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

Condensed
Financial Statements
as at 30 June 2009

(unaudited)

Bank Leumi le-Israel B.M.
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30 August 2009

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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 723 billion at the end of June 2009, as compared with NIS 651 billion at the end of 2008, an increase of some 11.0%, resulting primarily from the rise in the capital market and from the shekel's depreciation 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 half of 2009 totaled NIS 936 million, compared with NIS 1,359 million in the corresponding period in 2008, a decrease of 31.1%.

Net operating profit in the first half of 2009 totaled NIS 908 million, compared with NIS 1,111 million in the corresponding period in 2008, a decrease of 18.3%.

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

Net profit per share during the first half of 2009 was NIS 0.64, compared with NIS 0.94 in the corresponding period in 2008 and NIS 0.06 in all of 2008.

Based on data of the banking system as at 31 March 2009, as published by the Bank of Israel, the Leumi Group's share of the total banking system was as follows:

	31.3.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005	31.12.2004
	in %					
Total assets	28.4	29.3	30.0	30.4	30.0	30.0
Credit to the public	28.8	29.1	29.9	30.2	29.9	29.9
Deposits of the public	30.1	29.8	30.2	30.5	30.6	30.3
Operating profit before tax	47.7	1.5(1)	38.0	27.5(2)	30.2	34.0
Net operating profit	47.6	- (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 after tax operating loss.

Control of the Bank

The State of Israel became a shareholder of the Bank on 31 October 1993, under the Bank Shares Arrangement and the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 (the "Bank Shares Law"). As determined in the Bank Shares Law, the transfer of the shares in the Bank to the State and the exercise of the rights by virtue of the shares under this Law do not require a permit under the Banking (Licensing) Law, 1981.

On 30 June 2009 and on 16 August 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.

The Bank Shares Law authorized the shares committee of the Bank to exercise the voting rights granted by virtue of the State's holding in the Bank in the name of the State and on its behalf.

The Bank Shares Law determines that "the voting rights granted by virtue of the shares will be made by a committee functioning in the name of the State and on its behalf" (Section 3 of the Bank Shares Law).

In August 2009, the Bank received a letter from counsel for Shlomo Eliahu Holdings Ltd. ("Eliahu Holdings") according to which Eliahu Holdings is of the view that given the percentage of the State's present shareholding in the Bank, it is not possible to view the State as having control of the Bank, and under present circumstances the Bank does not in practice have a controlling shareholder as defined by law.

In light of this letter, the Bank asked M.I. Holdings Ltd. and the Bank Supervision Department for their positions on the matter. The Bank Supervision Department advised the Bank that it views the Bank as a banking corporation, in which at least one of the holders of means of control is the holder of a control permit, so long as the Board of Directors is appointed in accordance with the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 and the regulations promulgated thereunder.

It should be noted that to the best of the Bank's knowledge, none of the holders of means of control in the Bank has been granted a control permit.

M.I. Holdings replied to the Bank on behalf of the State of Israel as follows:

"1. According to your above request and telephone conversations, the subject of the control of the Bank was raised during the preparation of the Bank's shelf prospectus. You have advised us that the Bank intends to state in the shelf prospectus, which it plans to publish in August 2009, that as long as over 50% of the Bank's directors are appointed in accordance with the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 (the "Bank Shares Law") then according to the presumption determined in the Securities Law, the State holds control of the Bank, for the purposes of the requirement of Regulation 44C of the Securities Regulations (Details, Structure and Form of Prospectus and Draft Prospectus), 1969. We have no objection to this interpretation.

2. We request you to ensure that the prospectus includes a description of the manner in which the State holds shares in the Bank, including the rules and restrictions applying to these holdings under the Bank Shares Law, including, *inter alia*, the restrictions on the State's ability to intervene in the management of the Bank's business and its decision-making process.

3. We would emphasize that nothing in the above may prevent the State from raising any claim regarding any matter concerning the State's responsibility

under the securities laws or any other laws, and may not detract from or affect such claims."

All the directors serving on the Board of Directors of the Bank were appointed in accordance with the Bank Shares Law, and all the directors were proposed to the general meetings of the Bank by the Bank's shares committee, and the committee voted for them by virtue of the State's shares in the Bank. As mentioned above, under the Bank Shares Law, the committee votes at general meetings in the name of the State and on its behalf.

The Bank's current shares committee was appointed by virtue of the Bank Shares (Arrangement Shares) (Temporary Provision) Law (Appointment of Other Committees and Terms of Office) Directives, 2009, which were published on 12 March 2009. The committee's appointment is valid through 31 October 2011 but will end earlier if and when one of the following events takes place: (1) no other party holds a control permit pursuant to section 34(b) of the Banking (Licensing) Law, 1981 and the State's holding of shares in the Bank has fallen below a percentage which does not exceed 5%, or (2) there is another party who holds a control permit pursuant to section 34(b) of the Banking (Licensing) Law, 1981 and the percentage of the shares in the Bank held by the State has fallen below a percentage which does not exceed 10%.

In conclusion

The directors holding office in the Bank at present were all proposed by the shares committee and all were elected with is support by the Bank's general meeting. The shares committee acts as mentioned above in the name of the State of Israel and votes on behalf of the State at the general meetings.

From this it may be learned that as long as over 50% of the directors of the Bank are appointed in accordance with the Bank Shares Law, then the State of Israel holds over 50% of one of the means of control of the Bank and in accordance with the presumption regarding the definition of control in the Securities Law, it holds control of the Bank, subject to the restrictions determined in the Bank Shares Law. It should be noted that there exists another interpretation, as detailed above.

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 6.

Interested Parties' Transactions

Excellence Investments Ltd.., The Phoenix Holdings Ltd., and the Delek Group Ltd.. notified the Bank on 6 August 2009 they have become interested parties in the Bank due to the aggregate holdings of companies in the Excellence Group, the Phoenix Group and the Delek Group. The Bank was also notified that all the above-mentioned companies are indirectly controlled by Mr. Yitzhak Sharon (Tshuva), through companies that he controls.

Clal Insurance Enterprises Holdings Ltd., Clal Finance Ltd. and Epsilon Investment House Ltd. (the "Companies"), all three of which are members of the IDB Holding Corporation Ltd. Group, notified the Bank on 26 August 2009 that they had become interested parties in the Bank, by virtue of the aggregate holdings of the companies and/or their subsidiary and/or associated companies.

Capital Resources and Transactions in the Shares of the Bank

Shareholders' Equity of the Group as at 30 June 2009 amounted to NIS 20,222 million, compared with NIS 18,672 million at the end of 2008, an increase of 8.3 %. The increase in shareholders' equity derives mainly from the increase in the value of the available-for-sale securities portfolio and from the profit during the first half of 2009 which was partially offset by adjustments from the translation of the financial statements of companies included on the equity basis.

The securities portfolio (nostro) is mainly composed of debentures issued by governments, banks and foreign financial institutions, which generally represent the use of raised sources and the available capital. Most of the securities portfolio is classified as available-for-sale securities 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.

A net increase in value of NIS 578 million was recorded in shareholders' equity during the first half of 2009, compared with a net decrease of NIS 587 million in the corresponding period in 2008 (all these amounts are stated net of related taxes). Although a decline in value was recorded during the first quarter of the year, an increase in value was recorded during the second quarter which offset the first quarter's decline in value.

The total net accrued balance of adjustments to fair value of securities held in the available-for-sale portfolio as at 30 June 2009 amounted to a negative sum of NIS 70 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 available-for-sale shares, after the effect of taxes.

Shareholders' Equity relative to Total Assets reached 6.3% on 30 June 2009, compared with 6.0% on 31 December 2008.

Total Capital relative to Risk Assets reached 12.85% on 30 June 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 in the first quarter, following a change in the allocation of Tier I and Tier II capital against exposure to market risks, following a clarification from the Bank of Israel. The ratio of Tier I capital to risk assets reached 8.08% on 30 June 2009, compared with 7.51% at the end of 2008. Regarding the report to the Bank of Israel regarding capital adequacy as at 31 December 2008 and onward according to the Basel II provisions, see page 105.

Issue of Subordinated Capital Notes

With the objective of improving and strengthening capital adequacy, the Bank is planning to issue various subordinated 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 produced to the banks by the Accountant General.

During April – May 2009, the Bank raised NIS 1.0 billion through private placings of subordinated capital notes with institutional investors, which have been recognized by the Bank of Israel to as upper Tier II capital.

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

In August 2009, Leumi Finance published a shelf prospectus allowing it to issue debentures, subordinated capital notes (Tier II capital) and other subordinated capital notes (upper Tier II capital). Unlisted subordinated capital notes were also issued pursuant to the prospectus, to the shareholders of Dan Public Transportation Company Ltd.., in the amount of some NIS 341 million, and listed subordinated capital notes in the amount of some NIS 2 billion were issued to the public and to institutional investors, pursuant to a shelf offering report which was published pursuant to the prospectus. The subordinated capital notes will, subject to the approval of the Bank of Israel – which has not yet been received – be recognized as upper Tier II capital.

Issue of Options to Employees

In February 2009, the exercise period of the options issued to Leumi employees in 2006 ended. The 24,062,240 options that had not yet been exercised, expired.

The balance of the loans provided by Israel Discount Bank to Leumi employees in order to finance their exercise of the options was NIS 90 million as of 30 June 2009 (out of a total amount of NIS 277 million in loans that were provided in February 2008). In August 2009, the said loans were renewed by Israel Discount Bank, in total amount of NIS 70 million, to those employees who had asked that they be renewed.

Distribution of Dividends

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 that stage.

The Supervisor of Banks has announced that he expects that the banking system will not distribute dividends in light of the risks, with the purpose of building strong levels of capital in anticipation of the implementation of Basel II. Any bank wishing to distribute dividends will be required to apply to the Supervisor of Banks, give explanations and receive approval for such distribution.

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

Principal Data of the Leumi Group

	Jan. - June 2009	Jan. - June 2008	Year 2008
Income, Expenses and Profits (NIS millions):			
Net interest income before provision for doubtful debts	**3,288**	3,913	6,380
Provision for doubtful debts	**693**	560	2,145
Total operating and other income	**2,016**	1,715	2,800
Total operating and other expenses	**3,204**	3,456	7,003
Of which: Costs of Voluntary Retirement	**-**	-	3
Costs of privatization, (issue of shares and options to employees)	**-**	24	(66)
Operating profits before taxes	**1,407**	1,612	32
Net operating profit (loss)	**908**	1,111	(158)
After-tax net profit from extraordinary items	**28**	248	250
Net profit for the period	**936**	1,359	92
Not operating profit (loss) per share (in NIS)	**0.62**	0.77	(0.11)
Net profit per share (in NIS)	**0.64**	0.94	0.06
Assets and Liabilities at End of Period (NIS millions):			
Total assets	**319,346**	292,002	310,792
Credit to the public	**207,214**	201,717	213,215
Securities	**56,944**	43,494	44,910
Deposits of the public	**253,254**	221,752	244,783
Debentures and notes	**22,917**	21,920	20,636
Shareholders' equity	**20,222**	20,428	18,672
Major Financial Ratios in Annual Terms (%):			
Credit to the public / Total assets	**64.9**	69.1	68.6
Securities / Total assets	**17.8**	14.9	14.5
Deposits of the public / Total assets	**79.3**	75.9	78.8
Deposits of the public / Total credit	**122.2**	109.9	114.8
Shareholders' equity / Risk assets (a)	**12.85**	(e) 12.55	(e) 11.58
Tier I capital / Risk assets	**8.08**	8.15	7.51
Shareholders' equity (excluding minority interest) / Total assets	**6.3**	7.0	6.0
Net profit / Shareholders' equity average (excluding minority interest) (c)	**10.2**	14.1	0.5
Net operating profit (loss)/ Shareholders' equity average (excluding minority interest) (c)	**9.9**	11.5	(0.8)
Rate of tax provision from the profit	**32.1**	48.6	-
Provision for doubtful debts / Credit to the public (c)	**0.67**	0.56	1.01
Provision for doubtful debts / Total credit risk (c)	**0.45**	0.36	0.67
Net interest income before provision for doubtful debts / Total assets (c)	**2.07**	2.70	2.05
Total income / Total assets (b) (c)	**3.35**	3.89	2.95
Total income / Total assets managed by the group (b) (c) (d)	**1.47**	1.53	1.41
Total operating and other expenses / Total assets (c)	**2.02**	2.38	2.25
Total expenses / Total assets managed by the group (c) (d)	**0.89**	0.94	1.08
Net profit / Total average assets (c)	**0.59**	0.91	0.03
Net operating profit (loss) / Total average assets (c)	**0.58**	0.74	(0.05)
Financial margin including incomes and expenses from derivative financial instruments	**0.90**	1.84	1.63
Operating expenses / Total income (b)	**60.4**	61.4	76.3
Operating and other income / Operating and other expenses (excluding costs of voluntary retirement)	**62.9**	49.6	40.0
Operating and other income / Total income (b)	**38.0**	30.5	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) Reclassified.

B. Other Information

Principal Developments in the Economy*

General

Economic activity expanded in Israel during the second quarter of 2009 at a rate of 1.0% in comparison with the first quarter. This was after a contraction in GDP at an annual rate of 3.2% during the first quarter of 2009. GDP contracted at an annual rate of 1.7% during the first half of 2009, as compared with the second half of 2008. This is against the background of estimates that the global economy is approaching the height of the recession, as international institutions are adjusting their growth forecasts for the coming quarters upwards. The contraction of economic activity during the past year led to a sharp decline in the State's revenues from taxes, alongside a significant increase in the budgetary deficit, which led to changes in the State budget for the years 2009-2010 that was approved by the Knesset in July 2009.

The shekel depreciated against the dollar during the first six months of 2009 by some 3.1% while appreciating by some 6.4% during the second quarter of the year, a trend which continued during the month of July as well. This took place against the background of the weakening of the dollar globally, and the impact of local macroeconomic factors, as well as questions regarding the degree of continued intervention in the foreign currency market by Bank of Israel. During August (until the 24th of the month), the shekel depreciated against the dollar by some 0.4%.

The CPI rose by 2.1% during the first half of the year, and by a total of 3.6% in the twelve months ending June 2009 – a rate exceeding the government's price stability target. During the first half of the year, the Bank of Israel implemented an expansionary monetary policy while reducing the interest rate to 0.5%. It was decided to raise the interest rate for September 2009 by 0.25 percentage points, to 0.75%. The Bank of Israel also employed an additional monetary policy tools in order to support economic activity, including the purchase of foreign currency in the market and the purchase of government debentures in the secondary market. Purchases of debentures were discontinued at the beginning of August 2009.

On the stock market, sharp increases of 42.3% were recorded during the first six months of 2009 in the shares and convertible securities index. Prices for both government and corporate debentures rose as well. Stock market prices continued to rise in July, during which the index rose by 8.9%. It appears that some of the explanations for these increases relate to the Bank of Israel's expansionary monetary policy, and to the optimism of investors throughout the world and in Israel – particularly in the second quarter of the year – regarding the approaching end of the recession.

The Global Crisis and its Implications for the Israeli Economy

During the second quarter of the year and at the beginning of the third quarter, signs began to appear indicating that the height of the global recession was approaching. The Bank of Israel, in its inflation report published at the beginning of August 2009, indicated that "the global crisis is close to its low point, but the recovery is expected to be slow, with low levels of inflation."

In July 2009, the International Monetary Fund (IMF) adjusted its global growth forecast for the year 2009 upward, after a long period of downward periodic updates, and it now estimates that growth in the United States and in the euro zone in 2009 will be -2.6% and -4.8%, respectively, as compared with positive growth rates of 1.1% and 0.8%, respectively, in 2008.

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

Business Product and Economic Sectors

Business sector product expanded during the second quarter of the year at a real annual rate of 0.7%, relative to the first quarter of the year. This is in comparison with a negative growth rate of 4.8% during the first quarter of 2009. This reflects a change in the economic activity trend within the business sector during the second quarter.

The Bank of Israel's survey of Israeli companies for the second quarter of 2009 indicated a slower rate of the contraction of business activity, as compared to the two previous quarters. A decrease in activity continued to be experienced in all sectors, but it was a more moderate decrease as compared with the first quarter of the year, except with respect to the construction and communication industries, which experienced stability and an increase in activity, respectively. The estimations for the third quarter provided by the companies in the survey indicate that there are industries in which an increase in activity is expected: in the commercial sector a significant increase in sales is expected, in the business services and communications sectors an increase in activity is expected, and a moderate increase is expected in the construction industry.

The State Budget and its Financing

The state budget deficit (excluding net credit granted) amounted to some NIS 17.7 billion in January-June 2009, compared with a planned budget deficit of NIS 44.4 billion for all of 2009. The source of the large budget deficit (there was a surplus of more than NIS 2 billion in the corresponding period in 2008) is the significant decrease in the State's revenues from taxes, arising from the economic recession. State revenues from taxes declined during the second quarter of the year as compared with the first quarter, although Ministry of Finance statistics indicate that the rate of the decrease in such revenues is slowing down. There was a significant increase in the State's revenues from taxes during July 2009, as compared with preceding months.

In May 2009, the government approved the proposed budget for 2009-2010, which was based on the expansion of the biannual State budget for 2009-2010 by 3.05% annually (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 6.0% of GDP for 2009 and of 5.5% of GDP for 2010. The Knesset approved the budget in July 2009.

Foreign Trade and Capital Flows

During the first six months of the year, Israel's trade deficit recorded a sharp decline of some US$ 4 billion as compared with the corresponding period in 2008. The reason for most of the reduction in the deficit is the effect of the decline in energy prices, although even after deducting the fluctuating components of the deficit such as energy imports, the deficit has contracted significantly, becoming negative – i.e., during this period, there was a surplus of exports over imports of goods. An examination of the direction in which foreign trade has developed during recent months indicates that both exports and imports have remained stable at relatively low levels as compared with recent years, following significant decreases in the most recent quarters due to the global recession. Among the import components, the level of imports of raw materials has been remarkably stable. In contrast, the decrease in imports of investment products has continued – a decrease which does not reflect optimism regarding future growth in the economy. On the other hand, there has been a change in the trend of imports of consumer goods, which have again started to grow. Imports of diamonds have also recorded increases in recent months, after declining sharply until the first quarter of 2009.

Exports of goods amounted to some US$ 19 billion during January-June 2009, a decrease of 31% in comparison with the corresponding period in 2008. There was a slight increase in industrial exports, excluding diamonds, during the second quarter of the year (in nominal dollar terms, not quantitative terms), after sharp declines from the peak level in the third quarter of 2008. At the same time, after neutralizing exports of electronic components, which increased by some 69% during the second quarter as compared with the first quarter of the year, the downward trend for exports of other sub-industries is continuing, although at a slower rate than before. It therefore appears that developments in the field of exports during the second quarter of 2009 indicate a moderation of the negative trend which has prevailed until now.

Regarding foreign currency capital flows to and from Israel, there have been a number of developments during the months January-June 2009: firstly, foreign residents continued to invest in Israel during this period, and their direct investments as reported by the local banking system (investments with a long-term character) reached an annual volume of close to US$ 4.6 billion, which is a lower amount than in previous years. Financial investments by foreign residents amounted to some US$ 0.6 billion since the beginning of the year, and there has been considerable fluctuation in the amounts of such investments from month to month (i.e., months with incoming investment, and other months where investments were realized). In contrast with foreign residents, Israeli residents significantly increased their financial investments overseas, with such investments reaching a level of some US$ 7.6 billion in annual terms. The key component of this increase has been investments in shares, which is an expression of the increased "risk appetite" of Israeli investors. In contrast, the direct investments of Israelis abroad amounted to some US$ 0.5 billion only. The combination of the incoming and outgoing capital flows indicates that outgoing capital flows were higher than the incoming flows, a situation which serves to weaken the local currency.

Exchange Rate and Foreign Currency Reserves

The first six months of 2009 ended with a depreciation of 3.1% in the rate of shekel against the dollar and a higher depreciation of 4.5% against the euro. At the same time, the shekel appreciated by some 6.4% against the dollar during the second quarter of the year – an appreciation which continued in the month of July, during which the shekel appreciated by a further 3.3%. It appears that the shekel's strengthening beginning in the second quarter is a result of the combination of the depreciation of the dollar globally, and the impact of local macroeconomic factors, including the improvement in Israeli's foreign currency accounts and the expectations that the Bank of Israel's purchases of foreign currency in the foreign currency market would come to an end in light of the apparent improvement in the economic situation. We believe that the capital flows, particularly those of a financial character, served to weaken the shekel during this period.

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, and during July the Bank announced that it would continue to follow this policy. On 3 August 2009, the central bank announced that "it would operate in the foreign currency market in the event of unusual movements in the exchange rate which do not conform with basic economic conditions or when the foreign currency market is not functioning as usual" and that it was continuing its daily purchases of US$ 100 million in the foreign currency market. On 11 August 2009, the Bank of Israel discontinued its fixed daily purchases of US$ 100 million. This change in the Bank of Israel's activity led to a slight devaluation of 0.4% in the shekel's exchange rate against the dollar by the 24 August 2009.

