totalled some 0.9%. The decrease during the first quarter was influenced both by the strengthening of the shekel against the dollar and by seasonal factors.

During the reported period, the Bank of Israel reduced interest from 5.0% in December 2006 to 4.0% in March 2007. This was a result of the central bank's estimation that it could in this way increase the chances of returning inflation to the target range (1% -3%) by the end of 2007. In the interest decision for May, by which interest was reduced by 25 basis points to 3.75%, the Bank of Israel noted that "it was a part of a gradual process which would continue as long as necessary in order to increase the chances that inflation will enter the target range close to the end of 2007".

The Capital Market

The share and convertible securities index rose by some 10.1% during the first quarter of 2007, reflecting the continued rapid growth of the economy along with positive background conditions which included low interest rates, both short-term and long-term. The chemical industry showed marked growth (of 14.8%), although the banking index fell by some 4.3%. The gains increased during the month of April and the general share index rose by some 6.3%. The daily trading turnover of the trade in shares and convertible securities on the stock market and outside of it increased by a considerable extent, amounting to a daily average of some NIS 1.87 billion for the period January through March, compared with a daily average of some NIS 1.45 billion in 2006, an increase of some 29%.

The increase in capital market activity was also reflected in an increase in income from customers' securities operations from some NIS 179 million in January through March of 2006 to some NIS 218 million in the first three months of 2007, an increase of 21.8%.

During the first three months of the year, the CPI-linked government debentures index rose by some 2.0%, while the unlinked fixed-interest government debentures index rose at a rate of some 1.7%, and, during March, the yields to long-term redemption dropped to an all-time low of 5.3%. This drop was a result of, *inter alia*, the reduction of government issues, the drop in the CPI and the increased demand for long-term assets along with a reduction in short-term interest rates.

At the end of March 2007, the total of the public's financial assets managed by the **Group** (deposits of the public, debentures and capital notes and securities portfolios including mutual funds and also provident funds and supplemental training funds) amounted to some NIS 672 billion, compared with NIS 653 billion at the end of December 2006, an increase of 2.9%.

Bank Credit

During the first quarter of the year, bank credit to the public grew by some 0.7% (on the basis of monthly averages, including mortgage banks), despite the appreciation in the shekel's exchange rate against the dollar, which reduced the credit balance in foreign currency. In addition, the significant increase in the issues of corporate debentures continued: according to Leumi estimates based on Tel Aviv Stock Exchange data, during the months of January to March 2007, the sums raised that could serve as a substitute for bank credit amounted to some NIS 24-25 billion. These data reflect the increased demand for credit resulting from, *inter alia,* the growth of the local economy, the acquisitions of companies and the financing of Israeli companies' overseas operations.

At the end of March 2007, the **Bank's** credit to the public amounted to some NIS 127 billion, an increase of 1.0% compared with the end of 2006.

Credit Rating of the State of Israel and Bank Leumi

On 14 February 2007, the S&P credit rating company announced that it was raising the credit rating outlook for the State of Israel from "stable" to "positive," against the background of improved economic and fiscal resilience to external shocks.

The Israeli "Midrug" credit rating company – Moody's strategic partner – announced on 18 February 2007 that it had set a rating of Aaa for deposits of the Bank. A similar rating was set for debentures and subordinated notes issued as at 30 September 2006, by the Bank and/or by Leumi Finance Company.

Below are details of changes in the CPI and in the exchange rates:

	For three months ended March 31		For the year
	2007	2006	2006
	(as a percentage)		
Rate of increase (decrease) of the "known" CPI	**(0.44)**	**0.10**	(0.3)
Rate of increase (decrease) in the rate of the US dollar – nominal	**(1.66)**	**1.35**	(8.2)
Rate of increase (decrease) in the rate of the currency basket –nominal	**(1.37)**	**2.03**	(5.2)
Rate of increase (decrease) in the rate of the euro – nominal	**(0.54)**	**3.95**	2.2

General Environment and the Effect of External Factors on Activities

Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report

The Directors' Report includes, in addition to data relating to the past, information that relates to the future, which is defined in the Securities Law, 1968 as "forward-looking information." Forward-looking information relates to a future event or matter, the realization of which is not certain and is not within the exclusive control of the Bank.

Forward-looking information is generally drafted using words or phrases such as "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's programs", "the Bank's forecast", "strategy", "aims", "likely to affect" and additional phrases testifying to the fact that the matter in question is a forecast of the future and not past facts.

Forward-looking information included in the Directors' Report is based, *inter alia*, on forecasts of the future regarding various matters related to economic developments in Israel and abroad, and especially to the currency and capital markets, legislation, directives of regulatory bodies, the behavior of competitors, technological developments and personnel issues.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that in reality events may turn out differently from those forecasted, readers of the

Report should relate to information defined as "forward-looking" with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of the Leumi Group are likely to be materially different.

The Bank does not undertake to publish updates of the forward-looking information in this Report.

Capital Market Reform Legislation

On 10 August 2005, three laws relating to the capital market reform were published:

The Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005;

The Financial Services (Control) (Engagement in Pension Counseling and Pension Marketing) Law, 2005;

The Financial Services (Control) (Provident Funds) Law, 2005.

For details on the subject of the capital market reform legislation see Note 31 to the Annual Report for 2006 and Note 8 to the Financial Statements included in this Report.

Property of Holocaust Victims

In January 2005, the Parliamentary Committee of Enquiry Regarding the Tracing and Return of Property of Holocaust Victims (“the Committee”) published its concluding report. The report indicates that assets of Holocaust victims that had been deposited with the Anglo-Palestine Bank were transferred to the British government’s Custodian of Enemy Property, pursuant to the law that was in force at the time, or were returned to those entitled thereto or to the Administrator General. Nevertheless, the report recommended that the funds be revalued, together with retroactive linkage differentials, for the period in the past during which they were held by the Bank.

On 3 January 2006, the Assets of Holocaust Victims (Restitution to Heirs and Endowment for the purpose of Assistance and Commemoration) Law, 2006 came into effect. The law provides that a party who holds, in Israel, assets of Holocaust victims (per the definition of such terms as they appear in the law) must transfer them to the The Tracing and Return of Property of Holocaust Victims Company Ltd. (the "Company"), which was established pursuant to the provisions of the law, together with linkage differentials and interest in amounts determined by a special revaluating committee. The revaluating committee’s report was delivered to the Bank, and appropriate provisions were made, as estimated by the Bank. The Bank is cooperating with the Company with the aim of bringing the matter to a speedy conclusion.

Proposed Laws Regarding Commissions

The Knesset Economics Committee is currently debating various proposed laws that are aimed at regulating and limiting the commissions collected by the banks, and dealing with the subject of transfer of customers from one bank to another.

Some of these proposed laws have passed a first reading in the Knesset.

In April of 2007, the Ministry of Finance, in coordination with the Bank of Israel, distributed a memorandum of a proposed Banking (Service to Customer) (Amendment No. 10) Law, 2007, dealing with the issue of regulation of bank commissions.

In addition, the Knesset approved having the Economics Committee also function as a parliamentary commission of inquiry regarding bank commissions, and it is holding hearings pursuant to a preliminary discussion outline which it distributed. The outline deals with a number of subjects, including: concentration and competition in the banking industry in Israel, comparison of commissions in Israel with those charged by banks worldwide, examination of the regulatory authority regarding commissions, including a comparison with other countries, examination and handling of applications from the public regarding commissions, and the formulation of recommendations to the Knesset and to regulatory bodies.

If a law is enacted that restricts the banks' ability to collect commissions, it could have a negative impact on the Bank's income from commissions, although it is not possible at this stage to estimate the intensity and scope of the impact.

Proposed Laws Regarding Credit Cards

During the first quarter of 2007, three private proposed laws were tabled before the Knesset regarding the credit card market. Two of the above proposed laws deal with separating the ownership of credit card companies from the banks, and the third deals with regulation, through legislation, of the acquiring of all credit cards by each of the credit card companies.

If the proposed laws that require the banks to dispose of the operations of the credit card companies owned by them are enacted, there could be an adverse effect on the Bank's income from credit card activity, although it is not possible at this stage to estimate the intensity and scope of the impact.

Accounting Policy on Critical Subjects

The Financial Statements have been prepared in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks and his guidelines relating to the preparation of the annual and quarterly financial statements of a banking corporation, as detailed in Note 1 to the Annual Financial Statements as at 31 December 2006.

The preparation of the Consolidated Financial Statements in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts of income and expenses.

The actual results relating to these estimates may differ from the estimates and/or the assessments.

The estimates and assessments are generally based on economic forecasts, assessments regarding the various markets and past experience after due consideration and which Management believes to be reasonable at the time of signature of the Financial Statements.

The principal critical accounting subjects referred to in the Annual Report as at 31 December 2006 were as follows: provisions for doubtful debts, derivatives, securities, obligations regarding employee rights, obligations in respect of legal claims, buildings and equipment and taxation on income.

During the period January to March 2007, there were no changes in the accounting policy on critical subjects compared with that described in the Annual Report for 2006.

For further details, see pages 50-54 of the Annual Report for 2006.

C. Description of the Group's Business According to Segments and Spheres of Activity

Development of Income, Expenses and Tax Provisions

Net profit of the Leumi Group during the period of January to March 2007 amounted to NIS 917 million, compared with NIS 1,112 million during the corresponding period in 2006, a decrease of 17.5%.

The decrease in the Group's net profit during the January to March 2007 period, as compared with the corresponding period in 2006, is explained primarily by the following factors:*

1. A decrease in the profit from extraordinary items, of NIS 453 million. In 2007, a number of provident funds were sold at a profit of NIS 257 million, while in 2006 a large sale of some of the non-banking ("real") holdings was carried out, at a profit of NIS 711 million.

2. A decrease in the Group's share in the profits of companies included on the equity basis amounting to NIS 39 million, net.

3. An effective tax rate in 2007 which is 3.0 percentage points higher, as detailed below.

On the other hand, the following factors partially offset the aforementioned decrease:

1. An increase in net interest income before provisions for doubtful debts in the amount of NIS 148 million, before the effect of taxes, an increase of 9.0%.

2. A decrease in provisions for doubtful debts amounting to NIS 190 million, a decrease of 94.5% before the effect of taxes.

3. An increase in operating and other income of NIS 48 million, before the effect of taxes, principally resulting from an increase in income from a dividend received, customers' activity in the capital market, payment system services, credit management, and credit cards. All these were partially offset by a decrease in income from mutual funds and provident funds.

4. A reduction in operating and other expenses (including salaries) amounting to NIS 191 million, a decrease of 10.5%, before the effect of taxes. After neutralizing the special expenses, as detailed below, the expenses remained at the same level.

* Before minority interests in consolidated companies.

Net interest income before provision for doubtful debts in the Leumi Group amounted to NIS 1,793 million during the period of January to March 2007, compared with NIS 1,645 million in the corresponding period in 2006, an increase of 9.0%.

The increase in the Group's net interest income before provision for doubtful debts in the period January to March 2007, as compared with the corresponding period in 2006 stems mainly from:

1. An increase of 7.1% in the volume of financial activity, and an increase of 0.16 percentage points in the total interest margin.

2. Profit of NIS 84 million, mainly from adjustments to fair value of debentures for trading and from the sale of debentures available for sale, compared with an expense of NIS 13 million in the corresponding period in 2006.

The following table sets out the development of net interest income according to principal operational segments:

Segment	**31 March 2007**	31 March 2006	% Change
	NIS millions		
Households	**596**	559	6.6
Small businesses	**199**	169	17.8
Corporate banking	**350**	390	(10.3)
Commercial banking	**324**	279	16.1
Construction and real estate	**130**	167	(22.2)
Private banking	**85**	92	(7.6)
Financial management	**115**	(16)	-
Other	**(6)**	5	-
Total	**1,793**	1,645	9.0

Total Interest Margin (excluding transactions in financial derivatives) during the period January to March 2007 was 1.98%, compared with 1.91% during the corresponding period in 2006. The interest margin including financial derivative transactions was 1.71% during the period January to March 2007, compared with 1.55% during the corresponding period in 2006, and 1.85% for the whole of 2006.

The ratio of net interest income before provision for doubtful debts to the average balance of the financial assets was 2.65%, compared with 2.53% (in annual terms) during the corresponding period in 2006.

The Provision for Doubtful Debts in the Leumi Group during the period January to March 2007 amounted to NIS 11 million only, compared with NIS 201 million in the corresponding period of 2006, a decrease of 94.5%.

Specific provisions decreased by 81.4% as a result of the continued trend of improvement in the economy, an improvement in the companies' positions and a reduction in the provisions at Leumi Mortgage Bank, as a result of special provisions made during the corresponding period in 2006, following implementation of Bank of Israel directives.

The additional and general provision for doubtful debts in respect of risks that are not identified in the credit portfolio and that are based on the risk characteristics in the credit portfolio, and also in respect of a sectoral credit excess, decreased by NIS 20 million during the period January to March 2007, compared with an increase of NIS 34 million in the corresponding period in 2006 and a reduction of NIS 21 million for the whole of 2006.

The overall rate of the provision for doubtful debts during the period January to March 2007 was 0.024% of total credit to the public (in annual terms), compared with a rate of 0.44% in the corresponding period in 2006 and compared with 0.51% for the whole of 2006. The rates of the overall provision for doubtful debts compared with overall credit risk (balance sheet and off-balance sheet) were 0.016%, 0.3% and 0.34% respectively.

The following table sets out the quarterly development of the provisions for doubtful debts:

	2007	2006			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	NIS millions				
Specific provision	**31**	308	295	184	167
Additional provision	**(20)**	(43)	(13)	1	34
Total	**11**	265	282	185	201
The provision as a percentage of total credit to the public (on an annual basis)	**0.02%**	0.58%	0.63%	0.41%	0.44%

The aggregate balance of the general provision and the additional provision for doubtful debts (according to the risk characteristics defined by the Supervisor of Banks) at the Bank and its consolidated companies amounted to NIS 1,004 million (constituting 0.54% of total credit to the public) on 31 March 2007, compared with NIS 1,024 million at the end of 2006.

The following table sets out the development of the provisions for doubtful debts according to principal operational segments:

Segment	**31 March 2007**		31 March 2006	
	(NIS millions)	**% ***	(NIS millions)	%*
Households	**15**	**0.1**	102	0.9
Small businesses**	**-**	**-**	8	0.3
Corporate banking	**(4)**	**-**	8	0.1
Commercial banking	**14**	**0.1**	29	0.3
Construction and real estate	**(10)**	**(0.2)**	51	0.8

* Percentage of total credit at the end of the period on an annual basis.

** There was a provision of NIS 1.0 million from activities in Israel, which was offset with the decrease in the provision from activities abroad.

Profit from Net Interest Income after Provision for Doubtful Debts of the Leumi Group in the period January to March 2007 amounted to NIS 1,782 million, compared with NIS 1,444 million during the corresponding period in 2006, an increase of 23.4%.

Total Operating and Other Income of the Leumi Group during the period January to March 2007 amounted to NIS 988 million, compared with NIS 940 million in the corresponding period in 2006, an increase of 5.1%.

The increase in operating and other income derives mainly from an increase in: income from commissions from payment system services of some 5.4%; management of credits and preparation of legal documents, of some 18.5%; income from securities operations, of some 21.8%; income from credit cards, of some 11.4%; and income from a dividend derived from recording the partial repayment of a debt of a certain customer amounting to NIS 88 million as a dividend, since the shares granted as security for the debt were recorded in the securities available for sale item, in accordance with the directives of the Supervisor of Banks. On the other hand, total other income decreased by NIS 113 million and partially offset these increases, due to a decrease in respect of mutual and provident funds as follows:

	First quarter **2007**	Year 2006	Change
From mutual funds	**37**	118	(81)
From provident funds	**9**	53	(44)
From supplementary training funds	**8**	8	-
Total	**54**	179	(125)

The decrease in this income of course arises from the reform in the capital market and the sale of the activities of the capital market companies.

The ratio of operating and other income to total income (i.e. net interest income before the provision for doubtful debts and operating and other income) was 35.5%, compared with 36.4% during the corresponding period in 2006 and 35.9% for the whole of 2006.

Operating and other income cover 60.6% of operating and other expenses and, after neutralizing special expenses as detailed below, 62.4%, compared with cover of 51.6% and 59.4%, respectively, during the corresponding period in 2006, and compared with 53.3% and 61.1% for the whole of 2006.

Total Operating and Other Expenses of the Leumi Group in the period January to March 2007 amounted to NIS 1,630 million, compared with NIS 1,821 million during the corresponding period in 2006, a decrease of 10.5%. After neutralizing special expenses as detailed below, the expenses were unchanged.

Salary expenses (including the cost of voluntary retirement) decreased by NIS 162 million in the period January to March 2007, a decrease of 13.6% compared with the corresponding period in 2006. The decrease in salary expenses derives primarily from the following changes in special salary expenses:

	First quarter		
	2007	2006	Difference
	NIS millions		
Adoption of new mortality tables	**-**	136	(136)
Expenses in respect of issue of options	**53**	40	13
Recording of the benefits in respect of sale of shares to employees	**(18)**	-	(18)
Voluntary retirement expenses	**-**	3	(3)
Difference between the severance obligations and the reserve	**12**	60	(48)
Total	**47**	239	(192)

After neutralizing these amounts, salary expenses increased by 3.3%.

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) decreased by NIS 29 million during the period January to March 2007, a decrease of 4.6%, compared with the corresponding period in 2006.

Operating expenses constitute 58.6% of total income and 57.0% after neutralizing the special expenses detailed above, compared with 70.4% and 61.2% respectively, in the corresponding period in 2006, and compared with 67.2% and 58.7% respectively, for the whole of 2006.

Total operating and other expenses (in annual terms) constitute 2.27% of total assets, compared with 2.66% in the corresponding period in 2006, and 2.51% for the whole of 2006.

Operating Profit before Taxes of the Leumi Group in the period January to March 2007 amounted to NIS 1,140 million, compared with NIS 563 million in the corresponding period in 2006, an increase of 102.5%, and after neutralizing special expenses, an increase of 47.9%.

Provision for Taxes on Operating Profit of the Leumi Group in the period January to March 2007 amounted to NIS 520 million, compared with NIS 240 million in the corresponding period in 2006. The rate of provision in the said period was some 45.6% of the pre-tax profit, compared with 42.6% in the corresponding period in 2006.

The increase in the rate of the provision for taxes was principally affected by:

1. Exchange rate differentials in respect of overseas investments that are not included in the tax basis calculation and that were negative in the said period, compared with positive rate differentials in the corresponding period in 2006.

2. The effect of the negative known CPI of 0.44% as compared with the positive known CPI of 0.10% in the corresponding period of 2006.

On the other hand, the reduction in the corporate tax rate from 31% in the first quarter of 2006 to 29% in 2007 partially offset the above effects.

Operating Profit after Taxes amounted to NIS 620 million in the period January to March 2007, compared with NIS 323 million in the corresponding period in 2006, an increase of 92.0%, and after neutralizing special expenses, an increase of 40.5%.

The Group's Share in Operating Profit after Taxes of Companies Included on the Equity Basis amounted to NIS 39 million in the period January to March 2007, compared with NIS 78 million in the corresponding period in 2006, a decrease of 50.0%. In the first quarter of 2006, profits were still recorded on an equity basis in respect of Africa Israel Investments, which was sold on 27 March 2006, and in respect of Midgal Insurance and Financial Holdings, 10% out of the holding in which was sold on 15 March 2006.

On the other hand, in the first quarter of 2007, the investment in Paz was transferred from the securities available for sale portfolio and recorded on the equity basis. For further details, see page 38.

Minority Interests in the Profits of the Group amounted to a profit of NIS 1 million in the period January to March 2007, similar to the corresponding period in 2006.

Net Operating Profit amounted to NIS 658 million, compared with a profit of NIS 400 million in the corresponding period in 2006, an increase of 64.5%, and after neutralizing special salary expenses, an increase of 27.7%.

Net After-Tax Profit from Extraordinary Items amounted to NIS 259 million in the period January to March 2007, compared with NIS 712 million in the corresponding period in 2006. This profit derives from the sale of some of the provident funds that were under the Group's management, and in 2006 from the sale of the Bank's holdings in Africa Israel Investments and from the sale of 10.0% of Migdal Insurance and Financial Holdings.

Net Operating Profit per share reached NIS 0.47 during the period January to March 2007, compared with NIS 0.29 in the corresponding period in 2006.

Net Profit per share reached NIS 0.65 in the period January to March 2007, compared with NIS 0.79 in the corresponding period in 2006.

Return on Shareholders' Equity – Average for the Period (excluding minority interests) and in Annual Terms of:

	2007	2006*			
	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
	%				
Net profit	**22.2****	24.7	24.0	8.9	30.4
Net operating profit	**15.6**	8.5	6.9	8.6	10.3

The return on equity was considerably affected by special salary expenses, as detailed on page 17 of the Report.

The following are the returns after neutralizing these effects:

	2007	2006*			
	1st Qtr	4th Qtr	3rd Qtr	2nd Qtr	1st Qtr
	%				
Net profit	**23.2****	27.2	27.8	14.8	34.9
Net operating profit	**16.6**	10.8	10.3	14.5	14.2

* Restated in accordance with new Directives of the Supervisor of Banks.

** Assuming the income from extraordinary items is non-recurring, the return of net income for the first quarter of the year was 17.1% and 18.0% after neutralizing special expenses.

Net profit in 2006 and 2007 includes profits from extraordinary items from the sale of capital market companies and non-banking (real) corporations, as a result of the reform in the capital market.

Structure and Development of Assets and Liabilities (1)

Total Assets of the Leumi Group as at 31 March 2007 amounted to NIS 290.3 billion, compared with NIS 289.3 billion at the end of 2006, an increase of 0.3%, and an increase of 5.0% compared with 31 March 2006.

