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

Condensed Financial Statements as at 30 September 2008

(unaudited)

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26 November 2008

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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 at 31 December 2007. The interim reports should be read in conjunction with the Annual Report for 2007.

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

Total assets under the management of the Group (balance sheet items and off-balance sheet items*) amounted to some NIS 693 billion at the end of September 2008, as compared with some NIS 764 billion at the end of 2007, a decrease of some 9.3%, resulting primarily from the decline in the capital market and from the shekel's appreciation against foreign currencies.

* Total balance sheet items as well as customers' securities portfolios, and the value of securities of mutual funds, provident funds and supplementary training funds held in custody, in relation to which operation management and custody services are provided.

In the wake of the global crisis, the continuing declines on stock markets worldwide and in Israel, the collapse of the Lehman Brothers investment house and the US bank Washington Mutual, the deterioration in the state of the Israeli economy, and the impact of all these factors on the Group's business, the Leumi Group ended the third quarter of 2008 with a loss of NIS 84 million.

Nevertheless, the Group ended the first nine months of the year with a net profit of NIS 1,275 million, compared with NIS 2,840 million in the corresponding period in 2007, a decline of 55.1%. The reduction in net profit resulted mainly from a decrease in net operating profit of some NIS 1,446 million. See below for further details.

Net operating profit in the first nine months of 2008 totaled NIS 1,026 million, compared with NIS 2,472 million for the corresponding period of 2007, a decrease of 58.5%. During the year's third quarter, the operating loss amounted to NIS 85 million, compared with an operating profit of NIS 901 million in the corresponding period of 2007, as described below.

The decrease in net operating profit is explained mainly by an increase in the provisions for doubtful debts and by declined in value and losses from investments in securities.

Net profit per share during the first nine months of 2008 was NIS 0.87, compared with NIS 2.01 in the corresponding period in 2007 and NIS 2.37 in all of 2007.

Based on data of the banking system as at 30 June 2008, as published by the Bank of Israel, the Leumi Group's share of the total banking system was as follows:

	30.6.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
			in %		
Total assets	29.0	29.8	30.1	30.0	30.0
Credit to the public	29.1	29.7	29.8	29.9	29.9
Deposits of the public	29.1	30.2	30.5	30.6	30.3
Operating profit before tax	48.0*	37.9	27.5**	30.2	34.0
Net operating profit	47.2*	38.4	25.6**	30.5	34.1

* After neutralizing Bank Hapoalim's losses during the first quarter.
** The decrease in the Group's share arises mainly from the volume of extraordinary salary expenses, of which some half arose from the privatization.

Control of the Bank

On 30 September 2008, the State of Israel held 11.462% of the issued share capital of the Bank (fully diluted – 11.27%) and 14.20% of the voting rights in the Bank (fully diluted – 13.96%). On 20 November 2008, the State held 11.459% of the Bank's issued share capital (fully diluted – 11.27%) and 14.20% of the voting rights in the Bank (fully diluted – 13.96%).

Sale of Shares in the Bank by the State

Further to the procedure for the sale of up to 20% of the State's shares in the Bank, published by the Accountant General in the Ministry of Finance and M.I. Holdings Ltd. ("MIH") in 2005, Barnea Investments B.V. ("Barnea") purchased 9.99% of the Bank's share capital.

Of the shares purchased, shares exceeding 5% of the Bank's capital (70,570,211 shares at the time of purchase) were held in trust, and Barnea and the trustee signed a power of attorney empowering the committee appointed pursuant to Section 12 of the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 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. The option expired on 24 May 2007. According to the conditions of the sale procedure, Barnea was required to sell at least 4.99% of the shares of the Bank (of the 9.99% that it purchased) within a year of said date. Consequently, on 18 May 2008, Barnea notified the Bank that on 15 May 2008 it had transferred 70,570,211 ordinary shares of the Bank to Gabriel Capital Corporation or its affiliates (together, "Gabriel Funds") in consideration for the interest of Gabriel Funds in Barnea S.a.r.l (the parent company of Barnea), and an undertaking of Gabriel Funds to make future payments to Barnea, subject to certain conditions and circumstances. In addition, Barnea notified the Bank that, following the above transaction, Mr. Ezra Merkin and the Gabriel Funds controlled by him do not hold any interest, directly or indirectly, in Barnea, which is now wholly controlled by Mr. Stephen Feinberg, through the Cerberus private investment fund group. In addition, the Bank was provided with a copy of the notice of Barnea and the trustee regarding the expiration of the power of attorney mentioned above.

MIH notified the Bank's Management in August 2007, that the Ministry of Finance intends to continue the privatization of the Bank through one of two methods: sale of the balance of the shares to an international banking institution through an investment bank, or the sale of the balance of the shares in one or more private bloc sales, the preferred method being a sale to a foreign banking institution. MIH and the Ministry of Finance have chosen N.M. Rothschild & Sons Ltd. to serve as a consultant for advancing this method.

For details regarding sale of the Bank's shares, see page 13 of the 2007 Annual Report.

For details regarding the issue of options to employees see page 6.

Capital Resources and Transactions in the Shares of the Bank

Shareholders' Equity of the Group as at 30 September 2008 amounted to NIS 19,562 million, compared with NIS 19,549 million at the end of 2007, an increase of 0.1%. The increase in shareholders' equity derives mainly from the profit for the first nine months of 2008, the increase in the Bank's share capital resulting from the exercise of the options issued to employees (see below for details), and from adjustments to the capital in respect of repayment of loans made to employees for the purchase of shares, less the dividend which was distributed, which were almost entirely offset by the decrease in value of the available-for-sale securities, and adjustments from the translation of the financial statements of companies included on the equity basis.

The securities portfolio (nostro) is mainly composed of debentures issued by governments, banks and foreign financial institutions, which generally represent the use of raised sources and the available capital. Most 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 the global crisis and the decline in the value of the debentures and the investments in shares, a net decrease in value of NIS 1,328 million was recorded in shareholders' equity during the first nine months of 2008 (of which NIS 741 million was during the year's third quarter), compared with a net decrease of NIS 7 million in the corresponding period in 2007 (all these amounts are stated net of related taxes).

With regard to employee options allotted pursuant to the plan detailed below, options were exercised during the first nine months of 2008 for a consideration of NIS 611 million, and the share capital increased accordingly.

The following table sets out details of the net balances in the capital account (net adjustments in respect of available-for-sale securities before taxes):

	30 September 2008	30 June 2008	31 December 2007	Movement	
				3rd quarter	Nine Months
	NIS millions				
Shares	243	529	1,161	(286)	(918)
Israeli government debentures	14	61	20	(47)	(6)
Foreign government debentures	3	1	1	2	2
Other debentures*	(1,522)	(700)	(387)*	(822)	(1,135)
Other debt instruments	(35)	(29)	(30)	(6)	(5)
Total	(1,297)	(138)	765	(1,159)	(2,062)
Related taxes	471	53	(263)	418	734
Total, net	(826)	(85)	502	(741)	(1,328)

* Of which, NIS (61) million was in mortgage-backed debentures as at 30 September 2008, as compared with NIS (36) million as at 30 June 2008 and NIS (47) million as at the end of 2007. For further details, see pages 41 to 49.

The total net accrued balance of adjustments to market value of securities held in the available-for-sale portfolio as at 30 September 2008 amounted to a negative sum of NIS 826 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, after the effect of taxes.

Shareholders' Equity relative to Total Assets reached 6.7 % on 30 September 2008, compared with 6.5% on 31 December 2007.

Total Capital relative to Risk Assets reached 12.08% on 30 September 2008, compared with 11.52% on 31 December 2007. 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 7.92% on 30 September 2008, compared with 7.55% at the end of 2007.

The improvement in the capital adequacy ratios derives primarily from the issue of shares in respect of the exercise of employees' options and from the profits of the first nine months of the year.

Issue of Capital Notes and Commercial Paper

On 12 February 2008, pursuant to a 2007 shelf prospectus, Leumi Finance Company Ltd. carried out an offering of some NIS 2.5 billion to qualified investors and to the public, consisting of two series of subordinated capital notes. The offering included an expansion of Series H, in the amount of NIS 815 million, and the offering of a new series, Series I, in the amount of NIS 1,700 million. The Series I capital notes are not linked to the CPI, bear annual interest of 6.29%, and are redeemable in a single payment in August 2013.

From March through September 2008, the Bank raised some NIS 600 million through four private offerings to institutional investors of commercial paper, with variable interest – Bank of Israel interest plus 0.18%. The paper has a 90 day maturity with the Bank able to renew each quarter until the end of 5 years from the date of the issue. The purchasers of the paper have the right to sell the securities back to the issuer on any day, after giving one week's advance notice, and to receive the accumulated interest. As of 20 November 2008, the amount in issue was some NIS 180.7 million.

Interested Persons' Transactions in the Shares of the Bank

On 15 May 2008, Barnea Investments B.V. ceased to be an interested person in the Bank. For further details see "Control of the Bank" on page 3 above.

Issue of Options to Employees

In February of 2006, 84,853,960 options were issued to Leumi employees free of consideration, pursuant to the option plan outline published by the Bank in accordance with an agreement between the State and the Bank's employees regarding the Bank's privatization and the sale of the State's holdings of shares in the Bank.

In February 2008, 41,723,516 options, the outstanding options of the first tranche of the plan, were exercised by the employees. A similar number of options remain exercisable until February 2009. A total of 59,318,541 options had been exercised as of 20 November 2008.

The adjusted exercise price was NIS 11.272 as of 31 December 2007, and NS 10.614 as of 20 November 2008.

The Bank records salary expenses in accordance with the fair value of the options at the date of allotment with the addition of salaries tax and national insurance contributions, over a period of two years from the date of allotment. During the first nine months of 2008, the Bank recorded a decrease of the expenses in the amount of NIS 2.0 million compared with an expense of some NIS 196 million during the corresponding period in 2007.

As a result of the declines in the capital market, the price of Leumi shares also dropped by 26% during the third quarter of 2008, to NIS 12.31 as compared with NIS 18.7 at the end of 2007. The value of the benefit to employees was therefore reduced, and the salary expenses were reduced by NIS 37 million during the third quarter. At the same time, deferred taxes in the amount of NIS 77 million were cancelled. The overall net negative effect on the results for the third quarter was some NIS 40 million.

As of 30 September 2008, the balance of the loans provided by Israel Discount Bank to Leumi employees in order to finance their exercise of the options was NIS 123 million (out of a total amount of loans of NIS 277 million granted in February 2008).

A detailed description of this topic is provided in the 2007 Annual Report. Further description is also provided in Note 11C to this Report.

Increase of the Bank's issued share capital

As of 20 November 2008, 59,318,541 options issued to Group employees pursuant to the outline dated 24 January 2006 had been exercised, and on that date, the Bank's issued share capital reached par value NIS 1,473,551,221.

Increase of the Bank's authorized share capital

On 7 October 2008, the General Meeting approved an increase of the Bank's authorized capital to NIS 2,215,000,000, through the creation of 500,000,000 ordinary shares of par value NIS 1 each, convertible into stock when issued and fully paid, for the purpose of issuing hybrid subordinated capital notes only. This was pursuant to the Bank's announcement in September 2008 that the Board of Directors had approved in principle a framework of up to NIS 3 billion for the issue of hybrid subordinated capital notes as Tier I capital, according to conditions to be determined and approved from time to time in the future. The conditions of the notes will include the possibility of compulsory conversion to ordinary shares, although only in most exceptional circumstances, and will bear CPI-linked interest at a rate to be determined close to the date of issue.

Distribution of Dividends

A. Dividend Policy for 2006-2008

On 29 March 2006, the Bank's Board of Directors resolved to establish 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 or 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 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).

In January 2008, the Bank's Board of Directors resolved to extend this dividend policy also to the year 2008.

Certain declarations appearing in the above paragraphs 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 16 to 17 below.

B. Dividend for 2007

The Special General Meeting convened on 17 January 2008 approved the Board of Directors' recommendation of 11 December 2007 regarding the distribution of a cash dividend at the rate of some 49.8% of the net profit for the first nine months of 2007 (some NIS 1,414 million), at the rate of 100.0% of the paid-up capital.

The dividend was paid on 5 February 2008 to shareholders of record on 20 January 2008 (the record date). The shares traded "ex" dividend on 21 January 2008. The dividend was at the rate of NIS 1.0 for every ordinary share of NIS 1.0 par value.

The Annual General Meeting, which was held on 5 June 2008, approved the Board of Director's recommendation of 30 March 2008 with regard to the distribution of an additional cash dividend for 2007 of some 52.2% of the net profit of the fourth quarter of 2007 (some NIS 270 million), and at the rate of 18.373% of the paid-up capital. The dividend was paid on 30 June 2008, to shareholders of record on 17 June 2008 (the record date). The stock traded "ex" dividend on 18 June 2008. The dividend was at the rate of some 18.373 agorot for every ordinary share of NIS 1.0 par value.

The total dividends for 2007 amounted to NIS 1,684 million, which is some 50.2% of the net profit for 2007, and at the rate of NIS 1.18373 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. - Sep	Jan. – Sep	Year
	2008	2007	2007
Income, Expenses and Profit (NIS millions):			
Net interest income before provision for doubtful debts	**5,404**	5,867	7,648
Provision for doubtful debts	**1,055**	128	407
Total operating and other income	**2,255**	3,030	4,222
Total operating and other expenses	**5,202**	5,073	6,937
Of which: Costs of privatization (issue of shares and options to employees)	**(52)**	193	250
Operating profit before taxes	**1,402**	3,696	4,526
Net operating profit	**1,026**	2,472	2,984
After-tax profit from extraordinary items	**249**	368	373
Net profit for the period	**1,275**	2,840	3,357
Net operating profit per share (in NIS)	**0.70**	1.75	2.11
Net profit per share (in NIS)	**0.87**	2.01	2.37
Proposed dividend	**-**	-	1,684
Assets and Liabilities at end of period (NIS millions):			
Total assets	**293,811**	302,007	302,151
Credit to the public	**207,489**	196,327	198,557
Securities	**41,566**	46,355	47,169
Deposits of the public	**225,952**	236,929	238,045
Shareholders' equity	**19,562**	20,531	19,549
Major financial ratios in annual terms (%):			
Credit to the public / Total assets	**70.6**	65.1	65.7
Securities / Total assets	**14.1**	15.4	15.6
Deposits of the public / Total assets	**76.9**	78.5	78.8
Shareholders' equity / Risk assets (a)	**12.08**	12.11	11.52
Tier I capital / Risk assets	**7.92**	8.04	7.55
Shareholders' equity (excluding minority interest) / Total assets	**6.7**	6.8	6.5
Net profit / Shareholders' equity average (excluding minority interest) (c)	**8.5**	20.6	17.4
Net operating profit / Shareholders' equity average (excluding minority interest) (c)	**6.8**	17.9	15.4
Rate of tax provision from the profit	**60.2**	37.0	38.0
Provision for doubtful debts / Credit to the public (c)	**0.68**	0.087	0.20
Provision for doubtful debts / Total credit risk (c)	**0.45**	0.058	0.13
Net interest income before provision for doubtful debts / Total assets (c)	**2.46**	2.60	2.53
Total income / Total assets (b) (c)	**3.49**	3.95	3.93
Total income / Total assets managed by the group (b) (c) (d)	**1.48**	1.57	1.55
Total operating and other expenses / Total assets (c)	**2.37**	2.25	2.30
Total expenses / Total assets managed by the group (c) (d)	**1.00**	0.89	0.91
Net profit / Total average assets (c)	**0.57**	1.29	1.13
Net operating profit / Total average assets (c)	**0.46**	1.12	1.01
Financial margin including income and expenses from derivative financial instruments	**1.85**	1.76	1.71
Operating expenses / Total income (b)	**67.9**	57.0	58.4
Operating and other income / Operating and other expenses	**43.3**	59.7	60.9
Operating and other income / Total income (b)	**29.4**	34.1	35.6

(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) On an annual basis.
(d) Includes off-balance sheet activities.

B. Other Information

Principal Developments in the Economy*

General

After rapid expansion during the first half of 2008, the Israeli economy has experienced a significant slowdown in growth during the third quarter, with GDP expanding at an annual rate of some 2.3% compared with the second quarter of the year. The slowdown in economic activity was manifested in the reduction in the state revenues from taxes due *inter alia*, to the impact of the global financial crisis on the local capital market. During the first nine months of the year, the Israeli economy expanded at a rate of some 5.1%, compared with the corresponding period of 2007, the rapid rate arising from the effect of the fast growth during the first quarter of the year. The shekel's exchange rate against the dollar rose relatively sharply from January to September, at the rate of some 11.1% as a result of both the dollar's weakening against the world's major currencies and the impact of activity on the local foreign currency market. During the third quarter, the Bank of Israel increased its intervention in foreign currency trading, which it had begun in March 2008, and began to purchase some US$ 100 million on a daily average.

Inflation in the economy amounted to 4.4% during the period of January to September, and prices rose 5.5% during the year ending in September 2008 – above the upper limit (1% to 3%) of the government's price stability target. The Bank of Israel therefore began a process of raising interest rates during the second and third quarters. Nevertheless, during October, with the worsening of the global financial crisis and the concern at the possibility of a severe economic slowdown, the Bank of Israel began to reverse this process and to reduce interest. Thus, by two decisions during that month, the interest dropped by a cumulative amount of 75 basis points, down to 3.50% and starting 14 November 2008 the interest rate was reduced to 3.0%. On the stock market, over the first nine months of the year, sharp declines in prices of some 30.4% were recorded on the Tel Aviv 100 Index. These declines worsened in October, when this Index dropped by an additional 19.7%. The market of the CPI-linked non-government debentures also recorded sharp declines in prices, especially during the third quarter when prices dropped by some 8.0%, while the gap between the yields to maturity of such debentures compared with government debentures rose significantly, reflecting concern that the companies may have difficulty in repaying their debts due to the worsening of the financial situation.

The Global Crisis and its Implications for the Israeli Economy

The global financial crisis worsened during the third quarter of 2008, after signs of a slowdown in global economic activity had increased during the first half of the year. This was against the background of the continuing crisis in the residential real estate market and in the mortgage market in the United States and the United Kingdom, which had begun in the middle of 2007, and also had a negative impact on the banking and financial systems. This was manifested in significant write-offs by major banking groups worldwide, including the major investment houses.
Uncertainty regarding the financial strength of these institutions increased rapidly during the third quarter of the year, and led to bankruptcy for some of them. Consequently, a problem of lack of confidence and limited liquidity arose in the world banking system, which led to coordinated intervention by governments and central banks throughout the world through

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

substantial and exceptionally large “rescue plans.” The measures that were taken included, *inter alia,* significant reductions of interest rates by central banks, injections of liquidity into the system, guarantees for inter-bank loans and increases in the capital base of banks by governments ("nationalization of banks"). These measures began to be implemented during the year’s fourth quarter.

The Bank of Israel estimates that the global financial crisis is impacting on the Israeli financial system and is being manifested in the significantly increased volatility and uncertainty in the local capital markets, in the decline in prices on the Tel Aviv Stock Exchange and the increased risk margins for debentures, especially corporate debentures.

The Bank of Israel also estimates that the crisis is expected to impact economic activity through declining securities prices in Israel and the world, which will cause an erosion of the value of assets held by the Israeli public and a decline in private consumption is therefore anticipated. Additionally, in the event of a slowdown in growth or a worldwide economic recession, especially in the developed countries, Israel’s exports will decline and this will lead to a reduction in the economy's income. An expected result would be a decline in private consumption. In this context, it should be noted that in November 2008, the International Monetary Fund (IMF) adjusted its global growth forecast for the year 2009 downward, and it now estimates that growth in the United States and in the euro zone will be -0.7% and -0.5%, respectively, as compared with 1.4% and 1.2%, respectively, which they forecast for 2008. The expected effect on exports and consumption, as well as the difficulty in raising capital and credit in global markets, is expected also to affect local investments.

The Government’s Plan for Handling the Financial Crisis

On 19 November 2008, the Ministry of Finance announced an "acceleration program", which includes a package of measures to speed up activity in the economy, in light of the global recession.

The government program includes, *inter alia*, the following measures:

1. Government investment in infrastructure projects in the amount of some NIS 21.7 billion in 2009, while granting immediate budget provision for allocating some NIS 10 billion to available projects.
2. Expansion of credit sources to the business sector in the amount of some NIS 3.3 billion.
3. Continuing with the existing plan for reducing taxes.
4. Adding NIS 250 million for investment in R&D, and providing up to some NIS 100 million for capital investment.
5. Various steps to strengthen the labor market.
6. Removal of barriers in the real estate market.

At this stage, it is not possible to estimate the impact of the economic measures on the Bank’s activity.

The Business Product and Economic Sectors

The product of the business sector expanded during the first nine months of the year at a rate of some 5.9%, compared with the corresponding period of 2007. However, during the third quarter of the year, a sharp slowdown was recorded in the growth of the business sector which expanded at an annual rate of some 1.9%, compared with the second quarter. The source of the slowdown was the contraction of activity in the industry sectors, and the transportation, storage and communications sectors, as well as a decrease in the product of the trade, service, food and accommodation sectors.

The Bank of Israel survey of Israeli companies during the year's third quarter also indicated a slowdown in the business sector's activity, continuing the slowdown of the second quarter. The slowdown was marked in all sectors, but a decline in activity was recorded in the trade and construction sectors.

The tourism sector continued to expand during the reported period. The number of tourists entering Israel by air increased by some 23.6% during the first nine months of the year in comparison with the corresponding period in 2007, and overnight hotel stays (by tourists and Israelis) increased by 7.2%. Hotel room occupancy also increased in all areas of the country.

The State Budget and its Financing

During January-September 2008, there was a surplus in the State Budget of some NIS 2.0 billion, compared with a target deficit for all of 2008 of some NIS 11.5 billion (representing 1.6% of GDP). During this period, there was a shortfall of some NIS 1 billion in the state's revenue from taxes, due to a decline in revenues, especially from direct taxes ((income tax and from a decline of 50% in collections from the capital market) which worsened during the third quarter of the year. The shortfall in taxes is the gap between the volume of actual revenue and the Ministry of Finance's collection target for the months of January-September 2008. In October 2008, the downward trend for revenues from taxes continued, and the gap between actual and target collection expanded to some NIS 2 billion.

Foreign Trade and Capital Flows

During the first nine months of the year, imports and exports expanded at impressive rates, in dollar terms (26% and 21%, respectively, compared with the corresponding period in 2007). However, during this period the trade deficit expanded by some US$3.5 billion, to some US$10.6 billion. The increase in the deficit resulted, *inter alia,* from an increase of some US$4.3 billion in imports of energy products, because of rising global prices during the first half of the year. During the third quarter there was a decline in the dollar value of exported goods. This was manifested in all branches of technology (high tech, mixed-high tech, mixed-traditional and traditional technologies), with each of the four categories experiencing a slowdown in growth and/or a contraction in exports.

The current account data for the balance of payments during the year's first half indicate a surplus of some US$2.1 billion (seasonally adjusted data), compared with some US$2.7 billion for the first half 2007. A key explanation for this deterioration is the increase in foreign currency expenses related to fuel imports, due to the rise in world prices at that time. This increase was only partially set off by an increase in the surplus in the services account.

Partial data of the Bank of Israel regarding the economy's activity in the currency market and regarding capital flows during the first nine months of 2008 point to a number of trends: Foreign residents' direct investments, through banks in Israel (i.e., without direct reports from companies), amounted to some US$5.1 billion in comparison with some US$5.8 billion for all of 2007. On the other hand, investments in traded securities (financial investments) in Israel, declined significantly, from some US$2.2 billion in 2007 to some US$ -0.3 billion during January-September of 2008.

On the other hand, direct investments by Israelis abroad through banks in Israel, amounted to some US$2.3 billion during the first nine months of 2008, at a slightly higher annual rate than in 2007 (some US$2.9 billion). Investments in traded securities declined at a sharp rate: from some US$ 4 billion in 2007 to some US$ -0.4 billion during the months January-September 2008.

These data show that the impact of the capital flows supported the strengthening of the shekel, primarily due to the reduction in the outflow of funds, which was more significant than the decline in incoming capital flows.

Exchange Rate and Foreign Currency Reserves

In March 2008, the Bank of Israel began purchasing dollars in the foreign currency market for the first time since 1998, in the framework of a program for increasing the reserves during the next two years by some $10 billion (some US$25 million per day) - a program announced by the central bank on 20 March 2008.
During the months of January-September, an appreciation of the shekel's exchange rate against the dollar by some 11.1% was recorded. During the same period, the euro weakened against the shekel at a rate of some 11.6%.

On 10 July 2008, the Bank of Israel announced that beginning on that date it would increase the rate of its foreign currency purchases and would purchase US$100 million on a daily average. In its announcement, the central bank explained that the decision to accelerate the purchases had been made after the program for increasing its balances had been examined against the background of the market conditions at that time, and of the rapid accumulated change in the shekel's exchange rate. After the Bank of Israel's announcement, the shekel began a process of depreciation and its exchange rate, which on 9 July had stood at NIS 3.23 to the dollar, reached NIS 3.421 to the dollar by the end of September. During October and November 2008, the shekel depreciated sharply against the dollar and its exchange rate on 21 November 2008 was NIS 4.022 to the dollar. The Bank of Israel's foreign currency reserves stood at some US$36.1 billion at the end of September 2008, compared with some US$28.5 billion dollars at the end of 2007. During the month of October, the reserves declined by some US$1 billion.

Inflation and Monetary Policy

The Consumer Price Index (CPI) rose during the first nine months of the year by some 4.4% (of which 2.0% was during the third quarter) and by some 5.5% in the 12 months ending in September 2008. This is a significant deviation from the inflationary target of 1% to 3%. This large increase in the CPI took place despite the significant appreciation in the shekel's exchange rate against the dollar and reflects a weakening of the exchange rate's impact on the CPI – particularly in the manner in which it impacts the housing item. As is well known, for many years, the correlation between the exchange rate and the housing item had been positive and high. The housing item, which rose by some 6.8%, made a significant contribution to the rise in the CPI during the months of January-September, as did the food item which increased by some 9.4%, primarily as a result of rising global prices. The CPI rose by 0.1% in October.

There was a high degree of volatility in the development of Bank of Israel's interest rates during the reported period. At the beginning of the year, the Bank of Israel raised the interest rate from 4.0% in December 2007 to 4.25% in January 2008, and later in the first quarter the central bank began a process of reducing the interest rate, down to 3.25% in April. Beginning in June, in light of the increased inflationary environment which deviated significantly from the price stability target, the Bank of Israel began raising the interest rate, up to 4.25% in September 2008, in order to restore the rate of inflation to the price stability range. As the global financial crisis worsened, and concerns increased regarding a significant economic slowdown, the Bank of Israel began a process of reducing interest rates. Thus, on 12 October 2008, the interest rate was reduced by 50 basis points, and at the end of the month it was reduced by an additional 25 basis points to 3.50%. On November 14, the interest rate was reduced again by fifty basis points to 3.0%.

The Capital Market

The deepening of the global financial crisis during the third quarter was also reflected in sharp declines in share prices in capital markets throughout the world. Israel's capital market did not escape this development, and during the year's third quarter, there were sharp declines in the local share indices. The Tel Aviv 100 Index, which had declined by some 14.5% in the first half of 2008, fell by an additional 18.6% in the third quarter of 2008. Trading turnovers also declined during the third quarter, although on a cumulative basis, during the first nine months of 2008, the trading turnover for shares and convertible securities on and off the Tel Aviv Stock Exchange amounted to some NIS 2.1 billion, on daily average – a figure which reflects growth of some 1%, compared to the average for 2007. This followed double-digit increases in recent years.
In October 2008, the declines on the Tel Aviv Stock Exchange worsened greatly, and the Tel Aviv 100 Index declined by some 19.7%. A similar trend was recorded in all markets throughout the world. Share prices continued to fall during November.

In the debenture market, CPI-linked government debentures stood out during the reported period; their prices rose by some 6.1%, as a result of the significant increase in the inflationary environment and the deviation from the government target. In particular, the prices of the long-term (7-10 years) debentures rose by some 7.2%, while the yields to maturity (of the 7 year debentures) reached an average of some 2.9% during January-September 2008, as compared with some 3.3% in 2007 and some 3.8% in 2006. In contrast, the index for the unlinked government debentures ("Shachar" and "Gilon") rose at a moderate rate of some 4.7% and 2.1%, respectively during the same period. In contrast with the government debentures, prices for CPI-linked non-government debentures (corporate debentures) declined during the reported period at a rate of some 2.8%, with prices dropping some 8.0% during the third quarter. The Tel Bond 20 Index and the Tel Bond 40 Index experienced sharp price declines of some 6.7% and 7.0%, respectively, during the third quarter. This was due to concern that the companies would have difficulty in repaying their debts, which was reflected in the increased gap between the yields to maturity of corporate debentures as compared with the yields of government debentures, due to the worsening of the financial situation.

On 4 November 2008, with the intention of calming the markets, the Director of Capital Markets, Insurance and Savings announced the first indirect intervention in the corporate debenture market.

Financial Assets of the Public

The portfolio of financial assets held by the public amounted at the end of September 2008 to some NIS 1,963 billion, a decrease of some 3.3% (some NIS 66 billion) compared with their level at the end of December 2007. This decrease was also affected by the inclusion since February 2008 in the CPI-linked portfolio, of the government's undertaking to assist the long-established pension funds in the amount of some NIS 72 billion – which led to an increase of some 3.5% in the value of that portfolio. Thus, if the inclusion of this element is neutralized, there was a nominal decline of some 6.8% in the portfolio's value. An examination of the portfolio's components indicates an erosion of the value of the shares held by the public as a result of the price declines in Israel and abroad, and a decline in the value of the foreign currency-linked assets, due to the appreciation in the shekel's exchange rate, in particular against the dollar. In contrast, the non-linked elements and the CPI-linked elements rose, partly due to the accumulation of assets due to the continued growth in the economy.

The total of the public's financial assets managed by the **Group** (deposits of the public, debentures and capital notes, securities portfolios, including securities of mutual funds, provident funds and supplementary training funds held in custody, in relation to which operation management and custody services are provided) amounted at the end of September 2008 to some NIS 647 billion, compared with some NIS 719 billion at the end of December 2007, a decrease of 10.0%.

Bank Credit

During the first nine months of 2008, bank credit in the economy (including mortgage banks, on the basis of monthly average data) expanded at a nominal rate of some 3.0%. The effect of the shekel's appreciation against the dollar (11.1% during the months of January-September) was considerable and caused some 2.5-3.0 percentage points of the decline, such that upon neutralizing the impact of the appreciation, the annual rate of increase in credit amounted to approximately 7%. The crisis in the local capital market led to a sharp reduction during the months of January-September in the volume of issues of corporate debentures, which constitute an alternative to bank credit. These issues totaled (according to an estimate based on Tel Aviv Stock Exchange data) some NIS 10-12 billion only during the first nine months of 2008, in comparison with some NIS 70 billion during 2007. In addition, it should be noted that the volume of redemptions has been similar to that of the issues. It therefore appears that the impact of the replacement of (net) non-bank credit with bank credit during the reported period allowed the relatively rapid expansion of the latter as compared with recent years. This is despite the slowdown in economic activity, particularly in the third quarter, which causes a reduction in demand for credit within the economy.

At the end of September 2008, the **Bank's** credit to the public amounted to some NIS 140.2 billion, an increase of 4.8% compared with the end of 2007.

Credit Rating of the State of Israel and of Bank Leumi

The Fitch credit rating agency announced on 11 February 2008 that it was raising Israel's credit rating outlook from 'A-' to 'A', and giving a rating outlook of Stable. The rise in the rating was explained by the rapid decline in the public debt to GDP ratio, which reached just over 80% in the past year, its lowest level ever. On 14 February 2008, the agency announced that it was raising the Bank's credit rating from 'BBB+' to 'A-', and giving a rating outlook of Stable. This was further to the State's improved credit rating and the agency's view that the State's ability to provide support to the Bank, if needed, had strengthened.

On 17 April 2008, the Moody's credit rating agency announced that it was raising Israel's foreign currency and local currency credit ratings from 'A2' to 'A1'. The increased rating reflects Israel's resilience in the face of economic and political shocks, its budgetary discipline and the continued financial and political support from the United States and from world Jewry. On 22 April 2008, the agency announced that it was raising the Bank's credit rating from 'A2' to 'A1', following the raising of the State's credit rating.

On 30 October 2008, the S&P rating agency announced that it was downgrading the credit rating outlook for Israel from "positive" to "stable." The 'A' credit rating remained unchanged.

On 4 March 2008, the S&P Maalot rating agency announced that it was setting a rating of 'A-1+' for the commercial paper to be issued by the Bank, in an amount of up to NIS 1 billion.

On 26 June 2008, the agency announced a downgrading of its rating for the subordinated capital notes issued by the Bank, from 'AAA' to 'AA+'. This was a result of S&P Maalot's adjustment to S&P's international rating methodology of all its ratings relating to issues made by the banking system. Accordingly, the agency determined that subordinated capital notes of

Israeli banks which it had rated in the past would now be rated at one rating level lower than the issuer's rating.

On 6 October 2008, the Midrug agency announced that the capital notes issued by the Israeli banks rated by it were being transferred to a watch list, in light of the possibility of a rating downgrade. This was due to the increase in uncertainty in the financial markets and in the risk level in the business environment in which the local system operates.

Midrug's current rating for Bank Leumi's subordinated capital notes is 'Aaa'.

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

	For three months ended 30 September		For nine months ended 30 September		For the year
	2008	2007	**2008**	2007	2007
	In percentages				
Rate of increase of the "known" CPI	**2.10**	2.52	**5.00**	2.79	2.8
Rate of increase (decrease) in the rate of the US dollar	**2.06**	(5.55)	**(11.05)**	(5.02)	(9.0)
Rate of increase (decrease) in the rate of the euro	**(5.39)**	(0.41)	**(11.65)**	2.26	1.7
Rate of (decrease) in the rate of the pound sterling	**(5.77)**	(4.34)	**(18.44)**	(1.81)	(7.0)
Rate of (decrease) in the rate of the Swiss franc	**(4.35)**	(0.61)	**(8.01)**	(1.04)	(1.3)

The following table sets out the principal representative exchange rates:

	30 September		31 December	
	2008	2007	2007	2006
US dollar	**3.421**	4.013	3.846	4.225
Euro	**4.999**	5.690	5.659	5.564
Pound sterling	**6.288**	8.138	7.710	8.288
Swiss franc	**3.146**	3.429	3.420	3.465

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 plans", "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 foreign exchange 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 included in this Report.

Property of Holocaust Victims

In January 2005, the Parliamentary Committee of Inquiry Regarding the Tracing and Return of Property of Holocaust Victims published its concluding report. The report indicates that assets of Holocaust victims that had been deposited with the Anglo-Palestine Bank were transferred, pursuant to provisions that were in force at the time, to the British government's Custodian of Enemy Property, to the Israeli Custodian of Enemy Property, to the Administrator General, or were returned to those entitled to them. 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 (the "Law") came into effect. The Law provides that a party who holds, in Israel, assets of Holocaust victims (as such terms are defined in the Law) must transfer them to 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.

Out of sensitivity to public sentiment and to demonstrate its goodwill, the Bank transferred the sum of NIS 20 million to the Company, to be used for making payments to the heirs of victims and to survivors during their lifetime, in accordance with the provisions of the Law and pursuant to appropriate criteria to be established by the Company, as required by the Law.

The Bank has notified the Company that if it is determined that the Bank is not obligated to make any payments whatsoever (which is the Bank's position), or that it is required to make a payment which is lower than that which has been paid, any balance of the amount will be considered to be a donation to be used for the above purposes. If it is determined that the Bank is required to pay amounts to Holocaust survivors or to the heirs of Holocaust victims which are higher than the amount that has been paid, then the Bank will set off the payment made (linked to the CPI and bearing interest) against the amount of the liability.

On 4 March 2008, the Bank received a first request from the Company for the payment of a revalued amount of some NIS 148 million, which the Company claimed that the Bank is required to transfer to it according to the Law, an amount which the Company later reduced and revalued at some NIS 137 million. The Bank responded to the Company's request while rejecting the claim that it has any financial liability with respect to the majority of the assets included in the request.

On 18 September 2008, the Bank received an additional request from the Company, for the payment of a revalued amount of some NIS 111 million, which the Company claimed that the Bank is required to transfer to it according to the Law. The Bank is examining this request. At this stage, it is not yet possible to evaluate the factual and legal basis for this request or to assess its accuracy.

At the beginning of July 2007, the Bank appointed the Honorable Supreme Court Justice (ret'd) Theodore Orr as an external examiner to carry out an independent and impartial investigation of the Bank's obligations pursuant to the Law, if any, and of the Bank's conduct regarding the assets of Holocaust victims, as such are defined in the Law. In the report that he delivered to the Bank, the examiner reinforced the Bank's position with regard to the main points of disagreement between the Bank and the Company. The examiner refers to the dormant accounts, details of which were published by the Bank in 2000 on its website, in coordination with the Administrator General, as "unclaimed accounts". The examiner states that the legal obligation to prove whether these funds belong to Holocaust victims is borne by the Company, and that it will be difficult to prove this. The examiner recommends that the Bank grant the Company a certain amount, as a gesture of goodwill, such to be estimated by the Bank in the future, following the submission of all the Company's requests. The examiner mentions the amount already transferred by the Bank, as referred to above, and that such amount may constitute all or part of this grant. Following submission of all the Company's requests, and once it has all the relevant data, a discussion will be held by the Board of Directors, while taking into account this recommendation.

At this stage, the Bank estimates that no additional provision in respect of the above-mentioned requests or in respect of the contents of the examiner's report is necessary.

The Reform of Bank Commissions

On 1 July 2008, a material reform regarding commissions went into effect.

The reform was established by Amendment Number 12 (enacted in July 2007) to the Banking (Service to Customers) Law, 1981.

As the Law provides, its purpose was to establish a new commission price list for individuals and small businesses. In establishing this price list, "the Governor of the Bank of Israel will take steps to ensure a fair and comprehensive presentation of the commissions, with the objective of ensuring that customers can compare the cost of managing an account and of means of payment." The legislation followed the establishment of a Parliamentary Committee of Inquiry regarding Bank Commissions - a committee whose letter of appointment indicated that its main purposes were the creation of transparency in the system of commissions and to make that system comprehensible to the customers, as well as to increase competition between the banks.

In the framework of the reform, the Banking Supervision Department established a uniform and mandatory list of banking services for which banking corporations are permitted to charge commissions from individuals and small businesses, as defined in the legislation (the "Complete Price List").

A number of important objectives were thereby achieved:

Reduction in the number of commissions – the number of commissions for consumer services provided to individuals and small business customers was reduced by some two thirds, through the consolidation and cancelling of commissions.

Establishment of uniform names for banking services – identical services are to be given identical names by all the banks, to facilitate comparison.

Establishment of basic price lists – in addition to the complete price list, common banking services were grouped together in three basic price lists, each of which includes a single central topic: current accounts, mortgages, and credit cards. The grouping of the common commissions in the basic price lists makes examination and comparison of commissions in different banks easier.

One of the main changes made by the Bank of Israel with respect to the commissions price list for individuals and small businesses was the consolidation of the most common operations in current accounts under the heading "operation through a teller" or the separate heading "operation by direct channel."

In early May 2008, in accordance with the Supervisor's instructions, Leumi submitted to the Banking Supervision Department its new price list for individuals and small business customers (the "New Price List"), which includes the rates established by Leumi. Following the response of the Banking Supervision Department, a number of changes were made to the price list.

In addition, on 26 August 2008, the Governor of the Bank of Israel published an amendment to the Banking (Service to Customers) (Commissions) Rules and to the full commissions price list attached to those rules. The amendment states, *inter alia,* that customers who are "senior citizens" or disabled will be entitled to have four operations through a teller carried out each month at the price of an operation by direct channel, which is materially lower than the price of an operation through a teller. The amendment took effect on 1 September 2008.

After the commissions' reform went into effect, various private members' bills were submitted to the Knesset, with the aim of imposing additional restrictions in connection with the collection of commissions from individuals and small businesses, including, *inter alia*, limiting the collections of such commission under certain conditions.

Leumi estimates that, in light of the circumstances currently known to it, and in light of the amount of the income from commissions collected since the implementation of the reform, and before examining the above-mentioned private members' bills, that the Group's income from commissions, in annual terms, is likely to be adversely affected by some NIS 90 million as a result of the reform (and also taking into account the economic situation, including the state of the capital market). This evaluation is based on the structure of the new price list established by the Bank of Israel, and on the recent amendments that have been announced. The Bank continues to examine the implications of the reform.