The Bank of Israel's foreign currency reserves amounted to some US$ 50.0 billion at the end of June 2009, as compared with some US$ 42.3 billion at the end of December 2008. At the end of July 2009, the reserves amounted to some US$ 52.1 billion.

Inflation and Monetary Policy

The CPI increased by 2.1% during the first half of 2009 and during the twelve month period ending on June 2009, rose by 3.6%. This increase exceeds from the price stability target (1%-3%), and was mostly the result of a rise of 16.8% in the housing item, due to that item's weight in the CPI (some 20%). An examination of the contribution of the various components of the CPI to its increase during January-June 2009 indicates a slightly different picture: only one third of the increase results from the housing item, while a third of the increase is due to the increase in energy prices since the beginning of the year. In addition, it should be noted that most other items in the CPI rose during this period and made a substantial contribution to its overall increase. Thus, the increase in the CPI since the beginning of 2009 is not only the result of the increase in housing costs. In July, the CPI rose by 1.1%.

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. As such, the Bank of Israel acted in a similar manner to other central banks throughout the world that lowered interest rates, and used other monetary tools as well with the intention of implementing a very expansionary monetary policy (means of payment within the economy – M1 – rose by 56.5% during the twelve months ending June 2009). 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% by the end of March. The interest rate for April was reduced to 0.50%, and remained at that level through August 2009. The interest rate was raised by 25 basis points to 0.75% in the interest rate decision for September 2009.

Between December 2008 and February 2009, the Bank of Israel announced a series of monetary tool measures available to it. Details in this regard can be found in the 2008 Annual Report's Directors Report, on 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. On 5 August 2009, the Bank of Israel discontinued the above-mentioned purchasing activity and announced that it did not intend to sell the securities that it had purchased.

The Capital Market

During the first half of 2009, the share and convertible securities index rose by some 42.3%, following a sharp decline of 46.4% in 2008, and the Tel Aviv 100 Index rose by some 42%. These increases are explained primarily by the a reduction in the interest rate down to a record low, which approached zero, which constitutes an incentive for fund transfers and investments in higher risk channels, such as shares. This was in addition to the impact of the economic indicators which, particularly during the second quarter of the year, pointed to a possibility that the global and Israeli economies had passed their low points. The trading turnovers for shares and convertible securities, which had been low during the first quarter of the year (some NIS 1,208 million on a daily average), rose to some NIS 1,781 on a daily average during the second quarter in comparison with some NIS 1,964 million for the entire year of 2008.The positive trend in the stock market continued during July and the shares and convertible securities index rose by 8.9%.

The debenture market during the first six months of 2009 was characterized by increases in the prices of both government and corporate debentures. The prices of CPI-linked government debentures rose by some 6.5%, with especially noticeable increases in the prices of short to medium term debentures. (2-5 years), which rose by 9.2%. Prices of unlinked government debentures rose at a more moderate rate of 0.9%. The increase in the prices of debentures was influenced by the Bank of Israel's intervention in the trading, in order to influence the medium to long-term interest rates.

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 30.1%. This followed sharp declines in 2008, and particularly during the final quarter of the year. Prices increased during both the first and second quarters of the year, which may be an expression of extreme concern towards the end of the past year regarding the condition of many companies in the economy. The Bank of Israel's survey of companies for the second quarter of the year also presents a more positive picture relative to the condition of companies during the first quarter.

During the first half of the year, the business sector raised capital through the issue of debentures in the amount of some NIS 16.2 billion, of which some NIS 2.2 billion was raised by institutional bodies.

Financial Assets of the Public

The portfolio of financial assets held by the public grew by some 10.7% during the first six months of 2009 and amounted to some NIS 2,092 billion at the end of June 2009, after it had contracted at the rate of 8.2% 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 balances of shares in Israel and overseas, which contributed some 65% to the total increase in the asset portfolio, primarily as a result of the increase in share prices.

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 June 2009 to some NIS 680 billion, compared with some NIS 606 billion at the end of December 2008, an increase of 12.2%.

Bank Credit

During the first six months of 2009, bank credit in the economy (before provisions for doubtful debts and including credit for housing) contracted at a rate of 1.1%. This was following an increase of 8.9% during 2008. The source of the contraction in credit was the volume of credit granted to the business sector, while credit provided to households increased slightly – primarily with respect to credit provided for housing. The reduction in demand for bank credit as a result of the slowdown in economic activity, along with the increase in the risk level of the various economic sectors, which reduce the supply, served to reduce credit. During the reported period, non-bank credit did not constitute an alternative, as it had in the past, to the bank credit granted to the business sector. During the first six months of 2009, according to estimates based on stock exchange data, issues in the amount of some NIS 9 billion only (excluding issues by banks in the amount of some NIS 7 billion) have been recorded – representing a low annual rate in comparison with previous years, particularly in light of redemptions of much larger amounts which are expected for 2009.

At the end of June 2009, the **Bank's** credit to the public amounted to some NIS 137.6 billion, a decrease of 4.8% 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 for 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 had 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 lowering of the ratings reflects 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. On 16 July 2009, the agency announced that it was confirming a credit rating of 'A' for Israel, with a rating forecast of "stable."

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	July 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	August 2009
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	August 2009
Leumi's rating in local currency for subordinated capital notes	Ma'alot	-*	AA	negative	May 2009
	Midrug	-*	Aa1	stable	August 2009
Capital notes (Upper Tier II)	Midrug	-*	Aa2	stable	August 2009
Capital notes (Tier I)	Midrug	-*	Aa3	stable	August 2009

Developments regarding Leumi Shares

From the beginning of the year through 30 June 2009, the price of Leumi shares has risen from 790 points to 1,036 points, a change of 31%. During this period, the Bank's market value has increased from NIS 11.6 billion to NIS 15.3 billion.

The share price has continued to rise from the end of June and until 24 August, reaching 1,346 points, and the Bank's market value has reached NIS 19.8 billion.

* Not applicable

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

	For three months ended 30 June		For six months ended 30 June		For the year
	2009	2008	**2009**	2008	2008
	(in percentages)				
Rate of increase of the "known" CPI	**1.89**	2.44	**1.15**	2.85	4.5
Rate of increase (decrease) in the rate of the US dollar	**(6.42)**	(5.66)	**3.08**	(12.84)	(1.1)
Rate of increase (decrease) in the rate of the euro	**(0.71)**	(5.91)	**4.49**	(6.61)	(6.4)
Rate of increase (decrease) in the rate of the pound sterling	**8.62**	(5.54)	**17.32**	(13.46)	(28.0)
Rate of increase (decrease) in the rate of the Swiss franc	**(1.35)**	(8.06)	**1.74**	(3.84)	4.2

The following table sets out the principal representative exchange rates:

	30 June		31 December	
	2009	2008	2008	2007
	In NIS			
US dollar	**3.919**	3.352	3.802	3.846
Euro	**5.535**	5.284	5.297	5.659
Pound sterling	**6.509**	6.673	5.548	7.710
Swiss franc	**3.627**	3.289	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. This does not detract from the Bank's reporting obligations pursuant to any relevant law.

Property of Holocaust Victims

In January 2005, the Parliamentary Committee of Inquiry Regarding the Tracing and Restitution 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 Restitution 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 was required to transfer to it according to the Law. The total 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 was required to transfer to it according to the Law. On 7 April 2009, the Bank responded to this request, while rejecting the claim that it has 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 stated that the legal burden of proof as to 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.

On 24 June 2009, the Company filed a claim in the Jerusalem District Court (File No. 8262/09), in which it asked the Court to make various declarations regarding "assets of Holocaust victims." (See details in Note 6.C.2.D.)

At this early stage, it is not possible to estimate whether, in light of what is stated in the claim, it is necessary to make an additional provision beyond that which was already made in respect of the requests or in respect of the contents of the examiner's report.

Discussions are taking place between the Company and the Bank for the purpose of settling the differences between them by arbitration. An arbitration agreement has not yet been signed.

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 Report, from page 36.

During the first half of 2009, the deployment of the pension counseling service, which began in pilot branches during the last quarter of 2008, was expanded to reach all the 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 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 house) complicates the monitoring of the implementation of the recommendations and makes such monitoring difficult. This issue becomes especially 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 institutional bodies, and the absence of interfaces between the Bank and the employers and their salary departments, both regarding information and regarding the clearing of funds for the employees after the provision of counseling, 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 on its website ("BituachNet") with standardized values which would allow for the products to be examined and identified, makes it difficult to construct a model to support decisions and therefore prevents the provision of insurance counseling. Similarly, in the absence of standardized 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 in the process of creating computerized interfaces with the institutional bodies that manage provident funds in order to simplify the process of transfering information, and executing transactions carried out pursuant to pension counseling and pursuant to counseling on supplementary training funds, in the framework of investment counseling.

At the same time, the Ministry of Finance has begun to promote the establishment of a clearinghouse in the pension savings field, whose main functions will be the transfer of information among the various parties active in the pension savings market (including pension counselors, pension agents, institutional bodies and employers), and the clearing of pension savings payments. In July 2009, the Ministry of Finance published a memorandum of understanding on cooperation in promoting such a clearinghouse. The model planned for the operation of the clearinghouse involves the establishment of a company to be owned jointly by the various entities in the market (institutional bodies, distributors and salary payment offices). A steering committee, led by the Ministry of Finance, has been established to promote the creation of the clearinghouse. The Bank is represented on this steering committee. Additionally, no regulations have yet been determined with respect to the payments of distribution commissions for counseling on 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 paid for some of the insurance products in respect of which counseling will be provided, and for those in respect of which distribution commissions may be paid, the maximum rate of commission will be an annual rate of 0.25% of the accumulated amount saved in regard to the insurance product on which counseling has been given.

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. It is proposed that the distribution commission which is currently paid by the institutional bodies in respect of the counseling will not be paid under certain circumstances. It is also proposed that the banks be responsible for the products that they distribute, in addition to their existing responsibility for the counseling, and to delay for a period of 60 days the entering into effect of customers' instructions to transfer funds to a different pension product, unless the instructions regarding the change are given through the counselor through whom the product was purchased.

A preliminary analysis of the proposed laws 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 materially adversely affected.

In July 2009, draft regulations and a draft circular were published concerning the adaptation of savings tracks to the characteristics of the saver (the "Chilean model"). According to these drafts, the institutional bodies will be required to establish investment tracks for the management of provident fund members' savings which will serve as default options for fund members when they join the provident funds managed by such institutions. This will be in accordance with the model for the classification of fund members – a plan to be established by the institutional bodies based on relevant characteristics determined by them, including the age of the fund member. In the absence of other instructions from fund members, the institutional body will transfer them to the default tracks established for them. The transfer of fund members to default options is likely to conflict with the pension counseling that such fund members have received. The Bank is working, through the Association of Banks, to prevent these provisions from applying to customers who receive ongoing pension counseling.

In August 2009, regulations to enable the operation of personally managed provident funds were approved. According to the regulations, the model will at this stage be implemented only with regard to amounts held in supplementary training funds, and to amounts saved by self-employed fund members that are not accompanied by employer contributions. The regulations prohibit the payment of a distribution commission in respect of a personally managed provident fund.

Changes in Value Added Tax Rates

On 1 July 2009, the Value Added Tax Order (Tax Rate for Non-profit Organizations and Financial Institutions) 2009 was published in the Israel Government Gazette. The Order raised the rates for salary tax and profit tax that are applicable to financial institutions, as from 1 July 2009 and continuing through 31 December 2010, from 15.5% to 16.5%.

As the Bank is a "financial institution" for the purpose of the Value Added Tax Law, the increase in the profit tax will increase the overall tax rate to which the Bank is subject, such that in 2009 it will be subject to an overall tax rate of 36.21% instead of 35.93% (an increase of 0.28 percentage points) and in 2010, it will be subject to an overall tax rate 35.62% instead of 35.06% (an increase of 0.56 percentage points).

During the first half of the year, the total impact of the change in the rate of value added tax on the provision for taxes was not material.

Changes in Companies Tax Rates

In July 2009, the Knesset approved the Improved Economic Efficiency Law (Statutory Amendments for Implementation of the Economic Plan for 2009-2010), 2009, which gradually reduces the companies tax rates from 25% in 2010 to 18% for the year 2016 and thereafter. The tax rate to which the banks will be subject, including the profit tax, will drop from 35.62% in 2010 to 29.0% for the year 2016 and thereafter. The change in the tax rates will increase the tax expense for the third quarter of 2009 in the amount of NIS 153 million, taking into account the balance of deferred taxes as at 30 June 2009.

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 Report 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.

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 - June 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 Chief Legal Adviser, 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, the 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 the 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 June 2009 was NIS 936 million, compared with NIS 1,359 million in the corresponding period in 2008, a decline of 31.1 %.

The net profit of the Leumi Group for the second quarter of 2009 amounted to NIS 507 million, as compared with NIS 889 million during the corresponding period in 2008, an increase of 43.0%.
The decrease in the Group's net profit during the period of January to June 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 625million before the effect of taxes, a decrease of 16.0%.

2. An increase in provisions for doubtful debts in the amount of NIS 133 million before the effect of taxes, an increase of 23.8%.

3. A decrease in the Group's share of the profits of companies included on the equity basis in the amount of NIS 310 million, net.

4. A decline in profit from extraordinary items in the amount of NIS 220 million, net.

* Before minority interests in consolidated companies.

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 252 million, a decrease of 7.3%, before the effect of taxes.

2. An increase in operating and other income in the amount of NIS 301 million, an increase of 17.6%, before the effect of taxes.

3. A decrease in the effective tax rate of 16.5 basis points, being some NIS 232 million, as explained on pages 26-27 in the provision for taxes item.

As explained above, the net profit during this year's second quarter amounted to NIS 507 million as compared with a net profit of NIS 889 million in the corresponding quarter in 2008, a decline of NIS 382 million. The following are the main factors leading to the decline in profitability.*

1. A decrease in the profit from extraordinary items in the amount of some NIS 223 million, net.

2. A decrease in the Group's share of the profits of companies included on the equity basis in the amount of NIS 257 million, net.

3. A decrease in net interest income before the provision for doubtful debts in the amount of NIS 27 million, before the effect of taxes, a decrease of 1.4%.

4. An increase in the provisions for doubtful debts in the amount of NIS 23 million before the effect of taxes, an increase of 7.3%.

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

1. An increase in operating and other income in the amount of NIS 149 million, an increase of 17.2%, before the effect of taxes.

2. A decrease in operating and other expenses (including salaries) in the amount of NIS 22 million, a decrease of 1.3%, before the effect of taxes.

3. A decrease in the effective tax rate of 5.1 basis points, being some NIS 49 million, as explained on pages 26-27 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 3,288 million during the first half of 2009, compared with NIS 3,913 million in the corresponding period in 2008 – a reduction of NIS 625 million, which constitutes a decrease of 16.0%.

Net interest income before provision of doubtful debts amounted to NIS 1,926 million during the second quarter of 2009, compared with NIS 1,953 million during the corresponding period in 2008, a decrease of 1.4%.

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

	For the six months ending **30 June 2009**	30 June 2008	% Change
	NIS millions		
Current activities	**3,314**	3,287	0.8
Collection and reduction of interest in respect of problem loans	**177**	336	(47.3)
Exchange rate differentials in respect of financing shares recorded in operating income or the capital fund	**(78)**	226	-
Decline in value of available-for-sale debentures	**(137)**	(92)	-
Profit from sale of available-for-sale and trading debentures and from adjustments to market value of debentures for trading	**473**	110	+
Financing costs in connection with coverage of overseas investments*	**(94)**	27	-
Adjustments to fair value of derivatives	**(387)**	(178)	
Effect of the known CPI	**20**	197	(89.8)
Total	**3,288**	3,913	(16.0)

* 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:

	30 June 2009	30 June 2008*	% Change
Segment	NIS millions		
Households	**1,052**	1,285	(18.1)
Small businesses	**424**	450	(5.8)
Corporate banking	**943**	1,035	(8.9)
Commercial banking	**681**	771	(11.7)
Private banking	**307**	213	44.1
Financial management – capital markets	**(114)**	197	-
Other	**(5)**	(38)	+
Total	**3,288**	3,913	(16.0)

*Re-classified

Total Interest Margin (excluding transactions in financial derivatives) during the first half of 2009 was 1.74%, compared with 2.96% during the corresponding period in 2008. The interest margin including financial derivative transactions was 0.90 % during the first half of 2009, compared with 1.84% during the corresponding period in 2008, and 1.63% for the whole of 2008.

The financial spread during the first half of 2009 was impacted negatively by, *inter alia,* the following causes:

a. The low interest rate at the Bank of Israel and the low interest rates throughout the world caused an erosion of the interest margin as a result of current account balances which do not bear interest and that the interest on which has declined substantially.

b. The low interest rates caused a decline in the interest margin primarily in the unlinked shekel sector because of fixed time deposits in small amounts for which interest rates were not reduced at the same rate at which the Bank of Israel interest was reduced.

c. A change in the mix of uses, primarily in foreign currency, and a reduction in the credit risk led to lower yields from the uses, and the interest margin was, consequently, reduced.

d. Competitive factors within the system also contributed to the decline of the interest margin.

e. 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.

f. On the other hand these decreases were partially offset by the raising of the credit risk margins.

The ratio of net interest income before provision for doubtful debts to the average balance of the financial assets was 2.22%, compared with 2.83% (in annual terms) during the corresponding period in 2008.

Financing commissions amounted to NIS 167 million during the first half of 2009, compared with NIS 155 million during the corresponding period in 2008, an increase of 7.7%. 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 626 million during the first half of 2009, compared with NIS 428 million in the corresponding period in 2008.

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

	30 June 2009	31 June 2008	Change
	NIS millions		%
Net profit from sales of available-for-sale debentures	**312**	40	+
Decline in value of available-for-sale debentures	**(137)**	(92)	-
Profit from sales and adjustments to fair value of debentures for trading	**161**	70	130.0
Collection/reduction of interest in respect of doubtful debts	**177**	336	(47.3)
Early credit repayment commissions	**55**	79	(30.2)
Other	**58**	(5)	+
Total	**626**	428	46.3

The Provision for Doubtful Debts in the Leumi Group during the first half of 2009 amounted to NIS 693 million, compared with NIS 560 million in the corresponding period of 2008, an increase of NIS 133million, 23.8%.

The provision for doubtful debts amounted to NIS 339 million during the second quarter of 2009, compared with NIS 316 million during the corresponding period in 2008, an increase of NIS 23 million, 7.3%.

The additional and general provision 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 reduced by NIS 26 million during the first half of 2009, compared with a reduction of NIS 20 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 first half of 2009 was 0.67% of total credit to the public (in annual terms), compared with a rate of 0.56% 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 0.45%, 0.36%, 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 922 million (constituting 0.44% of total credit to the public) on 30 June 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	**First half of 2009**		First half of 2008	
	(NIS millions)	% *	(NIS millions)	%*
Households	**132**	**0.4**	130	0.4
Small businesses	**87**	**1.0**	33	0.4
Corporate banking	**313**	**0.8**	274	0.8
Commercial banking	**139**	**0.6**	158	0.6

* Percentage of total credit at the end of the period on an annual basis.
See pages 29-30 and 37 for further details.

Profit from Net Interest Income after Provision for Doubtful Debts of the Leumi Group during the first half of 2009 amounted to NIS 2,595 million, compared with NIS 3,353 million during the corresponding period in 2008, a decrease of 22.6%.

The profit from net interest income after provision for doubtful debts amounted to NIS 1,587 million during the second quarter of 2009, compared with NIS 1,637 million during the corresponding period in 2008, a decrease of 3.1%.

Total Operating and Other Income of the Leumi Group during the first half of 2009 amounted to NIS 2,016 million, compared with NIS 1,715 million in the corresponding period in 2008, an increase of 17.6%.

Operating and other income totaled NIS 1,013 million during the second quarter of the year, compared with NIS 864 million during the corresponding period in 2008, an increase of 17.2%

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

	For the first half ending			
	30 June 2009	30 June 2008	Change	
	NIS millions		NIS millions	%
Operating commissions (1)	**1,671**	1,784	(113)	(6.3)
Profits (losses) from investments in shares (2)	**185**	(115)	300	+
Other income (3)	**160**	46	114	247.8
Total operating and other Income	**2,016**	1,715	301	17.6

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

1. Operating commissions (NIS (113) million):

   a. A decrease in income from credit handling and preparation of legal documents in the amount of NIS 75 million, (37.1%).

   b. A decrease in commissions from conversion differentials in the amount of NIS 29 million (19.5%).

   c. A decrease in distribution commissions of financial products in the amount of NIS 14 million (14.7%)

   d. An increase in income from securities transactions in the amount of NIS 12 million, (3.1%).

2. Profits (losses) from investments in shares (NIS 300 million).

   a. Net profits from the sale of available-for-sale securities in the amount of NIS 111 million, compared with net losses and reductions in the amount of NIS 94 million in the corresponding period in 2008.

   b. Gains from the realization and adjustment to fair value of securities for trading in the amount of NIS 7 million, compared with losses of NIS 94 million during the corresponding period in 2008.

3. Other income (NIS 114 million)

   The main part was the increase in the profits of the severance pay provident fund, in the amount of NIS 115 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 38.0%, compared with 30.5% during the corresponding period in 2008 and 30.5% for the whole of 2008.

