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

Condensed
Financial Statements
as at 31 March 2009
(unaudited)

Bank Leumi le-Israel B.M.
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Index

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 2008. The interim reports should be read in conjunction with the Annual Report for 2008.

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 688 billion at the end of March 2009, as compared with some NIS 653 billion at the end of 2008, an increase of some 5.4%, resulting primarily from the increase in the capital market and from the shekel's devaluation 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.

Net profit in the first quarter of 2009 totaled NIS 429 million, compared with NIS 470 million in the corresponding period in 2008, a decrease of 8.7 %.

Net operating profit in the first quarter of 2009 totaled NIS 428 million, compared with NIS 472 million in the corresponding period in 2008, a decrease of 9.3 %.

The decrease in net operating profit is explained mainly as a result of a decrease in net interest income, an increase in the provisions for doubtful debts and reduced profits of companies included on the equity basis. On the other hand, the low effective tax rate, the reduction in operating and other expenses and the increase in operating and other income partially offset the above-mentioned decrease.

Net profit per share during the first quarter of 2009 was NIS 0.29, compared with NIS 0.33 in the corresponding period in 2008 and NIS 0.06 in all of 2008.

Based on data of the banking system as at 31 December 2008, as published by the Bank of Israel, the Leumi Group's share of the total banking system was as follows:

	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
			in %		
Total assets	29.3	30.0	30.4	30.0	30.0
Credit to the public	29.1	29.9	30.2	29.9	29.9
Deposits of the public	29.8	30.2	30.5	30.6	30.3
Operating profit before tax	1.5(1)	38.0	27.5(2)	30.2	34.0
Net operating profit	- (3)	38.5	25.6(2)	30.5	34.1

(1) After neutralizing Bank Hapoalim's losses.

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

(3) There was an operating loss.

Control of the Bank

On 31 March 2009 (and after the expiration of the balance of the options in issue in February of 2009) and on 10 May 2009, the State of Israel held 11.46% of the issued share capital of the Bank and 14.20% of the voting rights in the Bank.

Pursuant to the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993, in order to avoid involvement of the government in the ongoing management of the banks' business (during the period until the sale of the shares), while protecting the material interests of the State in the shares, a committee was established for each of the banks that were subject to the shares arrangement, the purpose of which was to participate in general meetings of shareholders of the bank, and to vote at such meetings by virtue of the shares held by the State. The term of office of the shares committee of the Bank expired at the end of October 2008. On 12 March 2009, the Bank Shares (Arrangement Shares) (Temporary Provision) Law (Appointment of Other Committees and Terms of Office) Directives, 2009, were published, pursuant to which other committees for the shares of the relevant banks (including the Bank) would be appointed for an additional term of three years (subject to the possible shortening of the term, as detailed in the said directives). On 24 March 2009, a shares committee was appointed for the Bank accordingly.

Sale of Shares in the Bank by the State

In January 2009, M.I. Holdings notified the Bank that at this stage it has no defined plan for the sale of the shares of the Bank.

For details regarding the issue of options to employees see page 4.

Capital Resources and Transactions in the Shares of the Bank

Shareholders' Equity of the Group as at 31 March 2009 amounted to NIS 18,836 million, compared with NIS 18,672 million at the end of 2008, an increase of 0.9 %. The increase in shareholders' equity derives mainly from the profit for the first quarter of 2009, and from adjustments from the translation of the financial statements of companies included on the equity basis, which were partially offset by the decline in the value of the securities in the available-for-sale portfolio.

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 financial crisis and the decline in the value of the debentures, a net decrease in value of NIS 430 million was recorded in shareholders' equity during the first quarter of 2009, compared with a net decrease of NIS 495 million in the corresponding period in 2008 (all these amounts are stated net of related taxes), and relates primarily to the investment in the subordinated debentures issued by foreign banks.

The total net accrued balance of adjustments to market value of securities held in the available-for-sale portfolio as at 31 March 2009 amounted to a negative sum of NIS 1,078 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 5.9 % on 31 March 2009, compared with 6.0% on 31 December 2008.

Total Capital relative to Risk Assets reached 11.90% on 31 March 2009, compared with 11.58% on 31 December 2008. This ratio is higher than the minimum ratio of 9% set by the Supervisor of Banks. The figure as at December 2008 was reclassified following a change in the allocation of Tier I and Tier II capital against exposure to market risks, such being following a clarification from the Bank of Israel. The ratio of Tier I capital to risk assets reached 7.73% on 31 March 2009, compared with 7.51% at the end of 2008. Regarding the report to the Bank of Israel regarding the capital adequacy on 31 December 2008 according to the Basel II provisions, see page 89.

Issue of Capital Notes and Subordinated Capital Notes

With the objective of improving and strengthening capital adequacy, the Bank is planning to issue various capital notes during the course of 2009, including hybrid capital instruments. The terms and types of issues will be determined close to the dates of issue. The scope of the issues will be determined over the course of the year, subject to business developments.

Against the background of the global financial crisis, the Ministry of Finance informed the banking system that the State wished to encourage the banks to expand the supply of credit for activity in Israel and was therefore willing to guarantee the banks' liabilities to purchasers of capital notes (which are not convertible into shares), to be issued by the banks pursuant to the terms of the letter of guarantee issued to the banks by the Accountant General.

The Bank has notified the Accountant General in the Ministry of Finance that it has agreed to the terms of the letter of guarantee, which would apply to issues that the Bank may choose to carry out with the State's guarantee. According to the terms of the letter of guarantee, its provisions do not prevent the Bank from, at any time and at its discretion, issuing securities of any kind whatsoever, including capital notes, to which the State guarantee will not apply. The Bank's share in the plan is NIS 1.8 billion out of a total amount of NIS 6.0 billion. The Bank has an option to utilize this guarantee to the extent that the market conditions and prices for raising capital conform to the Bank's policy and expectations. This right remains in force until 30 June 2009, and if the Bank wishes to extend it until 30 September 2009, it is required to pay an "intent fee" to the Accountant General of 0.025% of the amount that the Bank wishes to utilize.

During April – May 2009, the Bank issued NIS 1.0 billion in subordinated capital notes, through private offerings to institutional investors, which, subject to the approval of the Bank of Israel, which has not yet been received, will be recognized as upper Tier II capital.

During May 2009, Leumi Finance Company issued subordinated capital notes (Series J) in the amount of some NIS 1.5 billion.

Issue of Options to Employees

In February of 2006, 84,853,960 options were issued to Leumi employees without consideration, to be exercised in two tranches, 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. Of the second tranche, 17,595,025 options were exercised by 12 February 2009, the last date for exercise. The balance of 24,062,240 options that were in issue, expired.

The adjusted exercise price was NIS 10.555 as of 31 December 2008, and NS 10.489 as of 12 February 2009.

The Bank recorded 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 2008, the expense was reduced by NIS 16 million, compared with an expense of some NIS 247 million in 2007. During the first quarter of 2008, the expense recorded was of some NIS 29 million.

As a result of the global crisis in the financial and capital markets, the prices of securities declined significantly, and the Leumi share price also decreased. During 2008, the share price declined by some 58%, and on 31 December 2008 it stood at NIS 7.9, as compared with NIS 18.7 at the end of 2007. Therefore, the value of the benefit to the employees declined, and in 2008 the salary expenses were reduced by NIS 16 million, with deferred taxes in the amount of NIS 82 million being cancelled at the same time. The overall net negative effect on results for 2008 was some NIS 66 million.

The balance of the loans provided by Israel Discount Bank to Leumi employees in order to finance their exercise of the options was NIS 104 million as of 30 April 2009 (out of a total amount of NIS 277 million in loans that were provided in February 2008).

Distribution of Dividends

A. Dividend Policy for 2009

In light of the prevailing uncertainty in the Israeli economy regarding the regarding the scope and extent of the impact of the global financial crisis on the Israeli banking system, including on the Bank, the Board of Directors resolved on 30 March 2009 not to set a dividend policy for 2009 at this stage.

B. 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 real (non-banking) 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 distribution of the dividend or the rates of dividends in the future).

As a result of the global financial crisis, the deterioration of the economic situation and the uncertainty regarding the scope and depth of the crisis' impact on the Israeli banking system, including on the Bank, the Board of Directors resolved on 30 March 2009 not to declare the distribution of a cash dividend for the year 2008 and in this way to strengthen the Bank's capital adequacy and stability.

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

Principal Data of the Leumi Group

	Jan. - March 2009	Jan. - March 2008	Year 2008
Income Expenses and Profits (NIS millions):			
Net interest income before provision for doubtful debts	**1,362**	1,960	6,380
Provision for doubtful debts	**354**	244	2,145
Total operating and other income	**1,003**	851	2,800
Total operating and other expenses	**1,564**	1,794	7,003
Of which: Costs of Voluntary Retirement	**-**	-	3
Costs of privatization (issue of shares and options to employees)	**-**	7	(66)
Operating profits before taxes	**447**	773	32
Net operating profit (loss)	**428**	472	(158)
After-tax net profit (loss) from extraordinary items	**1**	(2)	250
Net profit for the period	**429**	470	92
Not operating profit (loss) per share (in NIS)	**0.29**	0.33	(0.11)
Net profit per share (in NIS)	**0.29**	0.33	0.06
Assets and Liabilities at End of Period (NIS millions):			
Total assets	**318,052**	298,223	310,792
Credit to the public	**212,878**	200,174	213,215
Securities	**47,677**	44,641	44,910
Deposits of the public	**254,565**	228,187	244,783
Debentures and notes	**20,567**	21,985	20,636
Shareholders’ equity	**18,836**	19,733	18,672
Major Financial Ratios in Annual Terms (%):			
Credit to the public / Total assets	**66.9**	67.1	68.6
Securities / Total assets	**15.0**	15.0	14.5
Deposits of the public / Total assets	**80.0**	76.5	78.8
Deposits of the public / Total credit	**119.6**	114.0	114.8
Shareholders’ equity / Risk assets (a)	**11.90**	(e) 11.91	(e) 11.58
Tier I capital / Risk assets	**7.73**	7.73	7.51
Shareholders’ equity (excluding minority interest) / Total assets	**5.9**	6.6	6.0
Net profit / Shareholders’ equity average (excluding minority interest) (c)	**9.7**	9.8	0.5
Net operating profit (loss)/ Shareholders’ equity average (excluding minority interest) (c)	**9.6**	9.8	(0.8)
Rate of tax provision from the profit	**9.4**	49.5	-
Provision for doubtful debts / Credit to the public (c)	**0.67**	0.49	1.01
Provision for doubtful debts / Total credit risk (c)	**0.44**	0.32	0.67
Net interest income before provision for doubtful debts / Total assets (c)	**1.72**	2.65	2.05
Total income / Total assets (b) (c)	**3.01**	3.82	2.95
Total income / Total assets managed by the group (b) (c) (d)	**1.38**	1.55	1.41
Total operating and other expenses / Total assets (c)	**1.98**	2.43	2.25
Total expenses / Total assets managed by the group (c) (d)	**0.91**	0.98	1.07
Net profit / Total average assets (c)	**0.55**	0.63	0.03
Net operating profit (loss) / Total average assets (c)	**0.55**	0.63	(0.05)
Financial margin including incomes and expenses from derivative financial instruments	**0.16**	1.73	1.63
Operating expenses / Total income (b)	**66.1**	63.8	76.3
Operating and other income / Operating and other expenses (excluding costs of voluntary retirement)	**64.1**	47.4	40.0
Operating and other income / Total income (b)	**42.4**	30.3	30.5

(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.
(e) Restated.

B. Other Information

Principal Developments in the Economy*

General

The recession in the Israeli economy which began with the reduction of GDP during the last quarter of 2008 continued during the first quarter of 2009. The GDP contracted at a real annual rate of some 3.6% during the first quarter of the year, as compared with the last quarter of 2008. The global financial crisis had a negative impact on all sectors of the Israeli economy and in particular on the export branches. The contraction of economic activity led to a sharp decline in the State's revenues from taxes, alongside a significant increase in the budgetary deficit, which led the government to approve changes in the State budget for the years 2009-2010.

The shekel depreciated against the dollar during the first three months of 2009 by some 10.1%, against the background of continued intervention in the foreign currency market by Bank of Israel, which is purchasing US$ 100 million on an average daily basis. During April the shekel appreciated at the rate of 0.6%.

The CPI dropped by 0.1% during the first quarter of the year. The Bank of Israel continued the process of reducing the interest rate while using additional monetary policy tools with the intention of creating an expansionary monetary policy that would support economic activity. Thus the interest at the end of March (effective for the month of April) was reduced to 0.5% and was maintained there in the decision at the end of April (effective for the month of May).

On the stock market, sharp increases of some 20.3% were recorded for the first three months of 2009 in the shares and convertible securities index. Prices for both government and corporate debentures rose as well. It appears that some of the explanations for these increases relate to the Bank of Israel's intervention and to the various government programs intended to improve the economic situation, and to the optimism of investors throughout the world – optimism which became evident towards the end of the first quarter of the year.

The Global Crisis and its Implications for the Israeli Economy

The global economic recession continued during the first quarter of 2009, after the economic crisis had deepened during the second half of 2008. During February 2009, following the new US administration's taking of office, a government plan was presented involving some US$ 789 billion for expansion of economic activity and job creation. The central elements of the approved plan were tax reductions for households, and investments in infrastructure and science and in the fields of health, education and energy.

In April 2009, the worsening of the crisis led the International Monetary Fund (IMF) to 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 in 2009 will be -2.8% and -4.2%, respectively, as compared with 1.1% and 0.9%, respectively, in 2008. In light of this, the Bank of Israel also adjusted its real macro-economic forecast and it expects that GDP growth in 2009 will be at the negative rate of -1.5% and -2.7% in the business sector.

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

The Government's Plan for Handling the Financial Crisis

On 23 April 2009, the Prime Minister and the Minister of Finance presented the main points of the "Containment and Breakthrough" program, the purpose of which is to "stop the harsh influences of the economic crisis and to lead the Israeli economy back to growth." The following are the main points of the program:

1. Expansion of credit and encouragement of exports. A number of measures will be carried out in this regard, including:
    a. The expansion of the framework of guarantees for raising capital by banks in the amount of an additional NIS 6 billion, in addition to the guarantees' framework in the amount of NIS 6 billion offered to the banks at the end of 2008.
    b. The granting of credit in a non-bank framework, through funds which will act on the basis of guarantees, in the amount of some NIS 2 billion.
    c. Assistance to export industries, primarily through the provision and expansion of government guarantees.
    d. The expansion of credit to medium-size businesses, in the amount of some NIS 2.6 billion (double the previous amount in this area).

2. Promotion of employment and containment of unemployment, by dealing with the issue of foreign workers, and while supporting employment in general, and among women, in particular.
3. Structural reform of the economy – primarily in areas such as the Israel Lands Administration, the electricity industry and the ports system.
4. Taxes – a program will be presented which will include the outlines of a reduction in income tax rates for individuals and companies, beginning in 2009 and running through 2016. The program includes an income tax rate for individuals which will be reduced to 39% and an income tax rate for companies which will be reduced to 18%.
5. Infrastructures and human resources – support will be provided for physical infrastructures projects and for investment in human resources.
6. The VAT rate is to be raised from 15.5% to 16.5% as from 1 July 2009.

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 contracted during the first quarter of the year at a real annual rate of some 4.2%, compared with the last quarter of 2008, after a negative growth rate of some 1.6% during the fourth quarter of 2008, in annual terms, in comparison with the third quarter. This reflects a recession in economic activity in the business sector, following a number of years in which the business sector grew at a rapid annual rate of 6% or higher per year.

The Bank of Israel survey of Israeli companies during the first quarter of 2009 also indicated a continued contraction of business activity, and the companies' reports show that demand is the main cause of the restriction of their activity. The decrease in activity was experienced in all sectors, and in the fourth quarter the recession spread to the hotel sector as well, with respect to both local and foreign tourism.

The State Budget and its Financing

The State Budget deficit (excluding net credit granted) amounted to some NIS 4.8 billion during the first quarter of 2008, compared with a budget surplus of some NIS 5.2 billion during the first quarter of 2008. This is primarily the result of the significant decrease in the State's revenues from taxes, in light of the slowdown in economic activity. In addition, it should be recalled that during the first quarter of the year, the government conducted itself without any approved budget framework, which allowed the government to expend only 1/12 of the 2008 budget each month. On 13 May 2009, the government approved the expansion of the two year State budget for 2009-2010 by 3.05% for each year (1.7% pursuant to the Budget Law and an additional and temporary amount of 1.35% for each of the years), and established a budget deficit target of 6% of GDP for 2009 and of 5.5% of GDP for 2010.

Foreign Trade and Capital Flows

Israel's trade deficit during the first quarter of the year ended with a sharp decline in exports (-32%) and in imports of goods (-36%), compared with the first quarter of 2008, reflecting the global recession that caused a sharp decline in the volume of international trade, on which the Israeli economy is very much dependent. As a result, the trade deficit contracted by some US$ 1.5 billion as compared with the deficit during the corresponding period in 2008. Excluding ships, airplanes, diamonds and fuels (components with high fluctuations), the deficit contracted by some US$ 0.6 billion dollars during the first quarter of 2009, compared with the last quarter of 2008. A multi-year analysis of the foreign trade data show that the current crisis is characterized by a sharp and especially rapid decline in Israel's foreign trade, as compared with the previous recession at the beginning of the decade. At the time, the damage was focused more on the high-tech industries, while the current recession is hurting most of the sectors of the economy, being a more globally widespread and deeper recession than the previous one.

An examination of the overall situation concerning the development of the key components of the capital flows during the first three months of 2009 indicates continued direct investment by foreign residents in Israel, of a slightly smaller volume (on a monthly average) than in 2008, while direct investments by Israelis abroad were much lower in volume. In contrast, the financial investments made by Israelis abroad – which rose relatively significantly in comparison with 2008 – and of foreign residents in Israel, indicated a recovery. This summary of the components shows that during the first quarter of the year, outgoing capital flows exceeded incoming capital flows.

Exchange Rate and Foreign Currency Reserves

The first three months of 2009 ended with a depreciation of 10.1% in the rate of shekel against the dollar and a more moderate depreciation of some 5.2% against the euro. This was the result of the combination of the Bank of Israel's continued purchases of foreign currency on the foreign currency market and the dollar's strengthening throughout the world. Both of these contributed to the shekel's weakening, in contrast with the improvement in the trade deficit and the incoming (net) capital flows which contributed to its strengthening.

On 25 March 2009, the Bank of Israel announced that in light of the global economic situation and as part of its overall policy, it would continue to purchase US$ 100 million on a daily average in the Israeli foreign currency market. The Bank of Israel's foreign currency reserves amounted to some US$ 44.2 billion at the end of March 2009, as compared with some US$ 42.3 billion at the end of December 2008.

Inflation and Monetary Policy

The CPI dropped by 0.1% during the first quarter of 2009 and during the twelve month period ending on March 2009, it rose by a total of 3.6%. This increase deviates from the government's price stability target, and was mostly the result of a sharp rise of 16.2% in the housing item, which still does not reflect the slowdown in economic activity and the increase in unemployment. The CPI, excluding the housing item, rose by only 0.5% during the last twelve months. The CPI rose by 1.0% during the month of April.

At the beginning of 2009, the Bank of Israel continued to lower interest rates, with the intention of supporting economic activity in light of the global economic crisis. In doing this, the Bank of Israel acted similarly to other central banks throughout the world that lowered interest rates and used other monetary tools as well with the intention of implementing an expansionary monetary policy. In this way, the Bank of Israel interest rate, which had reached 2.5% at the end of 2008, was reduced at the beginning of the year to 0.75% at the end of March. The interest rate for April was reduced to 0.50%, and remained at that level in May 2009 as well.

During the months of December 2008 to February 2009, the Bank of Israel announced a series of monetary tool measures available to it. Details regarding these can be found in the 2008 Directors Report, at pages 30-31.

On 25 March 2009, the Bank of Israel announced an expansion of its activity in the debentures market, through the purchase of government debentures on an average daily basis of some NIS 200 million. The Bank of Israel intends to purchase between NIS 15 billion and NIS 20 billion in such debentures within the framework of this program.

The Capital Market

During the first quarter of 2009, the share and convertible securities index rose by some 20.3%, following a decline of some 46.4% in 2008. These increases were supported by the Bank of Israel's intense activities in the various markets – purchases of foreign currency and of debentures, as well as a reduction of the interest rate down to a record low, which constitutes an incentive for fund transfers and for investments in higher risk channels, such as shares. The trading turnovers were low, and amounted to some NIS 1,209 million on a daily average, in comparison with some NIS 1,964 million for the entire year of 2008 – a decline of some 38%.

The debenture market during the first quarter of 2009 was characterized by increases in the prices of government debentures and of corporate debentures. The prices of CPI-linked government debentures rose by some 5.5%, with especially noticeable increases in the prices of medium term debentures (5-7 years), which rose by some 7.1%. The prices of unlinked government debentures rose at a more moderate rate of some 2.7%. The increase in the prices of debentures was influenced by the Bank of Israel's decisions to intervene in the trading, in order to expand the influence of its monetary policy on long-term interest rates as well.

In contrast with the government debentures market, prices for CPI-linked non-government debentures (corporate debentures) rose sharply during the reported period at a rate of some 14.8%. This followed sharp declines in 2008, and particularly during the final quarter of the year. This may be an expression of excess concern at the end of the past year regarding the condition of many companies in the economy.

Financial Assets of the Public

The portfolio of financial assets held by the public grew by some 5.8% during the first three months of 2009 and amounted at the end of March 2009 to some NIS 2,000 billion, after it had contracted at the rate of some 8.3% in 2008. The main reason for the increase in the portfolio's value since the beginning of the year has been the increases in the indices of shares and debentures traded on the Tel Aviv Stock Exchange and the shekel's depreciation against the dollar. Nevertheless, when the value of the portfolio at the end of the last year is measured (after neutralizing the effect of the changes in the prices of the assets (i.e., the "accumulation of assets"), there was actually a slight increase of less than a percent in the amount of this accumulation. In the past it has been the case that the rate of increase in this accumulation is positively correlated to the growth of the economy, such that it is not surprising that the recession in economic activity led, *inter* alia, also to a decrease in the accumulation of financial assets held by the public.

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 March 2009 to some NIS 645 billion, compared with some NIS 607 billion at the end of December 2008, an increase of 6.2%.

Bank Credit

During the first quarter of 2009, bank credit in the economy contracted at a rate of some 2.2% (including mortgage banks, on the basis of the Bank of Israel's monthly average data). In contrast, during the 12 months ending March 2009, credit expanded by some 4.0%. The slowdown in economic activity in the economy as a result of which the demand for bank credit declined, along with the increase in the risk level of the various economic sectors, which reduce the supply, served to reduce credit during the first quarter and to slow down the annual rate of expansion. In the recent past, non-bank credit – through issues of corporate debentures that were mainly purchased by institutional investors – constituted an alternative to bank credit, primarily for the business sector. During the first three months of 2009, according to estimates based on stock exchange data, issues in the amount of some NIS 3 billion only have been recorded – representing a very low annual rate in comparison with previous years, particularly in light of redemptions of much larger amounts. According to the Bank of Israel's estimates, in all of 2009, the entire volume of repayments of non-bank credit (principal and interest on traded debentures, not including structured debentures and financial sector debentures) are expected to amount to some NIS 17.4 billion. It therefore appears that at the current time the weight of non-bank credit as a source of funding in the business sector has been reduced.

At the end of March 2009, the **Bank's** credit to the public amounted to some NIS 143.4 billion, a decrease of 0.8% compared with the end of 2008.

Credit Rating of the State of Israel and of Bank Leumi

The Moody's credit rating agency announced on 12 March 2009 that it was lowering certain ratings for a number of Israeli banks, including Leumi, in light of the concerns regarding the banks' financial stability as a result of the worsening of Israel's economic situation which could lead to a higher level of provisions for doubtful debts than in the past. The rating change at Leumi included, *inter alia*, a reduction of the rating for local currency deposits to 'A1'.

On 30 April 2009, the S&P Ma'alot rating agency announced that it was reducing the issuer rating of the Leumi Group to 'ilAA+' from 'ilAAA'. The Bank's rating outlook was changed to "negative" from "stable". At the same time, the global long-term rating has been reduced from 'A-' to 'BBB+' and the short-term rating remained unchanged at a level of 'A-2'. The global ratings outlook is "negative". The ratings reductions reflect the agency's view regarding the negative impact of the worldwide and local recession on the profitability of the Leumi Group and on the quality of its credit portfolio. The "negative" ratings outlook reflect their expectation that notwithstanding the Bank's satisfactory financial and business profile, it could be adversely affected from negative developments in the environment in which it operates, primarily from the weakening of both local and global economic activity and capital markets.

Foreign and local ratings agencies' credit ratings

	Rating agency	Short-term rating	Long-term rating	Long-term ratings outlook	Date of adjustment
State's rating in foreign currency	Moody's	P-1	A1	stable	April 2009
	S&P	A-1	A	stable	January 2009
	Fitch	F1	A	stable	March 2009
Leumi's rating in foreign currency	Moody's	P-1	A1	negative	March 2009
	S&P	A-2	BBB+	negative	April 2009
	Fitch	F2	A-	stable	February 2008
Leumi's rating in local currency	Moody's	P-1	A1	negative	March 2009
Leumi's rating in local currency for debentures and standard deposits	Ma'alot	A-1+	AA+	negative	May 2009
	Midrug	P-1	Aaa	stable	March 2009
Leumi's rating in local currency for subordinated capital notes	Ma'alot	-*	AA	negative	May 2009
	Midrug	-*	Aa1	stable	May 2009

* Not applicable.

The following table sets out details of changes in the CPI and in the exchange rates:

	For the three months ending		For the year
	31 March		
	2009	2008	2008
	(in percentages)		
Rate of increase (decrease) of the "known" CPI	**(0.7)**	0.4	4.5
Rate of increase (decrease) in the rate of the US dollar	**10.2**	(7.6)	(1.1)
Rate of increase (decrease) in the rate of the euro	**5.2**	(0.7)	(6.4)
Rate of (decrease) in the rate of the pound sterling	**8.0**	(8.4)	(28.0)
Rate of (decrease) in the rate of the Swiss franc	**3.1**	4.6	4.2

The following table sets out the principal representative exchange rates:

	31 March		31 December	
	2009	2008	2008	2007
	In NIS			
US dollar	**4.188**	3.553	3.802	3.846
Euro	**5.574**	5.617	5.297	5.659
Pound sterling	**5.992**	7.064	5.548	7.710
Swiss franc	**3.677**	3.577	3.565	3.420

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 and on 18 September 2008, the Bank received two requests from the Company for the payment of amounts which the Company claimed that the Bank is required to transfer to it according to the Law. The amount of the two requests, after having been reduced by the company and revalued to 31 December 2008, is some NIS 186 million. The Bank responded to these two requests while rejecting the claim that it has any financial liability with respect to the majority of the assets included in the requests.

On 11 February 2009, the Bank received a third request from the Company, for the payment of a revalued amount of some NIS 120 million, which the Company claimed that the Bank is required to transfer to it according to the Law. On 7 April 2009, the Bank responded to this request, while rejecting the argument that it bears any financial liability with respect to the assets included in the request.

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 referred 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 recommended 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 mentioned 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.

Pension Counseling

In August 2008, the Bank received a pension counseling license, which included certain restrictions.

Details regarding this subject are provided in the 2008 Annual Reports, from page 36.

During the first quarter of 2009, the deployment of the pension counseling service, having begun in pilot branches during the last quarter of 2008, was expanded to reach all branches throughout the country. The counseling is provided subject to the terms of the license, by individuals with pension counseling licenses, most of whom also have investment counseling licenses.

Pursuant to the terms of the license from the Ministry of Finance, as of 1 April 2009, the restrictive terms in the pension counseling license were removed, and the Bank may provide comprehensive pension counseling regarding all pension products, including insurance products, to the entire population throughout the country.

The provision of the comprehensive pension counseling regarding all pension products to the entire population requires complex operational and business preparations, in which the bank has invested and continues to invest considerable resources.

As a rule, the absence of computerized interfaces between the Bank and the institutional bodies (clearing houses) complicates the monitoring of the implementation of the recommendations and makes such monitoring difficult. This issue becomes doubly significant with regard to counseling provided to salaried employees, and to counseling with respect to insurance products.

Regarding counseling to salaried employees – the absence of the interfaces between the Bank and the entities that manage the funds and the employers and their salary departments, both regarding information and regarding the clearing of funds for the employees after counseling is provided, seriously damages the implementation of the counseling process for salaried employees.

Regarding insurance counseling – the absence of computerized interfaces between institutional bodies and the distributors of insurance products, and the fact that the Ministry of Finance has not dealt with single values on its website ("BituachNet") which would allow for the products to be examined and identified, does not allow the provision of insurance counseling. Without single values for insurance products, the insurance products cannot be ranked for the purpose of providing counseling. Similarly, in the absence of single values, as stated, and in the absence of interfaces with the institutional bodies, it is not possible to monitor the implementation of the counseling recommendations, *vis-à-vis* the institutional bodies.

Leumi is preparing to create computerized interfaces with the institutional bodies that manage provident funds in order to simplify the processes for the transfer of funds, and for the execution of transactions carried out pursuant to the pension counseling and pursuant to the counseling regarding supplementary training funds, in the framework of investment counseling.

Leumi is also working, through the Association of Banks, towards the regulation of the issue and is seeking a solution to be agreed upon with the counselors, the institutional bodies and the authorities.

Additionally, no regulations have yet been enacted with respect to the payments of distribution commissions for counseling regarding insurance products. In September 2008, a draft amendment of the Financial Services (Control) (Provident Funds) (Distribution

Commissions) Regulations was submitted to the Knesset Finance Committee for approval. Pursuant to the draft, distribution commissions will not be charged for some insurance products in respect of which counseling will be provided, and for those that distribution commissions will be paid, the maximum distribution rate will be an annual rate of 0.25% of the aggregate savings balance in the insurance product which is the subject of the counseling.

In April 2009, a number of private members' bills were tabled before the Knesset for the amendment of the Financial Services (Control) (Engagement in Pension Counseling and Pension Marketing) Law, 2005. Pursuant to the proposed laws, the banks will be defined as distributor counselors, and not as objective counselors. At the same time, it is proposed that the distribution commission which is currently paid by the institutional bodies for the counseling will not be paid under certain circumstances. It is also proposed that the banks be responsible for products that they distribute, in addition to the responsibility that currently accompanies the counseling at any rate, and to delay for a period of 60 days commencement of the validity of customer instructions to transfer funds to a different pension product, unless the instruction regarding the change are given through the counselor through which the product was purchased.

A preliminary analysis of the proposed law indicates that they do not protect those who receive the counseling and may even have the opposite effect, and if they are enacted the Bank's ability to provide pension counseling will be significantly adversely affected.

The Reform of Bank Commissions

In July 2008, a material reform regarding commissions came into effect, which is anchored in an amendment to the Banking (Service to Customers) Law, 1981.