Pension Counseling

On 27 August 2008, the Bank received a pension counseling license. Pursuant to the terms of the license, the Bank may provide pension counseling throughout the country to the self employed, to individuals aged 55 and above who are not salaried employees and to minors, with respect to the categories of products listed in paragraphs 1-4 and 9 of the definition of "categories of pension products" in the Control of Financial Services (Pension Counseling and

Pension Marketing) Law, 2005, that is to say that the Bank may provide counseling with regard to provident funds, pension funds and supplementary training funds.

The Bank may provide pension counseling to the entire population (i.e., to salaried employees and the self employed) with regard to the mentioned products and at the places as specified in the Schedule to the Counseling Law ("branches in the periphery")

At this stage, the Bank is not permitted to provide pension counseling regarding insurance funds or regarding risk life insurance or loss of earning capacity insurance (“managers’ insurances”) (“Insurance Products”).

The Bank will be permitted to offer pension regarding counseling regarding Insurance Products in peripheral areas as of 1 January 2009 and throughout the rest of the country as of 1 April 2009.

As of 1 August 2010, the Bank will be permitted to provide pension counseling to the entire population, in all parts of the country, and in effect, as of that date, the Bank will be permitted to provide counseling to the entire population regarding all categories of pension products.

In September 2008, the Bank began providing pension counseling through a pilot program in a number of branches throughout the country. The pilot program has concluded and the Bank has begun a gradual deployment of the service in additional branches throughout the country.

A number of private members' bills were tabled before the Knesset in June and July 2008, for the amendment of the Control of Financial Services (Pension Counseling and Pension Marketing) Law, 2005. The proposed amendments relate primarily to the subject of distribution fees paid to banks engaged in pension counseling.

Coming into Effect of Amendment No. 10 of the Regulation of Engagement in Investment Counseling and Marketing and in the Management of Investment Portfolios Law and the Proposed Regulation of Engagement in Investment Counseling and Marketing and in the Management of Investment Portfolios (Amendment No. 11) Law, 2008

Upon completion of the sale of the provident funds and mutual funds that had been under the Leumi Group’s management and the reorganization of the employees' provident funds following the legislation implementing the recommendations of the Bachar Committee, Amendment No. 10 of the Regulation of Engagement in Investment Counseling and Marketing and in the Management of Investment Portfolios Law (“Amendment 10”) went into effect.

In Amendment 10, enacted in the context of the Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005 a distinction was made for the first time between “investment counseling” and "investment marketing” with the banks serving as investment counselors, other than with respect to structured products, options and futures contracts which they produce, for which they act as marketers. In addition, without detracting from the law’s provisions regarding disciplinary offenses, disciplinary proceedings and penalties, a chapter was added to the law which allows the Chairman of the Israel Securities Authority to impose civil fines for certain violations of the law's provisions on license-holders and banking corporations.

The proposed Amendment 11, published in July 2008, primarily regulates the ability of foreign entities that have been licensed to engage abroad in investment counseling and marketing and in the management of investment portfolios, to engage in these occupations and to provide such services to parties in Israel, without obtaining an Israeli license.

According to the proposal, an Israeli bank will be able to contract with a foreign entity regarding their engaging in counseling in Israel.

The proposal also deals with the expansion of the types of sophisticated clients regarding whom counselors are subject to less stringent requirements in the counseling process, such as being exempt from signing a counseling agreement and from certain disclosure requirements, when providing counseling to institutional investors acting for themselves only, so as to include counseling provided to institutional investors acting for others and corporations with shareholders' equity exceeding NIS 50 million, and individuals, the value of whose financial assets and securities exceeds NIS 15 million.

Draft Bill – Proposed Amendment of the Banking (Licensing) Law

In April 2008, the Ministry of Finance circulated a draft bill for the amendment of the Banking (Licensing) Law.

The draft bill proposes various amendments to the Banking (Licensing) Law. Most of these relate to the credit card market and follow the recommendations of the Committee for the Examination of the Market Failures in Credit Card Clearing in Israel.

Among other things, it is proposed to establish that the clearing of transactions carried out through a credit card will be done only by parties licensed for that purpose by the Governor of the Bank of Israel and that the Supervisor of Banks will be able to require a large clearer (as defined in the proposed law) to clear transactions of issuers with various suppliers.

In addition, the Supervisor will also be authorized to require a large issuer (as defined in the proposed law) which is also a clearer to allow other clearers to clear transactions that were carried out with credit cards that it has issued.

It is also proposed that the Supervisor be enabled to supervise the rate of the interchange fees (the fee paid by the clearer to the issuer).

The following additional issues are included in the draft bill:

- The Banking (Licensing) Law includes provisions allowing the banking corporations exclusive rights to carry out certain activities, which include a provision to the effect that only a banking corporation may accept monetary deposits or carry out issues of securities that require a prospectus together with the granting of credit. The exceptions to the definition of "granting credit" include the granting of long-term credit to a person whose name appears in a prospectus or for the purpose of purchasing a banking corporation's rights against its borrowers. It is now proposed to include as an additional exception from the definition of "granting credit", the granting of similar credit on a short-term basis.

  This amendment will allow for the securitization of short-term bank loans and the issuance of short-term commercial paper.

- The draft bill proposes to amend the section that allows foreign banks and branches of foreign banks, which in the opinion of the Supervisor of Banks do not engage in significant retail activity, to participate in the ownership and asset management of provident funds and mutual funds. (Currently, the volume of retail activity of such banks is determined on the basis of quantitative criteria).

- It is proposed to transfer the authority to issue or revoke a banking corporation's branch permit from the Governor of the Bank of Israel to the Supervisor of Banks.

- It is proposed to establish penalty provisions regarding violations related to the clearing of credit cards, such as clearing without a license.

- It is proposed that the authority of the Supervisor of Banks be made comparable to the authority of the Supervisor of Insurance, to determine up to seven office holders subject to the Supervisor of Bank's approval in all types of banking corporations.

- An amendment to the Banking Ordinance is proposed so as to allow the Supervisor of Banks to transfer documents and information that he has received to other departments within the Bank of Israel.

Amendments of the Execution Law, 1967

In November 2008, the Knesset approved Amendment 29 to the Execution Law, 1967 (the "Amendment of the Law"). The Amendment of the Law introduces a number of changes, including, *inter alia*: the grant of authority to the Enforcement Office Registrar, under certain circumstances, to request and receive information regarding a debtor from various entities, with the aim of assisting the creditor in collecting the debt; a shortened procedure for collecting debts in an amount not exceeding NIS 10,000 – a procedure under which the enforcement office system will act to collect the debt by attaching a vehicle or funds owed to the debtor by a third party, and under which the creditor not be granted attorney's fees; the granting of authorization to the Enforcement Office Registrar to take measures, in certain circumstances, to impose restrictions on a debtor; and more.

The Amendment of the Law also provides that alternative housing will be provided for a debtor and any family members living with him even in the event of the foreclosure of a mortgage or the realization of a pledge, where it is agreed in the mortgage or pledge document that the debtor will not be entitled to alternative housing. This is intended to ensure that the debtor and his family members will not be left homeless if they have no other reasonable housing alternative and are financially unable to pay the costs of reasonable housing. If the mortgage deed or pledge state that the alternative arrangement will be in accordance with the Amendment of the Law, and the significance thereof has been explained to the debtor in clear language that he understands, the alternative housing shall be provided, for no more than 18 months; the Enforcement Office Registrar has the authority to extend that period under special circumstances. The Amendment of the Law will come into effect 6 months after its legally required publication, with the above provisions regarding alternative housing applying only to mortgage or pledge agreements that are entered into after the Amendment of the Law enters into force. Regarding pledge or mortgage agreements that are entered into before the Amendment of the Law enters into force, it was provided that the un-amended text of the section of the Law will apply, which provides that upon the realization of a mortgage or a pledge, no alternative housing will be provided to the debtor and his family members if the mortgage deed or pledge agreement states that the debtor will not be protected by this section, unless it be proved to the Enforcement Office Registrar that the debtor's right to alternative housing and the significance of the waiver thereof was not properly clarified to him.

With regard to the effect of the Amendment of the Law on Leumi Mortgage Bank, see page 87 below.

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 2007.

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 assumptions.

The estimates and assumptions are generally based on economic forecasts, assumptions regarding the various markets and past experience following 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 2007 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 September 2008, there were no changes in the accounting policy on critical subjects compared with that described in the Annual Report for 2007.

For further details, see pages 44-48 of the Annual Report for 2007.

Procedure for the Approval of the Financial Statements

The Bank's Board of Directors is the entity ultimately responsible for supervision within the Bank and for the approval of the Bank's Financial Statements. All the members of the Board of Directors possess accounting and financial expertise, as described on pages 228-231 of the Annual Report for 2007, and possess the qualifications of external directors (as required by the Bank Shares (Arrangement Shares) (Temporary Provisions) Law, 1993).

In September 2008, the Board of Directors established a Financial Statements Review Committee, composed of members of the Board, the function of which is to discuss the Financial Statements and recommend their approval to the Board of Directors.

Before the Financial Statements are submitted to the Financial Statements Review Committee for discussion, the Bank's Financial Statements are discussed by the Disclosure Committee. The Disclosure Committee is a Management committee comprised of all the members of the Bank's Management, as well as the Acting Head of the Commercial Banking Division, the Group Secretary, and the Head of the Risk Management Control Department. The Chief Internal Auditor and additional senior managers of the Bank participate in the discussions of the Committee. The Disclosure Committee examines, *inter alia*, whether the information in the Financial Statements is accurate, complete and appropriately presented. (The Disclosure Committee was established as part of the implementation of a Directive of the Banking Supervision Department, based on section 302 of the SOX Act. See "Evaluation of Disclosure Controls and Procedures for the Financial Statements" on page 106 of the Report).

Prior to the discussion of the Financial Statements by the full Board of Directors, the Financial Statements Review Committee discusses them, with the participation of the President and Chief Executive Officer, the Senior Deputy Chief Executive Officer and Head of the Finance and Economics Division, the Chief Accounting Officer, the Chief Internal Auditor and others.

The background material sent to the members of the Financial Statements Review Committee prior to the discussion includes the minutes of the discussion of the Disclosure Committee and its decisions, the draft Directors' Report and the draft Financial Statements. The Committee members also receive details regarding new disclosure requirements (to the extent there are any) that apply to the Bank. Information regarding the Bank's exposure to legal claims and a description of new legal claims, and background material for the discussion on the appropriateness of the classification of problem customers and on the provisions for doubtful debts, being confidential and sensitive information, is made available for advance review by the Committee members at the Bank's offices.

During the discussion, the Committee discusses the appropriateness of the provisions and of the classification of the Bank's problem loans, following the President and Chief Executive Officer's presentation to Committee of the scope of the provisions and the classification of problem loans, and the changes and trends in this area, and after other senior managers present the scope of the provisions within their areas of responsibility. The subject of the legal claims and of the Bank's exposure in this regard is presented by the Bank's Chief Legal Advisor. The Senior Deputy Chief Executive Officer and Head of the Finance and Economics Division presents to the Committee the main and material matters in the Directors' Report and Financial Statements, the changes in critical accounting policies, if any, and the main matters discussed by the Disclosure Committee. The Committee also discusses these matters.

Following the discussion by the Committee, there is discussion by the full Board of Directors of the final draft of the Financial Statements, with the participation of the President and Chief Executive Officer, the Senior Deputy Chief Executive Officer and Head of the Finance and Economics Division, the Chief Accounting Officer, the Chief Internal Auditor, and when the discussion concerns the approval of annual Financial Statements, the members of the Bank's Management also. As background material for the discussion, the Directors receive the draft of the Financial Statements together with extensive accompanying background material, including in-depth comprehensive analyses of the Bank's activities in its various areas of business.

In the context of this discussion, the Bank's President and Chief Executive Officer reviews the results of the Leumi Group's operations and the Senior Deputy Chief Executive Officer and Head of the Finance and Economics Division presents and analyzes the results of the Group's operations in Israel and abroad, including a description of the exposure to risks and compliance with the limits established with regard to such risks. Thereafter, the full Board of Directors discusses the Financial Statements and approves them.

All the discussions of the Board of Directors, the Financial Statements Review Committee and the Disclosure Committee regarding the Financial Statements are held with the participation of representatives of the Bank's joint auditors, who are available to the participants to answer questions and provide clarifications. The Financial Statements are approved by the Board of Directors following presentation by the joint auditors to the Board of Directors of any material weaknesses that may have arisen during the audit processes that they carried out, and after the Board is presented with the certifications of the President and Chief Executive Officer and of the Senior Deputy Chief Executive Officer and Head of the Finance and Economics Division, regarding evaluation of the Bank's disclosure controls and procedures for the Financial Statements.

The disclosure policies for the Financial Statements were discussed and approved by the Finance Committee of the Board of Directors.

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

Development of Income, Expenses and Tax Provisions

In the wake of the global financial crisis, the continuing declines on stock markets worldwide and in Israel, the collapse of the Lehman Brothers investment house and the US bank Washington Mutual, the deterioration in the state of the Israeli economy, and the impact of all these factors on the Group's business, the Leumi Group ended the third quarter of 2008 with a loss of NIS 84 million. Nevertheless, the Group ended the first nine months of the year with a profit of NIS 1,275 million, compared with NIS 2,840 million in the corresponding period in 2007, but with a decline of 55.1 %.

The decrease in the Group's net profit during the first nine months of 2008, as compared with the corresponding period in 2007, is explained primarily by the following factors:*

1. An increase in provisions for doubtful debts in the amount of NIS 927 million, before the effect of taxes.

2. A decrease in operating and other income in the amount of NIS 775 million, a decrease of 25.6%, before the effect of taxes, mainly as a result of declines in value and losses from investments in shares.

3. A decline in net interest income, before provisions for doubtful debts in the amount of NIS 463 million, a decrease of 7.9%, before the effect of taxes, mainly as a result of declines in value and/or losses from investments in shares.

4. An increase in operating and other expenses (including salaries) in the amount of NIS 129 million, an increase of 2.5 %, before the effect of taxes.

5. An increase in the tax rate by 23 basis points, as explained on pages 31 to 32, in the provision for taxes item.

6. A decrease in the profit from extraordinary items in the amount of NIS 119 million, as described below.

* Before minority interests in consolidated companies.

On the other hand, an increase in the Group's share of the profits of companies included on the equity basis of NIS 325 million, net, partially offset the above-mentioned declines.

As stated above, the third quarter ended with a net loss of NIS 84 million, compared with a net profit of NIS 1,010 million in the corresponding period in 2007. The following are the main causes of the loss and of the decline in profitability:

1. A decrease in net interest income before provisions for doubtful debts in the amount of NIS 774 million, before the effect of taxes – resulting mainly from declines in values and/or from losses from investments in debentures.

2. An increase in provisions for doubtful debts in the amount of NIS 416 million, before the effect of taxes.

3. A decrease in operating and other income in the amount of NIS 369 million, and at the rate of 40.6 %, before the effect of taxes, resulting mainly from declines in value and/or from losses from investments in shares.

4. Tax expenses of NIS 61 million, the source of which is an adjustment of deferred taxes, as explained on pages 31 to 32 in the provision for taxes item.

5. A decrease in profit from extraordinary items in the amount of NIS 108 million, as described below.

On the other hand, an increase in the Group's share of profits of companies included on the equity basis of NIS 129 million, net, and a reduction of NIS 39 million in operating expenses partially offset the above-mentioned declines.

Net interest income before provision for doubtful debts in the Leumi Group amounted to NIS 5,404 million during the first nine months of 2008, compared with NIS 5,867 million in the corresponding period in 2007, a decrease of 7.9%.

The losses from investments in debentures amounted to NIS 573 million, compared with a profit of NIS 53 million during the corresponding period in 2007. Without the impact of these losses, net interest income increased by some 2.8%.

Net interest income before provision for doubtful debts during the third quarter of 2008, amounted to NIS 1,491 million as compared with NIS 2,265 million during the corresponding period in 2007, a decrease of 34.2%, and after neutralizing the effects of the losses from investments in debentures, the decrease was at the rate of 12.4%.

The decrease in the Group's net interest income before provision for doubtful debts during the first nine months of 2008 as compared with corresponding period in 2007 stems mainly from:

	For the nine months ending		
	30 September 2008	30 September 2007	% Change
	NIS millions		
Current activities	**5,148**	5,218	(1.3)
Collection and reduction of interest in respect of problem loans	**416**	340	22.4
Decline in value of available-for-sale debentures	**(518)**	-	-
Profit (loss) from sale of available-for-sale debentures and from adjustments to market value of debentures for trading	**(55)**	54	-
Adjustments to fair value of derivatives	**59**	66	(10.6)
Effect of the known CPI	**354**	190	86.3
Total	**5,404**	5,867	(7.9)

As stated, the main decrease in net interest income resulted from losses caused by the sale of and adjustments to market value of debentures, which were partially offset by the adjustment to fair value of derivative instruments.

The following are additional details regarding the change in net interest income from current activities:

1. An increase in the volume of financial activities in the unlinked shekel sector of some 17.8%, which increased net interest income by some NIS 415 million and was partially offset by an amount of NIS 205 million from the decrease of 0.20% in the interest margin.

2. The CPI-linked sector was affected by the steep increase in the CPI, and the increase in the scope of activities. In total, the sector contributed to an increase of some NIS 66 million in net interest income.

3. A decline of 0.30% in the interest margin in the foreign currency and foreign currency linked sector caused a reduction in income of some NIS 207 million

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

	First nine months		
	2008	2007	% Change
	NIS millions		
Households	**1,989**	1,934	2.8
Small businesses	**668**	638	4.7
Corporate banking	**1,226**	1,157	6.0
Commercial banking	**845**	803	5.2
Construction and real estate	**600**	485	23.7
Private banking	**226**	323	(30.0)
Financial management – capital markets and other	**(150)**	527	(128.5)
Total	**5,404**	5,867	(7.9)

Total Interest Margin (excluding transactions in financial derivatives) during the first nine months of 2008 was 2.84%, compared with 2.30% during the corresponding period in 2007. The interest margin including financial derivative transactions was 1.85% during the first nine months of 2008, compared with 1.76% during the corresponding period in 2007, and 1.71% for the whole of 2007.

The ratio of net interest income before provision for doubtful debts to the average balance of the financial assets was 2.60%, compared with 2.83% (in annual terms) during the corresponding period in 2007.

Financing commissions amounted to NIS 252 million during the first nine months of 2008, compared with NIS 229 million during the corresponding period in 2007, an increase of 10.0%. These commissions include mainly the income from off-balance sheet activity, such as guarantees for granting credit, guarantees for apartment purchasers and other guarantees, as well as commissions from foreign trade activity.

Other Financing Income and Expenses include mainly profits/losses from the sale of debentures and the adjustment of debentures for trading to fair value or market value, income from early credit repayment commissions, interest collection in respect of doubtful debts from previous years and the reduction of provisions for uncollected interest. Net income from these operations amounted to NIS 20 million during the first nine months of 2008, compared with NIS 553 million in the corresponding period in 2007. This included a provision for the decline in value of SCDO debentures in the amount of NIS 279 million, and a provision for the decline in value of other debentures in the amount of NIS 239 million, as detailed below.

The following are the main changes in other financing income and expenses:

	30 September 2008	30 September 2007	Change
	NIS millions		%
Profit (loss) from sales and adjustments of available-for-sale debentures	**(508)**	97	-
Loss from sales and adjustments to market value of debentures for trading	**(65)**	(44)	-
Collection/reduction of interest in respect of doubtful debts	**416**	341	22.0
Early credit repayment commissions	**111**	110	0.9
Other	**66**	49	34.7
Total	**20**	553	(96.4)

The Provision for Doubtful Debts in the Leumi Group during the first nine months of 2008 amounted to NIS 1,055 million, compared with NIS 128 million in the corresponding period of 2007, an increase of NIS 927 million.

During the third quarter of 2008, the provision for doubtful debts amounted to NIS 495 million, compared with NIS 79 million in the corresponding period of 2007, an increase of NIS 416 million.

The net increase in the specific provision was, obviously, affected by the global crisis that also impacted on the Israeli economy.

The additional and general provisions for doubtful debts, in respect of unidentified risks in the loan portfolio, which are based upon the risk characteristics of the loan portfolio, were reduced by NIS 25 million during the first nine months of 2008, compared with a reduction of NIS 58 million during the corresponding period in 2007, and a reduction of NIS 149 million for the whole of 2007. There was a decrease of NIS 5 million in the third quarter of 2008.

The overall rate of the provision for doubtful debts during the first nine months of 2008 was 0.68% of total credit to the public (in annual terms), compared with a rate of 0.09% in the corresponding period in 2007, and compared with 0.20% for the whole of 2007. As a result of the worsening of the state of the economy, the rate of the provision for doubtful dates has increased, beginning with the fourth quarter of 2007. For further details, see page 40.

The rate of the overall provision for doubtful debts in relation to overall credit risk (balance sheet and off-balance sheet) were 0.45%, 0.06% and 0.13% respectively.

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 850 million (constituting 0.41% of total credit to the public) on 30 September 2008, compared with NIS 875 million at the end of 2007.

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

Segment	For the first nine months ending 30 September 2008 (NIS millions)	% *	30 September 2007 (NIS millions)	%*
Households	**229**	**0.5**	103	0.2
Small businesses	**75**	**0.6**	65	0.5
Corporate banking	**498**	**1.2**	(126)	(0.3)
Commercial banking	**191**	**0.8**	112	0.4
Construction and real estate	**40**	**0.2**	(19)	(0.1)

* Percentage of total credit at the end of the period on an annual basis.
See pages 34 to 35 for further details.

Profit from Net Interest Income after Provision for Doubtful Debts of the Leumi Group in the first nine months of 2008 amounted to NIS 4,349 million, compared with NIS 5,739 million during the corresponding period in 2007, a decrease of 24.2%. During the third quarter of 2008, net interest income after provision for doubtful debts amounted to NIS 996 million, compared with NIS 2,186 million in the corresponding period of 2007, a decrease of 54.4%.

Total Operating and Other Income of the Leumi Group during the first nine months of 2008 amounted to NIS 2,255 million, compared with NIS 3,030 million in the corresponding period in 2007, a decrease of 25.6%. During the third quarter of the year, operating and other income amounted to NIS 540 million, compared with NIS 909 million in the corresponding period in 2007, a decrease of 40.6%. The main cause of the decrease in income was the losses from investments in shares and mutual funds

The following are the main changes in operating and other income:

	For the first nine months ending **30 September 2008**	30 September 2007	**Change**	
	NIS millions		NIS millions	%
Operating commissions (1)	**2,524**	2,487	**37**	1.5
Profits (losses) from investments in shares (2)	**(478)**	234	**(712)**	-
Other income (3)	**209**	309	**(100)**	(32.4)
Total operating and other income	**2,255**	3,030	**(775)**	(25.6)

During the third quarter of 2008, operating commissions amounted to some NIS 840 million, as compared with NIS 834 million during the corresponding period in 2007. Most of the commissions items decreased mainly as a result of the impact of the commissions reform. The decrease was offset by the increase in income from credit cards

The following are additional details regarding each of the above-mentioned items:

1. Operating commissions (NIS 37 million):
   a. An increase in income from credit cards in the sum of NIS 77 million, 15.5%.

b. An increase in income from payment system services in the sum of NIS 53 million, 8.7%.
c. An increase in income from credit handling and preparation of legal documents in the amount of NIS 17 million, 6.2%.
d. A decrease in income from securities transactions in the sum of NIS 72 million, 11.0%.
e. A decrease in account management fees in the amount of NIS 10 million, (5.2%).

2. Losses from investments in shares (NIS (712) million):
   a. A decrease in the value of investments in securities for trading in the amount of NIS 444 million, including the recording of negative exchange rate differentials in the foreign securities for trading portfolio, compared with a loss of NIS 5 million from adjustments in the corresponding period in 2007.
   b. In the first nine months of 2007, there were profits of NIS 74 million from the sale of shares available-for-sale, while in the first nine months of 2008 the losses and adjustments to market value totaled NIS 11.9 million.
   c. A decrease in income from dividends in the amount of NIS 80 million, which is mainly explained by the recording as a dividend of a partial repayment of the debt of a certain customer in the amount of NIS 88 million during the first nine months of 2007, as compared with NIS 29 million during the first nine months of 2008. In accordance with Directives of the Supervisor of Banks the debt was shown as an investment in shares in the available-for-sale portfolio.

3. Other income (NIS (100) million):

From the second quarter of 2006, the capital market reform came into effect, and the Bank began to charge distribution fees in respect of mutual funds that it distributes, and as of 2007, the Bank began to charge provident fund operation fees.

	Nine months ending on			
	30 September 2008	30 September 2007	Change	
	NIS millions		NIS millions	%
From mutual funds	**100**	125	(25)	(20.0)
From provident funds	**9**	15	(6)	(40.0)
From supplementary training funds	**-**	17	(17)	-
From provident funds operations	**37**	30	7	23.3
Profits from severance pay fund	**-**	45	(45)	-
Other income	**63**	77	(14)	(18.2)
Total	**209**	309	(100)	(32.4)

See above at pages 18 to 19 of the Report with regard to the law concerning commissions and the Bank of Israel's proposal on the subject.

The ratio of operating and other income to total income (i.e. net interest income before provision for doubtful debts and operating and other income) was 29.4%, compared with 34.1% during the corresponding period in 2007 and 35.6% for the whole of 2007.

Operating and other income covers 43.3% of operating and other expenses and, after neutralizing special expenses as detailed below, 45.7%, compared with cover of 59.7% and

62.1%, respectively, during the corresponding period in 2007, and compared with 60.9% and 63.1% for the whole of 2007.

Total Operating and Other Expenses of the Leumi Group in first nine months of 2008 amounted to NIS 5,202 million, compared with NIS 5,073 million during the corresponding period in 2007, an increase of 2.5%. During the third quarter of the year, operating and other expenses amounted to NIS 1,746 million, compared with NIS 1,785 million in the corresponding period in 2007, a decrease of 2.2%.

Salary expenses increased by NIS 14 million in the first nine months of 2008, an increase of 0.4% compared with the corresponding period in 2007. The increase in salary expenses derives primarily from losses in the provident fund and the severance pay fund which serve as reserves for covering liabilities for employee pensions, which were offset by the reduction in provisions for employee bonuses, and by a reduction in costs related to the issue of shares and options to employees.

The following table shows details relating to special salary expenses:

	Nine months ending	
	30 September 2008	30 September 2007
	(NIS millions)	
Expenses related to the issue of options to employees	(2)	196
Recording benefit related to the sale of shares to employees	(50)	(3)
Additions to provisions for severance pay and pensions*	296	-
Total	244	193

* Of which NIS 154 million in respect of losses of the funds compared with profits in the corresponding period in 2007.

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased by NIS 115 million during the first nine months of 2008, an increase of 5.9%, compared with the corresponding period in 2007. The increase results mainly from the increase in depreciation expenses, at the rate of 11.5%, as a result of the operation of new computer systems and an increase of the cost of maintenance of building and equipment of 10.5%.

Operating expenses constitute 67.9% of total income compared with 57.0% in the corresponding period in 2007, and compared with 58.4% for the whole of 2007.

Total operating and other expenses (in annual terms) constitute 2.37% of total assets, compared with 2.25% in the corresponding period in 2007, and compared with 2.30% for the whole of 2007.

Operating Profit before Taxes of the Leumi Group in the first nine months of 2008 amounted to NIS 1,402 million, compared with NIS 3,696 million in the corresponding period in 2007, a decrease of 62.1%. During the third quarter of the year, the operating loss before taxes amounted to NIS 210 million, compared with a profit of NIS 1,310 million in the corresponding period in 2007.

Provision for Taxes on Operating Profit of the Leumi Group in the first nine months of 2008 amounted to NIS 844 million, compared with NIS 1,367 million in the corresponding period in 2007. The rate of provision in the said period was some 60.2% of the pre-tax profit, compared with 37.0% in the corresponding period in 2007.

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 which were negative in the relevant period, compared with lower negative exchange rate differentials in the corresponding period in 2007, as detailed on pages 87 to 88 of the Report.

2. The cancellation of deferred taxes due to a reduction in the value of employee benefits in respect of the issue of options and shares to employees, in the amount of some NIS 83 million, in the third quarter NIS 99 million.

3. The amendment to the Value Added Tax Law had the effect of reducing taxes in the amount of NIS 48 million.

4. The amendment to the Income Tax (Adjustments for Inflation) Law had the effect of increasing taxes in the amount of NIS 235 million.

Operating Profit after Taxes amounted to NIS 588 million in the first nine months of 2008, compared with NIS 2,329 million in the corresponding period in 2007, a decrease of 76.0%. During the third quarter of the year, there was an operating loss after taxes of NIS 271 million, compared with a profit of NIS 839 million in the corresponding period in 2007.

The Group's Share in Operating Profit after Taxes of Companies Included on the Equity Basis amounted to NIS 471 million in the first nine months of 2008, compared with NIS 146 million in the corresponding period in 2007.

Minority Interests in the Profits of the Group amounted to a profit of NIS 3 million in the first nine months of 2008, similar to the profit in the corresponding period in 2007.

Net Operating Profit of the Group in the first nine months of 2008 amounted to NIS 1,026 million, compared with a profit of NIS 2,472 million in the corresponding period in 2007, a decrease of 58.5%.

Net After-Tax Profit from Extraordinary Items amounted to NIS 249 million in the first nine months of 2008, compared with NIS 368 million in the corresponding period in 2007. The profit during the first nine months of the year resulted from the allotment of 20% of the issued and fully paid-up share capital of Leumi Card to Canit – Investment and Finance Management Ltd. The profit in 2007 arose from the sale of some of the provident funds and supplementary training funds that were under the Group’s management.

Net Basic Operating Profit per share reached NIS 0.70 during the first nine months of 2008, compared with NIS 1.75 in the corresponding period in 2007.

Net Basic Profit per share reached NIS 0.87 during the first nine months of 2008, compared with NIS 2.01 in the corresponding period in 2007.

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

	2008	2007
	Nine months ending on 30 September	
	%	
Net profit	**8.5**	20.6
Net operating profit	**6.8**	17.9

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

	2008	2007					
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	%						
Net profit (loss)	**(1.6)**	19.1**	**9.8**	10.4	21.9**	20.9	22.2**
Net operating Profit (loss)	**(1.6)**	13.4	**9.8**	10.3	19.4	20.9	15.6

The following are the returns after neutralizing the effects of special salary expenses*:

	2008	2007					
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	%						
Net profit	**1.8**	18.3**	12.0	11.6	22.6**	21.5	23.2**
Net operating Profit	**1.8**	12.7	12.0	11.5	20.1	21.5	16.5

* Special salary expenses: expenses related to recording costs from the options that were issued, the shares sold to employees by the State, and timing differentials related to severance pay reserves.

** Assuming the income from extraordinary items was non-recurring, the return of net profit for the second quarter of 2008 was 14.7% and 14.0% after neutralizing special expenses. In the first quarter of 2007, the return was 17.1% and 18.0% after neutralizing special expenses, and for the third quarter of 2007 - 19.9% and 20.6%, respectively.

Development of Profit during the Last Seven Quarters

The following is a summary of the quarterly after tax operating profit and loss statements for the last seven quarters:

	2008	2007					
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)						
Net interest income	**1,491**	1,953	1,960	1,781	2,265	1,809	1,793
Provision for doubtful debts	**(495)**	(316)	(244)	(279)	(79)	(38)	(11)
Operating and other income	**540**	864	851	1,192	909	1,131	990
Operating and other expenses	**(1746)**	(1,662)	(1,794)	(1,864)	(1,785)	(1,656)	(1,632)
Operating profit (loss) before taxes	**(210)**	839	773	830	1,310	1,246	1,140
Provision for taxes	**(61)**	(400)	(383)	(355)	(471)	(376)	(520)
Operating profit (loss)after taxes	**(271)**	439	390	475	839	870	620

The following table sets out the development of the main items constituting net interest income before the provision for doubtful debts:

	2008	2007					
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second quarter	First Quarter
	(NIS millions)						
Current activity	**1,595**	1,800	1,753	1,740	1,877	1,622	1,719
Collection and reduction of interest on problem loans	**80**	87	249	121	104	154	82
Decrease in value of available-for-sale debentures	**(425)**	(82)	(11)	-	-	-	-
Profits (losses) from the sale of available-for-sale debentures and from adjustments to market value of debentures for trading	**(166)**	(2)	113	33	(112)	81	84
Adjustments to fair value of derivatives	**250**	(22)	(169)	(113)	210	(67)	(77)
Effect of the known CPI	**157**	172	25	-	186	19	(15)
Total	**1,491**	1,953	1,960	1,781	2,265	1,809	1,793

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

	2008	2007					
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second quarter	First Quarter
	(NIS millions)						
Specific provision	**500**	311	269	369	90	66	31
Additional provision	**(5)**	5	(25)	(90)	(11)	(28)	(20)
Total	**495**	316	244	279	79	38	11
Rate of provision out of total credit to the public (on an annual basis)	**0.96%**	0.63%	0.49%	0.57%	0.16%	0.08%	0.02%

The following table sets out the quarterly development of operating and other income:

	2008	2007					
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second quarter	First Quarter
	(NIS millions)						
Operating commissions	**840**	832	852	862	834	827	827
Profits (losses) from investments in shares	**(363)**	(44)	(71)	227	9	143	82
Other income	**63**	76	70	102	66	162	81
Total operating and other income	**540**	864	851	1,191	909	1,132	990

The following table sets out the quarterly development of special salary expenses

	2008	2007					
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Third quarter	First Quarter
	(NIS millions)						
Expenses for issue of options to employees	**(37)**	6	29	51	66	77	53
Recording of benefit from sale of shares to employees	**(39)**	11	(22)	6	3	12	(18)
Provision for severance pay and pensions	**205**	(57)	148	-	-	(12)	12
Total	**129**	(40)	155	57	69	77	47

Structure and Development of Assets and Liabilities [(1)]

Total Assets of the Leumi Group as at 30 September 2008 amounted to NIS 293.8 billion, compared with NIS 302.2 billion at the end of 2007, a decrease of 2.8%, and an increase of 0.6% compared with 30 June 2008.

The value of the assets in the balance sheet denominated in and or linked to foreign currency was some NIS 103.4 billion, some 35.2% of total assets. During the first nine months of 2008, the shekel appreciated against the US dollar by 11.05% and against the euro by 11.65%. The changes in the rates of exchange in the first nine months of the year led to a decrease of 4.4% in total assets.

The total assets under the Group's management - total balance sheet as well as customers' securities portfolios, and provident funds and supplementary training funds in respect of which operating management and custody services are provided - amount to some NIS 693 billion, compared with NIS 764 billion at the end of 2007 (some US$ 203 billion and US$ 215 billion respectively), as detailed below.

The following table sets out the development of the main balance sheet items:

				Rate of Change	
	30 September 2008	30 June 2008	31 December 2007	Since June 2008	Since December 2007
	NIS millions			%	
Total assets	**293,811**	292,002	302,151	0.6	(2.8)
Deposits of the public	**225,952**	221,752	238,045	1.9	(5.1)
Debentures, capital notes and subordinated capital notes	**22,257**	21,920	19,248	1.5	15.6
Deposits from banks	**6,457**	8,966	6,139	(28.0)	5.2
Cash and deposits with banks	**29,027**	31,229	42,329	(7.1)	(31.4)
Securities	**41,566**	43,494	47,169	(4.4)	(11.9)
Credit to the public	**207,489**	201,717	198,557	2.9	4.5
Buildings and equipment	**3,368**	3,317	3,276	1.5	2.8

Deposits of the public amounted to NIS 226.0 billion as at 30 September 2008, compared with NIS 238.0 billion as at 31 December 2007, a decrease of 5.1%, and an increase of 1.9% compared with 30 June 2008.

The appreciation of the shekel in relation to most foreign currencies in the first nine months of 2008 led to a 5.5% reduction in total deposits of the public.

(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	30 September 2008	30 June 2008	31 December 2007	Rate of Change Since June 2008	Rate of Change Since December 2007
	NIS millions			%	
Households	**115,605**	112,792	116,133	2.5	(0.5)
Small businesses	**13,530**	12,912	14,097	4.8	(4.0)
Corporate banking	**23,166**	20,675	27,560	12.0	(15.9)
Commercial banking	**18,646**	19,502	22,351	(4.4)	(16.6)
Construction and real estate	**5,530**	5,280	4,789	4.7	15.5
Private banking	**35,844**	36,213	40,916	(1.0)	(12.4)
Financial management – capital markets and other	**13,631**	14,378	12,199	(5.2)	11.7
Total	**225,952**	221,752	238,045	1.9	(5.1)

Debentures, Capital Notes and Subordinated Capital Notes totaled NIS 22.3 billion on 30 September 2008, compared with NIS 19.2 billion on 31 December 2007, an increase of 15.6 %, and an increase of 1.5 % compared with 30 June 2008.

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:

	30 September 2008	31December 2007	Change	
	(NIS millions)		(NIS millions)	%
Securities portfolios	**347,905**	404,686	(56,781)	(14.0)
of which: Mutual funds[2] [3]	**39,876**	44,235	(4,359)	(9.9)
Provident funds[2] [3]	**37,288**	46,747	(9,459)	(20.2)
Supplementary training funds[2] [3]	**13,957**	10,497	3,460	33.0
Total	**399,150**	461,930	(62,780)	(13.6)

(1) Including change of in the market value of securities, and the value of securities of mutual and provident funds held in custody, regarding which operating management and custody services are provided.
(2) The Group in Israel does not manage any mutual funds, provident funds or supplementary training funds.
(3) Assets of customers in respect of which the Group provides operating management services, including the fund balances of customers who are counseled by Leumi.

Credit to the public totaled NIS 207.5 billion on 30 September 2008, compared with NIS 198.6 billion on 31 December 2007, an increase of 4.5%, and an increase of 2.9% compared with 30 June 2008.

The appreciation of the shekel in relation to most foreign currencies in the first nine months of 2008 led to a reduction of 3.1% in total credit to the public.

In addition to credit to the public, the Group also invests in corporate debentures which amounted to NIS 8,815 million on 30 September 2008, in comparison with NIS 12,435 million on 31 December 2007, a decrease of 29.1%.

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

	30 September 2008		31 December 2007		
Economy Sectors	Overall credit risk to the public	Percentage of total	Overall credit risk to the public	Percentage of total	Change
	(NIS millions)	%	(NIS millions)	%	%
Agriculture	**2,392**	**0.8**	2,591	0.8	(7.7)
Industry	**49,827**	**15.8**	47,617	15.6	4.6
Construction and real estate	**59,504**	**18.8**	54,481	17.9	9.2
Electricity and water	**1,985**	**0.6**	2,333	0.8	(14.9)
Trade	**34,104**	**10.8**	32,601	10.7	4.6
Hotels, accommodation and food services	**4,952**	**1.6**	5,757	1.9	(14.0)
Transportation and storage	**6,298**	**2.0**	5,959	2.0	5.7
Communications and computer services	**7,214**	**2.3**	6,602	2.2	9.3
Financial services	**40,884**	**12.9**	42,160	13.8	(3.0)
Other business services	**7,670**	**2.4**	9,161	3.0	(16.3)
Public and community services	**8,131**	**2.6**	8,326	2.7	(2.3)
Private persons - housing loans	**43,509**	**13.7**	40,608	13.3	7.1
Private persons – other	**49,520**	**15.7**	46,723	15.3	6.0
Total	**315,990**	**100**	304,919	100.0	3.6

* 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	**30 September 2008**	30 June 2008	31 December 2007	% Change From June 2008	% Change From December 2007
	(NIS millions)			%	
Households[1]	**61,946**	59,812	57,315	3.6	8.1
Small businesses[2]	**17,956**	17,907	17,729	0.3	1.3
Corporate banking[3]	**57,427**	52,490	52,814	9.4	8.7
Commercial banking[3]	**33,807**	36,613	36,743	(7.7)	(8.0)
Construction and real estate[3]	**28,152**	26,284	25,514	7.1	10.3
Private banking	**6,506**	6,351	7,138	(2.4)	(8.9)

1. Credit to households also includes housing loans (mortgages). After neutralizing this credit, credit to households increased by 7.0%. Housing loans (mortgages) to households amounted to NIS 39.8 billion at the end of September 2008, and increased by 8.7%.
2. Following the transfer of some NIS 800 million to the commercial banking business line.
3. The decrease in credit in commercial banking arises partially from the transfer of customers to the corporate business line, in the amount of some NIS 2.6 billion, and to the construction and real estate business line, in the amount of some NIS 0.5 billion, in accordance with Bank policy.

Tower Semiconductor Ltd.

On 25 September 2008, agreements were signed between Leumi, Tower Semiconductor Ltd. ("Tower") and Bank Hapoalim B.M. ("Hapoalim") regarding the reorganization of the debts of Tower to Leumi and Hapoalim.

Under the agreements, on 29 September 2008, the sum of US$ 100 million out of Tower's debts to Leumi was converted to capital notes convertible into shares of Tower, and changes were made to the financing agreements between Tower, Hapoalim and Leumi.