Operating and other income covers 62.9% of operating and other expenses, compared with cover of 49.6% 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 first half of 2009 amounted to NIS 3,204 million, compared with NIS 3,456 million during the corresponding period in 2008, a decrease of 7.3%.

Operating and other expenses amounted to NIS 1,640 million during the second quarter of 2009, compared with NIS 1,662 million during the corresponding period in 2008, an increase of 1.3%.

Salary expenses decreased by NIS 294 million during the first half of 2009, and at the rate of 14.0% 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 low yield during the corresponding period in 2008. During the first half of 2009, the salary expenses were reduced due to the funds' profits of some NIS 231million; in addition, income in the amount of NIS 115million was recorded with respect to operating and other income (of which NIS 58 million was recorded during the second quarter), compared with the first half of 2008 in which salary expenses were reduced due to the funds' low yields of some NIS 9 million..

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased by the amount of NIS 42 million during the first half of 2009, an increase of 3.1%, compared with the corresponding period in 2008, mainly as a result of an increase in depreciation expenses at the rate of 20.2%.

The operating expenses constitute 60.4% of total income, compared with 61.4% 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 2.02% of total assets, compared with 2.38% 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 first half of 2009 amounted to NIS 1,407 million, compared with NIS 1,612 million in the corresponding period in 2008, a decrease of 12.7 %.

Operating profit before taxes amounted to NIS 960 million during the second quarter of 2009, compared with NIS 839 million during the corresponding period in 2008, an increase of 14.4%.

Provision for Taxes on Operating Profit of the Leumi Group during the first half of 2009 amounted to NIS 451million, compared with NIS 783 million in the corresponding period in 2008. The rate of provision in the said period was some 32.1% of the pre-tax profit, compared with 48.6% in the corresponding period in 2008, a decrease of some 16.5 percentage points, being some NIS 232 million.

The changes in the rate of the provision for taxes were 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 83 of the Report, reduced the rate of the tax provision by 4.8 percentage points, compared with an increase of 11.1 percentage points in the corresponding period in 2008.

2. The decrease in the companies tax rate had the effect of reducing the tax in the amount of NIS 8 million, which amounts to 0.6 of a percentage point.

On 1 July 2009, the Value Added Tax Order (Tax Rate for Non-profit Organizations and Financial Institutions) 2009 was published in the Israeli Government Gazette). The Order raised the rates for salary tax and profit tax that are applicable to financial institutions, beginning on 1 July 2009 and continuing through 31 December 2010, from 15.5% to 16.5%.

As the Bank is a "financial institution" for the purpose of the Value Added Tax Law, the increase in the profit tax will increase the overall tax rate to which the Bank is subject, such that in 2009 it will be subject to an overall tax rate of 36.21% instead of 35.93% (an increase of 0.28 percentage points) and in 2010, it will be subject to an overall tax rate 35.62% instead of 35.06% (an increase of 0.56 percentage points).

Operating Profit (Loss) after Taxes during the first half of 2009, amounted to NIS 956million, compared with NIS 829 million in the corresponding period in 2008, an increase of 15.3%. During the second quarter of the year, the operating profit after taxes amounted to NIS 551 million, compared with NIS 439 million in the corresponding period in 2008, an increase of 25.5%

The Group's Share in Operating Profit after Taxes of Companies Included on the Equity Basis amounted to NIS 30 million during the first half of 2009, compared with NIS 280 million in the corresponding period in 2008, i.e., there was a decline of some NIS 310 million in this contribution, of which NIS 257million was during the second quarter of the year.

Minority Interests in the Profits of the Group amounted to a profit of NIS 18 million during the first half of 2009, compared to a loss of NIS 2 million in the corresponding period in 2008.

Net Operating Profit of the Group during the first half of 2009 amounted to NIS 908million, compared with a profit of NIS 1,111 million in the corresponding period in 2008, a decrease of 18.3%.

Net Profit from Extraordinary Items after Taxes amounted to NIS 28 million during the first half of 2009, compared with a profit of NIS 248 million in the corresponding period in 2008, which resulted primarily from the allocation of 20% of the issued and paid-up share capital of Leumi Card to the Canit – Investment and Finance Management and Financing, Ltd.

Net Basic Operating Profit per share reached NIS 0.62 during the first half of 2009, compared with NIS 0.77 in the corresponding period in 2008.

Net Basic Profit per share reached NIS 0.64 during the first half of 2009, compared with NIS 0.94 in the corresponding period in 2008.

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

	First half of 2009	First half of 2008
	%	
Net profit	**10.2**	14.1
Net operating profit	**9.9**	11.5

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

	2009		2008			
	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	%					
Net profit (loss)	**11.1**	**9.7**	(22.2)	(1.6)	19.1	9.8
Net operating profit (loss)	**10.4**	**9.6**	(22.2)	(1.6)	13.4	9.8

Development of Profit during the Last Six Quarters

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

	2009		2008			
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)					
Net interest income	**1,926**	1,362	976	1,491	1,953	1,960
Provision for doubtful debts	**(339)**	(354)	(1,090)	(495)	(316)	(244)
Operating and other income	**1,013**	1,003	545	540	864	851
Operating and other expenses	**(1,640)**	(1,564)	(1,801)	(1,746)	(1,662)	(1,794)
Operating profit (loss) before taxes	**960**	447	(1,370)	(210)	839	773
Provision for taxes	**(409)**	(42)	423	(61)	(400)	(383)
Operating profit (loss)after taxes	**551**	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				
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)					
Current activity	**1,683**	1,631	1,794	1,584	1,671	1,629
Collection and reduction of interest on problem loans	**88**	89	91	80	87	249
Exchange rate differentials in respect of financing shares recorded in operating income or the capital fund	**31**	(109)	(30)	2	129	97
Decrease in value of available-for-sale debentures	**(97)**	(40)	(810)	(425)	(82)	(10)
Profits (losses) from the sale of available-for-sale and trading debentures and from adjustments to market value of debentures for trading	**177**	296	128	(166)	(2)	112
Financing costs in connection with hedging of overseas investments	**50**	(144)	(134)	9	-	27
Adjustments to fair value of derivatives	**(59)**	(328)	(25)	250	(18)	(160)
Effect of the known CPI	**53**	(33)	(38)	157	172	25
Total	**1,926**	1,362	976	1,491	1,957	1,969

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

	2009	2008				
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)					
Specific provision	**396**	323	992	500	311	269
Additional provision	**(57)**	31	98	(5)	5	(25)
Total	**339**	354	1,090	495	316	244
Rate of provision out of total credit to the public (on an annual basis)	**0.66%**	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				
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)					
Operating commissions	**840**	831	867	887	882	902
Profits (losses) from investments in shares	**90**	95	(434)	(363)	(44)	(71)
Other income	**83**	77	112	16	26	20
Total operating and other income	**1,013**	1,003	545	540	864	851

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

	2009	2008				
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(NIS millions)					
Salary expenses, excluding special salary expenses	**948**	1,003	982	856	956	953
Special salary expenses	**(19)**	(120)	(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	**(20)**	(20)	108	262	2	163
Salary tax refunds	**-**	-	(154)	-	-	-
Actuarial changes in respect of jubilee bonus	**-**	-	47	-	-	-
Miscellaneous	**1**	-	-	1	-	8
Total salary expenses	**929**	883	969	1,043	975	1,131

Structure and Development of Assets and Liabilities (1)

Total Assets of the Leumi Group as at 30 June 2009 amounted to NIS 319.3 billion, compared with NIS 310.8 billion at the end of 2008, an increase of 2.8%, and an increase of 9.4% compared with 30 June 2008.

The value of the assets in the balance sheet denominated in and or linked to foreign currency was some NIS 107.2 billion, some 33.6% of total assets. During the first half of 2009, the shekel depreciated against the US dollar by 3.1% and against the euro by 4.5%. The changes in the rates of exchange in the first half of the year led to an increase of 1.4 in total assets.

The total assets under the Group's management - total balance sheet as well as customers' securities portfolios, and provident funds and supplementary training funds in respect of which operating management and custody services are provided - amount to some NIS 723

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

billion, compared with NIS 651 billion at the end of 2008 (some US$ 184 billion and US$ 167 billion, respectively), as detailed below.

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

			Rate of change	
	30 June 2009	31 December 2008	Since December 2008	Since June 2008
	NIS millions		%	
Total assets	**319,346**	310,792	2.8	9.4
Deposits of the public	**253,254**	244,783	3.5	14.2
Debentures, capital notes and subordinated capital notes	**22,917**	20,636	11.1	4.5
Deposits from banks	**2,904**	3,742	(22.4)	(67.6)
Cash and deposits with banks	**39,390**	33,130	18.9	26.1
Securities	**56,944**	44,910	26.8	30.9
Credit to the public	**207,214**	213,215	(2.8)	2.7
Buildings and equipment	**3,528**	3,445	2.4	6.4

Deposits of the public amounted to NIS 253.3 billion as at 30 June 2009, compared with NIS 244.8 billion as at 31 December 2008, an increase of 3.5%, and an increase of 14.2% compared with 30 June 2008.

The depreciation of the shekel in relation to most foreign currencies in the first half of 2009 contributed to a 1.7% 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	**30 June 2009**	31 December 2008	% Change
	NIS millions		
Households	**120,185**	120,846	(0.5)
Small businesses	**14,476**	14,475	-
Corporate banking	**27,384**	23,111	18.5
Commercial banking	**30,245**	29,659	2.0
Private banking	**41,162**	38,057	8.2
Financial management, capital market and other	**19,802**	18,635	6.3
Total	**253,254**	244,783	3.5

Debentures, Capital Notes and Subordinated Capital Notes totaled NIS 22.9 billion on 30 June 2009, compared with NIS 20.6 billion on 31 December 2008, and an increase of 11.1%, and compared with 30 June 2008, an increase of 4.5%.

Off-balance sheet activity

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

	30 June 2009	31 December 2008	Change	
	(NIS millions)		(NIS millions)	%
Securities portfolios	**350,876**	295,853	55,023	18.6
of which: managed by mutual funds[(2) (3)]	**42,791**	36,572	6,219	17.0
Provident funds[(2) (3)]	**36,179**	31,794	4,385	13.8
Supplementary training funds[(2) (3)]	**16,436**	12,769	3,667	28.7
Total	**403,491**	340,416	63,075	18.5

(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 207.2 billion on 30 June 2009, compared with NIS 213.2 billion on 31 December 2008, a decrease of 2.8%, and an increase of 2.7% compared with 30 June 2008.

The depreciation of the shekel in relation to most foreign currencies in the first half of 2009 led to an increase of 1.1% in total credit to the public.

In addition to credit to the public, the Group also invests in corporate debentures which amounted to NIS 7,896 million on 30 June 2009, in comparison with NIS 8,204 million on 31 December 2008, a decrease of 3.8%.

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

Economy Sectors	**30 June 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	**2,239**	**0.7**	2,501	0.8	(10.5)
Industry	**49,523**	**16.0**	52,212	16.3	(5.2)
Construction and real estate	**61,560**	**19.7**	60,681	18.9	1.4
Electricity and water	**2,116**	**0.7**	1,851	0.6	14.3
Trade	**29,237**	**9.4**	31,009	9.7	(5.7)
Hotels, accommodation and food services	**5,175**	**1.7**	5,275	1.6	(1.9)
Transportation and storage	**6,314**	**2.0**	6,673	2.1	(5.4)
Communications and computer services	**6,438**	**2.1**	7,084	2.2	(9.1)
Financial services	**35,529**	**11.5**	42,565	13.3	(16.5)
Other business services	**8,850**	**2.9**	9,279	2.9	(4.6)
Public and community services	**8,375**	**2.7**	8,564	2.7	(2.2)
Private persons - housing loans	**45,121**	**14.5**	43,603	13.5	3.5
Private persons – other	**49,806**	**16.1**	49,197	15.4	1.2
Total	**310,283**	**100.0**	320,494	100.0	(3.2)

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

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

Segment	**30 June 2009**	31 December 2008	Change
	(NIS millions)		%
Households*	**63,252**	62,145	1.8
Small businesses	**17,099**	18,161	(5.8)
Commercial banking	**44,466**	48,506	(8.3)
Corporate banking	**74,680**	76,563	(2.5)
Private banking	**6,513**	6,438	1.2

* 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, and which was 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 for the purpose of its activities with 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:

30 June 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	84.1	6.0	17.3
80	600	14.0	19.3	12.7
600	1,200	1.1	6.9	2.8
1,200	2,000	0.3	3.3	1.5
2,000	8,000	0.3	9.0	5.6
8,000	20,000	0.1	8.0	6.2
20,000	40,000	0.054	8.0	6.6
40,000	200,000	0.036	17.7	18.8
200,000	800,000	** 0.01	13.9	17.5
Above 800,000		** 0.00	7.9	11.0
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.

** On 30 June 2009 – 127 borrowers and in 2008 - 131borrowers

*** On 30 June 2009 - 20 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

		30 June 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	11	1	8,412	661	2,239	334
1,200	1,600	4	1	4,123	1,295	1,786	259
1,600	2,000	3	1	1,804	1,321	3,448	513
2,000	2,400	-	-	-	-	-	-
2,400	3,200	2	-	2,216	-	2,674	- -
2,800	4,000	-	-	-	-	-	-
Total		20	3	16,555	3,277	10,147	1,106

All the related parties are corporations in which the Bank holds up to 20% and they are not controlling shareholders of the Bank. The credits listed specified in the above table do not include any debts for which provisions were made for doubtful debts.

		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

	30 June 2009		
	Total number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
		In NIS millions	
Industry	8	6,783	7,038
Construction and real estate	5	3,918	839
Electricity and water	1	626	310
Communications and computer services	2	2,529	259
Financial services	3	1,829	1,652
Public and community services	1	870	49
Total	20	16,555	10,147

	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 9.7% of total credit risk at 30 June 2009 and 93.4% 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:

	30 June 2009	30 June 2008	31 December 2008
	(NIS millions)		
Problem loans[(1)]			
Non-performing	**2,206**	1,561	2,012
Restructured [(2)]	**510**	472	405
To be restructured [(3)]	**432**	93	558
In temporary arrears	**725**	685	562
Under special supervision*	**14345,**	10,238	14,545
Total balance sheet credit to problem borrowers [(1)]	**18,218**	13,049	18,082
Off-balance sheet credit risk to problem borrowers [(1)] [(5)]	**3,658**	2,372	3,482
Debentures of problem borrowers (public)	**507**	31	506
The banks' overall credit risk (debentures + deposits in the banks)	**180**	-	108
Other assets in respect of derivatives of problem borrowers	**359**	57	612
Total credit risk in respect of problem borrowers [(1)]	**22,922**	15,509	22,790
Assets received in respect of repaid credit	**449**	570	302
*of which: debts in respect of which there is a specific provision [(4)]	**7,061**	4,258	7,373
*of which: credit for housing in respect of which there is a provision according to the extent of the arrears	**493**	444	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 89 million and loans under special supervision in the amount of NIS 1,625 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 452 million on 30 June 2009, compared with NIS 520 million on 31 December 2008, a decrease of 13.1%, and a decrease of 14.9% compared with 30 June 2008.

Securities

The Group's investments in securities amounted to NIS 56,944 million on 30 June 2009, compared with NIS 44,910 million on 31 December 2008, an increase of 26.8% 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” or "capital fund") 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 decline 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:

	30 June 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	**827**	**25**	**(1)**	**851**	**827**
Available-for-sale	**40,521**	**521**	**(1,515)**	**39,527**	**39,527**
For trading	**13,450**	**179**	**(112)**	**13,517**	**13,517**
Total	**54,798**	**725**	**(1,628)**	**53,895**	**53,871**
Shares and Funds					
Available-for-sale	**2,095**	**884**	**(1)**	**2,978**	**2,978**
For trading	**441**	**-**	**(346)**	**95**	**95**
Total	**2,536**	**884**	**(347)**	**3,073**	**3,073**
Total Securities	**57,334**	**1,609**	**(1,975)**	**56,968**	**56,944**

	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 30 June 2009, some 74.6% of the Group's nostro portfolio was classified as available-for-sale securities and some 23.9% as securities for trading. This classification allows for flexibility in the management of the securities portfolio. Some 5.4% 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:

	30 June 2009	31 December 2008
	NIS millions	
Debentures redeemed and/or sold (held to redemption and available-for-sale)	**10,751**	46,987
Purchases of debentures held to redemption and available-for-sale	**19,754**	45,615
Net profit from investments in debentures:		
- financing income on accrual basis	**1,601**	914
- profit (loss) from sale and from decrease in value of available-for-sale debentures	**175**	(1,337)
- profit realized and/or unrealized from adjustments to fair value of debentures for trading	**161**	82

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

	30 June 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	**15,877**	**-**	**89**	9,422	-	42
CPI-linked	**6,755**	**-**	**696**	4,948	-	1,046
Foreign currency including foreign currency-linked	**1,847**	**6,717**	**21,890**	2,127	4,601	19,400
Total debentures*	**24,479**	**6,717**	**22,675**	16,497	4,601	20,488

* of which NIS 2,873 million in subordinated debentures.

There was an increase of some NIS 2.2 billion during the first half of 2009, some 10.7%, in the Group's investments in corporate debentures (including of banks), mainly in foreign currency debentures abroad, partially as a result of the depreciation of the shekel in relation to the US dollar and the Euro. Some 57.9% 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:

	30 June 2009	31 December 2008
Securities traded on an active market*	**47,357**	38,594
Securities according to prices determined according to external models**	**7,799**	3,540
Securities according to quotation from counterparty or to cost	**1,788**	2,776
Total	**56,944**	44,910

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

** Including securities in the amount of NIS 404 million which were valued according to the models of a subsidiary.

The following table shows details of investments in corporate debentures only (excluding banks), issued in Israel and overseas, according to sectors of the economy (in the available-for-sale and trading portfolios):

	30 June 2009	
Economy sector	Issued in Israel	Issued overseas
	NIS millions	
Industry	**92**	**561**
Construction and real estate	**86**	**123**
Electricity and water	**128**	**211**
Trade	**117**	**227**
Transport and storage	**26**	**-**
Communications and computer services	**9**	**71**
Financial services	**248**	**5,904**
Business services and others	**3**	**18**
Public and community services	**26**	**46**
Total	**735**	**7,161**

The available-for-sale portfolio

The following table shows the available-for-sale portfolio as at 30 June 2009:

	30 June 2009		31 December 2008		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**21,619**	**17,908**	20,246	9,144	1,373	8,764
Shares and funds	**611**	**2,367**	1,260	1,959	(649)	408
Total	**22,230**	**20,275**	21,506	11,103	724	9,172

a. In the first half of 2009, NIS 886 million was credited to shareholders' equity in respect of the available-for-sale portfolio, due to an increase in value and exchange rate differentials in respect of debentures denominated in foreign currency, compared with a decline in value of NIS 903 million in the corresponding period of 2008. Most of the increase in value was in subordinated debentures issued by foreign banks, during the second quarter of the year.

b. In addition, NIS 175 million was credited to 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 losses of NIS 52 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):

	30 June 2009	30 June 2008	31 December 2008
	NIS millions		
Profits (losses) in respect of securities which were charged to profit and loss*	**1,629**	(1,946)	(772)
Adjustments for increase (decrease) in value of securities in shareholders' equity	**886**	(903)	(1,784)

* Of this, NIS 956 is due to positive exchange rate differentials during the first half of 2009, compared with negative exchange rate differentials in the amount of NIS 1,667 million during the first half of 2008, and of NIS 1,330 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):

	30 June 2009	31 March 2009	31 December 2008	Quarterly movement	
				1st quarter	2nd quarter
Shares	**883**	510	429	81	373
Israel government debentures	**323**	516	434	82	(193)
Foreign government debentures	**5**	6	9	(3)	(1)
Other debentures	**(1,322)***	(2,721)	(1,864)	(857)	1,399
Other credit instruments	**(22)**	(16)	(27)	11	(6)
Total	**(133)**	(1,705)	(1,019)	(686)	1,572
Related tax	**63**	627	371	256	(564)
Net total	**(70)**	(1,078)	(648)	(430)	1,008

* of which as at 30 June 2009, NIS 607 million in subordinated debentures issued by foreign banks.