Details regarding the reform are provided in the 2008 Annual Reports on pages 39-40.

Upon the convening of the 18^{th} Knesset in April 2009, the private member’s bill the purpose of which is to impose additional restrictions on the collection of commissions has been re-introduced. The Bank is examining the significance of the proposed law.

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 2008.

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 2008 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 - March 2009, there were no changes in the accounting policy on critical subjects compared with that described in the 2008 Annual Report.

For further details, see pages 48-53 of the Annual Report for 2008.

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, 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.

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, the Chief Accounting Officer, the Chief Internal Auditor and others.
Following the discussions 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, the Chief Accounting Officer, the Chief Internal Auditor, and when the discussion concerns the approval of annual Financial Statements, also members of the Bank's Management.

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, regarding evaluation of the Bank's disclosure controls and procedures for the Financial Statements.

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

Development of Income, Expenses and Tax Provisions

The Group’s net profit during the period of January to March 2009 was NIS 429 million, compared with NIS 470 million in the corresponding period in 2008, a decline of 8.7 %.

The decrease in the Group’s net profit during the period of January to March 2009, as compared with the corresponding period in 2008, is explained primarily by the following factors:*

1. A decline in net interest income, before provisions for doubtful debts in the amount of NIS 598 million before the effect of taxes, a decrease of 30.5 %.

2. An increase in provisions for doubtful debts in the amount of NIS 110 million before the effect of taxes, an increase of 45.1%.

3. A decrease in the Group's share of the profits of companies included on the equity basis in the amount of NIS 53 million, net.

On the other hand, the following factors partially offset the above-mentioned decrease:

1. A decrease in operating and other expenses (including salaries) in the amount of NIS 230 million, a decrease of 12.8%, before the effect of taxes.

2. An increase in operating and other income in the amount of NIS 152 million, an increase of 17.9%, before the effect of taxes

3. A decrease in the effective tax rate of 40 basis points, being some NIS 210 million, as explained on pages 23-24, in the provision for taxes item.

* Before minority interests in consolidated companies.

Net interest income before provision for doubtful debts in the Leumi Group amounted to NIS 1,362 million during the period of January to March 2009, compared with NIS 1,960 million in the corresponding period in 2008 – a reduction of NIS 598 million, which constitutes a decrease of 30.5 %.

The decrease in the Group's net interest income before provision for doubtful debts during the period of January to March 2009 as compared with corresponding period in 2008 stems mainly from:

	For the three months ending		
	31 March 2009	31 March 2008	% Change
	NIS millions		
Current activities	**1,631**	1,629	0.1
Collection and reduction of interest in respect of problem loans	**89**	249	(64.3)
Exchange rate differentials in respect of financing shares recorded in operating income or the capital fund	**(109)**	97	-
Decline in value of available-for-sale debentures	**(46)**	(11)	318.2
Profit from sale of available-for-sale and trading debentures and from adjustments to market value of debentures for trading	**302**	113	167.3
Financing costs in connection with coverage of overseas investments*	**(144)**	27	-
Adjustments to fair value of derivatives	**(328)**	(169)	94.1
Effect of the known CPI	**(33)**	25	-
Total	**1,362**	1,960	(30.5)

* The cost of hedging the asymmetry in the tax liabilities in respect of the exchange rate differentials relating to overseas investments, as compared with the exchange rate differentials relating to financing sources. The compensation for this cost is attributed from the tax item. (See also the impact on the tax item.)

As is evident from the above table, net interest income in current activities remains unchanged, while the decrease in the margin was compensated by the increase in the scope of activities.

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

Segment	**31 March 2009**	31 March 2008	% Change
	NIS millions		
Households	**506**	631	(19.8)
Small businesses	**211**	226	(6.6)
Corporate banking	**430**	575	(25.2)
Commercial banking	**327**	395	(17.2)
Private banking	**150**	106	41.5
Financial management – capital markets	**(260)**	49	-
Other	**(2)**	(22)	+
Total	**1,362**	1,960	(30.5)

Total Interest Margin (excluding transactions in financial derivatives) during the period of January to March 2009 was 0.04 %, compared with 3.10% during the corresponding period in 2008. The interest margin including financial derivative transactions was 0.16 % during the period of January to March 2009, compared with 1.73% during the corresponding period in 2008, and 1.63% for the whole of 2008.

The decrease in the overall interest margin arises mainly from timing differences in measuring profitability from activities in financial derivatives, from exchange rate differentials in respect of hedging overseas investments and investments in shares, margins in the known CPI between the two periods, and from the decrease in the margin due to the low level of interest rates in Israel and overseas in the first quarter of 2009.

The ratio of net interest income before provision for doubtful debts to the average balance of the financial assets was 1.87 %, compared with 2.83% (in annual terms) during the corresponding period in 2008.

Financing commissions amounted to NIS 81 million during the first quarter of 2009, compared with NIS 78 million during the corresponding period in 2008, an increase of 3.8%. 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 441 million during the first quarter of 2009, compared with NIS 334 million in the corresponding period in 2008.

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

	31 March 2009	31 March 2008	Change
	NIS millions		%
Profit from sales of available-for-sale debentures	**189**	39	384.6
Decline in value of available-for-sale debentures	**(46)**	(11)	318.2
Profit from sales and adjustments to market value of debentures for trading	**113**	74	52.7
Collection/reduction of interest in respect of doubtful debts	**89**	249	(64.3)
Early credit repayment commissions	**27**	38	(28.9)
Other	**69**	(55)	+
Total	**441**	334	32.0

The Provision for Doubtful Debts in the Leumi Group during the period of January to March 2009 amounted to NIS 354 million, compared with NIS 244 million in the corresponding period of 2008, an increase of NIS 110 million.

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 - and in respect of sectoral credit excess, were increased by NIS 31 million during the period of January to March 2009, compared with a reduction of NIS 25 million during the corresponding period in 2008, and an increase of NIS 73 million for the whole of 2008.

The overall rate of the provision for doubtful debts during the period of January to March 2009 was 0.67 % of total credit to the public (in annual terms), compared with a rate of 0.49% in the corresponding period in 2008, and compared with 1.01% for the whole of 2008.
The rate of the overall provision for doubtful debts in relation to overall credit risk (balance sheet and off-balance sheet) was 0.44%, 0.32%, 0.67%, 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 979 million (constituting 0.46% of total credit to the public) on 31 March 2009, compared with NIS 948 million at the end of 2008.

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

Segment	31 March 2009		30 March 2008	
	(NIS millions)	% *	(NIS millions)	%*
Households	**50**	**0.3**	67	0.5
Small businesses	**42**	**1.0**	14	0.3
Corporate banking	**175**	**0.9**	146	0.9
Commercial banking	**50**	**0.4**	37	0.3

* Percentage of total credit at the end of the period on an annual basis.
See pages 26 and 33 for further details.

Profit from Net Interest Income after Provision for Doubtful Debts of the Leumi Group during the period of January to March 2009 amounted to NIS 1,008 million, compared with NIS 1,716 million during the corresponding period in 2008, a decrease of 41.3 %.

Total Operating and Other Income of the Leumi Group during the period of January to March 2009 amounted to NIS 1,003 million, compared with NIS 851 million in the corresponding period in 2008, an increase of 17.9 %.

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

	For the first three months ending			
	31 March 2009	31 March 2008	Change	
	NIS millions		NIS millions	%
Operating commissions (1)	**831**	902	(71)	(7.9)
Profits (losses) from investments in shares (2)	**95**	(71)	166	-
Other income (3)	**77**	20	57	285.0
Total operating and other income	**1,003**	851	152	17.9

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

1. Operating commissions (NIS (71) million):

   a. A decrease in income from credit handling and preparation of legal documents in the amount of NIS 51 million, (44.7 %).

   b. A decrease in distribution commissions of financial products in the amount of NIS 11 million (22.9%)

   c. A decrease in income from securities transactions in the amount of NIS 9 million, (4.4 %).

   d. A decrease in other commissions in the amount of NIS 7 million, (21.2%).

   e. An increase in income from credit cards in the amount of NIS 7 million, 4.0%.

2. Profits (losses) from investments in shares (NIS 166 million).

Profits (losses) from the sale of available-for-sale shares, including provisions for a decrease in value and positive exchange rate differentials in the foreign securities for trading portfolio, and dividends in respect of investments in the available-for-sale portfolio amounted to NIS 95 million, compared with losses in the amount of NIS 71 million in the corresponding period in 2008.

3. Other income (NIS 57 million)

Profits from the severance pay provident fund in the amount of NIS 57 million, compared with "0" in the corresponding period in 2008.

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 42.4%, compared with 30.3% during the corresponding period in 2008 and 30.5% for the whole of 2008.

Operating and other income covers 64.1% of operating and other expenses, compared with cover of 47.4% during the corresponding period in 2008, and compared with 40.0% for the whole of 2008.

Total Operating and Other Expenses of the Leumi Group during the period of January to March 2009 amounted to NIS 1,564 million, compared with NIS 1,794 million during the corresponding period in 2008, a decrease of 12.8 %.

Salary expenses decreased by NIS 248 million during the period of January to March 2009, and at the rate of 21.9% compared with the corresponding period in 2008. The decrease in salary expenses derives primarily from the positive yield in the severance pay fund and provident fund, which also serve as a reserve for hedging employee pension liabilities, compared with a negative yield during the corresponding period in 2008. During the first quarter of 2008, some NIS 163 million was credited to salary expenses in this regard. During the first quarter of 2009, the salary expenses were reduced due to the funds' profits of some NIS 174 million; in addition, income in the amount of NIS 57 million was recorded with respect to operating income.

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased by the amount of NIS 18 million during the period of January to March 2009, an increase of 2.7%, compared with the corresponding period in 2008, mainly as a result of an increase in depreciation expenses at the rate of 19.4%.

The operating expenses constitute 66.1% of total income, compared with 63.8% in the corresponding period in 2008, and compared with 76.3% for the whole of 2008.

Total operating and other expenses (in annual terms) constitute 1.98% of total assets, compared with 2.43% in the corresponding period in 2008, and compared with 2.25% for the whole of 2008.

Operating Profit before Taxes of the Leumi Group during the period of January to March 2009 amounted to NIS 447 million, compared with NIS 773 million in the corresponding period in 2008, a decrease of 42.2 %.

Provision for Taxes on Operating Profit of the Leumi Group during the period of January to March 2009 amounted to NIS 42 million, compared with NIS 383 million in the corresponding period in 2008. The rate of provision in the said period was some 9.4% of the pre-tax profit, compared with 49.5% in the corresponding period in 2008, a decrease of some 40 percentage points, being some NIS 210 million.
The decrease 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 positive in the relevant period, compared with negative exchange rate differentials in the corresponding period in 2008, as detailed on page 68 of the Report, reduced the rate of the tax provision by 26 percentage points, compared with an increase of 12 percentage points in the corresponding period in 2008. Since the operating profit before taxes was low relative to the amount of the exchange rate differentials, this had a significant impact on the effective tax rate.

2. The decrease in the companies' tax rate had the effect of reducing the tax in the amount of NIS 4 million, which amounts to 1 percentage point.

Operating Profit after Taxes amounted to NIS 405 million during the period of January to March 2009, compared with NIS 390 million in the corresponding period in 2008, an increase of 3.8%.

The Group's Share in Operating Profit after Taxes of Companies Included on the Equity Basis amounted to NIS 34 million during the period of January to March 2009, compared with NIS 87 million in the corresponding period in 2008.

Minority Interests in the Profits of the Group amounted to a profit of NIS 11 million during the period of January to March 2009, compared to NIS 5 million in the corresponding period in 2008.

Net Operating Profit of the Group during the period of January to March 2009 amounted to NIS 428 million, compared with a profit of NIS 472 million in the corresponding period in 2008, a decrease of 9.3%.

Net After-Tax Profit (Loss) from Extraordinary Items amounted to NIS 1 million during the period of January to March 2009, compared with a loss of NIS 2 million in the corresponding period in 2008.

Net Basic Operating Profit per share reached NIS 0.29 during the period of January to March 2009, compared with NIS 0.33 in the corresponding period in 2008.

Net Basic Profit per share reached NIS 0.29 during the period of January to March 2009, compared with NIS 0.33 in the corresponding period in 2008.

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

	2009	2008			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	%				
Net profit (loss)	**9.7**	(22.2)	(1.6)	19.1	9.8
Net operating profit (loss)	**9.6**	(22.2)	(1.6)	13.4	9.8

Development of Profit during the Last Five Quarters

A. The following table is a condensed statement of operating profit and loss after taxes for the last five quarters (excluding the Group's share in the profits of companies included on the equity basis):

	2009	2008			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)				
Net interest income	**1,362**	976	1,491	1,953	1,960
Provision for doubtful debts	**(354)**	(1,090)	(495)	(316)	(244)
Operating and other income	**1,003**	545	540	864	851
Operating and other expenses	**(1,564)**	(1,801)	(1,746)	(1,662)	(1,794)
Operating profit (loss) before taxes	**447**	(1,370)	(210)	839	773
Provision for taxes	**(42)**	423	(61)	(400)	(383)
Operating profit (loss)after taxes	**405**	(947)	(271)	439	390

B. The following table shows the development of the principal items in net interest income, before provision for doubtful debts:

	2009	2008			
	First Quarter (NIS millions)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Current activity	**1,631**	1,794	1,584	1,671	1,629
Collection and reduction of interest on problem loans	**89**	91	80	87	249
Exchange rate differentials in respect of financing shares recorded in operating income or the capital fund	**(109)**	(30)	2	129	97
Decrease in value of available-for-sale debentures	**(46)**	(810)	(425)	(82)	(11)
Profits (losses) from the sale of available-for-sale and trading debentures and from adjustments to market value of debentures for trading	**302**	128	(166)	(2)	113
Financing costs in connection with hedging of overseas investments	**(144)**	(134)	9	-	27
Adjustments to fair value of derivatives	**(328)**	(25)	250	(22)	(169)
Effect of the known CPI	**(33)**	(38)	157	172	25
Total	**1,362**	976	1,491	1,953	1,960

C. The following table shows the quarterly development of the provisions for doubtful debts:

	2009	2008			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)				
Specific provision	**323**	992	500	311	269
Additional provision	**31**	98	(5)	5	(25)
Total	**354**	1,090	495	316	244
Rate of provision out of total credit to the public (on an annual basis)	**0.67%**	2.05%	0.96%	0.63%	0.49%

D. The following table shows the quarterly development of operating and other income:

	2009	2008			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	NIS millions				
Operating commissions	**831**	905	874	857	902
Profits (losses) from investments in shares	**95**	(434)	(363)	(44)	(71)
Other income	**77**	74	29	51	20
Total operating and other income	**1,003**	545	540	864	851

E. The following table shows the quarterly development of salary expenses:

	2009	2008			
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	NIS millions				
Salary expenses, excluding special salary expenses	**1,057**	982	856	956	953
Special salary expenses	**(174)**	(13)	187	19	178
Of which: expenses in respect of the issue of options to employees	**-**	(14)	(37)	6	29
Recording of benefit in respect of the sale of shares to employees	**-**	-	(39)	11	(22)
Provision for severance pay and pension	**(174)**	108	262	2	163
Salary tax refunds	**-**	(154)	-	-	-
Actuarial changes in respect of jubilee bonus	**-**	47	-	-	-
Miscellaneous	**-**	-	1	-	8
Total salary expenses	**883**	969	1,043	975	1,131

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

Total Assets of the Leumi Group as at 31 March 2009 amounted to NIS 318.1 billion, compared with NIS 310.8 billion at the end of 2008, an increase of 2.3%, and an increase of 6.6% compared with 31 March 2008.

The value of the assets in the balance sheet denominated in and or linked to foreign currency was some NIS 118.8 billion, some 37.3% of total assets. During the period of January to March 2009, the shekel depreciated against the US dollar by 10.3% and against the euro by 5.2%. The changes in the rates of exchange in the first quarter of the year led to an increase of 2.9% 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 688 billion, compared with NIS 653 billion at the end of 2008 (some US$ 164 billion and US$ 156 billion, respectively), as detailed below.

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

			Rate of change	
	31 March 2009	31 December 2008	Since December 2008	Since March 2008
	NIS millions		%	
Total assets	**318,052**	310,792	2.3	6.6
Deposits of the public	**254,565**	244,783	4.0	11.6
Debentures, capital notes and subordinated capital notes	**20,567**	20,636	(0.3)	(6.4)
Deposits from banks	**3,181**	3,742	(15.0)	(51.6)
Cash and deposits with banks	**38,712**	33,130	16.8	5.8
Securities	**47,677**	44,910	6.2	6.8
Credit to the public	**212,878**	213,215	(0.2)	6.3
Buildings and equipment	**3,513**	3,445	2.0	5.5

Deposits of the public amounted to NIS 254.6 billion as at 31 March 2009, compared with NIS 244.8 billion as at 31 December 2008, an increase of 4.0%, and an increase of 11.6% compared with 31 March 2008.

The depreciation of the shekel in relation to most foreign currencies in the first quarter of 2009 led to a 3.8% increase in total deposits of the public.

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

Segment	**31 March 2009**	31 December 2008	% Change
	NIS millions		
Households	**122,305**	120,846	1.2
Small businesses	**14,287**	14,475	(1.3)
Corporate banking	**26,383**	23,111	14.2
Commercial banking	**29,593**	29,659	(0.2)
Private banking	**42,498**	38,057	11.7
Financial management, capital market and other	**19,499**	18,635	4.6
Total	**254,565**	244,783	4.0

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

Debentures, Capital Notes and Subordinated Capital Notes totaled NIS 20.6 billion on 31 March 2009, similar to the total on 31 December 2008, and a decrease of 6.4% compared with 31 March 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:

	31 March 2009	31 December 2008	Change	
	(NIS millions)		(NIS millions)	%
Securities portfolios	**320,984**	297,513	23,471	7.9
of which: managed by mutual funds[2] [3]	**40,429**	36,234	4,105	11.3
Provident funds[2] [3]	**34,174**	31,794	2,380	7.5
Supplementary training funds	**14,651**	12,769	1,882	14.7
Total	**369,809**	342,076	27,733	8.1

(1) Including an increase in the market value of securities and in 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 212.9 billion on 31 March 2009, compared with NIS 213.2 billion on 31 December 2008, a decrease of 0.2%, and an increase of 6.3% compared with 31 March 2008.

The depreciation of the shekel in relation to most foreign currencies in the first quarter of 2009 led to an increase of 2.3% in total credit to the public.

In addition to credit to the public, the Group also invests in corporate debentures which amounted to NIS 7,840 million on 31 March 2009, in comparison with NIS 8,204 million on 31 December 2008, a decrease of 4.4%.

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

Economy Sectors	**31 March 2009** Overall credit risk to the public	Percentage of total	31 December 2008 Overall credit risk to the public	Percentage of total	Change
	(NIS millions)	%	(NIS millions)	%	%
Agriculture	**2,470**	**0.8**	2,501	0.8	(1.2)
Industry	**52,166**	**16.3**	52,212	16.3	(0.1)
Construction and real estate	**61,967**	**19.4**	60,681	18.9	2.1
Electricity and water	**1,829**	**0.6**	1,851	0.6	(1.2)
Trade	**32,051**	**10.0**	31,009	9.7	3.4
Hotels, accommodation and food services	**5,524**	**1.7**	5,275	1.6	4.7
Transportation and storage	**6,788**	**2.1**	6,673	2.1	1.7
Communications and computer services	**7,006**	**2.2**	7,084	2.2	(1.1)
Financial services	**38,595**	**12.1**	42,565	13.3	(9.3)
Other business services	**9,224**	**2.9**	9,279	2.9	(0.6)
Public and community services	**8,432**	**2.6**	8,564	2.7	(1.5)
Private persons - housing loans	**44,260**	**13.9**	43,603	13.5	1.5
Private persons – other	**49,283**	**15.4**	49,197	15.4	0.2
Total	**319,595**	**100.0**	320,494	100.0	(0.3)

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

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

Segment	**31 March 2009**	31 December 2008	Change
	(NIS millions)		%
Households*	**62,242**	62,145	0.2
Small businesses	**17,711**	18,161	(2.5)
Commercial banking	**47,095**	48,506	(2.9)
Corporate banking	**77,873**	76,563	1.7
Private banking	**6,470**	6,438	0.5

* Credit to households also includes housing loans (mortgages).

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 duration 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.

Following is further data on total credit:

The following table sets out the spread of total credit to the public* and off-balance sheet credit risk according to the size of the credit to a single borrower:

31 March 2009				
Credit ceiling in NIS thousands		**Percentage of total number of borrowers**	**Percentage of total balance sheet credit**	**Percentage of total off-balance sheet credit**
From	To	%		
0	80	83.9	5.8	16.8
80	600	14.2	18.7	12.4
600	1,200	1.1	6.4	2.8
1,200	2,000	0.3	3.2	1.5
2,000	8,000	0.3	8.9	5.5
8,000	20,000	0.1	8.0	6.3
20,000	40,000	0.05	8.0	7.0
40,000	200,000	0.04	17.9	19.9
200,000	800,000	** 0.01	15.2	16.5
Above 800,000		*** 0.00	7.9	11.3
Total		100.0	100.0	100.0

31 December 2008				
Credit Ceiling in NIS thousands		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	83.4	5.8	16.5
80	600	14.6	18.8	12.0
600	1,200	1.1	6.4	2.6
1,200	2,000	0.3	3.1	1.5
2,000	8,000	0.4	9.0	5.7
8,000	20,000	0.1	8.3	6.4
20,000	40,000	0.05	8.1	4.8
40,000	200,000	0.04	17.1	22.7
200,000	800,000	** 0.01	15.3	15.7
Above 800,000		*** 0.0	8.1	12.1
Total		100.0	100.0	100.0

* After deducting the specific provisions for doubtful debts.
** In 2009 136 borrowers and in 2008 131 borrowers
*** In 2009 18 borrowers and in 2008 20 borrowers.

The following are details of the balances of credit to the public and of the off-balance sheet credit risk which exceed NIS 800 million per individual borrower based on a more detailed breakdown of credit areas and based on a breakdown of economic sectors:

1. Credit risk according to size of credit to the borrower

		31 March 2009					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit	
Credit ceiling in NIS millions		Total	Of this, related parties	Total	Of this, related parties	Total	Of this, related parties
From	To	In NIS millions					
800	1,200	**8**	**-**	**5,830**	**-**	**2,048**	**-**
1,200	1,600	**4**	**1**	**4,325**	**1,329**	**1,159**	**-**
1,600	2,000	**3**	**-**	**1,246**	**-**	**4,085**	**-**
2,000	2,400	**1**	**1**	**1,975**	**1,975**	**248**	**248**
2,800	3,200	**1**	**-**	**2**	**-**	**2,922**	-
3,200	4,000	**1**	**-**	**3,727**	**-**	**237**	**-**
Total		**18**	**2**	**17,105**	**3,304**	**10,699**	**248**

		31 December 2008					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit	
Credit ceiling in NIS millions		Total	Of this, related parties	Total	Of this, related parties	Total	Of this, related parties
From	To	In NIS millions					
800	1,200	8	1	5,051	657	2,666	266
1,200	1,600	5	-	4,096	-	2,246	-
1,600	2,000	4	1	3,789	1,340	3,271	341
2,000	2,400	1	1	1,876	1,876	436	436
2,400	2,800	1	-	1	-	2,677	-
2,800	3,200	1	-	2,857	-	-	-
Total		20	3	17,670	3,873	11,296	1,043

2. Credit risk according to economic sectors

	31 March 2009		
	Total number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
		In NIS millions	
Industry	**6**	**6,051**	**6,881**
Construction and real estate	**4**	**3,426**	**932**
Trade	**1**	**1,975**	**248**
Hotels and Accommodation Services	**1**	**810**	**-**
Communications and computer services	**2**	**2,649**	**-**
Financial services	**3**	**2,114**	**1,684**
Public and community services	**1**	**80**	**954**
Total	**18**	**17,105**	**10,699**

	31 December 2008		
	Total number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
		In NIS millions	
Industry	7	5,723	6,265
Construction and real estate	4	2,883	995
Trade	1	1,876	436
Communications and computer services	2	2,645	341
Financial services	5	4,503	2,371
Public and community services	1	40	888
Total	20	17,670	11,296

The indebtedness of the six largest groups of borrowers represented 12.5% of total credit risk at 31 March 2009 and 103.5% of the capital calculated for the limitation on the six largest groups of borrowers.

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

	31 March 2009	31 March 2008	31 December 2008
	(NIS millions)		
Problem loans(1)			
Non-performing	**2,148**	1,575	2,012
Restructured (2)	**461**	579	405
To be restructured (3)	**746**	92	558
In temporary arrears	**574**	614	562
Under special supervision*	**14,732**	10,971	14,545
Total balance sheet credit to problem borrowers (1)	**18,661**	13,831	18,082
Off-balance sheet credit risk to problem borrowers (1) (5)	**3,236**	2,301	3,482
Debentures of problem borrowers (public + banks)	**670**	3	614
Other assets in respect of derivatives of problem borrowers	**466**	134	612
Total overall credit risk in respect of problem borrowers (1)	**23,033**	16,269	22,790
Assets received in respect of repaid credit	**359**	690	302
*of which: debts in respect of which there is a specific provision (4)	**6,969**	4,543	7,373
*of which: credit for housing in respect of which there is a provision according to the extent of the arrears	**506**	867	505

(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) Except for 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 obligations are to be classified as a loan under special supervision. As a result, non-performing loans in the amount of NIS 98 million and loans under special supervision in the amount of NIS 1,709 million were classified, and at the end of 2008 NIS 100 million and NIS 1,948 million, respectively, were classified.

Credit to Governments amounted to NIS 500 million on 31 March 2009, compared with NIS 520 million on 31 December 2008, a decrease of 3.8%, and a decrease of 13.2% compared with 31 March 2008.

Securities

The Group's investments in securities amounted to NIS 47,677 million on 31 March 2009, compared with NIS 44,910 million on 31 December 2008, an increase of 6.2% primarily as a result of investments in government debentures as explained below.

Securities are classified in three categories: securities for trading, available-for-sale securities 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 in "other overall profit" called “adjustments for presentation of available-for-sale securities at fair value” (“shareholders equity”) less the related tax. Whenever the decrease in value is of a non-temporary nature, the difference is charged to the profit and loss statement. Debentures held to maturity are presented at adjusted cost (par value together with accrued interest and linkage differentials, less/plus a disaggio or aggio).

For details of accounting policy and the manner of valuing the securities portfolio and the difference between a temporary reduction in value and that of a non-temporary nature, see the Section "Accounting Policy on Critical Subjects" on pages 50-51 and Note 1 to the 2008 Annual Financial Statements.

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

	31 March 2009				
	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	**881**	**28**	**(1)**	**908**	**881**
Available-for-sale	**35,623**	**617**	**(2,816)**	**33,424**	**33,424**
For trading	**10,468**	**267**	**(193)**	**10,542**	**10,542**
Total	**46,972**	**912**	**(3,010)**	**44,874**	**44,847**
Shares and Funds					
Available-for-sale	**2,206**	**511**	**(1)**	**2,716**	**2,716**
For trading	**459**	**-**	**(345)**	**114**	**114**
Total	**2,665**	**511**	**(346)**	**2,830**	**2,830**
Total Securities	**49,637**	**1,423**	**(3,356)**	**47,704**	**47,677**

	31 December 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	1,446	30	(1)	1,475	1,446
Available-for-sale	30,811	502	(1,923)	29,390	29,390
For trading	10,778	168	(196)	10,750	10,750
	43,035	700	(2,120)	41,615	41,586
Shares and funds					
Available-for-sale	2,790	430	(1)	3,219	3,219
For trading	457	-	(352)	105	105
	3,247	430	(353)	3,324	3,324
Total securities	46,282	1,130	(2,473)	44,939	44,910

As at 31 March 2009, some 75.8% of the Group's nostro portfolio was classified as available-for-sale securities and some 22.4% as securities for trading. This classification allows for flexibility in the management of the securities portfolio. Some 5.9% 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.

The following table sets out details of the Group's activity in debentures:

	31 March 2009	31 December 2008
	NIS millions	
Debentures redeemed and/or sold (held to redemption and available-for-sale)	**6,702**	46,987
Purchases of debentures held to redemption and available-for-sale	**10,932**	45,615
Net profit from investments in debentures:		
- financing income on accrual basis	**2,525**	914
- profit (loss) from sale and from decrease in value of available-for-sale debentures	**143**	(1,337)
- profit (loss) realized and/or unrealized from adjustments to fair value of debentures for trading	**113**	82

The following table sets out details of the composition of investments in debentures according to linkage basis:

	31 March 2009			31 December 2008		
	Govt. of Israel	**Foreign govts.**	**Other companies**	Govt. of Israel	Foreign govts.	Other Companies
	NIS millions			NIS millions		
Israeli currency:						
Unlinked	**11,607**	**-**	**41**	9,422	-	42
CPI-linked	**5,603**	**-**	**876**	4,948	-	1,046
Foreign currency including foreign currency-linked	**1,945**	**4,212**	**20,563**	2,127	4,601	19,400
Total debentures*	**19,155**	**4,212**	**21,480**	16,497	4,601	20,488

* of which NIS 2,594 million in subordinated debentures.

There was an increase of some NIS 1 billion during the first quarter of 2009, some 4.8% in the Group's investments in corporate debentures, mainly in foreign currency debentures abroad, as a result of the depreciation of the shekel in relation to the US dollar and the Euro. Some 52.1% of the amount invested in debentures is invested in government debentures, mainly of the Israeli government.

See Note 2 to the Financial Statements for further details.

The following table sets out the value of securities according to the method of calculation in NIS millions:

	31 March 2009	31 December 2008
Securities traded on an active market*	**38,050**	38,594
Securities according to prices determined according to external models	**7,744**	3,540
Securities according to quotation from counterparty or to cost	**1,883**	2,776
Total	**47,677**	44,910

* Including fair value calculated according to models based on current market data.

The available-for-sale portfolio

The following table shows the available-for-sale portfolio as at 31 March 2009:

	31 March 2009		31 December 2008		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**20,830**	**12,594**	20,246	9,144	584	3,450
Shares and funds	**479**	**2,237**	1,260	1,959	(781)	278
Total	**21,309**	**14,831**	21,506	11,103	(197)	3,728

a. In the first quarter of 2009, NIS 686 million was charged to shareholders' equity in respect of the available-for-sale portfolio, due to a decrease in value and exchange rate differentials in respect of debentures denominated in foreign currency, compared with NIS 746 million in the corresponding period of 2008. Most of the decline in value is in subordinated debentures issued by foreign banks.

b. In addition, NIS 143 million was recorded in profit and loss in respect of profits from the sale of debentures after offsetting provisions defined as decreases in value of securities of a non-temporary nature, compared with NIS 28 million in the corresponding period of 2008.

c. The following table shows a summary of the above results in respect of the available-for-sale portfolio (including financing income):

	31 March 2009	31 March 2008	31 December 2008
	NIS millions		
Profits (losses) in respect of securities which were charged to profit and loss*	**2,194**	(854)	(772)
Adjustments for decrease in value of securities in shareholders' equity	**(686)**	(746)	(1,784)

* Of this, NIS 1,765 is due to positive exchange rate differentials during the first quarter of 2009, compared with negative exchange rate differentials in the amount of NIS 1,215 million during the first quarter of 2008, and of NIS 1,230 million for all of 2008.

d. The following table shows net balances in shareholders' equity (net adjustments in respect of available-for-sale securities before tax):

	31 March 2009	31 December 2008	Movement
Shares	**510**	429	81
Israel government debentures	**516**	434	82
Foreign government debentures	**6**	9	(3)
Other debentures	**(2,721)**	(1,864)	(857)*
Other credit instruments	**(16)**	(27)	11
Total	**(1,705)**	(1,019)	(686)
Related tax	**627**	371	256
Net total	**(1,078)**	(648)	(430)

* of which as at 31 March 2009, NIS (513) million in subordinated debentures issued by foreign banks.