Parallel with the said conversion of the debt to Leumi, the sum of US$ 100 million out of Tower's debts to Hapoalim was converted into capital notes convertible into shares of Tower, the sum of US$ 50 million out of Tower's debts to the Israel Corporation Ltd. (a shareholder in Tower) was converted into capital notes convertible into shares of Tower, and the Israel Corporation injected an amount of US$ 20 million into Tower in consideration for capital notes convertible into shares of Tower, and made an undertaking to Tower to inject an additional amount under certain circumstances.

It should be noted that appropriate provisions have been made including also the amount included in the said arrangement.

Pledge in favor of the Bank of Israel

On 21 May 2008, the Bank signed a debenture pursuant to which it granted a first degree floating charge in favor of the Bank of Israel, on its rights to receive amounts and monetary shekel payments that are due and that will become due to the Bank from time to time, from customers which are corporations (established according to the laws of the State of Israel), which are not in arrears with their repayments to the Bank of credits received from it, and where the average lifespan of the credit does not exceed three years, that were granted and that will be granted to these customers by the Bank. The charge is in an amount equal to the level

of the amounts secured by the debenture, from time to time, up to an amount of NIS 1.1 billion.
This charge is to secure monies that will be required for the Bank's activities as a member of the CLS clearing house. For further details, see page 49 of the Report.

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:

	30 September 2008	30 June 2008	31 December 2007
	(NIS millions)		
Non-performing	**1,660**	1,561	1,604
Restructured (2)	**421**	472	929
To be restructured (3)	**36**	93	85
In temporary arrears	**614**	685	764
Under special supervision*	**12,223**	10,238	9,618
Total balance sheet credit to problem borrowers (1)	**14,954**	13,049	13,000
Off-balance sheet credit risk to problem borrowers (1) (5)*	**3,500**	2,372	2,438
Debentures of problem borrowers	**104**	31	4
Other assets in respect of derivatives of problem borrowers	**210**	57	32
Total overall credit risk in respect of problem borrowers (1) (7)	**18,768**	15,509	15,474
Assets received in respect of repaid credit	**488**	570	839
*of which: debts in respect of which there is a specific provision (4)	**5,490**	4,258	4,672
*of which: credit for housing in respect of which there is a provision according to the extent of the arrears	**505**	444	523

(1) Not including problem loans that are covered by collateral that is deductible 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 a decision has been made by the banking corporation's management to restructure, 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 purpose of restrictions 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 No. 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 is over NIS 1,000), if it charges the customer excess interest. In such a case, the deviation is to be classified as a non-performing loan, and the credit within the credit line and the balance of the customer's debts are to be classified as a loan under special supervision. As a result, non-performing loans in the amount of NIS 87 million and loans under special supervision in the amount of NIS 1,845 million were classified, and at the end of 2007 NIS 81 million and NIS 1,831 million, respectively, were classified.

As a result of the global crisis, the worsening of the state of the economy, the impairment of borrowers repayment ability and the erosion of the value of collateral, there has been an increase of 21.3% in the volume of problem loans since December 2007, mainly in credits under special supervision.

Credit to Governments amounted to NIS 512 million on 30 September 2008, compared with NIS 642 million on 31 December 2007, a decrease of 20.2%, and a decrease of 3.6% compared with 30 June 2008.

Securities amounted to NIS 41.6 billion on 30 September 2008, compared with NIS 47.2 billion on 31 December 2007, a decrease of 11.9%, and when compared with 30 June 2008, a decrease of 4.4%.

Securities are classified in three categories: securities for trading, securities available for sale and debentures held to maturity.

Securities for trading are presented in the balance sheet at fair value and the difference between the fair value and the adjusted cost is charged to the profit and loss statement. Available-for-sale securities are presented at fair value, where the difference between fair value and adjusted cost is presented as a separate item in shareholders' equity less the related tax. Debentures held to maturity are presented at adjusted cost (par value together with accrued interest and linkage differentials, less/plus a disaggio or aggio).

The following table sets out the classification of the securities item in the consolidated balance sheet as at 30 September 2008 in accordance with the above-mentioned rules:

	30 September 2008				
	Adjusted cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Debentures					
Held to maturity	**1,352**	**13**	**(9)**	**1,356**	**1,352**
Available for sale	**30,181**	**126**	**(1,631)**	**28,676**	**28,676**
For trading	**7,133**	**16**	**(108)**	**7,041**	**7,041**
	38,666	**155**	**(1,748)**	**37,073**	**37,069**
Shares and Mutual Funds					
Available for sale	**3,392**	**406**	**(163)**	**3,635**	**3,635**
For trading	**1,326**	**-**	**(464)**	**862**	**862**
	4,718	**406**	**(627)**	**4,497**	**4,497**
Total Securities	**43,384**	**561**	**(2,375)**	**41,570**	**41,566**

	31 December 2007				
	Adjusted cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Debentures					
Held to maturity	1,581	22	(4)	1,599	1,581
Available for sale	33,458	141	(507)	33,092	33,092
For trading	7,110	69	(38)	7,141	7,141
	42,149	232	(549)	41,832	41,814
Shares and Mutual Funds					
Available for sale	3,275	1,195	(34)	4,436	4,436
For trading	918	28	(27)	919	919
	4,193	1,223	(61)	5,355	5,355
Total Securities	46,342	1,455	(610)	47,187	47,169

As at 30 September 2008, some 77.7% of the Group's nostro portfolio was classified as securities available for sale and some 19.0% as securities for trading. This classification allows for flexibility in the management of the securities portfolio. Some 10.8% of the value of the securities represents investments in shares of companies that are not presented on the equity basis, but according to cost or to the market value of the shares traded on a stock exchange.

In respect of the available for sale portfolio, adjustments for a net decrease in value amounting to NIS 2,062 million were charged to the capital fund during the first nine months of 2008, of which some NIS 1,139 million is from a decline in value of debentures (of which NIS 867 million was during the third quarter), and an amount of NIS 918 million is from the a decline in the value of shares (of which NIS 286 million was during the third quarter). The accumulated capital fund totaled NIS (1,297) million, gross. During the first nine months of 2008, reductions in value of a non-temporary nature, were recorded in the profit and loss statement, in the amount of some NIS 1,031 million, of which NIS 518 million relates to the decrease in value of debentures. Furthermore, in the first nine months of 2008, net profits were recorded from the sale of available-for-sale debentures in the amount of NIS 10 million, compared with net profits of NIS 97 million during the corresponding period in 2007.

Declines in value of securities available for sale which were charged to capital accounts:

		Duration of decline in value since commencement of the decline				
		Up to 6 months	6-9 months	9-12 months	More than 12 months	Total amount
		NIS millions				
Rate of decline						
Up to 10%	Shares	-	-	-	-	-
	Asset-backed securities	4	5	8	38	55
	Other debentures	77	54	69	149	349
	Total	81	59	77	187	404
10%-20%	Shares	59	-	-	84	143
	Asset-backed securities	3	-	29	48	80
	Other debentures	35	55	73	237	400
	Total	97	55	102	369	623
20%-30%	Shares	-	-	-	18	18
	Asset-backed securities	2	-	47	51	100
	Other debentures	44	106	23	119	292
	Total	46	106	70	188	410
30%-40%	Shares	-	-	-	-	-
	Asset-backed securities	-	-	34	15	49
	Other debentures	2	56	9	90	157
	Total	2	56	43	105	206
Above 40%	Shares	-	-	-	1	1
	Asset-backed securities	-	-	11	9	20
	Other debentures	5	-	45	80	130
	Total	5	-	56	90	151
Total amount	Shares	59	-	-	103	162
	Asset-backed securities	9	5	129	161	304
	Other debentures	163	271	219	675	1,328
Overall total		231	276	348	939	1,794

During the period from the end of September 2008 and until the end of October 2008, there was an additional decrease in the value of the available-for-sale portfolio in the amount of some NIS 930 million, of which the amount of NIS 312 million was due to the decrease in the value of securities. Regarding events that took place after the date of the balance sheet, see note 12.

In respect of debentures for trading, losses and unrealized losses in the amount of NIS 65 million were recorded in the profit and loss statement, compared with a loss of NIS 43 million during the corresponding period in 2007 (of which NIS 135 million and 117 million, respectively, were during the third quarter).

1. Investments in Securities Issued Abroad

The Group's securities portfolio includes some NIS 22.7 billion (some US$ 6.6 billion) of securities, all of which (but for 1.4%) are investment grade securities, of which some 94% are rated 'A-' and above, of which some 39% are rated 'AAA'. Of the said portfolio, some NIS 20.2 billion (some US$ 5.9 billion) is classified in the available-for-sale securities portfolio, and the balance in the securities for trading portfolio.

The revaluation of the portfolio is based on revaluation data received from external sources. Most of the portfolio is revalued each month by a recognized international institution, which carries on business as a valuer and is independent of both the issuing entities and the marketing entities. Internal models are not used for the purpose of revaluing securities.

According to generally accepted accounting principles, a temporary decline in value in the available-for-sale securities portfolio is charged to capital fund, while a decline in value which is of a non-temporary nature is recorded in the profit and loss statement.

The test for determining whether a decline in value of a security in the available-for-sale portfolio is of a non-temporary nature is based mainly on the following criteria:

- a change in the security's rating by the international rating agencies.
- the length of time during which the security's value is less than its cost.
- the assets and the collateral backing the security.
- the rate of the decline in value in relation to the total cost of the security.
- Estimation of repayment capacity

The Management's decision in this regard is made after an examination of all these criteria and an estimation of their accumulated significance.

The Management of the Bank estimates that the decline in the value of the available-for-sale portfolio is mostly temporary in nature. From the time the investments were made, the Bank's intention was to hold them until maturity. The Bank intends, and is able, to continue to hold the investments until the expected return of the full cost of the assets or until maturity. Therefore, most of this decline in value was charged to capital fund. The total decline charged to capital fund in respect of securities that were issued abroad, from the date of purchase until 30 September 2008, amounts to some NIS 1,538 million (some NIS 972 million after taxes).

In addition to the temporary decline in value which was charged to capital fund, an expense of some NIS 783 million was recorded in the profit and loss account during the first nine months of 2008, of which NIS 690 million was in the third quarter.

1.1 Investments in foreign asset-backed securities

The Group's securities portfolio includes some NIS 4.4 billion (some US$ 1.3 billion) of asset-backed securities (both mortgage-backed and non-mortgage-backed), all of which (save for 0.5%) are rated 'A-' and above, of which some 91% are rated 'AAA'. Of the said portfolio, some NIS 4.2 billion (some US$ 1.2 billion) is classified in the available-for-sale portfolio, and the balance in the securities for trading portfolio.

The Group's available-for-sale securities portfolio of foreign asset-backed securities as at 30 September 2008 includes investments in mortgage-backed securities in the total amount of some NIS 3.0 billion. This portfolio includes sub-prime mortgage-backed securities in the amount of some NIS 3.8 million (US$ 1.1 million), all of which are rated 'AAA'. 94% of the mortgage-backed securities in the available-for-sale portfolio are guaranteed or issued by United States federal agencies, (FNMA FHLMC, GNMA). These agencies have come under governmental protection under the U.S. administration's rescue plan.

As at 30 September 2008, the accumulated net decline in value charged to capital fund resulting from the mortgage-backed securities portfolio was some NIS 61 million.

The total of the mortgage-backed securities that are not (U.S.) government guaranteed and are not backed by American federal entities in both the available-for-sale and trading portfolios, amounts to some NIS 197 million.

The projected term to maturity for all the mortgage-backed securities portfolio is less than 4 years, on average.

In addition to the mortgage-backed securities, the Group's available-for-sale portfolio includes other securities that are backed by assets other than mortgages (obligations in respect of credit cards, car financing credit and other types of credit), in the amount of some NIS 1.2 billion. All these securities, save for 0.5%, are rated 'A-' and above, of which 65% are rated 'AAA'. This portfolio includes, *inter alia,* SCDO's in the amount of some NIS 159 million, and CLO's in the amount of some NIS 905 million. The projected term to maturity of the portfolio of securities that are backed by assets other than mortgages is some 5 years on average.

The Bank estimates, and on the basis of examination according to the above-mentioned criteria, that the decline in the value of the portfolio of securities that are backed by assets other than mortgages is partly of a temporary nature. This part was charged to the capital fund. As at 30 September 2008, the decline in value charged to capital fund attributed to the portfolio of securities backed by assets other than mortgages totalled some NIS 238 million (some NIS 150 million after tax).

In addition to the temporary decline in value which was charged to the capital fund with respect to the non-mortgage asset-backed securities, some NIS 279 million was charged during the first nine months of 2008 to the profit and loss statement in respect of SCDO's in the available-for-sale portfolio (of which NIS 186 million was in the third quarter of the year). This charge to the profit and loss statement was carried out on the basis of the criteria mentioned above, even though not a single failed SCDO had been recorded in the portfolio. Additionally, the credit risk in this portfolio is spread among more than five hundred borrowers.

The decision to charge the decline in value in the amount of some NIS 279 million to the profit and loss account as a non-temporary decline in value was based primarily on the decline in value of the SCDO's which occurred commencing from the second half of 2007 and intensified during the first nine months of 2008.

The total amount of CLO type non-mortgage asset-backed securities is NIS 905 million, for which a decline in value was charged to capital fund in the amount of NIS 230 million (of which NIS 87 million was in the third quarter). The overall decline in value of the portfolio was about 20%, which was charged to the capital fund.

There was an additional decline of NIS 122.9 million in the value of the asset-backed securities portfolio due to investments in foreign securities (both mortgage-backed and non-mortgage-backed), during the period from the end of September 2008 until the end of October 2008.

The following table summarizes the investments in asset-backed securities in the available-for-sale portfolio as at 30 September 2008:

	Adjusted Cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS (mortgage-backed securities)	3,102	8	(69)	3,041
ABS (securities backed by assets which are not Mortgages)	1,398	-	(238)	1,160
Of these: CLO	1,135	-	(230)	905
CDO	28	-	(2)	26
SCDO	160	-	(1)	159
Total	4,500	8	(307)	4,201

Regarding the definitions of asset-backed securities, see pages 84-85 of the 2007 Annual Report.

The securities for trading portfolio includes investments in asset-backed securities through portfolio managers in the amount of some NIS 210 million (US$ 61 million), of which some NIS 164 million are invested in mortgage-backed securities and some NIS 46 million are invested in other asset-backed securities. This portfolio includes securities that are backed by sub-prime mortgages in the amount of NIS 12 million (US$ 3.5 million) 57% of which are rated 'AAA' and the balance 'AA'. Any difference which may arise between fair value and the adjusted cost is charged to the profit and loss statement.

The Bank also has an off-balance sheet investment in CDS derivatives of companies in the amount of NIS 400 million. A revaluation of these instruments, based on their fair value, was directly recorded in the profit and loss statement. During the second quarter of 2008, some two thirds of this portfolio was closed at an immaterial loss.

With respect to the investment in CDS, declines in value in the amount of some NIS 134 million were recorded in the profit and loss statement during the first nine months of 2008, of which NIS 110 million was in the third quarter of the year.

1.2 Investments in other (non asset-backed) foreign securities

The Group’s securities portfolio as at 30 September 2008 includes some NIS 18.3 billion (some US$ 5.3 billion) of non-asset-backed securities, which include mainly securities issued by banks and financial institutions, the balance being securities of the State of Israel, and securities of Israeli companies that were issued abroad.

Of these securities, NIS 16.0 billion (US$ 4.7 billion) are classified in the available-for-sale portfolio, and some NIS 1.8 billion in the securities for trading portfolio.

The distribution of these securities among the various countries in which they were issued is as follows: 42% - United States, 42% - European Union countries of the Euro Bloc (Germany, France, Spain, Italy, and the Benelux states), 11% - the United Kingdom and 5% -other countries. The projected term to maturity of these securities is some 3.5 years, on average.

The Bank estimates that the decline in the prices of these securities is mostly of a temporary nature, and most of the decline in value was therefore charged to the capital fund. This estimation is based on an examination according to the criteria described on page 44 and takes into consideration additional parameters such as the involvement and backing – including direct capital investment – of the governments for insuring the stability of these and other banks in their countries, and the markets' expectations regarding the risk of bank failures, as expressed in the prices of the credit derivatives (CDS) as well as the improvement in the prices of the banks' securities after 30 September. As at 30 September 2008, the decline in value attributed to securities' capital fund, due to securities issued abroad in the available-for-sale portfolio, amounted to NIS 1,239 million (NIS 783 million after tax)

In addition to the temporary decline in value which was charged to the capital fund, NIS 690 million (NIS 436 million after tax) was charged to the profit and loss statement during the third quarter of the year with respect to these securities in the available-for-sale portfolio. These amounts include the provisions made due to the Leumi Group's exposure to Lehman Brothers and to the Washington Mutual Group. In September 2008, the Bank reported on its exposure to Lehman Brothers in the amount of US$ 88 million and on the non-receipt of an additional amount of some US$ 100 million, in respect of a redeemed certificate, and on its exposure in the amount of some US$ 50 million to Washington Mutual.

In addition to those in the available-for-sale portfolio, there are also non-asset backed securities in the trading portfolio. The trading portfolio includes mainly securities of banks and financial institutions, and securities portfolios that are managed by external investment managers, and securities funds. All the securities in the trading portfolio are investment grade securities, and some 92% of them are rated 'A' and above. The value of the trading portfolio as at 30 September 2008 amounted to NIS 1.8 billion (US$ 0.5 billion). The difference between the fair value and the adjusted cost, to the extent there is such, is charged to the profit and lost statement.

2. Investments in corporate debentures issued in Israel

Investments in debentures issued in Israel amounted to NIS 16.6 billion on 30 September 2008, of which NIS 15.1 billion was in debentures issued by the State of Israel, and the balance of NIS 1.5 billion was in debentures issued by companies. Of the corporate debentures, 97% are rated 'A-' and above, of which 69% are rated 'AA' and above. The investments in the corporate debenture portfolio are spread among various branches of the economy. The largest investment, some 39% is in the financial sector. On 30 September 2008, investments in corporate debentures amounted to NIS 1.1 billion in the available-for-sale portfolio, and the balance was in the trading portfolio.

All the corporate debentures of the trading portfolio and some of those in the available–for-sale portfolio are listed. Some 67% of the corporate debentures in the available-for-sale portfolio are not listed. The revaluation of the listed corporate debentures is based on market prices on the stock exchange, and the revaluation of the non-listed corporate debentures is based on the prices given by the "Sha'arei Ribit" company.

The test for determining whether a decline in value of a debenture in the available-for-sale portfolio is of a non-temporary nature is based primarily on the criteria set out at page 44.

Out of the total amount of NIS 1.1 billion in the corporate debenture portfolio in the available- for-sale portfolio, some 2% of the portfolio experienced a decrease in value of over 20% and the total amount that was charged to capital fund came to NIS 24 million on 30 September 2008. The Bank estimates that the decline in the value of the corporate debentures portfolio is of a temporary nature. It is estimated that the companies' repayment ability is satisfactory, all have relatively high investment ratings, and the declines in value have mostly developed in recent months, due to the global financial crisis. The Bank intends, and is able, to continue to hold the debentures until the restoration of their value and even until maturity.

3. Investments in shares and mutual funds

Total investments in shares and mutual funds amounted to some NIS 4,497 million on 30 September 2008, of which NIS 3,080 million were in listed shares and NIS 1,417 million were in non-listed shares. Of the total investment, NIS 3,635 million is classified as available-for-sale and NIS 862 million is classified in the trading portfolio.

The following table sets out the principal investments in shares and mutual funds recorded in the securities item (available-for-sale portfolio)[(1)]:

	The Bank's share on a consolidated basis in the paid up capital giving the right to receive profits		Value of the investment in the consolidated balance sheet	
	30 September 2008	31 December 2007	**30 September 2008**	31 December 2007
	%		NIS millions	
Migdal Insurance and Financial Holdings Ltd.	**9.85**	9.89	**385**	619
Gibor Sport Ltd.	**4.3**	4.3	**3**	3
Africa Israel Properties Ltd.	**4.3**	4.3	**58**	120
Cellcom Israel Ltd [(2)]	**-**	2.23	**-**	267
Super-Pharm (Israel) Ltd.	**18.0**	18.0	**182**	182
Hot – Cable Communications Systems Ltd.	**14.96**	14.96	**341**	637
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.64	**49**	95
Bezeq – Israel Communications Company Ltd.	**4.23**	4.23	**681**	754
Union Bank of Israel Ltd.	**6.46**	6.46	**106**	99
Tower Semiconductor capital note	**-**	-	**120**	164
Mutual funds	**-**	-	**1,187**	907

(1) See pages 77 to 78 for details of non-banking investments presented on the equity basis.

(2) On 14 September 2008, Leumi & Co. Investment House Ltd. sold the balance of its holdings in Cellcom Israel Ltd., for NIS 237 million. The after-tax profit amounted to NIS 73 million.

The following table sets out investments (positions) in shares and mutual funds included in the securities item (available-for-sale portfolio and trading portfolio), in NIS millions

	Balance sheet amount	
	30 September 2008	31 December 2007
Shares with quoted prices	**3,080**	4,383
Shares without quoted prices	**1,417**	972
Total	**4,497**	5,355

Of the total investment in shares and mutual funds with quoted prices in the available-for-sale portfolio, unrealized losses in the total amount of NIS 163 million, some 4.9% of the portfolio's value, had been accumulated as of 30 September 2008. In no case has the decrease exceeded 14%, and in each instance in which the decrease was significant, the loss was charged to the profit and loss statement.

Securities Pledge

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

As at 30 September 2008, the Bank had pledged debentures amounting to NIS 149 million to the Stock Exchange Clearing House and debentures amounting to NIS 1,039 million to the Maof Clearing House, in order to secure its customers' operations and in respect of the clearing house members' mutual guarantees.

On 23 July 2007, the Bank signed a debenture in favor of the Bank of Israel as security for amounts due or that will be due to the Bank of Israel from the Bank. As collateral for the above, the Bank created a floating charge in favor of the Bank of Israel, unlimited in amount, over debentures deposited in a specific account maintained at the Tel Aviv Stock Exchange Clearing House in the name of the Bank of Israel. The balance of the account as at 30 September 2008 was NIS 5 billion.

As at 30 September 2008, the Bank had no outstanding credits from the Bank of Israel while the balance of the Bank's deposits with the Bank of Israel amounted to NIS 5.8 billion.

Hot - Cable Communications Systems Ltd.

On 4 May 2008, the Bank signed an agreement with Netvision Ltd. ("Netvision") for the sale of a parcel of shares in Hot – Communications Systems Ltd. ("Hot") held by the Bank (some 15% of the issued and paid-up share capital of Hot), for a consideration of some NIS 480 million.

Completion of the transaction was postponed until 30 September 2008, and was dependent on the fulfillment of conditions precedent.

On 30 October 2008, Netvision gave notice of the cancellation of the above-mentioned agreement, because the permits required by law for the completion of the transaction had not been received.

Operational Segments in the Group

The Group operates in various 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 defined in accordance with the characteristics determined 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 2007.

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

Segments	For the three months ending			For the nine months ending		
	30 September 2008	30 September 2007	Change	**30 September 2008**	30 September 2007	Change
	NIS millions		%	NIS millions		%
Households	**180**	310	(41.9)	**695**	781	(11.0)
Small businesses	**72**	34	111.8	**272**	176	54.5
Corporate banking	**(8)**	174	(104.6)	**229**	686	(66.6)
Commercial banking	**82**	103	(20.4)	**303**	314	(3.5)
Construction and real estate	**96**	112	(14.3)	**319**	274	16.4
Private banking	**(21)**	50	(142.0)	**43**	121	(64.5)
Financial management – capital markets and other*	**(485)**	227	-	**(586)**	488	-
Total	**(84)**	1,010	(108.3)	**1,275**	2,840	(55.1)

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

Segments	For the nine months ending			
	30 September 2008	30 September 2007	Change	Contribution to profit
	NIS millions		%	%
Households	**520**	557	(6.6)	40.8
Small businesses	**261**	160	63.1	20.5
Corporate banking	**230**	675	(65.9)	18.0
Commercial banking	**283**	309	(8.4)	22.2
Construction and real estate	**320**	275	16.4	25.1
Private banking	**42**	119	(64.7)	3.3
Financial management – capital markets and other*	**(381)**	471	(180.9)	(29.9)
Total	**1,275**	2,566	(50.3)	100.0

Explanations of the changes in profitability are presented below.

* The losses in the segment were caused by the global financial crisis and the declines on stock markets worldwide and in Israel and as described in the Securities section.

For further details see page 77 below.

The following table set out the quarterly development of the net operating profit according to operational segments, after neutralizing special salary expenses:

	2008			2007			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Segments	NIS millions						
Households	**206**	139	175	108	255	129	173
Small businesses	**79**	85	97	-	32	62	66
Corporate banking	**(5)**	125	110	151	172	279	224
Commercial banking	**88**	66	129	96	102	95	112
Construction and real estate	**97**	75	148	135	113	80	82
Private banking	**(19)**	26	35	67	49	30	40
Financial management – capital markets and other	**(349)**	91	(123)	15	211	261	(1)
Total	**97**	607	571	572	934	936	696

1. Households

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

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas Activities	Total
	For the three months ending 30 September 2008					
	NIS millions					
Profit from net interest income:						
From external sources	**(681)**	**50**	**1**	**740**	**(5)**	**105**
Inter-segmental	**1,205**	**(23)**	**(1)**	**(599)**	**9**	**591**
Operating and other income:						
From external sources	**163**	**111**	**111**	**32**	**2**	**419**
Inter-segmental	**10**	**64**	**-**	**3**	**-**	**77**
Total income	**697**	**202**	**111**	**176**	**6**	**1,192**
Provisions for doubtful debts	**71**	**5**	**-**	**24**	**(1)**	**99**
Operating and other expenses:						
External	**479**	**114**	**46**	**57**	**6**	**702**
Inter-segmental	**12**	**1**	**-**	**4**	**-**	**17**
Operating profit before taxes	**135**	**82**	**65**	**91**	**1**	**374**
Tax provision	**102**	**26**	**24**	**35**	**-**	**187**
Operating profit after taxes	**33**	**56**	**41**	**56**	**1**	**187**
Minority interests in profits of consolidated companies	**-**	**(7)**	**-**	**-**	**-**	**(7)**
Net profit (loss)	**33**	**49**	**41**	**56**	**1**	**180**

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the three months ending 30 September 2007					
	NIS millions					
Profit from net interest income:						
From external sources	(736)	26	-	648	(9)	(71)
Inter-segmental	1,254	(7)	-	(470)	21	798
Operating and other income:						
From external sources	175	92	128	32	2	429
Inter-segmental	-	58	-	4	-	62
Total income	693	169	128	214	14	1,218
Provisions for doubtful debts	14	3	-	17	-	34
Operating and other expenses:						
External	589	120	93	54	8	864
Inter-segmental	-	1	-	5	-	6
Operating profit before taxes	90	45	35	138	6	314
Tax provision	25	14	14	20	4	77
Operating profit after taxes	65	31	21	118	2	237
Profit from extraordinary items after taxes	-	-	73	-	-	73
Net profit	65	31	94	118	2	310

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the nine months ending 30 September 2008					
	NIS millions					
Net interest income:						
From external sources	**(1,696)**	**117**	**3**	**1,742**	**(13)**	**153**
Inter-segmental	**3,217**	**(41)**	**(2)**	**(1,366)**	**28**	**1,836**
Operating and other income:						
From external sources	**503**	**331**	**338**	**92**	**6**	**1,270**
Inter-segmental	**13**	**177**	**-**	**10**	**-**	**200**
Total income	**2,037**	**584**	**339**	**478**	**21**	**3,459**
Provisions for doubtful debts	**122**	**12**	**-**	**89**	**6**	**229**
Operating and other expenses:						
External	**1,643**	**338**	**188**	**165**	**20**	**2,354**
Inter-segmental	**12**	**3**	**-**	**12**	**-**	**27**
Operating profit (loss) before taxes	**260**	**231**	**151**	**212**	**(5)**	**849**
Provision for taxes	**140**	**74**	**55**	**80**	**-**	**349**
Operating profit (loss) after taxes	**120**	**157**	**96**	**132**	**(5)**	**500**
Minority interests in profits of consolidated companies	**-**	**(7)**	**-**	**-**	**-**	**(7)**
Net operating profit (loss)	**120**	**150**	**96**	**132**	**(5)**	**493**
Profit from extraordinary items after taxes	**-**	**202**	**-**	**-**	**-**	**202**
Net profit (loss)	**120**	**352**	**96**	**132**	**(5)**	**695**
% Return on equity						**22.8**
Average balance of assets	**15,560**	**5,931**	**78**	**38,089**	**294**	**59,952**
Of which: investments in companies included on the equity basis	**-**	**8**	**-**	**-**	**-**	**8**
Average balance of liabilities	**107,336**	**421**	**-**	**12,065**	**1,022**	**120,844**
Average balance of risk assets	**13,829**	**5,758**	**75**	**31,835**	**301**	**51,798**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**33,566**	**-**	**-**	**33,566**
Average balance of securities	**-**	**-**	**43,342**	**-**	**142**	**43,484**
Average balance of other assets under management	**213**	**-**	**-**	**7,925**	**-**	**8,138**
Balance of credit to the public	**15,553**	**6,229**	**90**	**39,765**	**309**	**61,946**
Balance of deposits of the public	**107,497**	**27**	**-**	**7,073**	**1,008**	**115,605**

The following are data regarding new loans granted and loans refinanced for the purchase of residential apartments while pledging same:

	First nine months		
	2008	2007	Change
	NIS millions		%
From Bank funds	**6,951**	5,827	19.3
From Ministry of Finance funds:			
Loans	**183**	253	(27.7)
Standing loans	**5**	6	(16.7)
Total new loans	**7,139**	6,086	17.3
Refinanced loans	**724**	1,178	(38.5)
Total carried out	**7,863**	7,264	8.2

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the nine months ending 30 September 2007					
	NIS millions					
Net interest income:						
From external sources	(1,947)	73	2	1,331	(24)	(565)
Inter-segmental	3,412	(20)	(2)	(953)	62	2,499
Operating and other income:						
From external sources	493	282	376	95	6	1,252
Inter-segmental	1	156	-	8	-	165
Total income	1,959	491	376	481	44	3,351
Provisions for doubtful debts	65	10	-	28	-	103
Operating and other expenses:						
External	1,708	337	294	154	23	2,516
Inter-segmental	-	2	-	13	-	15
Operating profit before taxes	186	142	82	286	21	717
Provision for taxes	56	43	32	76	7	214
Operating profit after taxes	130	99	50	210	14	503
Profit from extraordinary items after taxes	-	-	278	-	-	278
Net profit	130	99	328	210	14	781
% Return on equity						28.1%
Average balance of assets	13,879	5,406	69	34,438	1,045	54,837
Of which: investments in companies included on the equity basis	-	4	-	-	-	4
Average balance of liabilities	108,377	229	-	12,815	1,910	123,331
Average balance of risk assets	11,865	5,319	77	28,554	842	46,657
Average balance of mutual funds	-	-	34,650	-	-	34,650
Average balance of securities	-	-	42,252	-	113	42,365
Average balance of other assets under management	289	-	-	8,127	-	8,416
Balance of credit to the public as of 31 December 2007	15,047	5,558	75	36,590	45	57,315
Balance of deposits of the public as of 31 December 2007	107,962	11	-	7,576	584	116,133

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 4,631 million, compared with the end of 2007, an increase of 8.1%. After neutralizing housing loans, credit increased by 7.0% and housing loans increased by 8.7%. Deposits of the public decreased by NIS 528 million, a decrease of 0.5% compared with the end of 2007.

Main Changes in Net Profit

In the first nine months of 2008, net profit in the households segment totaled NIS 695 million, compared with NIS 781 million in the corresponding period in 2007, a decrease of 11.0%. The decrease in net profit stems primarily from the decrease of NIS 76 million in profit from extraordinary items. Net operating profit amounted to NIS 493 million, a decrease of 2.0%. The changes in net operating profit are: an increase in income of NIS 108 million due to a reduction in operating expenses in the amount of NIS 150 million, a reduction of 5.9%, which was offset by an increase in provision for doubtful debts in the amount of NIS 126 million and from an increase in tax expenses as a result of the cancellation of deferred taxes for options and shares issued to employees.

2. Small Businesses

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

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the three months ending 30 September 2008					
	NIS millions					
Profit from net interest income:						
From external sources	**297**	**3**	**1**	**1**	**17**	**319**
Inter-segmental	**(81)**	**(1)**	**(1)**	**(1)**	**(11)**	**(95)**
Operating and other income:						
From external sources	**81**	**13**	**5**	**-**	**4**	**103**
Inter-segmental	**1**	**(6)**	**-**	**-**	**-**	**(5)**
Total income	**298**	**9**	**5**	**-**	**10**	**322**
Provisions for doubtful debts	**39**	**-**	**-**	**-**	**4**	**43**
Operating and other expenses:						
External	**131**	**4**	**1**	**-**	**8**	**144**
Inter-segmental	**3**	**-**	**-**	**-**	**-**	**3**
Operating profit (loss) before taxes	**125**	**5**	**4**	**-**	**(2)**	**132**
Tax provision	**57**	**2**	**2**	**-**	**(1)**	**60**
Net profit (loss)	**68**	**3**	**2**	**-**	**(1)**	**72**

Small businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the three months ending 30 September 2007					
	NIS millions					
Profit from net interest income:						
From external sources	275	2	1	3	17	298
Inter-segmental	(71)	-	(1)	(3)	(8)	(83)
Operating and other income:						
From external sources	86	9	6	-	8	109
Inter-segmental	(1)	(5)	-	-	-	(6)
Total income	289	6	6	-	17	318
Provisions for doubtful debts	44	-	-	-	2	46
Operating and other expenses:						
External	190	5	2	-	29	226
Inter-segmental	-	-	-	-	-	-
Operating profit (loss) before taxes	55	1	4	-	(14)	46
Tax provision	21	1	1	-	(4)	19
Operating profit (loss) after taxes	34	-	3	-	(10)	27
Profit from extraordinary items after taxes	-	-	7	-	-	7
Net profit (loss)	34	-	10	-	(10)	34

Small businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the nine months ending 30 September 2008					
	NIS millions					
Net interest income:						
From external sources	**858**	**11**	**4**	**7**	**48**	**928**
Inter-segmental	**(220)**	**(4)**	**(3)**	**(5)**	**(28)**	**(260)**
Operating and other income:						
From external sources	**261**	**43**	**15**	**-**	**12**	**331**
Inter-segmental	**2**	**(25)**	**-**	**-**	**-**	**(23)**
Total income	**901**	**25**	**16**	**2**	**32**	**976**
Provisions for doubtful debts	**63**	**-**	**-**	**-**	**12**	**75**
Operating and other expenses:						
External	**434**	**15**	**5**	**-**	**28**	**482**
Inter-segmental	**3**	**-**	**-**	**-**	**-**	**3**
Operating profit (loss) before taxes	**401**	**10**	**11**	**2**	**(8)**	**416**
Provision for taxes	**157**	**4**	**4**	**1**	**(4)**	**162**
Operating profit (loss) after taxes	**244**	**6**	**7**	**1**	**(4)**	**254**
Profit from extraordinary items after taxes	**-**	**18**	**-**	**-**	**-**	**18**
Net profit (loss)	**244**	**24**	**7**	**1**	**(4)**	**272**
% Return on equity						**31.7%**
Average balance of assets	**16,184**	**575**	**106**	**144**	**733**	**17,742**
Average balance of liabilities	**12,678**	**826**	**-**	**-**	**560**	**14,064**
Average balance of risk assets	**13,204**	**557**	**125**	**141**	**724**	**14,751**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**1,304**	**-**	**-**	**1,304**
Average balance of securities	**-**	**-**	**3,554**	**-**	**22**	**3,576**
Average balance of other assets under management	**474**	**-**	**-**	**-**	**-**	**474**
Balance of credit to the public	**16,380**	**587**	**49**	**153**	**787**	**17,956**
Balance of deposits of the public	**12,989**	**-**	**-**	**-**	**541**	**13,530**

Small businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the nine months ending 30 September 2007					
	NIS millions					
Net interest income:						
From external sources	686	9	5	6	68	774
Inter-segmental	(107)	(4)	(4)	(5)	(16)	(136)
Operating and other income:						
From external sources	249	39	16	-	21	325
Inter-segmental	-	(24)	-	-	-	(24)
Total income	828	20	17	1	73	939
Provisions for doubtful debts	55	-	-	-	10	65
Operating and other expenses:						
External	524	17	8	-	86	635
Inter-segmental	-	-	-	-	-	-
Operating profit (loss) before taxes	249	3	9	1	(23)	239
Provision for taxes	92	2	3	-	(5)	92
Operating profit (loss) after taxes	157	1	6	1	(18)	147
Profit from extraordinary items after taxes	-	-	26	-	3	29
Net profit (loss)	157	1	32	1	(15)	176
% Return on equity						22.8%
Average balance of assets	14,116	328	131	104	1,598	16,277
Average balance of liabilities	11,728	736	-	-	1,201	13,665
Average balance of risk assets	11,098	255	157	95	1,277	12,882
Average balance of mutual funds	-	-	1,200	-	-	1,200
Average balance of securities	-	-	4,474	-	116	4,590
Average balance of other assets under management	464	-	-	-	-	464
Balance of credit to the public as of 31 December 2007	15,723	529	182	126	1,169	17,729
Balance of deposits of the public as of 31 December 2007	12,753	-	-	-	1,344	14,097

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 227 million compared with the end of 2007, and total deposits of the public decreased by NIS 567 million, a drop of 4.0%, primarily in overseas activities due to the appreciation of the shekel in relation to foreign currencies.

Main Changes in the Net Profit

In the first nine months of 2008, net profit in the small businesses segment totaled NIS 272 million, compared with NIS 176 million in the corresponding period in 2007. The increase in profit stems from an increase in income of NIS 37 million, and from a reduction of NIS 150 million in operating and other expenses, which were partially offset by an increase in the provisions for doubtful debts in the amount of NIS 10 million.

3. Corporate Banking

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

				Overseas Activities		
	Banking and finance	Credit cards	Capital market	Capital Market	Banking and finance	Total
	For the three months ending 30 September 2008					
	NIS millions					
Profit from net interest income:						
From external sources	**882**	**10**	**-**	**-**	**83**	**975**
Inter-segmental	**(617)**	**(5)**	**-**	**-**	**15**	**(607)**
Operating and other income:						
From external sources	**17**	**63**	**5**	**8**	**-**	**93**
Inter-segmental	**-**	**(45)**	**-**	**-**	**-**	**(45)**
Total income	**282**	**23**	**5**	**8**	**98**	**416**
Provisions for doubtful debts	**249**	**1**	**-**	**-**	**-**	**250**
Operating and other expenses:						
External	**80**	**20**	**3**	**-**	**41**	**144**
Inter-segmental	**2**	**-**	**-**	**-**	**24**	**26**
Operating profit (loss) before taxes	**(49)**	**2**	**2**	**8**	**33**	**(4)**
Tax provision	**(15)**	**-**	**1**	**3**	**14**	**3**
Operating profit (loss) after taxes	**(34)**	**2**	**1**	**5**	**19**	**(7)**
Minority interests in profits of consolidated companies	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**(34)**	**1**	**1**	**5**	**19**	**(8)**

Corporate Banking (cont.)