From the end of June 2009 through the middle of August 2009, there were changes in the value of the capital fund, and it totaled NIS 84 million, compared with a negative capital fund of NIS 133 million.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio as at 30 June 2009 totaled the negative amount of NIS 70 million (after the effect of taxes) compared with NIS 1,078 million at the end of March 2009 and 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 accumulated balance of the decline in value in the debentures item, in the amount of NIS 994 million, relates mainly to the decrease in value of subordinated capital notes issued by foreign banks.

e. The following are the declines in value of available-for-sale securities which were charged to shareholders' equity (accumulated as at 30 June 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	11	-	7	28	46
	Other debentures	72	22	14	213	321
	Total	83	22	21	241	367
10%- 20%	Shares	-	-	-	-	-
	Asset-backed debentures	1	-	2	79	82
	Other debentures	47	33	45	360	485
	Total	48	33	47	439	567
20%-30%	Shares	-	-	-	-	-
	Asset-backed debentures	11	-	-	2	13
	Other debentures	61	-	-	351	412
	Total	72	-	-	353	425
30%-35%	Shares	-	-	-	-	-
	Asset-backed debentures	7	-	-	-	7
	Other debentures	13	-	-	105	118
	Total	20	-	-	105	125
35%-40%	Shares	-	-	-	-	-
	Asset-backed debentures	1	-	-	1	2
	Other debentures	-	-	-	10	10
	Total	1	-	-	11	12
Above 40%	Shares	-	-	-	1	1
	Asset-backed debentures	1	-	-	1	2
	Other debentures	-	-	-	17	17
	Total	1	-	-	19	20
Total amount	Shares	-	-	-	1	1
	Asset-backed debentures	32	-	9	111	152
	Other debentures	193	55	59	1,056	1,363

Overall total	225	55	68	1,168	1,516

* The duration of the decline in value since the beginning of the decline means the duration since the beginning of any decline in the value of the security.

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 30 June 2009:

	30 June 2009		31 December 2008		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**8,044**	**5,473**	4,869	5,881	3,175	(408)
Shares and funds	**91**	**4**	105	-	(14)	4
Total	**8,135**	**5,477**	4,974	5,881	3,161	(404)

In respect of traded debentures, realized and unrealized profits in the amount of NIS 161 million were recorded in the profit and loss statement, compared with NIS 70 million in the corresponding period in 2008, and in respect of shares and funds, realized and unrealized profits were recorded in the amount of NIS 7 million, compared with realized and unrealized losses of NIS 94 million in the corresponding period in 2008.

Investments in Securities Issued Abroad

The Group's securities portfolio includes some NIS 30.9 billion (some US$ 7.9 billion) of securities issued abroad, all of which (but for some 3%) are investment grade securities, of which some 94% are rated 'A-' and above, of which some 41% are rated 'AAA'; the portfolio includes subordinated debentures issued by foreign banks having a fair value of NIS 2,873 million, some 9.3% of the total investment in securities issued overseas. Of the said portfolio, some NIS 22.2 billion (some US$ 5.7 billion) is classified in the available-for-sale portfolio, some NIS 8.1 billion (some US$ 2.1 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:

	30 June 2009		31 December 2008	
Balance sheet value	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
	NIS millions			
Government debentures	**1,947**	**5,844**	2,175	3,707
Debentures of banks and financial institutions	**13,567**	**1,808**	11,240	472
Asset-backed debentures	**4,933**	**154**	4,211	207
Other debentures	**1,172**	**238**	2,620	483
Shares and funds	**611**	**91**	1,260	105
Total	**22,230**	**8,135**	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 mainly based on the prices of transactions on active markets and on the valuation of similar transactions. The calculation reflects the price that a willing buyer in the market would pay for the securities on the basis of observable market inputs. Since only a small part of the securities are traded globally on a daily basis, the institution uses two valuation methods:

a. Valuation at the asset group level: most of the securities are valued through yield rates (capitalization) relating to groups of assets with similar characteristics (according to country, sector, type of asset, rating, etc.); in most cases, by considering the information available in the market, generally by reference to the relevant index.

b. Valuation and quotations for specific securities: the other securities are valued in a specific manner (valuation of the issuer and of the individual security) on the basis of direct price quotations regarding the security's spread or regarding the specific issuer. A small part of the assets in this group are valued only on the basis of price quotations from very active markets (primarily government debentures, which have active market makers).

The CLO portfolio, which constitutes a relatively 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 valuation 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 valuation, reference to factors material to the valuation and the validity of the data and the parameters on which the valuation was based. Internal models were not used for the purpose of valuing 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 2 below on page 47.

The Management of the Bank estimates that the decline in the value of the available-for-sale portfolio is mostly temporary in nature and the second quarter's results support this approach. 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 to shareholders' equity. The total decline charged to shareholders' equity in respect of securities issued abroad, from the date of purchase until 30 June 2009, amounts to some NIS 1,325 million (some NIS 845 million after taxes). During the first half of 2009, the negative capital fund declined by NIS 16 million (increase in the negative capital fund of NIS 1,298 million in the first quarter and decrease in the negative capital fund of NIS 1,314 million in the second quarter). 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, a decline in value in the amount of some NIS 137 million was charged to the profit and loss account during the first half of 2009 (of which NIS 97 million was during the second quarter of the year).

The following table shows the fair value as at 30 June 2009 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	264	274	814	65	-	-	-	1,417
Austria	-	-	521	-	-	-	-	521
Italy	-	23	361	-	-	-	6	390
Ireland	-	-	136	79	107	-	-	322
Belgium	-	-	322	61	-	-	-	383
Germany	205	650	-	-	116	-	-	971
Netherlands	404	717	71	215	25	-	-	1,432
Luxembourg	-	392	100	-	-	-	-	492
Spain	160	-	15	165	-	-	-	340
Portugal	-	-	85	-	-	-	-	85
Finland	25	27	-	-	-	-	-	52
France	295	167	-	-	-	-	-	462
Switzerland	-	20	194	-	-	-	-	214
Australia	506	-	101	-	-	-	-	607
Other (1)	498	255	496	11	-	28	-	1,288
United States – by bank								
Citigroup Inc. NY	-	-	-	931	-	-	-	931
Chase Manhattan Bank N.A.	-	841	-	-	-	-	-	841
Merrill Lynch International B.A.	-	-	476	-	-	-	-	476
Bank of America	-	-	703	-	-	-	-	703
Goldman, Sachs and Co.	-	-	489	-	-	-	-	489
Wachovia International Banking	505	-	-	-	-	-	-	505
Wells Fargo Bank N.A.	381	-	-	-	-	-	-	381
United States – other (2)	308	409	856	-	240	-	260	2,073
Total	3,551	3,775	5,740	1,527	488	28	266	15,375

(1) This amount includes investments in 9 countries
(2) This amount includes investments in 24 banks.
(3) Including subordinated debentures the fair value of which as at 30 June 2009 was NIS 2,873 million (including the available-for-sale and traded portfolios).

1. Investments in foreign asset-backed securities

The Group's securities portfolio includes some NIS 5.1billion (some US$ 1.3billion) of asset-backed securities (both mortgage-backed and non-mortgage-backed), all of which (save for 2.6%) are rated 'A-' and above, of which some 91% are rated 'AAA'. Of the said portfolio, some NIS 4.9 billion (some US$ 1,259 million) is classified in the available-for-sale portfolio, and the balance in the securities for trading and the holding to redemption portfolios.

The following table shows a summary of investments in asset-backed securities in the available-for-sale portfolio as at 30 June 2009:

	Adjusted Cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	4,024	35	(61)	3,998
ABS-asset-backed securities (other than mortgage-backed)	979	47	(91)	935
Of which: CLO	776	36	(82)	730
SCDO	103	9	(7)	105
other	100	2	(2)	100
Total	5,003	82	(152)	4,933

The Group's available-for-sale securities portfolio of foreign asset-backed securities as at 30 June 2009 includes investments in mortgage-backed securities in the total amount of some NIS 4.0 billion. 99% 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.

As at 30 June 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 139 million.

The projected term to maturity for all the mortgage-backed securities portfolio is some 2.5 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 935 million. All these securities, save for 5%, are rated 'A-' and above, of which 66% are rated 'AAA'. This portfolio includes, *inter alia,* SCDOs in the amount of some NIS 105 million, and CLOs in the amount of some NIS 730 million. The projected term to maturity of the portfolio of securities that are backed by assets other than mortgages is some 5 years on average.

The 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 30 June 2009, the decline in value charged to shareholders' equity attributed to the portfolio of securities backed by assets other than mortgages totalled some NIS 44 million (some NIS 28 million after tax).

The total portfolio of asset-backed securities of the SDCO type amounted to NIS 105 million. A decrease in value of NIS 29 million was charged to the profit and loss statement in respect of this portfolio in the first half of 2009.

The total portfolio of asset-backed securities of the CLO type amounted to NIS 730 million. An amount of NIS 54 million was charged to shareholders' equity in respect of these securities in the first half 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 critical 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 in the amount of some NIS 154 million (US$ 39 million), of which some NIS 130 million is invested in mortgage-backed securities and some NIS 24 million is invested in other asset-backed securities. This portfolio includes securities that are backed by sub-prime mortgages in the amount of NIS 3 million (US$ 0.8 million), 38% 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 30 June 2009 was the amount of some NIS 59 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, an increase in value in the amount of some NIS 5 million was recorded in the profit and loss statement during the first half of 2009.

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

2. Investments in other (non asset-backed) foreign securities

The Group’s securities portfolio as at 30 June 2009 includes some NIS 25.8 billion (some US$ 6.6 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 17.3 billion (US$ 4.4 billion) are classified in the available-for-sale portfolio, and some NIS 8.0 billion in the securities for trading portfolio. Of these securities, 96.5% are rated 'A-' or above, of which 33% are rated 'AAA'.

For further details regarding exposure to overseas banks and financial institutions see page 99.

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 critical 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 well as the increase in value after the date of the financial statements, a high credit rating (A and higher) and the stress test survival analysis.

As at 30 June 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 1,255 million (NIS 801 million after tax). Of this amount, NIS 100 million was added during the first half of 2009.

The vast 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 (49%) and in the United States (43.3%), 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 and their final maturity periods are of less than ten years. 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' redemption period 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 subordinated debentures. As at 30 June 2009, of the available-for-sale subordinated debenture portfolio of some NIS 3.1 billion, their fair value as at the date of the Report is some NIS 2.5 billion. 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 first two quarters of the year were materially different from each other with regard to the fair value of these investments. While the first quarter was characterized by a significant decline in the fair value and a resulting increase in the negative capital fund, there was a reversal in the second quarter and the entire decline in value of the first quarter was eradicated and the final result of the first half of 2009 was a decline in value of NIS 14 million. From the end of the first half through the middle of August, there was a further improvement in this portfolio's value of some NIS 200 million, such that the total decline in the negative fund in 2009, through the middle of August, has been NIS 186 million. The contraction, from the beginning of July through the middle of August, of the spreads in the debentures, as well as the even more significant contraction in the spreads of the relevant credit derivatives (CDS) of 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	
	30 June 2009	31 March 2009	31 December 2008	during the first half	17 August 2009
	NIS millions				
Total subordinated bank debentures issued abroad	**2,542**	**2,261**	2,614	(72)	2,545
Of this, subordinated debentures that declined in value by more than 35% as at 30 June 2009	**34**	**1,073**	24	10	14

In addition, the Bank holds long-term senior debentures in the amount of some NIS 282 million of an American bank (Citi). As at 30 June 2009, these debentures, because of their long maturity period, declined in value by 28%. The involvement of the administration in the management of Citi and in ensuring its stability, 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 August, these debentures too recovered to some extent.

In addition to the temporary decline in value which was charged to shareholders' equity, NIS 106 million (NIS 69 million after tax) was charged to the profit and loss statement with respect to these securities in the available-for-sale portfolio during the first half of 2009 (of which NIS 101 million was during the second quarter).

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 30 June 2009 amounted to some NIS 8.0 billion (US$ 2.0 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.

Investments in corporate debentures issued in Israel

Investments in debentures issued in Israel amounted to NIS 23.6 billion on 30 June 2009, of which NIS 22.8 billion was in debentures issued by the government of Israel, and the balance of NIS 0.8 billion was in corporate debentures. Of the corporate debentures 90% are rated 'A-' and above, of which 71% are rated 'AA' and above. The corporate debenture portfolio is spread among various branches of the economy. The investment of some 25% of the portfolio in the real estate sector is the largest. On 30 June 2009, investments in corporate debentures amounted to NIS 0.6 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 83.6% of the corporate debentures in the available-for-sale portfolio are not listed. The valuation 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 and which is a subsidiary of the Bank. Since there is no active market in these debentures, the valuation 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 valuation, reference to factors material to the valuation and the validity of the data and the parameters on which the valuation 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 0.6 billion in the corporate debenture portfolio in the available-for-sale portfolio, the positive capital fund amounts to NIS 33 million, and the negative fund amounts to NIS 19 million, with the highest decline in value being 13%. 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 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 3,073 million on 30 June 2009, of which NIS 2,030 million was in listed shares and NIS 1,043 million was in non-listed shares. Of the total investment, NIS 2,978 million is classified as available-for-sale and NIS 95 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	
	30 June 2009	31 December 2008	**30 June 2009**	31 December 2008
	%		NIS millions	
Migdal Insurance and Financial Holdings Ltd. (2)	**9.85**	9.85	**579**	411
Africa Israel Properties Ltd.	**4.3**	4.3	**40**	15
Super-Pharm (Israel) Ltd. *	**18.0**	18.0	**182**	182
Hot – Cable Communications Systems Ltd. (3)	**14.96**	14.96	**381**	239
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.62	**49**	29
Bezeq – Israel Communications Company Ltd. (4)	**4.17**	4.22	**778**	683
Union Bank of Israel Ltd. (5)	**-**	6.46	**-**	101
Tower Semiconductor capital notes	**-**	-	**49**	49
Visa International	**-**	-	**27**	27
CLS Bank	**-**	-	**21**	21
Funds	**-**	-	**333**	991
Apax	**-**	-	**41**	56
Other	**-**	-	**593**	520
Total	**-**	-	**3,073**	3,324

* not listed

(1) See page 72 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	
	30 June 2009	31 December 2008
Listed shares	**1,951**	1,718
Funds according to quote by counterparty	**411**	988
Unlisted shares	**711**	618
Total	**3,073**	3,324

(2) For additional details see page 72-73.

(3) On 3 August 2009, the Bank sold 11,376,902 ordinary shares of Hot-Cable Communications Systems Ltd. ("Hot"), which had been held by the Bank to Cool Holding Ltd. for a total amount of NIS 381,126,210. The Bank's after-tax profit from the sale is expected to be some NIS 120 million.

(4) In accordance with the Supervisor of Banks' July 2003 instructions, the classification of credit given to a certain customer for the financing of the purchase of shares in the Bezeq company was changed from the credit to the public item to the securities item. On 10 August 2009, the customer's receiver announced that he had completed a transaction for the sale of 155,000,000 shares of NIS 1 par value each in the company, constituting 5.849% of Bezeq's share capital, and that the consideration, some NIS 1,137 million after deducting commissions and expenses, would be used to reduce the customer's debts to the banks, in accordance with each bank's share in the financing of the purchase of the Bezeq shares in 1999. The Bank's share in this consideration, after deducting commissions and expenses, is some NIS 272 million and the Bank will record a net profit of some NIS 55 million.

(5) **Union Bank**

On 17 November 2003, an agreement was signed between the Bank, Sherodar Assets Ltd. ("Sherodar") and Yeshayu Landau Holdings (1993) Ltd. ("Landau") 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 held by the Bank, for a period ending on 17 November 2010.
On 11 May 2009, the Bank gave Sherodar and Landau notice regarding the exercise of the put option.
The transaction was completed on 28 June 2009 and the Bank sold the said shares, constituting all of the Bank's holdings in Union Bank, to Landau and Sherodar, in exchange for a total amount of some NIS 108 million. The Bank's profit from the sale of the said shares is some NIS 17 million, net.

(6) On 21 August 2009, the Bank signed an agreement with the Scailex Corporation Ltd. ("Scailex") for the acquisition of 7,677,037 ordinary shares constituting 4.99% of the issued and paid-up share capital of Partner Communications Ltd. (on an undiluted basis and after neutralizing dormant shares), for a consideration of NIS 514,553,405. The agreement includes standard minority protection rights and an option to purchase debentures convertible into Scailex shares in the amount of some NIS 103 million.

The agreement is conditional on the completion by Scailex of the transaction with Advent Investments Pte Ltd., a Singaporean corporation controlled by Hutchison Telecommunications International Ltd.

Leumi Partners Ltd. (a wholly owned subsidiary of the Bank) acted as an investment house in all aspects related to this transaction, including vis-à-vis additional potential investors and therefore Scailex has agreed to pay Leumi Partners a finders fee in the amount of US$ 3 million to be paid upon the completion of the transaction.

Other assets

On 30 June 2009, other assets amounted to NIS 8.9 billion, compared with NIS 13.5 billion at the end of 2008, a decrease of 34.4%. The decrease in this item resulted primarily from the payment of transactions and from a decrease in the balance of the fair value of derivative instruments, of some NIS 4.4 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:

Segments	For the three months ending			For the six months ending		
	30 June 2009	30 June 2008	Change	**30 June 2009**	30 June 2008	Change
	NIS millions		%	NIS millions		%
Households	**54**	356	(84.8)	**108**	511	(78.9)
Small businesses	**58**	103	(43.7)	**118**	202	(41.6)
Corporate banking	**228**	179	27.4	**353**	385	(8.3)
Commercial banking	**93**	113	(17.7)	**192**	272	(29.4)
Private banking	**57**	34	67.6	**107**	74	44.6
Financial management – capital markets and other	**17**	104	(83.7)	**58**	(85)	+
Total	**507**	889	(43.0)	**936**	1,359	(31.1)

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

Segments	For the six months ending on			
	30 June 2009	30 June 2008	Change	Contribution to profit
	(NIS millions)		%	%
Households	**108**	310	(65.2)	13.2
Small businesses	**118**	184	(35.9)	14.4
Corporate banking	**353**	383	(7.8)	43.0
Commercial banking	**192**	246	(22.0)	23.4
Private banking	**107**	71	50.7	13.0
Financial management – capital markets and other	**(58)**	27	-	(7.0)
Total	**820**	1,221	(32.8)	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 30 June 2009					
	NIS millions					
Profit (loss) from net interest income:						
From external sources	**(297)**	**39**	**-**	**511**	**(2)**	**251**
Inter-segmental	**711**	**(5)**	**(1)**	**(418)**	**8**	**295**
Operating and other income:						
From external sources	**153**	**110**	**128**	**30**	**2**	**423**
Inter-segmental	**1**	**53**	**-**	**3**	**-**	**57**
Total income	**568**	**197**	**127**	**126**	**8**	**1,026**
Provisions for doubtful debts	**76**	**5**	**-**	**(6)**	**7**	**82**
Operating and other expenses:						
External	**587**	**128**	**67**	**52**	**7**	**841**
Inter-segmental	**1**	**4**	**-**	**3**	**-**	**8**
Operating profit (loss) before taxes	**(96)**	**60**	**60**	**77**	**(6)**	**95**
Tax provision (benefit) on operating profit	**(37)**	**19**	**21**	**30**	**-**	**33**
Operating profit (loss) after taxes	**(59)**	**41**	**39**	**47**	**(6)**	**62**
Minority interests in profits of consolidated companies	**-**	**(8)**	**-**	**-**	**-**	**(8)**
Net (loss) profit	**(59)**	**33**	**39**	**47**	**(6)**	**54**

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas Activities	Total
	For the three months ending 30 June 2008					
	NIS millions					
Profit from net interest income:						
From external sources	(624)	33	1	667	(3)	74
Inter-segmental	1,120	(8)	-	(540)	8	580
Operating and other income:						
From external sources	165	119	109	29	2	424
Inter-segmental	4	57	-	4	-	65
Total income	665	201	110	160	7	1,143
Provisions for doubtful debts	31	4	-	22	6	63
Operating and other expenses:						
External	607	116	62	51	7	843
Inter-segmental	-	1	-	5	-	6
Operating profit (loss) before taxes	27	80	48	82	(6)	231
Tax provision on operating profit	2	27	17	31	-	77
Operating profit (loss) after taxes	25	53	31	51	(6)	154
Profit from extraordinary items after taxes	-	202	-	-	-	202
Net (loss) profit	25	255	31	51	(6)	356

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas Activities	Total
	For the six months ending 30 June 2009					
	NIS millions					
Profit from net interest income:						
From external sources	**(366)**	**80**	**1**	**786**	**(5)**	**496**
Inter-segmental	**1,174**	**(13)**	**(1)**	**(620)**	**16**	**556**
Operating and other income:						
From external sources	**306**	**217**	**241**	**60**	**4**	**828**
Inter-segmental	**-**	**105**	**-**	**6**	**-**	**111**
Total income	**1,114**	**389**	**241**	**232**	**15**	**1,991**
Provisions for doubtful debts	**113**	**12**	**-**	**(2)**	**9**	**132**
Operating and other expenses:						
External	**1,153**	**253**	**145**	**100**	**14**	**1,665**
Inter-segmental	**2**	**(1)**	**-**	**7**	**-**	**8**
Operating profit (loss) before taxes	**(154)**	**125**	**96**	**127**	**(8)**	**186**
Tax provision (benefit) on operating profit	**(57)**	**39**	**34**	**48**	**-**	**64**
Operating profit (loss) after taxes	**(97)**	**86**	**62**	**79**	**(8)**	**122**
Minority interests in profits of consolidated companies	**-**	**(14)**	**-**	**-**	**-**	**(14)**
Net (loss) profit	**(97)**	**72**	**62**	**79**	**(8)**	**108**
% Return on equity						**5.4%**
Average balance of assets	**15,259**	**6,226**	**90**	**41,251**	**338**	**63,164**
Of which: investments in companies included on the equity basis	**-**	**8**	**-**	**-**	**-**	**8**
Average balance of liabilities	**113,716**	**547**	**-**	**11,254**	**1,060**	**126,577**
Average balance of risk assets	**14,013**	**6,165**	**91**	**35,504**	**360**	**56,133**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**32,631**	**-**	**-**	**32,631**
Average balance of securities	**-**	**-**	**42,794**	**-**	**155**	**42,949**
Average balance of other assets under management	**170**	**-**	**-**	**7,439**	**-**	**7,609**
Balance of credit to the public	**15,014**	**6,104**	**89**	**41,714**	**331**	**63,252**
Balance of deposits of the public	**112,692**	**21**	**-**	**6,421**	**1,051**	**120,185**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Overseas Activities	Total
	For the six months ending 30 June 2008					
	NIS millions					
Profit from net interest income:						
From external sources	(1,025)	67	2	1,002	(8)	38
Inter-segmental	2,014	(18)	(1)	(767)	19	1,247
Operating and other income:						
From external sources	338	220	227	60	4	849
Inter-segmental	3	113	-	7	-	123
Total income	1,330	382	228	302	15	2,257
Provisions for doubtful debts	51	7	-	65	7	130
Operating and other expenses:						
External	1,161	224	142	108	14	1,649
Inter-segmental	-	2	-	8	-	10
Operating profit (loss) before taxes	118	149	86	121	(6)	468
Tax provision on operating profit	35	48	31	45	-	159
Operating profit (loss) after taxes	83	101	55	76	(6)	309
Profit from extraordinary items after taxes	-	202	-	-	-	202
Net (loss) profit	83	303	55	76	(6)	511
% Return on equity						27.0%
Average balance of assets	15,387	5,757	75	37,458	288	58,965
Of which: investments in companies included on the equity basis	-	8	-	-	-	8
Average balance of liabilities	107,144	373	-	12,079	1,026	120,622
Average balance of risk assets	13,335	5,665	71	31,329	287	50,687
Average balance of mutual funds and supplementary training funds	-	-	33,985	-	-	33,985
Average balance of securities	-	-	43,932	-	140	44,072
Average balance of other assets under management	217	-	-	7,939	-	8,156
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

The following table presents data concerning new loans granted and loans refinanced for the purchase of residential apartments, while pledging residential apartments:

	First half of 2009	First half of 2008	Change
	NIS millions		%
From Bank funds	**4,104**	4,164	(1.4)
From Ministry of Finance funds			
Loans	**35**	130	(73.1)
Standing loans	**2**	4	(50.0)
Total new loans	**4,141**	4,298	(3.7)
Refinanced loans	**1,200**	536	123.9
Total	**5,341**	4,834	10.5

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 1,107 million, 1.8% compared with the end of 2008. Housing loans increased by 2.7%, and there was no change in credit after neutralizing housing loans. Deposits of the public decreased by NIS 661 million, a decrease of 0.5% compared with the end of 2008.