With regard to the value of the available-for-sale portfolio, from the end of March 2009 through the middle of May 2009, there was a decrease in the negative amount in the capital fund of some NIS 592 million, which is some 86% of the negative effect in the first quarter.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio as at 31 March 2009 totaled the negative amount of NIS 1,078 million (after the effect of taxes) compared with NIS 648 million at the end of 2008. These amounts represent losses/profits which had not been realized at the dates of the Financial Statements.

According to the rules for calculating capital adequacy, the balance in respect of adjustment of securities to fair value does not affect the calculation of the capital for the purpose of the minimum capital ratio, except for net unrealized losses from adjustments to fair value of available-for-sale shares, less the effect of taxes.

The large decline in value in the debentures item, in the amount of NIS 778 million, relates mainly to the decrease in value of debentures issued by foreign banks.

e. Declines in value of available-for-sale securities which were charged to shareholders' equity (accumulated as at 31 March 2009):

		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 debentures	6	-	2	39	47
	Other debentures	41	35	19	208	303
	Total	47	35	21	247	350
10%-20%	Shares	-	-	-	-	-
	Asset-backed debentures	8	11	-	2	21
	Other debentures	37	20	1	359	417
	Total	45	31	1	361	438
20%-30%						
	Shares	-	-	-	-	-
	Asset-backed debentures	46	2	-	102	150
	Other debentures	57	95	19	456	627
	Total	103	97	19	558	777
30%-35%						
	Shares	-	-	-	-	-
	Asset-backed debentures	11	-	-	24	35
	Other debentures	2	3	-	341(1)	346
	Total	13	3	-	365	381
35%-40%						
	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	3	3
	Other debentures	-	14	3	309(2)	326
	Total	-	14	3	312	329
Above 40%	Shares	-	-	-	1	1
	Asset-backed debentures	9	-	-	2	11
	Other debentures	-	-	-	530(3)	530
	Total	9	-	-	533	542
Total amount	Shares	-	-	-	1	1
	Asset-backed debentures	80	13	2	172	267
	Other debentures	137	167	42	2,203	2,549
Overall total		217	180	44	2,376	2,817

(1) As at 13 May 2009, there was a decrease in the balance of some NIS 246 million.
(2) As at 13 May 2009, there was a decrease in the balance of some NIS 263 million.
(3) As at 13 May 2009, there was a decrease in the balance of some NIS 300 million.

For the treatment of the valuation of securities and the distinction between a decline in value of a temporary nature and that of a non-temporary nature, see pages 50 and 51 in the 2008 Annual Report.

The trading portfolio

The following table shows the composition of the trading portfolio as at 31 March 2009:

	31 March 2009		31 December 2008		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**4,976**	**5,566**	4,869	5,881	107	(315)
Shares and funds	**114**	**-**	105	-	9	-
Total	**5,090**	**5,566**	4,974	5,881	116	(315)

In respect of listed debentures, realized and unrealized profits in the amount of NIS 113 million were recorded in the profit and loss statement, compared with losses in the amount of NIS 74 million in the corresponding period in 2008, and in respect of shares and funds, realized and unrealized losses were recorded in the amount of NIS 12 million, compared with NIS 25 million in the corresponding period in 2008.

The following table shows details of investments in corporate debentures only, issue in Israel and overseas, according to activity segment:

	Issued in Israel	Issued overseas
	NIS millions	
Industry	143	522
Construction and real estate	95	134
Electricity and water	130	68
Trade	86	159
Transport and storage	18	-
Communications and computer services	45	94
Financial services	322	5,896
Business services and others	46	1
Public and community services	24	57
Total	909	6,931

1. Investments in Securities Issued Abroad

The Group's securities portfolio includes some NIS 27 billion (some US$ 6.4 billion) of securities issued abroad, all of which (but for some 4%) are investment grade securities, of which some 93% are rated 'A-' and above, of which some 34% are rated 'AAA', including subordinated debentures issued by foreign banks having a fair value of NIS 2,594 million, some 10% of the total investment in securities issued overseas. Of the said portfolio, some NIS 21.3 billion (some US$ 5.1 billion) is classified in the available-for-sale portfolio, some NIS 5.1 billion (some US$ 1.2 billion) is classified in the securities for trading portfolio and the balance in the portfolio held to redemption.

The following table shows the composition of investments in securities issued abroad:

	31 March 2009		31 December 2008	
Balance sheet value	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
	NIS millions			
Government debentures	**2,047**	**3,267**	2,175	3,707
Debentures of banks and financial institutions	**12,891**	**1,297**	11,240	472
Asset-backed debentures	**4,934**	**222**	4,211	207
Other debentures	**959**	**190**	2,620	483
Shares and funds	**478**	**114**	1,260	105
Total	**21,309**	**5,090**	21,506	4,974

The fair value is based on prices received from external sources. The value of most of the portfolio is calculated each month by a recognized international institution which carries on the business of calculating the fair value of financial assets for the purpose of disclosure in financial statements. This institution is independent of both the issuing entities and the marketing entities. The calculation is based mainly on the prices of transactions on active markets and on the valuation of similar transactions. The CLO portfolio, which constitutes a comparatively small part of the securities portfolio, is valued by a professional external entity, whose business is the valuation of this type of instrument. Since there is no active market in these instruments, the evaluation is based on a model. The Bank validated the model and ensured, to a reasonable degree of certainty, the accuracy of the fair value. The validation includes, *inter alia*, an examination of the systemic-logical connection between the data and the evaluation, with reference to factors material to the evaluation and the validity of the data and the parameters on which the evaluation was based. Internal models were not used for the purpose of evaluating securities.

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

See also paragraph 1.2 below on page 43.

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, the decline in value is charged against shareholders' equity. The total decline charged to shareholders' equity in respect of securities issued abroad, from the date of purchase until 31 March 2009, amounts to some NIS 2,639 million (some NIS 1,692 million after taxes). Most of the amount relates to a decrease in value of subordinated debentures issued by overseas banks, as explained below.

In addition to the temporary decline in value which was charged to shareholders' equity, an amount of some NIS 44 million was charged to the profit and loss account during the first quarter of 2009.

The following table shows the fair value of debentures of banks and financial institutions abroad (excluding asset-backed securities):

	AAA to AA-	A+	A	A-	BBB+ to BBB	Below B-	Unrated	Total
United Kingdom	311	237	302	-	20	-	-	870
Austria	-	-	602	-	-	-	-	602
Italy	25	11	304	6	-	-	27	373
Ireland	60	85	106	73	19	-	-	343
Belgium	-	-	248	69	-	-	-	317
Germany	84	640	67	-	44	-	-	835
Netherlands	567	525	37	212	47	-	-	1,388
Luxembourg	16	419	-	-	-	-	-	435
Spain	161	41	-	-	-	-	-	202
Portugal	-	-	106	-	-	-	-	106
Finland	24	-	27	-	-	-	-	51
France	288	107	-	-	-	-	-	395
Switzerland	-	31	186	-	-	-	-	217
Australia	791	-	164	-	-	-	-	955
Other (1)	113	303	452	11	-	2	17	898
United States – by bank								
Citigroup Inc. NY	-	-	-	852	-	-	-	852
Chase Manhattan Bank N.A.	-	805	-	-	-	-	-	805
Merrill Lynch International B.A.	-	-	634	-	-	-	-	634
Bank of America	-	-	615	-	-	-	-	615
Goldman, Sachs and Co.	-	-	464	-	-	-	-	464
Wachovia International Banking	492	-	-	-	-	-	-	492
Wells Fargo Bank N.A.	364	-	-	-	-	-	-	364
United States – other (2)	289	319	959	136	106	30	136	1,975
Total	3,585	3,509	5,287	1,359	236	32	180	14,188(3)

(1) This amount includes investments in 7 countries
(2) This amount includes investments in 14 banks.
(3) Including subordinated debentures the fair value of which as at 31 December 2008 was NIS 2,594 million (including the available-for-sale and traded portfolios).

The following table shows details of investments in debentures issued in Israel and abroad according to economic sector:

1.1 Investments in foreign asset-backed securities

The Group's securities portfolio includes some NIS 5.2 billion (some US$ 1.2 billion) of asset-backed securities (both mortgage-backed and non-mortgage-backed), all of which (save for 3.6%) are rated 'A-' and above, of which some 92.0% are rated 'AAA'. Of the said portfolio, some NIS 4.9 billion (some US$ 1.8 billion) is classified in the available-for-sale portfolio, and the balance in the securities for trading portfolios and holding to redemption.

The following table shows a summary of investments in asset-backed securities in the available-for-sale portfolio as at 31 March 2009:

	Adjusted Cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	**4,109**	**26**	**(52)**	**4,083**
ABS-asset-backed securities (other than mortgage-backed)	**1,054**	**12**	**(215)**	**851**
Of which: CLO	**826**	**-**	**(199)**	**627**
SCDO	**117**	**11**	**(12)**	**116**
Other	**111**	**1**	**(4)**	**108**
Total	**5163**	**38**	**(267)**	**4,934**

The Group's available-for-sale securities portfolio of foreign asset-backed securities as at 31 March 2009 includes investments in mortgage-backed securities in the total amount of some NIS 4.1 billion. 98% of the mortgage-backed securities in the available-for-sale portfolio are guaranteed or directly issued by United States federal agencies, (FNMA, FHLMC, GNMA). The FNMA and FHLMC have come under governmental protection under the U.S. administration's rescue plan and the GNMA debentures have government guarantees. This portfolio includes sub-prime mortgage-backed securities in the amount of NIS 4.1 million (US$ 1 million), all of which are rated AAA.

As at 31 March 2009, the accumulated net decline in value charged to shareholders' equity resulting from the mortgage-backed securities portfolio was some NIS (26) 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 172 million.

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

In addition to the mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities that are backed by assets other than mortgages (car financing credit and other types of credit), in the amount of some NIS 0.9 billion. All these securities, save for 7%, are rated 'A-' and above, of which 67% are rated 'AAA'. This portfolio includes, *inter alia,* SCDOs in the amount of some NIS 116 million, and CLOs in the amount of some NIS 627 million. The projected term to maturity of the portfolio of securities that are backed by assets other than mortgages is some 6 years on average.

The Management of the Bank estimates, and on the basis of examination according to the criteria detailed on pages 50 to 51 of the Annual Report for 2008, 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 shareholders' equity. As at 31 March 2009, the decline in value charged to shareholders' equity attributed to the portfolio of securities backed by assets other than mortgages totalled some NIS 203 million (some NIS 130 million after tax).

The total of asset-backed securities of the SDCO type amounted to NIS 116 million. A decrease in value of NIS 20 million was charged to the profit and loss statement in respect of this portfolio in the first quarter of 2009.

The total of asset-backed securities of the CLO type amounted to NIS 627 million. An amount of NIS (199) million was charged to shareholders' equity in respect of these securities in the first quarter of 2009, and a decrease in value in the amount of NIS 17 million was charged to the profit and loss statement.

The charge to profit and loss in respect of these two portfolios was made on the basis of the policy detailed in the principal accounting policies section on pages 50 to 51 of the Annual Report for 2008, although as at the date of publication of this Report, there has been no credit failure, neither in the SCDO-type asset-backed securities nor in the CLO-type asset-backed securities.

The securities for trading portfolio includes investments in asset-backed securities through portfolio managers in the amount of some NIS 222 million (US$ 53 million), of which some NIS 178 million is invested in mortgage-backed securities and some NIS 35 million is invested in other asset-backed securities. This portfolio includes securities that are backed by sub-prime mortgages in the amount of NIS 12.5 million (US$ 3 million), 16% of which are rated 'AAA' and the balance 'BBB'. Any difference which may arise between fair value and the adjusted cost is charged to the profit and loss statement.

The balance of corporate CDS held at 31 March 2009 was the amount of NIS 188 million. An evaluation of these instruments on the basis of fair value was recorded directly in profit and loss.

With respect to the investment in CDS, declines in value in the amount of some NIS 3 million were recorded in the profit and loss statement during the first quarter of 2009.

For the definition of asset-backed securities see Note 3 to the Financial Statements for 2008.

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

The Group's securities portfolio as at 31 March 2009 includes some NIS 21.2 billion (some US$ 5.1 billion) of non-asset-backed securities, which include mainly securities issued by banks and financial institutions, including subordinated debentures, the balance being securities issued by the governments of the USA, France and Israel, and securities of Israeli companies that were issued abroad. Of these securities, NIS 16.4 billion (US$ 3.9 billion) are classified in the available-for-sale portfolio, and some NIS 4.9 billion in the securities for trading portfolio. Of these securities, 92% are rated 'A-' or above, of which 20% are rated 'AAA'.

For further details regarding exposure to overseas banks and financial institutions see page 83.

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 shareholders' equity. This is based on the criteria described under principal accounting policies at pages 50 and 51 of the 2008 Annual Report, and takes into consideration additional parameters such as the involvement and backing – including direct capital investment – of governments for insuring the strength of these and other banks in their countries, and market expectations regarding the risk of bank failures, as expressed in the prices of the credit derivatives (CDS).

As at 31 March 2009, the accumulated decrease in value charged to shareholders' equity in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio amounted to NIS 2,410 million (NIS 1,545 million after tax). Of this amount, NIS 865 million was added during the first quarter of 2009.

The majority of the debentures which are not asset-backed securities and which were issued abroad are debentures issued by banks.

The bank debentures portfolio is invested in Western European countries (43%) and in the United States (44%), in large and well-known banks. Of this, slightly under US$ 1 billion is invested in subordinated debentures. The debentures of this type that are held by the Group do not include a component that is convertible into shares. The issuer of this type of debentures generally holds an early call option with respect to the debentures. If the issuer does not exercise the early call option, the debentures' duration is extended by a number of years (generally three to five) and the interest rate increases (the "step-up" mechanism). Due to the low level of liquidity in the world markets, it is not yet clear whether the banks will behave as they have in the past by exercising the call options or whether the debentures' durations will be extended and the interest rates will rise.

Most of the decline in the value of securities issued abroad has been with respect to debentures of this kind. As at 31 March 2009, out of the entire available-for-sale subordinated debenture portfolio of some NIS 3.4 billion, their fair value as at the date of the Report is some NIS 2.3 billion. Some half of the portfolio decreased by more than 35%, and at an average of some 42%. Since a material component of the decline in value results from the increased probability that the issuer will utilize its right not to exercise the early call option and thus extend the average duration of the debentures, and since the Bank has carried out individual examinations of the repayment ability of each of the banks in this group, and considering the significant improvement since the date of the balance sheet, the Bank has decided that this decline in value is a temporary one. The decline in the overall value of the subordinated debentures portfolio in the first quarter alone has been some NIS 400 million. From the end of the first quarter through the middle of May, the portfolio's value has improved by some NIS 118 million, some 30% of the first quarter's decline in value, such that the total decline in value in 2009, through the middle of May has been NIS 282 million. The contraction, from the beginning of April through the middle of May, of the spreads in the debentures, as well as the even more significant contraction in the spreads of the relevant credit derivatives (CDS) in those banks in the group for which there are CDS, supports the view that this decline in value is temporary.

The Bank intends, and is able, to continue to hold these debentures until maturity or at least until the return of their value.

	Fair value		Difference in fair value during the first quarter	13 May 2009
	31 December 2008	**31 March 2009**		
Total subordinated bank debentures issued abroad	2,614	**2,261**	(353)	2,347
Of this, subordinated debentures that declined in value by more than 35% as at 31 March 2009	24	**1,073**	1,049	1,191

In addition, the Bank holds long-term senior debentures in the amount of some NIS 250 million of an American bank (Citi). As at 31 March 2009, these debentures, because of their long term declined in value by 41%. The involvement of the administration in the management of and ensuring the stability of the bank, as well as an individual examination of its capabilities (in addition to the examination of its value by the US administration) indicate that the decline in value is not permanent. From the balance-sheet date through the middle of May, these debentures too recovered to some extent.

In addition to the temporary decline in value which was charged to the shareholders' equity, NIS 5.4 million (NIS 3.5 million after tax) was charged to the profit and loss statement with respect to these securities in the available-for-sale portfolio.

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 99% of them are rated 'A' and above. The value of the trading portfolio which is non-asset backed as at 31 March 2009 amounted to NIS 4.9 billion (US$ 1.2 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 18.4 billion on 31 March 2009, of which NIS 17.5 billion was in debentures issued by the government of Israel, and the balance of NIS 0.9 billion was in corporate debentures. Of the corporate debentures, 92% are rated 'A-' and above, of which 74% are rated 'AA' and above. The corporate debenture portfolio is spread among various branches of the economy. The investment of some 22% of the portfolio in the real estate sector is the largest. On 31 March 2009, investments in corporate debentures amounted to NIS 0.8 billion in the available-for-sale portfolio, and the balance was in the trading portfolio.

All the corporate debentures in the trading portfolio and part of those in the available–for-sale portfolio are listed and traded on the Stock Exchange. Some 67% of the corporate debentures in the available-for-sale portfolio are not listed. The evaluation of the listed corporate debentures is based on market prices on the stock exchange, and the non-listed corporate debentures are valued by a professional entity which carries on business as a valuer. Since there is no active market in these debentures, the evaluation is based on a model. The Bank validated the model and ensured, to a reasonable degree of certainty, the accuracy of the fair value. The validation includes, *inter alia*, an examination of the systemic-logical connection between the data and the evaluation, reference to factors material to the evaluation and the validity of the data and the parameters on which the evaluation was based, including specific reference to the results of the model of the “Sha’arei Ribit” company, which values these assets for use in the financial statements of financial institutions.

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 in accounting policy at pages 50 to 51 of the 2008 Annual Report.

Out of the total amount of NIS 0.9 billion in the corporate debenture portfolio in the available-for-sale portfolio, some 14.5% of the portfolio had decreased in value by over 20% as at 31 March 2009. The total decrease in value amounted to NIS 42 million, which was charged to shareholders' equity. The Bank estimates that the decline in the value of the corporate debentures portfolio is mainly of a temporary nature, on the basis of an individual examination of each debenture. The assessment of the companies' repayment ability was found to be 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 adjusted cost value and even until maturity.

3. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,830 million on 31 March 2009, of which NIS 1,836 million was in listed shares and NIS 994 million was in non-listed shares. Of the total investment, NIS 2,716 million is classified as available-for-sale and NIS 114 million is classified in the trading portfolio.

The following table sets out the principal investments in shares and 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	
	31 March 2009	31 December 2008	**31 March 2009**	31 December 2008
	%		NIS millions	
Migdal Insurance and Financial Holdings Ltd. [(2)]	**9.85**	9.85	**350**	411
Africa Israel Properties Ltd.	**4.3**	4.3	**24**	15
Super-Pharm (Israel) Ltd. *	**18.0**	18.0	**182**	182
Hot – Cable Communications Systems Ltd. [(3)]	**14.96**	14.96	**296**	239
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.62	**40**	29
Bezeq – Israel Communications Company Ltd.	**4.22**	4.23	**728**	683
Union Bank of Israel Ltd. [(4)]	**6.46**	6.46	**99**	101
Tower Semiconductor capital notes	-	-	**49**	49
Visa International	-	-	**32**	27
CLS Bank	-	-	**21**	21
Funds	-	-	**361**	991
Apax	-	-	**56**	56

* not listed

(1) See page 59 for details of non-banking investments presented on the equity basis.

The following table shows investments (positions) in shares and funds in the securities item (available-for-sale portfolio and trading portfolio) (in NIS millions):

	Balance sheet amount	
	31 March 2009	31 December 2008
Listed shares	**1,685**	1,718
Funds according to quote by counterparty	**445**	988
Unlisted shares	**700**	618
Total	**2,830**	3,324

(2) For additional details see page 61.

(3) On 1 May 2009, the Bank signed an agreement with Cool Holding Ltd., controlled by Mr. Patrick Drahi from France (the "Purchaser") for the sale of the 11,376,902 ordinary shares of Hot-Cable Communications Systems Ltd. ("Hot") held by the Bank, constituting 14.96% of Hot's issued and fully paid capital (the "Sold Shares").
The Purchaser will pay NIS 381,126,210 in consideration for the Sold Shares. The agreement is subject to conditions precedent including the receipt of the necessary

approvals from the supervisory authorities and the non-exercise of the pre-emptive rights granted to certain Hot shareholders. In accordance with the Purchaser's undertakings pursuant to the agreement, the Purchaser has provided the Bank with appropriate security. The Bank's after-tax profit as a result of the sale is expected to be some NIS 120 million.

(4) **Union Bank**

On 17 November 2003, an agreement was signed between the Bank, Sherodar Assets Ltd. and Yeshaya Landau Holdings (1993) Ltd. for the extension of the put option and of the call option that were granted in an agreement dated 18 November 1999, in respect of the balance of the shares in Union Bank that are held by the Bank, for a period ending on 17 November 2010.

As at 31 March 2009, the Bank held 6.46% of Union Bank's shares.

On 11 May 2009, the Bank requested that the put option be exercised. Exercise of the option is subject to the receipt of a permit from the Governor of the Bank of Israel for the increase or acquisition of means of control.

For further details in respect of the above-mentioned agreement see Note 12A to the Financial Statements.

Other assets

On 31 March 2009, other assets amounted to NIS 12.5 billion, compared with NIS 13.5 billion at the end of 2008, a decrease of 7.6%. The decrease in this item resulted primarily from a decrease in the balance of the fair value of derivative instruments of some NIS 1.7 billion.

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 2008.

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

	For the three months ending on		
	31 March 2009	31 March 2008	% Change
	(NIS millions)		
Households	**54**	155	(65.2)
Small businesses	**60**	99	(39.4)
Corporate banking	**125**	206	(39.3)
Commercial banking	**90**	151	(40.4)
Private banking	**50**	40	25.0
Financial management – capital markets and other	**50**	(181)	-
Total	**429**	470	(8.7)

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

	For the three months ending on			
	31 March 2009	31 March 2008	Change	Contribution to profit
	(NIS millions)		%	%
Households	**55**	156	(64.7)	15.7
Small businesses	**60**	99	(39.4)	17.1
Corporate banking	**125**	206	(39.3)	35.6
Commercial banking	**90**	151	(40.4)	25.6
Private banking	**50**	40	25.0	14.2
Financial management – capital markets and other	**(29)**	(71)	(59.2)	(8.2)
Total	**351**	581	(39.6)	100.0

Explanations for the changes in profitability are provided below.

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 31 March 2009					
	NIS millions					
Profit from net interest income:						
From external sources	**(69)**	**41**	**1**	**275**	**(3)**	**245**
Inter-segmental	**463**	**(8)**	**-**	**(202)**	**8**	**261**
Operating and other income:						
From external sources	**153**	**107**	**113**	**30**	**2**	**405**
Inter-segmental	**(1)**	**52**	**-**	**3**	**-**	**54**
Total income	**546**	**192**	**114**	**106**	**7**	**965**
Provisions for doubtful debts	**37**	**7**	**-**	**4**	**2**	**50**
Operating and other expenses:						
External	**566**	**125**	**78**	**48**	**7**	**824**
Inter-segmental	**1**	**(5)**	**-**	**4**	**-**	**-**
Operating profit (loss) before taxes	**(58)**	**65**	**36**	**50**	**(2)**	**91**
Tax provision	**(20)**	**20**	**13**	**18**	**-**	**31**
Operating profit (loss) after taxes	**(38)**	**45**	**23**	**32**	**(2)**	**60**
Minority interests in profits of consolidated companies	**-**	**(6)**	**-**	**-**	**-**	**(6)**
Net profit	**(38)**	**39**	**23**	**32**	**(2)**	**54**
% Return on equity						**5.5%**
Average balance of assets	**15,286**	**6,203**	**91**	**40,895**	**342**	**62,817**
Of which: investments in companies included on the equity basis	**-**	**9**	**-**	**-**	**-**	**9**
Average balance of liabilities	**114,120**	**533**	**-**	**11,377**	**1,065**	**127,095**
Average balance of risk assets	**14,000**	**6,149**	**92**	**35,412**	**306**	**55,959**
Average balance of mutual funds	**-**	**-**	**31,316**	**-**	**-**	**31,316**
Average balance of securities	**-**	**-**	**40,800**	**-**	**152**	**40,952**
Average balance of other assets under management	**169**	**-**	**-**	**7,527**	**-**	**7,696**
Balance of credit to the public	**15,100**	**6,067**	**90**	**40,638**	**347**	**62,242**
Balance of deposits of the public	**114,737**	**29**	**-**	**6,437**	**1,102**	**122,305**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas activities	Total
	For the three months ending 31 March 2008					
	NIS millions					
Net interest income:						
From external sources	(401)	34	1	335	(5)	(36)
Inter-segmental	894	(10)	(1)	(227)	11	667
Operating and other income:						
From external sources	173	101	118	31	2	425
Inter-segmental	(1)	56	-	3	-	58
Total income	665	181	118	142	8	1,114
Provisions for doubtful debts	20	3	-	43	1	67
Operating and other expenses:						
External	554	108	80	57	7	806
Inter-segmental	-	1	-	3	-	4
Operating profit before taxes	91	69	38	39	-	237
Provision for taxes	33	21	14	14	-	82
Net profit	58	48	24	25	-	155
% Return on equity						16.2%
Average balance of assets	14,939	5,678	71	36,976	281	57,945
Of which: investments in companies included on the equity basis	-	7	-	-	-	7
Average balance of liabilities	108,240	346	-	12,111	1,046	121,743
Average balance of risk assets	13,742	5,589	75	31,218	279	50,903
Average balance of mutual funds	-	-	33,830	-	-	33,830
Average balance of securities	-	-	44,072	-	130	44,202
Average balance of other assets under management	225	-	-	7,956	-	8,181
Balance of credit to the public as at 31 December 2008	15,064	6,050	92	40,603	336	62,145
Balance of deposits of the public as at 31 December 2008	112,883	18	-	6,917	1,028	120,846

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 97 million, compared with the end of 2008. After neutralizing housing loans, credit increased by 0.3% and there was no change in housing loans. Deposits of the public decreased by NIS 1,459 million, a increase of 1.2% compared with the end of 2008.

Main Changes in Net Profit

In the first quarter of 2009, net profit in the households segment totaled NIS 54 million, compared with NIS 155 million in the corresponding period in 2008, a decrease of 65.2%. The decrease in net profit stems primarily from the decrease of NIS 125 million in net interest income, a decrease in operating income of NIS 24 million and an increase in expenses of NIS 13 million, which was partially offset by a decrease in provisions for doubtful debts in the amount of NIS 17 million.

Return on equity of the net profit was 5.5%.

2. Small Businesses

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

	Banking and finance in Israel	Credit cards	Capital market	Mort-gages	Real estate	Overseas activities: Banking and finance	Overseas activities: Real estate	Total
	For the three months ending 31 March 2009							
	NIS millions							
Profit from net interest income:								
From external sources	**154**	**5**	**-**	**1**	**52**	**15**	**1**	**228**
Inter-segmental	**3**	**(2)**	**-**	**(1)**	**(9)**	**(8)**	**-**	**(17)**
Operating and other income:								
From external sources	**72**	**17**	**5**	**-**	**11**	**4**	**-**	**109**
Inter-segmental	**1**	**(11)**	**-**	**-**	**-**	**-**	**-**	**(10)**
Total income	**230**	**9**	**5**	**-**	**54**	**11**	**1**	**310**
Provisions for doubtful debts	**24**	**-**	**-**	**-**	**10**	**6**	**2**	**42**
Operating and other expenses:								
External	**136**	**9**	**3**	**-**	**14**	**9**	**1**	**172**
Inter-segmental	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Operating profit (loss) before taxes	**70**	**(2)**	**2**	**-**	**30**	**(4)**	**(2)**	**94**
Tax provision	**23**	**-**	**1**	**-**	**11**	**-**	**(1)**	**34**
Net profit (loss)	**47**	**(2)**	**1**	**-**	**19**	**(4)**	**(1)**	**60**
% Return on equity								**24.6%**
Average balance of assets	**11,456**	**630**	**31**	**152**	**4,852**	**756**	**92**	**17,969**
Average balance of liabilities	**11,832**	**845**	**-**	**-**	**1,952**	**585**	**97**	**15,311**
Average balance of risk assets	**8,600**	**602**	**35**	**149**	**4,852**	**541**	**83**	**14,862**
Average balance of mutual funds	**-**	**-**	**1,356**	**-**	**-**	**-**	**-**	**1,356**
Average balance of securities	**-**	**-**	**2,659**	**-**	**-**	**1**	**-**	**2,660**
Average balance of other assets under management	**432**	**-**	**-**	**-**	**-**	**-**	**-**	**432**
Balance of credit to the public	**11,218**	**655**	**27**	**155**	**4,825**	**734**	**97**	**17,711**
Balance of deposits of the public	**11,644**	**-**	**-**	**-**	**1,903**	**623**	**117**	**14,287**

Small businesses (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Real estate	Overseas activities	Total
	For the three months ending 31 March 2008						
	NIS millions						
Profit from net interest income:							
From external sources	187	5	2	2	77	14	287
Inter-segmental	(18)	(2)	(1)	(2)	(31)	(7)	(61)
Operating and other income:							
From external sources	79	17	6	-	12	4	118
Inter-segmental	-	(11)	-	-	-	-	(11)
Total income	248	9	7	-	58	11	333
Provisions for doubtful debts	14	-	-	-	-	-	14
Operating and other expenses:							
External	128	6	2	-	19	10	165
Inter-segmental	-	-	-	-	-	-	-
Operating profit before taxes	106	3	5	-	39	1	154
Tax provision	39	1	1	-	14	-	55
Net profit	67	2	4	-	25	1	99
% Return on equity							37.9%
Average balance of assets	11,800	550	148	132	4,708	676	18,014
Average balance of liabilities	11,172	846	-	-	1,745	579	14,342
Average balance of risk assets	8,783	513	182	126	4,624	648	14,876
Average balance of mutual funds	-	-	1,320	-	-	-	1,320
Average balance of securities	-	-	4,090	-	-	41	4,131
Average balance of other assets under management	489	-	-	-	-	-	489
Balance of credit to the public as at 31 December 2008	11,665	594	35	149	4,852	866	18,161
Balance of deposits of the public as at 31 December 2008	11,923	-	-	-	1,928	624	14,475

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 450 million compared with the end of 2008, a decrease of 2.5%, and total deposits of the public decreased by NIS 188 million, a decrease of 1.3%.