				Overseas Activities		
	Banking and finance	Credit cards	Capital market	Capital Market	Banking and Finance	Overseas Activities
	For the three months ending 30 September 2007					
	NIS millions					
Profit from net interest income:						
From external sources	583	7	-	-	100	690
Inter-segmental	(314)	(3)	-	-	(6)	(323)
Operating and other income:						
From external sources	38	55	6	1	10	110
Inter-segmental	-	(42)	-	-	-	(42)
Total income	307	17	6	1	104	435
Provisions for doubtful debts	-	1	-	-	-	1
Operating and other expenses:						
External	82	19	4	2	35	142
Inter-segmental	-	-	-	-	26	26
Operating profit (loss) before taxes	225	(3)	2	(1)	43	266
Tax provision	79	(1)	1	-	17	96
Operating profit (loss) after taxes	146	(2)	1	(1)	26	170
Profit from extraordinary items after taxes	-	-	4	-	-	4
Net profit (loss)	146	(2)	5	(1)	26	174

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Overseas Activities: Capital Market	Overseas Activities: Banking and Finance	Total
	For the nine months ending 30 September 2008					
	NIS millions					
Net interest income:						
From external sources	**1,893**	**25**	**-**	**-**	**249**	**2,167**
Inter-segmental	**(988)**	**(12)**	**-**	**-**	**59**	**(941)**
Operating and other income:						
From external sources	**32**	**160**	**14**	**8**	**16**	**230**
Inter-segmental	**1**	**(123)**	**-**	**-**	**-**	**(122)**
Total income	**938**	**50**	**14**	**8**	**324**	**1,334**
Provisions for doubtful debts	**496**	**2**	**-**	**-**	**-**	**498**
Operating and other expenses:						
External	**226**	**51**	**8**	**-**	**122**	**407**
Inter-segmental	**2**	**-**	**-**	**-**	**75**	**77**
Operating profit (loss) before taxes	**214**	**(3)**	**6**	**8**	**127**	**352**
Provision for taxes	**77**	**(1)**	**2**	**3**	**43**	**124**
Operating profit (loss) after taxes	**137**	**(2)**	**4**	**5**	**84**	**228**
Minority interests in profits of consolidated comapnies	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Operating profit (loss)	**137**	**(3)**	**4**	**5**	**84**	**227**
Profit from extraordinary items after taxes	**-**	**2**	**-**	**-**	**-**	**2**
Net profit (loss)	**137**	**(1)**	**4**	**5**	**84**	**229**
% Return on equity						**6.1%**
Average balance of assets	**45,410**	**385**	**-**	**-**	**12,217**	**58,012**
Average balance of liabilities	**20,553**	**3,030**	**-**	**-**	**7,676**	**31,259**
Average balance of risk assets	**49,755**	**356**	**-**	**-**	**12,767**	**62,878**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**583**	**-**	**-**	**583**
Average balance of securities	**-**	**-**	**64,437**	**1,175**	**-**	**65,612**
Average balance of other assets under management	**258**	**-**	**-**	**-**	**-**	**258**
Balance of credit to the public	**45,614**	**445**	**-**	**-**	**11,368**	**57,427**
Balance of deposits of the public	**15,399**	**-**	**-**	**-**	**7,767**	**23,166**

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Overseas Activities Capital Market	Overseas Activities Banking and Finance	Total
	For the nine months ending 30 September 2007					
	NIS millions					
Net interest income:						
From external sources	1,589	19	-	-	255	1,863
Inter-segmental	(782)	(8)	-	-	84	(706)
Operating and other income:						
From external sources	194	143	20	5	33	395
Inter-segmental	1	(110)	-	-	-	(109)
Total income	1,002	44	20	5	372	1,443
Provisions for doubtful debts	(128)	2	-	-	-	(126)
Operating and other expenses:						
External	229	49	13	3	132	426
Inter-segmental	-	-	-	-	86	86
Operating profit (loss) before taxes	901	(7)	7	2	154	1,057
Provision for taxes	334	(2)	3	1	52	388
Operating profit (loss) after taxes	567	(5)	4	1	102	669
Profit from extraordinary items after taxes	-	-	17	-	-	17
Net profit (loss)	567	(5)	21	1	102	686
% Return on equity						18.9%
Average balance of assets	43,668	309	5	-	13,170	57,152
Average balance of liabilities	19,825	2,869	-	-	11,903	34,597
Average balance of risk assets	46,984	284	6	-	13,069	60,343
Average balance of mutual funds and supplementary training funds	-	-	368	89	-	457
Average balance of securities	-	-	61,989	1,370	-	63,359
Average balance of other assets under management	446	-	-	-	-	446
Balance of credit to the public as of 31 December 2007	40,007	337	-	-	12,470	52,814
Balance of deposits of the public as of 31 December 2007	19,386	-	-	-	8,174	27,560

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 4,613 million compared with the end of 2007, an increase of 8.7%, arising partly from the Bank's segmentation policy and the consequent transfer of customers from the commercial banking line, in the amount of some NIS 2.6 billion. Total deposits of the public decreased by NIS 4,394 million, some 15.9%.

Main Changes in Net Profit

In the first nine months of 2008, net profit in the corporate banking segment totaled NIS 229 million, compared with NIS 686 million during the corresponding period in 2007. The decrease in profit stems mainly from an increase in provisions for doubtful debts of NIS 624 million, and from a decrease in operating and other income of NIS 178 million. The above-mentioned changes were partially offset by the increase in net interest income of NIS 69 million, and by the decrease in operating and other expenses of NIS 28 million.

Regarding credit risks in light of the global financial crisis, see below at pages 95 to 96.

4. Commercial Banking

The following tables set out a summary of 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 30 September 2008					
	NIS millions					
Profit from net interest income:						
From external sources	**225**	**2**	**1**	**7**	**36**	**271**
Inter-segmental	**36**	**(1)**	**-**	**(6)**	**(28)**	**1**
Operating and other income:						
From external sources	**57**	**13**	**15**	**-**	**2**	**87**
Inter-segmental	**3**	**(11)**	**-**	**-**	**-**	**(8)**
Total income	**321**	**3**	**16**	**1**	**10**	**351**
Provisions for doubtful debts	**42**	**-**	**-**	**1**	**1**	**44**
Operating and other expenses:						
External	**130**	**5**	**9**	**1**	**9**	**154**
Inter-segmental	**3**	**-**	**-**	**-**	**-**	**3**
Operating profit (loss) before taxes	**146**	**(2)**	**7**	**(1)**	**-**	**150**
Tax provision	**65**	**-**	**3**	**-**	**-**	**68**
Net profit (loss)	**81**	**(2)**	**4**	**(1)**	**-**	**82**

Commercial Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Overseas activities	Total
	For the three months ending 30 September 2007					
	NIS millions					
Profit from net interest income:						
From external sources	347	2	-	5	34	388
Inter-segmental	(90)	(2)	-	(4)	(20)	(116)
Operating and other income:						
From external sources	64	10	12	1	4	91
Inter-segmental	-	(7)	-	-	-	(7)
Total income	321	3	12	2	18	356
Provisions for doubtful debts	35	-	-	1	-	36
Operating and other expenses:						
External	146	3	10	-	9	168
Inter-segmental	1	(1)	-	-	-	-
Operating profit before taxes	139	1	2	1	9	152
Tax provision	54	-	1	(1)	4	58
Operating profit after taxes	85	1	1	2	5	94
Group's share of operating profits of companies included on the equity basis	-	4	-	-	-	4
Net operating profit	85	5	1	2	5	98
Profit from extraordinary items after taxes	-	-	5	-	-	5
Net profit	85	5	6	2	5	103

Commercial Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Overseas activities	Total
	For the nine months ending 30 September 2008					
	NIS millions					
Net interest income:						
From external sources	**1,031**	**6**	**2**	**17**	**108**	**1,164**
Inter-segmental	**(220)**	**(3)**	**(2)**	**(14)**	**(80)**	**(319)**
Operating and other income:						
From external sources	**193**	**37**	**40**	**-**	**7**	**277**
Inter-segmental	**3**	**(27)**	**-**	**-**	**-**	**(24)**
Total income	**1,007**	**13**	**40**	**3**	**35**	**1,098**
Provisions for doubtful debts	**170**	**-**	**-**	**(1)**	**22**	**191**
Operating and other expenses:						
External	**385**	**12**	**24**	**2**	**27**	**450**
Inter-segmental	**3**	**-**	**-**	**-**	**-**	**3**
Operating profit (loss) before taxes	**449**	**1**	**16**	**2**	**(14)**	**454**
Provision for taxes	**174**	**1**	**6**	**1**	**(4)**	**178**
Operating profit (loss) after taxes	**275**	**-**	**10**	**1**	**(10)**	**276**
Group's share of operating profits of companies included on the equity basis	**-**	**1**	**-**	**-**	**-**	**1**
Operating profit (loss)	**275**	**1**	**10**	**1**	**(10)**	**277**
Profit from extraordinary items after taxes	**-**	**26**	**-**	**-**	**-**	**26**
Net profit (loss)	**275**	**27**	**10**	**1**	**(10)**	**303**
% Return on equity						**14.6%**
Average balance of assets	**33,376**	**284**	**29**	**352**	**2,618**	**36,659**
Of which: investments in companies included on the equity basis	**-**	**5**	**-**	**-**	**-**	**5**
Average balance of liabilities	**20,897**	**717**	**-**	**104**	**827**	**22,545**
Average balance of risk assets	**31,750**	**299**	**31**	**324**	**2,508**	**34,912**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,844**	**-**	**-**	**2,844**
Average balance of securities	**-**	**-**	**38,375**	**-**	**43**	**38,418**
Average balance of other assets under management	**1,017**	**-**	**-**	**-**	**-**	**1,017**
Balance of credit to the public	**30,481**	**284**	**22**	**438**	**2,582**	**33,807**
Balance of deposits of the public	**17,876**	**-**	**-**	**74**	**696**	**18,646**

Commercial Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Overseas activities	Total
	For the nine months ending 30 September 2007					
	NIS millions					
Net interest income:						
From external sources	1,033	5	1	13	98	1,150
Inter-segmental	(271)	(3)	(1)	(10)	(62)	(347)
Operating and other income:						
From external sources	197	32	42	1	7	279
Inter-segmental	-	(22)	-	-	-	(22)
Total income	959	12	42	4	43	1,060
Provisions for doubtful debts	112	-	-	1	(1)	112
Operating and other expenses:						
External	407	12	31	1	26	477
Inter-segmental	1	(1)	-	-	-	-
Operating profit before taxes	439	1	11	2	18	471
Provision for taxes	168	-	4	-	5	177
Operating profit after taxes	271	1	7	2	13	294
Group's share in operating profits of companies included on the equity basis	-	4	-	-	-	4
Net operating profit	271	5	7	2	13	298
Profit from extraordinary items after taxes	-	-	16	-	-	16
Net profit	271	5	23	2	13	314
% Return on equity						15.2%
Average balance of assets	32,516	186	42	291	2,450	35,485
Of this: investments in companies included on the equity basis	-	10	-	-	-	10
Average balance of liabilities	19,992	645	-	100	846	21,583
Average balance of risk assets	31,483	148	49	244	2,361	34,285
Average balance of mutual funds	-	-	2,647	-	-	2,647
Average balance of securities	-	-	37,981	-	-	37,981
Average balance of other assets under management	1,247	-	-	-	-	1,247
Balance of credit to the public as of 31 December 2007	33,772	273	14	294	2,390	36,743
Balance of deposits of the public as of 31 December 2007	21,398	-	-	54	899	22,351

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 2,936 million, 8.0% as compared with the end of 2007, arising mainly from the transfer of customers from the commercial banking line to the corporate banking line in the amount of NIS 2.6 billion and to the construction and real estate line in the amount of NIS 0.5 billion, while credits amounting to NIS 0.8 billion were transferred from the small business line. Total deposits of the public decreased by NIS 3,705 million, 16.6%.

Main Changes in Net Profit

In the first nine months of 2008, net profit in the commercial banking segment totaled NIS 303 million, compared with NIS 314 million during the corresponding period in 2007, a decrease of 3.5%. The decrease in profit stems from an increase in provisions for doubtful debts of NIS 79 million, which was partially offset by an increase in income of NIS 38 million, and from a reduction in operating expenses in the amount of NIS 24 million.

Regarding credit risks in light of the global financial crisis, see below at pages 95 to 96 .

5. Construction and Real-Estate

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

	Banking and finance in Israel	Capital market	Overseas activities: Capital market	Overseas activities: Banking and finance	Total
	For the three months ending 30 September 2008				
	NIS millions				
Profit from net interest income:					
From external sources	**215**	**-**	**-**	**37**	**252**
Inter-segmental	**(48)**	**-**	**-**	**(20)**	**(68)**
Operating and other income:					
From external sources	**14**	**-**	**1**	**2**	**17**
Inter-segmental	**-**	**-**	**-**	**-**	**-**
Total income	**181**	**-**	**1**	**19**	**201**
Provisions for doubtful debts	**8**	**-**	**-**	**1**	**9**
Operating and other expenses:					
External	**26**	**1**	**-**	**9**	**36**
Inter-segmental	**-**	**-**	**-**	**2**	**2**
Operating profit (loss) before taxes	**147**	**(1)**	**1**	**7**	**154**
Tax provision	**56**	**(1)**	**-**	**3**	**58**
Net profit	**91**	**-**	**1**	**4**	**96**

	Banking and finance in Israel	Capital market	Overseas activities	Total
	For the three months ending 30 September 2007			
	NIS millions			
Profit from net interest income:				
From external sources	470	-	32	502
Inter-segmental	(316)	-	(9)	(325)
Operating and other income:				
From external sources	9	1	4	14
Inter-segmental	-	-	-	-
Total income	163	1	27	191
Provisions for doubtful debts	(32)	-	4	(28)
Operating and other expenses:				
External	24	1	11	36
Inter-segmental	-	-	1	1
Operating profit before taxes	171	-	11	182
Tax provision	65	-	5	70
Net profit	106	-	6	112

Construction and real estate (cont.)

	Banking and finance in Israel	Capital market	Overseas activities: Capital Market	Overseas activities: Banking and finance	Total
	For the nine months ending 30 September 2008				
	NIS millions				
Profit from net interest income:					
From external sources	**1,088**	**-**	**-**	**114**	**1,202**
Inter-segmental	**(546)**	**-**	**-**	**(56)**	**(602)**
Operating and other income:					
From external sources	**36**	**2**	**3**	**7**	**48**
Inter-segmental	**-**	**-**	**-**	**-**	**-**
Total income	**578**	**2**	**3**	**65**	**648**
Provisions for doubtful debts	**40**	**-**	**-**	**-**	**40**
Operating and other expenses:					
External	**68**	**1**	**-**	**30**	**99**
Inter-segmental	**-**	**-**	**-**	**6**	**6**
Operating profit before taxes	**470**	**1**	**3**	**29**	**503**
Tax provision	**174**	**-**	**1**	**9**	**184**
Net profit	**296**	**1**	**2**	**20**	**319**
% Return on equity					**16.2%**

Average balance of assets	**23,870**	**-**	**-**	**2,936**	**26,806**
Average balance of liabilities	**3,989**	**-**	**-**	**1,456**	**5,445**
Average balance of risk assets	**30,585**	**1**	**-**	**2,710**	**33,296**
Average balance of mutual funds and supplementary training funds	**-**	**170**	**-**	**-**	**170**
Average balance of securities	**-**	**10,755**	**1,422**	**-**	**12,177**
Average balance of other assets under management	**33**	**-**	**-**	**-**	**33**
Balance of credit to the public	**25,284**	**-**	**-**	**2,868**	**28,152**
Balance of deposits of the public	**4,378**	**-**	**-**	**1,152**	**5,530**

Construction and real estate (cont.)

	Banking and finance in Israel	Capital market	Overseas activities	Total
	For the nine months ending 30 September 2007			
	NIS millions			
Net interest income:				
From external sources	1,096	-	98	1,194
Inter-segmental	(682)	-	(27)	(709)
Operating and other income:				
From external sources	30	4	10	44
Inter-segmental	-	-	-	-
Total income	444	4	81	529
Provisions for doubtful debts	(23)	-	4	(19)
Operating and other expenses:				
External	69	2	32	103
Inter-segmental	-	-	6	6
Operating profit before taxes	398	2	39	439
Provision for taxes	152	1	13	166
Operating profit after taxes	246	1	26	273
Profit from extraordinary items after taxes	-	1	-	1
Net profit	246	2	26	274
% Return on equity				15.4%
Average balance of assets	21,799	1	2,863	24,663
Average balance of liabilities	3,071	-	1,753	4,824
Average balance of risk assets	27,087	1	2,441	29,529
Average balance of mutual funds	-	72	1	73
Average balance of securities	-	15,220	1,066	16,286
Average balance of other assets under management	162	-	-	162
Balance of credit to the public as of 31 December 2007	22,623	1	2,890	25,514
Balance of deposits of the public as of 31 December 2007	2,992	-	1,797	4,789

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 2,638 million, 10.3%, compared with the end of 2007, of which credits amounting to NIS 0.5 billion were transferred from the commercial banking line. Total deposits of the public increased by NIS 741 million, 15.5%.

Main Changes in Net Profit

In the first nine months of 2008, net profit in the construction and real estate segment totaled NIS 319 million, compared with NIS 274 million in the corresponding period in 2007 - an increase of 16.4%. The increase in profit stems mainly from an increase of NIS 115 million in net interest income before provisions for doubtful debts, arising mainly from the collection of interest in respect of which provisions had previously been made.

This was partially offset by an increase in provisions for doubtful debts of NIS 59 million. The source of the increase in net profit is the contribution of the segment's activity in Israel.

Regarding credit risks in light of the global financial crisis, see below at pages 95 to 96.

6. Private Banking

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

	Banking and finance	Credit cards	Capital market	Overseas Activities Capital Market	Overseas Activities Banking and finance	Total
	For the three months ending 30 September 2008					
	NIS millions					
Profit from net interest income:						
From external sources	**(138)**	**-**	**-**	**-**	**(49)**	**(187)**
Inter-segmental	**174**	**-**	**-**	**-**	**42**	**216**
Operating and other income:						
From external sources	**10**	**-**	**29**	**30**	**29**	**98**
Inter-segmental	**-**	**1**	**-**	**-**	**2**	**3**
Total income	**46**	**1**	**29**	**30**	**24**	**130**
Provision for doubtful debts	**-**	**-**	**-**	**-**	**-**	**-**
Operating and other expenses:						
External	**33**	**-**	**7**	**32**	**44**	**116**
Inter-segmental	**(2)**	**1**	**-**	**-**	**14**	**13**
Operating profit (loss) before taxes	**15**	**-**	**22**	**(2)**	**(34)**	**1**
Provision for taxes	**10**	**-**	**8**	**2**	**2**	**22**
Net profit (loss)	**5**	**-**	**14**	**(4)**	**(36)**	**(21)**

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Overseas activities: Capital Market	Overseas activities: Banking and Finance	Total
	For the three months ending 30 September 2007					
	NIS millions					
Profit from net interest income:						
From external sources	(291)	-	-	-	(43)	(334)
Inter-segmental	333	-	-	-	126	459
Operating and other income:						
From external sources	9	1	32	40	24	106
Inter-segmental	-	1	-	-	3	4
Total income	51	2	32	40	110	235
Provisions for doubtful debts	-	-	-	-	4	4
Operating and other expenses:						
External	43	-	19	34	53	149
Inter-segmental	1	-	-	-	17	18
Operating profit before taxes	7	2	13	6	36	64
Provision for taxes	3	-	5	-	7	15
Operating profit after taxes	4	2	8	6	29	49
Minority interests in profits of consolidated companies	-	-	-	-	(1)	(1)
Net operating profit	4	2	8	6	28	48
Profit from extraordinary items after taxes	-	-	2	-	-	2
Net profit	4	2	10	6	28	50

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Overseas Activities Capital Market	Overseas Activities Banking and finance	Total
	For the nine months ending 30 September 2008					
	NIS millions					
Profit from net interest income:						
From external sources	**(427)**	**-**	**-**	**-**	**(73)**	**(500)**
Inter-segmental	**537**	**-**	**-**	**-**	**189**	**726**
Operating and other income:						
From external sources	**29**	**1**	**88**	**102**	**87**	**307**
Inter-segmental	**1**	**1**	**-**	**-**	**9**	**11**
Total income	**140**	**2**	**88**	**102**	**212**	**544**
Provision for doubtful debts	**-**	**-**	**-**	**-**	**-**	**-**
Operating and other expenses:						
External	**121**	**1**	**29**	**75**	**178**	**404**
Inter-segmental	**(1)**	**1**	**-**	**1**	**44**	**45**
Operating profit (loss) before taxes	**20**	**-**	**59**	**26**	**(10)**	**95**
Provision for taxes	**10**	**-**	**22**	**12**	**10**	**54**
Operating profit (loss) after taxes	**10**	**-**	**37**	**14**	**(20)**	**41**
Minority interests in profits of consolidated companies	**-**	**-**	**-**	**-**	**(1)**	**(1)**
Net operating profit (loss)	**10**	**-**	**37**	**14**	**(21)**	**40**
Profit from extraordinary items after taxes	**-**	**3**	**-**	**-**	**-**	**3**
Net profit (loss)	**10**	**3**	**37**	**14**	**(21)**	**43**
% Return on equity						**9.8%**

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Overseas Activities Capital Market	Overseas Activities Banking and finance	Total
	For the nine months ending 30 September 2008					
	NIS millions					
Average balance of assets	**1,666**	**49**	**-**	**-**	**8,321**	**10,036**
Average balance of liabilities	**23,320**	**-**	**-**	**-**	**15,836**	**39,156**
Average balance of risk assets	**1,033**	**49**	**-**	**-**	**6,280**	**7,362**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**3,102**	**1,813**	**-**	**4,915**
Average balance of securities	**-**	**-**	**29,035**	**34,305**	**-**	**63,340**
Average balance of other assets under management	**295**	**-**	**-**	**-**	**-**	**295**
Balance of credit to the public	**1,564**	**49**	**-**	**-**	**4,893**	**6,506**
Balance of deposits of the public	**21,979**	**-**	**-**	**-**	**13,865**	**35,844**

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Overseas Activities		Total
				Capital Market	Banking and finance	
	For the nine months ending 30 September 2007					
	NIS millions					
Net interest income:						
From external sources	(860)	-	-	-	(154)	(1,014)
Inter-segmental	984	-	-	-	353	1,337
Operating and other income:						
From external sources	29	1	92	130	82	334
Inter-segmental	1	1	-	-	10	12
Total income	154	2	92	130	291	669
Provisions for doubtful debts	1	-	-	-	4	5
Operating and other expenses:						
External	130	1	49	95	166	441
Inter-segmental	1	-	-	1	51	53
Operating profit before taxes	22	1	43	34	70	170
Provision for taxes	6	-	17	8	20	51
Operating profit after taxes	16	1	26	26	50	119
Minority interests in profits of consolidated companies	-	-	-	-	(4)	(4)
Profit from extraordinary items	16	1	26	26	46	115
Profit from extraordinary items after taxes	-	-	6	-	-	6
Net profit	16	1	32	26	46	121
% Return on equity						35.0%
Average balance of assets	1,616	28	-	-	7,543	9,187
Average balance of liabilities	25,758	-	-	-	15,353	41,111
Average balance of risk assets	1,183	20	-	-	4,645	5,848
Average balance of mutual funds	-	-	3,364	2,302	-	5,666
Average balance of securities	-	-	28,217	36,728	-	64,945
Average balance of other assets under management	429	-	-	-	-	429
Balance of credit to the public as of 31 December 2007	1,600	48	-	-	5,490	7,138
Balance of deposits of the public as of 31 December 2007	24,548	-	-	-	16,368	40,916

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 632 million, 8.9% compared with the end of 2007, and total deposits of the public decreased by NIS 5,072 million, 12.4%. The decrease is mainly attributable to the appreciation of the shekel in relation to most other currencies. The average balance of securities portfolios amounted to NIS 63 billion, compared with NIS 65 billion during the corresponding period in 2007, their value being eroded as a result of the declines on stock markets worldwide.

Main Changes in Net Profit

In the first nine months of 2008, net profit in the private banking segment totaled NIS 43 million, compared with NIS 121 million in the corresponding period in 2007. The decrease in profit arises mainly from the segment's activities overseas, in consequence of the global financial crisis and the appreciation of the shekel in relation to most other currencies.

7. Financial Management – Capital Markets

As a result of the global financial crisis and the continuing worldwide stock market declines, losses have been suffered with respect to investments in securities, as described in the section on Securities. In the first nine months of 2008, the loss in the financial management segment totaled NIS 565 million, compared with a profit of NIS 410 million in the corresponding period in 2007. The change in profit stems from:

- A decrease in income in the amount of NIS 1,284 million, of which NIS 850 million from provisions for the decline in value of available-for-sale debentures and of mutual funds, and NIS 120 million from a decline in profits from the sale of available-for-sale debentures and mutual funds.

- An increase in operating and other expenses in the amount of NIS 537million, mainly from losses suffered by the severance pay and pension funds of the Bank’s employees and expenses in respect of previous years in the amount of some NIS 446 million, which are not attributed to other segments.

- An increase in the Group's share of the profits of companies included on the equity basis from NIS 139 million to NIS 458 million, which partially offset these losses.

Companies Included on the Equity Basis (Non-Banking) – (presented in the Financial Management Sector)

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

The Leumi Group’s total investments in companies included on the equity basis was NIS 2,031million on 30 September 2008, compared with NIS 1,873 million on 31 December 2007.

	Book value (in NIS millions)			Market value (in NIS millions)	
	30 September 2008	31 December 2007	% change	**30 September 2008**	31 December 2007
The Israel Corporation Ltd.	**1,342**	1,138	17.9	**3,623**	5,613
Paz Oil Company Ltd.	**505**	560	(9.8)	**736**	920
Others	**184**	175	5.1	**-**	-
Total	**2,031**	1,873	8.4	**4,359**	6,533

The contribution to Group profit of the companies included on the equity basis in the first nine months of 2008 amounted to NIS 471 million, compared with NIS 146 million in the corresponding period in 2007.

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

	For the nine months ending 30 September		
	2008	2007	% change
The Israel Corporation Ltd.	**354**	88	302.3
Paz Oil Company Ltd.	**99**	51	94.1
Others	**18**	7	157.1
	471	146	222.6

The Israel Corporation Ltd. – Restrictions in the Permit for Control of Oil Refineries Ltd. (ORL)

The control permit for ORL, which was granted to the Israel Corporation Ltd. (the "Israel Corporation"), contains certain restrictions on the Bank with respect to directors serving on behalf of the Bank in the Israel Corporation. The purpose of the restrictions is the maintenance of "Chinese walls" between ORL and the Ashdod Oil Refinery Ltd. ("AOR"), for so long as: the Israel Corporation controls ORL and Paz Oil Company Ltd. ("Paz") controls AOR; and the Bank has the right or the ability to appoint, to recommend or to otherwise influence the appointment of a director of the Israel Corporation and of Paz.

Paz Oil Company Ltd.

Leumi Real Holdings Ltd. holds 15.72% of Paz. In January 2007, two directors of Paz were appointed by Leumi, constituting 20% of the Board of Directors.

Following the Israel Corporation's purchase of the control of ORL, the Government Companies Authority examined the possibility of amending the control permit of AOR, which was granted to the controlling shareholders of Paz.

In a letter dated 16 September 2007, the Government Companies Authority announced that:

"In light of the Immediate Reports filed by Bank Leumi le-Israel on 5 July 2007 and 22 August 2007, regarding its intention to attempt to sell its holdings in Paz Oil Company Ltd. ("Paz") further to the notice of the Bank of Israel of 3 July 2007 and the timetable set out therein, the Government Companies Authority has decided, at this stage, to suspend the amendment of the control permit of AOR granted to Paz on 27 September 2006."

Holdings in Non-banking Holding Corporations (Conglomerates)

The Bank's holdings in non-banking corporations are subject to restrictions determined in the Banking (Licensing) Law, 1981 (the "Banking Law"). The Banking Law determines, *inter alia*, in section 24A that a banking corporation is entitled to hold means of control in only one conglomerate (a "non-banking holding corporation") (a corporation whose capital exceeds some NIS 1,831 million and operates in more than three branches of the economy). The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

The Paz financial statements for the first half of 2007, in which new accounting standards were implemented, indicate that the shareholders' equity of Paz exceeds the minimal amount of capital in the definition of a conglomerate (a non-banking holding corporation).

Prior to the publication of the said financial statements, discussions had already been held between the Bank and the Bank of Israel with regard to the interpretation of the Banking Law relating to the definition of Paz as a conglomerate. Further to these discussions, the Bank of Israel notified the Bank, in its letter of 3 July 2007, that it does not accept the Bank's interpretation that the energy sector constitutes one branch of the economy. Therefore, according to the Bank of Israel's position, Paz is a conglomerate under the Banking Law.

As a result, and in accordance with the Bank of Israel's notification of 3 July 2007, the Bank is required to sell its holdings in one of the conglomerates, Paz or the Israel Corporation, by 30 June 2009. Following discussions in August 2007 regarding the holdings of the Bank in non-banking holding companies, and in light of the Bank of Israel's position (and subject to the continuance of the current discussions with the Bank of Israel in this regard, wherein the Bank disagrees with the Bank of Israel's position), the Bank intends to attempt to sell its holdings in Paz (15.72% of the share capital and voting rights – 15.31% on a fully-diluted basis); this being subject to the conditions, the circumstances and additional examinations and taking into account the timetables set by the Bank of Israel (namely, by 30 June 2009), and subject to there being no change in the dates set or position of the Bank of Israel.

Migdal Insurance and Financial Holdings Ltd.

The Bank holds 9.85% of the issued and paid-up share capital of Migdal Insurance and Financial Holdings Ltd. ("Migdal Holdings") (9.74%, fully diluted), the controlling shareholder of Migdal Insurance Company Ltd.

According to the Bank of Israel's interpretation of the Banking (Licensing) Law, with which the Bank disagrees, the Bank is also required to sell the holdings in Migdal Holdings, which, pursuant to the said law, is considered a "non-banking holding corporation".

It should be noted that pursuant to legislation enacted following the capital market reform, a bank may hold 5% of the share capital of an insurance company, and 10% of the share capital of a corporation that controls an insurance company.

The Supervisor of Banks has granted a permit to the Bank to hold holdings in Migdal Holdings until 31 December 2008.

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 according to the directives of the Bank of Israel.

This activity includes primarily: part of the operations of companies that are not allocated to the other segments.

During the first nine months of 2008, the loss in the "Others" segment amounted to NIS 21 million, compared with a profit of NIS 78 million in the corresponding period in 2007.

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

	For the nine months ending 30 September		
	2008	2007	Change in amount
Profit (loss) from extraordinary items	**(1)**	22	(23)
From operating activity at the Bank	**12**	29	(17)
Leumi & Co.	**40**	23	17
Other companies in Israel	**(5)**	7	(12)
Overseas companies	**(13)**	24	(37)
Tax adjustments [(1)]	**(54)**	(27)	(27)
Total	**(21)**	78	(99)

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

Activities in Products

A. Capital market activities - The Group's activities in the capital market include investment counseling activity, including counseling in relation to supplementary training funds, brokerage in the securities and financial instruments market, including activity carried out through the foreign currency and Israeli and foreign securities dealing rooms, brokerage and custody services, and banking and financial services for entities active in the capital market.

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

	House-Holds	Private banking	Small businesses	Commercial banking	Corporate banking	Real Estate	Financial manage-ment and Others	Overseas activities	Total
	For the three months ending 30 September 2008								
	NIS millions								
Profit from net interest income	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Operating and other income	**111**	**29**	**5**	**15**	**5**	**-**	**26**	**34**	**225**
Total income	**111**	**29**	**5**	**16**	**5**	**-**	**26**	**34**	**226**
Operating and other expenses	**46**	**7**	**1**	**9**	**3**	**1**	**16**	**30**	**113**
Operating profit (loss) before taxes	**65**	**22**	**4**	**7**	**2**	**(1)**	**10**	**4**	**113**
Net profit (loss)	**41**	**14**	**2**	**4**	**1**	**-**	**5**	**(1)**	**66**

	House-Holds	Private banking	Small businesses	Commercial banking	Corporate banking	Real Estate	Financial manage-ment and Others	Overseas activities	Total
	For the three months ending 30 September 2007								
	NIS millions								
Profit from net interest income	-	-	-	-	-	-	-	-	-
Operating and other income	128	32	6	12	6	1	30	43	258
Total income	128	32	6	12	6	1	30	43	258
Operating and other expenses	93	19	2	10	4	1	(9)	37	157
Operating profit before taxes	35	13	4	2	2	-	39	6	101
Operating profit after taxes	21	8	3	1	1	-	24	6	64
Profit from extraordinary items after taxes	73	2	7	5	4	-	3	-	94
Net profit	94	10	10	6	5	-	27	6	158

	House - Holds	Private banking	Small businesses	Commercial banking	Corporate banking	Real Estate	Financial manage-ment and Others	Overseas activities	Total
	For the nine months ending 30 September 2008								
	NIS millions								
Profit from net interest income	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**2**
Operating and other income	**338**	**88**	**15**	**40**	**14**	**2**	**79**	**114**	**690**
Total income	**339**	**88**	**16**	**40**	**14**	**2**	**79**	**114**	**692**
Operating and other expenses	**188**	**29**	**5**	**24**	**8**	**1**	**35**	**94**	**384**
Operating profit before taxes	**151**	**59**	**11**	**16**	**6**	**1**	**44**	**20**	**308**
Net profit	**96**	**37**	**7**	**10**	**4**	**1**	**28**	**10**	**193**

	House -holds	Private banking	Small businesses	Commercial banking	Corporate banking	Real estate	Financial manage-ment and Others	Overseas activities	Total
	For the nine months ending on 30 September 2007								
	NIS millions								
Profit from net interest income	-	-	1	-	-	-	-	-	1
Operating and other income	376	92	16	42	20	4	124	136	810
Total income	376	92	17	42	20	4	124	136	811
Operating and other expenses	294	49	8	31	13	2	23	100	520
Operating profit before taxes	82	43	9	11	7	2	101	36	291
Operating profit after taxes	50	26	6	7	4	1	61	27	182
Profit from extraordinary items after taxes	278	6	26	16	17	1	3	-	347
Net profit	328	32	32	23	21	2	64	27	529

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

	Nine months ending 30 September	
	2008	2007
Mutual funds	**100**	125
Provident funds	**9**	15
Supplementary training funds	**-**	17
Total	**109**	157

In the first nine months of 2008, net operating profit after taxes from capital market operations amounted to NIS 193 million, compared with NIS 155 million in the corresponding period in 2007, a decrease of 24.5%.

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 activities are carried out 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 nine months of the year with a net profit of NIS 124 million, compared with NIS 75 million in the corresponding period in 2007.

During the first nine months of 2008, the volume of activity of Leumi Card card holders increased by 13.5%, and that of businesses by 14.3%, compared with the activity during the corresponding period in 2007. The number of active cards increased by some 9.4% in the first nine months of 2008, as compared with the corresponding period in 2007.

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 30 September 2008					
	NIS millions					
Profit from net interest income	**27**	**-**	**2**	**1**	**5**	**35**
Operating and other income	**175**	**1**	**7**	**2**	**18**	**203**
Total income	**202**	**1**	**9**	**3**	**23**	**238**
Provisions for doubtful debts	**5**	**-**	**-**	**-**	**1**	**6**
Operating and other expenses	**115**	**1**	**4**	**5**	**20**	**145**
Operating profit (loss) before taxes	**82**	**-**	**5**	**(2)**	**2**	**87**
Net profit (loss)	**49**	**-**	**3**	**(2)**	**1**	**51**

	House-holds	Private Banking	Small businesses	Commercial banking	Corporate banking	Total
	For the three months ending on 30 September 2007					
	NIS millions					
Profit from net interest income	19	-	2	-	4	25
Operating and other income	150	2	4	3	13	172
Total income	169	2	6	3	17	197
Provisions for doubtful debts	3	-	-	-	1	4
Operating and other expenses	121	-	5	2	19	147
Operating profit (loss) before taxes	45	2	1	1	(3)	46
Group's share in profits of companies included on the equity basis, net	-	-	-	4	-	4
Net profit (loss)	31	2	-	5	(2)	36

	House-holds	Private Banking	Small businesses	Commercial banking	Corporate banking	Total
	For the nine months ending on 30 September 2008					
	NIS millions					
Profit from net interest income	**76**	**-**	**7**	**3**	**13**	**99**
Operating and other income	**508**	**2**	**18**	**10**	**37**	**575**
Total income	**584**	**2**	**25**	**13**	**50**	**674**
Provisions for doubtful debts	**12**	**-**	**-**	**-**	**2**	**14**
Operating and other expenses	**341**	**2**	**15**	**12**	**51**	**421**
Operating profit (loss) before taxes	**231**	**-**	**10**	**1**	**(3)**	**239**
Operating profit (loss) after taxes	**157**	**-**	**6**	**-**	**(2)**	**161**
Group's share of profits of companies included on the equity basis, net	**-**	**-**	**-**	**1**	**-**	**1**
Profit from extraordinary items	**202**	**3**	**18**	**26**	**2**	**251**
Net profit (loss)	**352**	**3**	**24**	**27**	**(1)**	**405**

	House-holds	Private Banking	Small businesses	Commercial banking	Corporate banking	Total
	For the nine months ending on 30 September 2007					
	NIS millions					
Profit from net interest income	53	-	5	2	11	71
Operating and other income	438	2	15	10	33	498
Total income	491	2	20	12	44	569
Provisions for doubtful debts	10	-	-	-	2	12
Operating and other expenses	339	1	17	11	49	417
Operating profit (loss) before taxes	142	1	3	1	(7)	140
Group's share in profits of companies included on the equity basis	-	-	-	4	-	4
Net profit (loss)	99	1	1	5	(5)	101

In the first nine months of 2008, net operating profit from credit card activity amounted to NIS 154 million, compared with NIS 101 million during the corresponding period in 2007, an increase of 52.5%.

Allotment of Leumi Card shares to Canit – Investment and Finance Management Ltd. ("Canit")

On 21 May 2008, the Boards of Directors of the Bank and of Leumi Financial Holdings Ltd. resolved to approve a transaction, pursuant to which Leumi Card would allot to Canit shares of Leumi Card constituting 20% of the issued and paid-up share capital of Leumi Card, for consideration of NIS 360 million to be paid to Leumi Card. On 26 May 2008, this transaction was executed and completed and the consideration was transferred to Leumi Card.

Canit was granted regular minority protection rights as part of the transaction, and the right to appoint two directors. In addition, Leumi Financial Holdings Ltd. (a subsidiary of the Bank and the sole shareholder of Leumi Card) received various rights which are regularly granted upon a sale or the introduction of a partner.

The net profit to the Bank arising from the said allotment is some NIS 234 million.

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 nine months ending on 30 September					
	2008(1)	2007(1)	Change	**2008**(2)	2007(2)	Change
	NIS millions		%	NIS millions		%
The Bank	**277**	1,652	(83.2)	**612**	1,738	(64.8)
Consolidated companies in Israel (3)	**488**	524	(6.9)	**488**	524	(6.9)
Overseas consolidated companies (4)	**(99)**	204	-	**(434)**	118	-
Non-banking companies (3)	**360**	92	291.3	**360**	92	291.3
Net operating profit	**1,026**	2,472	(58.5)	**1,026**	2,472	(58.5)
Overseas subsidiaries' profit, in nominal terms (US$ millions) (5)	**24.7**	66.8	(63.0)	**24.7**	66.8	(63.0)

(1) Translation adjustments in respect of overseas investments were offset against translation adjustments of the financing sources at the Bank after the effect of taxes.
(2) According to the financial statements (not including translation adjustments of the financing sources at the Bank).
(3) The non-banking holdings of the Israeli companies were included in the data of the consolidated companies in Israel.
(4) After certain adjustments to Israeli accounting principles.
(5) As reported by the overseas subsidiaries, including overseas branches and minority interests.

The following are the main changes in the contribution of the profit centers (after translation adjustments):

- The decrease in net operating profit at the Bank derived mainly from losses and a reduction in value in respect of investments in securities, as detailed in the "Securities" section, and from an increase in the provisions for doubtful debts.

- The decrease in net operating profit of consolidated companies in Israel derives mainly from a decrease in the profit of Leumi Mortgage Bank, which was partly offset by the increase in the profits of Leumi Card and Leumi Real Investments.

- The losses of overseas subsidiaries derive mainly from the increase in the negative exchange rate differentials in respect of overseas investments, and from a decline in the profitability of the overseas subsidiaries, as a result of provisions for the reduction in value in respect of investments in securities.

- The improvement in profits of companies included on the equity basis, arising from the increased contribution of the Israel Corporation.

The overseas subsidiaries' operating profits in nominal terms as published by them (including the Bank's overseas branches and minority interests) totaled some US$ 24.7 million, a decrease of US$ 42.1 million compared with the corresponding period in 2007. The decrease is mainly attributable to the provisions for reduction in value in respect of investments in securities, and the weakness of other currencies in relation to the US dollar. The contribution of the overseas subsidiaries in shekels, after certain adjustments to Israeli accounting principles, and following attribution of translation adjustments of financing sources as detailed above, totaled a loss of NIS 99 million, compared with a profit of NIS 204 million in the corresponding period in 2007. This decline was caused both by the decrease in profit and by changes in exchange rate differentials arising from the strengthening of the shekel. Excluding the effect of exchange rate differentials in respect of the cost of financing sources, net, the loss of the overseas subsidiaries amounted to NIS 434 million, as compared with a profit of NIS 118 million in the corresponding period in 2007, a decrease of NIS 552 million, deriving mainly from negative exchange rate differentials in respect of the overseas investments due to the appreciation of the shekel in relation to the foreign currencies.

Activities of Major Subsidiaries and Affiliates

General

The Leumi Group operates in Israel and abroad through overseas subsidiaries which are banks, a mortgage bank, finance companies and financial service companies. The Group also invests in non-banking companies operating in the fields of insurance, infrastructure and real estate.