Main Changes in Net Profit

In the first half of 2009, net profit in the households segment totaled NIS 108 million, compared with NIS 511 million in the corresponding period in 2008, a decrease of 78.9%. The decrease in profit stems primarily from the decrease of NIS 202 million in profit from extraordinary items (from the allocation of 20% of the share capital of Leumi Card to Canit in 2008). Operating profit amounted to NIS 108 million compared with NIS 309 million in the corresponding period in 2008, a decrease of 65%. The decrease in profit stems mainly from a decrease in net interest income in the amount of NIS 233 million, a decrease in operating income of NIS 33 million and an increase in expenses of NIS 14 million.

Return on equity of the net profit was 5.4%.

2. Small Businesses

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

	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Overseas activities Banking and Finance	Overseas activities Real estate	Total
	For the three months ending 30 June 2009							
	NIS millions							
Profit from net interest income:								
From external sources	**182**	**2**	**1**	**2**	**69**	**16**	**-**	**272**
Inter-segmental	**(32)**	**-**	**-**	**(1)**	**(21)**	**(5)**	**-**	**(59)**
Operating and other income:								
From external sources	**65**	**14**	**5**	**-**	**11**	**4**	**-**	**99**
Inter-segmental	**(1)**	**(6)**	**-**	**-**	**-**	**-**	**-**	**(7)**
Total income	**214**	**10**	**6**	**1**	**59**	**15**	**-**	**305**
Provisions for doubtful debts	**45**	**-**	**-**	**-**	**4**	**(5)**	**1**	**45**
Operating and other expenses:								
External	**126**	**5**	**2**	**-**	**28**	**10**	**-**	**171**
Inter-segmental	**1**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit (loss) before taxes	**42**	**6**	**4**	**1**	**27**	**10**	**(1)**	**89**
Tax provision on operating profit	**20**	**1**	**1**	**-**	**9**	**-**	**-**	**31**
Net profit (loss)	**22**	**5**	**3**	**1**	**18**	**10**	**(1)**	**58**

	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Overseas activities	Total
	For the three months ending 30 June 2008						
	NIS millions						
Profit from net interest income:							
From external sources	217	3	1	4	89	17	331
Inter-segmental	(48)	(1)	(1)	(2)	(45)	(10)	(107)
Operating and other income:							
From external sources	79	13	4	-	12	4	112
Inter-segmental	1	(8)	-	-	-	-	(7)
Total income	249	7	4	2	56	11	329
Provisions for doubtful debts	7	-	-	-	4	8	19
Operating and other expenses:							
External	138	5	2	-	21	10	176
Inter-segmental	-	-	-	-	-	-	-
Operating profit (loss) before taxes	104	2	2	2	31	(7)	134
Tax provision (benefit) on operating profit	37	1	1	1	12	(3)	49
Operating profit (loss) after taxes	67	1	1	1	19	(4)	85
Profit from extraordinary items after taxes	-	18	-	-	-	-	18
Net profit (loss)	67	19	1	1	19	(4)	103

Small businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Overseas activities Banking and finance	Overseas activities Real estate	Total
	For the six months ending 30 June 2009							
	NIS millions							
Profit from net interest income:								
From external sources	**336**	**7**	**1**	**3**	**121**	**31**	**1**	**500**
Inter-segmental	**(29)**	**(2)**	**-**	**(2)**	**(30)**	**(13)**	**-**	**(76)**
Operating and other income:								
From external sources	**137**	**31**	**10**	**-**	**22**	**8**	**-**	**208**
Inter-segmental	**-**	**(17)**	**-**	**-**	**-**	**-**	**-**	**(17)**
Total income	**444**	**19**	**11**	**1**	**113**	**26**	**1**	**615**
Provisions for doubtful debts	**69**	**-**	**-**	**-**	**14**	**1**	**3**	**87**
Operating and other expenses:								
External	**262**	**14**	**5**	**-**	**42**	**19**	**1**	**343**
Inter-segmental	**1**	**1**	**-**	**-**	**-**	**-**	**-**	**2**
Operating profit (loss) before taxes	**112**	**4**	**6**	**1**	**57**	**6**	**(3)**	**183**
Tax provision (benefit) on operating profit	**43**	**1**	**2**	**-**	**20**	**-**	**(1)**	**65**
Net profit (loss)	**69**	**3**	**4**	**1**	**37**	**6**	**(2)**	**118**
% Return on equity								**22.8%**
Average balance of assets	**11,268**	**628**	**27**	**153**	**4,783**	**735**	**94**	**17,688**
Average balance of liabilities	**11,838**	**840**	**-**	**-**	**1,991**	**570**	**101**	**15,340**
Average balance of risk assets	**8,446**	**636**	**31**	**152**	**4,852**	**786**	**86**	**14,989**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**1,407**	**-**	**-**	**-**	**-**	**1,407**
Average balance of securities	**-**	**-**	**2,925**	**-**	**-**	**2**	**-**	**2,927**
Average balance of other assets under management	**411**	**-**	**-**	**-**	**-**	**-**	**-**	**411**
Balance of credit to the public	**10,884**	**619**	**20**	**154**	**4,632**	**692**	**98**	**17,099**
Balance of deposits of the public	**11,820**	**-**	**-**	**-**	**2,006**	**542**	**108**	**14,476**

Small businesses (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Real estate	Overseas activities	Total
	For the six months ending 30 June 2008						
	NIS millions						
Profit from net interest income:							
From external sources	404	8	3	6	166	31	618
Inter-segmental	(66)	(3)	(2)	(4)	(76)	(17)	(168)
Operating and other income:							
From external sources	158	30	10	-	24	8	230
Inter-segmental	1	(19)	-	-	-	-	(18)
Total income	497	16	11	2	114	22	662
Provisions for doubtful debts	21	-	-	-	4	8	33
Operating and other expenses:							
External	266	11	4	-	40	20	341
Inter-segmental	-	-	-	-	-	-	-
Operating profit (loss) before taxes	210	5	7	2	70	(6)	288
Tax provision (benefit) on operating profit	76	2	2	1	26	(3)	104
Operating profit (loss) after taxes	134	3	5	1	44	(3)	184
Profit from extraordinary items after taxes	-	18	-	-	-	-	18
Net profit (loss)	134	21	5	1	44	(3)	202
% Return on equity							36.5%
Average balance of assets	11,536	563	125	141	4,721	715	17,801
Average balance of liabilities	10,924	838	-	-	1,722	566	14,050
Average balance of risk assets	8,908	542	148	132	4,708	675	15,113
Average balance of mutual funds	-	-	1,360	-	-	-	1,360
Average balance of securities	-	-	3,791	-	-	29	3,820
Average balance of other assets under management	480	-	-	-	-	-	480
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 1,062 million compared with the end of 2008, a decrease of 5.8%, and total deposits of the public remained unchanged.

Main Changes in the Net Profit

In the first half of 2009, net profit in the small businesses segment totaled NIS 118 million, compared with NIS 202 million in the corresponding period in 2008, a decrease of 41.6%. The decrease in profit stems mainly from a decrease in income of NIS 47 million, from an increase in the provisions for doubtful debts in the amount of NIS 54 million and from a net decrease of NIS 18 million in profit from extraordinary items.

Return on equity of the net profit was 22.8%.

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 30 June 2009						
	NIS millions						
Profit from net interest income:							
From external sources	**389**	**8**	**-**	**386**	**6**	**-**	**789**
Inter-segmental	**(85)**	**(2)**	**-**	**(191)**	**1**	**1**	**(276)**
Operating and other income:							
From external sources	**68**	**56**	**6**	**18**	**-**	**1**	**149**
Inter-segmental	**-**	**(41)**	**-**	**-**	**-**	**-**	**(41)**
Total income	**372**	**21**	**6**	**213**	**7**	**2**	**621**
Provisions for doubtful debts	**148**	**-**	**-**	**(10)**	**-**	**-**	**138**
Operating and other expenses:							
External	**63**	**23**	**2**	**39**	**3**	**1**	**131**
Inter-segmental	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Operating profit (loss) before taxes	**161**	**(1)**	**4**	**184**	**4**	**1**	**353**
Tax provision on operating profit	**57**	**-**	**1**	**66**	**1**	**-**	**125**
Net profit (loss)	**104**	**(1)**	**3**	**118**	**3**	**1**	**228**

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas Activities	Total
	For the three months ending 30 June 2008					
	NIS millions					
Profit (loss) from net interest income:						
From external sources	642	8	-	389	(1)	1,038
Inter-segmental	(329)	(4)	-	(252)	7	(578)
Operating and other income:						
From external sources	34	55	5	9	2	105
Inter-segmental	1	(43)	-	-	-	(42)
Total income	348	16	5	146	8	523
Provisions for doubtful debts	95	1	-	32	-	128
Operating and other expenses:						
External	72	17	3	23	5	120
Inter-segmental	-	-	-	-	-	-
Operating profit (loss) before taxes	181	(2)	2	91	3	275
Tax provision (benefit) on operating profit	63	(1)	1	34	1	98
Operating profit (loss) after taxes	118	(1)	1	57	2	177
Profit from extraordinary items after taxes	-	2	-	-	-	2
Net profit	118	1	1	57	2	179

Corporate Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas activities: Banking and finance	Overseas activities: Real estate	Total
	For the six months ending 30 June 2009						
	NIS millions						
Profit from net interest income:							
From external sources	**599**	**16**	**-**	**728**	**7**	**-**	**1,350**
Inter-segmental	**(34)**	**(4)**	**-**	**(376)**	**4**	**3**	**(407)**
Operating and other income:							
From external sources	**100**	**101**	**13**	**31**	**2**	**1**	**248**
Inter-segmental	**1**	**(74)**	**-**	**-**	**-**	**-**	**(73)**
Total income	**666**	**39**	**13**	**383**	**13**	**4**	**1,118**
Provisions for doubtful debts	**258**	**1**	**-**	**54**	**-**	**-**	**313**
Operating and other expenses:							
External	**144**	**41**	**7**	**56**	**7**	**2**	**257**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit (loss) before taxes	**264**	**(3)**	**6**	**273**	**6**	**2**	**548**
Tax provision	**93**	**-**	**2**	**98**	**2**	**-**	**195**
Net profit (loss)	**171**	**(3)**	**4**	**175**	**4**	**2**	**353**
% Return on equity							**10.8%**
Average balance of assets	**52,521**	**499**	**1**	**27,305**	**543**	**71**	**80,940**
Average balance of liabilities	**24,882**	**3,004**	**-**	**5,110**	**700**	**265**	**33,961**
Average balance of risk assets	**63,604**	**563**	**2**	**27,209**	**712**	**48**	**92,138**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**770**	**-**	**-**	**-**	**770**
Average balance of securities	**-**	**-**	**58,614**	**-**	**166**	**-**	**58,780**
Average balance of other assets under management	**261**	**-**	**-**	**-**	**-**	**-**	**261**
Balance of credit to the public	**46,289**	**471**	**-**	**27,182**	**627**	**111**	**74,680**
Balance of deposits of the public	**21,613**	**-**	**-**	**4,864**	**703**	**204**	**27,384**

Corporate Banking (cont.)

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas activities	Total
	For the six months ending 30 June 2008					
	NIS millions					
Profit from net interest income:						
From external sources	1,166	15	-	713	(11)	1,883
Inter-segmental	(423)	(7)	-	(442)	24	(848)
Operating and other income:						
From external sources	13	97	11	24	3	148
Inter-segmental	1	(78)	-	-	-	(77)
Total income	757	27	11	295	16	1,106
Provisions for doubtful debts	239	1	-	34	-	274
Operating and other expenses:						
External	140	31	6	47	10	234
Inter-segmental	-	-	-	-	-	-
Operating profit (loss) before taxes	378	(5)	5	214	6	598
Tax provision (benefit) on operating profit	133	(1)	2	79	2	215
Operating profit (loss) after taxes	245	(4)	3	135	4	383
Profit from extraordinary items after taxes	-	2	-	-	-	2
Net profit (loss)	245	(2)	3	135	4	385
% Return on Equity						**12.3%**
Average balance of assets	46,107	362	1	21,490	770	68,730
Average balance of liabilities	20,663	2,931	-	3,863	1,685	29,112
Average balance of risk assets	58,720	326	1	21,309	830	81,186
Average balance of mutual funds and supplementary training funds	-	-	758	-	-	758
Average balance of securities	-	-	78,155	-	290	78,445
Average balance of other assets under management	297	-	-	-	-	297
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 decreased by NIS 1,883 million compared with the end of 2008, a decrease of 2.5%, and total deposits of the public increased by NIS 4,273 million, some 18.5%.

Main Changes in Net Profit

In the first half of 2009, net profit in the corporate banking segment totaled NIS 353 million, compared with NIS 385 million during the corresponding period in 2008, a decrease of 8.3%. The decrease in profit stems mainly from a decrease in net interest income of NIS 92 million, an increase in provisions for doubtful debts of NIS 39 million and an increase in expenses of NIS 23 million, which was partially offset by an increase in operating income of NIS 104 million.

Return on equity of net profit was 10.8%.

4. Commercial Banking

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

						Overseas activity			
	Banking and finance in Israel	Credit cards	Capital market	Mort-gages	Real estate	Banking and finance	Capital Market	Real Estate	Total
	For the three months ending 30 June 2009								
	NIS millions								
Profit from net interest income:									
From external sources	**195**	**3**	**-**	**10**	**83**	**127**	**-**	**38**	**456**
Inter-segmental	**(4)**	**(1)**	**-**	**(8)**	**(35)**	**(32)**	**-**	**(22)**	**(102)**
Operating and other income:									
From external sources	**49**	**11**	**13**	**1**	**8**	**11**	**1**	**1**	**95**
Inter-segmental	**-**	**(8)**	**-**	**-**	**-**	**-**	**-**	**-**	**(8)**
Total income	**240**	**5**	**13**	**3**	**56**	**106**	**1**	**17**	**441**
Provisions for doubtful debts	**39**	**-**	**-**	**5**	**5**	**40**	**-**	**-**	**89**
Operating and other expenses:									
External	**99**	**4**	**7**	**-**	**20**	**65**	**1**	**12**	**208**
Inter-segmental	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**
Operating profit (loss) before taxes	**102**	**3**	**6**	**(2)**	**31**	**1**	**-**	**5**	**146**
Tax provision (benefit) on operating profit	**38**	**1**	**2**	**(1)**	**11**	**-**	**-**	**2**	**53**
Net profit (loss)	**64**	**2**	**4**	**(1)**	**20**	**1**	**-**	**3**	**93**

	Banking and finance in Israel	Credit cards	Capital market	Mortgages	Real estate	Overseas activities	Total
	For the three months ending 30 June 2008						
	NIS millions						
Profit from net interest income:							
From external sources	322	2	-	6	107	166	603
Inter-segmental	(97)	(1)	(2)	(6)	(61)	(60)	(227)
Operating and other income:							
From external sources	64	12	12	-	6	14	108
Inter-segmental	-	(8)	-	-	-	-	(8)
Total income	289	5	10	-	52	120	476
Provisions for doubtful debts	60	-	-	(2)	42	21	121
Operating and other expenses:							
External	121	3	7	-	15	75	221
Inter-segmental	-	-	-	-	-	-	-
Operating profit (loss) before taxes	108	2	3	2	(5)	24	134
Tax provision (benefit) on operating profit	39	1	2	-	(2)	7	47
Net operating profit (loss)	69	1	1	2	(3)	17	87
Profit from extraordinary items after taxes	-	26	-	-	-	-	26
Net profit (loss)	69	27	1	2	(3)	17	113

Commercial Banking (cont.)

	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 six months ending 30 June 2009								
	NIS millions								
Profit from net interest income:									
From external sources	**367**	**5**	**-**	**14**	**139**	**258**	**-**	**77**	**860**
Inter-segmental	**2**	**(1)**	**-**	**(11)**	**(48)**	**(77)**	**-**	**(44)**	**(179)**
Operating and other income:									
From external sources	**107**	**23**	**25**	**1**	**15**	**21**	**2**	**3**	**197**
Inter-segmental	**-**	**(16)**	**-**	**-**	**-**	**-**	**-**	**-**	**(16)**
Total income	**476**	**11**	**25**	**4**	**106**	**202**	**2**	**36**	**862**
Provisions for doubtful debts	**83**	**-**	**-**	**3**	**10**	**40**	**-**	**3**	**139**
Operating and other expenses:									
External	**206**	**9**	**17**	**1**	**29**	**141**	**2**	**22**	**427**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit before taxes	**187**	**2**	**8**	**-**	**67**	**21**	**-**	**11**	**296**
Tax provision on operating profit	**67**	**1**	**3**	**-**	**24**	**6**	**-**	**3**	**104**
Net profit	**120**	**1**	**5**	**-**	**43**	**15**	**-**	**8**	**192**
% Return on equity									**11.8%**
Average balance of assets	**23,945**	**289**	**7**	**469**	**5,987**	**13,792**	**-**	**3,443**	**47,932**
Average balance of liabilities	**20,323**	**701**	**-**	**129**	**1,995**	**8,716**	**-**	**556**	**32,420**
Average balance of risk assets	**20,235**	**317**	**8**	**501**	**6,056**	**12,843**	**-**	**2,919**	**45,879**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,707**	**-**	**-**	**-**	**84**	**-**	**2,791**
Average balance of securities	**-**	**-**	**29,656**	**-**	**-**	**-**	**2,124**	**-**	**31,780**
Average balance of other assets under management	**666**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**666**
Balance of credit to the public	**21,430**	**254**	**5**	**483**	**5,847**	**12,873**	**-**	**3,574**	**44,466**
Balance of deposits of the public	**19,154**	**-**	**-**	**76**	**2,114**	**8,443**	**-**	**458**	**30,245**

Commercial Banking (cont.)