Main Changes in the Net Profit

In the first quarter of 2009, net profit in the small businesses segment totaled NIS 60 million, compared with NIS 99 million in the corresponding period in 2008, a decrease of 39.4%. The decrease in profit stems mainly from a decrease in income of NIS 23 million, and from an increase in the provisions for doubtful debts in the amount of NIS 28 million.

Return on equity of the net profit was 24.6%.

3. Corporate Banking

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

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas Activities: Banking and finance	Overseas Activities: Real estate	Total
	For the three months ending 31 March 2009						
	NIS millions						
Profit from net interest income:							
From external sources	**210**	**8**	**-**	**342**	**1**	**-**	**561**
Inter-segmental	**51**	**(2)**	**-**	**(185)**	**3**	**2**	**(131)**
Operating and other income:							
From external sources	**32**	**45**	**7**	**13**	**2**	**-**	**99**
Inter-segmental	**1**	**(33)**	**-**	**-**	**-**	**-**	**(32)**
Total income	**294**	**18**	**7**	**170**	**6**	**2**	**497**
Provisions for doubtful debts	**110**	**1**	**-**	**64**	**-**	**-**	**175**
Operating and other expenses:							
External	**81**	**18**	**5**	**17**	**4**	**1**	**126**
Inter-segmental	**-**	**1**	**-**	**-**	**-**	**-**	**1**
Operating profit (loss) before taxes	**103**	**(2)**	**2**	**89**	**2**	**1**	**195**
Tax provision	**36**	**-**	**1**	**32**	**1**	**-**	**70**
Net profit (loss)	**67**	**(2)**	**1**	**57**	**1**	**1**	**125**
% Return on Equity							**7.9%**
Average balance of assets	**53,314**	**503**	**2**	**27,209**	**500**	**52**	**81,580**
Average balance of liabilities	**23,661**	**3,022**	**-**	**4,918**	**698**	**296**	**32,595**
Average balance of risk assets	**63,714**	**578**	**4**	**26,832**	**-**	**3**	**91,131**
Average balance of mutual funds	**-**	**-**	**742**	**-**	**-**	**-**	**742**
Average balance of securities	**-**	**-**	**54,578**	**-**	**160**	**-**	**54,738**
Average balance of other assets under management	**255**	**-**	**-**	**-**	**-**	**-**	**255**
Balance of credit to the public	**49,800**	**477**	**-**	**27,091**	**404**	**101**	**77,873**
Balance of deposits of the public	**20,696**	**-**	**-**	**4,485**	**787**	**415**	**26,383**

Corporate Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas activities	Total
	For the three months ending 31 March 2008					
	NIS millions					
Profit from net interest income:						
From external sources	524	7	-	324	(10)	845
Inter-segmental	(94)	(3)	-	(190)	17	(270)
Operating and other income:						
From external sources	(21)	42	6	15	1	43
Inter-segmental	-	(35)	-	-	-	(35)
Total income	409	11	6	149	8	583
Provisions for doubtful debts	144	-	-	2	-	146
Operating and other expenses:						
External	68	14	3	24	5	114
Inter-segmental	-	-	-	-	-	-
Operating profit (loss) before taxes	197	(3)	3	123	3	323
Tax provision	70	-	1	45	1	117
Net profit (loss)	127	(3)	2	78	2	206
% Return on Equity						13.5
Average balance of assets	45,929	334	1	21,309	888	68,461
Average balance of liabilities	21,531	2,904	-	3,532	1,853	29,820
Average balance of risk assets	57,750	349	1	21,165	1,096	80,361
Average balance of mutual funds	-	-	732	-	-	732
Average balance of securities	-	-	77,285	-	404	77,689
Average balance of other assets under management	331	-	-	-	-	331
Balance of credit to the public as at 31 December 2008	48,632	495	4	26,832	600	76,563
Balance of deposits of the public as at 31 December 2008	17,596	-	-	4,730	785	23,111

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 1,310 million compared with the end of 2008, an increase of 1.7 %, and total deposits of the public increased by NIS 3,272 million, some 14.2 %.

Main Changes in Net Profit

In the first quarter of 2009, net profit in the corporate banking segment totaled NIS 125 million, compared with NIS 206 million during the corresponding period in 2008, a decrease of 39.3%. The decrease in profit stems mainly from a decrease in income of NIS 86 million, some 14.8%, an increase in provisions for doubtful debts of NIS 29 million and an increase in expenses of NIS 13 million.

Return on equity of net profit was 7.9%.

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	Mort-gages	Real estate	Overseas activities: Banking and finance	Overseas activities: Capital market	Overseas activities: Real estate	Total
	For the three months ending 31 March 2009								
	NIS millions								
Profit from net interest income:									
From external sources	**172**	**2**	**-**	**4**	**56**	**131**	**-**	**39**	**404**
Inter-segmental	**6**	**-**	**-**	**(3)**	**(13)**	**(44)**	**-**	**(23)**	**(77)**
Operating and other income:									
From external sources	**58**	**12**	**12**	**-**	**7**	**10**	**1**	**2**	**102**
Inter-segmental	**-**	**(8)**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**
Total income	**236**	**6**	**12**	**1**	**50**	**97**	**1**	**18**	**421**
Provisions for doubtful debts	**44**	**-**	**-**	**(2)**	**5**	**-**	**-**	**3**	**50**
Operating and other expenses:									
External	**107**	**5**	**10**	**1**	**9**	**90**	**-**	**11**	**233**
Inter-segmental	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**2**
Operating profit (loss) before taxes	**85**	**(1)**	**2**	**2**	**36**	**7**	**1**	**4**	**136**
Tax provision	**30**	**-**	**1**	**1**	**13**	**-**	**-**	**1**	**46**
Net profit (loss)	**55**	**(1)**	**1**	**1**	**23**	**7**	**1**	**3**	**90**
% Return on equity									**11.8%**
Average balance of assets	**24,794**	**303**	**8**	**463**	**6,056**	**14,073**	**-**	**3,430**	**49,127**
Average balance of liabilities	**20,135**	**715**	**-**	**129**	**1,911**	**8,768**	**-**	**614**	**32,272**
Average balance of risk assets	**24,254**	**314**	**10**	**460**	**5,778**	**11,009**	**-**	**2,648**	**44,473**
Average balance of mutual funds	**-**	**-**	**2,672**	**-**	**-**	**-**	**73**	**-**	**2,745**
Average balance of securities	**-**	**-**	**29,506**	**-**	**-**	**-**	**2,399**	**-**	**31,905**
Average balance of other assets under management	**705**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**705**
Balance of credit to the public	**22,277**	**302**	**7**	**466**	**6,319**	**14,234**	**-**	**3,490**	**47,095**
Balance of deposits of the public	**18,171**	**-**	**-**	**75**	**1,858**	**8,949**	**-**	**540**	**29,593**

Commercial Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Mort-gages	Real estate	Overseas activities Banking and finance	Capital market	Real estate	Total
	For the three months ending 31 March 2008								
	NIS millions								
Profit from net interest income:									
From external sources	292	2	1	4	91	160	-	38	588
Inter-segmental	(62)	(1)	(1)	(2)	(40)	(67)	-	(20)	(193)
Operating and other income:									
From external sources	60	12	13	-	6	9	5	3	108
Inter-segmental	-	(8)	-	-	-	-	-	-	(8)
Total income	290	5	13	2	57	102	5	21	495
Provisions for doubtful debts	33	-	-	-	-	4	-	-	37
Operating and other expenses:									
External	107	4	8	1	13	79	-	12	224
Inter-segmental	-	-	-	-	-	-	-	-	-
Operating profit before taxes	150	1	5	1	44	19	5	9	234
Tax provision	54	-	2	1	16	6	2	3	84
Operating profit after taxes	96	1	3	-	28	13	3	6	150
Group's share in profits of companies included on the equity basis after taxes	-	1	-	-	-	-	-	-	1
Net profit	96	2	3	-	28	13	3	6	151
% Return on equity									16.7%
Average balance of assets	28,091	281	30	304	6,090	14,377	-	2,942	52,115
Of which: investments in companies included on the equity basis	-	11	-	-	-	-	-	-	11
Average balance of liabilities	19,862	709	-	91	2,352	7,949	-	1,675	32,638
Average balance of risk assets	25,917	319	14	294	6,108	12,984	-	2,661	48,297
Average balance of mutual funds	-	-	2,728	-	-	-	-	-	2,728
Average balance of securities	-	-	41,415	-	-	-	2,363	-	43,778
Average balance of other assets under management	1,081	-	-	-	-	-	-	-	1,081
Balance of credit to the public as at 31 December 2008	25,057	297	10	460	5,778	13,665	-	3,239	48,506
Balance of deposits of the public as at 31 December 2008	18,480	-	-	75	1,908	8,537	-	659	29,659

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 1,411 million, 2.9% as compared with the end of 2008, and total deposits of the public decreased by NIS 66 million.

Main Changes in Net Profit

In the first quarter of 2009, net profit in the commercial banking segment totaled NIS 90 million, compared with NIS 151 million during the corresponding period in 2008, a decrease of 40.4%. The decrease in profit stems from a decrease in income of NIS 74 million, an increase in provisions for doubtful debts in the amount of NIS 13 million and an increase in expenses of NIS 11 million. Of the decrease of NIS 61 million in net profit, some NIS 11 million arises from activities in the segment abroad.

Return on equity of net profit was 11.8%.

5. Private banking

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

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas activities Banking and finance	Capital market	Real estate	Total
	For the three months ending 31 March 2009							
	NIS millions							
Profit from net interest income:								
From external sources	**(87)**	**-**	**-**	**1**	**23**	**-**	**(1)**	**(64)**
Inter-segmental	**129**	**-**	**-**	**1**	**82**	**-**	**2**	**214**
Operating and other income:								
From external sources	**7**	**-**	**34**	**1**	**31**	**29**	**-**	**102**
Inter-segmental	**1**	**-**	**-**	**-**	**3**	**-**	**-**	**4**
Total income	**50**	**-**	**34**	**3**	**139**	**29**	**1**	**256**
Provisions for doubtful debts	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Operating and other expenses:								
External	**38**	**-**	**14**	**1**	**101**	**19**	**1**	**174**
Inter-segmental	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Operating profit (loss) before taxes	**12**	**(1)**	**20**	**2**	**37**	**10**	**-**	**80**
Tax provision	**5**	**-**	**6**	**1**	**13**	**3**	**-**	**28**
Operating profit (loss) after taxes	**7**	**(1)**	**14**	**1**	**24**	**7**	**-**	**52**
Minority interests in profits of consolidated companies	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**(2)**
Net profit (loss)	**7**	**(1)**	**14**	**1**	**22**	**7**	**-**	**50**
% Return on equity								**54.7%**
Average balance of assets	**1,453**	**50**	**-**	**335**	**9,183**	**-**	**55**	**11,076**
Average balance of liabilities	**24,645**	**-**	**-**	**707**	**15,726**	**-**	**311**	**41,389**
Average balance of risk assets	**1,108**	**50**	**-**	**291**	**4,555**	**-**	**61**	**6,065**
Average balance of mutual funds	**-**	**-**	**2,408**	**-**	**-**	**1,250**	**-**	**3,658**
Average balance of securities	**-**	**-**	**28,166**	**-**	**-**	**27,497**	**-**	**55,663**
Average balance of other assets under management	**299**	**-**	**-**	**-**	**-**	**-**	**-**	**299**
Balance of credit to the public	**1,244**	**49**	**-**	**373**	**4,759**	**-**	**45**	**6,470**
Balance of deposits of the public	**25,216**	**-**	**-**	**686**	**16,275**	**-**	**321**	**42,498**

Private banking (cont'd.)

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas activities Banking and finance	Capital market	Total
	For the three months ending 31 March 2008						
	NIS millions						
Profit from net interest income:							
From external sources	(106)	-	-	(1)	(22)	-	(129)
Inter-segmental	144	-	-	3	88	-	235
Operating and other income:							
From external sources	9	-	31	1	29	40	110
Inter-segmental	-	-	-	-	4	-	4
Total income	47	-	31	3	99	40	220
Provisions for doubtful debts							
Operating and other expenses:							
External	39	-	13	1	77	23	153
Inter-segmental	1	-	-	-	-	1	2
Operating profit before taxes	7	-	18	2	22	16	65
Tax provision	1	-	7	1	9	6	24
Operating profit after taxes	6	-	11	1	13	10	41
Minority interests in profits of consolidated companies	-	-	-	-	(1)	-	(1)
Net profit	6	-	11	1	12	10	40
% Return on equity							30.2%
Average balance of assets	1,523	49	-	177	8,819	-	10,568
Average balance of liabilities	23,755	-	-	587	15,953	-	40,295
Average balance of risk assets	944	48	-	167	6,201	-	7,360
Average balance of mutual funds	-	-	3,211	-	-	1,931	5,142
Average balance of securities	-	-	30,046	-	-	35,805	65,851
Average balance of other assets under management	328	-	-	-	-	-	328
Balance of credit to the public as at 31 December 2008	1,292	50	-	291	4,741	64	6,438
Balance of deposits of the public as at 31 December 2008	23,098	-	-	719	13,939	301	38,057

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 32 million compared with the end of 2008, and total deposits of the public increased by NIS 4,441 million, 11.7 %.

Main Changes in Net Profit

In the first quarter of 2009, net profit in the private banking segment totaled NIS 50 million, compared with NIS 40 million in the corresponding period in 2008, an increase of 25%. The increase in profit arises from an increase in income of NIS 36 million, 16.4%, which was partially offset by an increase in operating expenses in the amount of NIS 20 million, 12.9%. The increase of the net profit in private banking is divided equally between the activity in Israel and the activity overseas.

Return of the net income was 54.7%.

6. Financial Management – Capital Markets

In the first quarter of 2009, the profit in the financial management segment totaled NIS 63 million, compared with a loss of NIS 157 million in the corresponding period in 2008, an increase of NIS 220 million. The improvement in the profit stems from:

A decrease in operating and other expenses in the amount of NIS 302 million, mainly in respect of salary expenses that are not attributable to other segments.

Positive exchange rate differentials arising from the overseas investments and attributable to this segment and which are not included in the tax calculation, led to a decline in the rate of the provision for tax.

On the other hand, the decrease in net interest income in the amount of NIS 409 million, primarily due to a decrease in market value of derivatives, and a decrease in the Group's portion of profits of consolidated subsidiaries from NIS 87 million to NIS 34 million, partially offset these effects.

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 2,048 million on 31 March 2009, compared with NIS 1,842 million on 31 December 2008.

	Book value (in NIS millions)			Market value (in NIS millions)		
Name of the Company	**31 March 2009**	31 December 2008	% change	**31 March 2009**	31 December 2008	24 May 2009
The Israel Corporation Ltd.	**1,296**	1,186	9.3	**1,799**	1,184	2,864
Paz Oil Company Ltd.	**567**	485	16.9	**661**	571	736
Others	**185**	171	8.2	**-**	-	-
Total	**2,048**	1,842	11.2	**2,460**	1,755	3,600

The contribution to Group profit of the companies included on the equity basis in the first quarter of 2009, amounted to NIS 34 million, compared with NIS 87 million in the corresponding period in 2008.

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

	For the three months ending 31 March		
	2009	2008	% change
The Israel Corporation Ltd.	**21**	57	(63.2)
Paz Oil Company Ltd.	**10**	33	(69.7)
Others	**3**	(3)	+
	34	87	(60.9)

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 15.73% 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 1,901 million and operates in more than three branches of the economy). With regard to the memorandum for the amendment to section 24A of the Banking (Licensing) Law, see page 61. The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

The Paz financial statements for the first quarter 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, the Bank intends to attempt to sell its holdings in Paz (15.73% of the share capital and voting rights – 15.31% on a fully-diluted basis) or to distribute the holding as a dividend to the shareholders, subject to the conditions, 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. The Bank filed a request with the Bank of Israel for an extension for the sale of its holdings in Paz.

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.

On 25 December 2008, and on 30 April 2009, the Bank of Israel extended the permit issued to the Bank for the holding of Migdal shares until 31 December 2009, provided that the shares be transferred to a trustee. The shares were transferred to a trustee on 4 January 2009. Pursuant to the Bank of Israel directives, if the shares held by the trustee are not sold by 31 August 2009, the trustee will sell the shares to a third party by no later than 31 December 2009. The trustee was vested with all the rights that the shares confer (excluding the right to receive dividends and the rights vested with the Bank – the right to sell the shares to a third party or the right to distribute them as a dividend *in specie* up until 31 August 2009).

On 19 March 2009, a Banking (Licensing) Law amendment memorandum was distributed, pursuant to which the Ministry of Finance, with the consent of the Bank of Israel, is proposing to exclude insurance companies from the definition of a conglomerate. The said memorandum was approved by the Ministerial Committee for Legislative Matters on 26 April 2009. The Bank is holding discussions with the Bank of Israel regarding the effect of the said memorandum on the Bank's holding in the shares of Migdal Holdings.

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 quarter of 2009, the loss in the "Others" segment amounted to NIS 13 million, compared with a loss of NIS 24 million in the corresponding period in 2008.

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

	For the three months ending 31 March		
	2009	2008	Change in amount
Profit (loss) from extraordinary items	**1**	(1)	2
From operating activity at the Bank	**3**	4	(1)
Leumi Partners	**9**	7	2
Other companies in Israel	**-**	(3)	3
Overseas companies	**(7)**	(11)	4
Tax adjustments [(1)]	**(19)**	(20)	1
Total	**(13)**	(24)	11

(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 counselling 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. A company included on the equity basis of Leumi Partners Ltd. engages in underwriting and distribution of public and private offerings.

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

	House-Holds	Small businesses	Commercial banking	Corporate Banking	Private Banking	Financial management and Others	Overseas activities	Total
	For the three months ending 31 March 2009							
	NIS millions							
Profit from net interest income	**1**	-	**-**	**-**	**-**	**-**	**-**	**1**
Operating and other income	**113**	**5**	**12**	**7**	**34**	**18**	**33**	**222**
Total income	**114**	**5**	**12**	**7**	**34**	**18**	**33**	**223**
Operating and other expenses	**78**	**3**	**10**	**5**	**14**	**12**	**19**	**141**
Operating profit before taxes	**36**	**2**	**2**	**2**	**20**	**6**	**14**	**82**
Net profit	**23**	**1**	**1**	**1**	**14**	**4**	**10**	**54**

	House-Holds	Small businesses	Commercial banking	Corporate Banking	Private Banking	Financial management and Others	Overseas activities	Total
	For the three months ending 31 March 2008							
	NIS millions							
Profit from net interest income	-	1	-	-	-	-	-	1
Operating and other income	118	6	13	6	31	29	45	248
Total income	118	7	13	6	31	29	45	249
Operating and other expenses	80	2	8	3	13	9	24	139
Operating profit before taxes	38	5	5	3	18	20	21	110
Net profit (loss)	24	4	3	2	11	(7)	13	50

In the first quarter of 2009, net operating profit after taxes from capital market operations amounted to NIS 54 million, compared with NIS 50 million in the corresponding period in 2008, an increase of 8.0%.

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 three months of the year with a net profit of NIS 32 million, compared with NIS 32 million in the corresponding period in 2008.

During the first quarter of 2009, the volume of activity of Leumi Card card holders increased by 1.9 %, compared with the activity in the corresponding period in 2008. The number of valid cards increased by some 7.8 % in the first quarter of 2009, as compared with the corresponding period in 2008.

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

	House holds	Small businesses	Commercial banking	Corporate banking	Private banking	Total
	For the three months ending on 31 March 2009					
	NIS millions					
Profit from net interest income	**33**	**3**	**2**	**6**	**-**	**44**
Operating and other income	**159**	**6**	**4**	**12**	**-**	**181**
Total income	**192**	**9**	**6**	**18**	**-**	**225**
Provisions for doubtful debts	**7**	**-**	**-**	**1**	**-**	**8**
Operating and other expenses	**120**	**11**	**7**	**19**	**1**	**158**
Operating profit (loss) before taxes	**65**	**(2)**	**(1)**	**(2)**	**(1)**	**59**
Net profit (loss)	**39**	**(2)**	**(1)**	**(2)**	**(1)**	**33**

	Households	Small businesses	Commercial banking	Corporate banking	Total
	For the three months ending on 31 March 2008				
	NIS millions				
Profit from net interest income	24	3	1	4	32
Operating and other income	157	6	4	7	174
Total income	181	9	5	11	206
Provisions for doubtful debts	3	-	-	-	3
Operating and other expenses	109	6	4	14	133
Operating profit (loss) before taxes	69	3	1	(3)	70
Leumi's share in profits of companies included on the equity basis, net	-	-	1	-	1
Net profit (loss)	48	2	2	(3)	49

In the first quarter of 2009, net operating profit from credit card activity amounted to NIS 33 million, compared with NIS 49 million during the corresponding period in 2008.

C. Real estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ending on 31 March 2009					
	NIS millions					
Profit from net interest income	**43**	**157**	**43**	**2**	**17**	**262**
Operating and other income	**11**	**13**	**7**	**1**	**2**	**34**
Total income	**54**	**170**	**50**	**3**	**19**	**296**
Provisions for doubtful debts	**10**	**64**	**5**		**5**	**84**
Operating and other expenses	**14**	**17**	**9**	**1**	**14**	**55**
Operating profit before taxes	**30**	**89**	**36**	**2**		**157**
Net profit	**19**	**57**	**23**	**1**	**1**	**101**

Real estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ending on 31 March 2008					
	NIS millions					
Profit from net interest income	46	134	51	2	16	249
Operating and other income	12	15	6	1	3	37
Total income	58	149	57	3	19	286
Provisions for doubtful debts	-	2	-	-	-	2
Operating and other expenses	19	24	13	1	12	69
Operating profit before taxes	39	123	44	2	7	215
Net profit	25	78	28	1	5	137

Profit Centers in the Group

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

	For the period January to March			For the period January to March		
	2009(1)	2008(1)	Change	**2009**(2)	2008(2)	Change
	NIS millions		%	NIS millions		%
The Bank	**162**	301	(46.2)	**(45)**	458	+
Consolidated companies in Israel (3)	**109**	134	(18.7)	**109**	134	(18.7)
Overseas consolidated companies (4)	**135**	(20)	+	**342**	(177)	+
Companies included on the equity basis (3)	**22**	57	(61.4)	**22**	57	(61.4)
Net operating profit	**428**	472	(9.3)	**428**	472	(9.3)
Overseas subsidiaries' profit, in nominal terms (US$ millions) (5)	**9.2**	22.6	(59.3)	**9.2**	22.6	(59.3)

(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 companies included on the equity basis 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 a decrease in net interest income and an increase in the provisions for doubtful debts, which was partially offset by a decrease in salary expenses and an increase in operating and other income.

- The decrease in net operating profit of consolidated companies in Israel derives mainly from a decrease in the Group's share of the profits of Leumi Card and a decrease in profits from the non-banking holdings in Paz.

- The increase in the profit of overseas subsidiaries derive mainly from positive exchange rate differentials in respect of overseas investments, compared with negative exchange rate differentials in the corresponding period in 2008, which was partially offset by a decrease in current profitability of the overseas subsidiaries.

The overseas subsidiaries' operating profits in nominal terms as published by them (including the Bank's overseas branches and minority interests) totaled some US$ 9.2 million, a decrease of US$ 13.4 million compared with the corresponding period in 2008. The contribution of the overseas subsidiaries in shekels, after certain adjustments to Israeli accounting principles, totaled a profit of NIS 135 million, compared with a loss of NIS 20 million in the corresponding period in 2008. Excluding the effect of exchange rate differentials in respect of the cost of financing sources, net, the profit of the overseas subsidiaries amounted to NIS 342 million, as compared with a loss of NIS 177 million in the corresponding period in 2008, an increase of NIS 519 million, deriving mainly from positive 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 5,761 million on 31 March 2009, compared with NIS 5,290 million on 31 December 2008. The contribution to net profit during the period of January to March 2009 was NIS 109 million, compared with NIS 134 million in the corresponding period in 2008, a decrease of 18.7 %.

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

	Return on Group's investment		Contribution to Group's profit [1]		
	31 March 2009	31 March 2008	**31 March 2009**	31 March 2008	Change
	%		NIS millions		%
Leumi Mortgage Bank	**4.9**	3.4	**25.6**	17.0	50.6
Arab Israel Bank	**36.9**	31.9	**27.3**	23.2	17.7
Leumi Card	**19.7**	86.3	**25.6**	31.9	(19.7)
Leumi Partners [2]	**16.2**	8.6	**10.1**	9.0	12.2
Leumi Real Holdings	**8.4**	29.2	**10.6**	33.5	(68.4)
Leumi Leasing and Investments	**1.4**	5.2	**2.8**	10.4	(73.1)
Others	**3.0**	4.1	**6.8**	8.9	(23.6)
Total consolidated subsidiaries in Israel	**8.1**	10.7	**108.8**	133.9	(18.7)

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

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 4,379 million on 31 March 2009, compared with NIS 4,219 million on 31 December 2008.

During the period of January to March 2009, the contribution of the overseas consolidated subsidiaries to the reported net operating profit of the Group, as reported in shekels and after offsetting translation adjustments, amounted to a profit of NIS 135 million, compared with a loss of NIS 21 million in the corresponding period in 2008, as detailed below.

	For the period of January to March	
	2009	2008
	NIS millions	
Operating profits of the subsidiaries in shekels (the Group's share)	**34**	61
Exchange rate differentials in respect of the investment	**308**	(239)
Total	**342**	(178)
Exchange rate differentials in respect of the net cost of financing sources, after taxes	**(207)**	157
Total contribution of the subsidiaries (after offsetting net financing sources)	**135**	(21)

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(*)		
	31 March 2009	31 March 2008	**31 March 2009**	31 March 2008	Change
	%		NIS millions		%
Leumi USA (BLC)	**15.1**	-	**83.5**	(25.7)	+
Leumi UK	**27.3**	0.5	**33.9**	0.9	+
Leumi Switzerland	**9.5**	9.5	**12.5**	12.0	4.2
Leumi Luxembourg	**-**	-	**1.1**	(2.4)	+
Leumi Re	**-**	-	**(2.4)**	-	-
Leumi Romania	**0.7**	-	**0.8**	(2.6)	+
Others	**17.9**	-	**5.1**	(2.9)	+
Total overseas consolidated subsidiaries	**13.9**	-	**134.5**	(20.7)	+

(*) 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 (207) million (NIS 157 million in 2008). The following are some of the sums that were offset:

Leumi USA - NIS 156 million in 2009, compared with NIS (112) million in 2008.
Leumi UK - NIS 29 million in 2009, compared with NIS (39) million in 2008.
Leumi Switzerland - NIS 11 million in 2009, compared with NIS 14 million in 2008.
Leumi Romania - NIS (3) million in 2009, compared with NIS (8) million in 2008.

The increase in the contribution to profit derives mainly from the effect of the devaluation of the shekel in relation to most currencies. The effect of the exchange rate differentials was to increase pre-tax profit by NIS 308 million during the period of January to March 2009, compared with a reduction of pre-tax profit by NIS 239 million in the corresponding period in

2008. Net financing expenses recorded at the Bank, and which offset part of these exchange rate differentials, totaled some NIS 207 million during the period of January to March 2009, compared with income of NIS 157 million in the corresponding period in 2008.

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

	31 March 2009	31 March 2008	Change
	NIS Millions		%
Leumi USA (BLC) (US$)	**1.7**	10.7	(84.1)
Leumi (UK) (£)	**3.4**	3.1	9.7
Leumi Switzerland (CHF)	**2.8**	2.1	33.3
Leumi Luxembourg (€)	**0.2**	0.2	-
Leumi Re (US$)	**(1.2)**	0.8	-
Leumi Romania – Ron	**4.0**	2.4	66.7

The nominal profit of the overseas consolidated subsidiaries as reported by them totaled US$ 9.2 million during the period of January to March 2009, compared with US$ 20.8 million in the corresponding period in 2008, a decrease of 55.8%.

Bank Leumi (Luxembourg)

In April 2009, Bank Leumi (Luxembourg) increased its Capital by € 6 million, through the issue of shares to the Bank.

See Note 5 and 6 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 2,048 million on 31 March 2009, compared with NIS 1,842 million on 31 December 2008.

During the period of January to March 2009, the contribution to net profit amounted to a profit of some NIS 34 million, compared with a profit of some NIS 87 million in the corresponding period in 2008.

Exposure to Risk and Methods of Risk Management

Exposure and Management of Market Risk

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

The ongoing market risk management is intended to assist in achieving the 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 in Israel and throughout the world. The Bank manages the exposures to market risk in a dynamic fashion.

The market risk management policy includes the establishment of limits on the financial exposures. The limits are intended to reduce the damage that could 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 the various risk factors, such as interest rates, the CPI, exchange rates, etc.

The limits set at Group level include all of the subsidiaries in Israel and abroad. The subsidiaries abroad set market risk management policy in coordination with the Bank in Israel. The frameworks for market risk exposures are determined according to a uniform format prescribed by the Bank and are approved by the Bank's Manager of Market Risks. Leumi Mortgage Bank and Leumi Partners manage market risks independently, but in coordination with the Bank's Manager of Market Risks, due to the dissimilar nature of their activities from those of the Bank. Information regarding the position of the exposures according to the prescribed frameworks is received from the subsidiaries once a month or upon request, and is taken into account in the overview of the exposures in the Group.

The following table shows the capital requirements in respect of market risks, in accordance with the directives of the Bank Supervision Department:

	31 March 2009	31 December 2008
	NIS millions	
Capital requirement in respect of		
Interest risks	**363**	333
Share price risk	**16**	4
Exchange rate risk	**96**	78
Inflation risk	**50**	17
Options	**43**	61
Total capital requirement in respect of market risks	**568**	493

Basis Exposure

The exposure to basis risk 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. Basis exposure includes the effect of futures transactions, in each of the linkage sectors, and the exposure to share indices.

According to accounting principles, the capital is defined as an unlinked shekel source, such that an investment of the capital in a sector other than the unlinked shekel sector is defined as a basis exposure. All the exposure to the basis risks is measured as a percentage of the Bank's exposed capital.

The exposed capital, at Bank level, includes the shareholders' equity and certain reserves, less fixed assets and investments in subsidiaries and associated companies, excluding the investments in subsidiaries abroad that are financed from sources in foreign currency, and are not therefore deducted from the capital. At Group level, the exposed capital includes the shareholders' equity and certain reserves, less fixed assets and investments in companies included on the equity basis.

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 exposure (%)*		
	Approved limits maximum surplus (or deficit)	**31 March 2009**	31 March 2008	31 December 2008
Unlinked	50% - (100%)	**(8.6)**	(30.5)	(9.2)
CPI-linked	100% - (50%)	**6.6**	28.8	10.4
Foreign currency	25% - (10%)	**2.0**	1.7	(1.2)

* In addition the Bank and the subsidiaries have limits on the maximum position that can be invested in each currency.