Consolidated Subsidiaries in Israel

The Bank's investments in consolidated subsidiaries in Israel amounted to NIS 5,681 million on 30 September 2008, compared with NIS 5,201 million on 31 December 2007. The contribution to net profit during the first nine months of 2008 was NIS 505 million, compared with NIS 524 million in the corresponding period in 2007, a decrease of 3.5%.

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)		
	For the period ending 30 September				
	2008	2007	**2008**	2007	Change
	%		NIS millions		%
Leumi Mortgage Bank	**7.0**	14.1	**105.8**	191.2	(44.7)
Arab Israel Bank	**25.2**	27.4	**64.3**	69.2	(7.1)
Leumi Card	**53.3**	104.8	**115.3**	75.3	53.1
Leumi & Co. Investment House (2)	**15.6**	12.7	**47.4**	28.9	64.0
Leumi Securities and Investments (previously Psagot-Ofek Investment House)	**4.7**	3.5	**1.5**	21.9	(93.2)
Leumi Real Holdings(2)	**27.6**	14.1	**100.6**	50.3	100.0
Leumi Leasing and Investments	**8.0**	5.8	**48.4**	33.8	43.2
Others	**3.4**	4.1	**22.0**	52.9	(58.4)
Total consolidated subsidiaries in Israel	**12.8**	11.0	**505.3**	523.5	(3.5%)

(1) The profit 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.

Arab Israel Bank Ltd.

According to a Bank of Israel audit report, dated 15 July 2008, dealing with the prohibition against money laundering, *prima facie* defects were found in compliance with the various statutory provisions dealing with the prohibition against money laundering and the financing of terrorism. In the letter accompanying the audit report, the Bank of Israel notified the Arab-Israel Bank that it would, at a later date, transmit to the Arab-Israel Bank notice of a request to impose a financial sanction pursuant to section 14(a) of the Prohibition of Money Laundering Law, 2000.

At this stage, it is not possible to estimate the size of the financial sanction (if indeed the request is submitted and if a financial sanction is imposed.)

Leumi Mortgage Bank Ltd.

See page 22, regarding details of amendments to the Execution Law, 1967.

As announced by the management of Leumi Mortgage Bank Ltd. ("Leumi Mortgage Bank"), the scope of the effect of the Amendment of the Law on the profitability of Leumi Mortgage Bank may be material to Leumi Mortgage Bank, and will be determined according to the number of cases where Leumi Mortgage Bank demands that a debtor vacate a residential apartment.

Leumi & Co. Investment House Ltd. (Leumi & Co.)

a. Since 1 July 2007, following the entry into force of the Securities (Underwriting) (Amendment) Regulations, 2007, which impose significant restrictions on the management of issues by underwriting firms in which banking corporations hold an interest of 20% or more, Leumi & Co. Underwriting Ltd. has assumed the status of an inactive underwriter and has suspended its underwriting activity. Since then, Leumi & Co. has been involved in underwriting through Psagot-Leumi & Co. Underwriting Ltd. (“Psagot-Leumi Underwriting”), a company in which Leumi & Co. holds 19.99% of the capital and voting rights. The remaining rights in the company are held by Psagot Investment House Ltd. (“Psagot”). In July 2008, Psagot announced its decision to leave the underwriting field. On 24 September 2008, Leumi & Co. signed an agreement with Psagot, pursuant to which it transferred to Psagot its holdings in Psagot Leumi Underwriting without consideration, and pursuant to which Psagot-Leumi Underwriting will suspend its underwriting activity and assume the status of an inactive underwriter. Psagot has undertaken that it will make available to Psagot-Leumi Underwriting the resources necessary to meet its obligations, due to the suspension of its activity as an underwriter, including, *inter* alia, its obligations to the company’s Chief Executive Officer pursuant to the agreement with him.

   Leumi & Co. Underwriters Ltd. has absorbed some of Psagot Leumi Underwriting’s employees and managers. Leumi & Co. Underwriters Ltd. operates by virtue of its qualification as a distributor, as defined in the Securities (Underwriting) Regulations, 2007, and it is about to register in the Underwriters Register maintained by the Israel Securities Authority and to re-assume the status of an active underwriter.

b. In April 2005, Leumi & Co. entered into a strategic cooperation agreement with the Jefferies Broadview Investment Bank, for the provision of investment banking services relating to mergers, acquisitions, offerings and capital raising abroad, focusing on companies engaged in the areas of technology and life sciences.
   The agreement ended on 2 August 2008.

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 3,962 million on 30 September 2008, compared with NIS 4,409 million on 31 December 2007.

During the first nine months of 2008, 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 loss of NIS 100 million, compared with a profit of NIS 206 million in the corresponding period in 2007, as detailed below.

	For the nine months ending on 30 September	
	2008	2007
	NIS millions	
Profits of the subsidiaries in shekels (the Group's share)	**72**	259
Exchange rate differentials on the investment	**(507)**	(139)
Total	**(435)**	120
Exchange rate differentials on the net cost of financing sources, after taxes	**335**	86
Total contribution of the subsidiaries (after offsetting net financing sources)	**(100)**	206

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

	Return on the Group's investment		Contribution to the Group's profit(*)		
	For the period ending 30 September				
	2008	2007	**2008**	2007	Change
	%		NIS millions		%
Leumi USA (BLC)	**-**	5.0	**(19.1)**	88.7	-
Leumi UK	**-**	13.1	**(12.8)**	73.8	-
Leumi Switzerland	**-**	2.4	**(10)**	10.9	-
Leumi Luxembourg	**-**	12.5	**(53.6)**	11.2	-
Leumi Re	**14.7**	44.7	**11**	32.4	(66.0)
Leumi Romania	**-**	-	**(12.8)**	(14.7)	(12.9)
Others	**-**	3.3	**(3.1)**	4.1	-
Total overseas consolidated subsidiaries	**-**	6.3	**(100.4)**	206.4	-

(*) 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 335 million (NIS 86 million in 2007). The following are some of the sums that were offset:

Leumi USA - NIS 163 million in 2008, compared with NIS 74 million in 2007;
Leumi UK - NIS 88 million in 2008, compared with NIS 8 million in 2007;
Leumi Switzerland - NIS 24 million in 2008, compared with NIS 3 million in 2007;
Leumi Romania - NIS 35 million in 2008, compared with NIS (4) million in 2007.

The decrease in the contribution to profit derives mainly from the effect of the appreciation of the shekel in relation to most currencies. The effect of the exchange rate differentials was to reduce pre-tax profit by NIS 507 million during the first nine months of the year, compared with a reduction of pre-tax profit by NIS 139 million in the corresponding period in 2007. Net interest income (after tax) recorded at the Bank, and which offset part of these exchange rate differentials, totaled some NIS 335 million during the first nine months of the year, compared with income of NIS 86 million in the corresponding period in 2007.

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

	For the nine months ending on 30 September		
	2008	2007	Change
	Millions		%
Leumi USA (BLC) (US$)	**21.6**	25.2	(14.3)
Leumi (UK) (£)	**7.8**	9.2	(15.2)
Leumi Switzerland (CHF)	**2.8**	9.1	(69.2)
Leumi Luxembourg (€)	**(8.2)**	1.9	-
Leumi Re (US$)	**4.4**	8.1	(45.7)
Leumi Romania – Ron*	**7.3**	(2.4)	+

The nominal profit of the overseas consolidated subsidiaries as reported by them totaled US$ 35.8 million in the first nine months of 2008, compared with US$ 63.8 million in the corresponding period in 2007, a decrease of 43.9%.

* 1 Ron = US$ 0.392

Bank Leumi (UK)

In April 2008, Bank Leumi (UK) increased its Tier II Capital by £ 7.5 million, by issuing a subordinated capital note to the Bank.

On 6 August 2008, the Bank invested £ 10 million in the share capital of Bank Leumi (UK).

On 18 June 2008, Mr. Menachem Friedman was dismissed from his position as Managing Director and CEO of Bank Leumi (UK). Mr. Friedman was dismissed in light of irregularities in the approval of loans while he served as the manager of a branch of the Bank in Israel, and this matter has no connection whatsoever with Bank Leumi (UK) or its customers.

On 15 October 2008, the Board of Directors of Bank Leumi (UK) approved the appointment of Mr. Lawrence M. Weiss to serve as Managing Director and CEO of the subsidiary. The appointment will take effect after it is approved by the UK authorities.

Bank Leumi (Luxembourg)

In March 2008, Bank Leumi (Luxembourg) increased its Tier II Capital by € 5.9 million, by issuing a subordinated capital note to the Bank.

Bank Leumi (Romania)

Bank Leumi (Romania) opened a branch in Sofia, Bulgaria in September 2008.

See Note 6C (3) and (4) to the Financial Statements regarding legal proceedings and other matters relating to the consolidated companies.

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 2,031 million on 30 September 2008, compared with NIS 1,873 million on 31 December 2007.

During the first nine months of 2008, the contribution to net profit amounted to a profit of some NIS 471 million, compared with a profit of some NIS 146 million in the corresponding period in 2007. During the third quarter, the profit amounted to NIS 191 million, compared with NIS 62 million in 2007.

See also, pages 77 to 78 of the Report.

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 while estimating the anticipated profit from managing the risks, together with the damage that may result from exposure to the said risks. Such management is based on ongoing forecasts and evaluations of developments in the capital and financial markets.

The market risk management policy includes limits on the financial exposures. 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.

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. The limits established at the Group level also include these companies.

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 in relation 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.

The following table shows the capital requirements in respect of market risks, in accordance with the directives of the Supervisor of Banks':

	30 September 2008	31 December 2007
	NIS millions	
Capital requirement in respect of		
Interest risks	**273**	321
Share price risk	**74**	55
Exchange rate risk	**142**	113
Inflation risk	**-**	-
Options	**133**	99
Total capital requirement in respect of market risks	**622**	588

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 which is not invested in the unlinked shekel sector, since the capital is defined as an unlinked shekel source.

The exposed capital, at Bank level, includes shareholders' equity and certain reserves, less investments in subsidiaries and affiliates and fixed assets. Investments in overseas subsidiaries, which are financed from foreign currency sources, are not deducted from the shareholders' equity.

The exposed capital, at group level, includes shareholders equity and certain reserves, less investments in companies included on the equity basis and fixed assets.

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:

		Actual position		
	Approved limits maximum surplus (or deficit)	**30 September 2008**	30 September 2007	31 December 2007
Unlinked	50% - (100%)	**(35.2)**	(53.8)	(31.0)
CPI-linked	100% - (50%)	**34.6**	54.0	30.3
Foreign currency	25% - (10%)	**(0.6)**	(0.2)	0.7

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 nine months of 2008, an average of some 25.4% of the exposed capital was invested in the CPI-linked sector. The CPI-linked investment fluctuated between 11.7% and 35.4%. A relatively low volume of capital was channeled to the foreign currency and foreign-currency-linked sector, and therefore the effect of the changes in exchange rates regarding this exposure was not material to the pre-tax profit.

Changes in the exchange rate affect the effective tax rate, since exchange rate differentials in respect of the overseas investments are not taken into account in the income basis for calculating the provision for taxes. Subject to the rates of the changes in the exchange rates of the various currencies relative to the shekel, and considering the volume of the overseas investments, this may have a material effect on the provision for taxes and, therefore, on the net profit.

The actual effect of the exchange rate differentials during the first nine months of 2008 is also presented on pages 87 to 88, in the context of the contribution of the overseas consolidated subsidiaries to the Group's profit.

During the first nine months of 2008, 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 30 September 2008. The measurement relates to the effect of such changes on the capital of the Bank and includes the activity in balance sheet and non-balance sheet instruments (the theoretical change in the capital of the Bank does not include the effect of tax in respect of financing overseas investments):

	US$	€	£	CHF	Yen
	NIS millions				
Increase of 5% in exchange rate	48	(18)	(7)	(4)	1
Increase of 10% in exchange rate	65	(33)	(12)	(11)	(3)
Decrease of 5% in exchange rate	(70)	17	7	1	0
Decrease of 10% in exchange rate	(163)	33	13	-	2

These data do not take into account the effect of a change in the exchange rates on the income and expense cash flows in or linked to foreign currency. According to the assessment of the Bank's Management, a 1% decline in the exchange rate of the shekel against the foreign currencies reduces the net after tax annual profit by some NIS 10 million, as a result of the effect on the net income cash flow in or linked to foreign currency.

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 Group level (in NIS millions):

	Potential Erosion of Economic Value			**Potential Erosion of Annual Profit***		
Effect of a parallel change of 1% in the yield curve	**30 September 2008**	30 September 2007	31 December 2007	**30 September 2008**	30 September 2007	31 December 2007
Actual	**122**	575	330	**257**	145	256

* 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 700 million.

During the first nine months of 2008, the potential erosion of the economic value and of the annual profit fluctuated between NIS 122 million and NIS 372 million, and between NIS 254 million and NIS 327 million respectively.

During the first nine months of 2008, 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:

	30 September 2008	30 September 2007	31 December 2007
	NIS millions		
Total VaR	**242**	297	290
VaR of MTM re-valued portfolios	**265**	144	141

The Board of Directors' VaR limits are NIS 700 million at Group level and a limit of NIS 500 million for the VaR of the Mark to Market re-valued items.

During the first nine months of 2008, the VaR fluctuated between NIS 236 million and NIS 304 million at Group level and the VaR of the MTM re-valued portfolios fluctuated between NIS 115 million and some NIS 265 million.

From the middle of May 2007, and during the first nine months of 2008, an increase in volatility in interest rates in Israel and abroad was notable. This increase was manifested in the developments of the VaR over the period, which were partially set off by changes in position.

During the first nine months of 2008, 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 items), 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. The model's scenarios are reviewed and updated in accordance with developments in the markets.

In light of the developments in the markets, the Bank is depositing funds with correspondent banks for shorter periods of time. In addition, in order to reduce the credit risk in the portfolio of investments in securities, government debentures have been purchased instead of deposits in correspondent banks, and funds have also been deposited in central banks.

As a part of the Board's 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 liquid sources as quickly as possible.

Along with 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 positive in each of the scenarios.

During 2008, there have been no deviations from the limits set by the Board of Directors.

For further details regarding management of market risks, see pages 163-176 of the Annual Report for 2007.

Credit Risk

For details regarding exposure to credit risks and the management thereof, see pages 181-191 of the Annual Report for 2007.

The Bank's credit policy is based on the spreading of risks and their supervised management. This is effected through the spread of the Bank's credit portfolio among the various sectors of the economy and among a large number of borrowers. The credit policy serves as a guideline for the managements of the Bank's specialized subsidiaries in Israel and abroad, but the managements of these subsidiaries delineate the policy in the market segments being managed by them, except in relation to certain fields, for which there is Group-wide policy. Since it fulfils a central role in financing the Israeli economy, the Bank implements a strategy of involvement in the principal activity sectors of the economy and provides credit to the various types of manufacturing and trading sectors, to infrastructure projects, to the diverse public sector, to individuals and to households.

Within the context of the credit policy of the Bank in Israel, principles and rules have been prescribed according to which the Bank's credit portfolio is to be granted, managed and supervised, with the object of improving the quality of the portfolio and reducing the risk inherent in its management. These principles and rules relate both to the individual customer and to the sectors of the economy.

The Bank's Board of Directors approves the Bank's credit policy, and the sectoral and other limits.

The Bank's existing credit authorities are valid only if the credit under discussion complies with the Bank's credit policy, or if approval was obtained from the party authorized for such purpose. The authorities to establish credit lines at the various levels were established in light of the borrower's risk rating, the size of the credit line and the nature of the credit, while observing the principle that the worse the borrower's risk rating and the more complex the nature of the credit, the more senior the party who will make the decision.

As described in the 2007 Annual Report, the Corporate Division has established an independent unit to manage credit risks, in order to improve credit risk management, and also to adjust to regulatory requirements. The unit carries out an independent examination of the credit risks and the risk aspects. During the first half of 2008, a unit with similar operational characteristics was established in the Commercial Banking Division, and it is engaged in the examination and analysis of the major part of the Division's credit portfolio.

The "periodic credit monitoring" process –

Beginning in the first quarter of 2008, the Bank carries out, in addition to the daily monitoring and examinations which the business elements carry out on an ongoing basis, a quarterly, systematic monitoring process with regard to a broad selection of borrowers, in accordance with the borrowers' risk ratings.

The purpose of the process is to locate and identify potential weaknesses among a broad cross-section of customers. The scope of the examination is determined on a differential basis, in accordance with the risk ratings of the various borrowers. In the context of the process, decisions are made regarding the need to increase the supervision and intensity of the monitoring regarding a part of the customer population. The business elements identify borrowers by using a number of tools and means at the same time, which include both reference to the risk characteristics of the borrower itself and the economic/market/regulatory conditions which could affect the borrower's position. During discussions that are held on a quarterly basis, a decision is made regarding the actions and steps to be taken in order to reduce the borrower's risk and if necessary, classification as a problem loan or recording a provision in respect of the loan is considered.

Dealing with the risks resulting from developments in the money and capital markets

In light of the financial crisis in the money and capital markets, the crisis in the residential real estate market and in the mortgage markets in the United States and the United Kingdom, and the significant write-offs by major banking groups, there are signs of a slowdown in global economic activity. The slowdown and the crisis in the global economy are likely also to lead to a slowdown of growth in the local market, and to an adverse effect on those industries in which a significant portion of their sales are directed to countries that have been hurt by the crisis.

In order to handle the risks, the Bank has adopted a cautious credit policy with respect to the various branches of the economy and the various credit sectors. In light of the crisis in the capital market, the Bank is taking steps to identify borrowers whose level of exposure and risk has risen, borrowers who are likely to experience difficulties and sectors and populations that are likely to be hurt by developments.

Among other things, the Bank examines borrowers who have also in recent years raised sources of financing in the capital market, and which had intended to base the source of future repayments by raising resources on the stock exchange and/or through exits from existing investments. The purpose of these examinations is to determine the ability of these borrowers to continue to refund current obligations. Borrowers who have designated funds that they have raised as shareholders' equity for the leveraging of foreign investments are also examined.

The Bank constantly reviews its credit portfolio and the implications of the declines in the global stock markets with regard to the ability of weak companies to raise funds. Regarding Israeli entrepreneurs who are Bank customers and who are active in the real estate sector overseas, including subsidiaries of holding companies that are based in Israel, the Bank is examining the possibility that the value of their assets has eroded as a result of the global financial crisis, and that they may experience adverse effects on the profitability and cash flows that were expected to be generated by such activity.

The Bank is aware that the exposure to changes in currency exchange rates is adversely affecting mainly the financial/economic condition of exporters and/or those who are highly dependent on foreign currency payments. Manufacturers who are dealing with competing imports could also be affected.

The Bank's Management holds on-going discussions of the exposures that might result from the crisis and holds in-depth discussions of customers who have been defined as sensitive. The Bank is expanding and integrating into its policy strict controls of credits in which the risk level has risen, supervising the authority to grant credit and imposing restrictions on the degree of flexibility in approving transactions or increasing exposures. According to the Bank's credit policy, there are strict criteria with regard to the various types of transactions – including requirements for shareholders' equity and for collateral with respect to the different types of financing.

The reviews carried out before transactions are entered into have been expanded, and the possibility that the customers will not meet the various conditions is also examined, on an ongoing basis, during the life of the credit. When necessary, the Bank tries to improve its position through capital injections from the borrower's shareholders, or through the strengthening of collateral.

The Bank frequently examines and updates risk ratings and adjusts such ratings to the borrowers' situations. In doing so, it places special emphasis on customers who are exposed to the effects of declines in demand for consumption or for real estate, and on customers who belong to certain branches of the economy in Israel and throughout the world, or which are connected to geographical regions that have been especially affected.

Risk factors

The following table shows the risk factors to which the Leumi Group is exposed in connection with its banking activities, and the Management's estimate of the level of the various risks.

	Risk Factor	Severity of the risk
1	Overall effect of credit risks	High
1.1	Risk in respect of the quality of borrowers and collateral	High
1.2	Risk in respect of sectorial concentration	Low
1.3	Risk in respect of concentration of borrowers/groups of borrowers	Low
2	Overall effect of market risks	Medium
2.1	Interest rate risk	Low
2.2	Inflation rate risk	Low
2.3	Exchange rate risk	Low
2.4	Share price risk	Low
3	Liquidity risk	Low
4	Operating risk	Low
5	Legal risk	Low
6	Reputational risk	Low

As a consequence of the global crisis and of its implications for the Israeli economy, the overall risk level has risen as of the end of the third quarter. In areas in which it is possible to reduce exposure relatively rapidly – such as with regard to market and liquidity risks, the severity of the risk factors has not risen. Since it is not possible to act in a similar fashion regarding the portfolio of credit to the public, the Bank has carried out a new and forward looking revaluation of credit risk. According to the revaluation, the severity of the risks arising from the quality of borrowers and collateral had risen from medium to high, and consequently the overall credit risk has risen from medium to high. The additional risks due to the concentration of groups of borrowers and due to sectorial concentration remain at a low level. Additionally, the share price risk related to non-banking (real) investments has risen and consequently, the overall market risk has become medium.

Note:
Risk estimation is "forward-looking information." (See pages 16 to 17 for the definition thereof). The estimation of levels of the severity of various risk factors at the Leumi Group was carried out by the Bank's Management, and it is subjective and based on various assumptions regarding the likelihood of the realization of the various risks and the strength thereof. It is therefore necessary to exercise extreme caution when using this information and it should not be used to compare different banks. It should be noted that due to the concerns regarding a global recession, the economic likelihood of an increase in the probability that the various risks will be realized, has been taken into consideration when these estimations were made.

See pages 192-193 of the Annual Report for further details of the method of evaluating the risk factors.

Credit exposure to overseas financial institutions

The following table sets out the credit exposure to overseas financial institutions (1) as at 30 September 2008:

	Credit risk (2)	Securities	Current off-balance sheet credit risk (3)	Current credit risk
	NIS millions			
External credit rating				
AAA to AA-	**14,247**	**7,912**	**8,200**	**30,359**
A+ to A-	**8,222**	**4,908**	**1,887**	**15,017**
BBB+ to BBB-	**219**	**107**	**30**	**356**
BB+ and lower	**879**	**203**	**-**	**1,082**
Unrated	**324**	**114**	**758**	**1,196**
Total current credit exposure to overseas financial institutions	**23,981**	**13,244**	**10,875**	**48,010**
Problem loan balances	**-**	**58**	**-**	**-**

(1) Overseas financial institutions include banks, investment banks, insurance companies and institutional bodies.
(2) Deposits in banks, credit to the public, securities that were borrowed or purchased in the context of buy-back agreements and other assets in respect of derivatives (fair value of .derivatives)**.**
(3) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives.)

Notes:

a. Credit exposures and problem loan balances are presented after deducting the specific provisions for doubtful debts.
b. Credit exposures do not include exposures to financial institutions that have express and complete guarantees from governments and do not include investments in asset-backed securities (see the details in the Note on Securities).
c. For further information regarding the composition of the credit exposure in respect of derivatives related to banks and broker/dealers (local and overseas), see Note 7B to the quarterly Financial Statements.

Credit exposure to overseas financial institutions refers to commercial banks, bank holding companies, investment banks and insurance companies. On 30 September 2008, part (3%) of the credit exposure was still considered to be exposure to investment banks. At present all the financial institutions to which the Bank is exposed have received a banking license or have ceased to exist as independent investment banks.

The distribution of credit exposure to overseas banks among the various countries is as follows: United States – 28%; Euro Bloc (Germany, France, Italy, Spain and the Benelux states) – 51%; United Kingdom- 16%; and other countries – 5%.

The exposure mainly includes deposits in overseas banks, almost all of which are for very short periods, from a few days up to a month; and debentures, generally for a period of up to 5 years. Additional details regarding investments in debentures of overseas banks are presented at pages 44 to 45. In addition, there is credit exposure arising from activity in derivatives.

In general, the overseas banks to which the Bank has credit exposure are rated by two or three of the leading international rating agencies. (S&P, Moody's, Fitch)

The policy regarding the management of exposure to overseas financial institutions includes, *inter alia*, restrictions on the amount of exposure, at bank and country level.

Management of the exposure to overseas banks takes into consideration, *inter alia*:

- Their size, as reflected *inter alia* in the size of their shareholders' equity after write-offs due to losses and capital increases during the past year.
- Their strength, as reflected in capital adequacy ratios (especially regarding Tier I capital).
- The market's valuation, as reflected in the market value of their shares and the risk, as estimated with the help of their credit derivatives (CDS).
- The ratings assigned to them by the international rating agencies.
- Additional considerations, such as the level of support, including direct investment in the banks' capital provided by their governments, for the purpose of insuring the stability of these banks and of other banks in their countries.

Linkage Status and Liquidity Status

Linkage Status

During the first nine months of 2008, the Group's exposure in the CPI-linked sector increased from a level of some NIS 3.4 billion to a level of some NIS 4.7 billion. The increase of the surplus in the CPI-linked sector was mainly carried out through the non-renewal of futures transactions on their maturity dates.

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

	As at 30 September 2008			As at 31 December 2007		
	Unlinked	CPI-linked	Foreign Currency(2)	Unlinked	CPI-linked	Foreign Currency(2)
	NIS millions					
Total assets [1]	**126,938**	**61,992**	**109,611**	119,217	60,720	126,199
Total liabilities [1]	**118,147**	**57,245**	**113,337**	110,932	57,314	128,644
Total exposure in sector	**8,791**	**4,747**	**(3,726)**	8,285	3,406	(2,445)

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

Funding and Liquidity Status

Liquidity Status

The Banking System -

The Bank of Israel increased the net volume of the *Makam* tenders to NIS 76.6 billion during the first nine months of 2008, compared with NIS 76.0 billion at the end of 2007.

The balance of monetary credit tenders of the Bank of Israel was at a level of only NIS 4.9 billion at the end of September 2008, compared with NIS 10.5 billion at the end of June 2008. The average net volume of the monetary credit tenders (less the monetary deposit tenders) was at a level of NIS 5.3 billion during the third quarter of 2008, compared with NIS 7.7 billion during the previous quarter.

Leumi had no balance of monetary credit tenders from the Bank of Israel at the end of September 2008, compared with a balance of NIS 3.4 billion at the end of June 2008. The average net volume of the monetary credit tenders during the third quarter of 2008 was at a level of NIS 1.4 billion, compared with NIS 2.9 billion on average during the previous quarter.

On 20 March 2008, the Bank of Israel announced that it would begin a program to increase the levels of its foreign currency balances though foreign currency purchases of some $25 million per day for two years. On 10 July 2008 the Bank of Israel announced that it would increase the rate of its foreign currency purchases to $100 million per day.

Leumi has become a member of the CLS (Continuous Linked Settlement) Clearing House, which operates as a clearing house for inter-currency transactions. As of May 2008, shekel transactions are also cleared at CLS and Leumi provides its customers with nostro services in shekels as a Nostro Agent and serves as a shekel Liquidity Provider to the CLS bank.

In July 2008, the Bank of Israel renewed its "repo" tenders to inject liquidity against government debentures and *Makam*, for a period of one week, in a volume of NIS 2 billion, including a mechanism for the daily revaluing of collateral, alongside existing credit tenders. In addition to the banking corporations, the pension funds, provident funds, insurance companies and mutual funds may also participate in these tenders.

On 15 October 2008, the Bank of Israel announced the reduction of interest paid to banks on their foreign currency deposits with the Bank of Israel. These deposits, other than overnight deposits, are recognized as security for credit from the Bank of Israel. The interest on deposits for of 30 to 90 days is to be equal to the return on a United States government treasury bill for the same period, as determined by the Bank of Israel, while deposits for up to a week will not bear any interest.

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 of some NIS 32.4 billion, which is mainly invested in Israeli government debentures and in foreign securities, primarily banks, with an average rating of A+.

The Bank's net liquid assets – cash, deposits at banks and securities (excluding shares and funds) less deposits from banks stood at 31.1% of the Bank's total assets as at 30 September 2008, compared with 34.8% as at 31 December 2007.

The ratio of credit to the public to deposits of the public at the end of September 2008 is 68.2% - i.e., there is a surplus of deposits over credit of some 31.8% which is available for other uses.

Leumi monitors, on an ongoing basis, its liquidity status and the 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.
See also pages 94 to 95 of the Report.

Sources and Uses (in the Bank) -

The balance of deposits of the public at the Bank declined during the first nine months of 2008 by some NIS 2.9 billion, a decrease of 1.4%. The decline was mainly caused by the strengthening of the shekel against most foreign currencies, which eroded the deposits of the public by a rate of 4.6%. During the last 12 months, deposits of the public have declined by 0.1%.

The balance of deposits of the public at the Bank in the unlinked shekel sector rose by NIS 7.3 billion, at a rate of some 7.7%, and amounted to NIS 103.0 billion at the end of September 2008.

The balance of foreign currency and foreign currency-linked deposits of the public declined by NIS 10.7 billion, a decrease of 12.7%. The effect of the exchange rates was a decline of some NIS 9.7 million, 11.4%

The balance of the deposits of the public in the CPI-linked sector increased by some NIS 0.9 billion, a rise of some 3.2%.

During the first three months of 2008, subordinated capital notes, listed on the Tel Aviv Stock Exchange, were issued through Leumi Finance Company. CPI-linked subordinated capital notes were issued in the amount of some NIS 0.8 billion for an average term of some 7.7 years. Non-linked shekel subordinated capital notes were issued in the amount of some NIS 1.7 billion, for an average period of 4.7 years.

During the first nine months of 2008, the volume of the Bank's customers' off-balance sheet financial assets declined by some NIS 48.7 billion. Excluding market effects and exchange rate effects, there was a positive accumulation of NIS 2.9 billion.

During the reported period, the volume of the securities portfolio of the Bank's customers decreased by some NIS 46.8 billion. The volume of the mutual fund and supplementary training fund portfolio decreased by NIS 1.9 billion.

During the last 12 months, credit to the public increased at the rate of 5.9%, despite the strengthening of the shekel against most foreign currencies. In the first nine months of 2008, the balance of credit to the public increased by some NIS 6.4 billion, an increase of 4.8%, despite erosion of 2.4% as a result of the strengthening of the shekel. During those nine months, there was an increase of some NIS 8.1 billion, 10.3%, in unlinked credit. CPI-linked credit rose by some NIS 0.7 billion, 2.7%, and foreign currency credit dropped by some NIS 2.2 billion, a decrease of some 7.2% (after neutralizing the effect of the exchange rates, the balance of foreign currency credit rose, during 2008, by some NIS 1.0 billion).

The Bank's activity in long-term derivative transactions continued to grow during the reported period. This activity is carried out with the Bank's customers and is intended for hedging and managing the risks inherent in their activities. At the end of September 2008, the volume of these transactions amounted to some NIS 5.1 billion with an average period of 5.1 years. These transactions are valued according to fair value (MTM), and they have a negative effect on the accounting profit in the event of a fall in CPI-linked returns.

Preparations for Basel II

In June 2006, the Basel Committee on Banking Supervision published the final version of a capital adequacy measurement accord (the "Basel II directives") which is intended to be implemented following central banks' instructions.

The innovation in the Basel II directives is that for the first time, banking corporations are required to allocate capital for operating risks, as well as for credit risks and market risks, which are required at present under the provisions of Basel I. In addition, Basel II presents the possibility of using, for internal rating, models relating to the borrowers' sensitivity to risk - unlike the provisions of Basel I which relate to risk considerations for groups of assets.

Over the course of 2007-2008, the Supervisor of Banks published a succession of documents, directives and requirements, mostly based on the documents produced by the Basel Committee, along with drafts of documents and directives for consultation with the banking system.

The Supervisor of Banks has announced that at the time of the first implementation of the Basel II provisions at the end of 2009, the banking corporations would be required to comply, at the least, with the capital calculation requirements of the standard method for market risk, credit risk and operational risk, as described in the Basel Committee's working framework.

The Banking Supervision Department announced that, as of 31 December 2008, the banks would be required to report to the Department regarding the capital requirements according to the standard method set out in the first pillar of Basel II, and that such reporting would be required on a quarterly basis throughout 2009, although the actual allocation of capital during this period would still be in accordance with the existing directives. The actual allocation of capital in accordance with the requirements of Basel II's standard method would only be required as of 31 December 2009.

In the context of preparations for the standard method and with a view to examining the consequences of the implementation of the method for the new capital requirements, the banking system was asked to carry out a QIS – Quantitative Impact Study – according to the standard method, on the data from 31 December 2006, and to present the findings to the Bank of Israel. The Bank has complied with this requirement.

The Preparations of the Bank and its Subsidiaries

For over two years, the Bank has worked to implement the instructions, in the context of the Group level project administration, which reports directly to the Senior Deputy CEO who also serves as the chair of the project's senior steering committee, which includes among its members several Members of Management and other senior executives.

The Bank is working to implement the instructions on the basis of the work program and road map regarding the main master tasks that the Group faces in implementing the directives of Basel II. The work program is based on gap analyses that were carried out and updated periodically according to the various directives published by the Bank of Israel.

For the purpose of compliance with the directives of Basel II, the Bank is preparing to make adjustments and improvements to its computerized infrastructures, including collection of the required data in order to estimate the risk variables, development and purchase of advanced systems, construction of databases and the linking of all these to existing systems. This preparation has been ongoing for some time and will continue in the coming years.

In addition to the changes required in the systems, processes and policies, the Bank has, as previously announced, carried out a structural change in the area of credit risk management, (by establishing a Credit Risk Management Unit) for both business needs and the requirements arising from the Basel II era.

At the same time, the Risk Management Control Unit is developing models required in order to implement the advanced approach for calculating PD (Probability of Default) and LGD

(Loss Given Default), for methodological support and for testing the adequacy of the models in the subsidiaries and overseas subsidiaries.

Since the beginning of 2008, the Bank has begun to install the system which has been acquired for the purpose of calculating the capital requirements and of managing the credit risks. This system will serve all the Group's units both in Israel and abroad for use with the standard method and the advanced methods. The Bank has also purchased a number of systems related to credit ratings and risk management, which will significantly update the Bank's ability to make decisions in the field of risk management for the Group. The purchase and implementation of these systems involve the investment of substantial resources and will continue for at least the next two years.

The Bank and the subsidiaries are taking steps and investing significant managerial and financial resources in order to comply with the Bank of Israel's goals for implementation of the standard method by the dates that have been established. This includes compliance with the Bank of Israel's requirement for "parallel running" reporting, beginning in the first quarter of 2009 for December 2008 data, as stated above.

In addition, in order to comply with the Bank of Israel requirement regarding the adoption of the other pillars of the Basel II document, the Bank has taken steps to establish a committee and work teams regarding evaluation of internal capital adequacy. The committee and the work teams operate in accordance with a road-map which will enable the presentation of a policy and qualitative and quantitative processes for the evaluation of the capital required for the risks managed by the Bank.

The Bank is also preparing to develop models for calculating economic capital which relate to all risks, and for their integration as a central tool in the decision-making processes of the Bank's business systems.

The preparations of the Bank and its subsidiaries, including the costs of the computerized systems, will require the investment of substantial resources during the coming years.

Legal Proceedings

a. The Directors' Report in the Annual Report for 2007 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 in Note 6C to the Financial Statements.

None of the proceedings pending against the Bank involves a sum exceeding 1% of the shareholders' equity of the Bank (some NIS 196 million as at 30 September 2008), with the exception of the proceedings detailed in Note 6C to the Financial Statements.

For details regarding petitions for the approval of class actions that were filed during 2008, see Note 6C (2) 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 6C to the Financial Statements for further details.

b. In March 2008, the Bank received a letter from the Antitrust Authority stating that the General Director was currently examining the possibility of exercising her authority according to section 43(a)(1) of the Antitrust Law, 1988, and to determine that restrictive trade agreements existed between Bank Hapoalim B.M., Israel Discount Bank Ltd., United Mizrahi Bank Ltd., The First International Bank of Israel Ltd. and the Bank, regarding the transfer of information relating to commissions, subject to the holding of a hearing based on written submissions. The Banks were asked to submit their positions by 15 September 2008.

   The Bank submitted its position to the General Director, to the effect that there was no restrictive arrangement with respect to the transfer of information for the purpose of coordinating commissions. The other banks also submitted their positions to the General Director by the middle of September. The banks are currently awaiting the response of the General Director.

c. During the quarter ending on 30 June 2008, a routine audit by the Internal Audit Division of the Bank disclosed irregularities in the approval of loans by Mr. Menachem Friedman, while he served as manager of a branch of the Bank in Israel. The audit indicated an exceptional occurrence, but this will not affect the Bank's customers in any way. The Bank contacted the police so that they could examine matters which the Bank was unable to examine by itself, and reported the matter to the Supervisor of Banks. In light of the said exceptional occurrence, Mr. Friedman was dismissed from his position as Managing Director and CEO of Bank Leumi (UK).

d. In July 2008, criminal proceedings were commenced by the Swiss government, through its district attorney, against Ernst Imfeld and other defendants who were not employees of Bank Leumi Switzerland, in respect of fraud, falsification of documents, deception and breach of trust to a corporation, carried out by them against Bank Leumi Switzerland and its customers, which were discovered in January 2001.

   Bank Leumi Switzerland joined an accompanying civil claim to the criminal indictment – which claim is connected to the criminal proceeding – against Ernst Imfeld and four of the defendants, for the amount of the direct damage suffered by it due to their actions as detailed in the indictment (CHF 106,646,599). The amount of the claim reflects the direct damage suffered by Bank Leumi Switzerland after offsetting the relative portion of the insurance proceeds received from the insurers in respect of the actions and damages underlying the indictment.

D. Additional Matters

Leumi for the Community - Social Involvement

Since its establishment 106 years ago and still today, Leumi has been active in the community in which it operates, primarily in the areas of education, social welfare, culture, the arts and health. In recent years, the Bank has placed an emphasis on young people in the social and geographic periphery, by supporting the fields of education and training, and on encouraging entrepreneurship and the development of leadership among young people.

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

- Donations through 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.

As part of its overall commitment to the community, Leumi encourages its employees to become active in the community, and provides them with the infrastructure and the opportunity to volunteer and to contribute. Hundreds of employees volunteer for projects undertaken within the framework of “Leumi Tomorrow,” "Young Entrepreneurs," and other projects initiated by the Bank, and these employees serve as models for emulation by the pupils in the various projects. Thanks to raised awareness of the subject of contribution to the community, branches and units have been initiating independent local projects, with the support of Leumi's Management.

“Leumi Tomorrow - The Centennial Fund for Endowing Israel’s Future Generation”

Some 16,000 young people took part in ceremonies and events marking the end of the 2007-2008 year of activity in the framework of projects to which the "Leumi Tomorrow – the Centennial Fund for Endowing Israel’s Future Generation" contributes.

“Young Entrepreneurs – Established by Leumi”

“Israel Young Entrepreneurs” is part of an international initiative active in countries throughout the world, which reaches millions of young people each year. In Israel, more than 4,000 young people from all population groups and sectors take part in the program, whose chief sponsor is Leumi. In July 2008, the annual European competition for young entrepreneurs took place in Stockholm. The Israeli team took fourth place out of 33 participating European teams.

Visitors' Center

In May 2008, Leumi inaugurated its new visitors’ center in the restored Mani House on Yehuda Halevi Street in Tel Aviv. The building contains a historic representation of the Bank and its operations, alongside a gallery for temporary art exhibitions. Towards the end of September 2008, ARTLV Tel Aviv - the city’s first biennale event – opened, under the chief sponsorship of Leumi. Entrance to the Center and to the exhibition is free of charge.

Summary of Leumi’s Donations and Sponsorships During the First Nine Months of 2008

During the first nine months of 2008, the Leumi Group donated and provided sponsorships for social welfare and community purposes in the amount of some NIS 20.8 million, of which the donations totaled some NIS 17.5 million.

Internal Auditor

Details regarding the Internal Audit of the Group, including the professional standards according to which it operates, the annual and multi-year work plans and the considerations used in establishing same, were included in the Annual Report for 2007.

The Chief Internal Auditor’s report for the first half of 2008 was submitted on 2 October 2008 and was discussed by the Audit Committee on 7 October 2008.

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 Senior Deputy Chief Executive Officer and 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 the members of Management and other senior officers, in the manner required to comply with the requirements of this Directive.

The Management of the Bank, together with the President and Chief Executive Officer and the Senior Deputy Chief Executive Officer and 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 Senior Deputy Chief Executive Officer and 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 30 September 2008, 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 and the external auditors' audit must be completed by the date of the December 2008 Report.

The Bank, with the assistance of its external advisers, is in a process of undertaking an examination of the effectiveness of the controls and is acting accordingly, in order to be prepared for the 2008 Financial Statements.

Board of Directors

During 2008, the following changes took place with respect to the composition of the Board of Directors:

At the General Meeting held on 5 June 2008, Adv. Miri Katz was elected to serve as a new Director in place of Ms. Vered Raichman, who had not offered herself for reelection at the above-mentioned Meeting. Ms. Raichman has contributed much to the advancement of the business of the Bank and its betterment.