	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 six months ending 30 June 2008								
	NIS millions								
Profit from net interest income:									
From external sources	614	4	1	10	198	286	-	78	1,191
Inter-segmental	(159)	(2)	(3)	(8)	(101)	(102)	-	(45)	(420)
Operating and other income:									
From external sources	124	24	25	-	12	18	6	7	216
Inter-segmental	-	(16)	-	-	-	-	-	-	(16)
Total income	579	10	23	2	109	202	6	40	971
Provisions for doubtful debts	93	-	-	(2)	42	26	-	(1)	158
Operating and other expenses:									
External	227	7	15	1	28	128	4	23	433
Inter-segmental	-	-	-	-	-	-	-	-	-
Operating profit before taxes	259	3	8	3	39	48	2	18	380
Tax provision on operating profit	94	1	4	1	14	15	1	5	135
Operating profit after taxes	165	2	4	2	25	33	1	13	245
Group's share in profits of companies included on the equity basis after taxes	-	1	-	-	-	-	-	-	1
Operating profit after taxes	165	3	4	2	25	33	1	13	246
Profit from extraordinary items after taxes	-	26	-	-	-	-	-	-	26
Net profit	165	29	4	2	25	33	1	13	272
% Return on equity									14.5%
Average balance of assets	28,082	284	31	324	6,019	13,896	-	2,950	51,586
Of which: investments in companies included on the equity basis	-	7	-	-	-	-	-	-	7
Average balance of liabilities	19,213	710	-	97	2,230	8,093	-	1,558	31,901
Average balance of risk assets	26,014	305	30	304	6,100	13,513	-	2,696	48,962
Average balance of mutual funds and supplementary training funds	-	-	2,806	-	-	-	36	-	2,842
Average balance of securities	-	-	40,368	-	-	-	2,967	-	43,335
Average balance of other assets under management	1,038	-	-	-	-	-	-	-	1,038
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 4,040 million, 8.3% as compared with the end of 2008, and total deposits of the public increased by NIS 586 million, 2.0%.

Main Changes in Net Profit

In the first half of 2009, net profit in the commercial banking segment totaled NIS 192 million, compared with NIS 272 million during the corresponding period in 2008, a decrease of 29.4%. The decrease in profit stems from a decrease in income of NIS 109 million, a net decrease in profit from extraordinary activities of NIS 26 million. Provisions for doubtful debts decreased in the amount of NIS 19 million. Of the decrease of NIS 80 million in net profit, some NIS 24 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	Credit cards	Capital market	Real estate	Overseas activities: Banking and finance	Overseas activities: Capital market	Overseas activities: Real estate	Total
	For the three months ending 30 June 2009							
	NIS millions							
Profit from net interest income:								
From external sources	**(84)**	**-**	**-**	**1**	**29**	**-**	**(1)**	**(55)**
Inter-segmental	**128**	**-**	**-**	**2**	**80**	**-**	**2**	**212**
Operating and other income:								
From external sources	**7**	**-**	**34**	**1**	**29**	**27**	**1**	**99**
Inter-segmental	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Total income	**51**	**-**	**34**	**4**	**141**	**27**	**2**	**259**
Provisions for doubtful debts	**1**	**-**	**-**	**-**	**(2)**	**-**	**-**	**(1)**
Operating and other expenses:								
External	**35**	**1**	**14**	**3**	**101**	**21**	**1**	**176**
Inter-segmental	**-**	**(1)**	**-**	**-**	**1**	**-**	**-**	**-**
Operating profit before taxes	**15**	**-**	**20**	**1**	**41**	**6**	**1**	**84**
Tax provision for operating profit	**4**	**-**	**7**	**-**	**14**	**2**	**-**	**27**
Net profit	**11**	**-**	**13**	**1**	**27**	**4**	**1**	**57**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activities: Banking and finance	Overseas activities: Capital Market	Total
	For the three months ending 30 June 2008						
	NIS millions						
Profit from net interest income:							
From external sources	(180)	-	-	(2)	2	-	(180)
Inter-segmental	214	-	-	2	71	-	287
Operating and other income:							
From external sources	7	1	28	1	20	30	87
Inter-segmental	1	-	-	-	3	-	4
Total income	42	1	28	1	96	30	198
Provisions for doubtful debts	-	-	-	-	(1)	-	(1)
Operating and other expenses:							
External	47	1	9	2	63	32	154
Inter-segmental	(1)	-	-	-	2	-	1
Operating profit (loss) before taxes	(4)	-	19	(1)	32	(2)	44
Tax provision (benefit) on operating profit	(1)	-	7	(1)	8	-	13
Operating profit (loss) after taxes	(3)	-	12	-	24	(2)	31
Profit from extraordinary items after taxes	-	3	-	-	-	-	3
Net profit (loss)	(3)	3	12	-	24	(2)	34

Private banking (cont'd.)

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas activities: Banking and finance	Overseas activities: Capital market	Overseas activities: Real estate	Total
	For the six months ending 30 June 2009							
	NIS millions							
Profit (loss) from net interest income:								
From external sources	**(171)**	**-**	**-**	**2**	**52**	**-**	**(2)**	**(119)**
Inter-segmental	**257**	**-**	**-**	**3**	**162**	**-**	**4**	**426**
Operating and other income:								
From external sources	**14**	**-**	**68**	**2**	**60**	**56**	**1**	**201**
Inter-segmental	**1**	**-**	**-**	**-**	**6**	**-**	**-**	**7**
Total income	**101**	**-**	**68**	**7**	**280**	**56**	**3**	**515**
Provisions for doubtful debts	**1**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**
Operating and other expenses:								
External	**73**	**1**	**28**	**4**	**199**	**43**	**2**	**350**
Inter-segmental	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Operating profit (loss) before taxes	**27**	**(1)**	**40**	**3**	**81**	**13**	**1**	**164**
Tax provision on operating profit	**9**	**(1)**	**13**	**1**	**28**	**4**	**-**	**55**
Operating profit (loss) after taxes	**18**	**-**	**27**	**2**	**53**	**9**	**1**	**109**
Minority interests in profits of consolidated companies	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**(2)**
Net profit (loss)	**18**	**(1)**	**27**	**2**	**51**	**9**	**1**	**107**
% Return on equity								**39.9%**
Average balance of assets	**1,404**	**51**	**-**	**366**	**9,169**	**-**	**53**	**11,043**
Average balance of liabilities	**24,540**	**-**	**-**	**711**	**16,128**	**-**	**306**	**41,685**
Average balance of risk assets	**1,663**	**50**	**-**	**335**	**5,933**	**-**	**52**	**8,033**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**2,475**	**-**	**-**	**1,258**	**-**	**3,733**
Average balance of securities	**-**	**-**	**29,159**	**-**	**-**	**27,866**	**-**	**57,025**
Average balance of other assets under management	**299**	**-**	**-**	**-**	**-**	**-**	**-**	**299**
Balance of credit to the public	**1,158**	**52**	**-**	**421**	**4,833**	**-**	**49**	**6,513**
Balance of deposits of the public	**23,977**	**-**	**-**	**712**	**16,178**	**-**	**295**	**41,162**

Private banking (cont'd.)

	Banking and finance in Israel	Credit cards	Capital market	Real estate	Overseas activities: Banking and finance	Overseas activities: Capital market	Total
	For the six months ending 30 June 2008						
	NIS millions						
Profit from net interest income:							
From external sources	(286)	-	-	(3)	(20)	-	(309)
Inter-segmental	358	-	-	5	159	-	522
Operating and other income:							
From external sources	16	1	59	2	49	70	197
Inter-segmental	1	-	-	-	7	-	8
Total income	89	1	59	4	195	70	418
Provisions for doubtful debts	-	-	-	-	(1)	-	(1)
Operating and other expenses:							
External	86	1	22	3	140	55	307
Inter-segmental	-	-	-	-	2	1	3
Operating profit before taxes	3	-	37	1	54	14	109
Tax provision on operating profit	-	-	14	-	17	6	37
Operating profit after taxes	3	-	23	1	37	8	72
Minority interests in profits of consolidated companies	-	-	-	-	(1)	-	(1)
Net operating profit	3	-	23	1	36	8	71
Profit from extraordinary items after taxes	-	3	-	-	-	-	3
Net profit	3	3	23	1	36	8	74
% Return on equity							27.3%
Average balance of assets	1,467	49	-	194	8,349	-	10,059
Average balance of liabilities	23,119	-	-	569	14,875	-	38,563
Average balance of risk assets	938	49	-	177	6,095	-	7,259
Average balance of mutual funds and supplementary training funds	-	-	3,183	-	-	1,920	5,103
Average balance of securities	-	-	29,711	-	-	34,503	64,214
Average balance of other assets under management	309	-	-	-	-	-	309
Balance of credit to the public as at 31 December 2008	1,292	50	-	291	4,805	-	6,438
Balance of deposits of the public as at 31 December 2008	23,098	-	-	719	14,240	-	38,057

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 75 million compared with the end of 2008, and total deposits of the public increased by NIS 3,105 million, 8.2%.

Main Changes in Net Profit

In the first half of 2009, net profit in the private banking segment totaled NIS 107 million, compared with NIS 74 million in the corresponding period in 2008, an increase of 44.6%. The increase in profit arises from an increase in income of NIS 97 million, 23.2%, which was partially offset by an increase in operating expenses in the amount of NIS 41 million, 13.2%. The increase of the net profit in private banking is divided equally between the activity in Israel and the activity overseas.

Return on equity of net profit was 39.9%.

General

As a consequence of the global economic crisis, the Board of Directors decided on 6 May 2009 to close the branch in Bulgaria. Similarly, in March 2009, the representative office in Rio de Janeiro in Brazil was closed.

6. Financial Management – Capital Markets

In the first half of 2009, the net profit in the financial management segment totaled NIS 48 million, compared with a loss of NIS 57 million in the corresponding period in 2008, an increase of NIS 105 million. The improvement in the profit stems from:

A decrease in operating and other expenses in the amount of NIS 343 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 311 million, primarily due to a decrease in market value of derivatives, and a decrease in the Group's portion of profits of companies included on the equity basis, from a profit of NIS 267 million in the first half of 2008 to losses of NIS 28 million in 2009, 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 amounted to NIS 1,862 million on 30 June 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	**30 June 2009**	31 December 2008	% change	**30 June 2009**	31 December 2008	24 August 2009
The Israel Corporation Ltd.	**1,137**	1,186	(4.1)	**2,918**	1,184	3,362
Paz Oil Company Ltd.	**525**	485	8.2	**836**	570	874
Others	**200**	171	17.0	**-**	-	-
Total	**1,862**	1,842	1.1	**3,754**	1,754	4,236

The contribution to Group profit of the companies included on the equity basis in the first half of

2009 amounted to a negative contribution of NIS 30 million, compared with a profit of NIS 280 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 six months ending 30 June		
	2009	2008	% change
The Israel Corporation Ltd.	**(68)**	197	-
Paz Oil Company Ltd.	**32**	71	(54.9)
Others	**6**	12	(50.0)
	(30)	280	-

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 proposed law for the amendment to section 24A of the Banking Law, see below. The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

The financial statements of Paz 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.

At the Bank's request, the Bank of Israel approved the sale of the Bank's holdings in Paz by 30 December 2010, subject to the Bank's holdings in Paz being transferred to a trustee. To this end, the Bank transferred its holdings to a trustee at the end of June 2009.

Migdal Insurance and Financial Holdings Ltd.

The Bank holds 9.85% of the issued and fully paid 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 the shares in Migdal 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 27 July 2009, the Knesset approved, in its first reading, a proposed Law for the Amendment of Section 24A of the Banking (Licensing) Law, which would provide that a corporation which is an insurer may operate in the insurance industry only. The Bank is holding discussions with the Bank of Israel regarding the effect of the said proposed amendment of the law on the Bank's holdings in the shares of Migdal Holdings.

7. 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 half of 2009, the profit in the "Others" segment amounted to NIS 10 million, compared with a loss of NIS 28 million in the corresponding period in 2008.
The following table sets out details of the main changes, in NIS millions:

	For the six months ending 30 June		
	2009	2008	Change in amount
Profit (loss) from extraordinary items	**28**	(2)	30
From operating activity at the Bank	**6**	5	1
Leumi Partners	**10**	18	(8)
Other companies in Israel	**(2)**	(3)	1
Overseas companies	**(5)**	(8)	3
Tax adjustments [(1)]	**(27)**	(38)	11
Total	**10**	(28)	38

(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 30 June 2009							
	NIS millions							
Profit (loss) from net interest income	**(1)**	**1**	**-**	**-**	**-**	**-**	**-**	**-**
Operating and other income	**128**	**5**	**13**	**6**	**34**	**19**	**29**	**234**
Total income	**127**	**6**	**13**	**6**	**34**	**19**	**29**	**234**
Operating and other expenses	**67**	**2**	**7**	**2**	**14**	**9**	**28**	**129**
Operating profit before taxes	**60**	**4**	**6**	**4**	**20**	**10**	**1**	**105**
Net profit (loss)	**39**	**3**	**4**	**3**	**13**	**5**	**(2)**	**65**

	Households	Small businesses	Commercial banking	Corporate banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ending 30 June 2008							
	NIS millions							
Profit (loss) from net interest income	1	-	(2)	-	-	-	-	(1)
Operating and other income	109	4	12	5	28	24	37	219
Total income	110	4	10	5	28	24	37	218
Operating and other expenses	62	2	7	3	9	10	37	130
Operating profit before taxes	48	2	3	2	19	14	-	88
Net profit	31	1	1	1	12	30	1	77

	Households	Small businesses	Commercial banking	Corporate banking	Private banking	Financial management and others	Overseas activities	Total
	For the six months ending 30 June 2009							
	NIS millions							
Profit from net interest income	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Operating and other income	**241**	**10**	**25**	**13**	**68**	**37**	**62**	**456**
Total income	**241**	**11**	**25**	**13**	**68**	**37**	**62**	**457**
Operating and other expenses	**145**	**5**	**17**	**7**	**28**	**21**	**54**	**277**
Operating profit before taxes	**96**	**6**	**8**	**6**	**40**	**16**	**8**	**180**
Net profit	**62**	**4**	**5**	**4**	**27**	**9**	**3**	**114**

	House-holds	Small businesses	Commercial banking	Corporate banking	Private banking	Financial Manage-ment and others	Overseas activities	Total
	For the six months ending 30 June 2008							
	NIS millions							
Profit (loss) from net interest income	1	1	(2)	-	-	-	-	-
Operating and other income	227	10	25	11	59	53	82	467
Total income	228	11	23	11	59	53	82	467
Operating and other expenses	142	4	15	6	22	19	61	269
Operating profit before taxes	86	7	8	5	37	34	21	198
Net profit	55	5	4	3	23	23	14	127

In the first half of 2009, net operating profit after taxes from capital market operations amounted to NIS 114 million, compared with NIS 127 million in the corresponding period in 2008, a decrease of 10.2%.

B. Credit Cards - Leumi Card

This activity includes mainly the issue 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 half of the year with a net profit of NIS 68 million, compared with NIS 82 million in the corresponding period in 2008. The decline in the net profit results from the profit from extraordinary items in the amount of NIS 17 million during the first half of 2008, from the sale of the company's share in Gamma Management and Clearing Ltd..

During the first half of 2009, the volume of activity of Leumi Card card holders increased by 2.5%, compared with the activity in the corresponding period in 2008. The number of valid cards increased by some 6.6% in the first half 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 30 June 2009					
	NIS millions					
Profit from net interest income	**34**	**2**	**2**	**6**	**-**	**44**
Operating and other income	**163**	**8**	**3**	**15**	**-**	**189**
Total income	**197**	**10**	**5**	**21**	**-**	**233**
Provision for doubtful debts	**5**	**-**	**-**	**-**	**-**	**5**
Operating and other expenses	**132**	**4**	**2**	**22**	**-**	**160**
Operating profit (loss) before taxes	**60**	**6**	**3**	**(1)**	**-**	**68**
Minority Interests	**(8)**	**-**	**-**	**-**	**-**	**(8)**
Net profit (loss)	**33**	**5**	**2**	**(1)**	**-**	**39**

	House-holds	Small businesses	Commercial banking	Corporate banking	Private banking	Total
	For the three months ending on 30 June 2008					
	NIS millions					
Profit from net interest income	25	2	1	4	-	32
Operating and other income	176	5	4	12	1	198
Total income	201	7	5	16	1	230
Provisions for doubtful debts	4	-	-	1	-	5
Operating and other expenses	117	5	3	17	1	143
Operating profit before taxes	80	2	2	(2)	-	82
Operating profit (loss) after taxes	53	1	1	(1)	-	54
Profit from extraordinary items after taxes	202	18	26	2	3	251
Net profit	255	19	27	1	3	305

	House-holds	Small businesses	Commercial banking	Corporate banking	Private banking	Total
	For the six months ending on 30 June 2009					
	NIS millions					
Profit from net interest income	**67**	**5**	**4**	**12**	**-**	**88**
Operating and other income	**322**	**14**	**7**	**27**	**-**	**370**
Total income	**389**	**19**	**11**	**39**	**-**	**458**
Provisions for doubtful debts	**12**	**-**	**-**	**1**	**-**	**13**
Operating and other expenses	**252**	**15**	**9**	**41**	**1**	**318**
Operating profit (loss) before taxes	**125**	**4**	**2**	**(3)**	**(1)**	**127**
Minority interests	**(14)**	**-**	**-**	**-**	**-**	**(14)**
Net profit (loss)	**72**	**3**	**1**	**(3)**	**(1)**	**72**

	House-holds	Small businesses	Commercial banking	Corporate banking	Private banking	Total
	For the six months ending on 30 June 2009					
	NIS millions					
Profit from net interest income	49	5	2	8	-	64
Operating and other income	333	11	8	19	1	372
Total income	382	16	10	27	1	436
Provisions for doubtful debts	7	-	-	1	-	8
Operating and other expenses	226	11	7	31	1	276
Operating profit (loss) before taxes	149	5	3	(5)	-	152
Operating profit (loss) after taxes	101	3	2	(4)	-	102
Leumi's share in profits of companies included on the equity basis, net	-	-	1	-	-	1
Profit from extraordinary items after taxes	202	18	26	2	3	251
Net profit (loss)	303	21	29	(2)	3	354

In the first half of 2009, net operating profit from credit card activity amounted to NIS 72 million, compared with NIS 103 million during the corresponding period in 2008, a decrease of 30.1%, resulting primarily, *inter alia*, from the reduction of the Bank's holdings in Leumi Card following the allocation of 20% of the Leumi Card shares to Canit – Investment and Finance Management Ltd.

C. Real estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ending on 30 June 2009					
	NIS millions					
Profit from net interest income	**48**	**195**	**48**	**3**	**9**	**303**
Operating and other income	**11**	**18**	**8**	**1**	**5**	**43**
Total income	**59**	**213**	**56**	**4**	**14**	**346**
Provision for doubtful debts	**4**	**(10)**	**5**	**-**	**1**	**-**
Operating and other expenses	**28**	**39**	**20**	**3**	**14**	**104**
Operating profit (loss) before taxes	**27**	**184**	**31**	**1**	**(1)**	**242**
Net profit	**18**	**118**	**20**	**1**	**-**	**157**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ending on 30 June 2008					
	NIS millions					
Profit from net interest income	44	137	46	-	12	239
Operating and other income	12	9	6	1	6	34
Total income	56	146	52	1	18	273
Provision for doubtful debts	4	32	42	-	(1)	77
Operating and other expenses	21	23	15	2	12	73
Operating profit (loss) before taxes	31	91	(5)	(1)	7	123
Net profit (loss)	19	57	(3)	-	5	78

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the six months ending on 30 June 2009					
	NIS millions					
Profit from net interest income	**91**	**352**	**91**	**5**	**27**	**566**
Operating and other income	**22**	**31**	**15**	**2**	**7**	**77**
Total income	**113**	**383**	**106**	**7**	**34**	**643**
Provision for doubtful debts	**14**	**54**	**10**	**-**	**6**	**84**
Operating and other expenses	**42**	**56**	**29**	**4**	**27**	**158**
Operating profit before taxes	**57**	**273**	**67**	**3**	**1**	**401**
Net profit	**37**	**175**	**43**	**2**	**3**	**260**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the six months ending on 30 June 2008					
	NIS millions					
Profit from net interest income	90	271	97	2	28	488
Operating and other income	24	24	12	2	9	71
Total income	114	295	109	4	37	559
Provision for doubtful debts	4	34	42	-	(1)	79
Operating and other expenses	40	47	28	3	23	141
Operating profit before taxes	70	214	39	1	15	339
Net profit	44	135	25	1	11	216

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 first half			For the first half		
	2009(1)	2008(1)	Change	**2009**(2)	2008(2)	Change
	NIS millions		%	NIS millions		%
The Bank	**612**	650	(5.8)	**486**	956	(49.2)
Consolidated companies in Israel (3)	**240**	312	(23.1)	**240**	312	(23.1)
Overseas consolidated companies (4)	**119**	(50)	-	**245**	(356)	-
Companies included on the equity basis (3)	**(63)**	199	-	**(63)**	199	-
Net operating profit	**908**	1,111	(18.3)	**908**	1,111	(18.3)
Overseas subsidiaries' profit, in nominal terms (US$ millions) (5)	**21.4**	41.2	(48.1)	**21.4**	41.2	(48.1)

(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 profits of Leumi Real Holdings' due to a decrease in the contribution of Paz, and from a decrease in the Group's share of the profits of Leumi Card due to the sale of 20% of the company and from a decrease in the profits of Leumi Leasing and of Leumi Partners.