The value of the assets in or linked to foreign currency was some NIS 125.2 billion, some 43.1% of total assets. During the period January to March 2007, the shekel appreciated against the US dollar by 1.66%, against the currency basket by 1.37% and against the euro by 0.54%. The change in the rate of exchange contributed to a decrease of 0.6% in total assets.

Deposits of the public amounted to NIS 226.9 billion as at 31 March 2007, compared with NIS 231.8 billion as at 31 December 2006, a decrease of 2.1%, and an increase of 2.3% compared with 31 March 2006.

(1) The changes in percentages were calculated according to the balances in NIS millions.

The following table sets out the development of deposits of the public according to principal operational segments:

Segment	**31 March 2007**	31 December 2006	% Change
	NIS millions		
Households	**113,183**	115,437	(2.0)
Small businesses	**12,204**	11,795	3.5
Corporate banking	**25,642**	27,860	(8.0)
Commercial banking	**25,327**	27,370	(7.5)
Construction and real estate	**2,904**	3,136	(7.4)
Private banking	**36,969**	36,555	1.1
Financial management and other	**10,632**	9,670	9.9
Total	**226,861**	231,823	(2.1)

Debentures, Capital Notes and Subordinated Capital Notes totaled NIS 15.8 billion on 31 March 2007, compared with NIS 15.6 billion on 31 December 2006, an increase of 1.2%, and a decrease of 6.4% compared with 31 March 2006.

Off-balance sheet activity

The following table sets out the development of balances of the customers' (off-balance sheet) financial assets(1) managed by the Leumi Group:

	31 March 2007	31 December 2006	Change	
	(NIS millions)		(NIS millions)	%
Securities portfolios	**375,748**	353,729	22,019	6.2
of which: Mutual funds(2)	**44,018**	38,657	5,361	13.9
Provident funds(2)	**43,638**	41,000	2,638	6.4
Supplementary training funds	**10,456**	10,706	(250)	(2.3)
Total	**429,842**	405,435	24,407	6.0

(1) Including an increase in the market value of securities, and the value of securities of mutual and provident funds held in custody.
(2) On 31 March 2007, the Group did not manage any mutual funds or provident funds in Israel.

Credit to the public totaled NIS 185.8 billion on 31 March 2007, compared with NIS 183.8 billion on 31 December 2006, an increase of 1.1%, and an increase of 2.4%, compared with 31 March 2006.

The balance of corporate debentures purchased by the Group totaled NIS 8,376 million on 31 March 2007, compared with NIS 6,906 million on 31 December 2006, an increase of 21.3%.

The following table sets out the development of the overall credit risk* to the public according to principal sectors of the economy:

	31 March 2007		31 December 2006		
Economy Sectors	Overall credit risk to the public	Proportion of total	Overall credit risk to the public	Proportion of total	Change
	(NIS millions)	%	(NIS millions)	%	%
Agriculture	**2,434**	**0.9**	2,370	0.9	2.7
Industry	**43,439**	**15.5**	43,086	15.7	0.8
Construction and real estate	**50,011**	**17.8**	48,420	17.6	3.3
Electricity and water	**2,190**	**0.8**	2,671	1.0	(18.0)
Trade	**34,748**	**12.4**	31,335	11.4	10.9
Hotels, accommodation and food services	**6,039**	**2.2**	5,927	2.2	1.9
Transportation and storage	**6,173**	**2.2**	5,910	2.1	4.5
Communications and computer services	**7,872**	**2.8**	7,854	2.9	0.2
Financial services	**34,124**	**12.2**	34,042	12.4	0.2
Other business services	**7,969**	**2.8**	8,048	2.9	(1.0)
Public and community services	**7,875**	**2.8**	8,084	2.9	(2.6)
Private persons - housing loans	**36,648**	**13.1**	35,992	13.1	1.8
Private persons – other	**41,015**	**14.5**	41,170	14.9	(0.4)
Total	**280,537**	**100.0**	274,909	100.0	2.0

* Including off-balance sheet credit risk, investments of the public in debentures and other assets in respect of derivatives.

The following table sets out the development of credit to the public according to principal operational segments:

Segment	**31 March 2007**	31 December 2006	Change
	(NIS millions)		%
Households*	**52,289**	51,999	0.6
Small businesses	**14,527**	13,891	4.6
Commercial banking	**39,998**	38,324	4.4
Corporate banking	**51,340**	51,276	0.1
Construction and real estate	**21,607**	22,501	(4.0)
Private banking	**4,509**	4,364	3.3

* Credit to households also includes housing loans (mortgages). After neutralizing this credit, credit to households increased by 0.8%. Housing loans (mortgages) to households amounted to NIS 33.5 billion at the end of March 2007, and increased by 0.4%.

Problem Loans – the following table sets out the development of the problem loans [(1) (6)] according to the classifications determined in the directives of the Supervisor of Banks:

	31 March 2007	31 March 2006	31 December 2006
	(NIS millions)		
Non performing	**2,454**	2,518	2,519
Restructured (2)	**1,119**	1,008	1,179
To be restructured (3)	**127**	1,189	134
In temporary arrears	**639**	755	658
Under special supervision*	**13,494**	12,504	13,548
Total balance sheet credit to problem borrowers (1)	**17,833**	17,974	18,038
Off-balance sheet credit risk to problem borrowers (1) (5)*	**2,515**	2,313	2,410
Debentures of problem borrowers	**24**	-	15
Other assets in respect of derivatives of problem borrowers	**74**	118	23
Total overall credit risk in respect of problem borrowers (1) (7)	**20,446**	20,405	20,486
Assets received in respect of repaid credit	**635**	25	606
*of which: debts in respect of which there is a specific provision (4)	**5,594**	6,636	5,484
*of which: credit for housing in respect of which there is a provision according to the extent of the arrears	**717**	982	830

(1) Not including problem loans that are covered by collateral that are permitted to be deducted for the purpose of restrictions on the obligations of a borrower and a group of borrowers (Proper Banking Management Directive No. 313).
(2) Credit that was restructured during the course of the current year and also credit that was restructured in previous years with a waiver of income.
(3) Credit to borrowers in respect whereof there is a decision of the banking corporation’s management for restructuring, but restructuring has yet to be implemented.
(4) Apart from credit for housing in respect of which there is a provision in accordance with the extent of the arrears.
(5) As calculated for the purposes of the limits on the obligations of a borrower and a group of borrowers, except in respect of guarantees given by a borrower to secure an obligation of a third party.
(6) Credit to problem borrowers as detailed in the disclosure format.
(7) Problem loans include classifications of credit from the implementation of Proper Banking Management Directive 325 "Management of Current Account Credit Lines". Pursuant to the above Directive and to clarifications of the Supervisor of Banks, the Bank is required to classify deviations from approved credit lines (where the deviation in over NIS 1,000), if it charges the customer interest on the deviation. In such a case, the deviation is to be classified as a non-performing loan, and the credit line and the balance of the customer's debts, as a debt under special supervision. As a result, non-performing loans in the amount of NIS 165 million and loans under special supervision in the amount of NIS 3,871 million were classified, and at the end of 2006 NIS 119 million and NIS 3,460 million respectively were classified.

Credit to Governments amounted to NIS 781 million on 31 March 2007, compared with NIS 1,020 million on 31 December 2006, a decrease of 23.4%, and a decrease of 3.3% compared with 31 March 2006.

Securities amounted to NIS 47.2 billion on 31 March 2007, compared with NIS 46.4 billion on 31 December 2006, an increase of 1.8%, and a decrease of 2.4%, compared with 31 March 2006.

The Bank is a member of the Stock Exchange Clearing House Ltd. and of the Maof Clearing House Ltd.

As at 31 March 2007, the Bank had pledged debentures amounting to NIS 104 million to the Stock Exchange Clearing House and debentures amounting to NIS 1,385 million to the Maof Clearing House, in order to secure its customers' operations and in respect of the clearing house members' mutual guarantees.

On 17 August 2005 and on 20 February 2007, the Bank signed a debenture in favor of the Bank of Israel as security for credit that the Bank has received or will receive from the Bank of Israel. As collateral for the debenture, the Bank created a floating charge in favor of the Bank of Israel on its inventory of *Makam, Gilon, Shahar* and *Galil* type debentures, up to the amount of NIS 8.0 billion. On 1 May, the Bank's Board of Directors approved an increase of the charge in the additional amount of NIS 4.0 billion, increasing it to NIS 12.0 billion.

As at 31 March 2007, credit from the Bank of Israel amounted to NIS 7.7 billion, and the balance of the Bank's deposits at the Bank of Israel amounted to NIS 7.2 billion.

Paz Oil Company Ltd.

See page 38 below

Super-Pharm

On 1 May 2007, an agreement was signed between Leumi & Co. Investment House Ltd. (a wholly-owned subsidiary of the Bank – "Leumi & Co.") and Super-Pharm (Israel) Ltd. ("Super-Pharm") and GRI Global Retail Investment B.V. – the controlling shareholder of Super-Pharm – for the allotment of 18% of the share capital of Super-Pharm to Leumi & Co., for a consideration of some NIS 190 million, subject to adjustments laid down in the agreement. In addition, Leumi & Co. was granted an option for the allotment of a further 2% of the share capital of Super-Pharm. Leumi & Co. was granted standard minority protection rights. Completion of the transaction is subject to the conditions laid down in the agreement.

Operational Segments in the Group

The Group operates in different operational segments through the Bank and its subsidiaries, in all fields of banking and financial services. Furthermore, the Group invests in non-banking corporations that operate in various fields, including insurance, real estate, shipping, energy, industry and others.

The operational segments are in accordance with the characteristics defined by the Bank of Israel. A detailed description of the operational segments and the manner of their measurement is provided in the Annual Report for 2006.

The following table sets out details of the net profit according to operational segments:

Segments	For the three months ending **31 March 2007**	31 March 2006	Change
	NIS millions		%
Households	**357**	76	-
Small businesses	**81**	54	50.0
Corporate banking	**230**	171	34.5
Commercial banking	**141**	110	28.2
Construction and real estate	**79**	63	25.4
Private banking	**35**	13	169.2
Financial management and other	**(6)**	625	-
Total	**917**	1,112	(17.6)

The following table sets out the net profit according to operational segments, after neutralizing special salary expenses:

Segments	For the three months ending **31 March 2007**	31 March 2006	Change	Contribution to profit
	NIS millions		%	%
Households	**169**	94	79.4	24.3
Small businesses	**65**	57	13.3	9.3
Corporate banking	**218**	173	26.0	31.3
Commercial banking	**134**	113	18.2	19.3
Construction and real estate	**79**	64	24.1	11.4
Private banking	**33**	14	130.0	4.7
Financial management and other	**(2)**	30	-	(0.3)
Total	**696**	545	27.7	100.0

Explanations for the changes in profitability are included below

1. **Households**

The following tables set out the profit and loss of the households segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Total
	For the three months ending 31 March 2007				
	NIS millions				
Profit from net interest income:					
From external sources	**(519)**	**23**	**1**	**257**	**(238)**
Inter-segmental	**989**	**(6)**	**(1)**	**(148)**	**834**
Operating and other income:					
From external sources	**159**	**111**	**119**	**34**	**423**
Inter-segmental	**1**	**47**	**-**	**2**	**50**
Total income	**630**	**175**	**119**	**145**	**1,069**
Provisions for doubtful debts	**6**	**4**	**-**	**5**	**15**
Operating and other expenses:					
External	**517**	**122**	**106**	**55**	**800**
Inter-segmental	**1**	**-**	**-**	**-**	**1**
Operating profit (loss) before taxes	**106**	**49**	**13**	**85**	**253**
Tax provision	**47**	**16**	**5**	**35**	**103**
Operating profit after taxes	**59**	**33**	**8**	**50**	**150**
Profit from extraordinary items after taxes	**-**	**-**	**207**	**-**	**207**
Net profit	**59**	**33**	**215**	**50**	**357**
% Return on equity					**47.5**
Average balance of assets	**13,282**	**5,652**	**86**	**33,681**	**52,701**
Average balance of liabilities	**108,105**	**10**	**-**	**12,953**	**121,068**
Average balance of risk assets	**11,463**	**5,612**	**96**	**28,040**	**45,211**
Average balance of mutual funds	**-**	**-**	**31,907**	**-**	**31,907**
Average balance of securities	**-**	**-**	**40,627**	**-**	**40,627**
Average balance of other assets under management	**301**	**-**	**-**	**8,177**	**8,478**
Balance of credit to the public	**13,084**	**5,620**	**76**	**33,509**	**52,289**
Balance of deposits of the public	**105,455**	**12**	**-**	**7,716**	**113,183**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Total
	For the three months ending 31 March 2006				
	NIS millions				
Profit from net interest income:					
From external sources	(592)	18	2	362	(210)
Inter-segmental	1,039	-	(2)	(268)	769
Operating and other income:					
From external sources	139	89	75	31	334
Inter-segmental	1	42	91	2	136
Total income	587	149	166	127	1,029
Provisions for doubtful debts	17	1	-	84	102
Operating and other expenses:					
External	550	97	100	49	796
Inter-segmental	-	-	-	3	3
Operating profit (loss) before taxes	20	51	66	(9)	128
Tax provision	11	16	27	(2)	52
Net profit (loss)	9	35	39	(7)	76
% Return on equity					10.1
Average balance of assets	11,238	5,686	129	33,041	50,094
Average balance of liabilities	106,377	49	-	12,490	118,916
Average balance of risk assets	10,148	5,919	142	26,716	42,925
Average balance of assets of provident funds, mutual funds and supplementary training funds	-	-	59,361	-	59,361
Average balance of securities	-	-	32,943	-	32,943
Average balance of other assets under management	320	-	-	8,521	8,841
Balance of credit to the public as at 31 December 2006	12,994	5,536	96	33,373	51,999
Balance of deposits of the public as at 31 December 2006	107,324	6	-	8,107	115,437

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 290 million, compared with the end of 2006, an increase of 0.6%. After neutralizing housing loans, credit increased by 0.8% and housing loans increased by 0.4%. Deposits of the public decreased by NIS 2,254 million, a decrease of 2.0% compared with the end of 2006.

Main Changes in Net Profit

In the first quarter of 2007, net profit in the households segment totaled NIS 357 million, compared with NIS 76 million in the corresponding period in 2006. The increase in profit stems from the segment's share in profits from extraordinary items from the sale of some of the provident funds. Operating profit amounted to NIS 150 million, an increase of 97.4%. The increase in profit stems mainly from a decrease in the provisions for doubtful debts in the mortgage sector of NIS 79 million and from an increase in income by NIS 40 million, mainly from credit card activities. Net operating profit after neutralizing special salary expenses amounted to some NIS 169 million, compared with NIS 94 million in the corresponding period in 2006, an increase of some 79.4%.

2. Small Businesses

The following tables set out the profit and loss of the small businesses segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas Activities	Total
	For the three months ending 31 March 2007					
	NIS millions					
Profit from net interest income:						
From external sources	**197**	**2**	**2**	**1**	**16**	**218**
Inter-segmental	**(11)**	**(2)**	**(2)**	**(1)**	**(3)**	**(19)**
Operating and other income:						
From external sources	**79**	**9**	**5**	**-**	**6**	**99**
Inter-segmental	**-**	**(7)**	**-**	**-**	**-**	**(7)**
Total income	**265**	**2**	**5**	**-**	**19**	**291**
Provisions for doubtful debts	**1**	**-**	**-**	**-**	**(1)**	**-**
Operating and other expenses:						
External	**158**	**2**	**3**	**-**	**25**	**188**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit (loss) before taxes	**106**	**-**	**2**	**-**	**(5)**	**103**
Tax provision	**42**	**-**	**1**	**-**	**(1)**	**42**
Operating profit (loss) after taxes	**64**	**-**	**1**	**-**	**(4)**	**61**
Profit from extraordinary items after taxes	**-**	**-**	**20**	**-**	**-**	**20**
Net profit (loss)	**64**	**-**	**21**	**-**	**(4)**	**81**
% Return on equity						**42.5**
Average balance of assets	**13,324**	**105**	**183**	**91**	**1,111**	**14,814**
Average balance of liabilities	**11,363**	**659**	**-**	**-**	**801**	**12,823**
Average balance of risk assets	**9,970**	**100**	**209**	**91**	**928**	**11,298**
Average balance of mutual funds	**-**	**-**	**1,050**	**-**	**-**	**1,050**
Average balance of securities	**-**	**-**	**3,791**	**-**	**11**	**3,802**
Average balance of other assets under management	**448**	**-**	**-**	**-**	**-**	**448**
Balance of credit to the public	**13,583**	**100**	**157**	**92**	**595**	**14,527**
Balance of deposits of the public	**11,420**	**-**	**-**	**-**	**784**	**12,204**

Small Businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas Activities	Total
	For the three months ending 31 March 2006					
	NIS millions					
Profit from net interest income:						
From external sources	197	3	3	1	-	204
Inter-segmental	(31)	(1)	(2)	(1)	-	(35)
Operating and other income:						
From external sources	69	20	3	-	-	92
Inter-segmental	-	(12)	6	-	-	(6)
Total income	235	10	10	-	-	255
Provisions for doubtful debts	8	-	-	-	-	8
Operating and other expenses:						
External	142	8	4	-	-	154
Inter-segmental	-	-	-	-	-	-
Operating profit (loss) before taxes	85	2	6	-	-	93
Tax provision	36	1	2	-	-	39
Net profit	49	1	4	-	-	54
% Return on equity						32.8
Average balance of assets	11,706	99	207	61	-	12,073
Average balance of liabilities	8,916	645	-	-	-	9,561
Average balance of risk assets	9,323	408	237	59	-	10,027
Average balance of assets of provident funds, mutual funds and supplementary training funds	-	-	4,785	-	-	4,785
Average balance of securities	-	-	2,161	-	-	2,161
Average balance of other assets under management	417	-	-	-	-	417
Balance of credit to the public as at 31 December 2006	13,057	91	209	91	443	13,891
Balance of deposits of the public as at 31 December 2006	11,060	-	-	-	735	11,795

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 636 million compared with the end of 2006. Deposits of the public increased by NIS 409 million.

Main Changes in the Net Profit

In the first quarter of 2007, net profit in the small businesses segment totaled NIS 81 million, compared with NIS 54 million in the corresponding period in 2006. The increase in profit stems mainly from the segment's share in the profit of NIS 20 million from the sale of some of the provident funds, form an increase in income of NIS 36 million and from a decrease of NIS 8 million in provisions for doubtful debts.

Net operating income after neutralizing special salary expanses amounted to NIS 65 million, compared with NIS 57 million in the corresponding period in 2006, an increase of 13.3%.

3. Corporate Banking

The following tables set out the profit and loss of the corporate banking segment:

	Banking and finance in Israel	Credit cards	Capital market	Overseas Activities	Total
	For the three months ending 31 March 2007				
	NIS millions				
Profit from net interest income:					
From external sources	**464**	**6**	**-**	**75**	**545**
Inter-segmental	**(224)**	**(2)**	**-**	**31**	**(195)**
Operating and other income:					
From external sources	**127**	**34**	**6**	**12**	**179**
Inter-segmental	**1**	**(35)**	**-**	**-**	**(34)**
Total income	**368**	**3**	**6**	**118**	**495**
Provisions for doubtful debts	**(4)**	**-**	**-**	**-**	**(4)**
Operating and other expenses:					
External	**70**	**6**	**4**	**41**	**121**
Inter-segmental	**1**	**-**	**-**	**29**	**30**
Operating profit (loss) before taxes	**301**	**(3)**	**2**	**48**	**348**
Provision for taxes	**116**	**(1)**	**1**	**16**	**132**
Operating profit (loss) after taxes	**185**	**(2)**	**1**	**32**	**216**
Profit from extraordinary items after taxes	**-**	**-**	**14**	**-**	**14**
Net profit (loss)	**185**	**(2)**	**15**	**32**	**230**
% Return on equity					**22.1**
Average balance of assets	**43,144**	**104**	**7**	**11,635**	**54,890**
Average balance of liabilities	**20,264**	**2,932**	**-**	**10,955**	**34,151**
Average balance of risk assets	**45,916**	**84**	**8**	**12,045**	**58,053**
Average balance of mutual funds	**-**	**-**	**405**	**72**	**477**
Average balance of securities	**-**	**-**	**60,241**	**1,201**	**61,442**
Average balance of other assets under management	**517**	**-**	**-**	**-**	**517**
Balance of credit to the public	**40,208**	**80**	**6**	**11,046**	**51,340**
Balance of deposits of the public	**15,641**	**-**	**-**	**10,001**	**25,642**

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Overseas Activities	Total
	For the three months ending 31 March 2006				
	NIS millions				
Profit from net interest income:					
From external sources	511	3	-	63	577
Inter-segmental	(231)	(1)	-	45	(187)
Operating and other income:					
From external sources	47	28	5	11	91
Inter-segmental	-	(23)	3	-	(20)
Total income	327	7	8	119	461
Provisions for doubtful debts	8	-	-	-	8
Operating and other expenses:					
External	79	14	4	42	139
Inter-segmental	-	-	-	35	35
Operating profit (loss) before taxes	240	(7)	4	42	279
Tax provision	97	(2)	2	11	108
Net profit (loss)	143	(5)	2	31	171
% Return on equity					16.1
Average balance of assets	47,643	35	34	11,032	58,744
Average balance of liabilities	20,001	3,170	-	13,596	36,767
Average balance of risk assets	50,135	160	39	11,636	61,970
Average balance of assets of provident funds, mutual funds and supplementary training funds	-	-	4,471	53	4,524
Average balance of securities	-	-	46,238	1,217	47,455
Average balance of other assets under management	664	-	-	-	664
Balance of credit to the public as at 31 December 2006	40,339	47	8	10,882	51,276
Balance of deposits of the public as at 31 December 2006	17,682	-	-	10,178	27,860

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 64 million compared with the end of 2006, 0.1%, and total deposits of the public decreased 8.0%, by NIS 2,218 million,.