Messrs. Avraham Guzman, Adv. Jacob Mashaal and Zvi Koren, who retired by rotation and offered themselves for reelection, were also re-elected to serve as Directors.

At the meeting of the Board of Directors held on 26 November 2008, it was resolved to approve and publish the Group's condensed unaudited consolidated Financial Statements as at 30 September 2008 and for the periods ending on that date.

During the period of January to September 2008, the Board of Directors held 36 plenary meetings and 99 committee meetings.

The Bank's Board of Directors expresses its appreciation and gratitude to the Bank's employees and managers and to the employees and managers of its subsidiaries in Israel and overseas, for their dedicated work and their contribution to the promotion of the Group's affairs.

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

26 November 2008

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts
Exhibit A

	For the three months ended 30 September							
	2008				(i) 2007			
			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)	**112,511**	**1,655**	**6.01**		96,051	1,373	5.85	
Effect of embedded and ALM derivatives (e)	**38,418**	**146**			41,616	155		
Total assets	**150,929**	**1,801**		**4.86**	137,667	1,528		4.52
Liabilities (d)	**109,689**	**(869)**	**(3.22)**		102,001	(728)	(2.89)	
Effect of embedded and ALM derivatives (e)	**30,351**	**(36)**			26,354	(5)		
Total liabilities	**140,040**	**(905)**		**(2.62)**	128,355	(733)		(2.31)
Interest margin			**2.79**	**2.24**			2.96	2.21
Israeli currency – linked to the CPI								
Assets (c) (d)	**60,745**	**1,975**	**13.66**		59,751	2,196	15.52	
Effect of embedded and ALM derivatives (e)	**2,458**	**30**			628	8		
Total assets	**63,203**	**2,005**		**13.31**	60,379	2,204		15.41
Liabilities (d)	**44,521**	**(1,361)**	**(12.79)**		41,939	(1,451)	(14.58)	
Effect of embedded and ALM derivatives (e)	**10,990**	**(33)**			9,318	(114)		
Total liabilities	**55,511**	**(1,394)**		**(10.42)**	51,257	(1,565)		(12.79)
Interest margin			**0.87**	**2.89**			0.94	2.62
Foreign currency – (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**101,420**	**1,065**	**4.25**		127,384	(3,788)	(11.38)	
Effect of derivatives: (e)								
Hedging derivatives	**2,739**	**4**			4,263	-		
Embedded derivatives and ALM	**72,062**	**283**			73,242	(2,420)		
Total assets	**176,221**	**1,352**		**3.09**	204,889	(6,208)		(11.58)
Liabilities (d)	**103,473**	**(605)**	**(2.33)**		123,785	4,396	13.47	
Effect of derivatives: (e)								
Hedging derivatives	**2,600**	**2**			4,109	15		
Embedded derivatives and ALM	**72,429**	**(400)**			79,556	2,512		
Total liabilities	**178,502**	**(1,003)**		**(2.25)**	207,450	6,923		12.70
Interest margin			**1.92**	**0.84**			2.09	1.12

See footnotes on page 110.

Rates of Financing Income and Expenses (on a Consolidated Basis) (Cont'd) (a)
Reported amounts
Exhibit A (Cont'd)

	For the three months ended 30 September							
	2008				(i) 2007			
			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)	**274,676**	**4,695**	**7.01**		283,186	(219)	(0.31)	
Effect of derivatives: (e)								
Hedging derivatives	**2,739**	**4**			4,263	-		
Embedded derivatives and ALM	**112,938**	**459**			115,486	(2,257)		
Total assets	**390,353**	**5,158**		**5.39**	402,935	(2,476)		(2.44)
Total monetary liabilities generating interest expenses (d)	**257,683**	**(2,835)**	**(4.46)**		267,725	2,217	3.27	
Effect of derivatives: (e)								
Hedging derivatives	**2,600**	**2**			4,109	15		
Embedded derivatives and ALM	**113,770**	**(469)**			115,228	2,393		
Total liabilities	**374,053**	**(3,302)**		**(3.57)**	387,062	4,625		4.70
Interest margin			**2.55**	**1.82**			2.96	2.26
In respect of options		**53**				(8)		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**(107)**				3		
Financing commissions and other financing income (g)		**(250)**				(86)		
Other financing expenses		**(61)**				207		
Net interest income before provision for doubtful debts		**1,491**				2,265		
Provision for doubtful debts (including general and supplementary provision)		**(495)**				(79)		
Net interest income after provision for doubtful debts		**996**				2,186		
Monetary assets generating interest income (d) (f)	**274,676**				283,186			
Assets derived from derivative instruments (h)	**5,576**				4,564			
Other monetary assets (d)	**2,650**				4,063			
General provision and supplementary provision for doubtful debts	**(847)**				(973)			
Total monetary assets	**282,055**				290,840			
Monetary liabilities generating interest expenses (d)	**257,683**				267,725			
Liabilities derived from derivative instruments (h)	**6,234**				4,517			
Other monetary liabilities (d)	**8,019**				8,636			
Total monetary liabilities	**271,936**				280,878			
Total monetary assets exceed monetary liabilities	**10,119**				9,962			
Non-monetary assets	**10,936**				10,870			
Non-monetary liabilities	**417**				913			
Total capital resources	**20,638**				19,919			

See footnotes on page 110.

(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 and nine month periods amounts to NIS 43 million and NIS 55 million respectively.
The linked Israeli currency sector for the three and nine month periods amounts to NIS 119 million and NIS 132 million respectively.
The foreign currency sector (which includes Israeli currency linked to foreign currency) for the three and nine month periods amounts to NIS (829) million and NIS (712) million respectively.

(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 and nine month periods amounts to NIS 667 million and NIS 525 million respectively.

(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) Reclassified.

Rates of Financing Income and Expenses (on a Consolidated Basis) (Cont'd) (a)
Nominal U.S. $
Exhibit A (Cont'd)

	For the three months ended 30 September							
	2008				(f) 2007			
			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)	**19,093**	**199**	**4.24**		19,070	271	5.80	
Effect of derivatives: (e)								
Hedging derivatives	**799**	**1**			1,010	-		
Embedded derivatives and ALM	**20,948**	**(36)**			17,301	(29)		
Total assets	**40,840**	**164**		**1.61**	37,381	242		2.60
Liabilities (d)	**21,171**	**(128)**	**(2.43)**		19,094	(196)	(4.17)	
Effect of derivatives: (e)								
Hedging derivatives	**759**	**1**			974	3		
Embedded derivatives and ALM	**21,022**	**(39)**			18,772	15		
Total liabilities	**42,952**	**(166)**		**(1.56)**	38,840	(178)		(1.84)
Interest margin			**1.81**	**0.05**			1.63	0.76
Foreign currency – Foreign operations (integrated operations)								
Assets (c) (d)	**10,533**	**137**	**5.31**		11,032	182	6.76	
Effect of embedded and ALM derivatives (e)	**67**	**12**			49	4		
Total assets	**10,600**	**149**		**5.67**	11,081	186		6.88
Liabilities (d)	**9,047**	**(81)**	**(3.61)**		10,191	(126)	(5.06)	
Effect of embedded and ALM derivatives (e)	**110**	**2**			74	-		
Total liabilities	**9,157**	**(79)**		**(3.47)**	10,265	(126)		(5.03)
Interest margin			**1.70**	**2.29**			1.70	1.85
Total:								
Monetary assets in foreign currency generating financing income (c) (d)	**29,626**	**336**	**4.62**		30,102	453	6.15	
Effect of derivatives: (e)								
Hedging derivatives	**799**	**1**			1,010	-		
Embedded derivatives and ALM	**21,015**	**(24)**			17,350	(25)		
Total assets	**51,440**	**313**		**2.45**	48,462	428		3.57
Monetary liabilities in foreign currency generating financing expense (d)	**30,218**	**(209)**	**(2.79)**		29,285	(322)	(4.48)	
Effect of derivatives: (e)								
Hedging derivatives	**759**	**1**			974	3		
Embedded derivatives and ALM	**21,132**	**(37)**			18,846	15		
Total liabilities	**52,109**	**(245)**		**(1.89)**	49,105	(304)		(2.50)
Interest margin			**1.83**	**0.56**			1.67	1.07

See footnotes on page 112.

(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$ 239 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) Reclassified

Rates of Financing Income and Expenses (on a Consolidated Basis) (a)
Reported amounts
Exhibit A

	For the nine months ended 30 September							
	2008				(i) 2007			
			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)	**108,632**	**4,686**	**5.79**		94,596	4,228	6.01	
Effect of embedded and ALM derivatives (e)	**41,889**	**385**			33,225	496		
Total assets	**150,521**	**5,071**		**4.52**	127,821	4,724		4.96
Liabilities (d)	**107,880**	**(2,389)**	**(2.96)**		100,774	(2,274)	(3.02)	
Effect of embedded and ALM derivatives (e)	**31,447**	**(73)**			18,747	(51)		
Total liabilities	**139,327**	**(2,462)**		**(2.36)**	119,521	(2,325)		(2.60)
Interest margin			**2.83**	**2.16**			2.99	2.36
Israeli currency – linked to the CPI								
Assets (c) (d)	**60,831**	**5,191**	**11.54**		57,814	3,797	8.85	
Effect of embedded and ALM derivatives (e)	**2,028**	**104**			449	24		
Total assets	**62,859**	**5,295**		**11.39**	58,263	3,821		8.84
Liabilities (d)	**44,617**	**(3,569)**	**(10.80)**		42,789	(2,486)	(7.82)	
Effect of embedded and ALM derivatives (e)	**11,492**	**(756)**			7,494	(431)		
Total liabilities	**56,109**	**(4,325)**		**(10.41)**	50,283	(2,917)		(7.81)
Interest margin			**0.74**	**0.98**			1.03	1.03
Foreign currency – (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**108,451**	**(9,728)**	**(11.78)**		124,873	1,242	1.33	
Effect of derivatives: (e)								
Hedging derivatives	**3,207**	**18**			4,634	286		
Embedded derivatives and ALM	**77,317**	**(7,676)**			58,583	(1,530)		
Total assets	**188,975**	**(17,386)**		**(12.08)**	188,090	(2)		0.00
Liabilities (d)	**108,842**	**11,404**	**13.72**		118,995	475	0.53	
Effect of derivatives: (e)								
Hedging derivatives	**3,030**	**(9)**			4,400	(279)		
Embedded derivatives and ALM	**78,848**	**7,537**			65,740	1,546		
Total liabilities	**190,720**	**18,932**		**13.01**	189,135	1,742		1.23
Interest margin			**1.94**	**0.93**			1.86	1.23

See footnotes on page 110.

Rates of Financing Income and Expenses (on a Consolidated Basis) (Cont'd) (a)
Reported amounts
Exhibit A (Cont'd)

	For the nine months ended 30 September							
	2008				(i) 2007			
			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)	**277,914**	**149**	**0.07**		277,283	9,267	4.48	
Effect of derivatives: (e)								
Hedging derivatives	**3,207**	**18**			4,634	286		
Embedded derivatives and ALM	**121,234**	**(7,187)**			92,257	(1,010)		
Total assets	**402,355**	**(7,020)**		**(2.32)**	374,174	8,543		3.06
Total monetary liabilities generating interest expenses (d)	**261,339**	**5,446**	**2.77**		262,558	(4,285)	(2.18)	
Effect of derivatives: (e)								
Hedging derivatives	**3,030**	**(9)**			4,400	(279)		
Embedded derivatives and ALM	**121,787**	**6,708**			91,981	1,064		
Total liabilities	**386,156**	**12,145**		**4.17**	358,939	(3,500)		(1.30)
Interest margin			**2.84**	**1.85**			2.30	1.76
In respect of options		**136**				40		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**(129)**				2		
Financing commissions and other financing income (g)		**348**				641		
Other financing expenses		**(76)**				141		
Net interest income before provision for doubtful debts		**5,404**				5,867		
Provision for doubtful debts (including general and supplementary provision)		**(1,055)**				(128)		
Net interest income after provision for doubtful debts		**4,349**				5,739		
Monetary assets generating interest income (d) (f)	**277,914**				277,283			
Assets derived from derivative instruments (h)	**6,309**				4,049			
Other monetary assets (d)	**3,119**				4,192			
General provision and supplementary provision for doubtful debts	**(854)**				(998)			
Total monetary assets	**286,488**				284,526			
Monetary liabilities generating interest expenses (d)	**261,339**				262,558			
Liabilities derived from derivative instruments (h)	**6,871**				3,814			
Other monetary liabilities (d)	**8,618**				8,459			
Total monetary liabilities	**276,828**				274,831			
Total monetary assets exceed monetary liabilities	**9,660**				9,695			
Non-monetary assets	**10,983**				9,937			
Non-monetary liabilities	**489**				776			
Total capital resources	**20,154**				18,856			

See footnotes on page 110.

Rates of Financing Income and Expenses (on a Consolidated Basis) (Cont'd) (a)
Nominal U.S. $
Exhibit A (Cont'd)

	For the nine months ended 30 September							
	2008				(f) 2007			
			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)	**19,412**	**661**	**4.56**		19,301	809	5.63	
Effect of derivatives: (e)								
Hedging derivatives	**900**	**7**			1,110	68		
Embedded derivatives and ALM	**21,680**	**133**			13,966	1		
Total assets	**41,992**	**801**		**2.55**	34,377	878		3.42
Liabilities (d)	**20,936**	**(427)**	**(2.73)**		18,715	(553)	(3.96)	
Effect of derivatives: (e)								
Hedging derivatives	**850**	**(5)**			1,054	(67)		
Embedded derivatives and ALM	**22,092**	**(150)**			15,657	(20)		
Total liabilities	**43,878**	**(582)**		**(1.77)**	35,426	(640)		(2.41)
Interest margin			**1.83**	**0.78**			1.67	1.01
Foreign currency – Foreign operations (integrated operations)								
Assets (c) (d)	**11,002**	**439**	**5.35**		10,509	488	6.24	
Effect of embedded and ALM derivatives (e)	**76**	**14**			47	16		
Total assets	**11,078**	**453**		**5.49**	10,556	504		6.41
Liabilities (d)	**9,569**	**(271)**	**(3.79)**		9,717	(343)	(4.74)	
Effect of embedded and ALM derivatives (e)	**108**	**-**			68	-		
Total liabilities	**9,677**	**(271)**		**(3.75)**	9,785	(343)		(4.71)
Interest margin			**1.56**	**1.74**			1.50	1.70
Total:								
Monetary assets in foreign currency generating financing income (c) (d)	**30,414**	**1,100**	**4.85**		29,810	1,297	5.84	
Effect of derivatives: (e)								
Hedging derivatives	**900**	**7**			1,110	68		
Embedded derivatives and ALM	**21,756**	**147**			14,013	17		
Total assets	**53,070**	**1,254**		**3.16**	44,933	1,382		4.12
Monetary liabilities in foreign currency generating financing expense (d)	**30,505**	**(698)**	**(3.06)**		28,432	(896)	(4.22)	
Effect of derivatives: (e)								
Hedging derivatives	**850**	**(5)**			1,054	(67)		
Embedded derivatives and ALM	**22,200**	**(150)**			15,725	(20)		
Total liabilities	**53,555**	**(853)**		**(2.13)**	45,211	(983)		(2.91)
Interest margin			**1.79**	**1.03**			1.62	1.21

See footnotes on page 116.

(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$ 204 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) Reclassified.

Credit to the Public - Risk by Economic Sector - on a Consolidated Basis
Reported amounts

Exhibit B

	30 September 2008 (Unaudited)				
	Balance sheet credit risk (a)	Off-balance sheet credit risk (b)	Total credit risk	Addition for the year to the specific provision for doubtful debts	Balance of problematic debts (c)
	NIS millions				
Activities of borrowers in Israel					
Agriculture	**1,910**	**393**	**2,303**	**(35)**	**218**
Industry	**24,354**	**13,018**	**37,372**	**436**	**2,403**
Construction and real estate	**32,691**	**18,749**	**51,440**	**65**	**6,257**
Electricity and water	**1,343**	**145**	**1,488**	**-**	**5**
Commerce	**18,601**	**3,983**	**22,584**	**(50)**	**1,201**
Hotels and restaurants	**3,706**	**468**	**4,174**	**7**	**1,376**
Transport and storage	**4,376**	**1,019**	**5,395**	**23**	**373**
Communications and computer services	**4,813**	**1,337**	**6,150**	**23**	**360**
Financial services	**16,512**	**7,068**	**23,580**	**263**	**1,944**
Business and other services	**3,583**	**1,384**	**4,967**	**8**	**160**
Public and community services	**5,838**	**1,209**	**7,047**	**-**	**328**
Private individuals - loans for housing	**40,060**	**2,408**	**42,468**	**89**	**964**
Private individuals - other	**22,777**	**24,023**	**46,800**	**139**	**1,340**
	180,564	**75,204**	**255,768**	**968**	**16,929**
Activities of borrowers abroad	**39,652**	**20,570**	**60,222**	**112**	**1,839**
Total	**220,216**	**95,774**	**315,990**	**1,080**	**18,768**
Credit risk included within the various economic sectors:					
Settlement movements (d)	**2,913**	**580**	**3,493**	**(41)**	**431**
Local authorities (e)	**3,364**	**158**	**3,522**	**(1)**	**135**

(a) Including credit to the public in the amount of NIS 208,216 million, investments in debentures of the public in the amount of NIS 8,815 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 3,185 million.
(b) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(c) Balances of problematic debt net of credit covered by collateral allowed as a deduction for purposes of individual and group borrower limits, including off-balance sheet risk components.
(d) Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.
(e) Including corporations under their control.

Note - Balances of credit risk, off balance sheet credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

Credit to the Public - Risk by Economic Sector - on a Consolidated Basis (Cont'd)
Reported amounts

Exhibit B (Cont'd)

	30 September 2007 (Unaudited)				
	Balance sheet credit risk (a)	Off-balance sheet credit risk (b)	Total credit risk	Addition for the year to the specific provision for doubtful debts	Balance of problematic debts (c)
	NIS millions				
Activities of borrowers in Israel					
Agriculture	2,000	359	2,359	(10)	422
Industry	22,974	13,791	36,765	17	3,355
Construction and real estate	29,367	16,164	45,531	36	5,562
Electricity and water	1,570	374	1,944	-	9
Commerce	15,420	3,976	19,396	42	1,979
Hotels and restaurants	4,114	532	4,646	12	1,749
Transport and storage	3,988	1,024	5,012	3	618
Communications and computer services	4,380	1,535	5,915	37	383
Financial services	16,070	4,369	20,439	(143)	569
Business and other services	5,032	1,276	6,308	9	320
Public and community services	5,614	984	6,598	(2)	520
Private individuals - loans for housing	36,036	1,931	37,967	36	1,164
Private individuals - other	20,387	21,708	42,095	79	1,498
	166,952	68,023	234,975	116	18,148
Activities of borrowers abroad	41,469	20,176	61,645	70	1,262
Total	208,421	88,199	296,620	186	19,410
Credit risk included within the various economic sectors:					
Settlement movements (d)	3,315	580	3,895	(16)	636
Local authorities (e)	3,464	153	3,617	2	217

(a) Including credit to the public in the amount of NIS 197,169 million, investments in debentures of the public in the amount of NIS 8,987 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 2,265 million.
(b) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(c) Balances of problematic debt net of credit covered by collateral allowed as a deduction for purposes of individual and group borrower limits, including off-balance sheet risk components.
(d) Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.
(e) Including corporations under their control.

Note - Balances of credit risk, off balance sheet credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

Credit to the Public - Risk by Economic Sector - on a Consolidated Basis (Cont'd)
Reported amounts

Exhibit B (Cont'd)

	31 December 2007 (Audited)				
	Balance sheet credit risk (a)	Off-balance sheet credit risk (b)	Total credit risk	Addition for the year to the specific provision for doubtful debts	Balance of problematic debts (c)
	NIS millions				
Activities of borrowers in Israel					
Agriculture	2,135	365	2,500	(17)	272
Industry	23,013	14,411	37,424	149	2,656
Construction and real estate	30,335	16,905	47,240	97	4,424
Electricity and water	1,399	220	1,619	-	10
Commerce	15,615	4,130	19,745	88	1,191
Hotels and restaurants	4,127	457	4,584	18	1,611
Transport and storage	4,082	1,078	5,160	8	493
Communications and computer services	4,305	1,560	5,865	20	362
Financial services	16,815	5,172	21,987	(135)	598
Business and other services	5,253	1,399	6,652	18	191
Public and community services	5,595	1,278	6,873	2	369
Private individuals - loans for housing	36,839	2,170	39,009	50	989
Private individuals - other	21,090	22,789	43,879	165	1,187
	170,603	71,934	242,537	463	14,353
Activities of borrowers abroad	43,217	19,165	62,382	93	1,121
Total	213,820	91,099	304,919	556	15,474
Credit risk included within the various economic sectors:					
Settlement movements (d)	3,296	619	3,915	(23)	531
Local authorities (e)	3,319	134	3,453	(2)	153

(a) Including credit to the public in the amount of NIS 199,315 million, investments in debentures of the public in the amount of NIS 12,435 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 2,070 million.
(b) Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.
(c) Balances of problematic debt net of credit covered by collateral allowed as a deduction for purposes of individual and group borrower limits, including off-balance sheet risk components.
(d) Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.
(e) Including corporations under their control.

Note - Balances of credit risk, off balance sheet credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

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 30 September 2008 (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.

26 November 2008

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 30 September 2008 (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.

26 November 2008

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

Somekh Chaikin

Kost Forer Gabbay & Kasierer

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 and nine month periods ended 30 September 2008</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 as at 30 September 2008 and the condensed interim consolidated statements of profit and loss and changes in shareholders' equity for the three month and nine month periods 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 30 September 2008, and whose net results from net interest income before provision for doubtful debts constitutes some 10% and 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 and nine month periods then ended, respectively.

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 6 clauses C(2) and (4) 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 6 clauses D(2) and E concerning claims and uncertainties relating to companies included on the equity basis. 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.

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

26 November 2008

Condensed Consolidated Balance Sheet as at 30 September 2008
Reported amounts

	30 September 2008	30 September 2007	31 December 2007
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Assets			
Cash and deposits with banks	**29,027**	45,661	42,329
Securities	**41,566**	46,355	47,169
Securities borrowed or purchased under agreement to resell	**483**	246	655
Credit to the public	**207,489**	196,327	198,557
Credit to governments	**512**	701	642
Investments in companies included on the equity basis	**2,031**	1,855	1,873
Buildings and equipment	**3,368**	3,226	3,276
Other assets	**9,335**	7,636	7,650
Total assets	**293,811**	302,007	302,151
Liabilities and equity capital			
Deposits of the public	**225,952**	236,929	238,045
Deposits from banks	**6,457**	10,197	6,139
Deposits from governments	**827**	1,632	1,198
Securities loaned or sold under agreement to repurchase	**549**	185	231
Debentures, bonds and subordinated notes	**22,257**	16,872	19,248
Other liabilities	**17,978**	15,540	17,636
Total liabilities	**274,020**	281,355	282,497
Minority interest	**229**	121	105
Shareholders' equity	**19,562**	20,531	19,549
Total liabilities and equity capital	**293,811**	302,007	302,151

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: 26 November 2008

Condensed Consolidated Statement of Profit and Loss
For the Periods Ended 30 September 2008
Reported Amounts

	For the Three Months Ended 30 September		For the Nine Months Ended 30 September		For the Year Ended 31 December
	2008	2007	**2008**	2007	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)				
Net interest income before provision for doubtful debts	**1,491**	2,265	**5,404**	5,867	
Provision for doubtful debts	**495**	79	**1,055**	128	
Net interest income after provision for doubtful debts	**996**	2,186	**4,349**	5,739	
Operating and other income					
Operating commissions	**840**	834	**2,524**	2,487	
Profits (losses) from investments in shares, net	**(363)**	9	**(478)**	234	
Other income	**63**	66	**209**	309	
Total operating and other income	**540**	909	**2,255**	3,030	
Operating and other expenses					
Salaries and related expenses	**1,043**	1,104	**3,149**	3,135	
Building and equipment maintenance and depreciation	**353**	(a) 317	**1,020**	(a) 920	
Other expenses	**350**	(a) 364	**1,033**	(a) 1,018	
Total operating and other expenses	**1,746**	1,785	**5,202**	5,073	
Operating profits (losses) before taxes	**(210)**	1,310	**1,402**	3,696	
Provision for taxes on operating profits (losses)	**61**	471	**844**	1,367	
Operating profits (losses) after taxes	**(271)**	839	**558**	2,329	
Equity in after-tax operating profits of companies included on the equity basis	**191**	62	**471**	146	
Minority interest in after-tax operating profits of subsidiaries	**(5)**	-	**(3)**	(3)	
Net operating profits (losses)	**(85)**	901	**1,026**	2,472	
After-tax profits from extraordinary items	**1**	109	**249**	368	
Net profits (losses) for the period	**(84)**	1,010	**1,275**	2,840	
	(NIS)				
Basic earnings (losses) per share					
Net operating profits (losses)	**(0.06)**	0.64	**0.70**	1.75	2.11
After-tax profits from extraordinary items	**0.00**	0.08	**0.17**	0.26	0.26
Total	**(0.06)**	0.72	**0.87**	2.01	2.37
	(NIS)				
Diluted earnings (losses) per share					
Net operating profits (losses)	**(0.06)**	0.62	**0.70**	1.73	2.08
After-tax profit from extraordinary items	**0.00**	0.08	**0.17**	0.26	0.26
Total	**(0.06)**	0.70	**0.87**	1.99	2.34

(a) Reclassified.

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

Condensed Consolidated Statement of Changes in Shareholders' Equity
For the Period Ended 30 September 2008
Reported Amounts

	For the Three Months Ended 30 September 2008 (Unaudited)							
				Accumulated other comprehensive income				
	Share capital	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions							
Balance at the beginning of the period	**7,865**	**323**	**8,188**	**(85)**	**(630)**	**13,328**	**(373)**	**20,428**
Net losses for the period	**-**	**-**	**-**	**-**	**-**	**(84)**	**-**	**(84)**
Issue of shares	**52**	**(17)**	**35**	**-**	**-**	**-**	**-**	**35**
Benefit in respect of shares based payment transactions	**-**	**(30)**	**(30)**	**-**	**-**	**-**	**-**	**(30)**
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	**-**	**-**	**-**	**-**	**-**	**(34)**	**-**	**(34)**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**(1,640)**	**-**	**-**	**-**	**(1,640)**
Losses in respect of securities available for sale that were realized and classified to profit and loss	**-**	**-**	**-**	**481**	**-**	**-**	**-**	**481**
Related tax effect	**-**	**-**	**-**	**418**	**-**	**-**	**-**	**418**
Translation adjustments for companies included on the equity basis	**-**	**-**	**-**	**-**	**(7)**	**-**	**-**	**(7)**
Loans to employees for purchase of Bank's shares	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(5)**
Balance at the end of the period	**7,917**	**276**	**8,193**	**(826)**	**(637)**	**13,210**	**(378)**	**19,562**

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

See footnotes on page 129.

Condensed Consolidated Statement of Changes in Shareholders' Equity
Reported Amounts

	For the Three Months Ended 30 September 2007 (Unaudited)							
				Accumulated other comprehensive income				
	Share capital	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions							
Balance at the beginning of the period	7,000	493	7,493	818	(431)	12,173	(405)	19,648
Net profits for the period	-	-	-	-	-	1,010	-	1,010
Benefit in respect of shares based payment transactions	-	55	55	-	-	-	-	55
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	(312)	-	-	-	(312)
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	(15)	-	-	-	(15)
Related tax effect	-	-	-	125	-	-	-	125
Translation adjustments for companies included on the equity basis	-	-	-	-	23	-	-	23
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	(3)	(3)
Balance at the end of the period	7,000	548	7,548	616	(408)	13,183	(408)	20,531

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

See footnotes on page 129.

Condensed Consolidated Statement of Changes in Shareholders' Equity
For the Period Ended 30 September 2008
Reported Amounts

	For the Nine Months Ended 30 September 2008 (Unaudited)								
				Accumulated other comprehensive income					
	Share capital	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions								
Balance at the beginning of the period (audited)	**7,000**	**610**	**7,610**	**502**	**(445)**	**12,016**	**270**	**(404)**	**19,549**
Net profits for the period	**-**	**-**	**-**	**-**	**-**	**1,275**	**-**	**-**	**1,275**
Issue of shares	**917**	**(306)**	**611**	**-**	**-**	**-**	**-**	**-**	**611**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**(270)**	**-**	**(270)**
Benefit in respect of shares based payment transactions	**-**	**(28)**	**(28)**	**-**	**-**	**-**	**-**	**-**	**(28)**
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	**-**	**-**	**-**	**-**	**-**	**(81)**	**-**	**-**	**(81)**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**(2,689)**	**-**	**-**	**-**	**-**	**(2,689)**
Losses in respect of securities available for sale that were realized and classified to profit and loss	**-**	**-**	**-**	**627**	**-**	**-**	**-**	**-**	**627**
Related tax effect	**-**	**-**	**-**	**734**	**-**	**-**	**-**	**-**	**734**
Translation adjustments for companies included on the equity basis	**-**	**-**	**-**	**-**	**(192)**	**-**	**-**	**-**	**(192)**
Loans to employees for purchase of Bank's shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**26**	**26**
Balance at the end of the period	**7,917**	**276**	**8,193**	**(826)**	**(637)**	**13,210**	**-**	**(378)**	**19,562**

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

See footnotes on page 129.

Condensed Consolidated Statement of Changes in Shareholders' Equity
Reported Amounts

	For the Nine Months Ended 30 September 2007 (Unaudited)							
				Accumulated other comprehensive income				
	Share capital	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions							
Balance at the beginning of the period (audited)	7,000	405	7,405	623	(403)	10,343	(477)	17,491
Net profits for the period	-	-	-	-	-	2,840	-	2,840
Benefit in respect of shares based payment transactions	-	143	143	-	-	-	-	143
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	155	-	-	-	155
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	(171)	-	-	-	(171)
Related tax effect	-	-	-	9	-	-	-	9
Translation adjustments for companies included on the equity basis	-	-	-	-	(5)	-	-	(5)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	69	69
Balance at the end of the period	7,000	548	7,548	616	(408)	13,183	(408)	20,531

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

See footnotes on page 129.

Condensed Consolidated Statement of Changes in Shareholders' Equity
Reported Amounts

For the Year Ended 31 December 2007 (Audited)

				Accumulated other comprehensive income					
	Share capital	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions								
Balance as at 1 January 2007	7,000	405	7,405	623	(403)	10,343	-	(477)	17,491
Net profits for the year	-	-	-	-	-	3,357	-	-	3,357
Proposed dividend	-	-	-	-	-	(1,414)	-	-	(1,414)
Dividend declared after balance sheet date	-	-	-	-	-	(270)	270	-	-
Benefit in respect of share-based payment transactions	-	205	205	-	-	-	-	-	205
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	116	-	-	-	-	116
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	(326)	-	-	-	-	(326)
Related tax effect	-	-	-	89	-	-	-	-	89
Adjustments from translation in respect of companies included on equity basis	-	-	-	-	(42)	-	-	-	(42)
Loans to employees for purchase of the Bank's shares	-	-	-	-	-	-	-	73	73
Balance as at 31 December 2007	7,000	610	7,610	502	(445)	12,016	270	(404)	19,549

(a) Includes NIS 10 million of other capital reserves.
(b) Adjustments arising from translation of the financial statements of autonomous foreign subsidiaries.

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

Note 1 – Significant Accounting Policies

A. The Condensed Consolidated Interim Financial Statements to 30 September 2008 have been prepared in accordance with accounting principles used in 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 2007, and according to a new format for quarterly reports determined in the circular of the Supervisor of Banks of 18 March 2008. These Statements should be read in conjunction with the Annual Financial Statements as at 31 December 2007 and for the year ended on that date, and their accompanying Notes**.**

B. Future Application of Accounting Standards:

1. **Accounting Standard No. 29** - "Adoption of International Financial Reporting Standards (IFRS)"

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 - "Adoption of International Financial 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 the Standard is to be adopted by banking corporations, the Supervisor of Banks has notified the banks as follows:

1) He intends to determine, 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 banking business.

2) In the second half of 2009 he will publish his decision regarding the date of adopting IFRS related to the core 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 the American standards on the other hand.

3) Therefore, with respect to the core 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 on the basis of the American standards provided in the directives dealing with reporting to the public.

Two companies included on the equity basis implemented the Standard as from January 2008.

2. **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 (Presentation of Transactions between a Company and its Controlling Shareholder in the Financial Statements), 1996, as adopted in the directives dealing with reporting to the public 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 recorded 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 by 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.

In a letter of the Supervisor of Banks it is indicated that he is re-examining the rules to be applied to banking corporations and to credit card companies with respect to the handling of transactions between an entity and its controlling shareholder. As at the date of publication of this Report, the Supervisor of Banks has not yet published a final directive regarding the adoption of specific rules on this subject and on the manner of their initial implementation.

C. Measurement and Disclosure of Impaired Debts, Credit Risk and Provisions for Credit Losses

On 31 December 2007, the Banking Supervision Department published a circular to the banking corporations amending the directives regarding reporting to the public, on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk and Provision for Credit Losses." The directive is based on US accounting standards (FAS Standards 114 and 118), US banking regulatory provisions, and the directives of the SEC dealing with banks. It also matches the reports made by banks in the U.S. The provisions included in the circular constitute a significant change as compared with the existing provisions regarding classification of problem loans and the measurement of provisions for loan losses in respect of such debts.

The main changes included in the directive are:

1. New categories of problem loans are set out, which are defined as impaired debts, including:

   - credit in respect of which the banking corporation cannot collect the entire amount due, according to the contractual terms of the loan agreement,
   - a problem loan whose terms have been modified within the framework of a restructuring,
   - a loan whose principal or interest has been in arrears for 90 days or more, unless such is well secured and also in the process of collection proceedings,
   - a loan in a debitory or current account where the customer's account has been charged with additional excess interest and a special handling commission for a debitory or current account which has deviated from a credit line (as described in section 4(c) of Proper Banking Management Directive No. 325).
   - further, credit which is insufficiently protected by the present established value and the debtor's ability to pay or by the pledged collateral, and regarding which there is a clear possibility that the banking corporation will suffer some loss if the deficiencies are not remedied, is defined as an inferior credit risk.

2. Banking corporations are required to maintain a provision for credit losses at a level which is sufficient to cover the expected credit losses relating to the banking corporation's credit portfolio, including for off-balance sheet credit risk.

   The provisions for credit losses will include:

   - A specific provision for credit losses for each debt whose contractual balance is above NIS 1.0 million or more, and any other debt identified for specific consideration by the banking corporation.

The provision will be based on the measurement of the debt's reduced value, based on the present value of the expected cash flows, discounted at the debt's effective interest rate; or where a debt is dependent on collateral or where the seizure of a property is anticipated, based on the fair value of the collateral pledged to secure such credit.

- Group provisions for credit losses – for large groups of relatively small and homogeneous debts, the fall in value of which is examined on a group basis, and for debts that have been separately examined and found not to be impaired.

  Measurement of credit losses will be carried out based on past credit loss rates for each homogeneous group. The determination of the estimates of credit losses is to be documented.

3. No interest income is to be recorded for impaired debts (this does not relate to increments for CPI linkage or foreign currency linkage which are added to the principal.)

4. A change regarding the requirements for writing off debts:

   - Any part of a debt whose collection is dependent on collateral, which exceeds the collateral's fair value and is identified as uncollectible, is to be written off immediately in the accounts.

   - Generally, specific provisions are to be written off after two years.

   - Group provisions for credit losses - debts that are in arrears for over 150 days are to be written off.

5. The qualitative and quantitative disclosure requirements for financial statements with respect to problem loans have been expanded.

6. Detailed requirements have been laid down for preparing guidelines to ensure a methodical process for establishing the provisions for credit losses, which are to be consistently applied, for documentation required to support the credit process and for internal controls for the methods and processes that are established.

7. The directive will be implemented in the financial statements as from 1 January 2010. The directive will not be implemented retroactively in the financial statements for previous periods. Transitional adjustments arising from the adoption of the directive as of 1 January 2010 will be included directly in the retained earnings item in shareholders' equity. At the time of the first implementation, the following, *inter alia,* will be required:

   - To write off in the accounts, any debt which at that date meets the conditions for being written off in the accounts.

   - To classify as requiring special supervision, inferior or impaired, any debt that meets the conditions for such classification.

   - To cancel all interest income which has accumulated but not been paid for any debt which at that date meets the relevant conditions.

   - To examine the need for adjusting the balance for current taxes and deferred taxes to be received or paid.

8. Adjustments to the requirements of the directive of the balance of the provision for losses in credit to the public in respect of off-balance-sheet credit instruments as of the date of the directive's first application, will be included directly in the "retained earnings" shareholders' equity.

A steering committee has been appointed as part of the Bank's preparations for the implementation of the above directive. The committee's members include representatives of the business divisions, and the accounting and computerization functions. Sub-committees have been set up to deal with the establishment of work methods and with the directive's requirements.

The preparations for the modification of the computer systems have begun, since material changes in the information systems are required in order to carry out the required processes.

As of the date of the publication of this Report, the design of the main component of the computerization process for managing and documenting credit losses has been completed. Preparations have begun for writing work procedures for classification of impaired debts in accordance with the new rules, and for preparing training and study programs in anticipation of 2009.

The Supervisor of Banks has not yet decided whether if, upon the directive's implementation, there will still be a requirement to make a supplementary provision for unidentified risks in the credit portfolio which are based on risk characteristics in the credit portfolio in accordance with the provisions of Proper Banking Management Directive No. 315. The Supervisor has also not yet decided how to deal with the banks' existing general provision. The total general and additional provisions as at 30 September 2008 amounted to NIS 850 million, of which the Bank - NIS 608 million.

It is not possible at this stage to estimate the implications for the Bank's future financial results of the implementation of the directive when it is adopted.

Note 2 - Securities
Reported Amounts

	30 September 2008 (Unaudited)				
	Amount in balance Sheet	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	NIS millions				
1. Debentures held to maturity:					
Debentures and bonds					
Government of Israel	**867**	**867**	**13**	**-**	**880**
Foreign Governments	**478**	**478**	**-**	**(9)**	**469**
Other companies	**7**	**7**	**-**	**-**	**7**
Total debentures held to maturity	**1,352**	**1,352**	**13**	**(9)**	**1,356**

	30 September 2008 (Unaudited)				
	Amount in balance	Amortized cost (in	Accumulated other comprehensive income		Fair
	Sheet	Shares - cost)	Profits	Losses	value (a)
	NIS millions				
2. Securities available for sale:					
Debentures and bonds -					
Government of Israel	**8,743**	**8,729**	**106**	**(92)**	**8,743**
Foreign Governments	**304**	**301**	**3**	**-**	**304**
Other companies	**19,629**	**21,151**	**17**	**(1,539)**	**19,629**
	28,676	**30,181**	**126**	**(1,631)**	**28,676**
Shares of other companies and mutual funds (b)	**3,635**	**3,392**	**406**	**(163)**	**3,635**
Total securities available for sale	**32,311**	**33,573**	**(c) 532**	**(c) (1,794)**	**32,311**

	30 September 2008 (Unaudited)				
	Amount in balance Sheet	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	NIS millions				
3. Securities held for trading:					
Debentures and bonds					
Government of Israel	**5,472**	**5,475**	**13**	**(16)**	**5,472**
Foreign Governments	**141**	**141**	**-**	**-**	**141**
Other companies	**1,428**	**1,517**	**3**	**(92)**	**1,428**
	7,041	**7,133**	**16**	**(108)**	**7,041**
Shares and mutual funds					
Other companies	**862**	**1,326**	**-**	**(464)**	**862**
Total securities available for sale	**7,903**	**8,459**	**(d) 16**	**(d) (572)**	**7,903**
Total securities	**41,566**	**43,384**	**561**	**(2,375)**	**41,570**

See footnotes on page 137.