During the first quarter of 2009, an average of some 6% of the exposed capital was invested in the CPI-linked sector, which fluctuated during the quarter between (1)% and 12%. A relatively low volume of capital was channeled to the foreign currency and foreign-currency-linked sector, and therefore the effect of changes in exchange rates did not materially affect the profit.

Changes in the exchange rate affect the effective tax rate, since the 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 change 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. The tax exposure in respect of the overseas investments is covered by forward transactions.

The actual effect of the exchange rate differentials during the first quarter of 2009 is presented on page 68, in the context of the contribution of the overseas consolidated subsidiaries to the Group's profit.

During the first three months of 2009, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 31 March 2009. The measurement relates to the effect of such changes on the capital of the Bank and includes the activity in balance sheet and off-balance sheet instruments.:

	US$	€	£	CHF	Yen
	NIS millions				
Increase of 5% in exchange rate	12	(1)	3	(2)	2
Increase of 10% in exchange rate	31	-	6	(5)	5
Decrease of 5% in exchange rate	(5)	3	(2)	-	1
Decrease of 10% in exchange rate	(7)	11	(3)	(3)	7

These data do not take into account the effect of a change in the exchange rates on the income and expense cash flows in 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, and a similar increase in the exchange rate would raise the profit by a similar amount..

Interest Exposure

The exposure to risk from 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 duration 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[1] and the annual accounting profit in consequence of a shift of the yield curves in each of the sectors.

The following table presents the exposure to interest changes at the Group level, calculated according to accounting principles. During the first quarter of 2009, the Group complied with all interest exposure limits set by the Board of Directors. For detailed data on interest exposure, see Exhibit D to the Management Review below.

	31 March 2009			31 December 2008		
	Unlinked	CPI-linked	Foreign currency and foreign currency linked	Unlinked	CPI-linked	Foreign currency and foreign currency linked
Average duration (in years):						
of assets (1)	0.44	3.32	0.57	0.45	3.33	0.55
of liabilities (1)	0.36	4.28	0.34	0.37	4.18	0.39
The gap in duration in years	0.08	(0.96)	0.23	0.08	(0.85)	0.16
Difference in the internal rate of return (%)	0.66	0.56	1.33	1.53	0.97	1.67

(1) Excluding forward transactions and options.

[1] The economic value of the capital is defined as the difference between the current value of the assets and the liabilities. In calculating the current value, the cash flows are deducted from the risk-free yield curve – i.e. the yields of government debentures.

The average duration of liabilities in the CPI-linked sector is calculated after taking into account estimates of early repayments of savings plans and withdrawals at exit points, on the basis of a model that estimates the anticipated early repayments on the basis of the behavior of the savers. The average duration of liabilities, according to the original cash-flow of the savings schemes is longer, and reaches 4.29 years, while the gap in the internal rate of return (IRR) amounts to 0.55%.

The data presented above take into account early repayments of CPI-linked mortgages, pursuant to a statistical model that estimates expected repayments on the basis of the borrowers' behavior and the development of market variables. The average duration of assets as at 31 March 2009, according to the original cash flow, without taking into account early repayments, is longer, and reaches 3.62 years, and the IRR gap amounts to 0.55%.

Current account balances are presented in Exhibit D to the Management Review pursuant to directives of the Bank of Israel as demand deposits for up to one month. However, for the purposes of interest exposure, a certain percentage of the current account balances in shekels and in foreign currency is spread over a repayment period of up to ten years, in accordance with a behavioral model whose basic assumptions are updated on an ongoing basis. Taking into account the above assumptions, the average duration of liabilities is longer and reaches 0.58 years in unlinked shekels and 0.49 years in foreign currency, with the IRR gap reaching 2.03% and 1.91% respectively.

Interest exposure risk is managed on the basis of economic exposures and is based on various behavioral assumptions regarding the original payment dates of the assets and liabilities. With the aim of limiting interest risks, the Board of Directors of the Bank and the boards of directors of the Israel and overseas subsidiaries have approved limits on the maximum potential erosion of the economic value and the accounting profit as a result of parallel changes in the interest curves.

The following table presents a summary of the exposures to unforeseen fluctuations of interest rates at the Group level (in NIS millions):

	Potential erosion of economic value[2]			Potential erosion of annual profit*		
Effect of a parallel change of 1% in the interest curve:	**31 March 2009**	31 March 2008	31 December 2008	**31 March 2009**	31 March 2008	31 December 2008
Actual	**452**	203	321	**336**	324	320
Limit	**1,000**	1,000	1,000	**600**	700	600

* The maximum erosion of the annual profit based on an examination of the next three years.

During the first quarter of 2009, the potential erosion of the economic value and annual profit ranged between NIS 321 million in December 2008 to NIS 452 million in March 2009, and between NIS 269 million in January 2009 and NIS 336 million in March 2009, respectively.

The potential erosion of the economic value of the capital resulting from a 1% change in interest rates increased in the first quarter of 2009 by some NIS 131 million, and totalled NIS 452 million at the end of March 2009.

The potential erosion of the accounting profit resulting from a 1% change in interest rates from the beginning of the year by some NIS 16 million and totalled NIS 336 million at the end of March 2009.

[2] The economic value of the capital is defined as the difference between the current value of the assets and the liabilities. In calculating the current value, the shekel cash flows are deducted from the risk free yield curves, from the government debenture yields and from the LIBOR curves in foreign currency.

During the first three months of 2009, the Group complied with all interest exposure limits prescribed by the Board of Directors.

Value at Risk (VaR)

The Bank manages the exposure to market risks by various means, as mentioned above, as well as by means of a statistical model – the VaR model. According to Bank of Israel directives, the risk measured by the VaR relates to the potential loss from holding all the balance-sheet and off-balance-sheet positions exposed to market risks, including the positions in the trading portfolios.

The VaR measures the expected potential loss resulting from possible changes in market prices. In practice, it measures the expected decrease in the present value of the assets less the liabilities in the given mix in the portfolio’s structure, at a given confidence level, over a given future period, according to a given statistical distribution. The VaR is calculated monthly at Group level, and more frequently at the Bank level and for the trading portfolios.

The VaR and the limits in VaR terms are calculated according to the parametric model, at a confidence level of 99%, and for a two-week position-holding period. The VaR model has a number of weaknesses. The model assumes that the statistical structure of the changes in prices foreseen in the capital market gives an indication of the future behaviour of these prices. The parametric VaR model also assumes a multivariate normal distribution of the changes in the risk factors. This measurement, by definition, ignores losses that are liable to occur over and above the given significance level (the distribution tail). Examination of stress scenarios provides the lacking perspective.

In order to test the validity of the VaR model, the Bank performs daily backtesting, by comparing the actual change in the economic value of the Bank with the estimated change as derived from the VaR model. The tests performed thus far confirm the validity of the model. The Bank also periodically calculates the VaR using an historical simulation, and examines the gap between the two measurement methods. Historical simulation enables risk to be measured without reliance on a particular probability structure. The VaR of the option book in the trading portfolio is examined using both the parametric and the Monte Carlo simulation method (this method is used to test the non-linear risk components).

The following table presents the estimated VaR at Group level in NIS millions:

	VaR at Group level			**VaR in mark-to-market portfolios**		
	31 March 2009	31 March 2008	31 December 2008	**31 March 2009**	31 March 2008	31 December 2008
Actual	**244**	285	243	**126**	151	204
The limit	**600**	700	600	**500**	500	500

During the first quarter of 2009, there was no material change in the VaR at Group level. The increase in interest exposure was offset by the impact of the change in price which was expressed in a drop in interest rates and by an increase in volatility.

The VaR of the economic value ranged between a maximum of NIS 244 million in March 2009 and a minimum of NIS 236 million in January 2009. The VaR on the Group's mark-to-market portfolios ranged between NIS 228 million in February 2009 and NIS 126 million in March 2009.

During the first three months of 2009, the Group complied with all the VaR limits set by the Board of Directors.

Liquidity Risk

Liquidity is defined as the corporation's ability to finance increases in assets and to comply with its payment liabilities. The ability to withstand liquidity risk involves the uncertainty relating to the possibility of raising sources and/or realizing assets unexpectedly within a short period, without causing a material loss.

In accordance with Bank of Israel directives, the Bank implements an overall liquidity risk management policy in Israeli currency and in foreign currency. The purpose of this policy is to support the achievement of business goals while evaluating and limiting losses that may arise from exposure to liquidity risks. The principles of the Bank's liquidity management policies have been adopted by the subsidiaries abroad.

The Bank maintains ongoing monitoring of the liquidity position and liquidity risk indices. Liquidity risk is measured and managed through an internal model, Liquidity at Risk (LAR), whose purpose is to evaluate and monitor the liquid means at the Bank's disposal, under various scenarios, which are examined and updated in line with market developments. These scenarios are:

1. A normal scenario that assumes the ordinary course of business, which ensures that the Bank will be able to finance an increase in assets and that it has sufficient sources to pay all its obligations, without having to incur expenses or losses in the process.
2. A statistical scenario relating to an exceptional situation under normal operating conditions, which estimates, at the desired confidence level, the maximum possible decline in the liquidity level during a given period on the basis of some 300 historical observations in Israeli currency and some 250 in foreign currency.
3. Two stress scenarios, assuring the continuation of the Bank's activities at reasonable cost during a bridging period of about a month when stress conditions prevail, as follows:
   - 3.1 A systemic stress scenario, deriving from a negative external event, such as a failure in the capital market or in the entire banking system, which will affect Leumi.
   - 3.2 A stress scenario at Leumi, deriving from a negative internal event occurring solely at Leumi, such as a strike by Leumi employees, the lowering of the Bank's credit rating, embezzlement or fraud on a major scale, and so on.

The liquidity position is examined in each of the scenarios by means of two quantitative indices: the liquidity gap and the liquidity ratio. The liquidity gap is the difference between total liquid assets and total liquid liabilities according to payment periods. The liquidity gap is examined for each of the periods: one day, up to one week, up to one month, up to three months, up to six months and up to one year. The liquidity ratio is the ratio between total liquid assets and total liquid liabilities, and it is also examined according to each of the said payment periods.

The liquidity management policy at Group level is based on the following principles:

– each subsidiary in Israel and abroad is responsible for the formulation and maintenance of an independent liquidity management policy, while maintaining strict compliance with obligatory directives of the relevant regulatory authorities.

– the subsidiaries may rely, amongst other sources, on the use of credit lines from the Bank, subject to prior arrangement, and subject to regulatory limits.

Leumi has prepared a contingency plan as part of its preparations for an extreme scenario, which includes the strategy for managing a liquidity crisis, including the appointment of a management team to be responsible for dealing with the crisis and defining the procedures and steps required for contending therewith.

In addition to the model described above, Leumi operates an additional measurement system for early warning of exceptional and unexpected developments in liquidity risk.

In September 2008, the Basel Committee issued an updated document addressing liquidity risk management. The document was written as an outcome of the lessons learned from the current financial crisis, and it details a list of new rules pertaining to liquidity management, including: control procedures for the Management and the Board of Directors, the need to determine margins and risk "warning signs," costing of the risk, the need to maintain a safety cushion, a list of risk-measurement principles, including the use of stress scenarios, management of the intraday liquidity, contingency plans, and more.

The Bank is examining these rules with the objective of implementing them within the scope of its implementation of the Basel II directives.

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

During the first three months of 2009, the Group complied with all limits prescribed by the Board of Directors.

For additional details regarding the management of market risks, see pages 173-184 of the 2008 Annual Report.

Credit Risk

For details regarding the exposure to and management of credit risks, see pages 189-201 of the Annual Report for 2008.

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 credit authorities existing in the Bank are valid only if the credit under discussion complies with the Bank's credit policy, or if approval was obtained from the entity 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 entity that will make the decision.

As described in the 2008 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.

The "periodic credit monitoring" process –

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

The slowdown in global economic activity in general, and in the local market in particular, and the significant worsening in the ratings of the economic sectors, both in absolute terms and in comparison with previous quarters, necessitate a cautious credit policy with regard to those branches of the economy and credit sectors that are characterized by a high level of risk.

The impact of the lows in the money and capital markets, the crisis in the residential real estate market and in the mortgage markets in the United States and in the United Kingdom, along with the significant write-downs by large banking groups, together obligate the Bank to take measures to identify borrowers whose levels of exposure and risk have risen, borrowers who are likely to encounter difficulties and sectors and populations that are likely to be adversely affected by developments and are in need of intensive attention and support.

The Bank has been monitoring debts that are based on shares constituting a significant portion of their asset value and/or the collateral upon which the bank is relying,

The Bank examines borrowers which have in recent years raised sources of finance in the capital market (with an emphasis on those with a narrow capital base), 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, so as to examine the ability of these borrowers to continue refinancing current maturities. Borrowers that had designated funds that they had raised as shareholders' equity for leveraging investments abroad are also being examined.

Regarding Israeli entrepreneurs who are Bank customers and who are active in the real estate sector overseas, including subsidiaries of holding companies based in Israel, the Bank is examining the possibility that the value of their assets has been 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 continues to review its credit portfolio on an ongoing basis, as well as on the implications of the declines in the global stock markets with regard to the ability of weak companies to raise funds.

The Bank is aware that the exposure to changes in the exchange rates adversely impacts mainly the financial/economic position of exporters and/or those highly dependent upon foreign currency proceeds. Volatility in the currency rates and in the prices of raw materials necessitates the execution of currency hedging transactions, mainly by companies engaging in import.

Taking note of the continuing deterioration in the payment ethic, and the credit shortage, the Bank is more meticulous than ever about examining the credit needs and debt servicing capabilities of the borrowers with which it deals.

The Bank’s Management regularly discusses exposures that might arise from the crisis including and holds in-depth discussions of customers that 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. The Bank’s credit policy contains strict criteria with regard to the various types of transactions; including the equity requirements that are needed for the different types of financing.

Against the backdrop of the circumstances described above, the Bank has expanded the preliminary examinations before transactions may be executed and, during the life of the credit examines the possibility of customers failing to comply with the Bank's conditions. Where necessary the Bank attempts to strengthen its position, by way of capital injection or by improved collateral from the owners.

The Bank examines and updates risk ratings and adjusts such ratings to the borrowers’ situations on a current basis, paying particular attention to customers who are exposed to the effects of declines in demand for consumption or for real estate, and on customers in certain branches of the economy in Israel and abroad, and also relative to geographical regions that have been particularly affected. The Bank also continually takes steps to identify and correct deficiencies in credit and collateral documents.

For the purpose of managing the Bank's credit portfolio, there is a unit whose functions include, *inter alia*, the following matters: recommendations regarding the optimization of the credit portfolio’s structure, evaluation of the credit portfolio's performance in terms of yield versus risk, analysis of external influences on the credit portfolio, formulation of rules for the optimal structure of the credit portfolio, and the yield/risk targets, formulation of recommendations regarding limits for the credit portfolio and the establishment of transparency regarding the credit portfolio’s structure in accordance with its risk levels and factors.

The following are certain data relating to credit exposures and risks:

1. Exposure and Management of Credit Risks in Credit to the Public

Following are the weighted balances of the credit risk in the balance sheet:

	31 March 2009							
	Balance-sheet balances	**Weighting rates**					**Deduction from equity**	**Risk balances**
		0%	**20%**	**50%**	**100%**	**200%**		
	In NIS millions							
Assets								
Cash and deposits in banks	**38,172**	**21,539**	**17,159**	**-**	**14**	**-**	**-**	**3,445**
Securities	**47,677**	**22,620**	**20,457**	**-**	**6,224**	**65**	**(1,689)**	**10,443**
Securities borrowed or purchased under buy-back agreements	**229**	**145**	**-**	**-**	**84**	**-**	**-**	**84**
Credit to the public	**213,211**	**13,966**	**950**	**14,458**	**183,837**	**-**	**-**	**191,256**
Credit to the government	**500**	**481**	**-**	**-**	**19**	**-**	**-**	**19**
Investments in companies included on the equity basis (a)	**2,048**	**-**	**-**	**-**	**1,977**	**-**	**71**	**1,977**
Buildings and equipment	**3,513**	**-**	**-**	**-**	**3,513**	**-**	**-**	**3,513**
Other assets	**12,495**	**1,658**	**4,942**	**-**	**5,018**	**-**	**877**	**6,007**
Total assets	**318,385**	**60,409**	**43,508**	**14,458**	**200,686**	**65**	**(741)**	**216,744**

	31 December 2008						
	Balance-sheet balances	Weighting rates				Deduction from equity	Risk balances
		0%	20%	50%	100%		
	NIS millions						
Assets							
Cash and deposits in banks	33,130	19,304	13,808	-	18	-	2,779
Securities	44,910	20,719	16,117	-	8,074	-	11,298
Securities borrowed or purchased under buy-back agreements	201	125	-	-	76	-	76
Credit to the public	213,548	14,644	900	14,761	183,243	-	190,803
Credit to the government	520	481	-	-	39	-	39
Investments in companies included on the equity basis (a)	1,842	-	-	-	1,772	70	1,772
Buildings and equipment	3,445	-	-	-	3,445	-	3,445
Other assets	13,529	1,361	5,473	-	6,440	255	7,535
Total assets	311,125	56,634	36,298	14,761	203,107	325	217,747

(a) Balances of investments in shares and subordinated capital notes of financial companies are deducted from the capital, and therefore, also from the balance of securities and from investments in companies included on the equity basis.

2. The following table presents data on reductions in credit risk in the Group as at 31 March 2009, in NIS millions:

	Secured by government securities	Secured by bank securities	Secured by deposits	Covered by bank guarantees	Covered by credit risk insurance
Cash and deposits with banks	**-**	**-**	**-**	**-**	**160**
Credit to the public	**1,252**	**28**	**12,748**	**733**	**16**
Other assets	**12**	**-**	**302**	**-**	**-**
Book value of transactions in which the balance represents a credit risk.	**196**	**-**	**2,293**	**609**	**1**
Book value of derivatives	**59**	**-**	**548**	**1**	**-**

The following table presents data on reductions in credit risk in the Group as at 31 December 2008, in NIS millions:

	Secured by government securities	Secured by bank securities	Secured by deposits	Covered by bank guarantees	Covered by credit risk insurance
Cash and deposits with banks	-	-	-	-	69
Credit to the public	1,547	3	13,125	775	19
Other assets	60	-	140	-	-
Book value of transactions in which the balance represents a credit risk.	205	-	2,638	521	1
Book value of derivatives	198	-	248	-	-

The above data are for the purpose of reducing the risk assets for the capital adequacy calculation, as required in the Bank of Israel directives.

3. Credit risk in derivatives activity

The following table presents the weighted balances of the off-balance-sheet credit risk:

	31 March 2009						
	Par value balances	Book value	Weighting rates 0%	20%	50%	100%	Risk balances
	NIS millions						
Off-balance-sheet instruments							
Transactions whose balance represents a credit risk	99,236	25,746	2,525	1,424	-	21,797	22,082
Derivatives	266,092	27,125	607	17,787	-	8,731	12,288
Others	1,358	136	-	-	-	136	136
Total off-balance-sheet instruments	366,686	53,007	3,132	19,211	-	30,664	34,506

	31 December 2008						
	Par value balances	Book value	Weighting rates 0%	20%	50%	100%	Risk balances
	NIS millions						
Off-balance-sheet instruments							
Transactions whose balance represents credit risk	96,273	25,252	2,870	1,290	-	21,092	21,350
Derivatives	251,733	25,552	449	16,066	-	9,037	12,250
Others	1,595	159	-	-	-	159	159
Total off-balance-sheet instruments	349,601	50,963	3,319	17,356	-	30,288	33,759

4. The following table presents the credit exposure with respect to the fair value of derivatives, according to counterparties to the contract (presented in other assets) as at 31 March 2009:

Overseas banks	AAA to AA-	A+	A	A-	BBB to BBB-	Below B-	Unrated	Total
In NIS millions								
Euro zone[1]	503	44	130	262	-	-	-	939
United Kingdom [2]	366	631	607	99	-	-	-	1,703
United States	26	189	213	9	-	12	-	449
Other	34	240	23	-	-	-	-	297
Total overseas banks	929	1,104	973	370	-	12	-	3,388
Israeli banks [3]	113	307	90	651	162	-	56	1,379
Corporate customers according to branches of the economy								
Financial services[4]								1,079
Industry[5]								1,101
Construction and real estate								392
Transportation and storage								219
Trade								120
Electricity and water								23
Business services								37
Private individuals								28
Communications and computer services								87
Others								33
Total corporate customers								3,119
Others*								431
Total exposure								8,317

* Reverse transactions carried out by the customers and offset for risk purposes according to branch of economy.

(1) This amount includes transactions in 5 countries.
(2) This amount includes transactions with 21 banks.
(3) This amount includes transactions with 10 banks.
(4) This amount includes transactions with 160 customers, and the highest amount for a single customer is NIS 97 million.
(5) This amount includes transactions with 233 customers, and the highest amount for a single customer is NIS 869 million.

Credit exposure to overseas financial institutions

The following table sets out the credit exposure to overseas financial institutions [(1)]:

	As at 31 March 2009			
	Balance Sheet Credit risk (2)	Securities(3)	Current off-balance sheet credit risk (4)	Current credit risk
	NIS millions			
External credit rating[(5)]				
AAA to AA-	**5,046**	**3,587**	**1,968**	**10,601**
A+ to A-	**13,895**	**10,153**	**6,033**	**30,081**
BBB+ to BBB-	**152**	**236**	**23**	**411**
BB+ to B-	**337**	**-**	**9**	**346**
Below B	**18**	**32**	**-**	**50**
Unrated	**824**	**180**	**137**	**1,141**
Total current credit exposure to overseas financial institutions	**20,272**	**14,188**	**8,170**	**42,630**
Problem loan balances	**4**	**136**	**-**	**140**

	As at 31 December 2008			
	Balance sheet credit risk [(2)]	Securities [(3)]	Current off-balance sheet credit risk[(4)]	Current credit exposure
	NIS millions			
External credit rating (5)				
AAA to AA–	6,195	3,921	2,084	12,200
A+ to A–	9,353	8,999	3,755	22,107
BBB+ to BBB–	221	225	39	485
BB+ to B–	402	–	15	417
Below B	8	111	3	122
Unrated	679	9	105	793
Total current credit exposure to foreign financial institutions	16,858	13,265	6,001	36,124
Balances of problem loans	–	135	–	135

(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) Including subordinated bank debentures, whose fair value, as at 31 March 2009 was NIS 2,594 million, and as at 31 December 2008, NIS 3,083 million.
(4) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives.)
(5) In general, the overseas banks in respect of credit exposure are rated by two or three of the leading international rating agencies. (S&P, Moody's, Fitch)

Notes:

a. Credit exposures are presented after deducting the specific provisions for doubtful debts.
b. Credit exposures do not include investments in asset-backed securities (see the details in the Note on Securities).
c. Some of the banks have received government support of various types, including direct investments in the banks' capital, government guarantees of certain asset portfolios of the banks, guarantees enabling the banks to raise sources of financing, etc.
d. 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 7 to the Financial Statements.

Credit exposure to overseas financial institutions refers to commercial banks, bank holding companies, investment banks, insurance companies and institutional bodies.

The exposure according to countries is divided as follows: United States 44.5%; Europe (Germany, France, Switzerland, Spain and the Benelux countries) 19.7%; United Kingdom-16.2%; and other countries 19.6%.

The exposure includes mainly deposits in overseas banks, some 90% of which are short-term deposits of up to one week, and debentures, usually for a period of up to five years. Against the backdrop of the crisis in the financial markets, and the weakening of banks' financial strength, the Bank is closely monitoring the condition of banks throughout the world. During 2008 and the first quarter of 2009, the Bank significantly reduced the list of banks with which the Bank and its overseas subsidiaries make deposits, and reduced the extent of exposure to them.

Against the backdrop of the global financial crisis, the Bank is acting and taking steps to reduce the exposures and risks as far as possible.

Additional details regarding investments in securities, mainly debentures of overseas banks are presented at pages 39-40.

Management of the exposure to and credit lines of overseas financial institutions 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.
- The financial strength of the country where the bank's center of activity is located.

- Additional considerations, such as the level of support, including direct investment in the banks' capital by their governments, for the purpose of insuring the stability of these banks and of other banks in their countries.
- the policy for managing the exposure to overseas financial institutions includes, *inter alia*, limits on the amounts of exposure at the bank and country level.

Exposure to foreign countries

The exposure to foreign countries according to final risk is distributed among geographical areas and countries, the main exposure being to countries in Western Europe and in North America.

The following table presents the exposure to countries according to the credit rating of the countries as rated by the World Bank, in NIS millions as at 31 March 2009::

Rating	Balance sheet exposure	Off-balance-sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which, problematic
OECD countries	68,160	37,049	105,209	95.4	2,305
High-income countries	1,366	216	1,582	1.4	25
Countries with mid-high income	2,344	487	2,831	2.6	2
Countries with mid-low income	432	242	674	0.6	7
Countries with low income	9	14	23	-	-
Total	72,311	38,008	110,319	100.0	2,339

The amount of exposure to foreign countries with liquidity problems, as defined by the Bank of Israel (countries which receive financial aid from the IMF or whose obligations are rated with a credit rating of CCC or below) totals NIS 455 millions and related to 30 countries.

The countries are rated according to national income per capita as follows:
High income - exceeding US$ 11,455 per capita.
Mid-high income - from US$ 3,706 to US$ 11,455 per capita.
Mid-low income - from US$ 936 to US$ 3,706 per capita.
Low income – up to US$ 935 per capita.

Following are the names of the principal countries in each of the categories:

a. OECD countries:

USA, Italy, Australia, Austria, Ireland, Belgium, Canada, Czech Republic, Denmark, Finland, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, the Netherlands, Sweden.

b. Countries with high income:

Israel, Cyprus, Hong Kong, Monaco, Singapore, Slovenia, Cayman Islands.

c. Countries with mid-high income:

Argentina, Brazil, Bulgaria, Chile, Mexico, Panama, Poland, Romania, Russia, South Africa, Turkey, Venezuela, Uruguay.

d. Countries with mid-low income:

China, Colombia, Ecuador, Egypt, India, Jordan, Peru, Paraguay, the Philippines, Thailand, the Ukraine.

e. Countries with low income:

A large number of the African countries, Haiti, Nepal.

Linkage Status and Liquidity Status

Linkage Status

During the first three months of 2009, the Group's exposure in the CPI-linked sector dropped from a level of some NIS 2.5 billion to a level of some NIS 1.2 billion. The reduction of the surplus in the CPI-linked sector is mainly due to partial refinancing of CPI-linked credit.

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

	As at 31 March 2009			As at 31 December 2008		
	Unlinked	CPI-linked	Foreign Currency(2)	Unlinked	CPI-linked	Foreign Currency(2)
	NIS millions					
Total assets (1)	**140,289**	**58,405**	**125,728**	139,574	60,377	117,153
Total liabilities (1)	**125,350**	**57,240**	**131,149**	125,563	57,920	123,266
Total exposure in sector	**14,939**	**1,165**	**(5,421)**	14,011	2,457	(6,113)

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

Funding and Liquidity Status

Liquidity Status

The Banking System -

The volume of the banking system's balances with the Bank of Israel (current account balances and monetary deposits less monetary loans) at the end of March 2009 stood at some NIS 54 billion balances, compared with some NIS 44 billion at the end of December 2008

The volume of the banking system's balances at the Bank of Israel during the first quarter of 2009 stood at an average of some NIS 43 billion, compared with an average of some NIS 15 billion during the fourth quarter of 2008.

The volume of Leumi's balances with the Bank of Israel at the end of March 2009 stood at some NIS 12 billion, compared with NIS 13 billion at the end of 2008.

The average volume of Leumi's balances with the Bank of Israel in the first quarter of 2009 stood at some NIS 13 billion, as compared with an average of some NIS 4 billion in the fourth quarter of 2008.

As of March 2008, the Bank of Israel has been implementing a program to increase the levels of the foreign currency balances though foreign currency purchases of dollars. Since July 2008, the rate of foreign currency purchases stood at an average of US$100 million per day.

On 24 December 2008, the Bank of Israel published a monetary program for increasing liquidity in the economy, which included four measures:

1. A reduction of the absorption of liquidity surpluses to be carried out through the issue of *Makam*, beginning from January 2009. In the first quarter of 2009, the Bank of Israel decreased the volume of *Makam* tenders, net, by some NIS 0.5 billion, to a level of some NIS 71 billion, further to a decrease of some NIS 5 billion in 2008.

2. In addition to the monetary loans that were currently given to the banking system in the framework of tenders offered to the banking system for periods of one day and one week, such loans would be given for longer periods as well. This decision has not yet been carried out.

3. The Bank of Israel’s interest spread at the credit window and at the commercial banks' deposits window dropped from ±1.0% to ±0.5%. Later, on 24 February 2009, it dropped again to ±0.25%.

4. The offering of repo tenders to commercial banks and institutional entities for periods of a month, from the beginning of 2009, instead of for periods of one week as had been offered until the end of 2008. At the end of February 2009, the Bank of Israel returned to offering one week tenders instead of one month tenders.

On 16 February 2009, the Bank of Israel announced that it would act in the open market and carry out transactions in government debentures in the secondary market. The purpose of this measure, according to the announcement, was to increase the liquidity available to financial institutions, businesses and households, and to increase the effectiveness of monetary policy. The Bank of Israel estimated that these actions would increase the effect of the interest rate fixed by the Bank of Israel on longer term interest rates as well. On 25 March 2009, the Bank of Israel announced that it would expand this activity and would purchase a daily average of some NIS 200 million in government debentures – nominal and CPI-linked up to an aggregate amount of NIS 15-20 billion.

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. It is also the result of the expansive monetary policy implemented by the Bank of Israel. Some 36.7% of the assets are deposited in banks and/or are invested in securities, primarily in government debentures.

The Bank has cash and deposits in banks amounting to some NIS 63.4 billion.

The Bank also has a securities portfolio of some NIS 39.1 billion, which is mainly invested in Israeli government debentures, foreign government debentures, and foreign banks.

The Bank’s net liquid assets – cash, deposits at banks and securities (excluding shares and funds) less deposits from banks stood at 35.4% of the Bank’s total assets as at 31 March 2009, compared with 33.3% as at 31 December 2008.

The ratio of credit to the public to deposits of the public at the end of March 2009 is 62.6%, compared with 65.3% as at 31 December 2008.

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.

During the first quarter of 2009, the shekel liquidity surpluses which developed as a result of the decrease in the credit portfolio were used to increase the government debentures portfolio. There was no significant change in foreign currency liquidity surpluses.

For additional details regarding the liquidity status, see the Risk Management section on page 75-76.

Sources and Uses (in the Bank) -

During the second half of 2008, against the background of the crisis in the capital markets a trend began of the diversion of monies held by the public from investments in the capital market to deposits. In contrast, there has been a slow return to the capital market during the first quarter of 2009.

The balance of deposits of the public at the Bank rose during the first three months of 2009 by NIS 7.6 billion, 3.4%. Most of the increase was in the foreign currency sector which amounted to 9.2%, of which 8.6% derives from the weakening of the shekel in relation to most foreign currencies.