Main Changes in Net Profit

In the first quarter of 2007, net profit in the corporate banking segment totalled NIS 230 million, compared with NIS 171 million during the corresponding period in 2006. The increase in profit stems from an increase in income of 7.4%, by NIS 34 million, a decrease of NIS 12 million in provisions for doubtful debts and a 13.2% decrease of NIS 23 million in expenses.

Net operating profit after neutralizing special salary expenses amounted to NIS 218 million, compared with NIS 173 million in the corresponding period of 2006, an increase of some 26.0%.

4. Commercial Banking

The following tables set out the profit and loss of the commercial banking segment:

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Overseas Activities	Total
	For the three months ending 31 March 2007					
	NIS millions					
Profit from net interest income:						
From external sources	**346**	**2**	**1**	**3**	**75**	**427**
Inter-segmental	**(82)**	**(1)**	**(1)**	**(2)**	**(17)**	**(103)**
Operating and other income:						
From external sources	**66**	**8**	**32**	**-**	**12**	**118**
Inter-segmental	**-**	**(7)**	**-**	**-**	**-**	**(7)**
Total income	**330**	**2**	**32**	**1**	**70**	**435**
Provisions for doubtful debts	**13**	**1**	**-**	**-**	**-**	**14**
Operating and other expenses:						
External	**159**	**1**	**10**	**1**	**41**	**212**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit before taxes	**158**	**-**	**22**	**-**	**29**	**209**
Tax provision	**62**	**-**	**8**	**-**	**9**	**79**
Operating profit after taxes	**96**	**-**	**14**	**-**	**20**	**130**
Profit from extraordinary items after tax	**-**	**-**	**11**	**-**	**-**	**11**
Net profit	**96**	**-**	**25**	**-**	**20**	**141**
% Return on equity						**20.7**
Average balance of assets	**32,523**	**63**	**57**	**288**	**10,571**	**43,502**
Average balance of liabilities	**19,734**	**652**	**-**	**104**	**8,690**	**29,180**
Average balance of risk assets	**30,645**	**54**	**66**	**261**	**6,722**	**37,748**
Average balance of mutual funds	**-**	**-**	**2,443**	**-**	**224**	**2,667**
Average balance of securities	**-**	**-**	**67,902**	**-**	**2,177**	**70,079**
Average balance of other assets under management	**1,263**	**-**	**-**	**-**	**-**	**1,263**
Balance of credit to the public	**32,649**	**55**	**48**	**282**	**6,964**	**39,998**
Balance of deposits of the public	**17,078**	**-**	**-**	**58**	**8,191**	**25,327**

Commercial Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Overseas Activities	Total
	For the three months ending 31 March 2006					
	NIS millions					
Profit from net interest income:						
From external sources	291	2	1	5	60	359
Inter-segmental	(64)	(1)	(1)	(3)	(11)	(80)
Operating and other income:						
From external sources	63	10	19	-	9	101
Inter-segmental	-	(6)	6	-	-	-
Total income	290	5	25	2	58	380
Provisions for doubtful debts	25	-	-	4	-	29
Operating and other expenses:						
External	122	4	8	1	31	166
Inter-segmental	4	-	-	-	-	4
Operating profit (loss) before taxes	139	1	17	(3)	27	181
Tax provision	57	1	7	(1)	7	71
Net profit (loss)	82	-	10	(2)	20	110
% Return on equity						19.4
Average balance of assets	27,167	47	93	386	8,665	36,358
Average balance of liabilities	17,282	685	-	332	7,327	25,626
Average balance of risk assets	27,391	259	104	426	5,301	33,481
Average balance of assets of provident funds, mutual funds and supplementary training funds	-	-	4,899	-	147	5,046
Average balance of securities	-	-	48,320	-	2,029	50,349
Average balance of other assets under management	1,231	-	-	-	-	1,231
Balance of credit to the public as at 31 December 2006	31,321	47	66	294	6,596	38,324
Balance of deposits of the public as at 31 December 2006	18,805	-	-	64	8,501	27,370

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 1,674 million, 4.4 % compared with the end of 2006, and total deposits of the public increased 7.5%, by NIS 2,043 million.

Main Changes in Net Profit

In the first quarter of 2007, net profit in the commercial banking segment totaled NIS 141 million, compared with NIS 110 million during the corresponding period in 2006, an increase of 28.2%. The increase in net profit stems from the 14.5 % increase in income of NIS 55 million, which was partially offset by an increase in expenses of NIS 42 million. In addition, there was a 51.7% decrease of NIS 15 million in provisions for doubtful debts. Also, profit from extraordinary items of NIS 11 million was recorded from the segments share from the sale of a number of provident funds.

Operating profit after taxes of the segment from the Bank's activity in Israel grew by 22.2%.

Net operating profit after neutralizing special salary expenses amounted to NIS 134 million, compared with NIS 113 million in the corresponding period in 2006, an increase of 18.2%.

5. Construction and Real-Estate Segment

The following tables set out the profit and loss of the construction and real estate segment:

	Banking and finance in Israel	Capital market	Overseas Activities	Total
	For the three months ending 31 March 2007			
	NIS millions			
Profit from net interest income:				
From external sources	**271**	**-**	**15**	**286**
Inter-segmental	**(150)**	**-**	**(6)**	**(156)**
Operating and other income:				
From external sources	**11**	**1**	**-**	**12**
Inter-segmental	**-**	**-**	**-**	**-**
Total income	**132**	**1**	**9**	**142**
Provisions for doubtful debts	**(10)**	**-**	**-**	**(10)**
Operating and other expenses:				
External	**20**	**1**	**2**	**23**
Inter-segmental	**-**	**-**	**2**	**2**
Operating profit before taxes	**122**	**-**	**5**	**127**
Tax provision	**47**	**-**	**2**	**49**
Profit from extraordinary items after taxes	**-**	**1**	**-**	**1**
Net profit	**75**	**1**	**3**	**79**
% Return on equity				**15.5**
Average balance of assets	**21,516**	**2**	**753**	**22,271**
Average balance of liabilities	**2,838**	**-**	**268**	**3,106**
Average balance of risk assets	**26,980**	**2**	**822**	**27,804**
Average balance of mutual funds	**-**	**53**	**1**	**54**
Average balance of securities	**-**	**14,381**	**10**	**14,391**
Average balance of other assets under management	**180**	**-**	**-**	**180**
Balance of credit to the public	**20,889**	**1**	**717**	**21,607**
Balance of deposits of the public	**2,636**	**-**	**268**	**2,904**

Construction and Real-Estate Segment (cont.)

	Banking and finance in Israel	Capital market	Overseas Activities	Total
	For the three months ending 31 March 2006			
	NIS millions			
Profit from net interest income:				
From external sources	347	-	20	367
Inter-segmental	(192)	-	(8)	(200)
Operating and other income:				
From external sources	13	1	-	14
Inter-segmental	-	-	-	-
Total income	168	1	12	181
Provisions for doubtful debts	51	-	-	51
Operating and other expenses:				
External	20	-	2	22
Inter-segmental	-	-	3	3
Operating profit before taxes	97	1	7	105
Provision for taxes	39	-	3	42
Net profit	58	1	4	63
% Return on equity				11.8
Average balance of assets	23,869	-	1,072	24,941
Average balance of liabilities	2,913	-	327	3,240
Average balance of risk assets	29,718	-	1,153	30,871
Average balance of assets of provident funds, mutual funds and supplementary training funds	-	202	-	202
Average balance of securities	-	10,322	6	10,328
Average balance of other assets under management	75	-	-	75
Balance of credit to the public as at 31 December 2006	21,737	2	762	22,501
Balance of deposits of the public as at 31 December 2006	2,876	-	260	3,136

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased 4.0% by NIS 894 million, compared with the end of 2006, and total deposits of the public dropped 7.4 %, by NIS 232 million.

Main Changes in Net Profit

In the first quarter of 2007, net profit in the construction and real estate segment totaled NIS 79 million, compared with NIS 63 million in the corresponding period in 2006 - an increase of 25.4%. The increase in profit stems mainly from a decrease of NIS 61 million in provisions for doubtful debts, which was partially offset by a decrease of income by NIS 39 million, 21.5%.

6. Private Banking

The following tables set out the profit and loss of private banking:

	Banking and finance in Israel	Credit cards	Capital market	Overseas Activities	Total
	For the three months ending 31 March 2007				
	NIS millions				
Profit from net interest income:					
From external sources	**(233)**	**-**	**-**	**(35)**	**(268)**
Inter-segmental	**275**	**-**	**-**	**78**	**353**
Operating and other income:					
From external sources	**10**	**-**	**30**	**69**	**109**
Inter-segmental	**-**	**-**	**-**	**4**	**4**
Total income	**52**	**-**	**30**	**116**	**198**
Provision for doubtful debts	**1**	**-**	**-**	**-**	**1**
Operating and other expenses:					
External	**45**	**-**	**15**	**72**	**132**
Inter-segmental	**-**	**-**	**-**	**17**	**17**
Operating profit before taxes	**6**	**-**	**15**	**27**	**48**
Provision for taxes	**2**	**-**	**6**	**7**	**15**
Operating profit after taxes	**4**	**-**	**9**	**20**	**33**
Minority interests in profits of consolidated companies	**-**	**-**	**-**	**(2)**	**(2)**
Net operating profit	**4**	**-**	**9**	**18**	**31**
Profit from extraordinary items after taxes	**-**	**-**	**4**	**-**	**4**
Net profit (loss)	**4**	**-**	**13**	**18**	**35**
% Return on equity					**42.5**
Average balance of assets	**1,547**	**6**	**-**	**6,207**	**7,760**
Average balance of liabilities	**25,560**	**-**	**-**	**12,494**	**38,054**
Average balance of risk assets	**1,310**	**6**	**-**	**3,565**	**4,881**
Average balance of mutual funds	**-**	**-**	**3,061**	**1,896**	**4,957**
Average balance of securities	**-**	**-**	**26,913**	**33,481**	**60,394**
Average balance of other assets under management	**451**	**-**	**-**	**-**	**451**
Balance of credit to the public	**1,544**	**6**	**-**	**2,959**	**4,509**
Balance of deposits of the public	**25,408**	**-**	**-**	**11,561**	**36,969**

Private Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Overseas Activities	Total
	For the three months ending 31 March 2006				
	NIS millions				
Profit from net interest income:					
From external sources	(234)	-	-	(30)	(264)
Inter-segmental	280	-	-	76	356
Operating and other income:					
From external sources	11	-	24	59	94
Inter-segmental	1	-	5	2	8
Total income	58	-	29	107	194
Provisions for doubtful debts	-	-	-	-	-
Operating and other expenses:					
External	38	1	16	100	155
Inter-segmental	-	-	-	21	21
Operating profit before taxes	20	(1)	13	(14)	18
Provision for taxes	8	-	5	(4)	9
Operating profit (loss) after taxes	12	(1)	8	(10)	9
Minority interests in profits of consolidated companies	-	-	-	4	4
Net profit (loss)	12	(1)	8	(6)	13
% Return on equity					16.6
Average balance of assets	1,781	6	-	6,405	8,192
Average balance of liabilities	24,657	-	-	13,063	37,720
Average balance of risk assets	938	44	-	3,593	4,575
Average balance of assets of provident funds, mutual funds and supplementary training funds	-	-	3,307	1,608	4,915
Average balance of securities	-	-	25,987	35,146	61,133
Average balance of other assets under management	450	-	-	-	450
Balance of credit to the public as at 31 December 2006	1,478	6	-	2,880	4,364
Balance of deposits of the public as at 31 December 2006	25,419	-	-	11,136	36,555

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 145 million, 3.3 % compared with the end of 2006, and total deposits of the public increased 1.1%, by NIS 414 million.

Main Changes in Net Profit

In the first quarter of 2007, net profit in the private banking segment totaled NIS 35 million, compared with NIS 13 million in the corresponding period in 2006, an increase of 169.2%. The increase in net profit stems from the positive contribution of some NIS 9 million from the Swiss subsidiary, compared with its negative contribution of NIS 11 million in the corresponding period in 2006 and from a positive contribution of NIS 6 million from the United States subsidiary, compared with its NIS 2 million contribution during the corresponding period in 2006. Net operating profit after neutralizing special salary expenses amounted to NIS 33 million, compared with NIS 14 million in the corresponding period in 2006, an increase of 130.0%.

7. Financial Management

In the first quarter of 2007, net profit in the financial management segment totaled NIS 34 million, compared with a profit of NIS 658 million in the corresponding period in 2006. The decrease in profit stems from the recording of profit from an extraordinary item during the corresponding period in 2006, from the sale of the holdings in Africa Israel Investments and of 10% of Migdal, in the amount of NIS 711 million.

Net operating profit amounted to some NIS 34 million, compared with a loss of some NIS 53 million during the corresponding period in 2006. The increase in profit stems from the following reasons:

- In the corresponding period in 2006, operating expenses had been recorded which were not charged to the other operating segments (adoption of new mortality tables published by the Supervisor of Insurance and an increase in the provision for severance pay and pensions as a result of the increase in the amount of the obligation for severance pay which was greater than the increase in value of the severance pay fund).

- An increase in net interest income in the amount of NIS 131 million, partly as a result of the increase in the market value of debentures for trading and an increase in profit from the sale of debentures available for sale.

On the other hand, a decrease in the Group's portion of profits of companies included on the equity basis from NIS 82 million to NIS 38 million, as a result of the sale of the holdings in Africa Israel and 10% of Migdal Insurance and Financial Holdings, partly offset these increases.

The net profit after neutralizing special salary expenses amounted to NIS 42 million, compared with NIS 775 million in the corresponding period in 2006, a decrease of NIS 733 million, of which NIS 711 million is profits from extraordinary items and NIS 44 million is the contribution of companies included on the equity basis attributed to the segment.

Companies Included on the Equity Basis (Non-Banking)

This includes the operating results of the Group’s non-banking (real) investments.

The Leumi Group’s total investments in companies included on the equity basis was NIS 1,781 million on 31 March 2007, compared with NIS 1,251 million on 31 December 2006.

The contribution to Group profit of the companies included on the equity basis in the first quarter of 2007 amounted to NIS 39 million, compared with NIS 78 million in the corresponding period in 2006.

The decrease in the contribution to profit is derived from the fact that during the first quarter of 2006, profits were still recorded on the equity basis in respect of Africa Israel Investments and in respect of Midgal Insurance and Financial Holdings.

The following table details the companies' contribution to the Group's net profit (in NIS millions):

	For the three months ending 31 March		
	2007	2006	% change
The Israel Corporation Ltd.	**31**	26	19.2
Migdal Insurance and Financial Holdings Ltd.	**-**	23	-
Africa Israel Investments Ltd.	**-**	19	-
Paz Oil Company Ltd.	**8**	-	-
Others	**-**	10	-
	39	78	(50.0)

Paz Oil Company Ltd.

Leumi Real Holdings Ltd. holds 15.63% of Paz Oil Company Ltd. ("Paz"). In January 2007, two directors of Paz were appointed by Leumi Holdings, constituting 20% of the Board of Directors. As from 1 January 2007, the investment is included on the equity basis (until that date, the investment was included as part of securities available for sale).
The recording of the investment on the equity basis was carried out on the basis of the cost paid. Surplus costs will be attributed in part to real estate and in part to goodwill, which will be written-off over ten years, in accordance with directives of the Supervisor of Banks. The Bank has started the process of having the attribution of the surplus costs examined by an outside valuer.

8. **Others -** this segment includes activities not allocated to the other segments.

This segment includes the other activities of the Group, none of which amounts to a profit segment under the directives of the Bank of Israel.

This activity includes primarily: part of the operations of the capital market companies that are not allocated to other segments, and credit card transactions.

In the first quarter of 2007 the loss of the "Others" segment amounted to NIS 40 million, compared with a loss of NIS 33 million in the corresponding period in 2006.

The following table sets out details of the main changes in NIS millions:

	For the three months ending 31 March		
	2007	2006	Change in amount
Profit from extraordinary items	**2**	1	1
From operating activity at the Bank	**14**	13	1
Leumi L.P. (previously Leumi-Pia)	**(1)**	-	(1)
Leumi Securities (previously Psagot-Ofek)	**(3)**	3	(6)
Leumi & Co.	**(8)**	(6)	(2)
Other companies in Israel	**-**	(3)	3
Overseas companies	**3**	5	(2)
Tax adjustments [(1)]	**(47)**	(46)	(1)
Total	**(40)**	(33)	(7)

(1) Tax differentials between tax calculations in the segments and the effective tax in the Consolidated Report.

Activities in Products

A. Capital market activities - these activities include the activities of provident funds and supplementary training funds, the sale of which has not been completed. In addition, they include the activities of Leumi & Co. Investment House Ltd., which specializes in the provision of investment banking services, business and financial services, capital raising, underwriting, organizing public and private issues, economic advice and valuations.

Capital market activities are the activities of the subsidiary companies that managed mutual funds and provident funds, which were sold in 2006, with part of the sales of the provident funds having been completed and/or being expected to be completed during 2007. The sale of these operations is a consequence of the capital market reform, as formulated in the legislation mentioned on page 12 above, and as described in detail in Note 31 to the Annual Report for 2006.

The following tables set out details of the operations in the capital market as presented in the various operational segments:

	Households	Private banking	Small businesses	Commercial banking	Corporate banking	Real Estate	Other	Total
	For the three months ending on 31 March 2007							
	In NIS millions							
Loss from net interest income	**-**	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Operating and other income	**119**	**30**	**5**	**32**	**6**	**1**	**24**	**217**
Total income	**119**	**30**	**5**	**32**	**6**	**1**	**17**	**210**
Operating and other expenses	**106**	**15**	**3**	**10**	**4**	**1**	**20**	**159**
Operating profit (loss) before taxes	**13**	**15**	**2**	**22**	**2**	**-**	**(3)**	**51**
Operating profit after taxes	**8**	**9**	**1**	**14**	**1**	**-**	**(9)**	**24**
Profit from extraordinary items after taxes	**207**	**4**	**20**	**11**	**14**	**1**	**-**	**257**
Net (loss) profit	**215**	**13**	**21**	**25**	**15**	**1**	**(7)**	**283**

	Households	Private banking	Small businesses	Commercial banking	Corporate banking	Real Estate	Other	Total
	For the three months ending on 31 March 2006							
	In NIS millions							
Profit from net interest income	-	-	1	-	-	-	6	7
Operating and other income	166	29	9	25	8	1	74	312
Total income	166	29	10	25	8	1	80	319
Operating and other expenses	100	16	4	8	4	-	73	205
Operating profit before taxes	66	13	6	17	4	1	7	114
Net (loss) profit	39	8	4	10	2	1	(1)	63

The following table sets out details of income from management fees from mutual funds, provident funds and supplementary training funds, in NIS millions:

	First Quarter	
	2007	2006
Mutual funds	**37**	118
Provident funds	**9**	53
Supplementary training funds	**8**	8
Total	**54**	179

In the first quarter of 2007, net operating profit after taxes from capital market operations amounted to NIS 24 million, compared with NIS 63 million in the corresponding period in 2006, a decrease of 61.9%.

B. Credit Cards - Leumi Card

This activity includes mainly the issuance of credit cards to private customers and providing acquiring services for businesses.

The principal credit card transactions are executed by the subsidiary, Leumi Card, which engages in the issue of credit cards, the provision of acquiring services and the development of payment solutions.

Leumi Card ended the first quarter of the year with a net profit of NIS 17 million, similar to the corresponding period in 2006.

During the first quarter of 2007, the volume of activity of Leumi Card credit card holders increased by 14.0%, and that of businesses by 13.5%, compared with the activity during the corresponding period in 2006. The number of active cards increased by some 16% in the first quarter of 2007, as compared with corresponding period in 2006.

The following tables set out details of the credit card activity as presented in the various operational segments:

	House-holds	Private banking	Small businesses	Commercial banking	Corporate banking	Total
	For the three months ending on 31 March 2007					
	In NIS millions					
Profit from net interest income	**17**	**-**	**-**	**1**	**4**	**22**
Operating and other income	**158**	**-**	**2**	**1**	**(1)**	**160**
Total income	**175**	**-**	**2**	**2**	**3**	**182**
Provisions for doubtful debts	**4**	**-**	**-**	**1**	**-**	**5**
Operating and other expenses	**122**	**-**	**2**	**1**	**6**	**131**
Operating profit (loss) before taxes	**49**	**-**	**-**	**-**	**(3)**	**46**
Net profit (loss)	**33**	**-**	**-**	**-**	**(2)**	**31**

	House-holds	Private banking	Small businesses	Commercial banking	Corporate banking	Total
	For the three months ending on 31 March 2006					
	In NIS millions					
Net interest income	18	-	2	1	2	23
Operating and other income	131	-	8	4	5	148
Total income	149	-	10	5	7	171
Provisions for doubtful debts	1	-	-	-	-	1
Operating and other expenses	97	1	8	4	14	124
Operating profit (loss) before taxes	51	(1)	2	1	(7)	46
Net profit (loss)	35	(1)	1	-	(5)	30

In the first quarter of 2007, net profit from credit card operations amounted to some NIS 31 million, compared with NIS 30 million during the corresponding period in 2006.

Gamma Management and Clearing Ltd.

On 28 December 2005, Leumi Card acquired 20% of the shares in Gamma Management and Clearing, the leader in the field of discounting credit card transactions. Under the agreement, Leumi Card was granted an option to acquire an additional 67% of the shares of the company and, at a later stage, all the shares of the company, subject to receipt of the approval of the Antitrust Director General and to the provisions of the sale agreement.

On 27 January 2006, the Antitrust Director General announced that she viewed the approval of the merger as problematic because of the absence of cross-acquiring of credit cards. The Director General also gave notice that once cross-acquisition developed, this was likely to be considered a change in circumstances that could lead to a positive examination in principle of the said merger.