- The increase in the profit of overseas subsidiaries derives 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$ 21.4 million, a decrease of US$ 19.8 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 245 million, compared with a loss of NIS 356 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 119 million, as compared with a loss of NIS 50 million in the corresponding period in 2008, an increase of NIS 169 million, deriving mainly from positive exchange rate differentials in respect of the overseas investments due to the weakening of the shekel in relation to the foreign currencies.

Activities of Major Subsidiaries and Affiliates

General

The Bank 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 5,938 million on 30 June 2009, compared with NIS 5,561 million on 31 December 2008. The contribution to net operating profit during the first half of 2009 was NIS 240 million, compared with NIS 312 million in the corresponding period in 2008, a decrease of 23.1 %.

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

	Return on Group's investment		Contribution to Group's profit [1]		
	For the period ending 30 June				
	2009	2008	**2009**	2008	Change
	%		NIS millions		%
Leumi Mortgage Bank	**6.0**	5.9	**63.7**	58.8	8.3
Arab Israel Bank	**30.4**	30.1	**49.1**	47.5	3.4
Leumi Card	**19.9**	95.7	**54.2**	82.0	(33.9)
Leumi Partners [2]	**9.6**	11.4	**13.1**	23.0	(43.0)
Leumi Securities (previously Psagot – Ofek)	**3.1**	4.8	**0.7**	1.0	(30.0)
Leumi Real Holdings	**11.7**	29.3	**32.1**	71.6	(55.2)
Leumi Leasing and Investments	**3.7**	7.6	**15.1**	30.4	(50.3)
Others	**2.6**	3.4	**11.5**	14.7	(21.8)
Total consolidated subsidiaries in Israel	**8.6**	12.9	**239.5**	329.0	(27.2)

(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.

Bank Leumi Mortgage Bank Ltd.

On 30 June 2009, Leumi Mortgage Bank issued 44,220 shares of NIS 1 par value each to the Bank, for a consideration of some NIS 100 million.

The following table presents data on new loans granted and loans refinanced for the purchase of residential apartments, while pledging residential apartments:

	2009	2008	
	First Half Total	First Half Total	Change
	NIS millions		%
From Leumi Mortgage Bank funds	**3,639**	3,594	1.3
From Ministry of Finance funds:			
Loans	**35**	130	(73.1)
Standing loans	**2**	4	(50.0)
Total new loans	**3,676**	3,728	(1.4)
Refinanced loans	**1,200**	536	123.9
Total	**4,876**	4,264	14.4

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 4,401 million on 30 June 2009, compared with NIS 4,057 million on 31 December 2008.

During the first half of 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 119 million, compared with a loss of NIS 51 million in the corresponding period in 2008, as detailed below.

	For the first half	
	2009	2008
	NIS millions	
Operating profits of the subsidiaries in shekels (the Group's share)	**67**	109
Exchange rate differentials in respect of the investment	**178**	(466)
Total	**245**	(357)
Exchange rate differentials in respect of the net cost of financing sources, after taxes	**(126)**	306
Total contribution of the subsidiaries (after offsetting net financing sources)	**119**	(51)

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

	Return on the Group's investment		Contribution to the Group's profit(*)		
	For the period endiing 30 June				Change
	2009	2008	**2009**	2008	
	%		NIS millions		%
Leumi USA (BLC)	**4.0**	-	**48.6**	(37.9)	-
Leumi UK	**18.2**	-	**50.1**	(2.8)	-
Leumi Switzerland	**2.9**	-	**7.9**	(1.9)	-
Leumi Luxembourg	**79.9**	-	**5.1**	(4.0)	-
Leumi Re	**-**	12.7	**(2.8)**	6.4	-
Leumi Romania	**2.4**	-	**5.1**	(5.9)	-
Others	**7.8**	-	**4.9**	(4.8)	-
Total overseas consolidated subsidiaries	**5.7**	-	**118.9**	(50.9)	- -

(*) 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 (126) million (NIS 306 million in 2008). The following are some of the sums that were offset:

Leumi USA - NIS (47) million in 2009, compared with NIS 190 million in 2008.
Leumi UK - NIS (64) million in 2009, compared with NIS 63 million in 2008.
Leumi Switzerland - NIS (10) illion in 2009, compared with NIS 11 million in 2008.
Leumi Romania - NIS 3 million in 2009, compared with NIS18 million in 2008.

The increase in the contribution to profit derives mainly from the effect of the depreciation of the shekel in relation to most currencies. The effect of the exchange rate differentials was to increase pre-tax profit by NIS 178 million during the first half of 2009, compared with a reduction of pre-tax profit by NIS 466 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 126 million during the first half of 2009, compared with income of NIS 306 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:

	For the six months ending 30 June		
	2009	2008	Change
	NIS millions		%
Leumi USA (BLC) (US$)	**4.6**	20.0	(77.0)
Leumi (UK) (£)	**4.0**	4.6	(13.0)
Leumi Switzerland (CHF)	**4.0**	2.4	66.7
Leumi Luxembourg (€)	**1.0**	0.6	66.7
Leumi Re (US$)	**(0.9)**	3.4	(126.5)
Leumi Romania – Ron	**8.6**	5.0	72.0

The nominal profit of the overseas consolidated subsidiaries as reported by them totaled US$ 18.8 million during the first half of 2009, compared with US$ 39.6 million in the corresponding period in 2008, a decrease of 52.5%.

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 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 1,862 million on 30 June 2009, compared with NIS 1,842 million on 31 December 2008.

During the first half of 2009, the contribution to net profit amounted to a negative contribution of some NIS 30 million, compared with a profit of some NIS 280 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 overall management of the group's exposures.

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

	30 June 2009	31 December 2008
	NIS millions	
Capital requirement in respect of		
Interest risks	**400**	333
Share price risk	**15**	4
Exchange rate risk	**144**	78
Inflation risk	**82**	17
Options	**82**	61
Total capital requirement in respect of market risks	**723**	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.

The Bank uses an economic approach in managing basis exposure. Accordingly, there is no strict adherence to the accounting classification as presented in the Note on assets and liabilities according to linkage basis, but makes adjustment while taking into account the economic reality. In its ongoing management of the exposure, the Bank takes into consideration the inconsistency that is sometimes created, with the objective of hedging the impact on the reported accounting profit.

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)	**30 June 2009**	30 June 2008	31 December 2008
Unlinked	50% - (100%)	**9.3**	(2.1)	(25.0)
CPI-linked	100% - (50%)	**(9.6)**	2.7	26.1
Foreign currency*	25% - (10%)	**0.3**	(0.6)	(1.1)

* Excluding CPI/shekel options embedded in financial instruments. Taking into account the delta exposure for these options, the CPI-linked deficit for 30 June 2009 is reduced by 19%, and the CPI-linked surplus for 30 June 2008 and 31 December 2008 is reduced by 15% and by 11% respectively.

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

During the first half of 2009, the percentage of the exposed capital that was invested in the CPI-linked sector fluctuated between a surplus of 24% to a deficit of some 10%, with an average surplus of some 9%. A relatively low volume of capital was channeled to the foreign currency and foreign-currency-linked sector, and therefore the effect of the change in exchange rates did not materially affect the profits.

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 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 half of 2009 is presented on page 83, in the context of the contribution of the overseas consolidated subsidiaries to Group profit.

During the first six 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 30 June 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	10	7	3	(3)	3
Increase of 10% in exchange rate	36	24	5	(5)	3
Decrease of 5% in exchange rate	(4)	13	0	3	(3)
Decrease of 10% in exchange rate	(24)	30	(0)	5	(6)

These data do not take into account the effect of changes 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 would reduce 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 the average durations of the assets, liabilities and capital in each sector are monitored and analyzed. In addition, in each sector, a measurement is made of the exposure to changes in interest relating to the potential erosion of the economic value and the annual accounting profit in consequence of a shift of the yield curves in each of the sectors. During the first half of 2009, the Group complied with all the interest exposure limits set by the Board of Directors.

The following table presents the exposure to interest changes at the Group level, calculated according to accounting principles, and in accordance with the presentation in Exhibit C of the Management Review – i.e., the presentation of the current value of future cash flows that extend until the maturity date or the interest adjustment date.

For detailed data on interest exposure, see Exhibit C to the Management Review below.

	30 June 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)]	**0.36**	**3.35**	**0.59**	0.45	3.33	0.55
of liabilities [(1)]	**0.36**	**4.42**	**0.33**	0.37	4.18	0.39
The gap in duration in years	**-**	**(1.07)**	**0.26**	0.08	(0.85)	0.16
Difference in the internal rate of return (%)	**0.3**	**0.53**	**1.51**	1.53	0.97	1.67

(1) Excluding forward transactions and options.

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 4.43 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 30 June 2009, according to the original cash flow, without taking into account early repayments, is longer, and reaches 3.59 years, and the IRR gap amounts to 0.55%.

Current account balances are presented in Exhibit C 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 a periodic basis. Taking into account the above assumptions, the average duration of liabilities is longer and reaches 0.58 years in unlinked shekels and 0.48 years in foreign currency, with the IRR gap reaching 1.65% and 1.88% 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[1]			Potential erosion of annual profit**		
Effect of a parallel change of 1% in the interest curve:	**30 June 2009**	30 June 2008	31 December 2008	**30 June 2009**	30 June 2008	31 December 2008
Actual	**561**	146	321	**366**	303	320
Limit	**1,000**	1,000	1,000	**600**	700	600

* In a direction that causes harm to the Bank.

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

During the first half of 2009, the potential erosion of the economic value and annual profit ranged between NIS 321 million in December 2008 to NIS 561 million in June 2009, and between NIS 255 million in April 2009 and NIS 366 million in June 2009, respectively.

The potential erosion of the economic value of the capital resulting from a 1% change in interest rates increased in the first half of 2009 by some NIS 240 million, and totalled NIS 561 million at the end of June 2009.

The potential erosion of the accounting profit resulting from a 1% change in interest rates increased from the beginning of the year by some NIS 46 million and totalled NIS 366 million at the end of June 2009.

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

The following table illustrates the impact of hypothetical changes in the interest rates on the economic value of the financial instruments of the Bank and consolidated companies, excluding non-financial items:

Change in economic value[1] after the impact of changes in interest rates, as at 30 June 2009, in NIS millions:

	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency					
	Un-linked	CPI-linked	Dollar	Euro	Pound Sterling	Swiss Franc	Yen	Others
Immediate parallel increase of 1%	25.9	412.5	67.1	(44.2)	(8.9)	(13.1)	0.9	(2.8)
Immediate parallel increase of 0.1%	1.5	40.8	5.9	(4.5)	(1.2)	(1.5)	0.1	(0.4)
Immediate parallel decrease of 1%	(12.6)	(458.3)	(77.9)	45.8	10.1	13.9	(0.6)	3.0

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

The economic value is, as stated, defined as the difference between the current values of the assets and liabilities. In calculating the current value, the cash flows are deducted from the credit risk free yield curve.

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. As stated above, the Bank's VaR is calculated every two weeks and with a probability of 99%. After two weeks, the backtesting process examines the theoretical change in the Bank's value, assuming that the positions do not change and that the only changes are those in the market prices.

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 (in order 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**		
	30 June 2009	30 June 2008	31 December 2008	**30 June 2009**	30 June 2008	31 December 2008
Actual	**367**	236	243	**103**	176	204
The limit	**600**	700	600	**500**	500	500

The VaR of the economic value ranged between a maximum of NIS 389 million in May of 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 103 million in June 2009.

During the first six 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 principles at the basis of the model propose that in so far as there are more liquid assets (such as cash, deposits at the Bank of Israel, a realizable debenture portfolio and credit, the repayment of which is expected) than there are liabilities that are expected to be realized pursuant to the model, so does the Bank secure its ability to meet all its liquidity needs. For this purpose, the assets are classified according to their level of liquidity, while liabilities are classified according to the probability of their realization.

The rate of the change in the balance of deposits and credit for all payment periods, under different scenarios, is established according to different parameters in accordance with the level of the scenario's severity. The behavioral functions are defined on the basis of the judgment of the business elements, exercised with the assistance of historical data; these take into consideration parameters such as the size and substance of the deposit according to which the expected cash flows are calculated.

It should be noted that the stress scenarios are more severe than anything that the Bank has experienced in the past and the assumptions of these scenarios are therefore necessarily based more on the judgement of the senior professional elements at the Bank than on any historical data.

The liquidity management policy at Group level is based on the two 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 as part 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 six 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 189-202 of the Annual Report for 2008.

The Bank's credit policy is based on the spreading of risks and their supervised management. This is affected 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 Bank's specialized subsidiaries in Israel and abroad, but these subsidiaries delineate the policy in the market segments under their management, 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, in the event of a deviation from that policy, 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, in order to improve credit risk management, and also to adjust to regulatory requirements, the Bank has established independent units to manage credit risks. These units carry 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 supervision of and to intensify of the monitoring of 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 on 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 on the ability of weak companies to raise funds.

The Bank is aware of the adverse effect of the exposure to changes in the exchange rates, especially on 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 and collateral 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 made before transactions are executed and, during the life of the credit examines the possibility of customers failing to comply with its conditions. Where necessary the Bank attempts to strengthen its position, by way of capital injection or by strengthened collateral from the owners.

The Bank examines and updates risk ratings and adjusts such ratings to the borrowers' situations on an ongoing basis, paying particular attention to customers who are exposed to the effects of declines in demand for consumer products and to changes in activity in the real estate sectors, and to customers in certain other 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 creation 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:

	30 June 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	39,390	24,828	14,562	-	-	-	-	2,912
Securities	56,944	31,338	19,634	-	5,928	155	(111)	10,164
Securities borrowed or purchased under buy-back agreements	1,081	1,002	-	-	79	-		79
Credit to the public	207,547	13,535	941	14,639	178,432	-		185,940
Credit to the government	452	437	-	-	15	-		15
Investments in companies included on the equity basis (a)	1,862	-	-	-	1,786	-	76	1,786
Buildings and equipment	3,528	-	-	-	3,528	-	-	3,528
Other assets	8,875	809	3,398	-	4,370	-	298	5,050
Total assets	319,679	71,949	38,535	14,639	194,138	155	263	209,474

	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 30 June 2009, in NIS millions:

	Secured by government securities	Secured by bank securities	Secured by deposits	Covered by bank guarantees	Covered by foreign trade risk insurance
Cash and deposits with banks	**-**	**-**	**-**	**-**	**158**
Credit to the public	**1,003**	**24**	**12,566**	**734**	**14**
Other assets	**12**	**-**	**121**	**1**	**-**
Book value of transactions in which the balance represents a credit risk.	**198**	**-**	**2,264**	**451**	**4**
Book value of derivatives	**78**	**-**	**552**	**2**	**-**

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 foreign trade 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 Bank of Israel directives.

3. Credit risk in derivatives activity

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

	30 June 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	**96,056**	**24,420**	**2,469**	**1,039**	**-**	**20,912**	**21,120**
Derivatives	**258,585**	**26,287**	**630**	**16,552**	**-**	**9,105**	**12,415**
Others	**1,209**	**121**	**-**	**-**	**-**	**121**	**121**
Total off-balance-sheet instruments	**355,850**	**50,828**	**3,099**	**17,591**	**-**	**30,138**	**33,656**

	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	250,939	25,472	448	15,987	-	9,037	12,234
Others	1,595	159	-	-	-	159	159
Total off-balance-sheet instruments	348,807	50,883	3,318	17,277	-	30,288	33,743

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 30 June 2009):

	AAA to AA-	A+	A	A-	BBB to BBB-	Below B-	Unrated	Total
Overseas Banks	In NIS millions							
Euro zone[1]	**215**	**145**	**109**	**205**	**2**	**-**	**9**	**685**
United Kingdom [2]	**327**	**477**	**384**	**66**	**14**	**-**	**-**	**1,268**
United States	**8**	**134**	**155**	**3**	**-**	**-**	**-**	**300**
Other	**15**	**133**	**10**	**-**	**-**	**-**	**-**	**158**
Total overseas banks	**565**	**889**	**658**	**274**	**16**	**-**	**9**	**2,411**
Israeli banks [3]	**5**	**176**	**-**	**134**	**490**	**-**	**20**	**825**

Corporate customers according to branches of the economy	
Financial services[4]	**685**
Industry[5]	**702**
Construction and real estate	**246**
Transportation and storage	**149**
Trade	**122**
Electricity and water	**200**
Business services	**9**
Private individuals	**33**
Communications and computer services	**52**
Others	**13**
Total corporate customers	**2,211**
Others*	**223**
Total exposure	**5,670**

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

(1) This amount includes transactions in 6 countries.
(2) This amount includes transactions with 22 banks.
(3) This amount includes transactions with 13 banks.
(4) This amount includes transactions with 174 customers, where the highest amount for a single customer is NIS 72 million.
(5) This amount includes transactions with 246 customers, where the highest amount for a single customer is NIS 482 million.

Credit exposure to overseas financial institutions

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

	As at 30 June 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-	**3,573**	**3,551**	**1,562**	**8,686**
A+ to A-	**11,171**	**11,044**	**6,331**	**28,546**
BBB+ to BBB-	**556**	**488**	**71**	**1,115**
BB+ to B-	**303**	**26**	**19**	**348**
Below B	**15**	**2**	**-**	**17**
Unrated	**701**	**264**	**108**	**1,073**
Total current credit exposure to overseas financial institutions	**16,319**	**15,375**	**8,091**	**39,785**
Problem loan balances	**4**	**205**	**-**	**209**

	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

See footnotes on next page.

(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 30 June 2009, was NIS 2,873 million, and as at 31 December 2008, was 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 which there exists 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 vis-à-vis 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 their exposure.

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 45.

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 their 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 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 exposure to foreign countries is the exposure to customers who operate in these countries.

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 30 June 2009:

Rating	Balance sheet exposure	Off-balance-sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which, problematic
OECD countries	65,181	34,057	99,238	95.30	2,094
High-income countries	1,236	199	1,435	1.40	14
Countries with mid-high income	2,266	466	2,732	2.60	16
Countries with mid-low income	467	261	728	0.70	2
Countries with low income	4	18	22	-	-
Total	69,154	35,001	104,155	100.00	2,126

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 429 millions and relates to 11 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 half of 2009, the Group's exposure in the CPI-linked sector fell from a surplus of some NIS 2.5 billion to a deficit of some NIS 1.3 billion. The deficit is mainly due to the raising of funds through issues of subordinated capital notes and to the surplus of repayments over grants of CPI-linked credit.

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

	As at 30 June 2009			As at 31 December 2008		
	Unlinked	CPI-linked	Foreign Currency(2)	Unlinked	CPI-linked	Foreign Currency(2)
	NIS millions					
Total assets (1)	**146,160**	**58,749**	**121,288**	139,574	60,377	117,153
Total liabilities (1)	**128,743**	**60,044**	**125,439**	125,563	57,920	123,266
Total exposure in sector	**17,417**	**(1,295)**	**(4,151)**(3)	14,011	2,457	(6,113)

(1) Including forward transactions and options.
(2) Including foreign-currency-linked.
(3) The short position arises mainly from a hedging transaction in respect of the investments in overseas subsidiaries and from the negative capital fund in respect of foreign debentures.

Funding and Liquidity Status

Liquidity Status

The Banking System -

During the first half of 2009, the Bank of Israel increased the net volume of *Makam* tenders by some NIS 1 billion, to a level of some NIS 72 billion.

The volume of the banking system's balances with the Bank of Israel (current account balances and monetary deposits) at the end of June 2009 stood at some NIS 78 billion, compared with some NIS 54 billion and some NIS 44 billion at the end of the year's first quarter and at the end of 2008, respectively.

The volume of these balances during the second quarter of 2009 stood at an average of some NIS 66 billion, compared with an average of some NIS 43 billion during the first quarter of the year.

The volume of Leumi's balances with the Bank of Israel at the end of June 2009 stood at some NIS 19 billion, compared with NIS 12 billion and some NIS 13 billion at the end the first quarter of 2009 and at the end of 2008, respectively.

The average volume of Leumi's balances in the second quarter of 2009 stood at some NIS 15 billion, as compared with an average of some NIS 13 billion in the first quarter of the year.

The significant increase in the banking system's and in Leumi's balances during the first half of 2009 result from, *inter alia*, the following actions taken by the Bank of Israel:

As of March 2008, the Bank of Israel carried out a program to increase the levels of the foreign currency balances through purchases of US dollars. Since July 2008, the rate of foreign currency purchases stood at US$ 100 million every day from Monday through Thursday, and at US$ 50 million every Friday. In addition on 3 August, the Bank of Israel announced that it would in the future operate in the foreign currency market in the event of unusual movements in the exchange rate which do not conform to the basic economic conditions or when the foreign currency market is not functioning properly, or when conditions in the foreign exchange market are disorderly. On 10 August 2009, the Bank of Israel announced that it was ending the program of fixed daily purchases of US$ 100 million.

As of 17 February 2009, the Bank of Israel acted in the open market, carrying out transactions in government debentures in the secondary market. According to the Bank of Israel's announcement at the end of March 2009, shekel and CPI-linked government debentures have been purchased at a rate of some NIS 200 million per day, up to an aggregate amount of NIS 15-20 billion. On 7 July, the Bank of Israel announced that on 5 August it would discontinue the purchase of government debentures in the secondary market and that it did not intend to sell the securities that it had purchased.