During April- May of 2009, the Bank issued CPI-linked subordinated capital notes (unlisted) which are classified as upper Tier II capital in the amount of some NIS 1 billion, and through Leumi Finance Company, it issued CPI-linked subordinated capital notes which are classified as lower Tier II capital in the amount of an additional NIS 1.4 billion.

During the first three months of 2009, the balance of credit to the public dropped by NIS 1.1 billion, a decrease of 0.8%. The decrease was mainly in the unlinked shekel segment, which amounted to some 2%. Foreign currency credit rose by 4.4%. After neutralizing the effect of the weakening of the shekel, foreign currency credit rose by 3.9%.

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 Proper Banking Management Directive 311 (“Basel I”). In addition, Basel II allows 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.

The Bank has reported capital adequacy data as at 31 December 2008 to the Bank of Israel and according to the initial calculations, the capital adequacy according to the first pillar of Basel II capital adequacy is 10.6%, compared with 11.6% according to Basel I.

The Leumi Group's Preparations

For some three years (2006-2008), the Leumi Group has been preparing for the implementation of the Basel II instructions through a Group-wide project in Israel and abroad. The project's management is responsible to the Senior Deputy Chief Executive Officer, who heads the project's steering committee, and it acts through designated working teams throughout the Bank.

The following actions have been taken in the context of the preparations:

1. The requirements in the Basel documents and the Bank of Israel requirements have been studied and gap analyses prepared on their basis.

2. A detailed working program has been prepared for the Bank and Group units for closing the gaps.

3. Adjustments have been made to the infrastructure systems, and risk management and capital calculation systems have been purchased or upgraded, and these have been linked to the existing systems. These systems are intended to upgrade and significantly improve the Bank's ability with regard to risk-focused management.

4. Data has been collected and databases have been established as required for the assessment of risk variables.

5. Organizational and process changes have been made in the area of credit risk management.

6. Model development processes, as required for the implementation of the advanced methods regarding credit risks.

7. Surveying and mapping of operational risks as part of a three year program.

8. Commencement of the process of carrying out required adjustments in risk management policy and guidelines (credit, market and operational risk policy).

9. Measurement of the profitability of the lines of business also on the basis of the return on adjusted risk models – RORAC (Return on Risk Adjusted Capital).

The Bank is preparing for the implementation, beginning at the end of 2009, of the Bank of Israel's requirements to implement the standard method set out in the first pillar with respect to credit and market risks, and of a basic method with regard to operational risks during a three year transition period, after which the standard method will be implemented for operational risks as well.

In the context of these preparations, many business adjustments and computer system adjustments are being carried out at the Bank and Group level, in order to meet the requirements of the standard method. The Bank is relying for this purpose on a centralized computer system that it has purchased for this purpose, with regard to calculating the capital requirements and of managing the credit risks. This system will serve both the Bank and the Group units. The Bank is also continuing to prepare for the advanced internal ratings-based approaches (IRB) with regard to credit risks, through the collection of data, construction of data bases, and the processes for the development of internal models for internal rating systems, calculation of the PD (probability of default) and of the severity of the LGD (loss given default). This process also involves the replacement and upgrading of the systems used to rate retail and corporate borrowers.

During the second quarter of 2008, an Internal Capital Adequacy Assessment Process – ICAAP – was initiated in the Leumi Group. This process co-ordinates compliance with the requirements of the second pillar of the Basel recommendations regarding a "Supervisory Review Process," and is necessary for the completion of the preparations for Basel II by the end of 2009, in accordance with the Bank of Israel requirements.

The process is divided into two main components:

1. Assessment of the Group's capital adequacy and an examination of the ability to bear losses in accordance with the risk appetite and the risk profile. When assessing capital adequacy, it is necessary to take into account the Group's strategic plans and its future capital needs as reflected in the three-year plan, in the light of the economic forecasts. Additionally, it is necessary to examine the planning's resilience and the changes required, in light of stress scenarios of varying severity, such as a mild or a severe recession. After the process is fully prepared, the definitions of the various levels of severity that are used for defining the severity of the risk factors are likely to change, which would, of course, lead to an updating of the risk levels.

2. An annual survey of risk management within the Group, an examination of the risk management's compliance with the standards established in the context of Basel II, the identification of strengths and weaknesses and the construction of work programs for the improvement and updating of risk management processes. The assessment of the risk management processes evaluation is closely linked to the capital adequacy assessment, since without strong and adequate risk management, a larger cushion of capital is required as protection against losses.

The results of the process will be collected in the ICAAP document. A first draft of the document is expected to be submitted to the Bank of Israel on 30 June 2009, and the annual document is expected to be submitted together with the 2009 Annual Report.

The Leumi Group's preparations require the investment of significant management and financial resources that have already been invested and will be invested in the coming years in order to comply with the Bank of Israel's requirements, and for the improvement and upgrading of the Group's risk management processes.

Legal Proceedings

a. The Annual Report for 2008 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 6 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 188 million as at 31 March 2009), with the exception of the proceedings detailed in Note 6 to the Financial Statements.

For details regarding petitions for the approval of class actions that were filed during the first quarter of 2009, see Note 6 C. 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.

b. On 26 April 2009, a ruling of the Antitrust General Director was received at the Bank pursuant to section 43(a)(1) of the Antitrust Law, 1988, according to which restrictive trade agreements, relating to the transfer of information regarding commissions, had existed between the Bank, Bank Hapoalim B.M., Israel Discount Bank Ltd., Mizrahi-Tefahot Bank Ltd. and the First International Bank of Israel Ltd., during the period from the beginning of the 1990s until the commencement of the Antitrust Authority's investigation of the matter, in November 2004. This is a civil ruling, which constitutes prima facie evidence of the matters therein determined in any legal proceedings. The Bank has decided to appeal the ruling. At this early stage, the effects of the ruling can not be assessed.

c. On 12 May 2009, a demand letter was received from a shareholder of the Bank, pursuant to section 194 of the Companies Law, 1999, in relation to which the Bank was requested to file a claim within 45 days against all the officers of the Bank since 1990 (including the members of the Board of Directors) and employees of the Bank, requiring them to pay compensation and/or reimburse the Bank, if a court rules (or if a settlement agreement is reached) in any of the class actions relating to the matter, that the Bank is required to pay its customers and/or its representatives compensation and/or to reimburse them for the unlawful collection of commissions. The demand is based on the Antitrust General Director's ruling of 26 April 2009.

If the Bank rejects the demand, the shareholder may petition the court for approval of the filing of such a suit in the Bank's name. The Bank has been asked to respond to the demand within 45 days of receipt thereof.

D. Additional Matters

Leumi for the Community - Social Involvement

In May 2009, the Leumi Group published its complete corporate responsibility report for the years 2007-2008.

The report details and summarizes Leumi's activity in all areas of corporate responsibility. Leumi's community-oriented activity also continues in 2009, in the areas in which the Group has chosen to concentrate: education, youth, culture and art, and focused assistance to distressed sections of the population.

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

Some 15,000 young people take part in nine different projects in which the organization invests:

- The “Youth Leading Change” association: graduation of the first class of the “Leumi Tomorrow – On Our Way” enrichment and IDF preparation project for youth from the Ethiopian sector of the population, and the integration of the participants into the Trojan groups of “Leumi Tomorrow – to the IDF.” On the Purim holiday, the participants of all the groups took part in the “Sweets for the Soldiers” program through which they collected and distributed *Mishloach Manot* packages (food gift packages) for IDF soldiers.

- The “Nirim” association: Graduation ceremonies were held for participants in a unique challenging therapeutic program, which is carried out at the Nirim Youth village for youth at risk, near Bustan HaGalil. These ceremonies, marking transitions to new stages of the program, were held at the youth village and at Masada.

- Project “Strive” – a Joint Distribution Committee “Momentum Through Employment” program has opened an activity center in Jerusalem, which began its operations along those of the centers in Tel Aviv and in Haifa. These centers host a unique program for young people outside the work force, the objective of which is to train them for financial independence and for career development.

Leumi’s Scholarship Fund – For Exceptional Students

During the 2008-2009 school year, Leumi announced the establishment of a scholarship fund for exceptional students, in the amount of NIS 3.0 million. The Leumi Fund provides scholarships to exceptional students who are studying at academic institutions that are recognized by the Council for Higher Education. The scholarships are granted to students in bachelor degree programs who have displayed academic excellence and who are unable to fully exercise their abilities fully without this financial assistance.

Leumi for the Arts - The Second "Fresh Paint" Exhibition

As part of the Leumi Group's support for art and culture in general and for young artists in particular, and as part of its encouragement of Israeli creativity in honor of Israel’s 60th anniversary, the “Fresh Paint 2” Exhibition was held in March under Leumi’s lead sponsorship. More than 70 young artists exhibited their works to the general public during the Exhibition. The purpose was to bring these young artists closer to the general public, and to allow the public to purchase valued works of art. At the exhibition, which was held in Tel Aviv, more than 1,000 works of art of unknown young artists were exhibited alongside the works of well-known young artists, and hundreds of works were sold.

At the same time, the Leumi Visitors Center launched the “Mani’s Ghost House” exhibit which was composed of works by the graduates of the first “Fresh Paint” fair which was held in 2008.

Some NIS 250,000 was contributed towards scholarships for art-loving youth from families of limited means (NIS 160,000) and for the benefit of the “Fair Chance for Children” organization, which assists children living in residential dormitories (NIS 60,000), etc.. During the four days of the exhibition, tens of thousands of art lovers and visitors came to see the works, and purchased artwork in the amount of some NIS 1.5 million.

Summary of Leumi’s Donations and Sponsorships During the Quarter

During the first quarter of 2009, the Leumi Group donated and provided sponsorships for social welfare and community purposes in the amount of some NIS 6.1 million, of which the donations totaled some NIS 3.9 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 2008.

The Chief Internal Auditor's report for the second half of 2008 was submitted on 11 March 2009 and was discussed by the Audit Committee on 5 April 2009.

The Chief Internal Auditor's annual report for 2008 was submitted on 30 April 2009 and was discussed by the Audit Committee on 3 May 2009.

Evaluation of Controls and Procedures

Evaluation of Disclosure Controls and Procedures for the Financial Statements

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

During the quarter ending on 31 March 2009, 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 (Committee of Sponsoring Organizations of the Treadway Commission) model meets with the requirements and can be used in order to assess the internal control.

The COSO model provides defined standards for the purpose of assessing the internal control system in the organization and the ways in which it can be improved, and defines internal control as a process which is influenced by the board of directors, the management and other persons within the company.
According to the COSO model, there are five components need to be referred to:

1. The Control Environment: this component involves the examination of the management's conduct with reference to various subjects such the existence of a code of ethics, management's aggressiveness in reports, etc.

2. Risk Assessment: this component involves the examination of the relevant risks regarding each process and sub-process that are checked, which have an impact on the financial statements.

3. Control Activities: this component involves the examination of the relevant controls regarding each of the risks that were identified at the risk assessment stage.

4. Information & Communication: this component involves the examination that the information required for the Bank's activity is available, and that there is a mechanism that processes the information it received and transfers it to the appropriate parties at the Bank.

5. Monitoring: this component involves the examination of the existence of a mechanism that checks the monitoring of the correction of deficiencies. Proper supervision may be reflected in a periodic examination of the internal control system, continuous implementation of opportunities for improvements, the management's response to the internal control recommendations made by external auditors as well as the internal parties, rapid adaptation to new regulatory directives, etc.

The Bank, has been working to implement the directive in the Leumi Group on an ongoing basis, together with consultants who have been engaged for the purpose of carrying out the project.

Board of Directors

During the first quarter of 2009, and up to the date of publication of the Report, there were no changes to the composition of the Board of Directors:

The Bank's Board of Directors approved the continued service of Mr. Eitan Raff as chairman of the Board of Directors for an additional year, subject to the approval of the Bank's Appointments Committee, which consults with the Minister of Finance and the Supervisor of Banks in this regard.

At the meeting of the Board of Directors held on 31 May 2009, it was resolved to approve and publish the Group's condensed unaudited consolidated Financial Statements as at 31 March 2009 and for the periods ending on that date.

During the period of January to March 2009, the Board of Directors held 9 plenary meetings and 38 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

31 May 2009

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

	For the three months ended 31 March							
	2009				(i) 2008			
			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)	**126,553**	**1,102**	**3.53**		105,071	1,568	6.10	
Effect of embedded and ALM derivatives (e)	**41,923**	**171**			44,633	147		
Total assets	**168,476**	**1,273**		**3.06**	149,704	1,715		4.66
Liabilities (d)	**119,932**	**(298)**	**(1.00)**		104,888	(779)	(3.00)	
Effect of embedded and ALM derivatives (e)	**33,037**	**(92)**			33,526	(35)		
Total liabilities	**152,969**	**(390)**		**(1.02)**	138,414	(814)		(2.37)
Interest margin			**2.53**	**2.04**			3.10	2.29
Israeli currency – linked to the CPI								
Assets (c) (d)	**59,649**	**271**	**1.83**		60,458	984	6.67	
Effect of embedded and ALM derivatives (e)	**3,264**	**70**			1,589	14		
Total assets	**62,913**	**341**		**2.19**	62,047	998		6.59
Liabilities (d)	**45,539**	**(182)**	**(1.61)**		44,850	(659)	(6.01)	
Effect of embedded and ALM derivatives (e)	**12,691**	**(446)**			11,931	(328)		
Total liabilities	**58,230**	**(628)**		**(4.38)**	56,781	(987)		(7.14)
Interest margin			**0.22**	**(2.19)**			0.66	(0.55)
Foreign currency – (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**107,249**	**9,727**	**41.52**		115,595	(5,522)	(17.78)	
Effect of derivatives: (e)								
Hedging derivatives	**2,294**	**-**			3,754	-		
Embedded derivatives and ALM	**105,720**	**6,140**			84,892	(4,389)		
Total assets	**215,263**	**15,867**		**32.91**	204,241	(9,911)		(18.04)
Liabilities (d)	**111,623**	**(9,978)**	**(40.84)**		116,121	6,398	20.28	
Effect of derivatives: (e)								
Hedging derivatives	**2,130**	**1**			3,544	14		
Embedded derivatives and ALM	**105,631**	**(5,705)**			85,816	4,154		
Total liabilities	**219,384**	**(15,682)**		**(31.81)**	205,481	10,566		19.04
Interest margin			**0.68**	**1.10**			2.50	1.00

See footnotes on page 97.

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

	For the three months ended 31 March							
	2009				(i) 2009			
			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)	293,451	11,100	16.01		281,124	(2,970)	(4.16)	
Effect of derivatives: (e)								
Hedging derivatives	2,294	-			3,754	-		
Embedded derivatives and ALM	150,907	6,381			131,114	(4,228)		
Total assets	446,652	17,481		16.60	415,992	(7,198)		(6.74)
Total monetary liabilities generating interest expenses (d)	277,094	(10,458)	(15.97)		265,859	4,960	7.26	
Effect of derivatives: (e)								
Hedging derivatives	2,130	1			3,544	14		
Embedded derivatives and ALM	151,359	(6,243)			131,273	3,791		
Total liabilities	430,583	(16,700)		(16.44)	400,676	8,765		8.47
Interest margin			0.04	0.16			3.10	1.73
In respect of options		56				-		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		3				(19)		
Financing commissions and other financing income (g)		498				438		
Other financing expenses		24				(26)		
Net interest income before provision for doubtful debts		1,362				1,960		
Provision for doubtful debts (including general and supplementary provision)		(354)				(244)		
Net interest income after provision for doubtful debts		1,008				1,716		
Monetary assets generating interest income (d) (f)	293,451				281,124			
Assets derived from derivative instruments (h)	9,609				5,849			
Other monetary assets (d)	2,210				4,359			
General provision and supplementary provision for doubtful debts	(943)				(870)			
Total monetary assets	304,327				290,462			
Monetary liabilities generating interest expenses (d)	277,094				265,859			
Liabilities derived from derivative instruments (h)	9,918				6,209			
Other monetary liabilities (d)	7,576				8,902			
Total monetary liabilities	294,588				280,970			
Total monetary assets exceed monetary liabilities	9,739				9,492			
Non-monetary assets	9,074				10,970			
Non-monetary liabilities	430				586			
Total capital resources	18,383				19,876			

See footnotes on page 97.

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

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

(c) The average balance of unrealized profits (losses) from adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets as follows:
The unlinked Israeli currency sector for the three month periods amounts to NIS 132 million (March 31 2008 - NIS 58 million).
The linked Israeli currency sector for the three month periods amounts to NIS 268 million (March 31 2008 - NIS 92 million).
The foreign currency sector (which includes Israeli currency linked to foreign currency) for the three month periods amounts to NIS (2,213) million (March 31 2008 - NIS (419) million).

(d) Excluding derivative instruments.

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

(f) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been added to the average balance of the assets in the various sectors.
The three month periods amounts to NIS 1,813 million (March 31 2008 - (NIS 269) million).

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

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

(i) 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 31 March							
	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)	16,759	137	3.31		(f) 19,258	(f) 246	5.20	
Effect of derivatives: (e)								
Hedging derivatives	580	-			1,000	4		
Embedded derivatives and ALM	26,540	95			22,596	77		
Total assets	43,879	232		2.14	42,854	327		3.08
Liabilities (d)	19,586	(61)	(1.24)		20,625	(170)	(3.34)	
Effect of derivatives: (e)								
Hedging derivatives	538	-			944	-		
Embedded derivatives and ALM	26,494	(48)			22,835	(38)		
Total liabilities	46,618	(109)		(0.94)	44,404	(208)		(1.89)
Interest margin			2.07	1.20			1.86	1.19
Foreign currency – Foreign operations (integrated operations)								
Assets (c) (d)	10,726	88	3.33		11,312	162	5.86	
Effect of embedded and ALM derivatives (e)	182	16			65	1		
Total assets	10,908	104		3.86	11,377	163		5.87
Liabilities (d)	8,912	(37)	(1.66)		10,095	(107)	(4.32)	
Effect of embedded and ALM derivatives (e)	208	-			80	(4)		
Total liabilities	9,120	(37)		(1.65)	10,175	(111)		(4.46)
Interest margin			1.67	2.21			1.54	1.41
Total:								
Monetary assets in foreign currency generating financing income (c) (d)	27,485	225	3.32		30,570	408	5.44	
Effect of derivatives: (e)								
Hedging derivatives	580	-			1,000	4		
Embedded derivatives and ALM	26,722	111			22,661	78		
Total assets	54,787	336		2.48	54,231	490		3.66
Monetary liabilities in foreign currency generating financing expense (d)	28,498	(98)	(1.37)		30,720	(277)	(3.66)	
Effect of derivatives: (e)								
Hedging derivatives	538	-			944	-		
Embedded derivatives and ALM	26,702	(48)			22,915	(42)		
Total liabilities	55,738	(146)		(1.05)	54,579	(319)		(2.37)
Interest margin			1.95	1.43			1.78	1.29

See footnotes on page 99.

(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$ 561 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

	31 March 2009 (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	**1,947**	**427**	**2,374**	**2**	**229**
Industry	**23,110**	**14,078**	**37,188**	**74**	**3,089**
Construction and real estate	**35,644**	**17,761**	**53,405**	**67**	**6,660**
Electricity and water	**1,058**	**265**	**1,323**	**-**	**3**
Commerce	**16,490**	**3,458**	**19,948**	**(14)**	**1,388**
Hotels and restaurants	**4,138**	**353**	**4,491**	**-**	**1,654**
Transport and storage	**4,296**	**1,390**	**5,686**	**7**	**490**
Communications and computer services	**4,597**	**1,295**	**5,892**	**23**	**402**
Financial services	**14,269**	**6,778**	**21,047**	**68**	**2,267**
Business and other services	**4,800**	**1,361**	**6,161**	**8**	**520**
Public and community services	**5,467**	**1,863**	**7,330**	**1**	**317**
Private individuals - loans for housing	**41,113**	**2,092**	**43,205**	**5**	**987**
Private individuals - other	**21,860**	**25,024**	**46,884**	**55**	**1,172**
	178,789	**76,145**	**254,934**	**296**	**19,178**
Activities of borrowers abroad	**45,892**	**18,769**	**64,661**	**23**	**3,742**
Total	**224,681**	**94,914**	**319,595**	**319**	**22,920**
Credit risk included within the various economic sectors:					
Settlement movements (d)	**3,194**	**642**	**3,836**	**3**	**999**
Local authorities (e)	**3,135**	**160**	**3,295**	**-**	**131**

(a) Including credit to the public in the amount of NIS 213,722 million, investments in debentures of the public in the amount of NIS 7,840 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 3,119 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 March 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	2,037	377	2,414	(22)	296
Industry	24,400	13,048	37,448	273	2.552
Construction and real estate	30,926	16,842	47,768	(5)	4,744
Electricity and water	1,374	227	1,601	-	9
Commerce	15,972	3,995	19,967	(69)	1,653
Hotels and restaurants	3,796	465	4,261	(1)	1,332
Transport and storage	4,253	1,056	5,309	10	452
Communications and computer services	4,477	1,697	6,174	16	343
Financial services	16,868	5,555	22,423	44	601
Business and other services	5,301	1,415	6,716	1	253
Public and community services	5,645	1,124	6,769	(2)	460
Private individuals - loans for housing	37,131	(*) 2,326	39,457	43	945
Private individuals - other	21,545	(*) 23,371	44,916	23	1,451
	173,725	71,498	245,223	311	15,091
Activities of borrowers abroad	(a) 41,427	18,963	60,390	(42)	1,178
Total	215,152	90,461	305,613	269	16,269
Credit risk included within the various economic sectors:					
Settlement movements (d)	3,280	584	3,864	(25)	475
Local authorities (e)	3,318	142	3,460	-	214

(*) Reclassified.

(a) Including credit to the public in the amount of NIS 200,905 million, investments in debentures of the public in the amount of NIS 10,684 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 3,563 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 2008 (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	2,018	385	2,403	(44)	256
Industry	23,940	14,447	38,387	596	3,031
Construction and real estate	34,257	18,579	52,836	420	6,807
Electricity and water	1,203	186	1,389	1	5
Commerce	16,190	3,447	19,637	47	1,260
Hotels and restaurants	3,953	339	4,292	18	1,582
Transport and storage	4,336	1,182	5,518	21	391
Communications and computer services	4,625	1,332	5,957	12	450
Financial services	17,888	7,815	25,703	339	2,539
Business and other services	5,126	1,386	6,512	28	352
Public and community services	5,539	1,804	7,343	7	330
Private individuals - loans for housing	40,904	1,742	42,646	97	979
Private individuals - other	22,374	24,169	46,543	227	1,345
	182,353	76,813	259,166	1,769	19,327
Activities of borrowers abroad	44,491	16,837	61,328	303	3,355
Total	226,844	93,650	320,494	2,072	22,682
Credit risk included within the various economic sectors:					
Settlement movements (d)	3,120	596	3,716	(36)	928
Local authorities (e)	3,236	145	3,381	(2)	154

(a) Including credit to the public in the amount of NIS 214,044 million, investments in debentures of the public in the amount of NIS 8,204 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 4,596 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

Exposure to Interest Rate Fluctuations - on Consolidated Basis

Exhibit C:

	31 March 2009												31 December 2008	
	On Demand up to on Month	One month to three months	Three Months to one year	One year to three years	Three years to five years	Over five years to ten years	Over ten years to Twenty years	Over Twenty years	Without fixed maturity (a)	Total	Internal rate of return	Average maturity	Internal rate of return	Average maturity
	(NIS millions)										%	Years	%	Years
Israeli currency - unlinked														
Total assets	98,997	4,238	9,349	6,065	3,329	1,059	61	-	2,711	125,809	4.30	0.44	5.52	0.45
Total liabilities	93,426	5,751	11,045	6,038	2,440	275	159	87	338	119,559	3.64	0.36	3.99	0.37
Difference	5,571	(1,513)	(1,696)	27	889	784	(98)	(87)	2,373	6,250	0.66	0.08	1.53	0.08
Effect of future transactions and special commitments	3,561	203	810	3,108	(70)	(30)	(54)	-	-	7,528				
Exposure to interest rate fluctuations in the sector	9,132	(1,310)	(886)	3,135	819	754	(152)	(87)	2,373	13,778				
Accumulated exposure in the sector	9,132	7,822	6,936	10,071	10,890	11,644	11,492	11,405	13,778	13,778				
Israeli currency – linked to the CPI														
Total assets	1,993	3,591	10,666	20,018	9,255	9,896	2,810	99	77	58,405	4.85	3.32	4.92	3.33
Total liabilities	830	2,004	5,663	14,851	9,036	12,488	2,275	706	298	48,151	4.29	4.28	3.95	4.18
Difference	1,163	1,587	5,003	5,167	219	(2,592)	535	(607)	(221)	10,254	0.56	(0.96)	0.97	(0.85)
Effect of future transactions and special commitments	(441)	(201)	(1,835)	(3,199)	(1,447)	(1,900)	(66)	-	-	(9,089)				
Exposure to interest rate fluctuations in the sector	722	1,386	3,168	1,968	(1,228)	(4,492)	469	(607)	(221)	1,165				
Accumulated exposure in the sector	722	2,108	5,276	7,244	6,016	1,524	1,993	1,386	1,165	1,165				
Foreign currency (b)														
Total assets	66,078	25,218	10,684	8,293	3,179	1,843	560	4	2,882	118,741	3.20	0.57	3.55	0.55
Total liabilities	66,930	30,373	22,908	3,406	1,312	562	134	-	98	125,723	1.87	0.34	1.88	0.39
Difference	(852)	(5,155)	(12,224)	4,887	1,867	1,281	426	4	2,784	(6,982)	1.33	0.23	1.67	0.16
Effect of future transactions and special commitments	1,728	(2,062)	3,980	(6)	(972)	(1,107)	-	-	-	1,561				
Exposure to interest rate fluctuations in the sector	876	(7,217)	(8,244)	4,881	895	174	426	4	2,784	(5,421)				
Accumulated exposure in the sector	876	(6,341)	(14,585)	(9,704)	(8,809)	(8,635)	(8,209)	(8,205)	(5,421)	(5,421)				

See footnotes on next page.

Exposure to Interest Rate Fluctuations - on Consolidated Basis

Exhibit C (cont'd):

	31 March 2009												31 December 2008	
	On Demand up to on Month	One month to three months	Three Months to one year	One year to three years	Three years to five years	Over five years to ten years	Over ten years to Twenty years	Over Twenty years	Without fixed maturity (a)	Total	Internal rate of return	Average maturity	Internal rate of return	Average maturity
	(NIS millions)										%	Years	%	Years
Total exposure to interest rate fluctuations														
Total assets (c)	167,068	33,047	30,699	34,376	15,763	12,798	3,431	103	14,678	311,963		1.06		1.09
Receivables in respect of open credit card transactions									6,089	6,089				
Total liabilities (c)	161,186	38,128	39,616	24,295	12,788	13,325	2,568	793	1,334	294,033		1.00		1.06
Payables in respect of open credit card transactions									4,928	4,928				
Difference	5,882	(5,081)	(8,917)	10,081	2,975	(527)	863	(690)	14,505	19,091		0.06		0.03
Effect of future transactions and special commitments	4,848	(2,060)	2,955	(97)	(2,489)	(3,037)	(120)	-	-	-				
Total exposure to interest rate fluctuations	10,730	(7,141)	(5,962)	9,984	486	(3,564)	743	(690)	14,505	19,091				
Total accumulated exposure	10,730	3,589	(2,373)	7,611	8,097	4,533	5,276	4,586	19,091	19,091				

(a) The figures in the "Without fixed maturity" column are the non-discounted figures as stated in the balance sheet, including overdue balances in the amount of NIS 1,095 million
(b) Local operations, including Israeli currency linked to foreign currency and integrated operations abroad.
(c) Including non-monetary assets in the "Without fixed maturity" column.

General notes:
(1) Full details of the effect of changes in the interest rates in each sector, for the various balance sheet categories, are available on request.
(2) In this table, the data for each period represent the present value of the future cash flows discounted at the internal rate of return of the balance sheet category. The capitalized future cash flows, as stated, include interest to be accrued up to the earlier of repayment date or the date of change of the interest.
(3) The effect of hedging transactions is included in total assets or total liabilities, as relevant

Country Exposure
Reported Amounts

Exhibit D:

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower

31 March 2009

Balance Sheet Exposure

	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents			Total balance sheet exposure	
Country	To governments	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities		Balance of problematic debts
	(NIS millions)							
United States	**3,130**	**6,161**	**10,351**	**21,925**	**9,401**	**12,524**	**32,166**	**944**
England	**25**	**6,823**	**1,287**	**5,411**	**1,833**	**3,578**	**11,713**	**370**
France	**-**	**1,219**	**579**	**19**	**5**	**14**	**1,812**	**9**
Holland	**-**	**2,819**	**1,452**	**-**	**-**	**-**	**4,271**	**28**
Germany	**-**	**2,317**	**1,329**	**-**	**-**	**-**	**3,646**	**1**
Belgium	**-**	**2,574**	**450**	**-**	**-**	**-**	**3,024**	**11**
Switzerland	**-**	**659**	**875**	**354**	**354**	**-**	**1,534**	**730**
Others	**294**	**8,191**	**3,458**	**3,675**	**1,473**	**2,202**	**14,145**	**196**
Total country exposure	**3,449**	**30,763**	**19,781**	**31,384**	**13,066**	**18,318**	**72,311**	**2,339**
Total exposure to LDC countries	**251**	**646**	**1,053**	**2,203**	**1,367**	**836**	**2,786**	**10**

31 March 2009

Off - Balance Sheet Exposure

			Cross-Border Balance Sheet Exposure	
Country	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)			
United States	**14,402**	**-**	**7,560**	**12,082**
England	**14,743**	**-**	**4,983**	**3,152**
France	**2,343**	**-**	**897**	**901**
Holland	**644**	**-**	**2,328**	**1,943**
Germany	**987**	**-**	**2,365**	**1,281**
Belgium	**577**	**-**	**2,402**	**622**
Switzerland	**2,179**	**-**	**1,067**	**467**
Others	**2,133**	**-**	**7,950**	**3,993**
Total country exposure	**38,008**	**-**	**29,552**	**24,441**
Total exposure to LDC countries	**743**	**-**	**1,771**	**179**

Country Exposure
Reported Amounts
Exhibit D (con'd):

Part A – Information on total country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever is the lower

31 December 2008

Balance Sheet Exposure

	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents			Total balance sheet exposure	
	To governments	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities		Balance of problematic debts
Country	(NIS millions)							
United States	3,516	6,466	8,801	20,504	9,367	11,137	29,920	904
England	8	6,391	967	5,253	1,812	3,441	10,807	378
France	566	1,759	521	18	5	13	2,859	33
Holland	-	1,849	1,445	-	-	-	3,294	147
Germany	-	2,195	1,177	-	-	-	3,372	36
Others	320	9,597	5,095	3,614	2,132	1,482	16,494	737
Total country exposure	4,410	28,257	18,006	29,389	13,316	16,073	66,746	2,235
Total exposure to LDC countries	264	596	1,029	1,752	1,000	752	2,641	16

31 December 2008

Off - Balance Sheet Exposure

			Cross-Border Balance Sheet Exposure	
	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
Country	(NIS millions)			
United States	12,599	40	7,785	10,998
England	10,758	-	5,079	2,287
France	1,698	-	1,630	1,216
Holland	846	-	2,138	1,156
Germany	661	-	2,123	1,249
Others	3,830	-	9,176	5,836
Total country exposure	30,392	40	27,931	22,742
Total exposure to LDC countries*	623	-	1,542	347

Country Exposure

Exhibit D (cont'd):

Footnotes:

In accordance with the Directive of the Supervisor of Banks, country exposure is shown on an end-risk basis, as follows:

- The accounting balance of a debt is to be dealt with as the amount of exposure to the legal country of residence of the debtor who bears the end risk.
- The accounting balance of an investment in shares is to be dealt with as the amount of exposure to the country of residence of the issuer of the security.
- Off-balance sheet credit risk is shown as an off-balance sheet exposure to the country of residence of the counterparty to the transaction.