In light of the negotiations that were held with a view to the signature of a cross-acquisition agreement with the credit card companies, the Bank applied again, on 2 October 2006, to the Director General for her approval of the merger that will arise as a result of the exercise of the option.

On 22 January 2007, the Bank and Gamma notified the Director General that they were withdrawing the notice of the merger.

Despite the withdrawal of the notice of the merger, the Bank asked the Director-General for her ruling on this matter. In early May, the Director General announced that she had rejected the merger.

Negotiations with Migdal Insurance and Financial Holdings Ltd.

Pursuant to the information provided on page 142 of the Annual Report for 2006, regarding the negotiations being held between Migdal Insurance and Financial Holdings Ltd. and the Bank, notices have been received from both the Capital Markets, Insurance and Savings Department of the Ministry of Finance and from the Antitrust Authority to the effect that they are examining the transaction which is being formulated, which they believe could have a negative impact on competition in the credit area. The Capital Markets Department also noted that the joint ownership relationships at Leumi Card could have consequences regarding the granting of a pension counseling license to the Bank or regarding restrictions that may be placed on such a license.

Profit Centers in the Group

The following table sets out details of the contribution of the Group's major profit centers to net operating profit:

	For the period January to March			For the period January to March		
	2007*	2006*	Change	**2007****	2006**	Change
	NIS millions		%	NIS millions		%
The Bank	**441**	207	113.0	**482**	162	197.5
Consolidated companies in Israel (1)	**102**	33	209.1	**102**	33	209.1
Overseas consolidated companies (2)	**85**	79	7.6	**44**	124	(64.5)
Non-banking companies (1)	**30**	81	(63.0)	**30**	81	(63.0)
Net operating profit	**658**	400	64.5	**658**	400	64.5
Overseas' subsidiaries profit, in nominal terms (US$ millions) (3)	**23.9**	15.7	52.6	**23.9**	15.7	52.6

* Translation adjustments in respect of overseas investments were offset against translation adjustments of the financing sources at the Bank after the effect of taxes.
** According to the financial statements
(1) The non-banking companies of Leumi & Co., Leumi Real Holdings and Leumi Card were included in the data of the consolidated companies in Israel.
(2) After certain adjustments to Israeli accounting principles.
(3) As reported by the overseas subsidiaries, including overseas branches and minority interests.

Following are the Main Changes in the Contribution of the Profit Centers (after translation adjustments):

- The increase in net operating profit at the Bank derived mainly from a decrease in special salary expenses as explained above on page 17, from a decrease in the provisions for doubtful debts, from an increase in net interest income and from an increase in operating and other income.

- The increase in net operating profit of consolidated companies in Israel derives mainly from the increase in the profit of Leumi Mortgage Bank, as compared with a negative contribution in the corresponding period in 2006.

- The increase in the profit of overseas subsidiaries derives from an improvement in the profitability of the overseas subsidiaries.

- The decline in the contribution of companies included on the equity basis derives mainly from a decrease from the sale of Midgal Holdings and of Africa Israel Investments.

The overseas subsidiaries' profits in nominal terms as published by them (including the Bank's overseas branches and minority interests) totaled some US$ 22 million, an increase of US$ 6 million compared with the corresponding period in 2006. The contribution of the overseas subsidiaries in shekels, after certain adjustments to Israeli accounting principles, totaled NIS 85 million, compared with NIS 79 million in the corresponding period in 2006. Excluding the effect of exchange rate differentials in respect of the cost of financing sources, net, the profit of the overseas subsidiaries amounted to NIS 44 million, as compared with NIS 124 million in the corresponding period in 2006, a decrease of NIS 80 million, deriving mainly from negative exchange rate differentials in respect of the overseas investments.

The following table sets out a summary of the above data:

	For the period January to March	
	2007	2006
	NIS millions	
Profits of the subsidiaries in shekels (the Group's share)	**110**	50
Exchange rate differentials on the investment	**(66)**	74
Exchange rate differentials on the net cost of financing sources	**41**	(45)
Total contribution of the subsidiaries (after offsetting net financing sources)	**85**	79

Activities of Major Subsidiaries and Affiliates

Consolidated Subsidiaries in Israel

The Bank's investments in consolidated subsidiaries in Israel amounted to NIS 6,465 million on 31 March 2007, compared with NIS 6,130 million on 31 December 2006. The contribution to net profit was NIS 102 million during the period January to March 2007, compared with NIS 33 million in the corresponding period in 2006, an increase of 209.7%.

The following table sets out the contribution of the major consolidated companies in Israel to the net profit of the Group:

	Return on Group's Investment		Contribution to Group's Profit (1)		
	31 March 2007	31 March 2006	**31 March 2007**	31 March 2006	Change
	%		NIS millions		%
Leumi Mortgage Bank	**9.9**	-	**42.6**	(14.1)	-
Arab Israel Bank	**30.1**	24.8	**22.0**	18.3	20.2
Leumi Card	**105.1**	-	**16.9**	18.4	(8.2)
Leumi & Co. Investment House (2)	**-**	-	**(6.6)**	(4.1)	(61.0)
Leumi Securities (previously Psagot-Ofek Investment House)	**1.5**	13.8	**3.1**	3.3	(6.1)
Leumi Real Holdings	**4.9**	-	**6.5**	(0.5)	-
Leumi Leasing and Investments	**2.3**	3.5	**4.4**	6.1	(27.9)
Others	**3.4**	2.7	**13.3**	5.6	(137.5)
Total consolidated subsidiaries in Israel	**6.8**	3.2	**102.2**	33.0	209.7

(1) The profit (loss) presented is according to the Group's share in the results.
(2) Including the profit and/or loss of companies included on the equity basis of Leumi & Co.

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 4,439 million on 31 March 2007, compared with NIS 4,382 million on 31 December 2006.

In the period January to March 2007, the contribution of the overseas consolidated subsidiaries to the net profit of the Group, as reported in shekels and after offsetting translation adjustments, amounted to a profit of NIS 85 million, compared with a profit of NIS 79 million in the corresponding period in 2006.

The following table sets out the contribution of the principal overseas consolidated companies to the net profit of the Group:

	Return on Group's Investment		Contribution to Group's Profit(*)		
	31 March 2007	31 March 2006	**31 March 2007**	31 March 2006	Change
	%		NIS millions		%
Leumi USA (BLC)	**9.7**	7.7	**54.3**	43.9	23.7
Leumi UK	**10.2**	14.7	**18.5**	32.2	(42.5)
Leumi Switzerland	**3.9**	-	**6.5**	(7.0)	-
Leumi Luxembourg	**8.5**	17.2	**2.5**	4.5	(44.4)
Leumi Re	**26.1**	18.7	**5.8**	4.3	34.9
Others	**-**	3.8	**(2.5)**	1.4	-
Total foreign consolidated subsidiaries	**8.0**	7.6	**85.1**	79.3	7.3

(*) Translation adjustments in respect of the overseas investments were offset against translation adjustments in respect of the Bank's financing sources after the effect of taxes, in the amount of NIS (41) million as compared with NIS 45 million in 2006. The following are the sums that were offset:

Leumi USA - NIS (23) million in 2007, compared with NIS 18 million in 2006;
Leumi UK - NIS (9) million in 2007, compared with NIS 13 million in 2006;
Leumi Switzerland - NIS (7) million in 2007, compared with NIS 9 million in 2006.

The decrease in the contribution to profit derives mainly from the effect of the appreciation of the exchange rate of the shekel against all the foreign currencies. The effect of the exchange rate differentials was to decrease pre-tax profit by NIS 66 million during the period January to March 2007, compared with an increase of pre-tax profit by NIS 74 million in the corresponding period in 2006. Net interest income earned by the Bank, and which offset part of these exchange rate differentials, totaled some NIS 41 million during the period of January to March 2007, compared with expenses of NIS 45 million in the corresponding period in 2006.

The following table sets out details of the net profit of the overseas subsidiaries as reported by them:

	31 March 2007	31 March 2006	Change
	Millions		%
Leumi USA (BLC) (US$)	**8.7**	6.4	35.9
Leumi (UK) (£)	**2.9**	3.0	(1.7)
Leumi Switzerland (CHF)	**4.9**	2.5	90.3
Leumi Luxembourg (Euro)	**0.5**	0.5	-
Leumi Re (US$)	**1.5**	0.8	83.9

The nominal profit of the overseas consolidated subsidiaries as reported by them totaled US$ 20.9 million in the period January to March 2007, compared with US$ 15.1 million in the corresponding period in 2006, an increase of 38.4 %.

See Notes 3, 5 and 7 to the Financial Statements regarding legal proceedings and other matters relating to the consolidated companies.

Capital Market and Financial Services Activities of the Bank and the Group

Mutual Funds

During 2006, following the legislation regarding the reform in the capital market, the Bank sold its activities in the area of mutual fund management. Commencing from 2007, the Bank has been receiving distribution commissions only, in accordance with the legislation.

Provident Funds

Following the legislation regarding the reform in the capital market, the Bank, together with Leumi Gemel Ltd., sold the goodwill, activities, assets and liabilities related to the provident funds managed by Leumi Gemel Ltd.

On 31 January 2007, the sale to Prisma Provident Funds Ltd. of additional provident funds, the largest of which being Sion, a Central Severance Pay Fund, Tzur and Sagi, was completed, at a price of some NIS 418 million, following a price reduction due to adjustments agreed to between the parties. The Bank’s net profit, following adjustments and tax provisions, was some NIS 257 million.

Together with the signing of the agreements with the purchasers of the provident funds, distribution agreements and agreements for the provisions of operating services were signed.

Supplementary Training Funds

Kahal Employees Supplementary Training Fund Ltd. (“Kahal”) (which is under the joint management of the Bank and Israel Discount Bank Ltd.) – the value of the assets managed by Kahal and Kahal Paths Supplementary Training Fund (which is managed by Kahal Study Funds Management (1996) Ltd. ("Kahal Management")), a joint subsidiary of the Bank and Israel Discount Bank Ltd., reached some NIS 10.7 billion on 31 December 2006, compared with some NIS 10.6 billion as at the end of 2005.

Following the reform in the capital market, on 26 May 2006, an agreement was signed between the Bank, Israel Discount Bank Ltd., Kahal and Kahal Management, and between Migdal Capital Markets (1965) Ltd. on behalf of a company under its control and Migdal Insurance and Financial Holdings Ltd. on behalf of a company under its control (the "Purchaser"), for the sale of the goodwill, management rights, additional rights and means of control of the banks in Kahal, and for the sale of the goodwill, activities, assets and liabilities relating to the supplementary training funds managed by Kahal Management, for consideration of NIS 260 million. Such amount will be adjusted in accordance with the volume of the supplementary training fund assets being sold as at the date of completion. The Bank's share of the consideration amount is NIS 149.5 million.

In April 2007, the Bank entered into an agreement with Kahal and with the Purchaser for the provision of operating services by the Bank to the funds sold, as well as a distribution agreement, under which the Bank will distribute the funds.

Completion of the transaction is subject to the receipt of regulatory approvals.

Non-Banking Activities of Companies Included on the Equity Basis

Total investments of the Group in companies included on the equity basis amounted to NIS 1,781 million on 31 March 2007, compared with NIS 1,251 million on 31 December 2006.

In the period January to March 2007, the contribution to net profit amounted to a profit of some NIS 39 million, compared with a profit of some NIS 78 million in the corresponding period in 2006.

The following are the details of the Group's investment in the principal company included on the equity basis:

The Israel Corporation Ltd.

The Israel Corporation Ltd. is a holding company whose principal holdings are in the areas of chemicals (holding 53% of the shares of Israel Chemicals Ltd.), shipping (holding some 97.5% of Zim Integrated Shipping Services Ltd.) and additional holdings. The Israel Corporation won the tender for the purchase of 36.8% of the issued share capital of Oil Refineries Ltd. The approvals for completion of the transaction have not yet been received.

The net profit in the period of January to March 2007 totaled some NIS 166 million, compared with a profit of some NIS 244 million in the corresponding period in 2006.

The consolidated assets of the Israel Corporation totaled some NIS 31.2 billion as at 31 March 2007, compared with NIS 28.5 billion at the end of 2006.

Shareholders’ equity totaled some NIS 5,496 million as at 31 March 2007, compared with some NIS 5,634 million at the end of 2006.

Paz Oil Company Ltd.

See page 38 above and Note 9 to the Financial Statements.

TBC Bank of Georgia

On 24 January 2007, a Term Sheet was signed between the Bank and TBC Bank, of Georgia, ("TBC") and the controlling shareholders in TBC, under which the Bank might purchase shares representing 20% of the share capital of TBC when fully diluted (except for dilution in respect of management options). In respect of the shares to be allotted, the Bank was expected to inject capital into TBC in the amount of some US$ 40 million.

The agreement between the parties was conditioned on the signature of a detailed agreement between the parties and on the signature of a shareholders' agreement between the shareholders of TBC under which the regular rights for the protection of minority shareholders would be granted to the Bank

On 25 April 2007, the Bank gave notice that the negotiations aimed at executing a detailed agreement were stopped by the sellers, who claimed that a higher price could be obtained for the holdings of the shareholders in an alternatively structured transaction. The Bank contends, however, that a binding term sheet has been executed and that the shareholders are not allowed to sell their holdings to any third party without upholding and maintaining the Bank’s rights in their entirety.

Exposure to Risk and Methods of Risk Management

Market Risk and Liquidity Risk Management

The business results, shareholders' equity, cash-flows and the value of the Bank are exposed to market risks arising from volatility in interest rates, exchange rates, the CPI, prices of securities in Israel and abroad and other economic indices.

Ongoing market risk management is intended to assist in achieving business goals by estimating the anticipated profit from managing the risks, together with the damage that can result from exposure to the said risks. Such management is based on forecasts and ongoing evaluations of developments in the capital and financial markets.

The market risk management policy includes limits on the financial exposure. The limits are intended to reduce damage that may occur as a result of unexpected market changes. The system of limits defines the effect of exposure of the economic value, the accounting profit and the liquidity situation to unexpected changes in interest rates, the CPI, exchange rates, etc.

As part of the discussions regarding the 2007 work plan, the Board of Directors resolved to expand the frameworks of activity of the nostro portfolios.

Within the framework of the Capital Markets Division's responsibility for market risk management in Israel and overseas, steps are planned to allow for Group-wide coordination, while developing expertise and knowledge-sharing and taking advantage of economies of size.

The management of market risks at the Bank also includes the subsidiaries in Israel, with the exception of Leumi Mortgage Bank and Leumi & Co. Investment House Ltd., which have independent market risk policies and management, due to the dissimilar nature of their activity as compared with that of the Bank.

All the subsidiaries have adopted independent policies for market risk management. The frameworks for market risk exposures are in a uniform format set by the Bank. These frameworks have been examined by the Bank's Manager of Market Risks and found to be appropriate.

Information regarding the position of the exposures according to the frameworks that have been determined is received from the subsidiaries once a month or upon request, and is taken into account in the overview of the Group's exposures.

Basis Exposure

The exposure to basis risks is expressed as the loss that may occur in consequence of the effect of changes in the CPI and exchange rates on the difference between the value of the assets and the liabilities, including the effect of futures transactions, in each of the linkage sectors.

The exposure to basis risks is defined as a percentage of the Bank's exposed capital. The capital is defined as an unlinked shekel source.

The exposed capital includes shareholders' equity and certain reserves, less investments in subsidiaries and affiliates and fixed assets, but including investments in overseas subsidiaries that are financed by foreign currency deposits.

The following table sets out the actual exposure at Group level compared with the limits fixed by the Board of Directors. The data is presented in terms of percentages of the exposed capital:

	31 March 2007	31 March 2006*	31 December 2006	Approved Limits Maximum Surplus (or Deficit)
Unlinked	**(73.5%)**	(27.5%)	(33.8%)	50% - (100%)
CPI-linked	**61.4%**	27.5%	28.6%	100% - (50%)
Foreign currency	**12.1%**	-	5.2%	25% - (10%)

* Reclassified

The mix of the investment of exposed capital between the various linkage sectors is determined on an ongoing basis within the limits set out above, and on the basis of forecasts regarding relevant market variables.

During the first three months of 2007, an average of some 44% of the exposed capital was invested in the CPI-linked sector. The CPI-linked investment fluctuated between 28% and 61%. An average of some 6% was invested in the foreign currency and foreign currency-linked sector. The balance of the capital was invested in the unlinked shekel sector.

During the first three months of 2007, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 31 March 2007. The measurement relates to the effect of such changes on the capital of the Bank and includes the activity in balance sheet and derivative instruments (the theoretical change in the capital of the Bank does not include the effect of tax in respect of financing overseas investments):

	US$	Euro	£	CHF	Yen
			NIS millions		
Increase of 5% in exchange rate	78	(19)	-	-	-
Increase of 10% in exchange rate	174	(31)	(1)	1	(2)
Decrease of 5% in exchange rate	(76)	18	(3)	2	(2)
Decrease of 10% in exchange rate	(137)	35	(8)	3	(6)

Interest Exposure

The exposure to changes in interest arises from the gaps between the interest payment dates and the interest adjustment dates of the assets and liabilities in each of the sectors. For the purpose of managing interest risk, the gaps between the assets and liabilities in future periods are examined, and comparisons are made of the average life span of the assets, liabilities and capital in each sector. In addition, in each sector, a measurement is made of the exposure to changes in interest relating to the potential erosion of the economic value and the annual accounting profit in consequence of a shift of the yield curve in each of the sectors.

The following table sets out a summary of the interest exposure at the Group level (in NIS millions):

	Potential Erosion of Economic Value			Potential Erosion of Annual Profit*		
Effect of a change of 1% in the yield curve	**31 March 2007**	31 March 2006	31 December 2006	**31 March 2007**	31 March 2006	31 December 2006
Actual	**592**	653	549	**144**	156	176

* The maximum erosion in annual profit, on the basis of an examination of the next three years.

The interest exposure limits are to a maximum change in the economic value at Group level of NIS 1,000 million, and to a change in the annual profit of NIS 500 million.

During the first three months, the potential erosion of the economic value and of the annual profit fluctuated between NIS 549 million and NIS 592 million, and between NIS 144 million and NIS 178 million respectively.

During the first three months of 2007, the Group complied with all the interest exposure limits set by the Board of Directors.

Value at Risk (VAR)

VAR is a measurement of the anticipated potential loss (the forecast decrease in present value of assets less liabilities) arising from the given composition of a portfolio at a given confidence level and over a given time horizon (holding period), due to possible changes in market values. The VAR is calculated once a month at Group level, and more frequently at the Bank level and for the trading portfolios.

The VAR calculations and the limits in VAR terms are based on the parametric approach, with a confidence level of 99%, and a holding period of two weeks.

In order to test the validity of the VAR model, the Bank performs daily backtesting by comparing the actual difference in the economic value of the Bank with the change estimated by the VAR model. The tests performed thus far confirm the validity of the model.

The VAR is also periodically calculated using historical simulation, and any difference between the two calculation methods is examined. Historical simulation enables risk measurement to be carried out without reliance on a specific probability structure.

The VAR of the option book in the trading portfolio is examined using both the parametric and the Monte Carlo simulation methods (so as to test the non-linear risk components). The differences observed between the two methods are not significant.

The following table sets out estimates of VAR amounts at the Group level:

	31 March 2007	31 March 2006	31 December 2006
	NIS millions		
Total VAR	**221**	256	206
VAR of MTM re-valued portfolios	**53**	51	29

The Board of Directors' VAR limits are NIS 500 million at Group level and a limit of NIS 300 million for the VAR of the Mark to Market re-valued items.

During the first three months of 2007, the VAR fluctuated between NIS 206 million and NIS 228 million.

During the first three months of 2007, the Group complied with the above limits.

Liquidity Risk

Liquidity is defined as the ability of the corporation to finance increases in assets and to comply with its liability payments. The ability to deal with liquidity risk involves uncertainty regarding the possibility of raising sources and/or realizing assets in an unexpected manner within a short period, without causing a material loss.

The Bank implements an overall liquidity risk management policy in Israeli and foreign currency (including foreign currency linked assets), pursuant to the directives of the Bank of Israel. The purpose of the policy is to support the achievement of business goals while evaluating and limiting losses that may arise from exposure to liquidity risks.

The Bank maintains ongoing monitoring over the liquidity position and liquidity risk indices. Liquidity risk is measured and managed through an internal model whose purpose is to evaluate and monitor the liquid means at the Bank's disposal, in various scenarios.

As a part of its planning for an extreme scenario, an emergency plan has been prepared, including the strategy for managing a liquidity crisis, and the appointment of a management team responsible for dealing with the crisis and defining the procedures and steps required to deal therewith, including the creation of sources as rapidly as possible.

As well as the model described above, Leumi operates an additional measurement system for early warning of exceptional and unexpected developments in liquidity risk.

As required by the Bank of Israel's Directive No. 342, the Board of Directors has approved a policy for managing liquidity risks and determined limits as follows: the liquidity ratio must be higher than 1 and the liquidity gap must be higher than zero in each of the scenarios during the planned periods of one day, one week and one month.

There were no deviations from the limits set by the Board of Directors, other than a one day deviation from an extreme scenario limit.

For further details regarding management of market risks, see pages 166-177 of the Annual Report for 2006.

Credit Risk

In order to improve credit risk management and to adjust to regulatory requirements, an independent credit risk management unit was established.

The unit will conduct an independent examination of the credit risks and the risk aspects.

Authority with regard to granting credit at the various levels has been determined on the basis of the size of the credit facility, the borrower’s risk rating and the nature of the application, while maintaining the principle of decision-making by senior staff on complex credit applications or those with a high risk.

For further details regarding credit risks, see pages 181-185 of the Annual Report for 2006.