Note 2 - Securities (Cont'd)
Reported Amounts

	30 September 2007 (Unaudited)				
	Amount in balance Sheet	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	NIS millions				
1. Debentures held to maturity:					
Debentures and bonds					
Government of Israel	891	891	29	-	920
Foreign Governments	596	596	-	-	596
Other companies	127	127	-	(1)	126
Total debentures held to maturity	1,614	1,614	29	(1)	1,642

	30 September 2007 (Unaudited)				
	Amount in balance Sheet	Amortized cost (in Shares - cost)	Accumulated other comprehensive income		Fair value (a)
			Profits	Losses	
	NIS millions				
2. Securities available for sale:					
Debentures and bonds -					
Government of Israel	9,358	9,278	154	(74)	9,358
Foreign Governments	4,696	4,766	4	(74)	4,696
Other companies	18,676	18,847	16	(187)	18,676
	32,730	32,891	174	(335)	32,730
Shares of other companies and mutual funds (b)	4,589	3,446	1,173	(30)	4,589
Total securities available for sale	37,319	36,337	(c) 1,347	(c) (365)	37,319

	30 September 2007 (Unaudited)				
	Amount in balance Sheet	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	NIS millions				
3. Securities held for trading:					
Debentures and bonds					
Government of Israel	4,215	4,212	20	(17)	4,215
Foreign Governments	197	197	-	-	197
Other companies	2,091	2,073	36	(18)	2,091
	6,503	6,482	56	(35)	6,503
Shares and mutual funds					
Other companies	919	914	20	(15)	919
Total securities available for sale	7,422	7,396	(d) 76	(d) (50)	7,422
Total securities	46,355	45,347	1,452	(416)	46,383

See footnotes on page 137.

Note 2 - Securities (Cont'd)
Reported Amounts

	31 December 2007 (Audited)				
	Amount in balance Sheet	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	NIS millions				
1. Debentures held to maturity:					
Debentures and bonds					
Government of Israel	904	904	22	(1)	925
Foreign Governments	551	551	-	-	551
Other companies	126	126	-	(3)	123
Total debentures held to maturity	1,581	1,581	22	(4)	1,599

	31 December 2007 (Audited)				
	Amount in balance Sheet	Amortized cost (in Shares - cost)	Accumulated other comprehensive income Profits	Losses	Fair value (a)
	NIS millions				
2. Securities available for sale:					
Debentures and bonds -					
Government of Israel	8,875	8,855	91	(71)	8,875
Foreign Governments	1,228	1,227	7	(6)	1,228
Other companies	22,989	23,376	43	(430)	22,989
	33,092	33,458	141	(507)	33,092
Shares of other companies and mutual funds (b)	4,436	3,275	1,195	(34)	4,436
Total securities available for sale	37,528	36,733	(c) 1,336	(c) (541)	37,528

	31 December 2007 (Audited)				
	Amount in balance Sheet	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	NIS millions				
3. Securities held for trading:					
Debentures and bonds					
Government of Israel	5,014	4,992	35	(13)	5,014
Foreign Governments	194	194	-	-	194
Other companies	1,933	1,924	34	(25)	1,933
	7,141	7,110	69	(38)	7,141
Shares and mutual funds					
Other companies	919	918	28	(27)	919
Total securities available for sale	8,060	8,028	(d) 97	(d) (65)	8,060
Total securities	47,169	46,342	1,455	(610)	47,187

See footnotes on page 137.

Note 2 - Securities (Cont'd)

(a) Fair value data are generally based on stock exchange quotations. The value of debentures traded abroad which are not listed on a recognized stock exchange has been determined on the basis of prices quoted by dealers in these debentures. Such quotations do not necessarily reflect the price which will be obtained upon sale of securities in large volumes.

(b) Including NIS 1,417 million with respect to shares which have no readily available fair value, which are presented at cost (31 December 2007 - NIS 972 million and 30 September 2007 - NIS 714 million). In accordance with Directives of the Supervisor of Banks from July 2003, credit to a certain customer in the communications sector was classified in the balance sheet as an investment in shares in the available for sale portfolio instead of in loans to the public, and shown with a fair value not exceeding the value of the loan.

(c) Regarding securities available for sale, total other income is included in shareholders' equity in the item "adjustments in respect of presentation of securities available for sale according to fair value", except securities intended for hedging for purposes of determining fair value.

(d) Reported in the profit and loss statement.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	30 September 2008 (Unaudited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) * profits	losses	Fair value
	NIS millions				
1. Additional details of Asset-backed securities available for sale Mortgage-backed securities (MBS):					
Pass-through securities:					
Securities guaranteed by GNMA	**82**	**82**	**-**	**-**	**82**
Securities issued by FNMA and FHLMC	**1,133**	**1,148**	**3**	**(18)**	**1,133**
Securities issued by others	**10**	**10**	**-**	**-**	**10**
Total	**1,225**	**1,240**	**3**	**(18)**	**1,225**
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**1,753**	**1,776**	**5**	**(28)**	**1,753**
Other Mortgage-backed securities	**63**	**86**	**-**	**(23)**	**63**
Total	**1,816**	**1,862**	**5**	**(51)**	**1,816**
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	**5**	**7**	**-**	**(2)**	**5**
Credit for purchase of vehicle	**30**	**32**	**-**	**(2)**	**30**
Other credit to private persons	**34**	**34**	**-**	**-**	**34**
Others	**1,091**	**1,325**	**-**	**(234)**	**1,091**
Of which: CLO	**905**	**1,135**	**-**	**(230)**	**905**
Of which: CDO	**26**	**28**	**-**	**(2)**	**26**
Of which: SCDO	**159**	**160**	**-**	**(1)**	**159**
Total	**1,160**	**1,398**	**-**	**(238)**	**1,160**
Total Asset-backed securities available for sale	**4,201**	**4,500**	**8**	**(307)**	**4,201**

* Amounts recorded in the capital fund as part of adjustments of securities available for sale to fair value.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	30 September 2008 (Unaudited)				
	Amount In balance sheet	Amortized Cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value
	NIS millions				
2. Additional details of Asset-backed securities held for trading Mortgage-backed securities (MBS):					
Pass-through securities:					
Securities issued by FNMA and FHLMC	**5**	**5**	**-**	**-**	**5**
Total	**5**	**5**	**-**	**-**	**5**
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**35**	**35**	**-**	**-**	**35**
Other Mortgage-backed securities	**124**	**145**	**-**	**(21)**	**124**
Total	**159**	**180**	**-**	**(21)**	**159**
Asset-backed securities (ABS):					
Credit card debtors	**3**	**3**	**-**	**-**	**3**
Lines of credit for any purpose secured by dwelling	**19**	**21**	**-**	**(2)**	**19**
Credit for purchase of vehicle	**8**	**8**	**-**	**-**	**8**
Credit not to private persons	**10**	**10**	**-**	**-**	**10**
Others	**6**	**9**	**-**	**(3)**	**6**
Of which: CDO	**4**	**7**	**-**	**(3)**	**4**
Total	**46**	**51**	**-**	**(5)**	**46**
Total Asset-backed securities held for trading	**210**	**236**	**-**	**(26)**	**210**

3. The fair value of Asset-backed debentures that are included in the maturity portfolio as of 30 September 2008 amounted to NIS 7 million.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	31 December 2007 (Audited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) * profits	losses	Fair value
	NIS millions				
1. Additional details of Asset-backed securities available for sale Mortgage-backed securities (MBS):					
Pass-through securities:					
Securities guaranteed by GNMA	119	119	-	-	119
Securities issued by FNMA and FHLMC	1,563	1,587	1	(25)	1,563
Securities issued by others	114	116	-	(2)	114
Total	1,796	1,822	1	(27)	1,796
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,324	2,343	2	(21)	2,324
Other Mortgage-backed securities	32	34	-	(2)	32
Total	2,356	2,377	2	(23)	2,356
Asset-backed securities (ABS):					
Credit card debtors	148	149	-	(1)	148
Lines of credit for any purpose secured by dwelling	11	11	-	-	11
Credit for purchase of vehicle	175	176	-	(1)	175
Other credit to private persons	82	82	-	-	82
Credit not to private persons	1	1	-	-	1
Others	1,701	1,822	6	(127)	1,701
Of which: CLO	1,226	1,287	-	(61)	1,226
Of which: SCDO	430	491	5	(66)	430
Total	2,118	2,241	6	(129)	2,118
Total Asset-backed securities available for sale	6,270	6,440	9	(179)	6,270

2 The fair value of Asset-backed debentures that are included in the trading portfolio as of 31 December 2007 amounted to NIS 390 million, of which some NIS 344 million are mortgage-backed securities and some NIS 46 million are other asset-backed securities.

* Amounts recorded in the capital fund as part of adjustments of securities available for sale to fair value.

Note 2 - Securities (Cont'd)
Of which: Asset-backed securities
Reported amounts

	30 September 2008 (Unaudited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	NIS millions					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	**394**	**(5)**	**477**	**(13)**	**871**	**(18)**
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	**635**	**(28)**	**754**	**(23)**	**1,389**	**(51)**
Asset-backed securities (ABS)	**518**	**(115)**	**535**	**(123)**	**1,053**	**(238)**
Total	**1,547**	**(148)**	**1,766**	**(159)**	**3,313**	**(307)**

	31 December 2007 (Audited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	NIS millions					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	248	(2)	1,178	(25)	1,426	(27)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	1,239	(13)	775	(10)	2,014	(23)
Asset-backed securities (ABS)	1,395	(111)	497	(18)	1,892	(129)
Total	2,882	(126)	2,450	(53)	5,332	(179)

Note 3 - Provision for Doubtful Debts
Reported amounts (Unaudited)

	For the three months ended 30 September 2008			
	Specific Provision (a)	Specific Provision According to depth of arrears (a)	Supplementary Provision (b)	Total
	(NIS millions)			
Balance of the provision at the beginning of the period	**7,479**	**721**	**855**	**9,055**
Provisions during the period	**628**	**84**	**20**	**732**
Decrease in provisions	**(144)**	**(60)**	**(25)**	**(229)**
Collection of past years' write-offs	**(8)**	**-**	**-**	**(8)**
Net amount charged to statement of profit and loss	**476**	**24**	**(5)**	**495**
Write-offs	**(340)**	**(31)**	**-**	**(371)**
Balance of provision at end of the period	**7,615**	**714**	**850**	**9,179**
Including balance of provision not deducted from credit to the public	**269**	**-**	**120**	**389**

	For the three months ended 30 September 2007			
	Specific Provision (a)	Specific Provision According to depth of arrears (a)	Supplementary Provision (b)	Total
	(NIS millions)			
Balance of the provision at the beginning of the period	7,432	672	976	9,080
Provisions during the period	271	77	5	353
Decrease in provisions	(196)	(58)	(15)	(269)
Collection of past years' write-offs	(5)	-	-	(5)
Net amount charged to statement of profit and loss	70	19	(10)	79
Write-offs	(235)	(19)	-	(254)
Balance of provision at end of the period	7,267	672	966	8,905
Including balance of provision not deducted from credit to the public	211	-	122	333

(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.

Note 3 - Provision for Doubtful Debts (Cont'd)
Reported amounts (Unaudited)

	For the nine months ended 30 September 2008			
	Specific Provision (a)	Specific Provision According to depth of arrears (a)	Supplementary Provision (b)	Total
	(NIS millions)			
Balance of the provision at the beginning of the period	**7,250**	**688**	**875**	**8,813**
Provisions during the period	**1,442**	**247**	**11**	**1,700**
Decrease in provisions	**(427)**	**(157)**	**(36)**	**(620)**
Collection of past years' write-offs	**(25)**	**-**	**-**	**(25)**
Net amount charged to statement of profit and loss	**990**	**90**	**(25)**	**1,055**
Write-offs	**(625)**	**(64)**	**-**	**(689)**
Balance of provision at end of the period	**7,615**	**714**	**850**	**9,179**
Including balance of provision not deducted from credit to the public	**269**	**-**	**120**	**389**

	For the nine months ended 30 September 2007			
	Specific Provision (a)	Specific Provision According to depth of arrears (a)	Supplementary Provision (b)	Total
	(NIS millions)			
Balance of the provision at the beginning of the period	7,580	675	1,024	9,279
Provisions during the period	747	156	15	918
Decrease in provisions	(574)	(119)	(73)	(766)
Collection of past years' write-offs	(24)	-	-	(24)
Net amount charged to statement of profit and loss	149	37	(58)	128
Write-offs	(462)	(40)	-	(502)
Balance of provision at end of the period	7,267	672	966	8,905
Including balance of provision not deducted from credit to the public	211	-	122	333

(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.

Note 3 - Provision for Doubtful Debts (cont'd)
Details on housing loans and the method of calculating the specific provision - Reported amounts (Unaudited)

	30 September 2008					
		Problematic debts				
				Specific provision		
	Credit	Balance sheet debt balance	Including amount in arrears (c)	According to depth of arrears (d)	Other	Total
	(NIS millions)					
Housing loans that require calculating the provision according to depth of arrears	**28,241**	**638**	**234**	**494**		**494**
"Large" loans (a)	**6,128**	**123**	**209**	**171**		**171**
Other loans (b)	**6,920**	**230**	**27**	**49**		**56**
Balance of provision at end of the period	**41,289**	**991**	**470**	**714**		**721**

	30 September 2007				
		Problematic debts			
				Specific provision	
	Credit	Balance sheet debt balance	Including amount in arrears (c)	According to depth of Arrears (d)	Total
	(NIS millions)				
Housing loans that require calculating the provision according to depth of arrears	25,859	781	300	482	482
"Large" loans (a)	5,358	162	218	139	139
Other loans (b)	3,570	112	30	51	51
Balance of provision at end of the period	34,787	1,055	548	672	672

(a) Housing loans the balance of each is higher than NIS 845 thousand (30 September 2007 - NIS 804 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 845 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 143 million (30 September 2007 - NIS 141 million).

Note 4 - Shareholders' Equity and Capital Adequacy

Calculated pursuant to Directives Nos. 311 and 341 issued by the Supervisor of Banks regarding "minimum capital ratio" and "allocation of capital in respect of exposure to market risks"

Reported amounts

	30 September 2008	30 September 2007	31 December 2007
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions		
1. Bank's capital for purposes of calculating the capital ratio			
Tier I capital	**20,250**	19,736	18,842
Total capital	**30,871**	29,720	28,737

	30 September 2008		30 September 2007		31 December 2007	
	(Unaudited)		(Unaudited)		(Audited)	
	Balances*	Weighted average balances of credit risk	Balances *	Weighted average balances of credit risk	Balances *	Weighted average balances of credit risk
	NIS millions					
2. Weighted average balances of risk						
Credit risk						
Assets	**294,144**	**213,524**	302,341	208,797	302,484	209,256
Off-balance sheet instruments	**51,635**	**35,204**	46,966	31,967	49,883	33,764
Total credit risk assets	**345,779**	**248,728**	349,307	240,764	352,367	243,020
Market risk	**-**	**6,913**	-	4,582	-	6,531
Total risk assets	**345,779**	**255,641**	349,307	245,346	352,367	249,551

* Assets - balance sheet balances, off-balance sheet instruments - stated value weighted on the basis of credit conversion factors.

Note 4 - Shareholders' Equity and Capital Adequacy (cont'd)

Calculated pursuant to Directives Nos. 311 and 341 issued by the Supervisor of Banks regarding "minimum capital ratio" and "allocation of capital in respect of exposure to market risks"

Reported amounts

	30 September 2008	30 September 2007	31 December 2007
	(Unaudited)	(Unaudited)	(Audited)
	(%)		
3. Ratio of capital to risk assets			
The ratio of tier I capital to risk assets	**7.92**	8.04	7.55
The ratio of total capital to risk assets	**12.08**	12.11	11.52
Ratio of total minimum capital to risk assets required by the Supervisor of Banks	**9.00**	9.00	9.00
Capital adequacy in principal subsidiaries			
Bank Leumi Mortgage Bank Ltd.			
The ratio of tier I capital to risk assets	**6.31**	6.69	6.63
The ratio of total capital to risk assets	**9.48**	10.04	9.96
Ratio of total minimum capital to risk assets required by the Supervisor of Banks	**9.00**	9.00	9.00
Arab-Israel Bank Ltd.			
The ratio of tier I capital to risk assets	**16.48**	20.58	15.98
The ratio of total capital to risk assets	**16.83**	21.00	16.38
Ratio of total minimum capital to risk assets required by the Supervisor of Banks	**9.00**	9.00	9.00
Bank Leumi USA			
The ratio of tier I capital to risk assets	**8.69**	8.34	8.23
The ratio of total capital to risk assets	**11.71**	11.17	11.03
Ratio of total minimum capital to risk assets required by the local Authorities	**10.00**	10.00	10.00

Note 5 - Assets and Liabilities Classified According to Linkage Basis as at 30 September 2008 (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	**4,534**	**523**	**17,217**	**4,228**	**2,525**	**-**	**29,027**
Securities	**9,142**	**5,527**	**13,225**	**8,316**	**859**	**4,497**	**41,566**
Securities borrowed or purchased under agreement to resell	**397**	**-**	**86**	**-**	**-**	**-**	**483**
Credit to the public (b)	**99,535**	**55,569**	**34,730**	**7,067**	**10,583**	**5**	**207,489**
Credit to governments	**-**	**256**	**256**	**-**	**-**	**-**	**512**
Investments in affiliated companies	**8**	**-**	**-**	**-**	**-**	**2,023**	**2,031**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,368**	**3,368**
Other assets	**4,076**	**114**	**2,563**	**679**	**1,083**	**820**	**9,335**
Total assets	**117,692**	**61,989**	**68,077**	**20,290**	**15,050**	**10,713**	**293,811**
Liabilities							
Deposits of the public	**101,652**	**26,167**	**68,940**	**20,075**	**8,991**	**127**	**225,952**
Deposits from banks	**3,636**	**852**	**1,129**	**349**	**491**	**-**	**6,457**
Deposits from governments	**59**	**627**	**129**	**12**	**-**	**-**	**827**
Securities loaned or sold under agreement to repurchase	**392**	**-**	**157**	**-**	**-**	**-**	**549**
Debentures, bonds and subordinated notes	**2,824**	**17,426**	**2,007**	**-**	**-**	**-**	**22,257**
Other liabilities	**9,584**	**3,864**	**2,247**	**572**	**1,104**	**607**	**17,978**
Total liabilities	**118,147**	**48,936**	**74,609**	**21,008**	**10,586**	**734**	**274,020**
Difference	**(455)**	**13,053**	**(6,532)**	**(718)**	**4,464**	**9,979**	**19,791**
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	**-**	**-**	**8**	**(8)**	**-**	**-**	**-**
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	**8,335**	**(8,278)**	**5,557**	**(894)**	**(4,720)**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**796**	**(31)**	**(1,155)**	**28**	**362**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**115**	**3**	**(288)**	**239**	**(69)**	**-**	**-**
Total	**8,791**	**4,747**	**(2,410)**	**(1,353)**	**37**	**9,979**	**19,791**
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	**286**	**(41)**	**(678)**	**79**	**354**	**-**	**-**
Options out of the money, net (discounted par value)	**2,377**	**12**	**(3,721)**	**931**	**401**	**-**	**-**

(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.

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 30 September 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	7,339	598	27,899	6,134	3,691	-	45,661
Securities	8,481	5,700	17,232	8,457	977	5,508	46,355
Securities borrowed or purchased under agreement to resell	246	-	-	-	-	-	246
Credit to the public (b)	84,133	53,683	38,443	7,027	12,789	252	196,327
Credit to governments	-	250	451	-	-	-	701
Investments in affiliated companies	14	-	-	-	-	1,841	1,855
Buildings and equipment	-	-	-	-	-	3,226	3,226
Other assets	2,725	78	2,232	459	1,009	1,133	7,636
Total assets	102,938	60,309	86,257	22,077	18,466	11,960	302,007
Liabilities							
Deposits of the public	93,415	27,171	80,500	22,847	12,297	699	236,929
Deposits from banks	6,840	759	1,532	424	642	-	10,197
Deposits from governments	457	821	341	13	-	-	1,632
Securities loaned or sold under agreement to repurchase	24	-	161	-	-	-	185
Debentures, bonds and subordinated notes	823	13,323	2,726	-	-	-	16,872
Other liabilities	8,338	2,984	1,848	496	1,173	701	15,540
Total liabilities	109,897	45,058	87,108	23,780	14,112	1,400	281,355
Difference	(6,959)	15,251	(851)	(1,703)	4,354	10,560	20,652
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	8	(8)	-	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	13,697	(8,681)	(360)	300	(4,956)	-	-
Options in the money, net (in terms of underlying asset)	(618)	(4)	91	546	(15)	-	-
Options out of the money, net (in terms of underlying asset)	454	2	(337)	(86)	(33)	-	-
Total	6,574	6,568	(1,449)	(951)	(650)	10,560	20,652
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(901)	(7)	287	644	(23)	-	-
Options out of the money, net (discounted par value)	1,824	(2)	(1,511)	(181)	(130)	-	-

(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.

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 31 December 2007 (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	8,039	587	23,026	6,347	4,330	-	42,329
Securities	8,081	6,455	17,322	9,003	953	5,355	47,169
Securities borrowed or purchased under agreement to resell	655	-	-	-	-	-	655
Credit to the public (b)	88,584	53,314	36,826	7,315	12,419	99	198,557
Credit to governments	-	251	391	-	-	-	642
Investments in affiliated companies	15	-	-	-	-	1,858	1,873
Buildings and equipment	-	-	-	-	-	3,276	3,276
Other assets	2,980	113	2,210	532	907	908	7,650
Total assets	108,354	60,720	79,775	23,197	18,609	11,496	302,151
Liabilities							
Deposits of the public	96,656	26,919	79,842	22,457	11,676	495	238,045
Deposits from banks	2,596	669	1,555	753	566	-	6,139
Deposits from governments	58	788	343	9	-	-	1,198
Securities loaned or sold under agreement to repurchase	173	-	58	-	-	-	231
Debentures, bonds and subordinated notes	842	15,821	2,585	-	-	-	19,248
Other liabilities	10,566	3,082	1,782	578	1,035	593	17,636
Total liabilities	110,891	47,279	86,165	23,797	13,277	1,088	282,497
Difference	(2,537)	13,441	(6,390)	(600)	5,332	10,408	19,654
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	6	(6)	-	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	10,775	(10,030)	4,075	99	(4,919)	-	-
Options in the money, net (in terms of underlying asset)	88	(1)	(312)	55	170	-	-
Options out of the money, net (in terms of underlying asset)	(41)	(4)	(168)	119	94	-	-
Total	8,285	3,406	(2,789)	(333)	677	10,408	19,654
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	467	-	(573)	(65)	171	-	-
Options out of the money, net (discounted par value)	1,465	(17)	(2,326)	559	319	-	-

(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.

Note 6 - Contingent Liabilities and Special Commitments
Reported Amounts

	30 September 2008	31 December 2007
	(Unaudited)	(Audited)
	NIS millions	
A. Off-balance sheet financial instruments		
Balances of contracts or their stated amounts as at the end of the year		
Transactions in which the balance reflects a credit risk		
Documentary credits	**2,705**	2,582
Credit guarantees	**7,306**	6,993
Guarantees to apartment purchasers	**8,359**	7,440
Other guarantees and liabilities	**13,270**	13,822
Commitments regarding uncompleted credit card transactions unutilized credit card facilities	**16,143**	14,993
Other unutilized revolving credit facilities to the public and credit facilities on demand	**16,609**	17,347
Irrevocable commitments to provide credit which has been approved and not yet granted	**22,601**	21,335
Commitments to issue guarantees	**6,088**	5,883
B. Other contingent liabilities and special commitments:		
(1) Long-term rental contracts -		
Commitments in respect of rental of buildings, equipment and motor vehicles payable in the following years:		
First year	**187**	246
Second year	**124**	131
Third year	**104**	107
Fourth year	**77**	80
Fifth year	**49**	53
After five years	**88**	106
Total	**629**	723
Commitments to purchase securities	**391**	298
Commitments to invest in buildings, equipment and in other assets	**168**	219
(2) Future deposits		
Transactions with depositors for purposes of receipt of large deposits at various future dates and at fixed interest rates determined in advance as of the date of the investment		
Details of future deposits and deposits dates as was determined by the terms of the transactions:		
First year	**17**	17
Second year	**17**	17
Third year	**17**	17
Fourth year	**17**	17
Fifth year	**17**	17
After five years	**35**	49
Total future deposits	**120**	134

3. The Bank has credit exposures in respect of obligations to supply liquidity to securitization products under the auspices of others which have not been utilized in the amount of NIS 342 million.

Note 6 – Contingent Liabilities and Special Commitments

C. 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 have been 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 100 million.

1. 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 the 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. On 24 June 2008, the Jerusalem District Court gave the effect of a judgment to the settlement agreement signed by the parties. The settlement amount will be paid by the insurance company that had insured the Bank at the time of the event which was the subject of the claim.

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 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 could have misled the depositors into thinking that the 1% additional interest would be paid also in respect of the periods in which the deposit was automatically renewed and not only in respect of the original deposit period, as was the actual case.

Accordingly, the plaintiff is requesting that the Bank pay to him and all the relevant depositors he represents, 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. The District Court granted the plaintiff's petition to cancel the stay of proceedings in the case and set a hearing for the case, although the Supreme Court has not yet rendered a decision. The Bank has petitioned the Supreme Court for a stay of the proceedings until the Supreme Court renders a decision in the appeal.

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 unlawfully 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 in this way the Bank was unlawfully enriched.

After the Bank submitted to the Court its response to the petition to approve the claim as a class action, and the petitioner submitted a reply to the Bank's response to the petition for approval of a class action, 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. Following the amendment, the Bank submitted an amended response to the amended petition for approval of the claim as a class action and an amended reply of the petitioner was filed.

On 25 December 2007, the Tel Aviv District Court denied the petition for approval of the claim as a class action. The plaintiff filed an appeal to the Supreme Court regarding this ruling on 10 February 2008.

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. The Bank has filed its response to the petition for approval of the claim as a class action. The Court suggested to the petitioner that he withdraw the proceedings against payment of his legal costs. The necessary proceedings for the approval of the withdrawal arrangement have not yet been completed.

E. 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 duty 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. The Bank has filed its response to the petition for the approval of the claim as a class action. On 11 September 2008, the Tel Aviv District Court issued its decision denying the petition for approval of the class action. On 10 November 2008, the petitioner filed an appeal against the decision to the Supreme Court.

F. 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 remedy requested by the petitioner is refund of the alleged over-charging to the respondents' customers, who took unlinked shekel credit or a "retroactive reduction" of the said interest and commission rates that the respondent banks collected during the past decade. The Bank has filed its response to the petition for the approval of the claim as a class action.
On 21 January 2008, the Tel Aviv District Court granted the petition, and approved the pursuance of the claim as a class action. The Bank submitted a petition for leave to appeal the ruling to the Supreme Court. The Supreme Court's ruling of 29 May 2008 provided that the Attorney General must submit his position in writing regarding the petition. The Attorney General has notified the Supreme Court that he will take part in the proceeding regarding the petitions for leave to appeal submitted by the banks and will submit his position in writing.

G. 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 provident funds which he claims are managed by the Bank and are under its ownership. The said 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 he and the other fund members have suffered damage in the amount of commissions that were paid that were beyond the "reasonable and normal 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 requesting various remedies, including the determination of a ceiling for commissions in accordance with an "appropriate rate," as well as an order that the Bank restore to the funds all of the commissions that it over-charged them, together with appropriate interest. The Bank filed its response to the petition for the approval of the claim as a class action. On 26 June 2008, the District Court ruled, approving the withdrawal notices submitted by the petitioners in the case and dismissing the claim without awarding costs.

H. On 23 November 2006, a claim and a petition 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 households 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 households sector is significantly lower than the risk for those sectors, and that this excessive interest rate derives from the exploitation of the low level of bargaining power of the households 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 fear that the lack of competition among the respondents, regarding all matters concerning the households sector, is the result of a restrictive arrangement among the parties.

The petitioners also allege that the interest rate was determined while misleading the consumers regarding the normal price for credit service to the households 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 the multiple of (1) the gap between the interest rate actually collected and the fair interest rate that would have been established for loans to the households 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 5.6 billion according to one method, and NIS 5.2 billion according to a second method. Of this amount, the estimated damage attributed to the Bank's customers is at least NIS 1.6 billion. The Bank filed its response to the petition for the approval of the claim as a class action. The court granted a petition filed by the Bank for a stay of these proceedings and ordered they be stayed until the Supreme Court renders a decision regarding the petition for leave to appeal filed by the Bank with respect to the decision to approve as a class action the claim described in paragraph F above. The Supreme Court denied the petition for leave to appeal filed by the petitioners with respect to the District Court's above-mentioned decision to stay the proceedings in the claim.

I. On 31 January 2008, 260 identical claims were filed in the Tel Aviv-Jaffa Magistrate's Court against the Bank and receivers who had been appointed by the court. The amounts of the claims vary between some NIS 787,000 and some NIS 1,350,000. Pursuant to the Court's ruling, the proceedings for all the above-mentioned claims were combined, and they will be heard as one claim. The total amount of the claims is some NIS 270 million. The plaintiffs are the purchasers of vacation apartments in the Nofit Hotel in Eilat. According to the plaintiffs, the Bank and the receivers were negligent in supervising the project and refrained from paying for guarding it, and as a result, the plaintiffs suffered significant damages, including a decline in the value of the apartments. These claims are in addition to five other claims that have filed against the Bank on the same ground, and which are being heard separately. The total amount of all the claims in connection with this project is some NIS 288.6 million.

J. 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 units in mutual funds that were managed by fund managers controlled by the Bank. According to the petitioners, the Bank, beginning in 2004, charged the fund managers it controlled brokerage commissions 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. 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 the mutual fund managers, 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. The Bank has filed its response to the petition for the approval of the claim as a class action.

K. On 26 June 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, for a claim in the amount of NIS 200 million. The plaintiff claims that the Bank charges its customers securities deposit management fee commissions which are higher than agreed. He claims that each time he carried out a low volume partial sale of a particular share for which the commission was less than the minimum, the Bank charged him with the minimum commission as well as the management fee commission collected at the end of the quarter, with the aggregate amount of the two commissions being higher than the agreed maximum management fees that the Bank was entitled to collect. The plaintiff claims that the Bank was required to deduct the minimum commission collected at the time of the partial sale from the total amount of the management fees. The plaintiff also argues that the Bank's documents and announcements do not reflect the amounts of the management fee commissions that are actually charged during a single quarter. The Bank has filed its response to the petition for the approval of the claim as a class action.

L. On 25 September 2007, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, in the amount of some NIS 435 million. The plaintiffs claim that the Bank collects management fees for securities deposit accounts, in the minimum amount of NIS 5.5, for securities that are bought and sold on the same day, even if they are held for only one hour; that the Bank unilaterally cancelled an exemption from the management fee that the Bank undertook to give, the plaintiffs claim, regarding the purchase of certain mutual funds through monthly standing orders; the Bank collects a commission for the buying and selling of securities at the minimum rate, without providing a 20% discount which is given, according to the Bank's representations, in respect of buying and selling commissions regarding transactions carried out through the Internet; when a notional sale of securities was carried out by customers during the month of December 2005 (in anticipation of the rise in tax rates for capital market transactions at the beginning of 2006), the Bank did not – according to the plaintiffs – treat the management fees that it had collected as a deductible expense for the customer when calculating the applicable tax. The plaintiffs further contend that if a security is sold during a particular quarter and the customer is charged with a minimum securities management fee, such fee should be deducted from the minimum management fee that the bank charges for that quarter, and the Bank does not do so; that the Bank charged an exorbitant penalty for withdrawing funds from deposits other than at the set exit dates of the deposits and that such fines reduced accumulated interest and principal; that with regard to daily deposits of the *Pidyom* type, the Bank rounds up the interest to a full *agor*a each day, which the plaintiffs argue is in violation of Bank of Israel directives according to which the rounding up is to be done only once; that the Bank does not consolidate a single customer's shekel deposits which are of the same type and for the same period, and that the customer suffers loss by receiving a lower interest rate than would have been received if the Bank had consolidated the deposits. The Bank has submitted its response to the petition for approval of the claim as a class action.

2. 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 these legal proceedings, 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 3 April 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim and Israel Discount Bank in an amount between NIS 35 million and NIS 84 million. The plaintiffs claim that the Banks are unjustly enriching themselves, at their customers' expense, by receiving profits from interest on the amounts of the tax they withhold at source in accordance with the provisions of Section 164 of the

Income Tax Ordinance; those amounts remain with the Banks until the date fixed in the Ordinance and its regulations and are not therefore transferred to the Tax Authority on the date of actual deduction. Therefore, it is claimed in the petition, the banks have breached their duties under the Trust Law and the Custodians Law and their obligation to carry out their agreements with their customers in good faith.

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 petition.

B. On 6 May 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv-Jaffa District Court. According to the plaintiff, the Bank charges its customers' accounts with the legal expenses incurred in handling such customers' debts, without obtaining the approval of any legal tribunal, and in violation of the directives of the Supervisor of Banks – "Proper Banking Management Directives – Charging Customers for Attorneys' Fees." Additionally, when the Bank charges its customers' accounts with legal expenses (both those approved by a legal tribunal and those that have not been so approved), the Bank collects interest on such expenses at the interest rate applicable to the account (which in many cases is excess interest on arrears) and not at the interest and linkage rates which the Bank is permitted to collect in accordance with the Adjudication of Interest and Linkage Law, 1961. The requested remedy is the reimbursement of all excess amounts charged by the Bank, without an indication of the amount, although it is alleged that "this is a vast amount" and that the lawsuit is filed in the name of all the Bank's customers whose accounts were charged with legal expenses during the seven years preceding the filing of the petition to approve the class action. The Bank has submitted its response to the petition for approval of the claim as a class action.

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 petition.

C. On 14 May 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank and against Bank Hapoalim (the "Banks"). The petitioner alleges that he maintains current accounts at these banks and that no interest has been paid to him in respect of the periods during which there was a credit balance in the accounts. The petitioner further claims that it was not explained to him that there is an investment channel which can produce daily interest in respect of amounts held in credit in his accounts. The Banks' alleged behavior constitutes, according to the petitioner, a violation of several legal provisions, including the Restrictive Trade Practices Law, the Trusts Law, the Custodians Law, the Unjust Enrichment Law, the Banking Ordinance and the Banking (Service to Customer) Law. The group in whose name the claim has been filed and which the court is being asked to approve consists of anyone who has been a customer of the Banks and who, at any time during the 7 years preceding the filing of the claim, had a credit balance in a current account with respect to which no interest was paid. The amount of the alleged class action is estimated by the petitioner at NIS 3.4 billion, while the claim does not specify the amount of damage attributed to each of the Banks. However, the opinion attached to the petition for approval, which presents the manner in which the alleged damage was calculated, indicates that the part of the damage attributed to the Bank is NIS 1.69 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 early stage to estimate the chances of the petition.

D. On 29 May 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Israel Discount Bank, the Mercantile Discount Bank and the First International Bank of Israel. The petitioners' claim is estimated at a total amount of some NIS 115 million against all the banks, without any attribution of a specific amount to each bank. The petitioners claim that when a bank buys a foreign currency check from a customer which is drawn on an account at a bank located abroad, the value date on which the customer's account is credited with the amount of the check is a day later than the value date on which the amount of the check is deducted from the account on which the check is drawn. This is done in a manner which, according to the petitioners' claim, allows the bank to keep in its possession the funds that are being transferred for a period of time. The class to which the action refers is composed of all the banks' customers for whom fund transfers were carried about from abroad to their accounts in Israel, either through bank transfers or through the deposit of foreign currency checks, during the seven years preceding the filing of the action, where the value date on which their account in the bank was credited was later than the value date on which the funds were drawn from the transferring account. The grounds for the class action for which approval is being sought are based on claims of non-disclosure and misleading of customers by the banks, regarding the value date for the crediting of the amounts in their accounts. It is also based on claims of unjust enrichment, breach of statutory duty and breach of contract

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 petition.

E. On 30 June 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Israel Discount Bank and Bank Hapoalim, (the "Banks"). The claim relates to the commissions charged by the Banks for various banking services provided by them to their private customers ("operating" commissions, as distinguished from commissions for the allocation, granting and handling of credit, which are not part of the claim). It is claimed that the Banks had agreed among themselves regarding the increase or reduction of the rates of the commissions, and that it is suspected that agreements were also reached regarding the creation of new commissions. It is claimed that in so doing , the Banks maintained an illegal restrictive arrangement regarding the rates of the commissions they collect from their customers, they abused their monopolistic power (the Banks constituting, it is argued, an oligopoly), and that they unjustly enriched themselves at the expense of their customers. The petition claims that because of these said restrictive arrangements, the Banks' customers paid an unfair rate for the commissions, higher than would have been paid were it not for the existence of the cartel that prevented free competition. The calculation of the amount claimed is presented as being derived from the Banks' income from commissions paid by households and those resulting from private banking. It is claimed, as an estimation, that half of this income was collected following the coordination of rates as a result of the restrictive practices, and had the rates not been coordinated between the Banks, the commissions would have been significantly lower, by at least 25%. Therefore, in accordance with the various assumptions indicated in the petition, the total aggregated amount of the damage is estimated in the amount of NIS 3.5 billion, while the petition's caption indicates that the amount of the claim is NIS 3 billion. No specific attribution has been made of the damage claimed to each of the Banks, but the petition mentions that the Bank's relative share of banking activity in Israel is estimated at some 30%.

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 petition.

F. On 4 August 2008, a claim and a petition to approve it as a class action were filed in the Jerusalem District Court against the Bank, Israel Discount Bank, "Kahal" Supplementary Training Funds Management (1996) Ltd. ("Kahal") and the Supervisor of the Capital Market, Insurance and Savings (as a formal defendant). According to the petitioner, Kahal had transferred, in accordance with the Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005, and at the banks' instruction, the control of the assets of the provident funds controlled by Kahal to a "different management company" and that the banks allegedly illegally assumed and appropriated to themselves the consideration amounts that they received from the other management company, for “the transfer of the control of the assets of the provident funds as well as their management and the trusteeship of them,” since a management company and a management company’s controlling shareholder may not receive any benefit whatsoever, directly or indirectly, in connection with the management of a provident fund, other than expenses and management fees. It is claimed that the consideration amounts received for the said transfer of control of the provident funds are proceeds produced by the assets of the provident funds, and their source is the members’ rights stemming from such assets, and that this is a profit which therefore belongs to the members of the provident funds and not to any of the defendants. It is claimed that the consideration received by the banks amounts to some NIS 260 million, with the Bank's share in this amount being to NIS 149.5 million.

The petitioner bases the claim on, *inter alia*, violation of the Control of Financial Service (Provident Funds) Law, 2005, the Joint Investments Trusts Law, 1994, the Unjust Enrichment Law, the Contracts Law, the Banking (Licensing) Law, the Agency Law and the Trusts Law. The group in whose name the approval of the class action is sought is composed of: all members of all the provident funds whose assets were controlled and managed by each of the trust managers (apparently referring to Kahal) that were owned and/or controlled by the respondent bank, and transferred to their replacements. The petitioner added the Supervisor of the Capital Market, Insurance and Savings to the claim and to the petition for approval since, according to the petitioner, the Supervisor is charged with licensing, control and implementation of the provisions of the Provident Funds Law, and it is therefore appropriate that he, in terms of the public interest, present his position, and since this would assist in clarifying and deciding the questions raised in the class action.

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 petition.

G. On 4 August 2008, a claim and a petition to approve it as a class action were filed in the Jerusalem District Court against the Bank, Leumi Gemel Ltd. and the Supervisor of the Capital Market, Insurance and Savings (as a formal defendant). According to the petitioner, Leumi Gemel transferred, in accordance with the Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005, and at the Bank’s instruction, the control of the assets of the provident funds controlled by Leumi Gemel to “different management companies.” According to the petitioner, the Bank allegedly illegally assumed and appropriated to itself the consideration amounts that it received from the other management companies, for “the transfer of the control and management of the assets of the provident funds and the trusteeship thereof,” since according to the petitioner, a management company, and a management company’s controlling shareholder may not receive any benefit whatsoever, directly or indirectly, in connection with the management of a provident fund, other than expenses and management fees. It is claimed that the consideration amounts received for the said transfer of control of the provident funds are proceeds arising from the assets of the provident funds, and their source is the provident funds’ members’ rights stemming from such assets, and that this is therefore a profit which belongs to the members of the provident funds and not to any of the respondents. The amount being claimed amounts to NIS 1.0016 billion, which constitutes, according to the petitioner, the consideration received by the Bank from the sale. The petitioner bases the claim on, *inter alia*, violation of the Control of Financial Service (Provident Funds) Law, 2005, the Joint Investments Trusts Law, 1994, the Unjust Enrichment Law, the Contracts Law, the Banking (Licensing) Law, the Agency Law and the Trusts Law. The group in whose name the approval of the class action is sought is composed of: all members of all the provident funds whose assets were controlled and managed by each of the trust managers (apparently referring to Leumi Gemel) that were owned and/or controlled by the respondent bank, and transferred to their replacements. The petitioner added the Supervisor of the Capital Market, Insurance and Savings to the claim and to the petition for approval since, according to the petitioner, the Supervisor is charged with licensing, control and implementation of the provisions of the Provident Funds Law, and it is therefore appropriate that he, in terms of the public interest, present his position, and since this would assist in clarifying and deciding the questions raised in the class action.

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 petition.