From the aspect of determining end-risk, collateral is to be considered as follows:

- Third party guarantees according to the country of residence of the guarantor.
- Securities - The country of residence is that of the issuer of the security.
- The Directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.
- For purposes of determining end-risk only specific collaterals were taken into account.

Part B – The aggregate amount of balance sheet exposure to countries whose total individual exposure is between 0.75% and 1% of total consolidated assets or 15%-20% of the equity, whichever is the lower, is NIS 2,455 million as it relates to Belgium only.

Part C – The exposure to the foreign countries with liquidity difficulties as defined by Bank of Israel (a country who receives financial assistance from IMF or its liabilities a rating of CCC or lower) amounts to NIS 455 million and relates to 30 countries.

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 on 31 March 2009 (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 that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.

3. Based on my knowledge, the 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 and cash flows of the Bank for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions; and

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this Report 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

   (d) We have disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this fourth 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 Auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment 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 material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

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

31 May 2009

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 on 31 March 2009 (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 that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.

3. Based on my knowledge, the 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 and cash flows of the Bank for the dates and periods covered by the Report.

4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:

   (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;

   (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions; and

   (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report 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

   (d) We have 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 Auditors, the Board of Directors and the Audit Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:

   (a) All significant deficiencies and material weaknesses in the establishment 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 material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

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

31 May 2009

Zeev Nahari
Senior Deputy Chief Executive Officer
Chief Financial Officer,
Head of Finance, Accounting and Capital Markets

Joint Auditors' review report to the shareholders of Bank Leumi le-Israel B.M.

Introduction

We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. and its subsidiaries, which comprises the condensed interim consolidated balance sheet as of March 31, 2009 and the related interim condensed consolidated statements of profit and loss, changes in shareholders equity and cash flows for the three months then ended. The board of directors and management are responsible for the preparation and presentation of interim financial information for these interim periods in accordance with Accounting Standard No. 14 of the Israel Accounting Standards Board, "Interim Financial Reporting" and with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of foreign subsidiaries, whose assets constitute approximately 2% of total consolidated assets as of March 31, 2009, and whose losses before provision for doubtful debts constitute some 12% of the total net interest income before provision for doubtful debts for the three month period then ended. The condensed interim financial information of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to the financial information in respect of those companies, is based on the review reports of the other auditors.

Scope of review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and areview standard implementation of which in review of banking institutions was required in guidelines of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information was not prepared, in all material respects, in accordance with Accounting Standard No. 14 of the Israel Accounting Standards Board and with directives and guidelines of the Supervisor of Banks.

Without qualifying our Conclusion, we draw attention:

1. to the contents of Note 6C. clauses 2, 4 and 5 concerning claims against the Bank and against consolidated subsidiaries, including applications for their approval as class actions.
2. to the contents of Note 6G. concerning the ruling of the Antitrust General Director.
3. to the contents of Note 6 clauses D1 and E concerning claims and uncertainties relating to companies included on 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.

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

Somekh Chaikin
Certified Public Accountants (Isr.)

31 May 2009

Condensed Consolidated Balance Sheet as at 31 March 2009
Reported amounts

	31 March 2009	31 March 2008	31 December 2008
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Assets			
Cash and deposits with banks	**38,712**	36,580	33,130
Securities	**47,677**	44,641	44,910
Securities borrowed or purchased under agreement to resell	**229**	864	201
Credit to the public	**212,878**	200,174	213,215
Credit to governments	**500**	576	520
Investments in companies included on the equity basis	**2,048**	1,899	1,842
Buildings and equipment	**3,513**	3,331	3,445
Other assets	**12,495**	10,158	13,529
Total assets	**318,052**	298,223	310,792
Liabilities and equity capital			
Deposits of the public	**254,565**	228,187	244,783
Deposits from banks	**3,181**	6,575	3,742
Deposits from governments	**852**	1,128	831
Securities loaned or sold under agreement to repurchasel	**193**	385	549
Debentures, bonds and subordinated notes	**20,567**	21,985	20,636
Other liabilities	**19,603**	20,121	21,334
Total liabilities	**298,961**	278,381	291,875
Minority interest	**255**	109	245
Shareholders' equity	**18,836**	19,733	18,672
Total liabilities and equity capital	**318,052**	298,223	310,792

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

Eitan Raff
Chairman of the
Board of Directors

Galia Maor
President and Chief
Executive Officer

Zeev Nahari
Senior Deputy Chief Executive Officer
Chief Financial Officer,
Head of Finance, Accounting and Capital
Markets

Date of approval of the Financial Statements: 31 May 2009

Condensed Consolidated Statement of Profit and Loss
For the Period Ended 31 March 2009
Reported Amounts

	For the Three Months Ended 31 March		For the Year Ended 31 December
	2009	2008	2008
	(Unaudited)		(Audited)
	(NIS millions)		
Net interest income before provision for doubtful debts	**1,362**	1,960	6,380
Provision for doubtful debts	**354**	244	2,145
Net interest income after provision for doubtful debts	**1,008**	1,716	4,235
Operating and other income			
Operating commissions	**831**	(a) 902	(a) 3,538
Profits (losses) from investments in shares, net	**95**	(71)	(912)
Other income	**77**	(a) 20	(a) 174
Total operating and other income	**1,003**	851	2,800
Operating and other expenses			
Salaries and related expenses	**883**	1,131	4,118
Building and equipment maintenance and depreciation	**364**	323	1,397
Other expenses	**317**	340	1,488
Total operating and other expenses	**1,564**	1,794	7,003
Operating profits before taxes	**447**	773	32
Provision for taxes on operating profit	**42**	383	421
Operating profits (losses) after taxes	**405**	390	(389)
Equity in after-tax operating profits of companies included on the equity basis	**34**	87	249
Minority interest in after-tax operating (profits) of subsidiaries	**(11)**	(5)	(18)
Net operating profit (loss)	**428**	472	(158)
After-tax profit (loss) from extraordinary items	**1**	(2)	250
Net profit for the period	**429**	470	92
	(NIS)		
Basic earnings per share			
Net operating profit (loss)	**0.29**	0.33	(0.11)
After-tax profit from extraordinary items	**-**	-	0.17
Total	**0.29**	0.33	0.06
Diluted earnings per share			
Net operating profit (loss)	**0.29**	0.32	(0.11)
After-tax profit from extraordinary items	**-**	-	0.17
Total	**0.29**	0.32	0.06

(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 31 March 2009
Reported Amounts

	For the Three Months Ended 31 March 2009 (Unaudited)				Accumulated other comprehensive income				
	Share capital	Premium	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	**7,059**	**885**	**284**	**8,198**	**(648)**	**(502)**	**11,998**	**(374)**	**18,672**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**429**	**-**	**429**
Issue of shares	**-**	**117**	**(117)**	**-**	**-**	**-**	**-**	**-**	**-**
Expiry of options									
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**-**	**(5)**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**-**	**(481)**	**-**	**-**	**-**	**(481)**
Profits in respect of securities available for sale that were realized and classified to profit and loss					**(205)**	**-**	**-**	**-**	**(205)**
Related tax effect	**-**	**-**	**-**	**-**	**256**	**-**	**-**	**-**	**256**
Translation adjustments for companies included on the equity basis	**-**	**-**	**-**	**-**	**-**	**165**	**-**	**-**	**165**
Loans to employees for purchase of Bank's shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**5**
Balance at the end of the period	**7,059**	**972**	**167**	**8,198**	**(1,078)**	**(337)**	**12,422**	**(369)**	**18,836**

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

See footnotes on page 115.

Condensed Consolidated Statement of Changes in Shareholders' Equity
Reported Amounts

For the Three Months Ended 31 March 2008 (Unaudited)

	Share capital	Premium	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Accumulated other comprehensive income: Adjustments in respect of presentation of securities available for sale at fair value	Accumulated other comprehensive income: 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	**7,000**	**-**	**610**	**7,610**	**502**	**(445)**	**12,016**	**270**	**(404)**	**19,549**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**470**	**-**	**-**	**470**
Issue of shares	**48**	**446**	**-**	**494**	**-**	**-**	**-**	**-**	**-**	**494**
Benefit in respect of shares based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(270)**	**-**	**(270)**
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	**-**	**-**	**(15)**	**(15)**	**-**	**-**	**-**	**-**	**-**	**(15)**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**-**	**(785)**	**-**	**-**	**-**	**-**	**(785)**
Losses in respect of securities available for sale that were realized and classified to profit and loss	**-**	**-**	**-**	**-**	**39**	**-**	**-**	**-**	**-**	**39**
Related tax effect	**-**	**-**	**-**	**-**	**251**	**-**	**-**	**-**	**-**	**251**
Translation adjustments for companies included on the equity basis	**-**	**-**	**-**	**-**	**-**	**(32)**	**-**	**-**	**-**	**(32)**
Loans to employees for purchase of Bank's shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**32**
Balance at the end of the period	**7,048**	**446**	**595**	**8,089**	**7**	**(477)**	**12,486**	**-**	**(372)**	**19,733**

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

See footnotes on page 115.

Condensed Consolidated Statement of Changes in Shareholders' Equity
Reported Amounts

	For the Year Ended 31 December 2008 (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		Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions									
Balance at the beginning of the period	**7,000**	**-**	**610**	**7,610**	**502**	**(445)**	**12,016**	**270**	**(404)**	**19,549**
Net losses for the period	**-**	**-**	**-**	**-**	**-**	**-**	**92**	**-**	**-**	**92**
Issue of shares	**59**	**855**	**(300)**	**614**	**-**	**-**	**-**	**-**	**-**	**614**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(270)**	**-**	**(270)**
Benefit in respect of shares based payment transactions	**-**	**-**	**(26)**	**(26)**	**-**	**-**	**-**	**-**	**-**	**(26)**
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**(110)**	**-**	**-**	**(110)**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**-**	**(3,636)**	**-**	**-**	**-**	**-**	**(3,636)**
Losses in respect of securities available for sale that were realized and classified to profit and loss	**-**	**-**	**-**	**-**	**1,852**	**-**	**-**	**-**	**-**	**1,852**
Related tax effect	**-**	**-**	**-**	**-**	**634**	**-**	**-**	**-**	**-**	**634**
Translation adjustments for companies included on the equity basis	**-**	**-**	**-**	**-**	**-**	**(57)**	**-**	**-**	**-**	**(57)**
Loans to employees for purchase of Bank's shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30**	**30**
Balance at the end of the period	**7,059**	**855**	**284**	**8,198**	**(648)**	**(502)**	**11,998**	**-**	**(374)**	**18,672**

(a) Including 10 million of other capital reserves.
(b) Adjustments arising from translation of the financial statements of foreign subsidiaries, which operating currency is different from reporting currency.

Consolidated Statements of Cash Flows
Reported amounts

	For the three months ended 31 March 2009	For the year ended 31 December 2008
	Unaudited	Audited
	(NIS millions)	
Cash flows generated by operating activities:		
Net profit for the year	**429**	**92**
Adjustments required to cash flows generated by operating activities:		
Equity in undistributed profits of companies included on equity basis (a)	**(34)**	**(128)**
Minority interest in profits of subsidiaries	**11**	**18**
Benefit in respect of share-based payment transactions	**-**	**24**
Depreciation of buildings and equipment	**148**	**520**
Amortization	**4**	**17**
Provision for doubtful debts	**354**	**2,145**
Provision for decrease in value of assets transferred to the Group's ownership	**1**	**10**
Net gain on sale of securities available for sale	**(261)**	**(52)**
Realized and unrealized loss (gain) from adjustment of held for trading securities to fair value	**(125)**	**446**
Gain on receipt of shares without payment	**-**	**(27)**
After-tax loss on realization of investments in subsidiaries and companies included on equity basis	**-**	**(17)**
Net (gains) losses, after tax, on sale of buildings and equipment	**(1)**	**2**
Provision for impairment of debentures available for sale	**46**	**1,328**
Provision for impairment of shares available for sale	**10**	**576**
Cancellation of special provisions in connection with fixed assets	**-**	**(2)**
Deferred taxes in respect of operating profit, net	**82**	**33**
Increase (decrease) in excess of provisions for severance pay and pensions over amounts funded	**(182)**	**672**
Gain on issue of shares to third party in subsidiary	**-**	**(234)**
Other, net	**(1)**	**(1)**
Net cash generated by operating activities	**481**	**5,422**

(a) Net of dividend received.

Consolidated Statements of Cash Flows (cont'd)
Reported amounts

	For the three months ended 31 March 2009	For the year ended 31 December 2008
	Unaudited	Audited
	(NIS millions)	
Cash flows generated by activities in assets:		
Net decrease (increase) in deposits with banks for an initial period exceeding three months	**(170)**	**5,380**
Acquisition of debentures held to maturity	**(55)**	**(32)**
Proceeds from redemption of debentures held to maturity	**620**	**41**
Acquisition of securities available for sale	**(10,932)**	**(46,165)**
Proceeds from sale of securities available for sale	**3,262**	**5,810**
Proceeds from redemption of securities available for sale	**3,440**	**41,593**
Net decrease (increase) in securities held for trading	**324**	**(3,241)**
Net decrease (increase) in credit to the public	**116**	**(16,615)**
Net decrease in credit to governments	**20**	**122**
Net decrease (increase) in securities borrowed or purchased under agreements to resell	**(28)**	**454**
Issue of shares to third party in subsidiary	**-**	**360**
Proceeds from sale of investment in companies included on equity basis	**-**	**29**
Acquisition of shares in companies included on equity basis	**(29)**	**(13)**
Acquisition of buildings and equipment	**(220)**	**(715)**
Proceeds from sale of buildings	**2**	**45**
Proceeds from realization of assets transferred to Group ownership	**41**	**9**
Net increases in other assets	**1,272**	**(5,781)**
Net cash used for activities in assets	**(2,337)**	**(18,719)**
Cash flows generated by activities in liabilities and capital		
Net increase (decrease) in:		
Deposits of the public	**9,782**	**6,738**
Deposits from banks	**(561)**	**(2,397)**
Deposits from governments	**21**	**(367)**
Issue of debentures, bonds and subordinated notes	**361**	**5,089**
Redemption of debentures, bonds and subordinated notes	**(430)**	**(3,701)**
Net increase (decrease) in other liabilities	**(1,550)**	**4,838**
Net increase (decrease) in securities loaned or sold under agreements to repurchase	**(356)**	**318**
Issue of shares to employees	**-**	**614**
Dividend paid to shareholders	**-**	**(1,684)**
Repayment of loans to employees for purchase of the Bank's shares	**5**	**30**
Net cash generated by activities in liabilities and capital	**7,272**	**9,478**
Increase (decrease) in cash	**5,416**	**(3,819)**
Balance of cash at beginning of period	**31,005**	**34,824**
Balance of cash at end of period	**36,421**	**31,005**

Note 1 – Significant Accounting Policies

A. The Condensed Consolidated Interim Financial Statements as at 31 March 2009 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 2008, 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 2008 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 2009. 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 banking corporations as follows:

1) He intends to determine, on an ongoing 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.

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 (Presentation of Transactions between a Company and its Controlling Shareholder in the Financial Statements) Regulations, 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 which is characterized by 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 decrease 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 credit losses 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 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 31 March 2009 amounted to NIS 979 million, of which the Bank - NIS 676 million.

The Bank is examining a new draft directive, published by the Bank of Israel in May 2009, regarding sectorial provisions, and its effect on the Bank's preparations for implementing the above directive.

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

Note 2 - Securities
Reported Amounts

	31 March 2009 (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	**266**	**266**	**14**	**-**	**280**
Foreign Governments	**606**	**606**	**14**	**(1)**	**619**
Other companies	**9**	**9**	**-**	**-**	**9**
Total debentures held to maturity	**881**	**881**	**28**	**(1)**	**908**

	31 March 2009 (Unaudited)				
	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	**13,533**	**13,017**	**521**	**(5)**	**13,533**
Foreign Governments	**339**	**333**	**8**	**(2)**	**339**
Other companies	**19,552**	**22,273**	**88**	**(2,809)**	**19,552**
	33,424	**35,623**	**617**	**(2,816)**	**33,424**
Shares of other companies and mutual funds (b)	**2,716**	**2,206**	**511**	**(1)**	**2,716**
Total securities available for sale	**36,140**	**37,829**	**(c) 1,128**	**(c) (2,817)**	**36,140**

	31 March 2009 (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	**5,356**	**5,175**	**181**	**-**	**5,356**
Foreign Governments	**3,267**	**3,195**	**72**	**-**	**3,267**
Other companies	**1,919**	**2,098**	**14**	**(193)**	**1,919**
	10,542	**10,468**	**267**	**(193)**	**10,542**
Shares and mutual funds					
Other companies	**114**	**459**	**-**	**(345)**	**114**
Total securities available for sale	**10,656**	**10,927**	**(d) 267**	**(d) 538**	**10,656**
Total securities	**47,677**	**49,637**	**1,423**	**(3,356)**	**47,704**

See footnotes on page 125.

Note 2 - Securities (Cont'd)
Reported Amounts

	31 March 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	844	844	27	-	871
Foreign Governments	505	505	7	-	512
Other companies	-	-	-	-	-
Total debentures held to maturity	1,349	1,349	34	-	1,383

	31 March 2008 (Unaudited)				
	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	8,177	8,040	187	(50)	8,177
Foreign Governments	1,185	1,176	9	-	1,185
Other companies	21,251	22,164	63	(976)	21,251
	30,613	31,380	259	(1,026)	30,613
Shares and mutual funds					
Shares of other companies and mutual funds (b)	4,175	3,366	917	(108)	4,175
Total securities available for sale	34,788	34,746	(c) 1,176	(c) (1,134)	34,788

	31 March 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	5,411	5,316	102	(7)	5.411
Foreign Governments	136	136	-	-	136
Other companies	1,643	1,664	17	(38)	1,643
	7,190	7,116	119	(45)	
Shares and mutual funds					
Other companies	1,314	1,344	26	(56)	1,314
Total securities held for trading	8,504	8,460	(d) 145	(d) (101)	8,504
Total securities	44,641	44,555	1,355	(1,235)	44,675

See footnotes on page 125.

Note 2 - Securities (Cont'd)
Reported Amounts

	31 December 2008 (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	880	880	18	-	898
Foreign Governments	558	558	12	(1)	569
Other companies	8	8	-	-	8
Total debentures held to maturity	1,446	1,446	30	(1)	1,475

	31 December 2008 (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	10,063	9,629	457	(23)	10,063
Foreign Governments	336	327	9	-	336
Other companies	18,991	20,855	36	(1,900)	18,991
	29,390	30,811	502	(1,923)	29,390
Shares and mutual funds					
Shares of other companies and mutual funds (b)	3,219	2,790	430	(1)	3,219
Total securities available for sale	32,609	33,601	(c) 932	(c) (1,924)	32,609

	31 December 2008 (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	5,554	5,465	117	(28)	5,554
Foreign Governments	3,707	3,674	44	(11)	3,707
Other companies	1,489	1,639	7	(157)	1,489
	10,750	10,778	168	(196)	10,750
Shares and mutual funds					
Other companies	105	457	-	(352)	105
Total securities held for trading	10,855	11,235	(d) 168	(d) (548)	10,855
Total securities	44,910	46,282	1,130	(2,473)	44,939

See footnotes on page 125.

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 994 million with respect to shares which have no readily available fair value, which are presented at cost (31 December 2008 - NIS 1,263 million and 31 March 2008 - NIS 1,118 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

	31 March 2009 (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	**448**	**446**	**2**	**-**	**448**
Securities issued by FNMA and FHLMC	**1,288**	**1,282**	**16**	**(10)**	**1,288**
Total	**1,736**	**1,728**	**18**	**(10)**	**1,736**
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**2,284**	**2,310**	**8**	**(34)**	**2,284**
Other Mortgage-backed securities	**63**	**71**	**-**	**(8)**	**63**
Total	**2,347**	**2,381**	**8**	**(42)**	**2,347**
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	**5**	**8**	**-**	**(3)**	**5**
Credit for purchase of vehicle	**24**	**24**	**-**	**-**	**24**
Other credit to private persons	**10**	**10**	**-**	**-**	**10**
Of which: CLO	**627**	**826**	**-**	**(199)**	**627**
Of which: CDO	**26**	**26**	**-**	**-**	**26**
Of which: SCDO	**116**	**117**	**11**	**(12)**	**116**
Others	**43**	**43**	**1**	**(1)**	**43**
Total	**851**	**1,054**	**12**	**(215)**	**851**
Total Asset-backed securities available for sale	**4,934**	**5,163**	**38**	**(267)**	**4,934**

* Amounts that raised up to the capital fund as part of adjustments of securities available for sale at fair value.

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

	31 March 2009 (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	**3**	**3**	**-**	**-**	**3**
Total	**3**	**3**	**-**	**-**	**3**
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**75**	**73**	**2**	**-**	**75**
Other Mortgage-backed securities	**109**	**151**	**-**	**(42)**	**109**
Total	**184**	**224**	**2**	**(42)**	**184**
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	**14**	**22**	**-**	**(8)**	**14**
Credit for purchase of vehicle	**5**	**5**	**-**	**-**	**5**
Credit not to private persons	**9**	**13**	**-**	**(4)**	**9**
Of which: CDO	**4**	**10**	**-**	**(6)**	**4**
Others	**3**	**3**	**-**	**-**	**3**
Total	**35**	**53**	**-**	**(18)**	**35**
Total Asset-backed securities held for trading	**222**	**280**	**2**	**(60)**	**222**

3. The redemption portfolio includes a security issued by the FHLMC in the amount of about NIS 9 million.

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

	31 March 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	99	98	1	-	99
Securities issued by FNMA and FHLMC	1,335	1,348	4	(17)	1,335
Securities issued by others	13	13	-	-	13
Total	1,447	1,459	5	(17)	1,447
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,033	2,065	5	(37)	2,033
	-	-	-	-	-
Other Mortgage-backed securities	86	104	-	(18)	86
Total	2,119	2,169	5	(55)	2,119
Asset-backed securities (ABS):					
	115	115	-	-	115
Lines of credit for any purpose secured by dwelling	7	9	-	(2)	7
Credit for purchase of vehicle	143	144	-	(1)	143
Other credit to private persons	27	27	-	-	27
	1	1	-	-	1
Of which: CLO	1,086	1,244	-	(158)	1,086
Of which: SCDO	307	449	-	(142)	307
Others	30	32	-	(2)	30
Total	1,716	2,021	-	(305)	1,716
Total Asset-backed securities available for sale	5,282	5,649	10	(377)	5,282

* Amounts that raised up to the capital fund as part of adjustments of securities available for sale at fair value.

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

	31 March 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 guaranteed by GNMA	1	1	-	-	1
Securities issued by FNMA and FHLMC	7	7	-	-	7
Securities issued by others	-	-	-	-	-
Total	8	8	-	-	8
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	49	48	1	-	49
Other Mortgage-backed securities	163	174	-	(11)	163
Total	212	223	1	(11)	212
Asset-backed securities (ABS):					
Credit card debtors	10	10	-	-	10
Lines of credit for any purpose secured by dwelling	25	27	-	(2)	25
Credit for purchase of vehicle	17	17	-	-	17
Credit not to private persons	1	1	-	-	1
	13	13	-	-	13
Others	3	3	-	-	3
Total	69	71	-	(2)	69
Total Asset-backed securities held for trading	289	301	1	(13)	289

3. The redemption portfolio includes a security issued by the FHLMC in the amount of about NIS 7 million.

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

	31 December 2008 (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	84	87	-	(3)	84
Securities issued by FNMA and FHLMC	1,211	1,226	10	(25)	1,211
Securities issued by others	10	10	-	-	10
Total	1,305	1,323	10	(28)	1,305
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,939	1,987	5	(53)	1,939
Other Mortgage-backed securities	64	67	-	(3)	64
Total	2,003	2,054	5	(56)	2,003
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	6	8	-	(2)	6
Credit for purchase of vehicle	24	27	-	(3)	24
Other credit to private persons	10	10	-	-	10
CLO debentures	690	790	-	(100)	690
CDO debentures	26	27	-	(1)	26
SCDO debentures	112	122	-	(10)	112
others	35	36	-	(1)	35
Total	903	1,020	-	(117)	903
Total Asset-backed securities available for sale	4,211	4,397	15	(201)	4,211

* Amounts that raised up to the capital fund as part of adjustments of securities available for sale at fair value.

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

	31 December 2008 (Audited)				
	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	3	3	-	-	3
Total	3	3	-	-	3
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	55	54	1	-	55
Other Mortgage-backed securities	111	150	-	(39)	111
Total	166	204	1	(39)	166
Asset-backed securities (ABS):					
Credit card debtors					
Lines of credit for any purpose secured by dwelling	16	22	-	(6)	16
Credit for purchase of vehicle	6	6	-	-	6
Credit not to private persons	10	12	-	(2)	10
	3	7	-	(4)	3
Others	3	3	-	-	3
Total	38	50	-	(12)	38
Total Asset-backed securities held for trading	207	257	1	(51)	207

3. The redemption portfolio includes a security issued by the FHLMC at fair value in the amount of about NIS 8 million.

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

	31 March 2009 (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)	**128**	**(2)**	**423**	**(8)**	**551**	**(10)**
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	**253**	**(7)**	**1,175**	**(35)**	**1,428**	**(42)**
Asset-backed securities (ABS)	**332**	**(87)**	**410**	**(128)**	**742**	**(215)**
Total	**713**	**(96)**	**2,008**	**(171)**	**2,721**	**(267)**

	31 March 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)	290	(10)	557	(7)	847	(17)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	666	(35)	692	(20)	1,358	(55)
Asset-backed securities (ABS)	1,236	(247)	214	(58)	1,450	(305)
Total	2,192	(292)	1,463	(85)	3,655	(377)

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

	31 December 2008 (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)	321	(8)	425	(20)	746	(28)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	246	(4)	1,171	(52)	1,417	(56)
Asset-backed securities (ABS)	119	(14)	398	(103)	517	(117)
Total	686	(26)	1,994	(175)	2,680	(201)

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

	For the three months ended 31 March 2009			
	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	**8,246**	**675**	**948**	**9,869**
Provisions during the period	**467**	**89**	**54**	**610**
Decrease in provisions	**(145)**	**(85)**	**(23)**	**(253)**
Collection of past years' write-offs	**(3)**	**-**	**-**	**(3)**
Net amount charged to statement of profit and loss	**319**	**4**	**31**	**354**
Write-offs	**(123)**	**(19)**	**-**	**(142)**
Balance of provision at end of the period	**8,442**	**660**	**979**	**10,081**
Including balance of provision not deducted from credit to the public	**178**	**-**	**133**	**311**

	For the three months ended 31 March 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	434	96	(14)	516
Decrease in provisions	(184)	(68)	(11)	(263)
Collection of past years' write-offs	(9)	-	-	(9)
Net amount charged to statement of profit and loss	241	28	(25)	244
Write-offs	(212)	(19)	-	(231)
Balance of provision at end of the period	7,279	697	850	8,826
Including balance of provision not deducted from credit to the public	255	-	116	371

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

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

(c) After deducting collection of debts written off in previous years.

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

31 March 2009						
		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	**27,947**	**642**	**209**	**461**	**-**	**461**
"Large" loans (a)	**7,215**	**144**	**152**	**153**	**-**	**153**
Other loans (b)	**7,213**	**219**	**27**	**46**	**8**	**54**
Balance of provision at end of the period	**42,375**	**1,005**	**388**	**660**	**8**	**668**

31 March 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	26,699	643	343	497	-	497
"Large" loans (a)	5,047	126	217	153	-	153
Other loans (b)	5,734	210	29	47	5	52
Balance of provision at end of the period	37,480	979	589	697	5	702

(a) Housing loans the balance of each is higher than NIS 835 thousand (31 March 2008 - NIS 808 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 835 thousand (31 March 2008 - NIS 808 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 126 million (31 March 2008 - NIS 144 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

	31 March 2009	31 March 2008	31 December 2008
	(Unaudited)	(Unaudited)	(Audited)
	NIS millions		
1. Bank's capital for purposes of calculating the capital ratio			
Tier I capital	**19,907**	19,481	19,307
Total capital	**30,660**	(a) 30,012	(a) 29,765

	31 March 2009		31 March 2008		31 December 2008	
	(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	**318,385**	**216,744**	298,556	210,806	311,125	217,747
Off-balance sheet instruments	**53,007**	**34,506**	50,342	33,428	50,963	33,759
Total credit risk assets	**371,392**	**251,250**	348,898	244,234	362,088	251,506
Market risk	**-**	**6,315**	-	7,783	-	5,476
Total risk assets	**371,392**	**257,565**	348,898	252,017	362,088	256,982

* 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

	31 March 2009	31 March 2008	31 December 2008
	(Unaudited)	(Unaudited)	(Audited)
	(%)		
3. Ratio of capital to risk assets			
The ratio of tier I capital to risk assets	**7.73**	7.73	7.51
The ratio of total capital to risk assets	**11.90**	(a) 11.91	(a) 11.58
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	**6.13**	6.66	6.15
The ratio of total capital to risk assets	**9.20**	10.01	9.24
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	**14.77**	16.54	13.41
The ratio of total capital to risk assets	**19.31**	16.93	17,84
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	**9.83**	8.46	9.31
The ratio of total capital to risk assets	**13.07**	10.77	12.40
Ratio of total minimum capital to risk assets required by the local Authorities	**10.00**	10.00	10.00

(a) Restated.