See pages 177-180 of the Annual Report for 2006 with regard to **operating risks and legal risks**.

Preparations in Anticipation of Basel II

The Basel Committee on Banking Supervision published the final version of the capital adequacy measurement accord (Basel II) in June 2006, which is intended to be implemented, following central banks' instructions. The Accord is based on three pillars: minimum capital requirements, regulation, control and supervision of capital adequacy, and policy regarding disclosure of information to the public. Such information will supplement the minimum capital adequacy requirements and required supervision, and will allow the market to evaluate the risk of the bank. The Supervisor of Banks announced at the end of January 2007 that the target date for the implementation of Basel II in Israel is 2009. At the beginning of April 2007, the Supervisor submitted a draft directive dealing with the standard market risk and operating risk approaches. The Banks have been asked to prepare their comments to the said draft.

The new minimum capital requirements relate to operating risks, in addition to credit and market risks, with which the banks have long since been required to deal. Furthermore, considerable changes are required in the capital requirements relating to credit risks. In the two contexts, of credit risks and also of operating risks, the Committee has proposed three options for calculating minimum capital. The options are typified by an ever-increasing sensitivity to risk. The banks, and the bank regulators, are to select the method appropriate to their risk management level.

As part of the Bank's preparations for the implementation of Basel II, and in continuation of activities carried out during 2004-2005, a project administration was set up at the end of 2005, the role of which is to manage, coordinate, adapt and supervise the parties involved in the project, and to bring about the eventual implementation of all the directives of Basel II.

In addition, a senior steering committee was appointed for the Basel II project, headed by the Senior Deputy Chief Executive Officer, and including several Members of Management and other senior executives.

The Bank is preparing to adapt infrastructure systems to the required changes, and to collect the required data in order to estimate the risk variables. The adaptation of the systems, the construction of the data bases and the connection between the systems will all require the investment of substantial resources in the coming years.

Linkage Status and Liquidity Status

Linkage Status

During the first three months of 2007, the exposure in the CPI-linked sector increased from a level of some NIS 3.2 billion to a level of some NIS 5.8 billion. The increase in the investment in the CPI-linked sector was mainly carried out through the purchase of CPI-linked debentures.

The following table sets out the status of assets and liabilities classified according to linkage basis:

	As at 31 March 2007			As at 31 December 2006		
	Unlinked	CPI-linked	Foreign Currency(2)	Unlinked	CPI-linked	Foreign Currency(2)
Total assets (1)	**109,152**	**57,438**	**126,483**	108,139	56,272	129,767
Total liabilities (1)	**105,462**	**51,616**	**126,525**	102,067	53,095	129,814
Total exposure in sector	**3,690**	**5,822**	**(42)**	6,072	3,177	(47)

(1) Including forward transactions and options.
(2) Including foreign-currency-linked.

Funding and Liquidity Status

Liquidity Status

The System -

In the first three months of 2007, the Bank of Israel decreased the volume of *Makam* tenders by some NIS 3 billion, to a level of some NIS 95.1 billion. At the end of February, the Bank of Israel announced that, after more than a decade of gradual increases in the volume of *Makam,* so as to establish it as a monetary tool, while absorbing liquidity surpluses in the economy, it would begin using *Makam* as an active monetary tool.

The banking system's *Makam* balances were some NIS 10.3 billion at the end of March 2007, similar to December 2006.

In parallel, there was an increase in the volume of monetary credit tenders of the Bank of Israel by NIS 14 billion, to a level of NIS 21.5 billion at the end of the first quarter. The average volume of the tenders in the first three months of the year amounted to some NIS 13.8 billion.

At Leumi, the balance of monetary credit tenders from the Bank of Israel amounted to some NIS 7.7 billion at the end of the quarter, compared with the end of 2006 at which time Leumi was not utilizing this tool. The average volume of tenders at Leumi in the first three months of 2007 amounted to some NIS 4.4 billion.

From January 2007, the Bank of Israel ceased executing "repo" type tenders. These transactions constituted a tool for the absorbtion of liquidity surpluses in the system, while the liquidity needs of the system required the taking of monetary loans from the Bank of Israel during each liquidity month. The Bank of Israel intends to commence the execution of reverse "repo" transactions during June 2007, which will suit the liquidity status of banking corporations, and will also include insurance companies and institutional bodies.

In the second half of the year, in July 2007, the RTGS (real time gross settlement) system will begin operating in Israel, for the purpose of effecting transfers of shekels between the banks in Israel and the other participants in the system, during the business day.

In addition, Leumi will become a member of the CLS Clearing House, and will provide nostro services in shekels and liquidity services in shekels to CLS Bank. The date of commencement of operations (according to the updated timetable) in foreign currency will be the fourth quarter of 2007, and in shekels, the first quarter of 2008.

See page 45 of the Directors' Report attached to the Financial Statements for 2006 for further details.

The Bank -

The structure of the Bank's assets and liabilities continues to indicate a high level of liquidity. This is the result of a deliberate policy of raising stable and diversified sources, while placing importance on the raising of deposits from a large number of customers, for varying periods of time, including long term.

The Bank has a liquid and high-quality securities portfolio (in shekels and foreign currency) of some NIS 33.0 billion, which is mainly invested in Israeli government debentures and foreign securities with an average rating of A+.

The ratio of the Bank's net liquid assets – cash, deposits at banks and securities (excluding shares) – after deducting deposits from banks, was 32.8% of the Bank's total assets as at 31 March 2007, compared with 36.6% as at 31 December 2006. The ratio of net liquid assets to total liabilities (after deducting deposits from banks) stood at 37.5%, compared with 40.1% as at 31 December 2006.

Leumi monitors on an ongoing basis, its liquidity status and indices that are intended to warn of changes in the liquidity position *inter alia*, by using an internal model that was developed at the Bank pursuant to a directive of the Bank of Israel. The various assumptions forming the basis of the model are examined and updated regularly according to developments in the major relevant parameters.

Funding (in the Bank) -

The balance of deposits of the public at the Bank declined during the first three months of the year by some NIS 4.5 billion, a decrease of 2.2%.

The balance of deposits of the public at the Bank in the unlinked shekel sector decreased by NIS 2.7 billion, at a rate of some 3.0%, and reached a sum of NIS 87.3 billion at the end of March 2007.

The balance of foreign currency or foreign currency linked deposits of the public reached a sum of NIS 81.8 billion, an increase of some NIS 0.2 billion, despite the appreciation of the shekel exchange rate. After deducting the effect of the currency exchange rates, the balance increased by some NIS 1.3 billion (1.6%).

The balance of the deposits of the public in the CPI-linked sector decreased by some NIS 2.1 billion, a decrease of some 7.5%.

During the first three months of 2007, the increase in the volume of the Bank's customers' off-balance-sheet deposits continued.

During the reported period, the volume of the securities portfolio of the Bank's customers increased by some NIS 19.6 billion. The volume of the mutual fund portfolio increased by NIS 5.2 billion.

In the first three months of 2007, the balance of credit to the public increased by some NIS 1.2 billion.

In unlinked credit, there was an increase amounting to some NIS 2.5 billion, 3.6%, which was partly offset by a decrease of NIS 0.5 billion in CPI linked credit, a decrease of 2.1%, and in foreign currency credit there was a decrease of some NIS 1 billion, a decrease of some 3% (after deducting the effect of the exchange rates, the balance of foreign currency credit decreased by some NIS 0.5 billion).

Legal Proceedings

The Directors' Report in the Annual Report for 2006 provides details of civil and other legal proceedings to which the Bank and the consolidated companies are parties.

As of the date of the publication of this Report, no material changes have occurred in the aforementioned proceedings, except as detailed below.

None of the proceedings pending against the Bank involves a sum exceeding 1% of the shareholders' equity of the Bank as at 31 March 2007, some NIS 185 million, with the exception of the proceedings detailed in Notes 3 to 6 to the Financial Statements.

For details regarding an application for the approval of a class action filed in April 2007, see Note 4D to the Financial Statements.

In the opinion of the Management of the Bank, based on legal opinions, appropriate provisions have been recorded in the Financial Statements to cover possible damages in respect of all the claims.

See Note 3-6 to the Financial Statements for further details.

Material Agreements

Pursuant to the description in the Annual Report for 2006 of the agreement between the Bank and the Union Bank of Israel Ltd. ("Union Bank") for the provision of comprehensive computer and operating services, in April 2007 the Bank and Union Bank reached an agreement for the extension of the agreement for the provision of comprehensive computer and operating services by the Bank to Union Bank signed in September 2001, for a period which ends in 2009.

The period of the new agreement is 10 years beginning on 1 January 2007, and according to such agreement the Bank will be paid an annual consideration that will gradually increase from some NIS 40 million in the first two years, to some NIS 45 million beginning from the sixth year. (The amounts are linked to the consumer price index of December 2006 and are dependent on the volume of activities of Union Bank.)

The extension of the agreement has been approved by the Board of Directors of the Bank and Union Bank, and is subject to the execution of a detailed agreement and the approval of the Bank of Israel

D. Additional Matters

Leumi for the Community

Social Involvement

Since its establishment, Leumi, which was set-up as part of the Zionist vision, has been active in developing the economy, the society and the community in which it operates.

The Group's involvement in the community is undertaken in a number of ways:

- Donations through organizations (institutions and non-profit organizations), which work to promote social projects that concentrate on education and the welfare of children and young people.
- Involvement by providing sponsorships for educational and cultural activities
- Individual attention to populations in grave distress.

"Leumi Tomorrow - The Centennial Fund for Endowing Israel's Future Generation"

- Some 13,000 pupils are participating in the various projects in which the fund has invested in the 2006-2007 school year, in various locations throughout the country.
- The "Youth Leading Change – Follow Me" association ran a "Candy for the Soldiers" campaign involving the collection and distribution of Purim packages to IDF soldiers, with dozens of Leumi employees taking part.
- A two day field course on the topic of leadership was held by the "Youth Leading Change – Follow Me" association during the Passover vacation. The series concluded with a cross-country trek and a ceremony in which dozens of Bank employees took part.

"**Equal Opportunities**"

The "Equal Opportunities" initiative has begun the second stage of its activity. In this framework, 200 families in distress receive assistance as needed. Electrical appliances and furniture have already been distributed and individual requests from families have been approved.

***Kamcha de'Pascha* 5767**

The *Kamcha de'Pascha* (food for Passover) campaign, in which products are collected and distributed to needy families throughout the country, was held for the third consecutive time. Leumi employees participated in the campaign through donating food and money, and packing and distributing food parcels.

A total of some 1,800 food parcels and gift coupons were distributed to needy families before the Passover festival. The campaign was financed by a donation of NIS 250,000 from "Leumi Tomorrow" and by donations from employees and customers in the amount of some NIS 93,000.

"Young Israeli Entrepreneurs – Established by Leumi"

Leumi is a partner in this project and has supported it since its establishment, for more than 15 years.

This year, some 4,000 young people from all parts of the country are participating in an educational and challenging program, during the course of which they gain experience in establishing and managing businesses, while learning the principles of entrepreneurship and business practice. The program's participants originate from all sectors of Israeli society – veteran Israelis, new immigrants and young people from the Arab sector.

Internal Auditor

Details regarding the Internal Audit Division of the Group, including the professional standards according to which the Internal Audit Division operates, the annual and multi-year work plan and the considerations used in establishing it, were included in the Annual Report for 2006.

No material changes to these details occurred during the period reported.

The Internal Auditor's report for the second half of 2006 was submitted on 22 March 2007 and discussed by the Audit Committee on 29 March 2007.

Evaluation of Controls and Procedures

Evaluation of Disclosure Controls and Procedures for the Financial Statements

On 15 November 2004, the Supervisor of Banks published a Directive regarding the certification to be attached to the quarterly and annual statements of banking corporations, to be signed by the chief executive officer and chief accountant/treasurer of the bank or the person actually carrying out this task (in Leumi, the Head of the Finance and Economics Division), beginning with the financial statements for the period ending 30 June 2005. On 18 July 2005, the Supervisor of Banks published an amended text of the certification. The text of the certification in the Directive is based on the directives of the SEC and relates to the requirements of section 302 of the Sarbanes-Oxley Act (SOX), According to the Supervisor's Directive, the certification is not implemented in accordance with the extensive requirements of section 404 of the SOX Act, which requires the existence of a system of internal controls according to a defined and accepted framework, which is far wider in extent than the disclosure controls required to be operated beginning with the Financial Statements as at 30 June 2005 and thereafter.

With the assistance of external consultants, the Bank has established procedures and set up a disclosure committee, headed by the President and Chief Executive Officer of the Bank, and including members of Management and other senior officers, in the manner required to fulfill the requirements of this Directive.

The Management of the Bank, together with the President and Chief Executive Officer and the Head of the Finance and Economics Division, have, as at the end of the period covered by this Report, evaluated the effectiveness of the disclosure controls and procedures of the Bank. On the basis of this evaluation, the President and Chief Executive Officer of the Bank and the Head of the Finance and Economics Division have concluded that, as at the end of the said period, the disclosure controls and procedures of the Bank are effective for the recording, processing, summarizing and reporting of the information that the Bank is required to disclose in its quarterly financial statements, in accordance with the public reporting Directives of the Supervisor of Banks and at the time required in these Directives.

During the quarter ending on 31 March 2007, no material change occurred to the internal controls on financial reporting of the Bank that materially affected or is reasonably anticipated to materially affect the Bank's internal control of financial reporting.

Management's Responsibility for the Internal Control of Financial Reporting (SOX Act 404)

On 5 December 2005, the Supervisor of Banks published a circular detailing provisions for the implementation of the requirements of section 404 of the SOX Act. In section 404, the SEC and the Public Company Accounting Oversight Board determined provisions as to management's responsibility for the internal control over financial reporting and as to the external auditors' opinion with regard to the audit of the internal control over financial reporting.

The Supervisor's directives in the said circular prescribe that:

- Banking corporations shall apply the requirements of section 404 and also the SEC's directives that were published thereunder.

- Proper internal control requires the existence of a control system in accordance with a defined and recognized framework, and the COSO model meets with the requirements and can be used in order to assess the internal control.

- Implementation of the Directive's requirements requires the upgrading and/or establishment of an infrastructure system of internal controls at the Bank and the process of developing such systems obliges the Bank to deploy and to determine interim stages and targets until the full implementation thereof.

- The project must be completed by the end of the first half of 2008, so that the external auditors' audit will commence in June 2008 and will be completed by the date of the December 2008 Report.

The Management of the Bank is taking action to implement the directive.

On 20 May 2007, Mr. Moshe Dovrat was elected as a Director of the Bank at the Bank's Annual General Meeting.

At the meeting of the Board of Directors held on 30 May 2007, it was resolved to approve and publish the Group's condensed unaudited consolidated Financial Statements as at 31 March 2007 and for the period ending on that date.

During the period January to March 2007 the Board of Directors held 8 plenary meetings and 28 committee meetings.

Eitan Raff	Galia Maor
Chairman of the Board of Directors	President and Chief Executive Officer

30 May 2007

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported Amounts

	For the three months ended 31 March							
	2007				2006			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Israeli currency - unlinked								
Assets (c) (d)	**91,774**	**1,422**	**6.36**		(i) 87,764	1,398	6.53	
Effect of embedded and ALM derivatives (e)	**27,781**	**715**			16,479	112		
Total assets	**112,533**	**2,137**		**7.82**	104,243	1,510		5.92
Liabilities (d)	**97,217**	**(796)**	**(3.31)**		(i) 86,478	(717)	(3.36)	
Effect of embedded and ALM derivatives (e)	**13,412**	**(571)**			7,327	(13)		
Total liabilities	**110,629**	**(1,367)**		**(5.03)**	93,805	(730)		(3.15)
Interest margin			**3.05**	**2.32**			3.17	2.77
Israeli currency – linked to the CPI								
Assets (c) (d)	**56,690**	**544**	**3.89**		54,867	770	5.73	
Effect of embedded and ALM derivatives (e)	**293**	**6**			226	3		
Total assets	**56,983**	**550**		**3.91**	55,093	773		5.74
Liabilities (d)	**44,174**	**(317)**	**(2.91)**		47,393	(558)	(4.79)	
Effect of embedded and ALM derivatives (e)	**5,544**	**(113)**			3,794	(56)		
Total liabilities	**49,718**	**(430)**		**(3.51)**	51,187	(614)		(4.88)
Interest margin			**0.98**	**0.40**			0.94	0.86
Foreign currency – (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**125,162**	**(206)**	**(0.66)**		(i) 120,325	3,461	12.01	
Effect of derivatives: (e)								
Hedging derivatives	**6,615**	**151**			4,879	28		
Embedded derivatives and ALM	**48,401**	**(624)**			48,269	907		
Total assets	**180,178**	**(679)**		**(1.50)**	173,473	4,396		10.53
Liabilities (d)	**116,827**	**712**	**2.41**		(i) 114,889	(2,928)	(10.59)	
Effect of derivatives: (e)								
Hedging derivatives	**6,295**	**(155)**			4,789	(46)		
Embedded derivatives and ALM	**57,141**	**761**			53,660	(897)		
Total liabilities	**180,263**	**1,318**		**2.89**	173,338	(3,871)		(9.24)
Interest margin			**1.75**	**1.39**			1.42	1.29

See footnotes on page 60.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported Amounts

	For the three months ended 31 March							
	2007				2006			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Total monetary assets generating interest Income (d) (f)	**273,626**	**1,760**	**2.60**		(i) 262,956	5,629	8.94	
Effect of derivatives: (e)								
Hedging derivatives	**6,615**	**151**			4,879	28		
Embedded derivatives and ALM	**76,475**	**97**			64,974	1,022		
Total assets	**356,716**	**2,008**		**2.27**	332,809	6,679		8.27
Total monetary liabilities generating interest expenses (d)	**258,218**	**(401)**	**(0.62)**		(i) 248,760	(4,203)	(6.93)	
Effect of derivatives: (e)								
Hedging derivatives	**6,295**	**(155)**			4,789	(46)		
Embedded derivatives and ALM	**76,096**	**77**			64,781	(966)		
Total liabilities	**340,609**	**(479)**		**(0.56)**	318,330	(5,215)		(6.72)
Interest margin			**1.98**	**1.71**			1.91	1.55
In respect of options		**12**				21		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**1**				1		
Financing commissions and other financing income (g)		**228**				187		
Other financing expenses		**23**				(28)		
Net interest income before provision for doubtful debts		**1,793**				1,645		
Provision for doubtful debts (including general and supplementary provision)		**(11)**				(201)		
Net interest income after provision for doubtful debts		**1,782**				1,444		
Monetary assets generating interest income (d) (f)	**273,626**				262,956			
Assets derived from derivative instruments (h)	**3,726**				3,266			
Other monetary assets (d)	**4,014**				3,568			
General provision and supplementary provision for doubtful debts	**(1,020)**				(1,037)			
Total monetary assets	**280,346**				268,753			
Monetary liabilities generating interest expenses (d)	**258,218**				248,760			
Liabilities derived from derivative instruments (h)	**3,397**				3,145			
Other monetary liabilities (d)	**9,245**				6,872			
Total monetary liabilities	**270,860**				258,777			
Total monetary assets exceed monetary liabilities	**9,486**				9,976			
Non-monetary assets	**9,105**				7,796			
Non-monetary liabilities	**767**				1,587			
Total capital resources	**17,824**				16,185			

See footnotes on page 60.

(a) The data in this exhibit includes before and after the effect of derivative instruments (including the effect of off-balance sheet derivative instruments).

(b) Based on monthly opening balances, and quarterly opening balances in foreign subsidiaries, except for the unlinked Israeli currency sector where the average balance is based on daily figures, and after deduction of the average balance sheet balance of the specific provision for doubtful debts.

(c) The average balance of unrealized profits (losses) from adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets as follows:
The unlinked Israeli currency sector for the three month period amounts to NIS 192 million.
The linked Israeli currency sector for the three month period amounts to NIS 97 million.
The foreign currency sector (which includes Israeli currency linked to foreign currency) for the three month period amounts to NIS (63) million.

(d) Excluding derivative instruments.

(e) Includes hedging derivative instruments (excluding options), embedded derivatives which have been separated, and ALM derivatives, which constitute part of the Bank's asset and liability management system.

(f) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been added to the average balance of the assets in the various sectors.
The three month period amounts to NIS 226 million.

(g) This includes profits and losses on sales of investments in debentures and adjustments to fair value of debentures held for trading.

(h) Includes the average balance for derivative instruments (does not include average of off-balance sheet derivative instruments).

(i) Restated.

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Nominal U.S. $

	For the three months ended 31 March							
	2007				2006			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	($ millions)		%	%	($ millions)		%	%
Foreign currency:								
Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**19,602**	**268**	**5.59**		16,587	189	4.63	
Effect of derivatives: (e)								
Hedging derivatives	**1,568**	**35**			1,051	6		
Embedded derivatives and ALM	**11,427**	**13**			10,354	5		
Total assets	**32,597**	**316**		**3.95**	27,992	200		2.89
Liabilities (d)	**18,347**	**(171)**	**(3.78)**		15,964	(114)	(2.89)	
Effect of derivatives: (e)								
Hedging derivatives	**1,492**	**(37)**			1,032	(10)		
Embedded derivatives and ALM	**13,480**	**5**			11,489	(3)		
Total liabilities	**33,319**	**(203)**		**(2.45)**	28,485	(127)		(1.80)
Interest margin			**1.81**	**1.50**			1.74	1.09
Foreign currency – Foreign operations (integrated operations)								
Assets (c) (d)	**10,052**	**147**	**5.96**		9,415	114	4.92	
Effect of embedded and ALM derivatives (e)	**51**	**14**			43	1		
Total assets	**10,103**	**161**		**6.49**	9,458	115		4.92
Liabilities (d)	**9,342**	**(103)**	**(4.48)**		8,852	(78)	(3.56)	
Effect of embedded and ALM derivatives (e)	**69**	**-**			71	(1)		
Total liabilities	**9,411**	**(103)**		**(4.44)**	8,923	(79)		(3.56)
Interest margin			**1.48**	**2.05**			1.36	1.36
Total:								
Monetary assets in foreign currency generating financing income (c) (d)	**29,654**	**415**	**5.71**		26,002	303	4.73	
Effect of derivatives: (e)								
Hedging derivatives	**1,568**	**35**			1,051	6		
Embedded derivatives and ALM	**13,142**	**27**			10,397	6		
Total assets	**44,364**	**477**		**4.37**	37,450	315		3.40
Monetary liabilities in foreign currency generating financing expense (d)	**27,689**	**(274)**	**(4.01)**		24,816	(192)	(3.13)	
Effect of derivatives: (e)								
Hedging derivatives	**1,492**	**(37)**			1,032	(10)		
Embedded derivatives and ALM	**13,549**	**5**			11,560	(4)		
Total liabilities	**42,730**	**(306)**		**(2.89)**	37,408	(206)		(2.22)
Interest margin			**1.70**	**1.65**			1.60	1.18

See footnotes on page 62.