H. On 4 August 2008, a claim and a petition to approve it as a class action were filed in the Jerusalem District Court against the Bank, Leumi Pia Trust Management Company Ltd., Psagot Managers of Mutual Funds - Leumi Ltd., Kesselman & Kesselman Trust Company (1971) Ltd., and the Israel Securities Authority (as a formal defendant). According to the petitioner, each manager transferred the control and management of the mutual funds it owned to “different management companies,” in accordance with the Intensification of Competition and Reduction of Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments) Law, 2005, and the Bank allegedly illegally obtained the consideration amounts that it received from the other management companies, for “the transfer of the control and management of the assets of the mutual funds.” According to the petitioner, a management company, trustee and a management company’s controlling shareholder may not receive any benefit whatsoever, in connection with the management of mutual funds, other than expenses and management fees, and it is therefore claimed that the consideration amounts received for the said transfer of control of the mutual funds are proceeds arising from the assets of the mutual funds, and their source is the rights stemming from such assets, and that this is a profit which belongs to the funds and to the owners of the units thereof, and not to any of the respondents. According to the petitioner, the consideration received by the Bank amounts to some NIS 1.885 billion, and this is the amount claimed by the petitioner for the members of the group. The petitioner bases the claim on, *inter alia*, violation of the Joint Investments Trusts Law, 1994, the Unjust Enrichment Law, the Contracts Law, the Banking (Licensing) Law, the Agency Law and the Trusts Law. The group in whose name the approval of the class action is sought is composed of: all owners of units in all the mutual funds whose assets were controlled and managed by each of the managers who were controlled by the Bank, and were transferred to their replacements. The petitioner added the Israel Securities Authority to the complaint and to the petition for approval since, according to the petitioner, the Authority is charged with licensing, control and implementation of the provisions of the Joint Investments Trusts Law and it is therefore appropriate that it, in terms of the public interest, present its position, and since this would assist in clarifying and deciding the questions raised in the class action.

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 petition.

I. On 28 September 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank and the Bank Otzar Hachayal the amount of some NIS 672 million. According to the allegations, the Bank secretly collects an illegal commission from customers engaged in continuous trading of options on the Tel Aviv 25 stock index (such options consisting of a right to buy or sell the basket of shares comprising the Tel Aviv 25 Index at a given time and at a given price); the banks take advantage of the fact that the amounts pass from the stock exchange to those holding the options through the Banks, and an exercise commission of 0.5% is collected from the amounts received by customers who are the holders of expiring options which entitle their holders to a payment; the calculation of the amount due to the option holder is not simple because the expiration index is not an exact amount and is not published in any official publication and therefore the customer does not know exactly what amount is due to him and cannot know that a commission has been deducted from the amount that he receives. The ground for the action is based on the fact that the Banks did not announce that they collect an exercise commission, did not include this commission in their agreements with the customers and they made a false representation to the customers according to which the only commission that they collect is the sale and purchase commission. The banks do specify the commission that is collected in a separate notice that they send at later stages, after the transactions are carried out, but according to the plaintiffs, customers like them do not follow these notices and are not capable of analyzing them. The defined group consists of customers who contracted with portfolio managers in connection with the trading of Tel Aviv 25 Index options. According to the plaintiffs they used a narrow definition of this group of customers in order to argue that it is easier to hide the charging of commissions from this group (relative to the group of customers who do not trade through portfolio managers). The relief requested is the damage which is common to all the customers of the banks in respect of the amount of the exercise commissions collected during the past seven years.

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 petition.

3. The following are details of petitions for approval of class actions in material amounts that were filed 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 has been 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 has been stayed until the appeals regarding the matter reviewed in Note 4A below are decided.

B. On 2 December 2006, a petition to approve a class action was filed in the Tel Aviv - Jaffa District Court against Leumi Mortgage Bank and against the Migdal Insurance Company Ltd. ("Migdal") regarding the partial payment of 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 loans from 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 said 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 such insured-borrower parties, "insurance compensation at the level of the loan balance due or at the level of the amount of insurance (the lower of them)" - so alleges the petitioner.

C. On 10 June 2003, a petition for approval of a class action was filed with 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 attached claim are stated unclearly, it appears that (at least partial) overlapping exists regarding the arguments underlying another case concerning the approval of a class action which was filed against Leumi Mortgage Bank and which was dismissed by the court, regarding the requested relief and the group of petitioners to be represented.

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 other petition for approval of a class action mentioned above, it was agreed between the parties to stay the proceedings in the claim until after clarification of the appeal filed against the dismissal of the petition for the approval of the other claim. The Court was informed of this agreement and, accordingly, a response has not yet been submitted to the petition for approval of the class action.

The appeal in the petition for approval of the other class action was dismissed, and for this reason, *inter alia,* the petitioners sought to withdraw from the proceeding. On 25 September 2008, a decision was rendered approving the petition for withdrawal and rejecting the petitioners' action.

4. 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 respondent 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, implementation of 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 judgment 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, mainly because of the legislative procedures underway in the field of class actions; and on 12 March 2006 the Class Actions Law was published.

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 19 August 2007, a petition to approve a class action was filed in the Jerusalem District Court against Leumi Mortgage Bank, together with a statement of class action claim regarding the joining of an "additional borrower" to a portion of the loans granted by Leumi Mortgage Bank. The amount of the class action is estimated, according to the petitioners, at over NIS 5 million.

The petitioners are claiming that Leumi Mortgage Bank demanded the joining of an "additional borrower" within the framework of a loan taken out. According to the petitioners, the additional borrower is not a borrower at all but a fiction and in fact he is a guarantor of the loan. The petitioners claim that, if the person joined as an "additional borrower" was actually joined as a guarantor of the loan, he would not have been required to take out life insurance for the purposes of the loan, as he was required to do in practice.

The petitioners are requesting the approval of a class action on behalf of all people who were classified as "additional borrowers" by Leumi Mortgage Bank, who have no rights to the pledged property and who, in connection with the loan, were required to take out life insurance and pay insurance premiums in respect thereof, either directly or through the principal borrowers, during the seven years prior to the filing of the petition.

The petitioners are requesting the reimbursement of insurance premiums that were paid as mentioned, and an order instructing Leumi Mortgage Bank to cancel the requirement to take out life insurance, and the pledging thereof with regard to the additional borrowers who are members of the group.

With the consent of the class action plaintiff, it was agreed that the date for Leumi Mortgage Bank's submission of its response to the petition would be deferred until a decision is rendered in another case which deals with a similar issue, such that at this stage the deliberation of the case is effectively stayed.

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.

D. Paz Oil Company Ltd

1. Leumi Real Holdings Ltd. holds 15.72% of Paz Oil Company Ltd. ("Paz"). In January 2007, two directors of Paz were appointed by Leumi, constituting 20% of the Board of Directors. As from 1 January 2007, the investment is presented on the equity basis (until that date, the investment was presented as part of available-for-sale securities).

   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.

In a letter dated 3 July 2007, the Bank of Israel notified the Bank that Paz is considered to be a conglomerate, as detailed in Note 11.B.1 below.

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

For further details of these proceedings, see the Paz financial statements as of 30 September 2008.

E. The Israel Corporation Ltd.

Legal claims been made against certain consolidated companies of the Israel Corporation Ltd. contending that personal and property damage caused to the plaintiffs resulted from the pollution of the Kishon River. The plaintiffs contend that the above-mentioned consolidated companies had a part in this process. Claims have also been made regarding the demand of the Ministry of Environmental Protection that they bear the costs of removing polluting sediments from the Kishon River.

The managements of the above companies, based on the opinions of their legal advisers, cannot estimate the amount of the exposure from the said claims and demand, if any, and therefore no provision has been made in this regard in the financial statements of the Israel Corporation Ltd. and of its consolidated companies.

A consolidated subsidiary of the Israel Corporation is dependant on receiving services from infrastructure companies in order to carry on its activities.

For further details of these matters, see the Israel Corporation Ltd.'s financial statements as at 30 September 2008.

F. Property of Holocaust Victims

In January 2005, the Parliamentary Committee of Inquiry 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, pursuant to provisions that were in force at the time, to the British government’s Custodian of Enemy Property, to the Israeli Custodian of Enemy Property, to the Administrator General, or were returned to those entitled to them. 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 (the “Law”) came into effect. The Law provides that a party who holds, in Israel, assets of Holocaust victims (as such terms are defined in the Law) must transfer them to 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.

Out of sensitivity to public sentiment and to demonstrate its goodwill, the Bank transferred the sum of NIS 20 million to the Company, to be used for making payments to the heirs of victims and to survivors during their lifetime, in accordance with the provisions of the Law and pursuant to appropriate criteria to be established by the Company, as required by the Law.

The Bank has notified the Company that if it is determined that the Bank is not obligated to make any payments whatsoever (which is the Bank's position), or that it is required to make a payment which is lower than that which has been paid, any balance of the amount will be considered to be a donation to be used for the above purposes. If it is determined that the Bank is required to pay amounts to Holocaust survivors or to the heirs of Holocaust victims which are higher than the amount that has been paid, then the Bank will set off the payment made (linked to the CPI and bearing interest) against the amount of the liability.

On 4 March 2008, the Bank received a first request from the Company for the payment of a revalued amount of some NIS 148 million, which the Company claimed that the Bank is required to transfer to it according to the Law, an amount which the Company later reduced and revalued at some NIS 137 million. The Bank responded to the Company's request while rejecting the claim that it has any financial liability with respect to the majority of the assets included in the request.

On 18 September 2008, the Bank received an additional request from the Company, for the payment of a revalued amount of some NIS 111 million, which the Company claimed that the Bank is required to transfer to it according to the Law. The Bank is examining this request. At this stage, it is not yet possible to evaluate the factual and legal basis for this request or to assess its accuracy.

At the beginning of July 2007, the Bank appointed the Honorable Supreme Court Justice (ret'd) Theodore Orr as an external examiner to carry out an independent and impartial investigation of the Bank's obligations pursuant to the Law, if any, and of the Bank's conduct regarding the assets of Holocaust victims, as such are defined in the Law. In the report that he delivered to the Bank, the examiner reinforced the Bank's position with regard to the main points of disagreement between the Bank and the Company. The examiner refers to the dormant accounts, details of which were published by the Bank in 2000 on its website, in coordination with the Administrator General, as "unclaimed accounts". The examiner states that the legal obligation to prove whether these funds belong to Holocaust victims is borne by the Company, and that it will be difficult to prove this. The examiner recommends that the Bank grant the Company a certain amount, as a gesture of goodwill, such to be estimated by the Bank in the future, following the submission of all the Company's requests. The examiner mentions the amount already transferred by the Bank, as referred to above, and that such amount may constitute all or part of this grant. Following submission of all the Company's requests, and once it has all the relevant data, a discussion will be held by the Board of Directors, while taking into account this recommendation.

At this stage, the Bank estimates that no additional provision in respect of the Company's request or the contents of the examiner's report is necessary.

G. In March 2008, the Bank received a letter from the Antitrust Authority stating that the General Director was currently examining the possibility of exercising her authority according to section 43(a)(1) of the Restrictive Trade Practices Law, 1988, and to determine that restrictive trade agreements existed between Bank Hapoalim B.M., Israel Discount Bank Ltd., United Mizrahi Bank Ltd., The First International Bank of Israel Ltd. and the Bank, regarding the transfer of information relating to commissions, subject to the holding of a hearing based on written submissions. The banks were asked to submit their positions by 15 September 2008.

The Bank submitted its position to the General Director, to the effect that there was no restrictive arrangement with respect to the transfer of information for the purpose of coordinating the commissions. The other banks also submitted their positions to the General Director in the middle of September. The banks are awaiting the response of the General Director.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates

Reported Amounts (Unaudited)

A. Scope of Activity

	30 September 2008				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and Others
	Shekel – index	Other			
	NIS millions				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Forward contracts	**-**	**-**	**-**	**-**	**16**
Swaps	**-**	**1,547**	**21**	**-**	**-**
Total	**-**	**1,547**	**21**	**-**	**16**
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	**-**	**677**	**-**	**-**	**-**
b) ALM derivatives (1)(2)					
Futures contracts	**18**	**5,439**	**-**	**37**	**56**
Forward contracts	**9,384**	**20,314**	**84,694**	**-**	**1,256**
Traded options					
Put options	**-**	**3,096**	**4,748**	**7,250**	**123**
Call options	**-**	**3,096**	**5,604**	**7,250**	**123**
Other options					
Put options	**52**	**21,151**	**46,636**	**1,330**	**-**
Call options	**20**	**18,328**	**42,888**	**1,601**	**-**
Swaps	**1,295**	**62,075**	**11,392**	**-**	**-**
Total	**10,769**	**133,499**	**195,962**	**17,468**	**1,558**
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	**-**	**10,209**	**-**	**-**	**-**
c) Other derivatives (1)					
Swaps	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**-**	**-**	**-**
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	**-**	**-**	**-**	**-**	**434**
Spot contracts	**-**	**-**	**7,811**	**-**	**-**
Total	**-**	**-**	**7,811**	**-**	**434**
Overall total	**10,769**	**135,046**	**203,794**	**17,468**	**2,008**

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Unaudited)

	30 September 2008				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and Others
	Shekel – index	Other			
	NIS millions				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	**-**	**55**	**-**	**-**	**16**
Gross negative fair value	**-**	**22**	**14**	**-**	**16**
b) ALM derivatives (1)(2)					
Gross positive fair value	**66**	**1,832**	**3,680**	**384**	**63**
Gross negative fair value	**286**	**1,798**	**4,182**	**393**	**62**
c) Other derivatives (1)					
Gross positive fair value	**-**	**-**	**-**	**-**	**-**
Gross negative fair value	**-**	**-**	**-**	**-**	**-**
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	**-**	**-**	**-**	**-**	**-**
Gross negative fair value	**-**	**-**	**-**	**-**	**111**

(1) Except credit derivatives.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Unaudited)

	30 September 2007				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and Others
	Shekel – index	Other			
	NIS millions				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Swaps	-	(a) 3,035	25	-	-
Total	-	3,035	25	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	(a) 1,569	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	97	9,761	-	65	108
Forward contracts	7,345	19,811	92,282	-	583
Traded options					
Put options	-	-	4,951	10,953	77
Call options	-	-	5,274	11,019	77
Other options					
Put options	19	15,556	35,958	1,714	-
Call options	8	12,172	31,248	1,928	-
Swaps	1,253	(a) 39,840	4,960	-	-
Total	8,722	97,140	174,673	25,679	845
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	(a) 8,070	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	893
Spot contracts	-	-	5,086	-	-
Total	-	-	5,086	-	893
Overall total	8,722	100,175	179,784	25,679	1,738

(a) Reclassified

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Unaudited)

	30 September 2007				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and Others
	Shekel – index	Other			
	NIS millions				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	(a) 54	-	-	-
Gross negative fair value	-	(a) 13	17	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	24	(a) 744	3,191	807	25
Gross negative fair value	130	(a) 574	3,161	821	25
c) Other derivatives (1)					
Gross positive fair value	-	(a) -	-	-	-
Gross negative fair value	-	(a) -	-	-	-
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-

(a) Reclassified

(1) Except credit derivatives.
(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Audited)

	31 December 2007				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and Others
	Shekel – index	Other			
	NIS millions				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Swaps	-	2,710	24	-	-
Total	-	2,710	24	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	1,739	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	19	4,465	-	148	158
Forward contracts	8,585	27,992	85,748	-	708
Traded options					
Put options	-	-	4,760	9,961	125
Call options	-	-	5,108	10,034	125
Other options					
Put options	27	15,987	40,919	1,740	-
Call options	8	12,536	37,320	2,025	-
Swaps	1,220	47,936	6,098	-	-
Total	9,859	108,916	179,953	23,908	1,116
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	7,465	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	975
Spot contracts	-	-	12,207	-	-
Total	-	-	12,207	-	975
Overall total	9,859	111,626	192,184	23,908	2,091

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Audited)

	31 December 2007				
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and Others
	Shekel – index	Other			
	NIS millions				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	98	-	-	-
Gross negative fair value	-	17	18	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	18	984	3,214	609	24
Gross negative fair value	193	899	3,254	627	23
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	20

(1) Except credit derivatives.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts

B. Credit Risk in Respect of Derivative Instruments According to Other Party of the Contract

	30 September 2008 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	NIS millions					
Balance sheet balances of assets derived from derivative instruments (1) (2)	**385**	**2,711**	**26**	**-**	**2,974**	**6,096**
Off-balance sheet credit risk in respect of derivative Instruments (3)	**1,395**	**14,961**	**506**	**3**	**8,239**	**25,104**
Total credit risk in respect of derivative instruments	**1,780**	**17,672**	**532**	**3**	**11,213**	**31,200**

	30 September 2007 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	NIS millions					
Balance sheet balances of assets derived from derivative instruments (1) (2)	436	2,363	24	-	2,022	4,845
Off-balance sheet credit risk in respect of derivative Instruments (3)	1,636	13,125	98	10	5,670	20,539
Total credit risk in respect of derivative instruments	2,072	15,488	122	10	7,692	25,384

	31 December 2007 (Audited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	NIS millions					
Balance sheet balances of assets derived from derivative instruments (1) (2)	210	2,710	26	-	2,001	4,947
Off-balance sheet credit risk in respect of derivative Instruments (3)	1,221	14,821	144	1	6,670	22,857
Total credit risk in respect of derivative instruments	1,431	17,531	170	1	8,671	27,804

(1) Net accounting arrangements do not exist.

(2) Of which, balance sheet balance from derivative instruments which are stand alone – NIS 6,096 million (30 September 2007 – NIS 4,845 million, 31 December 2007 – NIS 4,947 million), that is included in other assets

(3) Off-balance credit risk of derivative instruments (including derivative instruments with negative fair value) as was calculated for purposes of per borrower debt limitations.

.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)

Reported Amounts

c. Repayment Dates – Nominal Amounts

	30 September 2008 (Unaudited)				
	Up to three Months	From three months to one year	From one year to five years	More than five years	Total
	NIS millions				
Interest (Swap) contracts:					
Shekel – index	**3,085**	**4,635**	**1,196**	**1,853**	**10,769**
Other	**40,663**	**31,742**	**34,195**	**28,446**	**135,046**
Foreign currency contracts	**110,388**	**73,632**	**11,422**	**8,352**	**203,794**
Contracts in respect of shares	**14,119**	**1,999**	**1,317**	**33**	**17,468**
Contracts in respect of commodities and others	**1,210**	**264**	**500**	**34**	**2,008**
Total	**169,465**	**112,272**	**48,630**	**38,718**	**369,085**
30 September 2007 (Unaudited)	166,581	83,942	37,286	28,289	316,098
31 December 2007 (Audited)	156,290	97,341	53,297	32,740	339,668

Note 8 – Net Interest Income Before Provision for Doubtful Debts

Reported amounts (Unaudited)

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	**2008**	2007
	(NIS millions)		(NIS millions)	
A. Income on assets (a)				
Credit to the public	**3,879**	1,637	**4,382**	8,161
Credit to governments	**19**	(12)	**(9)**	11
Deposits with Bank of Israel and cash	**35**	(126)	**(101)**	(89
Deposits with banks	**502**	(1,310)	**(2,492)**	184
Securities borrowed or purchased under agreement to resell	**11**	4	**18**	9
Debentures	**(d) 249**	(417)	**(d) (1,651)**	988
Total income on assets	**4,695**	(224)	**147**	9,264
B. Expenses on liabilities (a)				
Deposits of the public	**(1,969)**	2,469	**6,983**	(3,296
Deposits from governments	**(25)**	(27)	**(23)**	(66
Deposits from Bank of Israel	**(15)**	(14)	**(53)**	(127
Deposits from banks	**(153)**	187	**(161)**	53
Securities loaned or sold under agreement to repurchase	**(12)**	1	**(5)**	(4
Debentures, bonds and subordinated notes	**(653)**	(381)	**(1,287)**	(836
Total expense on liabilities	**(2,827)**	2,235	**5,454**	(4,276
C. From derivative instruments and hedging activities				
Ineffective portion of hedge relationships (b)	**(2)**	2	**3**	1
Net income (expenses) from ALM derivative instruments (c)	**43**	128	**(343)**	94
Net income (expenses) from other derivative instruments	**(107)**	3	**(129)**	2
Total income from derivative instruments and hedging activities	**(66)**	133	**(469)**	97
D. Other income and expenses				
Financing commissions	**97**	79	**252**	229
Profits (losses) from sale of debentures available for sale, net (e)	**(456)**	6	**(508)**	97
Losses realized and not yet realized in respect of fair value adjustments of trading debentures, net	**(135)**	(117)	**(65)**	(43
Other financing income (expenses)	**244**	(54)	**669**	358
Other financing income (expenses)	**(61)**	207	**(76)**	141
Total other income and expenses	**(311)**	121	**272**	782
Total net interest income before provision for doubtful debts	**1,491**	2,265	**5,404**	5,867
Of which: net, exchange difference	**33**	9	**60**	28
E. Detail of net effect of hedging derivative instruments on net interest income				
Financing income (expenses) on assets	**-**	(5)	**(2)**	(3
Financing income (expenses) on liabilities	**8**	18	**8**	9
Including: net exchange rate linkage differences				

(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.

(d) Including negative interest and exchange difference in respect of mortgage-backed bonds (MBS) in the amount of about NIS (350) million for nine months, and positive interest and exchange difference in the amount of about NIS 96 million for there months.

(e) Including provision for decline in value that was not temporary in nature.

Note 9 – Profits (losses) from Investments in Shares (a), Net
Reported amounts (Unaudited)

	For the three months ended 30 September		For the nine months ended 30 September	
	2008	2007	**2008**	2007
	(NIS millions)		(NIS millions)	
Gains on sale of shares available for sale	**97**	6	**106**	84
Profits (losses) on sale of shares available for sale (b)	**(122)**	3	**(225)**	(10)
Realized and unrealized losses from adjustments to fair value of held for trading shares, net	**(350)**	(14)	**(444)**	(5)
Dividend on shares available for sale and on held for trading shares	**12**	14	**85**	165
Total from investments on shares	**(363)**	9	**(478)**	234

(a) Including mutual funds.
(b) Including provision for decline in value that was not temporary in nature.

Note 10 - Information on activity by banking sectors

Reported amounts

Statement of profit and loss for the Three Months Ended 30 September 2008 (Unaudited)

	Household banking	Small business banking	Corporate banking	Commercial banking	Construction and real estate	Private banking	Financial management	Other	Total consolidated
	(NIS millions)								
Net interest income (loss) before provision for doubtful debt:									
From outside entities -	**105**	**319**	**975**	**271**	**252**	**(187)**	**(246)**	**2**	**1,491**
Intercompany operations -	**591**	**(95)**	**(607)**	**1**	**(68)**	**216**	**(42)**	**4**	**-**
Total	**696**	**224**	**368**	**272**	**184**	**29**	**(288)**	**6**	**1,491**
Operating and other income:									
From outside entities -	**419**	**103**	**93**	**87**	**17**	**98**	**(351)**	**74**	**540**
Intercompany operations -	**77**	**(5)**	**(45)**	**(8)**	**-**	**3**	**1**	**(23)**	**-**
Total	**496**	**98**	**48**	**79**	**17**	**101**	**(350)**	**51**	**540**
Total income	**1,192**	**322**	**416**	**351**	**201**	**130**	**(638)**	**57**	**2,031**
Provision for doubtful debts	**99**	**43**	**250**	**44**	**9**	**-**	**33**	**17**	**495**
After-tax profit from extraordinary items	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Net profit (loss)	**180**	**72**	**(8)**	**82**	**96**	**(21)**	**(498)**	**13**	**(84)**

Statement of profit and loss for the Three Months Ended 30 September 2007 (Unaudited) (a)

	Household banking	Small business banking	Corporate banking	Commercial banking	Construction and real estate	Private banking	Financial management	Other	Total consolidated
	(NIS millions)								
Net interest income (loss) before provision for doubtful debt:									
From outside entities -	(71)	298	690	388	502	(334)	805	(13)	2,265
Intercompany operations -	798	(83)	(323)	(116)	(325)	459	(410)	-	-
Total	727	215	367	272	177	125	395	(13)	2,265
Operating and other income:									
From outside entities -	429	109	110	91	14	106	5	45	909
Intercompany operations -	62	(6)	(42)	(7)	-	4	1	(12)	-
Total	491	103	68	84	14	110	6	33	909
Total income	1,218	318	435	356	191	235	401	20	3,174
Provision for doubtful debts	34	46	1	36	(28)	4	(14)	-	79
After-tax profit from extraordinary items	73	7	4	5	-	2	-	18	109
Net profit	310	34	174	103	112	50	153	74	1,010

(a) Reclassified.

Note 10 - Information on activity by banking sectors (cont'd)

Reported amounts

Statement of profit and loss for the nine Months Ended 30 September 2008 (Unaudited)

	Household banking	Small business banking	Corporate banking	Commercial banking	Construction and real estate	Private banking	Financial management	Other	Total consolidated
	(NIS millions)								
Net interest income (loss) before provision for doubtful debt:									
From outside entities -	**153**	**928**	**2,167**	**1,164**	**1,202**	**(500)**	**288**	**2**	**5,404**
Intercompany operations -	**1,836**	**(260)**	**(941)**	**(319)**	**(602)**	**726**	**(405)**	**(35)**	**-**
Total	**1,989**	**668**	**1,226**	**845**	**600**	**226**	**(117)**	**(33)**	**5,404**
Operating and other income:									
From outside entities -	**1,270**	**331**	**230**	**277**	**48**	**307**	**(348)**	**140**	**2,255**
Intercompany operations -	**200**	**(23)**	**(122)**	**(24)**	**-**	**11**	**2**	**(44)**	**-**
Total	**1,470**	**308**	**108**	**253**	**48**	**318**	**(346)**	**96**	**2,255**
Total income	**3,459**	**976**	**1,334**	**1,098**	**648**	**544**	**(463)**	**63**	**7,659**
Provision for doubtful debts	**229**	**75**	**498**	**191**	**40**	**-**	**5**	**17**	**1,055**
After-tax profit(loss) from extraordinary items	**202**	**18**	**2**	**26**	**-**	**3**	**(2)**	**-**	**249**
Net profit (loss)	**695**	**272**	**229**	**303**	**319**	**43**	**(565)**	**(21)**	**1,275**

Statement of profit and loss for the nine Months Ended 30 September 2007 (Unaudited) (a)

	Household banking	Small business banking	Corporate banking	Commercial banking	Construction and real estate	Private banking	Financial management	Other	Total consolidated
	(NIS millions)								
Net interest income (loss) before provision for doubtful debt:									
From outside entities -	(565)	774	1,863	1,150	1,194	(1,014)	2,458	7	5,867
Intercompany operations -	2,499	(136)	(706)	(347)	(709)	1,337	(1,903)	(35)	-
Total	1,934	638	1,157	803	485	323	555	(28)	5,867
Operating and other income:									
From outside entities -	1,252	325	395	279	44	334	264	137	3,030
Intercompany operations -	165	(24)	(109)	(22)	-	12	2	(24)	-
Total	1,417	301	286	257	44	346	266	113	3,030
Total income	3,351	939	1,443	1,060	529	669	821	85	8,897
Provision for doubtful debts	103	65	(126)	112	(19)	5	(12)	-	128
After-tax profit from extraordinary items	278	29	17	16	1	6	-	21	368
Net profit	781	176	686	314	274	121	410	78	2,840

(a) Reclassified.

Note 10 - Information on activity by banking sectors (cont'd)
Reported amounts

	Statement of profit and loss for the Year Months Ended 31 December 2007 (audited) (a)								
	Household banking	Small business banking	Corporate banking	Commercial banking	Construction and real estate	Private banking	Financial management	Other	Total consolidated
	(NIS millions)								
Net interest income (loss) before provision for doubtful debt:									
From outside entities -	(657)	1,023	2,393	1,581	1,589	(1,290)	2,987	22	7,648
Intercompany operations -	3,240	(169)	(851)	(478)	(879)	1,762	(2,560)	(65)	-
Total	2,583	854	1,542	1,103	710	472	427	(43)	7,648
Operating and other income:									
From outside entities -	1,681	437	525	377	55	461	370	316	4,222
Intercompany operations -	226	(27)	(152)	(31)	-	16	2	(34)	-
Total	1,907	410	373	346	55	477	372	282	4,222
Total income	4,490	1,264	1,915	1,449	765	949	799	239	11,870
Provision for doubtful debts	178	139	(28)	170	(33)	-	(19)	-	407
After-tax profit from extraordinary items	278	29	17	16	1	6	-	26	373
Net profit	854	167	833	403	408	185	313	194	3,357

(a) Reclassified.

Note 11 – Miscellaneous Matters

A. Amendment of the Banking (Service to Customer) Law regarding Commissions

On 1 July 2008, a material reform regarding commissions went into effect.

The reform was established by Amendment Number 12 (enacted in July of 2007) to the Banking (Service to Customer) Law, 1981.

As the Law provides, its purpose was to establish a new commission price list for individuals and small businesses. In establishing this price list, “the Governor of the Bank of Israel will take steps to ensure a fair and comprehensive presentation of the commissions, with the objective of ensuring that customers can compare the cost of managing an account and of means of payment.” The legislation followed the establishment of a Parliamentary Committee of Inquiry regarding Bank Commissions, - a committee whose letter of appointment indicated that its main purposes were the creation of transparency in the system of commissions and to make that system comprehensible to the customers, as well as to increase competition between the banks.

In the framework of the reform, the Banking Supervision Department established a uniform and mandatory list of banking services for which banking corporations are permitted to charge commissions from individuals and small businesses, as defined in the legislation (the “Complete Price List”).

A number of important objectives were thereby achieved:

Reduction in the number of commissions – the number of commissions for consumer services provided to individuals and small business customers was reduced by some two thirds, through the consolidation and cancelling of commissions.

Establishment of uniform names for banking services – identical services are to be given identical names by all the banks, in order to make comparisons easier.

Establishment of basic price lists – in addition to the Complete Price List, common banking services were grouped together in three basic price lists, each of which includes a single central topic: current accounts, mortgages, and credit cards. The grouping of the common commissions in the basic price lists makes examination and comparison of commissions in different banks easier.

One of the main changes made by the Bank of Israel with respect to the commissions price list for individuals and small businesses was the consolidation of the most common operations in current accounts under the title “operation through a teller” or the separate title “operation by direct channel.”

In early May, in accordance with the Supervisor’s instructions, the Bank submitted to the Banking Supervision Department its new price list for individuals and small business customers (the “New Price List”), which includes the rates established by the Leumi. Following the response of the Banking Supervision Department, a number of changes were made to the price list.

In addition, on 26 August 2008 the Governor of the Bank of Israel published an amendment to the Banking (Service to Customer) (Commissions) Rules and to the full commissions price list attached to those rules. The amendment provides, *inter alia,* that customers who are “senior citizens” or disabled will be entitled to have four operations through a teller carried out at the price of an operation by direct channel, which is materially lower than the price of an operation through a teller. The amendment took effect on 1 September 2008.

After the commissions reform took effect, various private members' bills were submitted to the Knesset, with the aim of imposing additional restrictions in connection with the collection of commission from individuals and small businesses, including, *inter alia*, limiting the collection of such commissions under certain conditions.

Leumi estimates that, in light of the circumstances currently known to it, and in light of the amount of the income from commissions collected since the implementation of the reform, and before examining the above-mentioned private members' bills, that the Group's income from commissions, in annual terms, is likely to be adversely affected by some NIS 90 million as a result of the reform (and also taking into account the economic situation, including the state of the capital market). This evaluation is based on the structure of the new price list established by the Bank of Israel, and on the recent amendments that have been announced. The Bank continues to examine the implications of the reform.

B. 1. Holdings in Non-banking Holding Corporations (Conglomerates)

The Bank's holdings in non-banking corporations are subject to restrictions determined in the Banking (Licensing) Law, 1981 (the "Banking Law"). The Banking Law determines, *inter alia*, in section 24A that a banking corporation is entitled to hold means of control in only one conglomerate (a "non-banking holding corporation") (a corporation whose capital exceeds some NIS 1,831 million and operates in more than three branches of the economy). The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

The Paz financial statements for the first half of 2007, in which new accounting standards were implemented, indicate that the shareholders' equity of Paz exceeds the minimal amount of capital in the definition of a conglomerate (a non-banking holding corporation).

Prior to the publication of the said financial statements, discussions had already been held between the Bank and the Bank of Israel with regard to the interpretation of the Banking Law relating to the definition of Paz as a conglomerate. Further to these discussions, the Bank of Israel notified the Bank, in its letter of 3 July 2007, that it does not accept the Bank's interpretation that the energy sector constitutes one branch of the economy. Therefore, according to the Bank of Israel's position, Paz is a conglomerate under the Banking Law.

As a result, and in accordance with the Bank of Israel's notification of 3 July 2007, the Bank is required to sell its holdings in one of the conglomerates, Paz or the Israel Corporation, by 30 June 2009. Following discussions in August 2007 regarding the holdings of the Bank in non-banking holding companies, and in light of the Bank of Israel's position (and subject to the continuance of the current discussions with the Bank of Israel in this regard, wherein the Bank disagrees with the Bank of Israel's position), the Bank intends to attempt to sell its holdings in Paz (15.72% of the share capital and voting rights – 15.31% on a fully-diluted basis); this being subject to the conditions, the circumstances and additional examinations and taking into account the timetables set by the Bank of Israel (namely, by 30 June 2009), and subject to there being no change in the dates set or position of the Bank of Israel.

2. Migdal Insurance and Financial Holdings Ltd.

The Bank holds 9.85% of the issued and paid-up share capital of Migdal Insurance and Financial Holdings Ltd. ("Migdal Holdings"), the controlling shareholder of Migdal Insurance Company Ltd., following the sale by the Bank in March 2006 of shares constituting 10% of the share capital of Migdal Holdings (the "Balance of the Holdings").

According to the Bank of Israel's interpretation of the Banking (Licensing) Law, with which the Bank disagrees, the Bank is also required to sell the Balance of the Holdings in Migdal Holdings, which, pursuant to the said law, is considered a "non-banking holding corporation".

It should be noted that pursuant to legislation enacted following the capital market reform, a bank may hold 5% of the share capital of an insurance company, and 10% of the share capital of a corporation that controls an insurance company.

The Supervisor of Banks has granted a permit to the Bank to hold the Balance of the Holdings in Migdal Holdings until 31 December 2008.

C. 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. (Of these, 122,644 options were allotted to the Chairman of the Board of Directors and 156,659 were allotted to the CEO.)

The said options are subject to all the provisions of the Outline, including:

1. The options were 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 being linked to the CPI), bonus shares and the bonus element of rights issues, should there be any. The adjusted exercise price as at 31 December 2007 and as at 30 September 2008 was NIS 11.272 and NIS 10.604, respectively.

The exercise date for the first tranche of the options was during the first quarter of 2008, as well as the beginning of the exercise period of the second tranche. The average exercise price was some NIS 10.34.

The following are the details of the movement in the options during the years 2006-2008:

	Number of options
Allotted during 2006	84,853,960
Cancelled during the year	(466,133)
Total options in circulation at 31 December 2006	84,387,827
Cancelled during the year	(791,878)
Total options in circulation at 31 December 2007	83,595,949
Exercise of first tranche	(41,723,516)
Cancelled during the year	(165,038)
Partial exercise of second tranche to 30 September 2008	(17,272,320)
Total options in circulation at 30 September 2008	24,435,075

From the balance sheet date and up to 20 November 2008, some further 322,705 options were exercised.

In the context of the exercise of the options during the first nine months of 2008, as stated above, 58,995,836 shares were issued to Bank employees for the consideration of NIS 611 million.

D. Pledge in Favor of the Bank of Israel

On 21 May 2008, the Bank signed a debenture pursuant to which it granted a first degree floating charge in favor of the Bank of Israel, on its rights to receive amounts and monetary shekel payments that are due, and that will become due to the Bank from time to time, from customers who are corporations (established according to the laws of the State of Israel), which are not in arrears with their repayments to the Bank of credits received from it, and where the average lifespan of the credit does not exceed three years, that were granted and that will be granted to these customers by the Bank. The pledge was granted to secure amounts due or to become due to the Bank in respect of loans that the Bank of Israel undertook to make available to the Bank at its request, to enable it to fulfill its undertakings to CLS as a Liquidity Provider of CLS. The charge is in an amount equal to the level of the amounts secured by the debenture, from time to time, up to an amount of NIS 1.1 billion.

E. Allotment of Leumi Card shares to Canit – Investment and Finance Management Ltd. ("Canit")

On 21 May 2008, the Boards of Directors of the Bank and of Leumi Financial Holdings Ltd. resolved to approve a transaction, pursuant to which Leumi Card would allot to Canit shares of Leumi Card constituting 20% of the issued and paid-up share capital of Leumi Card, for consideration of NIS 360 million to be paid to Leumi Card. On 26 May 2008, this transaction was executed and completed and the consideration was transferred to Leumi Card.

Canit was granted regular minority protection rights as part of the transaction, and the right to appoint two directors. In addition, Leumi Financial Holdings Ltd. (a subsidiary of the Bank and the sole shareholder of Leumi Card) received various rights which are regularly granted upon a sale or the introduction of a partner.

The net profit to the Bank arising from the said allotment is some NIS 234 million, and was recorded under "profit from extraordinary items".

F. Hot – Cable Communications Systems Ltd.

On 4 May 2008, the Bank signed an agreement with Netvision Ltd. ("Netvision") for the sale of a parcel of shares in Hot – Communications Systems Ltd. ("Hot") held by the Bank (some 15% of the issued and paid-up share capital of Hot), for a consideration of some NIS 480 million.
Completion of the transaction was postponed until to 30 September 2008 and was dependant on the fulfilment of conditions precedent.

On 30 October 2008, Netvision gave notice of the cancellation of the above-mentioned agreement, because the permits required by law for the completion of the transaction had not been received.

G. Income Tax (Adjustments for Inflation) (Amendment No. 20) Law, 2008

On 26 February 2008, the Knesset approved an amendment to the Income Tax (Adjustments for Inflation) Law, 1985. The amendment restricts the application of the Law to the years 1985-2007, and lays down transitional provisions regarding the end of its application.

In accordance with the Amendment, calculation of the adjustment of income to a real measurement basis for tax purposes will no longer be made beginning with the 2008 tax year. Additionally, the linkage to the CPI of depreciation amounts for fixed assets and of losses taken forward for tax purposes has been ended, such that these amounts will be adjusted up to the CPI as of the end of 2007.

The Bank estimates that a change of some 1% in the CPI will affect the Group's tax expense by some NIS 47 million, net. As a result of this amendment to the Law, the tax expense for the period of the first nine months of 2008 have increased by some NIS 235 million.

H. Amendment to the Value Added Tax Law (Amendment No. 35)

Amendment No. 35 to the Value Added Tax Law, which was approved by the Knesset on 26 February 2008, determines that salary tax paid by a financial institution will be recognized as an expense for the purposes of the calculation of profit tax, and makes the employer's portion of National Insurance payments subject to salary tax.

The amendment came into effect as from 1 January 2008. In 2008, half of the employer's portion of National Insurance payments will be subject to salary tax, and half the salary tax paid will be recognized as an expense for purposes of the profit tax calculation.

In the Bank's estimation, the amendment to the Law will reduce the current net tax charge of the Group for 2008 by some NIS 13 million, and by some NIS 26 million each year beginning from 2009.

In addition, the deferred taxes have been calculated on the basis of the above-mentioned Amendment. The impact of the change on the consolidated Financial Statements as at the beginning of 2008 was a reduction of the expense for tax on income, in the amount of some NIS 37 million.

Note 12 – Post Balance Sheet Event

The high level of volatility in the capital and money markets has continued since the date of the Financial Statements and up till close to the date of their publication.

This has been reflected, *inter alia*, in the changes in the capital market in Israel and throughout the world and the consequent weakening of the shekel in relation to the US dollar.

a. Should the declines on the capital markets continue, there will be a negative effect on the Financial Statements for the fourth quarter of 2008, causing a decrease in the fair value of investments in debentures and mutual funds, most of which is charged to capital fund. Further, the balance of the pension and severance pay funds will be affected by the capital market.

b. Should the weakening of the shekel in relation to the US dollar continue, there will be a positive effect on the results of the fourth quarter of 2008, mainly with regard to the following subjects:

    1. Positive exchange rate differentials in respect of the overseas investments, which do not constitute part of the tax base and are not recognized for tax purposes, will lead to a lower provision for taxes.

    2. Income less expenses in or linked to foreign currency translated in accordance with the current rate of exchange will lead to an increase in income compared with their translation in accordance with the rate of exchange as at 30 September 2008.

    3. The changes in the rates of exchange affect the gap between the assets and liabilities denominated in or linked to foreign currency.

It should be noted that if there are further developments after the above date, they are likely to have monetary effects on the Financial Statements for 2008, the extent of which depends on the future developments in these markets.