Note 5 - Assets and Liabilities Classified According to Linkage Basis as at 31 March 2009 (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	**13,998**	**466**	**14,758**	**6,664**	**2,826**	**-**	**38,712**
Securities	**11,648**	**6,479**	**18,428**	**7,315**	**977**	**2,830**	**47,677**
Securities borrowed or purchased under agreement to resell	**95**	**-**	**84**	**-**	**50**	**-**	**229**
Credit to the public (b)	**101,378**	**51,060**	**42,538**	**7,534**	**10,361**	**7**	**212,878**
Credit to governments	**-**	**244**	**256**	**-**	**-**	**-**	**500**
Investments in affiliated companies	**8**	**-**	**-**	**-**	**-**	**2,040**	**2,048**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,513**	**3,513**
Other assets	**4,751**	**156**	**5,076**	**716**	**1,178**	**618**	**12,495**
Total assets	**131,878**	**58,405**	**81,140**	**22,229**	**15,392**	**9,008**	**318,052**
Liabilities							
Deposits of the public	**112,104**	**27,168**	**81,595**	**24,528**	**9,122**	**48**	**254,565**
Deposits from banks	**1,256**	**555**	**729**	**188**	**453**	**-**	**3,181**
Deposits from governments	**131**	**533**	**175**	**13**	**-**	**-**	**852**
Securities loaned or sold under agreement to repurchase	**-**	**-**	**193**	**-**	**-**	**-**	**193**
Debentures, bonds and subordinated notes	**1,896**	**16,396**	**2,275**	**-**	**-**	**-**	**20.567**
Other liabilities	**9,080**	**3,499**	**4,510**	**709**	**1,253**	**552**	**19,603**
Total liabilities	**124,467**	**48,151**	**89,477**	**25,438**	**10,828**	**600**	**298,961**
Difference	**7,411**	**10,254**	**(8,337)**	**(3,209)**	**4,564**	**8,408**	**19,091**
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	**8,411**	**(9,078)**	**4,961**	**1,022**	**(5,316)**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**(831)**	**(9)**	**312**	**193**	**335**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(52)**	**(2)**	**91**	**53**	**(90)**	**-**	**-**
Total	**14,939**	**1,165**	**(2,973)**	**(1,941)**	**(507)**	**8,408**	**19,091**
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	**(1,535)**	**(10)**	**648**	**347**	**550**	**-**	**-**
Options out of the money, net (discounted par value)	**(918)**	**(22)**	**867**	**69**	**4**	**-**	**-**

(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 March 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	3,722	549	26,069	2,562	3,678	-	36,580
Securities	7,337	6,646	14,883	9,317	969	5,489	44,641
Securities borrowed or purchased under agreement to resell	757	-	107	-	-	-	864
Credit to the public (b)	92,222	53,668	35,004	7,163	12,063	54	200,174
Credit to governments	-	242	334	-	-	-	576
Investments in affiliated companies	16	-	-	-	-	1,883	1,899
Buildings and equipment	-	-	-	-	-	3,331	3,331
Other assets	3,761	125	3,243	620	1,568	841	10,158
Total assets	107,815	61,230	79,640	19,662	18,278	11,598	298,223
Liabilities							
Deposits of the public	95,595	26,267	73,192	21,750	11,096	287	228,187
Deposits from banks	3,461	877	1,215	429	593	-	6,575
Deposits from governments	123	678	317	9	1	-	1,128
Securities loaned or sold under agreement to repurchase	257	-	128	-	-	-	385
Debentures, bonds and subordinated notes	2,973	16,639	2,373	-	-	-	21,985
Other liabilities	10,859	3,423	2,265	853	2,127	594	20,121
Total liabilities	113,268	47,884	79,490	23,041	13,817	881	278,381
Difference	(5,453)	13,346	150	(3,379)	4,461	10,717	19,842
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	4	(4)	-	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	13,721	(9,336)	(2,362)	2,344	(4,367)	-	-
Options in the money, net (in terms of underlying asset)	349	(5)	(351)	(467)	474	-	-
Options out of the money, net (in terms of underlying asset)	(186)	(2)	181	34	(27)	-	-
Total	8,431	4,003	(2,378)	(1,472)	541	10,717	19,842
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(575)	(8)	767	(620)	436	-	-
Options out of the money, net (discounted par value)	2,124	(10)	(1,827)	(154)	(133)	-	-

(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 2008 (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	15,116	529	11,990	2,938	2,557	-	33,130
Securities	9,464	5,994	16,414	8,813	901	3,324	44,910
Securities borrowed or purchased under agreement to resell	125	-	76	-	-	-	201
Credit to the public (b)	101,569	53,457	39,959	7,498	10,732	-	213,215
Credit to governments	-	256	264	-	-	-	520
Investments in affiliated companies	8	-	-	-	-	1,834	1,842
Buildings and equipment	-	-	-	-	-	3,445	3,445
Other assets	4,559	141	5,109	1,011	2,090	619	13,529
Total assets	130,841	60,377	73,812	20,260	16,280	9,222	310,792
Liabilities							
Deposits of the public	111,976	27,522	74,595	22,161	8,469	60	244,783
Deposits from banks	1,581	800	668	288	405	-	3,742
Deposits from governments	53	592	175	11	-	-	831
Securities loaned or sold under agreement to repurchase	374	-	175	-	-	-	549
Debentures, bonds and subordinated notes	1,894	16,684	2,058	-	-	-	20,636
Other liabilities	9,090	3,687	4,224	1,151	2,582	600	21,334
Total liabilities	124,968	49,285	81,895	23,611	11,456	660	291,875
Difference	5,873	11,092	(8,083)	(3,351)	4,824	8,562	18,917
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	8	(8)	-	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	8,733	(8,619)	3,956	1,781	(5,851)	-	-
Options in the money, net (in terms of underlying asset)	(445)	(5)	(265)	687	28	-	-
Options out of the money, net (in terms of underlying asset)	(150)	(11)	(180)	201	140	-	-
Total	14,011	2,457	(4,564)	(690)	(859)	8,562	18,917
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,142)	(9)	(54)	1,139	66	-	-
Options out of the money, net (discounted par value)	442	(23)	(1,374)	208	747	-	-

(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

	31 March 2009 (Unaudited)	31 December 2008 (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	**1,541**	1,631
Credit guarantees	**6,999**	6,821
Guarantees to apartment purchasers	**7,820**	8,117
Other guarantees and liabilities	**15,578**	14,454
Commitments regarding uncompleted credit card transactions unutilized credit card facilities	**17,673**	16,651
Other unutilized revolving credit facilities to the public and credit facilities on demand	**17,187**	16,967
Irrevocable commitments to provide credit which has been approved and not yet granted	**19,465**	19,627
Commitments to issue guarantees	**6,941**	7,361
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	**167**	170
Second year	**137**	132
Third year	**106**	105
Fourth year	**87**	89
Fifth year	**54**	54
After five years	**115**	117
Total	**666**	667

(a) Of which: credit exposures in respect of liabilities to supply liquidity to securitization structures under the auspices of other parties not utilized in the amount of NIS 419 million (31 December 2008 - NIS 380 million).

(2) Commitments to purchase securities	**502**	371
(3) Commitments to invest in buildings, equipment and in other assets	**195**	214
(4) 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	**24**	32
Total future deposits	**109**	117

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 84.5 million.

1. The following are details of claims in material amounts.

   A. 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. On 13 January 2009, the parties signed a settlement agreement. On 15 January 2009, the Court ordered that the proceedings prescribed by law for the approval of the signed settlement agreement be held. The Attorney General filed a response to the petition to approve the settlement agreement, in which he made various objections to the arrangement that had been agreed upon and asked that an inspector be appointed as provided by law. On 3 May 2009, the Court ordered the appointment of an inspector, who was asked to given the court an opinion regarding the questions relating to the settlement arrangement.

   B. 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.

C. 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 therefore 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.

D. 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.

E. 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 D 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.

F. 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.

G. 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.

H. 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.

I. 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, which includes 8 different causes of action. Following the Court's ruling pursuant to which the plaintiff needed to choose a single cause of action and have the others stricken from the petition, the plaintiffs informed the court that they had chosen the cause of action which was based on a claim that the Bank charges its customers for securities management fees at the time a security is sold during a particular quarter and does not deduct this amount from the minimum management fee that the bank charges for that quarter. In the petition, the plaintiffs attributed some NIS 30 million to this cause of action.

J. 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. The Bank has filed its response to the petition for the approval of the claim as a class action.

K. 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.

L. 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. The Bank has submitted its response to the petition for approval of the claim as a class action.

N. 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.

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 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.

B. 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.

C. 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.

D. 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.

E. On 30 November 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv District Court against the Bank, the First International Bank of Israel Ltd., Union Bank of Israel Ltd. and Bank Mizrahi Tfahot Ltd. The claim is based on damages claimed in the amount of about NIS 68,125,000 (according to the plaintiff's calculations), caused to all the customers of the banks from whose profits tax was deducted at source from interest in respect of bonds and/or dividends in respect on shares, this from 1 January 2003until the day the claim was filed. According to the claim, the banks over-deducted tax, by deducting tax at source in respect of commissions collected from the income received. According to the plaintiff's calculation, the banks should have deducted the commissions from the income on which tax was deducted at course, and only then carried out the deduction at source.

The plaintiff bases his claim on Section 17 of the Income Tax Ordinance, which classifies commissions as an expense incurred in the production of income during the tax year, which is to be taken into account in the calculation of taxable income. According to the plaintiff's claim, by acting as stated the banks violated their duties of caution, trust and fair disclosure towards the group, which applies to them under the Banking Law, the Consumer Protection Law and the Damages Ordinance, as well as the duty of good faith applying to them. It was also claimed that the banks caused the group damage and monetary loss and that their behavior is tantamount to negligence, violation of statutory duties and unjust enrichment.

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 27 April 2009, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank, Bank Mizrahi T'fahot and the First International Bank of Israel. The petition is based on the Antitrust General Director's determination of 26 April 2009. The plaintiffs allege that in accordance with the determination, the banks carried out restrictive arrangements regarding information exchanges concerning commissions, which harmed the competition between them and caused damage to the members of the group whose representation is sought in the petition, and that such damage was reflected in over-payments of commissions. The plaintiffs put the amount of the claim sought in the class action against all the respondents at NIS 1 billion, while noting that this is merely an estimate and while reserving their right to amend the amount at a later time. The complaint does not make any clear attribution of a specific claimed amount to each of the respondents and the matter of requesting provisions for linkage and interest is not sufficiently addressed. The plaintiffs claim that they have a cause of action because of the existence of the said restrictive arrangements between the banks, which could harm and have harmed competition. These arrangements, they argue, fall both within the reach of section 2(a) of the Restrictive Trade Practices Law and within the reach of section 2(b)(1) of the Restrictive Trade Practices Law.

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. The petition filed by the petitioners for the cancellation of the stay in proceedings was rejected by the court, which decided that the stay in proceedings in the claim still stands.

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. On 18 January 2009, the court handed down a ruling instructing that the proceedings determined in the law be undertaken for the approval of the compromise agreement signed by the parties, including executing several necessary activities for the examination of the approval of the agreement and the appointment of an examiner.

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. On 25 September 2008, the court approved the withdrawal of one of the petitioners from the claim. A hearing on the petition to add another petitioner to the claim, in the place of the one who withdrew, has not yet taken place.

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.

5. The following is a description of a petition for approval of a class action submitted against the Bank Leumi le-Israel Trust Company (hereinafter: "the Trust Company"), as will be described below. In the opinion of the Bank's Management, which is based on the opinion of the Trust Company's legal advisors, it is not possible at this early stage to estimate the chances of the petition, and for this reason, no provision was made for it.

   On 5 April 2009, 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 Standard & Poor's Ma'alot Ltd., World Currencies Ltd., the Bank Leumi le-Israel Trust Company, Eran Fuchs, Rony Biram, Yaakov Harpaz and Excellence Investments Ltd. The amount claimed against all the respondents in the class action stands at NIS 84,509,998. The complaint makes no clear attribution of a specific claimed amount against any of the respondents. According to the petitioner, Ma'alot failed in its rating of debentures issued by Olam Currencies Ltd., in that it reduced the rating of the debentures from AAA to D only after the Lehman Group's insolvency, despite information regarding the Lehman Group's difficulties that had been publicized previously, and that Ma'alot created a false and misleading representation to the debenture-holders, to the effect that there was no change in the level of the debentures' risk and/or that the deterioration of the Lehman Group's condition was not relevant to the level of the debentures' risk. The petition alleged that World Currencies was required to report to the debenture-holders regarding the financial entity backers and the mechanism according to which the Notes' risks were divided amongst them. It further alleged that World Currencies should have reported to the debenture-holders regarding the implications of the Lehman Group's deterioration with respect to the chances that the debentures would be repaid, and regarding the fact that the Lehman Bank was in significant business trouble. It was further claimed that World Currencies unlawfully refrained from publishing immediate reports regarding these matters, and that as a result the debenture-holders suffered serious harm. Excellence is a shareholder and a controlling shareholder of World Currencies. Regarding the Trust Company, which served as the trustee for the holders of the debentures issued by World Currencies, the petitioner alleges that it did not do all that it could in order to ensure the fulfilment of World Currencies' obligations to the debenture-holders as established in the prospectus, because it should have asked World Currencies to inform the debenture-holder public regarding the identity of the financial entities with which World Currencies had contracted regarding the purchase of the Notes and the mechanism according to which the risks were divided amongst them, and that it should have demanded that World Currencies provide information regarding consequences of the Lehman Group's condition for the rating of the debentures and/or regarding the ability of World Currencies to repay the debentures. The petitioner further alleges that once the Trust Company became aware of the difficulties that the Lehman Bank was encountering, it should have demanded of World Currencies that it replace the Notes with Notes from other financial entites, in order to reduce the scope of the damage caused to the debenture-holders.

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

D. Paz Oil Company Ltd

1. Legal claims have been made against Paz Oil Company Ltd. ("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 at 31 March 2009.

2. In a letter dated 3 July 2008, the Bank of Israel notified the Bank that Paz is considered to be a conglomerate, as detailed in Note 11 A (1) below.

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.
A consolidated subsidiary has a deficit in its working capital, as a result of failing to comply with certain financial requirements.
For further details of these matters, see the Israel Corporation Ltd.'s financial statements as at 31 March 2009.

F. Assets 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 and on 18 September 2008, the Bank received two requests from the Company for the payment of amounts which the Company claimed that the Bank is required to transfer to it according to the Law. The amount of the two requests, after having been reduced by the company and revalued to 31 December 2008, is some NIS 186 million. The Bank responded to these two requests while rejecting the claim that it has any financial liability with respect to the majority of the assets included in the requests.

On 11 February 2009, the Bank received a third request from the Company, for the payment of a revalued amount of some NIS 120 million, which the Company claimed that the Bank is required to transfer to it according to the Law. On 7 April 2009, the Bank responded to this request, while rejecting the argument that it bears any financial liability with respect to the assets included in the request.

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 referred 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 recommended 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 mentioned 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.

G. On 26 April 2009, a ruling of the Antitrust General Director was received at the Bank pursuant to section 43(a)(1) of the Antitrust Law, 1988, according to which restrictive trade agreements, relating to the transfer of information regarding commissions, had existed between the Bank, Bank Hapoalim B.M., Israel Discount Bank Ltd., Mizrahi-Tefahot Bank Ltd. and the First International Bank of Israel Ltd., during the period from the beginning of the 1990s until the commencement of the Antitrust Authority's investigation of the matter, in November 2004. This is a civil ruling, which constitutes prima facie evidence of the matters therein determined in any legal proceedings. The Bank is entitled to appeal against this ruling, in whole or in part. The Bank has decided to appeal against the ruling. At this early stage, the effects of the ruling can not be assessed.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates

Reported Amounts (Unaudited)

A. Scope of Activity

	31 March 2009				
	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					
Swaps	**-**	**1,472**	**-**	**-**	**-**
Total	**-**	**1,472**	**-**	**-**	**-**
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	**-**	**787**	**-**	**-**	**-**
b) ALM derivatives (1)(2)					
Futures contracts	**-**	**13,845**	**-**	**102**	**71**
Forward contracts	**11,600**	**18,808**	**100,730**	**-**	**1,254**
Traded options					
Put options	**-**	**-**	**6,166**	**5,703**	**188**
Call options	**-**	**1**	**7,378**	**5,703**	**188**
Other options					
Put options	**36**	**13,955**	**26,673**	**993**	**-**
Call options	**-**	**12,770**	**26,286**	**1,211**	**-**
Swaps	**1,372**	**92,682**	**8,514**	**-**	**-**
Total	**13,008**	**152,061**	**175,747**	**13,712**	**1,701**
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	**-**	**14,734**	**-**	**-**	**-**
c) Other derivatives (1)					
Swaps	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**-**	**-**	**-**
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	**-**	**-**	**-**	**-**	**230**
Spot contracts	**-**	**-**	**10,274**	**-**	**-**
Total	**-**	**-**	**10,274**	**-**	**230**
Overall total	**13,008**	**153,533**	**186,021**	**13,712**	**1,931**

(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)

	31 March 2009				
	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	**-**	**64**	**-**	**-**	**-**
Gross negative fair value	**-**	**44**	**-**	**-**	**-**
b) ALM derivatives (1)(2)					
Gross positive fair value	**136**	**3,528**	**4,362**	**188**	**39**
Gross negative fair value	**273**	**3,547**	**4,532**	**185**	**39**
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	**-**	**-**	**-**	**-**	**14**

(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)

	31 March 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)					
Swaps	-	2,258	22	-	-
Total	-	2,258	22	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	1,234	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	50	8,514	-	-	121
Forward contracts	8,690	25,363	90,087	-	1,646
Traded options					
Put options	-	-	6,348	11,215	100
Call options	-	-	6,709	11,215	100
Other options					
Put options	27	16,450	37,577	1,538	-
Call options	8	12,461	35,061	1,779	-
Swaps	1,275	53,976	6,477	-	-
Total	10,050	116,764	182,259	25,747	1,967
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	6,985	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	920
Spot contracts	-	-	12,566	-	-
Total	-	-	12,566	-	920
Overall total	10,050	119,022	194,847	25,747	2,887

(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)

	31 March 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	-	105	-	-	-
Gross negative fair value	-	24	18	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	32	1,642	5,220	277	32
Gross negative fair value	211	1,421	5,818	440	31
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	-	-	-	-	53

(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 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)					
Swaps	-	1,490	24	-	-
Total	-	1,490	24	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	792	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	6	21,637	-	41	66
Forward contracts	11,223	15,678	86,549	-	949
Traded options					
Put options	-	2	8,847	4,891	265
Call options	-	1	10,296	4,891	265
Other options					
Put options	57	16,176	32,384	1,179	-
Call options	20	13,421	31,533	1,403	-
Swaps	1,395	80,052	8,810	-	-
Total	12,701	146,967	178,419	12,405	1,545
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	13,860	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	247
Spot contracts	-	-	7,511	-	-
Total	-	-	7,511	-	247
Overall total	12,701	148,457	185,954	12,405	1,792

(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 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	-	75	-	-	-
Gross negative fair value	-	44	16	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	180	3,396	6,050	280	66
Gross negative fair value	214	3,438	6,535	277	66
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	-	-	-	-	10

(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

	31 March 2009 (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)	**191**	**4,768**	**7**	**-**	**3,351**	**8,317**
Off-balance sheet credit risk in respect of derivative Instruments (3)	**1,693**	**17,650**	**198**	**-**	**7,448**	**26,989**
Total credit risk in respect of derivative instruments	**1,884**	**22,418**	**205**	**-**	**10,799**	**35,306**

	31 March 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)	247	3,392	17	-	3,652	7,308
Off-balance sheet credit risk in respect of derivative Instruments (3)	1,270	15,227	102	3	7,074	23,676
Total credit risk in respect of derivative instruments	1,517	18,619	119	3	10,726	30,984

	31 December 2008 (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)	653	5,058	18	1	4,317	10,047
Off-balance sheet credit risk in respect of derivative Instruments (3)	2,463	15,812	207	2	6,813	25,297
Total credit risk in respect of derivative instruments	3,116	20,870	225	3	11,130	35,344

(1) Net accounting arrangements do not exist.

(2) Of which, balance sheet balance from derivative instruments which are stand alone – NIS 8,317 million (31 March 2008 – NIS 7,308 million, 31 December 2008 – NIS 10,047 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

	31 March 2009 (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	**2,687**	**6,074**	**2,450**	**1,797**	**13,008**
Other	**12,161**	**52,770**	**56,694**	**31,908**	**153,533**
Foreign currency contracts	**123,556**	**51,629**	**6,437**	**4,399**	**186,021**
Contracts in respect of shares	**11,246**	**1,677**	**789**	**-**	**13,712**
Contracts in respect of commodities and others	**1,248**	**436**	**142**	**105**	**1,931**
Total	**150,898**	**112,586**	**66,512**	**38,209**	**368,205**
31 March 2008 (Unaudited)	152,036	121,109	48,628	30,780	352,553
31 December 2008 (Audited)	187,485	81,748	48,776	43,300	361,309

Note 8 – Net Interest Income Before Provision for Doubtful Debts
Reported amounts (Unaudited)

	For the three months ended 31 March	
	2009	2008
	(NIS millions)	
A. Income on assets (a)		
Credit to the public	**6,808**	(f) 199
Credit to governments	**31**	(22)
Deposits with Bank of Israel and cash	**480**	(67)
Deposits with banks	**1,251**	(1,764)
Securities borrowed or purchased under agreement to resell	**9**	6
Debentures	**2,525**	(d) (929)
Total income on assets	**11,104**	(2,975)
B. Expenses on liabilities (a)		
Deposits of the public	**(10,069)**	5,130
Deposits from governments	**(17)**	11
Deposits from Bank of Israel	**-**	(14)
Deposits from banks	**(29)**	(60)
Securities loaned or sold under agreement to repurchase	**(22)**	2
Debentures, bonds and subordinated notes	**(324)**	(99)
Total expense on liabilities	**(10,461)**	4,970
C. From derivative instruments and hedging activities		
Ineffective portion of hedge relationships (b)	**-**	9
Net income (expenses) from ALM derivative instruments (c)	**194**	(437)
Net income (expenses) from other derivative instruments	**3**	(19)
Total income from derivative instruments and hedging activities	**197**	(447)
D. Other income and expenses		
Financing commissions	**81**	78
Profits (losses) from sale of debentures available for sale, net (e)	**143**	28
Losses realized and not yet realized in respect of fair value adjustments of trading debentures, net	**113**	74
Other financing income (expenses)	**161**	(f) 258
Other financing income (expenses)	**24**	(26)
Total other income and expenses	**522**	412
Total net interest income before provision for doubtful debts	**1,362**	1,960
Of which: net, exchange difference	**(78)**	17
E. Detail of net effect of hedging derivative instruments on net interest income		
Financing income (expenses) on assets	**4**	(5)
Financing income (expenses) on liabilities	**(3)**	10

(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 positive (negative) interest and exchange difference in respect of mortgage-backed bonds (MBS) in the amount of about NIS 364 million (31 March 2008 – NIS (278) million).

(e) Including provision for decline in value that was not temporary in nature.

(f) Reclassified

Note 9 – Profits (losses) from Investments in Shares (a), Net
Reported amounts (Unaudited)

	For the three months ended 31 March	
	2009	2008
	(NIS millions)	
Gains on sale of shares available for sale	**72**	8
Profits (losses) on sale of shares available for sale (b)	**(10)**	(75)
Realized and unrealized losses from adjustments to fair value of held for trading shares, net	**12**	(25)
Dividend on shares available for sale and on held for trading shares	**21**	21
Total from investments on shares	**95**	(71)

(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 (cont'd)

Reported amounts

	Statement of profit and loss for the Three Months Ended 31 March 2009 (Unaudited)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before provision for doubtful debt:								
From outside entities -	**245**	**228**	**561**	**404**	**(64)**	**(13)**	**1**	**1,362**
Intercompany operations -	**261**	**(17)**	**(131)**	**(77)**	**214**	**(247)**	**(3)**	**-**
Total	**506**	**211**	**430**	**327**	**150**	**(260)**	**(2)**	**1,362**
Operating and other income:								
From outside entities -	**405**	**109**	**99**	**102**	**102**	**156**	**30**	**1,003**
Intercompany operations -	**54**	**(10)**	**(32)**	**(8)**	**4**	**1**	**(9)**	**-**
Total	**459**	**99**	**67**	**94**	**106**	**157**	**21**	**1,003**
Total income	**965**	**310**	**497**	**421**	**256**	**(103)**	**19**	**2,365**
Provision for doubtful debts	**50**	**42**	**175**	**50**	**1**	**36**	**-**	**354**
After-tax profit(loss) from extraordinary items	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Net profit (loss)	**54**	**60**	**125**	**90**	**50**	**63**	**(13)**	**429**

	Statement of profit and loss for the Three Months Ended 31 March 2008 (Unaudited) (a)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before provision for doubtful debt:								
From outside entities -	(36)	287	845	588	(129)	402	3	1,960
Intercompany operations -	667	(61)	(270)	(193)	235	(353)	(25)	-
Total	631	226	575	395	106	49	(22)	1,960
Operating and other income:								
From outside entities -	425	118	43	108	110	8	39	851
Intercompany operations -	58	(11)	(35)	(8)	4	-	(8)	-
Total	483	107	8	100	114	8	31	851
Total income	1,114	333	583	495	220	57	9	2,811
Provision for doubtful debts	67	14	146	37	-	(20)	-	244
After-tax profit(loss) from extraordinary items	-	-	-	-	-	(1)	(1)	(2)
Net profit (loss)	155	99	206	151	40	(157)	(24)	470

(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 2008 (audited)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before provision for doubtful debt:								
From outside entities -	300	1,208	3,905	2,295	(597)	(732)	1	6,380
Intercompany operations -	2,337	(302)	(2,022)	(906)	959	(51)	(15)	-
Total	2,637	906	1,883	1,389	362	(783)	(14)	6,380
Operating and other income:								
From outside entities -	1,689	434	335	402	397	(624)	167	2,800
Intercompany operations -	237	(26)	(164)	(32)	15	2	(32)	-
Total	1,926	408	171	370	412	(622)	135	2,800
Total income	4,563	1,314	2,054	1,759	774	(1,405)	121	9,180
Provision for doubtful debts	340	182	1,070	485	10	58	-	2,145
After-tax profit(loss) from extraordinary items	202	18	2	26	3	-	(1)	250
Net profit (loss)	818	252	296	271	113	(1,469)	(189)	92

Note 11 – Miscellaneous Matters

A. 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 1,901 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 quarter 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, the Bank intends to attempt to sell its holdings in Paz (15.73% of the share capital and voting rights – 15.31% on a fully-diluted basis) or to distribute the holding as a dividend to the shareholders, subject to the conditions, 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. The Bank has filed a request with the Bank of Israel for an extension for the sale of its holdings in Paz.

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") (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.

On 25 December 2008, and on 30 April 2009, the Bank of Israel extended the permit issued to the Bank for the holding of Migdal shares until 31 December 2009, provided that the shares be transferred to a trustee. The shares were transferred to a trustee on 4 January 2009. Pursuant to the Bank of Israel directives, if the shares held by the trustee are not sold by 31 August 2009, the trustee will sell the shares to a third party by no later than 31 December 2009. The trustee was vested with all the rights that the shares confer (excluding the right to receive dividends and the rights vested with the Bank – the right to sell the shares to a third party or the right to distribute them as a dividend *in specie* up until 31 December 2009).

On 19 March 2009, a Banking (Licensing) Law amendment memorandum was distributed, pursuant to which the Ministry of Finance, with the consent of the Bank of Israel, is proposing to exclude insurance companies from the definition of a conglomerate. The said memorandum was approved by the Ministerial Committee for Legislative Matters on 26 April 2009. The Bank is holding discussions with the Bank of Israel regarding the effect of the said memorandum on the Bank's holding in the shares of Migdal Holdings.

Note 12 – Post Balance Sheet Events

A. Union Bank of Israel Ltd.

On 17 November 2003 concurrently with the exercise of the put option for the sale of one third of the shares of the Bank in Union Bank to Shlomo Eliahu Holdings Ltd. ("Eliahu"), an agreement was signed between the Bank, Sherodar Assets Ltd. ("Sherodar") and Yeshayu Landau Holdings (1993) Ltd.("Landau") (the "Extension Agreement"), under whose terms the period of the put option and call option granted to the parties in the agreement dated 18 November 1999 signed between the said parties and Eliahu (the "Agreement") regarding the balance of Union Bank shares held by the Bank (the "Balance of the Shares") was extended until 17 November 2010, at the price and under the terms stipulated in the Extension Agreement. The Extension Agreement provided that the exercise price of the put option regarding the balance of the shares will be the higher of (a) a price reflecting proportionately of the shareholders' equity of Union Bank in accordance with its audited or reviewed financial statements last published before the date of exercise of the put option or (b) a price reflecting proportionately the shareholders' equity of Union Bank according to the reviewed financial statements of Union Bank for the period ended 30 June 2003, with the addition of linkage differentials and linked interest at the rate of 2% per annum from 1 July 2003 until the date to which the financial statements published prior to the exercise of the option relate (the "Determining Financial Statements"), and with the addition of linkage differentials and linked interest at the rate of 5% per annum from the end of the period to which the Determining Financial Statements relate, and until the date of exercise of the put option, subject to certain adjustments and deductions. Also, the Extension Agreement provides that the exercise price of the call option regarding the Balance of the Shares will be equivalent to the price determined in the Extension Agreement for exercise of the put option, with the addition of 7.5% and subject to certain adjustments and deductions. The shareholders' equity of Union Bank as of 30 June 2003 was NIS 1,117 million. The Extension Agreement determines that in the event of transfer of control in Union Bank, different adjustments will be made in respect of exercise price of the options regarding the Balance of the Shares, on the basis of the financial statements of Union Bank for the quarter in which the options were exercised and as stated in the Extension Agreement.

On 11 May 2009, the Bank delivered to Sherodar and Landau an exercise notice for the put option pursuant to the Agreement and the Extension Agreement, for the sale of 3,802,412 shares of Union Bank, all according to the terms laid down in the agreement. Exercise of the put option is subject to the receipt of the permit of the Governor of the Bank of Israel for the increase or acquisition of means of control by Landau and Sherodar in Union Bank. The consideration in respect of the shares will amount to some NIS 101 million and the Bank's after-tax profit from exercising the put option is expected to be some NIS 12 million. Pursuant to the Agreement’s provisions, the date for the transfer of the shares which are the subject of the put option to Sherodar and Landau, and for the receipt of the consideration therefor is 45 days from the date of delivery of the option exercise notice to Landau and to Sherodar.

B. Hot Cable Communications Systems ltd.

On 1 May 2009, the Bank signed an agreement with Cool Holding Ltd., controlled by Mr. Patrick Drahi from France (the "Purchaser”) for the sale of the 11,376,902 ordinary shares of Hot-Cable Communications Systems Ltd. (“Hot”) held by the Bank, constituting 14.96% of Hot’s issued and fully paid capital (the "Sold Shares”). The Purchaser will pay NIS 381 million in consideration for the Sold Shares. The agreement is subject to conditions precedent including the receipt of the necessary approvals from the supervisory authorities and the non-exercise of the pre-emptive rights granted to certain Hot shareholders. In accordance with the Purchaser's undertakings pursuant to the agreement, the Purchaser has provided the Bank with appropriate security. The Bank's after-tax profit as a result of the sale is expected to be some NIS 120 million.