(a) The data in this exhibit includes before and after the effect of derivative instruments (including the effect of off-balance sheet derivative instruments).

(b) Based on monthly opening balances for the Bank and subsidiaries in Israel and on quarterly opening balances for foreign subsidiaries, and after deduction of the average balance sheet balance of the specific provision for doubtful debts.

(c) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been added to the average balance of the assets for local and foreign operations, in the amount of US$ (15) million.

(d) Excluding derivative instruments.

(e) Includes hedging derivative instruments (excluding options), embedded derivatives which have been separated, and ALM derivatives, which constitute part of the Bank's asset and liability management system.

Certification

I, Galia Maor, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended 31 March 2007 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to prevent the statements included therein from being, in light of the circumstances under which such statements were made, misleading with respect to the period covered by the Report.

3. Based on my knowledge, the Quarterly Financial Statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity of the Bank as of, and for, the periods presented in the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining the disclosure controls and procedures required for the Bank's Report and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and those corporations, particularly during the period in which the Report is being prepared;
   (b) evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and
   (c) disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint External Auditors, the Board of Directors and the Audit Committee of the Board of Directors, based on our most recent evaluation of internal control over financial reporting:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves Management or other employees who have a significant role in the Bank's internal control over financial reporting.

   The above does not prejudice my responsibility or the responsibility of any other person, pursuant to any law.

30 May 2007

Galia Maor
President and Chief Executive Officer

Certification

I, Zeev Nahari, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended 31 March 2007 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to prevent the statements included therein from being, in light of the circumstances under which such statements were made, misleading with respect to the period covered by the Report.

3. Based on my knowledge, the Quarterly Financial Statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity of the Bank as of, and for, the periods presented in the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining the disclosure controls and procedures required for the Bank's Report and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and those corporations, particularly during the period in which the Report is being prepared;
   (b) evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report, based on our evaluation; and
   (c) disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and

5. I and the Bank's other certifying officers have disclosed to the Joint External Auditors, the Board of Directors and the Audit Committee of the Board of Directors, based on our most recent evaluation of internal control over financial reporting:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves Management or other employees who have a significant role in the Bank's internal control over financial reporting.

The above does not prejudice my responsibility or the responsibility of any other person, pursuant to any law.

30 May 2007

Zeev Nahari
Senior Deputy Chief Executive Officer
Head of Finance and Economics Division

ERNST & YOUNG

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 67067, Israel

KPMG

Somekh Chaikin

To the Board of Directors of Bank Leumi le-Israel B.M.

Dear Sirs,

Re: <u>Review of the Unaudited Condensed Interim Consolidated Financial Statements for the three month period ended 31 March 2007</u>

At your request, we have reviewed the condensed interim consolidated balance sheet of Bank Leumi le-Israel B.M. (the "Bank") and its subsidiaries (the "Group") as at 31 March 2007 and the condensed interim consolidated statements of profit and loss and changes in shareholders' equity for the three month period then ended.

Our review was carried out in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel and included, inter alia, reading the said financial statements, reading the minutes of the Shareholders' Meetings and the Meetings of the Board of Directors and its committees, as well as making inquiries of the persons responsible for financial and accounting matters at the Bank.

We were given reports issued by other auditors regarding their review of the condensed interim financial statements of the foreign subsidiaries, whose assets constitute some 2% of the total consolidated assets in the condensed interim consolidated balance sheet as at 31 March 2007, and whose net interest income before provision for doubtful debts constitutes some 1% of the total net interest income before provision for doubtful debts included in the condensed consolidated statement of profit and loss for the three month period then ended.

Since our review was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the interim consolidated financial statements.

In carrying out our review, including reading the above mentioned reports of other auditors, nothing came to our attention to indicate that there is a need for any material modifications in the said condensed interim financial statements in order for them to be considered as interim financial statements that are drawn up in conformity with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

We draw attention to the contents of Note 1B regarding restatement of the financial statements as at 31 March 2006, as a result of revision of the reporting to the public directives in respect of publication of a format for financial statements to the public of credit card companies. Furthermore, we draw attention to the contents of Notes 4 and 6 to the condensed interim financial statements concerning claims against the Bank and against a subsidiary, including applications for their approval as class actions, to the contents of Note 9B concerning claims and uncertainties relating to a company included on equity basis and to the contents of Note 7 regarding charges filed against the Bank, subsidiaries and a number of employees. The Bank is unable to estimate the effect of the said matters on the Bank, if any, on its financial position and on its operating results, and whether or not they will be of a material nature.

Kost Forer Gabbay & Kasierer	**Somekh Chaikin**
Certified Public Accountants (Isr.)	**Certified Public Accountants (Isr.)**

30 May 2007

Condensed Consolidated Balance Sheet as at 31 March 2007
Reported amounts

	31 March 2007	31 March 2006	31 December 2006
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Assets			
Cash and deposits with banks	**45,281**	35,568	47,609
Securities	**47,211**	48,365	46,375
Securities borrowed or purchased under agreement to resell	**108**	-	-
Credit to the public	**185,848**	(a) 181,458	183,800
Credit to governments	**781**	808	1,020
Investments in companies included on the equity basis	**1,781**	1,255	1,251
Buildings and equipment	**3,120**	2,894	3,056
Other assets	**6,159**	(a) 6,146	6,230
Total assets	**290,289**	276,494	289,341
Liabilities and equity capital			
Deposits of the public	**226,861**	221,807	231,823
Deposits from banks	**13,320**	4,423	5,241
Deposits from governments	**1,905**	2,173	2,146
Securities loaned or sold under agreement to repurchasel	**116**	-	-
Debentures, bonds and subordinated notes	**15,803**	16,889	15,622
Other liabilities	**13,633**	(a) 13,767	16,866
Total liabilities	**271,638**	259,059	271,698
Minority interest	**152**	152	152
Shareholders' equity	**18,499**	17,283	17,491
Total liabilities and equity capital	**290,289**	276,494	289,341

(a) Restated.

The accompanying notes are an integral part of these Financial Statements.

Eitan Raff	**Galia Maor**	**Zeev Nahari**
Chairman of the Board of Directors	President and Chief Executive Officer	Deputy Chief Executive Officer Head of Finance and Accounting Division

Date of approval of the Financial Statements: 30 May 2007

Condensed Consolidated Statement of Profit and Loss
For the Period Ended 31 March 2007
Reported Amounts

	For the Three Months Ended 31 March		For the Year Ended 31 December
	2007	2006	2006
	(Unaudited)		(Audited)
	(NIS millions)		
Net interest income before provision for doubtful debts	**1,793**	1,645	6,922
Provision for doubtful debts	**11**	201	933
Net interest income after provision for doubtful debts	**1,782**	1,444	5,989
Operating and other income			
Operating commissions	**825**	742	3,003
Profits from investments in shares, net	**82**	4	128
Other income	**81**	194	740
Total operating and other income	**988**	940	3,871
Operating and other expenses			
Salaries and related expenses	**1,027**	1,189	4,552
Building and equipment maintenance and depreciation	**296**	287	1,220
Other expenses	**307**	345	1,485
Total operating and other expenses	**1,630**	1,821	7,257
Operating profit before taxes	**1,140**	563	2,603
Provision for taxes on operating profit	**520**	240	1,320
Operating profit after taxes	**620**	323	1,283
Equity in after-tax operating profit of companies included on the equity basis	**39**	78	171
Minority interest in after-tax operating losses (profits) of subsidiaries	**(1)**	(1)	-
Net operating profit	**658**	400	1,454
After-tax profit from extraordinary items	**259**	712	2,080
Net profit for the period	**917**	1,112	3,534
	(NIS)		
Profit per share			
Net operating profit	**0.47**	0.29	1.03
After-tax profit from extraordinary items	**0.18**	0.50	1.47
Total	**0.65**	0.79	2.50
	(Thousands)		
Number of shares for the purpose of the above calculation	**1,414,233**	1,414,233	1,414,233

The accompanying notes are an integral part of these Financial Statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity
For the Period Ended 31 March 2007
Reported Amounts

	For the Three Months Ended 31 March					
	2007			2006		
	(Unaudited)					
	Capital and capital reserves	Retained earnings	Total shareholders' equity	Capital and capital reserves	Retained earnings	Total shareholders' equity
	(NIS millions)			(NIS millions)		
Balance at the beginning of the period	**7,405**	**10,086**	**17,491**	7,010	8,990	16,000
Net profit for the period	**-**	**917**	**917**	-	1,112	1,112
Benefit inherent in the allotment of share options to employees	**18**	**-**	**18**	(b) 33	(b) -	33
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**50**	**50**	-	245	245
Related tax effect	**-**	**(33)**	**(33)**	-	(100)	(100)
Translation adjustments for companies included on the equity basis	**-**	**(11)**	**(11)**	-	(12)	(12)
Loans to employees for purchase of Bank`s shares	**-**	**67**	**67**	-	5	5
Balance at the end of the period	**7,423**	**(a) 11,076**	**18,499**	7,043	(a) 10,240	17,283

	For the Year Ended 31 December 2006 (Audited)		
	Capital and capital reserves	Retained earnings	Total shareholders' equity
	(NIS millions)		
Balance as at 1 January 2006	7,010	8,990	16,000
Net profit for the year	-	3,534	3,534
Proposed dividend	-	(2,500)	(2,500)
	395	-	395
Adjustments in respect of presentation of securities available for sale at fair value	-	876	876
Related tax effect	-	(299)	(299)
Translation adjustments for companies included on the equity basis	-	(61)	(61)
Loans to employees for purchase of Bank's shares	-	(454)	(454)
Balance as at 31 December 2005	7,405	(a) 10,086	17,491

(a) The retained earnings at the end of the period include:

1. Adjustments from translation of the financial statements of autonomous foreign investees in the amount of NIS (414) million (NIS (354) million as at 31 March 2006 and NIS (403) million as at 31 December 2006).
2. Adjustments in respect of presentation of securities available for sale at fair value, less related taxation, in the amount of NIS 640 million (NIS 191 million as at 31 March 2006 and NIS 623 million as at 31 December 2006).

(b) Reclassified.

The accompanying notes are an integral part of these Financial Statements.

NOTES

1. The Condensed Consolidated Interim Financial Statements to 30 March 2007 have been prepared in accordance with accounting principles adopted for the preparation of interim reports. The accounting principles used in preparing the interim reports are consistent with those used in preparing the audited Financial Statements as at 31 December 2006, except as mentioned in Note 1A below. These Statements should be read in conjunction with the Annual Financial Statements as at 31 December 2006 and for the year ended on that date, and their accompanying Notes**.**

   A. Circular of the Supervisor of Banks regarding "Transfers and Service of Financial Assets and Discharge Liabilities."

   The Bank is implementing the circular of the Supervisor of Banks, which determines an amendment to the directives on reporting to the public with regard to "Transfers and Service of Financial Assets and Discharge of Liabilities." The directives determined in this circular adopt the measurement and disclosure principles of the American Standard FAS 140 - "Accounting Principles for Transfers of and Service of Financial Assets and Discharge of Liabilities", distinguishing between transfers of financial assets to be recorded as a sale and other transfers. In light of that stated above, the principle was adopted pursuant to which a transferred financial asset will be presented in the balance sheet of the party controlling it, whether it is the transferor of the asset or the recipient of the asset. Regarding this matter, the directives include detailed control tests relating to repurchase transactions, loans of securities, securitization of loans, sales and participation in loans.

   The amendments to the reporting to the public directives apply to all banks with respect to transactions involving loans of securities, repurchase of securities, securitization of financial assets, other transfers of financial assets, provision of service to financial assets and discharge of liabilities, made after 31 December 2006.

   B. **Comparative figures and re-statement**

   The financial statements indicate comparative figures that have been re-stated**.** Furthermore, following the circular of the Supervisor of Banks regarding credit card companies, the credit to the public and the other liabilities items were restated in the balance sheet as at 31 March 2006 so as to include in them open credit card transactions, which until the publication of the directive were presented as off-balance sheet financial instruments. The figures were amended in accordance with the transitional guidelines and directives on the matter. The restatement had no effect on the profit and loss statements.

   The following table indicates the effect on the financial statements as at 31 December 2006, in millions of shekels:

	As previously reported	**The Change**	**As presented in these Financial Statements**
Credit to the public	177,584	3,874	181,458
Other assets	6,525	(379)	6,146
Other liabilities	10,272	3,495	13,767

2. **Future Application of New Accounting Standards:**

   A. Accounting Standard No. 29 - "Adoption of International Financing Reporting Standards (IFRS)"

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 - “Adoption of International Financing Reporting Standards (IFRS)” (the "Standard"). The Standard prescribes that entities that are subject to the Securities Law - 1968, and are obliged to report in accordance with the regulations issued under the said Law, shall prepare their financial statements in accordance with IFRS for the periods commencing from 1 January 2008. This does not apply to banking corporations, the financial statements of which are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

With respect to the manner in which Standard 29 is to be adopted by banking corporations, the Supervisor of Banks notified the banks as follows:

1) He intends to provide, on a regular basis, directives regarding the adoption of Israeli standards published by the Israel Accounting Standards Board that are based on IFRS and are not related to the core of the banking business.

2) In the second half of 2009 he will publish his decision regarding the date of adopting IFRS related to the core of the banking business. He will do this taking into account the results of the adoption of these standards in Israel on the one hand, and the progress made in the convergence process between IFRS and American standards on the other hand.

3) Therefore, with respect to the core of the banking business, the financial statements of a banking corporation that are prepared in accordance with the directives and guidelines of the Supervisor of Banks will continue to be prepared according to the American standards provided in the directives dealing with reporting to the public.

B. Accounting Standard No. 27 - “Fixed Assets”

In August 2006, the Israel Accounting Standards Board published Accounting Standard No. 27, “Fixed Assets” (“Standard 27”). Standard 27 sets rules for recognizing, measuring and subtracting fixed asset items and the disclosure required in respect thereof. Standard 27 provides, *inter alia,* that at the time of initially recognizing a fixed asset item, the entity must estimate and include as part of the costs of the item, the costs which will be attributed to it due to a commitment to dismantle and transfer the item and restore the site in which it is located. Standard 27 also provides that a group of similar fixed asset items will be measured according to cost less accrued depreciation and less losses incurred from declines in value, or, alternatively, at a revalued amount less accrued depreciation, while an increase in the value of the asset above the initial cost as a result of the revaluation is credited directly to shareholders' equity in the revaluation fund item. Each part of fixed assets, whose cost is significant in relation to the total cost of the item, will be depreciated separately, including the costs of significant periodic inspections. Further, Standard 27 provides that a fixed asset item that was acquired in consideration for another non-monetary item within the framework of a transaction of a commercial nature will be measured according to fair value.

Standard 27 shall apply to the financial statements for periods that commence from 1 January 2007.

As of the date of publishing the Financial Statements, the Supervisor of Banks has not yet published directives with regard to the manner in which Standard 27 is to be adopted by banking corporations, if at all.

C. Accounting Standard No. 23 – “The Accounting Treatment of Transactions between an Entity and its Controlling Shareholder”

In December 2006 the Israel Accounting Standards Board published Accounting Standard No. 23, “The Accounting Treatment of Transactions between an Entity and its Controlling Shareholder” ("Standard 23"). Standard 23 effectively replaces the main provisions of the Securities Regulations (Financial Statement Presentation of Transactions between a Company and its Controlling Shareholder), as adopted in the reporting to the public directives of the Supervisor of Banks.

Standard 23 provides that assets (other than an intangible asset with no active market) and liabilities included in a transaction between the entity and its controlling shareholder shall be measured on the date of the transaction at fair value and that the difference between the fair value and the consideration from the transaction shall be included in shareholders' equity. A debit difference effectively constitutes a dividend and accordingly reduces the retained earnings. A credit difference effectively constitutes an investment of the shareholder and shall therefore be presented under a separate item of shareholders' equity called "capital reserve from transaction between an entity and its controlling shareholder."

Standard 23 discusses three issues relating to transactions between an entity and its controlling shareholder, as follows: the transfer of an asset to the entity by the controlling shareholder, or alternatively, the transfer of an asset from the entity to the controlling shareholder; the assumption by the controlling shareholder of all or part of a liability of the entity to a third party, indemnification of the entity by the controlling shareholder in respect of an expense, and the waiving by the controlling shareholder of all or part of the entity's debt to it; and loans that were granted to the controlling shareholder or loans that were received from the controlling shareholder. Standard 23 also determines the disclosure that is to be made in the financial statements regarding transactions between the entity and its controlling shareholder during the period.

Standard 23 applies to transactions between an entity and its controlling shareholder that are executed after 1 January 2007 and to a loan that was granted to a controlling shareholder or that was received from it before the date this standard came into effect, as from the date of it coming into effect.

As at the date of publishing the Financial Statements, the Supervisor of Banks has not yet published directives regarding the manner in which Standard 23 should be adopted by banking corporations, if at all.

D. Accounting Standard No. 16 – "Real Estate for Investment"

In February 2006 the Israel Accounting Standards Board published Accounting Standard No. 16, "Real Estate for Investment" ("Standard 16"). Standard 16 provides rules for recognition, measurement and disposal of real estate and the proper disclosure in respect thereof. Standard 16 provides, among other things, that real estate for investment is to be measured initially at cost plus transaction costs. In addition, Standard 16 provides that in succeeding periods, the entity is to choose between measurement of all its real estate for investment at cost less accumulated depreciation and less losses from a decline in value, or measurement based on fair value, where updates of such fair value are to be recorded in the profit and loss statement.

Standard 16 applies to financial statements for periods beginning on 1 January 2007 and thereafter.

An entity initially electing on 1 January 2007 to use the "fair value model" for measurement of real estate for investment is to record the difference between the fair value of the real estate for investment as at such date and the cost thereof in the books to the opening surpluses balance.

As at the date of publishing the Financial Statements, the Supervisor of Banks has not yet published directives regarding the manner in which Standard 16 should be adopted by banking corporations, if at all.

E. Accounting Standard No. 30 - "Intangible Assets"

In March 2007, the Israel Accounting Standards Board published Standard Number 30, "Intangible Assets" ("Standard 30"). Standard 30 describes the accounting treatment of intangible assets and prescribes the method according to which their value is to be measured in the accounts; it also details the required disclosures. The standard will at first be implemented retroactively, except as described below. Regarding business combinations, Standard 30 is applied to such combinations if they take place on 1 January 2007 or afterwards. With regard to an in-process research and development project which is acquired in the framework of a business combination that took place before 1 January 2007, which fits the definition of an intangible asset on the date of the acquisition, and which is recorded as an expense on the date of the acquisition, the entity will recognize the in-process research and development project on 1 January 2007, while attributing relevant taxes.

A research and development project will be recognized according to the amount estimated at the time of the acquisition, less depreciation that would have been accumulated had the project been depreciated from the time of the acquisition until 31 December 2006, in accordance with the asset's useful life and less the accumulated losses from a decline in value. The amount of the adjustment will be charged to the surpluses balance on 1 January 2007.

As at the date of publishing the Financial Statements, the Supervisor of Banks has not yet published directives with regard to the manner in which Standard 30 is to be adopted by banking corporations, if at all.

3. In the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including petitions for approval of class actions.

In the opinion of the Management of the Bank and the managements of the consolidated companies, based on legal opinions regarding the chances of the claims succeeding, including the petitions for approval of class actions, appropriate provisions were recorded in the Financial Statements, insofar as required, to cover damages resulting from the said claims.

In the opinion of the Management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and against the consolidated companies on various subjects, the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to some NIS 65 million.

The following are details of claims in material amounts.

A. In September 1997, a foreign company in the process of liquidation filed a claim against the Bank, against a subsidiary of the Bank (Bartrade International Trade and Financing (83) Ltd.) and against certain of their employees, in the amount of some NIS 153 million as of the date of filing the claim. The claim relates to a transfer of US$ 43.4 million by the foreign company to an account with the Bank in the name of a manager of the foreign company. The liquidator of the foreign company claims, *inter alia*, that the defendants acted in such a way that enabled the manager of the foreign company to steal the said amount from it.

B. On 15 June 2000, a claim was filed against the Bank in the Tel Aviv-Jaffa District Court, together with a petition to approve the claim as a class action, in the amount of NIS 1 billion.

The plaintiff alleges that the Bank, in its various publications, promised depositors of shekel deposits made by self service through direct banking channels, that they would receive a preferred annual interest rate of 1% over the accepted rate, and that the various publications and the information provided to the depositors at the time of the original deposit misled the depositors into thinking that the 1% additional interest would be paid also in respect of the periods in which the deposit is automatically renewed and not only in respect of the original deposit period, as is the actual case.

Accordingly, the plaintiff is requesting that the Bank pay to it and all the relevant depositors being represented, the preferred interest also in respect of the periods in which the deposits were automatically renewed. In December 2003 the Court approved the claim as a class action. The Bank submitted an appeal on the decision to the Supreme Court, which has not yet rendered a ruling on the matter.

C. On 14 October 2004 a petition to approve a claim as a class action in the amount of some NIS 2 billion was filed against the Bank with the Tel Aviv-Jaffa District Court on the basis of the Banking (Service to Customer) Law - 1981 and Regulation 29 of the Civil Procedure Regulations - 1984.

The subject of the claim was originally the allegations of the petitioner that he and all other customers of the Bank were charged fixed management fees, credit provision fees and securities deposit management fees illegally and contrary to the exemptions indicated beside the fees on the Bank's price list. The petitioner maintains that the Bank misled its customers and breached the disclosure duties owed to them, and breached contractual obligations to them by charging them the fees, despite the fact that according to the Bank's price list they were entitled to exemptions from the payment of such fees. The petitioner is also claiming that as such the Bank was unlawfully enriched.

On 19 December 2004 the Bank submitted to the Court its response to the petition to approve the claim as a class action, and on 24th February 2005 the petitioner's reply to the Bank's response to the petition for approval of a class action was filed. On 20 September 2005 a petition was filed with the Court to amend the statement of claim, pursuant to which the petitioner requested to strike out all that part of the claim relating to the securities deposit management fee commission. The Court approved the request for such amendment and the amount of the claim was reduced to some NIS 1.12 billion. As a result of the amendment, on 19 December 2005 the Bank submitted an amended response to the amended petition for approval of the claim as a class action. On 20 March 2006 an amended reply of the petitioner was filed. Hearing of evidence has commenced.

D. In June 2005, a petition for the approval of the filing of a class action was filed against the Bank in the Tel Aviv-Jaffa District Court in the amount of NIS 576 million.

The petitioner claims that the Bank did not stand by promises advertised on its internet site during the years 2002 to 2004 (inclusive), regarding interest benefits on certain deposits made through the internet. The petitioner is demanding that the Bank pay him and all depositors through the internet who did not receive the promised benefits as advertised, the damages that they suffered as a result of non-receipt of such promised benefits.

On 3 October 2005 the Bank filed a response to the petition to approve the claim as a class action, and on 20 November 2005 the petitioner's reply to the Bank's response was filed. A date for the hearing of the petition has not yet been fixed.

E. On 7 August 2005 a claim was filed in the Tel Aviv-Jaffa District Court to approve a claim as a class action against the Bank, based on the assertion that until January 2003 the Bank did not credit its customers with a proportionate part of the amounts of the commission that they paid for bank guarantees that were issued at their request and the amount whereof was reduced prior to the end of the guarantee period.

The Plaintiffs assert that the amount of the claim exceeds NIS 2.5 million.

F. In February 2006 a petition for the approval of filing a class action was filed against the Bank by a customer of the Bank in the Tel Aviv-Jaffa District Court, in an amount estimated by the petitioner at some NIS 300 million.

According to the petitioner, in the framework of the sale of "structured products" to Bank customers, the Bank does not disclose the full pricing and charges a hidden "commission" that is expressed in a financial margin which inures to the benefit of the Bank in the transaction, which in the petitioner's view contradicts the requirement for disclosure imposed upon the Bank in accordance with the law.

The group to which the requested class action relates, according to the claim, is made up of all Bank customers who invested in various "structured products" marketed by the Bank, from January 1999 until January 2006, and to whom the Bank did not disclose what allegedly should have been disclosed.

On 30 August 2006, the Bank filed a response to the petition for the approval of the claim as a class action.

4. In addition, there are legal claims pending against the Bank, including petitions for approval of class actions, as detailed below. In the opinion of the Management of the Bank, based on legal opinions with regard to the chances of the claims, it is not possible at this stage to estimate the chances of the claims and therefore no provision has been recorded in respect thereof.

The following are the details of the legal claims:

A. On 12 September 2006, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim B.M. and Israel Discount Bank Ltd. The amount claimed in the class action for which approval has been requested is NIS 7 billion, while in the body of the claim, it is contended that the damage to the claimed group amounts to NIS 10 billion. No specific sum of the amount of the claim has been clearly attributed to each respondent. According to the petitioner, the respondent banks charged their customers with interest for unlinked shekel credit, a commission for credit allotment and fixed management fees with regard to debitory current accounts at identical rates and amounts, as a result of price coordination and a restrictive arrangement, which are prohibited under the Restrictive Trade Practices Law. The petitioner is not a customer of the Bank but of the other banks, but is claiming that she suffered damages due to the Bank's being a party to the alleged restrictive arrangement. The remedy requested by the petitioner is refund of the alleged over-charging to the respondent customers, who took unlinked shekel credit or a “retroactive reduction” of the aforementioned interest and commission rates that the respondent banks collected during the past decade. The Bank has not yet filed a response.

In the opinion of the Management of the Bank, based on the opinion of its legal advisers, the chances of the petition cannot be estimated at this early stage.

B. On 23 November 2006, a claim and a request to approve the claim as a class action were filed in the Jerusalem District Court against the Bank and against Bank Hapoalim B.M. and Israel Discount Bank Ltd. The petitioners allege that in respect to credit to the household sector, the banks collect interest at a rate that is much higher than that collected from the commercial sector and from the corporate sector, this in spite of the fact that the risk in extending credit to the household sector is significantly lower than the risk for those sectors, and that this excessive interest rate derives from the exploitation of the minimal bargaining power of the household sector and from the monopolistic power of the respondents. The petitioners allege that this is an infringement of the Restrictive Trade Practices Law - 1988, which prohibits a monopolist from abusing its position in the market, and that there is a real suspicion that the lack of competition among the respondents, regarding everything concerning the household sector, is the result of a restrictive arrangement among the parties.

The petitioners also allege that the interest rate is determined while misleading the consumers regarding the acceptable price for the credit service to the household sector, contrary to the provisions of the Consumer Protection Law - 1981 and the Banking (Service to Customer) Law - 1981.

The petitioners allege that the damage caused to them and the members of the group is the result of a multiple of (1) the gap between the interest rate effectively collected and the fair interest rate that would have been established for loans to the household sector in a competitive market, (2) the amounts of credit that each of the petitioners and members of the group took during the seven years preceding the filing of the claim.

The damage alleged by them is NIS 5.581 billion according to one method, and NIS 5.206 billion according to a second method, where out of this amount, the estimated damage attributed to the Bank's customers is at least NIS 1.550 billion.

In the opinion of the Bank's management, which is based on the opinion of the Bank's legal advisors, it is not possible at this preliminary stage to estimate the chances of the request.

C. On 31 January 2007, a petition to approve a class action was filed in the Tel-Aviv-Jaffa District Court against the Bank, as well as against Israel Discount Bank Ltd. and the First International Bank of Israel Ltd. One of the petitioners is, he alleges, a member of a provident fund which he claims is managed by the Bank and is under its ownership. The aforesaid petitioner alleges that the commissions being paid by the provident funds to the Bank in respect to transactions in securities are “excessive.” He claims that damages have been caused to him and the other fund members due to the amount of commissions that were paid, beyond "reasonable and acceptable commissions that should have been paid.” The amount being claimed in the class action from all of the respondents is NIS 200 million. The petitioners are asking for various remedies, among them the determination of a maximum ceiling for commissions in accordance with "an appropriate rate,” as well as an instructions to the Bank to restore to the funds all of the commissions that it over-charged the funds, in addition to appropriate interest.

In the opinion of the Bank's management, which is based on the opinion of the Bank's legal advisors, it is not possible at this early stage to estimate the chances of the request.

D. On 1 April 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, additional banks, and entities that purchased the control of the mutual fund managers from the banks. The amount claimed against the Bank is estimated by the petitioners at some NIS 131 million.

The petitioners claim that they held and hold mutual fund units that were managed by fund managers controlled by the Bank. According to the petitioners, the Bank, beginning in 2004, collected brokerage commissions from the fund managers it controlled with respect to the execution of securities and foreign currency transactions, at a rate higher than the rate it charged other entities, and in doing so, it acted unlawfully.

According to them, although during 2006 the Bank sold its holdings in the fund managers to third parties, it continues to provide the same services to the mutual funds in exchange for even higher commissions than those charged prior to the sale of the control, and the continued provision of the said services suggests that the Bank and the purchasers of the control of the fund managers had agreed that in exchange for a reduction in the price paid for a mutual fund manager, the Bank would continue to provide the trading services that it had provided prior to the sale, in exchange for the high commissions that had been charged up until the sale – a matter which removes all substance, they allege, from the sale of the control of the fund managers.

The petitioners argue that they and the other holders of mutual fund units that were or are under the Bank’s control have suffered damages that reflect the reduction in the value of the mutual fund units due to the alleged over-charging.

In the opinion of the Bank's management, which is based on the opinion of the Bank's legal advisors, it is not possible at this early stage to estimate the chances of the request.

5. The following are details of requests for approval of class actions in material amounts that were submitted against Leumi Mortgage Bank Ltd. ("Leumi Mortgage Bank"). In the opinion of the Management of the Bank, and in reliance on the opinion of the Management of Leumi Mortgage Bank, which is based on the opinion of Leumi Mortgage Bank's legal advisers as to the chances of these proceedings, appropriate provisions have been included in the Financial Statements, insofar as required, to cover damages resulting from such claims:

A. On 21 June 2000, a petition for approval of a class action was filed against Leumi Mortgage Bank in the Tel Aviv-Jaffa District Court based on the Banking (Service to Customer) Law - 1981, Regulation 29 of the Civil Procedure Regulations - 1984, and the Supervision of Insurance Practices Law -1981. The amount of the claim for which approval as a class action was requested is estimated by the petitioners at some NIS 100 million.

The petitioners, who took out loans from Leumi Mortgage Bank, are making claims regarding the value of buildings for purposes of property insurance in the framework of loans taken from Leumi Mortgage Bank. According to the petitioners, Leumi Mortgage Bank or its representative prepared an excessive valuation of the buildings, resulting in overpayment of premiums by Leumi Mortgage Bank customers. The petitioners contend that this was also done in their case. In accordance with the decision of the District Court, the hearing on the claim was stayed until the appeals regarding the matter reviewed in paragraph 6.A. below are decided.

B. On 3 July 2001, a petition was filed in the Tel Aviv-Jaffa District Court for approval of a class action based on the Banking (Service to Customer) Law - 1981, the Restrictive Trade Practices Law - 1988, and Regulation 29 of the Civil Procedure Regulations - 1984.

The amount of the class action the approval of which is requested is estimated by the petitioner at some NIS 180 million as of the date of submission of the claim.

The subject of the claim is claims of alleged overcharging by Leumi Mortgage Bank of its borrowers who took out loans at variable interest. The petitioner took out a loan from Leumi Mortgage Bank at variable interest. The petitioner is claiming that the interest according to which Leumi Mortgage Bank updates loans at variable interest is excessive and collected illegally, due to it being based on misleading information which misled borrowers, the existence of a syndicate between the mortgage banks which caused a limit to the supply of loans at variable interest and to their quality and variety, and a series of other claims.

In addition to monetary relief, additional relief was requested including declarative relief and determination of various rights for borrowers in accordance with the loan agreement.

On 3 June 2003 the Court dismissed the petition for approval of the claim as a class action. On 23 September 2003 the petitioner appealed the said decision to the Supreme Court. On 30 June 2004 the Supreme Court decided to stay the continuation of the hearing of the appeal in order to await a decision in an additional hearing regarding Regulation 29 of the Civil Procedure Regulations - 1984 (file no. 5161/03) that was meanwhile handed down on 1 September 2005. In short, the judgement states that although interpretive means may be utilized to convert Regulation 29 into an instrument for submission of class actions, such utilization was not appropriate at that time, taking into consideration the legislative procedures underway in the field of class actions. Accordingly, it was agreed, with the parties' consent, that the matter of Regulation 29 would be struck from the appeal.

On 12 March 2006, the Class Actions Law - 2006 (the "Law") was published. The object of the Law is to regulate uniform rules relating to the filing and conduct of class actions.

The Law provides that a class action may not be filed except with respect to a type of claim specified in the schedule to the Law, or pursuant to an express statutory provision. The matters in respect whereof a class action may be filed on the basis of the Law include "a claim against a banking corporation in connection with a matter between it and a customer, irrespective of whether they entered into a transaction or not." The Law provides that in principle its provisions shall also apply to petitions to approve a class action and to class actions that were pending before the court on the day the Law was published. At the same time, the Law repeals the provisions in the Banking Law (as well as in the Restrictive Trade Practices Law and in additional laws) that enable the filing of class actions. The Law also lays down provisions as to the prescription of causes of action that had not been established in specific arrangements that enabled the filing of a class action prior to its enactment (such as the arrangements pursuant to the Banking Law or the Restrictive Trade Practices Law) and that were included in petitions to approve class actions that were submitted prior to the publication of the Law. On 24 April 2006 the Supreme Court ruled that the parties should submit their summations as to the applicability of the Law to the proceeding before it, and if the Law in fact applies - its implications on the petition. A hearing in the appeal has been fixed for 15 October 2007.

C. On 7 July 2003 a petition for approval of a class action was filed in the Tel Aviv-Jaffa District Court against Leumi Mortgage Bank and against the Director of Stamp Duty based on the Banking (Service to Customer) Law - 1981, and Regulation 29 of the Civil Procedure Regulations -1984.

The petitioner claims as follows: that he received a loan from Leumi Mortgage Bank; according to the law, Leumi Mortgage Bank was required to stamp the loan documents; Leumi Mortgage Bank charged the petitioner a higher amount than the legally required stamp duty, which was calculated according to the total amount of the loan repayments, including interest in respect thereof, over the entire loan period; the correct amount of stamp duty should be calculated according to the amount of the loan, without taking interest into account; Leumi Mortgage Bank made misleading representations to the petitioner, according to which the stamp duty that was required from the petitioner was the legally required amount.

The relief requested is for the refund, by Leumi Mortgage Bank and the Director of Stamp Duty, to the group of petitioners, of the difference between the actual stamp duty and the amount claimed by the petitioner.

The amount of the class action whose approval is requested is estimated by the petitioner at some NIS 100 million. With the consent of the parties, Leumi Mortgage Bank has not yet submitted its response to the petition. The hearing of the case has been combined with similar petitions which have been filed against additional banks. No date has yet been set for the hearing.

D. On 27 March 2006, a petition was filed against Leumi Mortgage Bank in the Tel Aviv-Jaffa District Court to approve a class action with regard to an alleged overcharging of stamp duty.

The estimated amount of the class action against Leumi Mortgage Bank is asserted in the petition to be NIS 22 million.

The petition was filed by a person who took a loan from Leumi Mortgage Bank and who contends that Leumi Mortgage Bank charged customers who had taken loans from it, stamp duty in respect of the amount of the interest that is added to the loans. As is asserted in the petition, the claim involves overcharging since Leumi Mortgage Bank should have only charged stamp duty in respect of the amount of the loan's principal.

It should be noted that a petition is pending against Leumi Mortgage Bank to approve a class action in an asserted amount of some NIS 100 million, that was filed against it and against the Director of Stamp Duty on 7 July 2003, in which overcharging of stamp duty is also asserted, which it is contended was effected by charging stamp duty in respect of the interest component of the loan (see paragraph 5.C above for further details of the matter). It is contended in the 2006 petition that it relates to a charge period that is different from that asserted in the 2003 petition to approve a class action with regard to stamp duty that is already pending against Leumi Mortgage

Bank. The date for filing a response by Leumi Mortgage Bank has been postponed to the date to be fixed for the filing of Leumi Mortgage Bank's response to the petition described in paragraph 5.C. above.

In the opinion of the Management of the Bank, based on the opinion of the Management of Leumi Mortgage Bank, which is based on the opinion of Leumi Mortgage Bank's legal advisors, in light of the preliminary stage of the proceedings, the chances of the claim cannot be estimated.

6. In addition, the petitions for approval of class actions set out below are pending against Leumi Mortgage Bank. In the opinion of the Management of the Bank, in reliance on the opinion of the Management of Leumi Mortgage Bank, which is based on the opinion of the legal advisors of Leumi Mortgage Bank with regard to the chances of these legal proceedings, it is not possible at this stage to estimate their chances and therefore no provision has been recorded. .The following are details of the legal proceedings:

A. On 17 July 1997 a petition for approval of a class action in an amount exceeding NIS 1 billion was filed with the Tel Aviv-Jaffa District Court against Leumi Mortgage Bank and against other mortgage banks in connection with collection of borrowers' life insurance and property insurance commissions. Each of the petitioners took out a loan from one of the respondent mortgage banks. According to the petitioners, in the context of taking out the loan, they were included in life insurance or property insurance policies taken out through the banks and, according to their assertions, part of the insurance premiums illegally reached the respondent banks.

On 17 November 1997 the Court ruled that the claim could not be heard as a class action according to the Banking (Service to Customer) Law - 1981, and the Restrictive Trade Practices Law - 1988. Accordingly, the Court struck off the monetary claim.

Nevertheless, the Court decided that the claim could be heard in the framework of Regulation 29 of the Civil Procedure Regulations - 1984, but only with regard to the claim for declaratory relief relating to causes of action that had arisen before 10 May 1996. The Court ruled that the causes of action that could be heard in this framework related to the "restrictive arrangement and various insurance issues."

Appeals to the Supreme Court submitted against this decision by Leumi Mortgage Bank, all the other respondent mortgage banks and the petitioners are pending. Pursuant to the decision of the Supreme Court, the District Court's decision was stayed. Accordingly, the claim will not be determined until the Supreme Court rules with regard to all the appeals.

On 1 September 2005 the Supreme Court handed down a judgement in which it was determined, in short, that although it was possible to utilize interpretive means to convert Regulation 29 into an instrument for submission of class actions, such utilization was not appropriate at that time, taking into consideration the legislative procedures underway in the field of class actions. On 12 March 2006 the Class Actions Law was published. For details of the Law, see paragraph 5.B above.

In the opinion of the Management of the Bank, based on the opinion of Management of Leumi Mortgage Bank, which is based on the opinion of its legal advisors, it is not possible at this stage to estimate the chances of the appeals.

B. On 10 June 2003, an additional petition for approval of a class action was filed in the Tel Aviv-Jaffa District Court against Leumi Mortgage Bank regarding alleged over-charging of borrowers who took out loans at variable interest. Although the petition and the claim are stated unclearly, it appears that (at least partial) overlapping exists with the arguments basing the proceeding mentioned in paragraph 5.B above, the requested relief and the group of petitioners.

The amount of the class action whose approval is requested is estimated by the petitioners at some NIS 90 million.

In light of the (at least partial) overlapping between the petition for approval of the class action reviewed here and the petition for approval of the class action reviewed in paragraph 5.B above, it was agreed between the parties to stay the proceedings in the claim until after clarification of the appeal submitted in connection with the proceeding mentioned in paragraph 5.B above. The Court was informed of this agreement and, accordingly, a response has not yet been submitted to the petition for approval of a class action.

In the opinion of the Management of the Bank, based on the opinion of the Management of Leumi Mortgage Bank, which is based on the opinion of its legal advisors, in light of the preliminary stage of the proceedings, the chances of the claim cannot be estimated.

C. On 2 December 2006, a request to approve a class action was filed in the Tel-Aviv - Jaffa District Court against the Leumi Mortgage Bank and against the Migdal Insurance Company Ltd. ("Migdal") regarding the payments of partial life insurance compensation. The estimated amount for the class action, as claimed by the petitioner, is NIS 150 million.

The petitioner and her deceased spouse took out a loan from Leumi Mortgage Bank. According to what is alleged in the request: borrowers who took out a loan from the Leumi Mortgage Bank were able to join a life insurance arrangement for borrowers, in which the insurer was Migdal; numbered among the borrowers who joined the aforesaid life insurance are borrowers who, when an insurance event occurred, received partial insurance compensation at a rate lower than the amount of the insurance and of the balance of the loan; contrary to the amount actually paid, Leumi Mortgage Bank and Migdal had promised to pay the insured-borrower parties, as stated "insurance compensation at the rate of the loan balance that is due or at the rate of the amount of insurance (the lower among them)" - so alleges the petitioner.

According to Management of the Bank, in reliance on the opinion of management of Leumi Mortgage Bank, based on the opinion of its legal advisors, it is not possible at this early stage to estimate the chances of the claim.

7. In March 2007, an indictment was filed against the Bank, Leumi L.P. Ltd. (formerly Leumi-Pia Trust Management Co. Ltd.), Leumi Management Ltd. (formerly Psagot Managers of Mutual Funds - Leumi Ltd.) and Leumi Securities and Investments Ltd. (formerly Psagot Ofek Investment House Ltd.), subsidiaries of the Bank, and against a number of employees of the Bank and of the said companies at the time of the offense attributed to them, in respect of a breach of section 82 of the Joint Investment Trust Law - 1984 as worded at the time of the alleged offense, together with section 29(b) of the Penal Law - 1977.

Some of the employees, who are licensed investment counselors, were notified that the Israel Securities Authority is considering suspending their licenses until the conclusion of the above proceedings, and that they will be given an opportunity of stating their case against such suspension.

In the opinion of the Bank, based on the opinion of its legal advisors, it is not possible at this early stage to estimate the results of this proceeding.

8. Capital Market Reform Legislation

On 9 November 2004, the committee appointed by the Minister of Finance for the purpose of examining and recommending the steps required in order to intensify competition in the Israeli capital market published its recommendations. The government approved the committee's recommendations.

Following the committee's recommendations, on 10 August 2005, three laws implementing a substantial reform of the capital market were published.

The laws that were published were:

The Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law - 2005;

The Control of Financial Services (Pension Counseling and Pension Marketing) Law - 2005;

The Control of Financial Services (Provident Funds) Law - 2005.

The laws include, *inter alia*, comprehensive regulation of the management of provident funds and of pension counseling, within the framework of the banking system as well, and they obligate the banks to dispose of their holdings in provident fund and mutual fund management companies. Detailed information is provided in the Annual Report for 2006.

Actions taken by the Bank following the legislation:

- Following the legislation, the Bank sold its provident fund and mutual fund management operations. Detailed information regarding the sales transactions is provided in the Annual Report for 2006 at pages 38 and 39 and in Note 31. The sales were completed during 2006 and during the first quarter of 2007, other than the sale of the supplementary training funds, the completion of which is dependent on the receipt of regulatory approvals. In April 2007, an agreement regarding the provision of operating services by the Bank to the sold supplementary training funds was signed, as well as a distribution agreement, according to which the Bank will distribute the supplementary training funds.

- The Bank and representatives of its employees are about to carry out a reorganization of the Bank's employees' and the Leumi Mortgage Bank Ltd. employees' pension funds, for the purpose of complying with the provisions of the permit given to the banks under the legislation, to engage in the management of provident funds, all the members of which are employees of the bank or employees of a corporation controlled by it.

- The Bank is examining the implications of the freedom of choice granted to employees with regard to provident funds, including freedom of movement from fund to fund, with respect to its obligations towards its employees at the time of retirement.

- The Bank has established central severance pay funds for its employees and for the employees of additional companies in the Group, which are managed by a company that is wholly owned by the Bank.

- The Bank is at an advanced stage of preparation for its entry into the pension-counseling field. These preparations involve the development of computerized tools and the training and recruiting of staff. The Bank has submitted an application for a pension counselor's license to the Director of the Capital Markets, Insurance and Savings Division. The Bank and the Director are in contact with regard to the petition, and there are disagreements regarding the scope of the license that the Director is prepared to give to the Bank.

Effect of the Reform on the Bank and the Group

- The reform has a material effect on the Group's activities in the capital market. The Group had until now engaged in managing assets on the capital market for the public, in counseling and distribution, in underwriting and in the provision of additional capital market services. Following the reform, the Group's activities in Israel will focus mainly on the provision of investment counseling, the provision of pension counseling when the Bank receives a license to engage in such activities, the provision of operating services to entities active in the capital market, and additional activities.

- The restrictions in the legislation, under which a banking corporation may not carry out marketing activities but only counseling (while other entities will be able to carry out marketing), the prohibition on holding material holdings in corporations which manage investment portfolios for institutional entities and the restrictions on carrying on pension counseling activities, will, in Management's estimation, lessen the ability of the Bank to compete in the most effective manner in the financial and pension market.

- In addition, the legislation relating to underwriting is likely to have a material adverse effect on the Group's underwriting activities, i.e., on the activities of its subsidiary, Leumi & Co. Underwriters, within its present ownership structure.

- Furthermore, the disposal by the Bank of its holdings in mutual fund, provident fund and supplementary training fund management companies will cause a reduction in the Bank's current income from these fields of activity. On the other hand, the legislation allows, as mentioned above, the receipt of distribution commissions from institutional entities, and the receipt of commissions in respect of operating services provided to institutional entities, and these commissions will, to a partial extent, reduce the expected adverse effect.

  The following table sets out details of the Group's income from management fees from provident funds, including supplementary training funds, and management fees and distribution commissions from mutual funds (in NIS millions):

	31 March 2007	31 March 2006	31 December 2006	**31 March 2007**	31 March 2006	31 December 2006
	The Group			The Bank		
From mutual funds	**37**	118	391	**35**	71	162
From provident funds	**9**	53	216	**3**	38	87
From supplementary training funds	**8**	8	29	**7**	7	28
Total	**54**	179	636	**45**	116	277

9. Paz Oil Company Ltd

A. Leumi Real Holdings Ltd holds 15.63% of Paz Oil Company Ltd. ("Paz"). In January 2007, two directors of Paz were appointed by Leumi Holdings, constituting 20% of the Board of Directors. As from 1 January 2007, the investment is included on the equity basis (until that date the investment was included as part of securities available for sale).

The recording of the investment on the equity basis was carried out in the basis of the cost paid. Surplus costs will be attributed in part to real estate and in part to goodwill which will be written-off over ten years in accordance with directives of the Supervisor of Banks.

The Bank has started the process of having the attribution of the surplus costs examined by an outside valuer.

B. Legal claims have been made against Paz and its consolidated companies, including class actions, and there are current legal proceedings concerning supervision by governmental authorities and other outstanding matters relating to the fuel and gas systems and infrastructure installations.

With regard to these claims, in the estimation of Paz, based on opinions if its legal, professional and other advisors, it is not possible to estimate at this stage the effect, if any, of such on their financial statements, and therefore no provision has been made in their respect.

For further details of these proceedings, see the financial statements of Paz to 31 March 2007.

10. Super-Pharm (Israel) Ltd

On 1 May 2007, an agreement was signed between Leumi & Co. Investment House Ltd. (a wholly-owned subsidiary of the Bank – "Leumi & Co.") and Super-Pharm (Israel) Ltd. ("Super-Pharm") and GRI Global Retail Investment B.V. – the controlling shareholder of Super-Pharm – for the allotment of 18% of the share capital of Super-Pharm to Leumi & Co., for a consideration of some NIS 190 million, subject to adjustments laid down in the agreement. In addition, Leumi & Co. was granted an option for the allotment of a further 2% of the share capital of Super-Pharm. Leumi & Co. was granted standard minority protection rights. Completion of the transaction is subject to the conditions laid down in the agreement.

11. TBC Bank of Georgia

On 24 January 2007, a Term Sheet was signed between the Bank and TBC Bank, of Georgia, ("TBC") and the controlling shareholders in TBC, under which the Bank might purchase shares representing 20% of the share capital of TBC when fully diluted (except for dilution in respect of management options). In respect of the shares to be allotted, the Bank was expected to inject capital into TBC in the amount of some US$ 40 million.

The agreement between the parties was conditioned on the signature of a detailed agreement between the parties and on the signature of a shareholders' agreement between the shareholders of TBC under which the regular rights for the protection of minority shareholders would be granted to the Bank

On 25 April 2007, the Bank gave notice that the negotiations aimed at executing a detailed agreement were stopped by the sellers, who claimed that a higher price could be obtained for the holdings of the shareholders in an alternatively structured transaction. The Bank contends, however, that a binding term sheet has been executed and that the shareholders are not allowed to sell their holdings to any third party without upholding and maintaining the Bank's rights in their entirety.

Net Interest Income Before Provision for Doubtful Debts (on a Consolidated Basis)
Reported amounts (Unaudited)

	For the three months ended 31 March	
	2007	2006
	(NIS millions)	
A. Income on assets (a)		
Credit to the public	**1,836**	3,820
Credit to governments	**2**	24
Deposits with Bank of Israel and cash	**(31)**	34
Deposits with banks	**(125)**	735
Securities borrowed or purchased under agreement to resell	**3**	-
Debentures	**73**	1,035
Total income on assets	**1,758**	5,648
B. Expenses on liabilities (a)		
Deposits of the public	**(143)**	(3,816)
Deposits from governments	**(7)**	(32)
Deposits from Bank of Israel	**(45)**	(11)
Deposits from banks	**(103)**	(101)
Securities loaned or sold under agreement to repurchase	**(2)**	-
Debentures, bonds and subordinated notes	**(100)**	(272)
Total expense on liabilities	**(400)**	(4,232)
C. From derivative instruments and hedging activities		
Ineffective portion of hedge relationships (b)	**(3)**	(8)
Net income (expenses) from ALM derivative instruments (c)	**186**	77
Net income from other derivative instruments	**1**	1
Total income from derivative instruments and hedging activities	**184**	70
D. Other income and expenses		
Financing commissions	**73**	69
Profit from sale of debentures available for sale, net	**22**	3
Profit (losses) realized and not yet realized in respect of fair value adjustments of trading debentures, net	**62**	(16)
Other financing income	**71**	131
Other financing expenses	**23**	(28)
Total other income and expenses	**251**	159
Total net interest income before provision for doubtful debts	**1,793**	1,645
E. Detail of net effect of hedging derivative instruments on net interest income		
Financing income (expenses) on assets	**(2)**	19
Financing income (expenses) on liabilities	**1**	(29)
Including: net exchange rate linkage differences	**16**	3

(a) Including effective portion of hedge relationships.

(b) Excluding effective portion of hedge relationships.

(c) Derivative instruments that are included in the Bank's asset and liability management system which are not designated for hedging relationships.

Provision for Doubtful Debts (on a Consolidated Basis)
Reported amounts (Unaudited)

	For the three months ended 31 March 2007			
	Specific Provision (a)	Specific Provision According to depth arrears (a)	Supplementary Provision (b)	Total
	(NIS millions)			
Balance of the provision at the beginning of the period	**(c) 7,580**	**675**	**1,024**	**9,279**
Provisions during the period	**101**	**68**	**8**	**177**
Decrease in provisions	**(68)**	**(57)**	**(28)**	**(153)**
Collection of past years' write-offs	**(13)**	**-**	**-**	**(13)**
Net amount charged to statement of profit and loss	**20**	**11**	**(20)**	**11**
Write-offs	**(90)**	**(12)**	**-**	**(102)**
Balance of provision at end of period	**7,510**	**674**	**1,004**	**9,188**
Including balance of provision not deducted from credit to the public	**201**	**-**	**120**	**321**

	For the three months ended 31 March 2006			
	Specific Provision (a)	Specific Provision According to depth arrears (a)	Supplementary Provision (b)	Total
	(NIS millions)			
Balance of the provision at the beginning of the period	7,803	409	1,040	9,252
Classifiction of opening balance in subsidiary	-	116	-	116
Provisions during the period	286	130	36	452
Decrease in provisions	(188)	(47)	(2)	(237)
Collection of past years' write-offs	(14)	-	-	(14)
Net amount charged to statement of profit and loss	84	83	34	201
Write-offs	(34)	(8)	-	(42)
Balance of provision at end of period	7,853	600	1,074	9,527
Including balance of provision not deducted from credit to the public	32	-	126	158

(a) Not including provision for interest in respect of the period after the loans were determined to be doubtful. With respect to loans in arrears for which a provision was established to the extent of the arrears, no accrual for interest was recorded thereon.

(b) Including the general and special provision for doubtful debts.

(c) Restated.

Details on housing loans and the method of calculating the specific provision
Reported amounts (Unaudited)

	31 March 2007				
		Problematic debts			
				Specific provision	
	Credit	Balance sheet debt balance	Including amount in arrears (c)	According to depth of arrears	Total
	(NIS millions)				
Housing loans that require calculating the provision according to depth of arrears	**26,284**	**887**	**319**	**487**	**487**
"Large loans" (a)	**2,407**	**178**	**214**	**136**	**136**
Other loans (b)	**4,115**	**141**	**34**	**51**	**51**
Total	**32,806**	**1,206**	**567**	**(d) 674**	**674**

	31 March 2006 (e)				
		Problematic debts			
				Specific provision	
	Credit	Balance sheet debt balance	Including amount in arrears (c)	According to depth of arrears	Total
	(NIS millions)				
Housing loans that require calculating the provision according to depth of arrears	25,426	1,162	347	442	442
"Large loans" (a)	2,883	187	210	136	136
Other loans (b)	4,193	108	29	22	22
Total	32,502	1,457	586	600	600

(a) Housing loans the balance of each is higher than NIS 782 thousand (31 March 2006 - NIS 786 thousand), including loans for purchase and loans for any purpose that are secured by a mortgage.

(b) Loans for any purpose secured by mortgage, the balance of each is lower than NIS 782 thousand.

(c) Including interest on the amount in arrears.

(d) Including balance of specific provision in excess of amount according to depth of arrears in the amount of NIS 139 million (31 March 2006 - NIS 81 million).

(e) Restated.

Assets and Liabilities Classified According to Linkage Basis (on a Consolidated Basis) as at 31 March 2007 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	**5,215**	**601**	**30,802**	**5,272**	**3,391**	**-**	**45,281**
Securities	**9,518**	**6,935**	**18,581**	**7,229**	**640**	**4,308**	**47,211**
Securities borrowed or purchased under agreement to resell	**108**	**-**	**-**	**-**	**-**	**-**	**108**
Credit to the public (b)	**79,868**	**49,622**	**38,147**	**6,522**	**11,283**	**406**	**185,848**
Credit to governments	**-**	**246**	**535**	**-**	**-**	**-**	**781**
Investments in affiliated companies	**12**	**-**	**-**	**-**	**-**	**1,769**	**1,781**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,120**	**3,120**
Other assets	**2,338**	**34**	**1,410**	**655**	**733**	**989**	**6,159**
Total assets	**97,059**	**57,438**	**89,475**	**19,678**	**16,047**	**10,592**	**290,289**
Liabilities							
Deposits of the public	**86,661**	**28,303**	**80,367**	**19,873**	**10,895**	**762**	**226,861**
Deposits from banks	**9,380**	**1,176**	**1,724**	**373**	**667**	**-**	**13,320**
Deposits from governments	**472**	**855**	**566**	**11**	**1**	**-**	**1,905**
Securities loaned or sold under agreement to repurchase	**53**	**-**	**63**	**-**	**-**	**-**	**116**
Debentures, bonds and subordinated notes	**814**	**12,044**	**2,945**	**-**	**-**	**-**	**15,803**
Other liabilities	**7,577**	**2,915**	**1,052**	**586**	**854**	**649**	**13,633**
Total liabilities	**104,957**	**45,293**	**86,717**	**20,843**	**12,417**	**1,411**	**271,638**
Difference	**(7,898)**	**12,145**	**2,758**	**(1,165)**	**3,630**	**9,181**	**18,651**
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	**-**	**-**	**56**	**(23)**	**(33)**	**-**	**-**
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	**12,093**	**(6,323)**	**(2,226)**	**364**	**(3,098)**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(190)**	**-**	**(358)**	**462**	**86**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(315)**	**-**	**195**	**102**	**18**	**-**	**-**
Total	**3,690**	**5,822**	**425**	**(260)**	**(207)**	**9,181**	**18,651**
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	**179**	**-**	**(949)**	**623**	**147**	**-**	**-**
Options out of the money, net (discounted par value)	**(1,721)**	**(9)**	**1,291**	**277**	**162**	**-**	**-**

(a) Including linked to foreign currency.

(b) The general and supplementary provisions for doubtful debts have been deducted proportionately from the different linkage bases.

(c) Including derivative instruments that their basis is applicable for a non-monetary item.

Assets and Liabilities Classified According to Linkage Basis (on a Consolidated Basis) (cont'd) as at 31 March 2006 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	4,512	470	(d) 21,630	4,571	(d) 4,385	-	35,568
Securities	13,843	3,366	22,035	5,930	645	2,546	48,365
Credit to the public (b)	(d) 67,039	52,438	45,158	5,558	10,879	386	181,458
Credit to governments	-	33	775	-	-	-	808
Investments in affiliated companies	9	-	-	-	-	1,246	1,255
Buildings and equipment	-	-	-	-	-	2,894	2,894
Other assets	(d) 1,154	25	(d) 2,315	445	1,007	1,200	6,146
Total assets	86,557	56,332	91,913	16,504	16,916	8,272	276,494
Liabilities							
Deposits of the public	78,731	33,136	80,042	18,271	10,936	691	221,807
Deposits from banks	653	1,223	1,438	433	676	-	4,423
Deposits from governments	489	1,015	652	16	1	-	2,173
Debentures, bonds and subordinated notes	773	11,775	4,159	182	-	-	16,889
Other liabilities	(d) 6,299	2,565	(d) 1,691	454	1,172	1,586	13,767
Total liabilities	86,945	49,714	87,982	19,356	12,785	2,277	259,059
Difference	(388)	6,618	3,931	(2,852)	4,131	5,995	17,435
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	87	(50)	(37)	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	8,716	(3,502)	(4,412)	2,908	(3,710)	-	-
Options in the money, net (in terms of underlying asset)	186	-	5	(249)	58	-	-
Options out of the money, net (in terms of underlying asset)	(227)	(2)	66	224	(61)	-	-
Total	8,287	3,114	(323)	(19)	381	5,995	17,435
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(68)	-	403	(402)	67	-	-
Options out of the money, net (discounted par value)	448	(9)	(545)	243	(137)	-	-

(a) Including linked to foreign currency.
(b) The general and supplementary provisions for doubtful debts have been deducted proportionately from the different linkage bases.
(c) Including derivative instruments that their basis is applicable for a non-monetary item.
(d) Reclassified

Assets and Liabilities Classified According to Linkage Basis (on a Consolidated Basis) (cont'd) as at 31 December 2006 (Audited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	4,838	440	34,059	4,897	3,375	-	47,609
Securities	10,704	5,331	18,490	6,840	778	4,232	46,375
Credit to the public (b)	76,966	50,221	38,625	6,594	11,161	233	183,800
Credit to governments	193	256	571	-	-	-	1,020
Investments in affiliated companies	9	-	-	-	-	1,242	1,251
Buildings and equipment	-	-	-	-	-	3,056	3,056
Other assets	1,843	24	2,135	513	788	927	6,230
Total assets	94,553	56,272	93,880	18,844	16,102	9,690	289,341
Liabilities							
Deposits of the public	88,662	31,245	81,686	18,830	10,812	588	231,823
Deposits from banks	1,107	1,303	1,579	481	771	-	5,241
Deposits from governments	664	897	556	28	1	-	2,146
Debentures, bonds and subordinated notes	799	11,861	2,962	-	-	-	15,622
Other liabilities	10,346	2,878	1,655	436	890	661	16,866
Total liabilities	101,578	48,184	88,438	19,775	12,474	1,249	271,698
Difference	(7,025)	8,088	5,442	(931)	3,628	8,441	17,643
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	56	(22)	(34)	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	13,586	(4,911)	(5,327)	226	(3,574)	-	-
Options in the money, net (in terms of underlying asset)	(283)	-	(159)	404	38	-	-
Options out of the money, net (in terms of underlying asset)	(206)	-	40	(11)	177	-	-
Total	6,072	3,177	52	(334)	235	8,441	17,643
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(284)	-	(383)	604	63	-	-
Options out of the money, net (discounted par value)	(522)	(9)	(90)	125	496	-	-

(a) Including linked to foreign currency.

(b) The general and supplementary provisions for doubtful debts have been deducted proportionately from the different linkage bases.

(c) Including derivative instruments that their basis is applicable for a non-monetary item.

Information on activity by banking sectors
Reported amounts

	Statement of profit and loss for the Three Months Ended 31 March 2007 (Unaudited)								
	Household banking	Private banking	Small business banking	Commercial banking	Corporate banking	Construction and real estate	Financial management	Other	Total consolidated
	(NIS millions)								
Net interest income before provision for doubtful debts	**596**	**85**	**199**	**324**	**350**	**130**	**115**	**(6)**	**1,793**
Operating and other income:									
From outside entities -	**423**	**109**	**99**	**118**	**179**	**12**	**(6)**	**54**	**988**
Intercompany operations -	**50**	**4**	**(7)**	**(7)**	**(34)**	**-**	**-**	**(6)**	**-**
Total	**473**	**113**	**92**	**111**	**145**	**12**	**(6)**	**48**	**988**
Total income	**1,069**	**198**	**291**	**435**	**495**	**142**	**109**	**42**	**2,781**
Provision for doubtful debts	**15**	**1**	**-**	**14**	**(4)**	**(10)**	**(5)**	**-**	**11**
After-tax profit (loss) from extraordinary items	**207**	**4**	**20**	**11**	**14**	**1**	**-**	**2**	**259**
Net profit (loss)	**357**	**35**	**81**	**`141**	**230**	**79**	**34**	**(40)**	**917**

	Statement of profit and loss for the Three Months Ended 31 March 2006 (Unaudited)(a)								
	Household banking	Private banking	Small business banking	Commercial banking	Corporate banking	Construction and real estate	Financial management	Other	Total consolidated
	(NIS millions)								
Net interest income before provision for doubtful debts	559	92	169	279	390	167	(16)	5	1,645
Operating and other income:									
From outside entities -	334	94	92	101	91	14	6	208	940
Intercompany operations -	136	8	(6)	-	(20)	-	-	(118)	-
Total	470	102	86	101	71	14	6	90	940
Total income	1,029	194	255	380	461	181	(10)	95	2,585
Provision for doubtful debts	102	-	8	29	8	51	3	-	201
Net profit (loss)	76	13	54	110	171	63	658	(33)	1,112

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Information on activity by banking sectors (cont'd)
Reported amounts

	Household banking	Private banking	Small business banking	Commercial banking	Corporate banking	Construction and real estate	Financial management	Other	Total consolidated
	Statement of profit and loss for the Year Ended 31 December 2006 (Audited)								
	(NIS millions)								
Net interest income before provision for doubtful debts	**2,324**	**346**	**724**	**1,177**	**1,461**	**580**	**300**	**10**	**6,922**
Operating and other income:									
From outside entities -	**1,470**	**386**	**346**	**405**	**413**	**47**	**61**	**743**	**3,871**
Intercompany operations -	**380**	**26**	**(14)**	**(12)**	**(124)**	**-**	**-**	**(256)**	**-**
Total	**1,850**	**412**	**332**	**393**	**289**	**47**	**61**	**487**	**3,871**
Total income	**4,174**	**758**	**1,056**	**1,570**	**1,750**	**627**	**361**	**497**	**10,793**
Provision for doubtful debts	**329**	**2**	**113**	**183**	**182**	**155**	**(31)**	**-**	**933**
After-tax profit (loss) from extraordinary items	**1,127**	**76**	**54**	**74**	**32**	**1**	**718**	**(2)**	**2,080**
Net profit	**1,250**	**160**	**162**	**442**	**595**	**218**	**718**	**(11)**	**3,534**

(a) Reclassified.