The Bank -

The structure of the Bank's assets and liabilities continues to indicate a high level of liquidity. This is the result of a deliberate policy of raising stable and diversified sources, while placing importance on the raising of deposits from a large number of customers, for varying periods of time, including long term. The high level of liquidity also reflects the expansive monetary policy implemented by the Bank of Israel. Some 41% 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 64.9 billion.

The Bank also has a securities portfolio of some NIS 48.5 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 39.0% of the Bank's total assets as at 30 June 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 June 2009 was 59.8%, 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.

Both shekel and foreign currency deposits of the public grew during the second quarter of 2009. This increase included the raising of some NIS 1 billion in subordinated capital notes (upper Tier II capital), and in addition, the issue of CPI-linked subordinated capital notes in the amount of some NIS 1.5 billion. During this period, funds were diverted from short-term deposits to current accounts, apparently in light of the low interest rates. The increase in deposits of the public contributed to an increase in shekel liquidity surpluses and these surpluses were used to enlarge the government debenture portfolio. In foreign currency, there was an increase in the debentures portfolio, in place of deposits in overseas banks.

For additional details regarding the liquidity status, see the Risk Management section on page 91.

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, the first half of 2009 was marked by a slow return to the capital market.

The balance of deposits of the public at the Bank rose during the first half of 2009 by NIS 8.7 billion, 3.9%. After neutralizing the impact of changes in the shekel's exchange rate against foreign currencies, deposits of the public grew by 2.5%.

During the months of 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 1.5 billion.

In August 2009, Leumi Finance issued some NIS 2 billion of subordinated capital notes which are classified as upper Tier II capital. Of this, NIS 1 billion is CPI-linked with fixed interest of 5%, and NIS 1 billion is in unlinked shekels, with floating interest with a par of 2% above the annual yield on *Makam* bills.

The capital notes were issued for a period of 50 years, with the issuer having an option for early repayment each year after the end of 11 years, upon the fulfillment of certain conditions.

During the first half of 2009, the balance of credit to the public dropped by some NIS 7.0 billion, a decrease of 4.8%. The decrease was in all sectors. After neutralizing the impact of changes in the shekel's exchange rate against foreign currencies, credit decreased by 5.5%.

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 instructions by the central banks.

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 also published a set of questions and answers on the Bank of Israel website, updated as of June 2009, presenting the Supervisor's position regarding various issues and clarifications that had been raised by 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 is 10.5%, compared with 11.6% according to Basel I. An additional report as of 31 March 2009 was sent to the Bank of Israel on 14 June 2009, and according to the initial calculations, the capital adequacy ratio is 10.6%, compared with 11.9% according to Basel I. A significant part of the gap is the result of the negative capital fund as of the end of March 2009.

The Leumi Group's Preparations

Since 2006, the Leumi Group has been preparing for the implementation of the Basel II directives 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 of the Bank of Israel have been studied and gap analyses prepared on their basis.

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

3. The infrastructure systems have been adapted, 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 adjusted to 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 the 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, for calculating the capital requirements and 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 approach (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 are collected in the ICAAP document. A first draft of the document was submitted to the Bank of Israel on 1 July 2009, and the annual document is expected to be submitted shortly after the publication of the 2009 Annual Report.

On 10 June 2009, the Supervisor of Banks published a draft consultation document on the subject of "The Chief Risk Management Officer and the Risk Management Function." The document details the Banking Supervision Department's requirement to appoint and establish the above-mentioned functions within the banking corporations, through the determination of their principles, rules and responsibility. The banking corporations were asked to respond to the draft during the course of the third quarter of 2009, during the course of which discussions on the subject are to be held with each banking corporation.

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 202 million as at 30 June 2009), other than 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 half 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 letter of demand 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 the officers of the Bank (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 their 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.

The Bank has rejected the demand. In light of the rejection of the demand, the shareholder may apply to the Court to obtain approval for the filing of the above-mentioned claim in the Bank's name.

D. Additional Matters

Leumi for the Community - Social Involvement

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

For the first time, the report covered the Group's five most significant subsidiaries. The report was rated A+ by GRI. The report details Leumi's social and environmental investment, as well as the subjects of corporate governance and business ethics.

Maala's Rating - Maala's corporate responsibility rating for 2009 was published at the beginning of June 2009. Leumi was rated in the highest rating group, and was noted as excelling in the area of corporate governance.

Leumi's community-oriented activity 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 this organization invests:

***Kamcha de'Pascha* 2009** – Through this campaign, which took place at the beginning of April 2009, some 2,000 food packages were distributed to needy families throughout the country. Contributions for this activity were received from employees and customers of the Bank and subsidiaries, from the organization's own contribution and through collaboration with *Yediot Ahronot,* through which the campaign received public exposure and the newspaper's readers were asked to join and to contribute.

Scholarship Fund -Agreements were signed with 27 academic institutions throughout the country, and up till now, more than NIS 1.7 million has been transferred for scholarships for exceptional students from disadvantaged socio-economic backgrounds.

"Young Entrepreneurs – Established by Leumi"

As part of its conception of social involvement, the Group participates in and is involved in the "Young Entrepreneurs" organization. "Young Entrepreneurs" is an international initiative which involves millions of young people each year from more than one hundred countries throughout the world. In Israel, more than 4,000 young people from all population groups and sectors take part in the program.

In June 2009, the national competition for young entrepreneurs was held, at which a winner was chosen to represent Israel in the European competition which was held in Rotterdam at the beginning of July. The Israeli representative won first place in the competition for most impressive presentation, out of 32 participating European groups.

This year (the 2008-2009 school year), some 180 groups of young people participate in the program, in which they learn about establishing and managing a business while gaining experience in business entrepreneurship.

Summary of Leumi's Donations and Sponsorships During the First Half of 2009

During the first half of 2009, the Leumi Group donated and provided sponsorships for social welfare and community purposes in the amount of some NIS 14.2 million, of which the donations totaled some NIS 11.4 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.

The Chief Internal Auditor's annual report for 2008 regarding the subsidiaries was submitted on 2 June 2009 and was discussed by the Audit Committee on 7 June 2009.

Controls and Procedures Regarding Disclosure in 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 30 June 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)

The Supervisor of Banks has 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, 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 checking 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 improvement, response by the management 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 half of 2009, and up to the date of publication of the Report, the following changes took place in the composition of the Board of Directors:

At the Annual General Meeting held on 16 July 2009, Mr. Reuven Adler was chosen to serve as an external director for a period of three years, from 24 July 2009, in place of Mr. Meir Dayan who concluded his second term of office in accordance with the Companies Law, 1999, on 23 July 2009. Mr. Dayan contributed much to the advancement of the business of the Bank and to its betterment. Ms. Zipora Gal Yam, and Messrs Arieh Gans, Doron Cohen and Efraim Sadka who retired by rotation and offered themselves for re-election, were all re-elected.

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, in accordance with the approval of the Bank's shares committee.

At the meeting of the Board of Directors held on 30 August 2009, it was resolved to approve and publish the Group's condensed unaudited consolidated Financial Statements as at 30 June 2009 and for the periods ending on that date.

During the period of January to June 2009, the Board of Directors held 17 plenary meetings and 85 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 business.

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

30 August 2009

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

	For the three months ended 30 June							
	2009				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)	**133,315**	**1,008**	**3.06**		108,226	1,463	5.51	
Effect of embedded and ALM derivatives (e)	**38,561**	**83**			42,615	94		
Total assets	**171,876**	**1,091**		**2.56**	150,841	1,557		4.20
Liabilities (d)	**120,118**	**(210)**	**(0.70)**		108,986	(738)	(2.75)	
Effect of embedded and ALM derivatives (e)	**32,866**	**(33)**			30,463	(2)		
Total liabilities	**152,984**	**(243)**		**(0.64)**	139,449	(740)		(2.15)
Interest margin			**2.36**	**1.92**			2.76	2.05
Israeli currency – linked to the CPI								
Assets (c) (d)	**57,815**	**1,728**	**12.50**		61,220	2,233	15.40	
Effect of embedded and ALM derivatives (e)	**3,468**	**50**			2,036	60		
Total assets	**61,283**	**1,778**		**12.12**	63,256	2,293		15.30
Liabilities (d)	**45,852**	**(1,283)**	**(11.67)**		44,476	(1,547)	(14.67)	
Effect of embedded and ALM derivatives (e)	**12,953**	**(395)**			11,553	(395)		
Total liabilities	**58,805**	**(1,678)**		**(11.91)**	56,029	(1,942)		(14.61)
Interest margin			**0.83**	**0.21**			0.73	0.69
Foreign currency – (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**110,432**	**(3,725)**	**(12.83)**		108,343	(5,272)	(18.07)	
Effect of derivatives: (e)								
Hedging derivatives	**2,770**	**1**			3,217	15		
Embedded derivatives and ALM	**119,815**	**(3,028)**			74,998	(3,574)		
Total assets	**232,517**	**(6,752)**		**(11.12)**	186,468	(8,831)		(17.63)
Liabilities (d)	**117,360**	**4,805**	**15.40**		106,935	5,606	19.36	
Effect of derivatives: (e)								
Hedging derivatives	**2,128**	**(1)**			2,944	(26)		
Embedded derivatives and ALM	**116,744**	**2,646**			78,298	3,783		
Total liabilities	**236,232**	**7,450**		**12.03**	188,177	9,363		18.46
Interest margin			**2.57**	**0.91**			1.29	0.83

See footnotes on page 115.

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

	For the three months ended 30 June							
	2009				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)		%	%
Total monetary assets generating interest Income (d) (f)	**301,562**	**(989)**	**(1.31)**		277,789	(1,576)	(2.24)	
Effect of derivatives: (e)								
Hedging derivatives	**2,270**	**1**			3,127	15		
Embedded derivatives and ALM	**161,844**	**(2,895)**			119,649	(3,420)		
Total assets	**465,676**	**(3,883)**		**(3.29)**	400,565	(4,981)		(4.88)
Total monetary liabilities generating interest expenses (d)	**283,330**	**3,312**	**4.59**		260,397	3,321	4.99	
Effect of derivatives: (e)								
Hedging derivatives	**2,128**	**(1)**			2,944	(26)		
Embedded derivatives and ALM	**162,563**	**2,218**			120,314	3,386		
Total liabilities	**448,021**	**5,529**		**4.85**	383,655	6,681		6.78
Interest margin			**3.28**	**1.56**			2.75	1.90
In respect of options		**19**				85		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**(10)**				(3)		
Financing commissions and other financing income (g)		**274**				160		
Other financing expenses		**(3)**				11		
Net interest income before provision for doubtful debts		**1,926**				1,953		
Provision for doubtful debts (including general and supplementary provision)		**(339)**				(316)		
Net interest income after provision for doubtful debts		**1,587**				1,637		
Monetary assets generating interest income (d) (f)	**301,562**				277,789			
Assets derived from derivative instruments (h)	**7,276**				7,447			
Other monetary assets (d)	**2,232**				2,328			
General provision and supplementary provision for doubtful debts	**(975)**				(845)			
Total monetary assets	**310,095**				286,719			
Monetary liabilities generating interest expenses (d)	**283,330**				260,397			
Liabilities derived from derivative instruments (h)	**7,859**				8,119			
Other monetary liabilities (d)	**8,175**				8,925			
Total monetary liabilities	**299,364**				277,441			
Total monetary assets exceed monetary liabilities	**10,731**				9,278			
Non-monetary assets	**8,785**				11,180			
Non-monetary liabilities	**421**				509			
Total capital resources	**19,095**				19,949			

See footnotes on page 115.

(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 and six month periods amounts to NIS 201 million and 235 million respectively (June 30 2008 - NIS 61 million and 60 million respectively).

The linked Israeli currency sector for the three month and six month periods amounts to NIS 240 million and 187 million respectively (June 30 2008 - NIS 183 million and 138 million respectively).

The foreign currency sector (which includes Israeli currency linked to foreign currency) for the three month and six month periods amounts to NIS (2,344) million and (2,279) million respectively (June 30 2008 - NIS (887) million and (653) million respectively).

(d) Excluding derivative instruments.

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

(f) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been added to the average balance of the assets in the various sectors.
The three month periods amounts and six month periods amounts to NIS 1,903 million and 1,857 million respectively (June 30 2008 - NIS (643) million and 455 million respectively).

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

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

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

Exhibit A (Cont'd)

	For the three months ended 30 June							
	2009				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
	($ millions)		%	%	($ millions)		%	%
Foreign currency:								
Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**16,110**	**99**	**2.49**		19,896	193	3.94	
Effect of derivatives: (e)								
Hedging derivatives	**548**	**6**			900	3		
Embedded derivatives and ALM	**28,779**	**2**			21,496	92		
Total assets	**45,437**	**107**		**0.95**	42,292	288		2.76
Liabilities (d)	**19,151**	**(43)**	**(0.90)**		21,044	(129)	(2.48)	
Effect of derivatives: (e)								
Hedging derivatives	**513**	**(19)**			848	(6)		
Embedded derivatives and ALM	**28,032**	**(6)**			22,419	(73)		
Total liabilities	**47,696**	**(68)**		**(0.57)**	44,311	(208)		(1.89)
Interest margin			**1.59**	**0.38**			1.46	0.87
Foreign currency – Foreign operations (integrated operations)								
Assets (c) (d)	**10,399**	**102**	**3.99**		11,044	140	5.16	
Effect of embedded and ALM derivatives (e)	**86**	**-**			96	1		
Total assets	**10,485**	**102**		**3.97**	11,140	141		5.13
Liabilities (d)	**9,060**	**(39)**	**(1.75)**		9,559	(83)	(3.50)	
Effect of embedded and ALM derivatives (e)	**88**	**-**			133	2		
Total liabilities	**9,148**	**(39)**		**(1.73)**	9,692	(81)		(3.36)
Interest margin			**2.24**	**2.24**			1.66	1.77
Total:								
Monetary assets in foreign currency generating financing income (c) (d)	**26,509**	**201**	**3.07**		30,940	333	4.38	
Effect of derivatives: (e)								
Hedging derivatives	**548**	**6**			900	3		
Embedded derivatives and ALM	**28,865**	**2**			21,592	93		
Total assets	**55,922**	**209**		**1.51**	53,432	429		3.25
Monetary liabilities in foreign currency generating financing expense (d)	**28,211**	**(82)**	**(1.18)**		30,603	(212)	(2.80)	
Effect of derivatives: (e)								
Hedging derivatives	**513**	**(19)**			848	(6)		
Embedded derivatives and ALM	**28,120**	**(6)**			22,552	(71)		
Total liabilities	**56,844**	**(107)**		**(0.76)**	54,003	(289)		(2.15)
Interest margin			**1.89**	**0.75**			1.58	1.10

See footnotes on page 117.

(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$ 563 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.

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

	For the six months ended 30 June							
	2009				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)	**129,908**	**2,106**	**3.27**		106,675	3,030	5.76	
Effect of embedded and ALM derivatives (e)	**40,242**	**253**			43,624	242		
Total assets	**170,150**	**2,359**		**2.79**	150,299	3,272		4.40
Liabilities (d)	**120,024**	**(510)**	**(0.85)**		106,945	(1,517)	(2.86)	
Effect of embedded and ALM derivatives (e)	**32,952**	**(125)**			31,995	(37)		
Total liabilities	**152,976**	**(635)**		**(0.83)**	138,940	(1,554)		(2.25)
Interest margin			**2.42**	**1.96**			2.90	2.15
Israeli currency – linked to the CPI								
Assets (c) (d)	**58,718**	**2,001**	**6.93**		60,840	3,216	10.85	
Effect of embedded and ALM derivatives (e)	**3,366**	**120**			1,813	74		
Total assets	**62,084**	**2,121**		**6.95**	62,653	3,290		10.78
Liabilities (d)	**45,586**	**(1,466)**	**6.54**		44,663	(2,209)	(10.13)	
Effect of embedded and ALM derivatives (e)	**12,822**	**(841)**			11,742	(723)		
Total liabilities	**58,408**	**(2,307)**		**(8.06)**	56,405	(2,932)		(10.66)
Interest margin			**0.39**	**(1.11)**			0.72	0.12
Foreign currency – (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**108,841**	**6,004**	**11.34**		111,966	(10,792)	(18.35)	
Effect of derivatives: (e)								
Hedging derivatives	**2,282**	**1**			3,440	15		
Embedded derivatives and ALM	**112,768**	**3,114**			79,945	(7,959)		
Total assets	**223,891**	**9,119**		**8.31**	195,351	(18,736)		(18.27)
Liabilities (d)	**114,490**	**(5,170)**	**(9.24)**		111,529	12,007	20.37	
Effect of derivatives: (e)								
Hedging derivatives	**2,128**	**-**			3,244	(12)		
Embedded derivatives and ALM	**111,187**	**(3,059)**			82,058	7,935		
Total liabilities	**227,805**	**(8,229)**		**(7.36)**	196,831	19,930		19.23
Interest margin			**2.10**	**0.95**			2.02	0.96

See footnotes on page 115.

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

	For the six months ended 30 June							
	2009				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)		%	%
Total monetary assets generating interest Income (d) (f)	**297,467**	**10,111**	**6.91**		279,481	(4,546)	(3.23)	
Effect of derivatives: (e)								
Hedging derivatives	**2,282**	**1**			3,440	15		
Embedded derivatives and ALM	**156,376**	**3,487**			125,382	(7,643)		
Total assets	**456,125**	**13,599**		**6.05**	408,303	(12,174)		(5.88)
Total monetary liabilities generating interest expenses (d)	**280,100**	**(7,146)**	**(5.17)**		263,137	8,281	6.19	
Effect of derivatives: (e)								
Hedging derivatives	**2,128**	**-**			3,244	(12)		
Embedded derivatives and ALM	**156,961**	**(4,025)**			125,795	7,175		
Total liabilities	**439,189**	**(11,171)**		**(5.15)**	392,176	15,444		7.72
Interest margin			**1.74**	**0.90**			2.96	1.84
In respect of options		**74**				82		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**(7)**				(22)		
Financing commissions and other financing income (g)		**772**				598		
Other financing income (expenses)		**21**				(15)		
Net interest income before provision for doubtful debts		**3,288**				3,913		
Provision for doubtful debts (including general and supplementary provision)		**(693)**				(560)		
Net interest income after provision for doubtful debts		**2,595**				3,353		
Monetary assets generating interest income (d) (f)	**297,467**				279,481			
Assets derived from derivative instruments (h)	**8,450**				6,655			
Other monetary assets (d)	**2,238**				3,307			
General provision and supplementary provision for doubtful debts	**(959)**				(858)			
Total monetary assets	**307,196**				288,585			
Monetary liabilities generating interest expenses (d)	**280,100**				263,137			
Liabilities derived from derivative instruments (h)	**8,896**				7,172			
Other monetary liabilities (d)	**7,948**				8,891			
Total monetary liabilities	**296,944**				279,200			
Total monetary assets exceed monetary liabilities	**10,052**				9,385			
Non-monetary assets	**8,905**				11,069			
Non-monetary liabilities	**418**				541			
Total capital resources	**18,739**				19,913			

See footnotes on page 115.

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

Exhibit A (Cont'd)

	For the six months ended 30 June							
	2009				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
	($ millions)		%	%	($ millions)		%	%
Foreign currency:								
Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**16,433**	**236**	**2.90**		19,571	462	4.77	
Effect of derivatives: (e)								
Hedging derivatives	**564**	**10**			950	7		
Embedded derivatives and ALM	**27,659**	**97**			22,046	169		
Total assets	**44,656**	**343**		**1.54**	42,567	638		3.02
Liabilities (d)	**19,365**	**(104)**	**(1.07)**		20,835	(299)	(2.90)	
Effect of derivatives: (e)								
Hedging derivatives	**526**	**(9)**			896	(6)		
Embedded derivatives and ALM	**27,263**	**(54)**			22,627	(111)		
Total liabilities	**47,154**	**(167)**		**(0.71)**	44,358	(416)		(1.89)
Interest margin			**1.83**	**0.83**			1.87	1.13
Foreign currency – Foreign operations (integrated operations)								
Assets (c) (d)	**10,562**	**190**	**3.64**		11,178	302	5.47	
Effect of embedded and ALM derivatives (e)	**134**	**16**			80	2		
Total assets	**10,696**	**206**		**3.90**	11,258	304		5.47
Liabilities (d)	**8,988**	**(76)**	**(1.70)**		9,827	(190)	(3.90)	
Effect of embedded and ALM derivatives (e)	**148**	**-**			106	(2)		
Total liabilities	**9,136**	**(76)**		**(1.68)**	9,933	(192)		(3.91)
Interest margin			**1.94**	**2.22**			1.57	1.56
Total:								
Monetary assets in foreign currency generating financing income (c) (d)	**26,995**	**426**	**3.19**		30,749	764	5.03	
Effect of derivatives: (e)								
Hedging derivatives	**564**	**10**			950	7		
Embedded derivatives and ALM	**27,793**	**115**			22,126	171		
Total assets	**55,352**	**551**		**2.00**	53,825	942		3.53
Monetary liabilities in foreign currency generating financing expense (d)	**28,353**	**(180)**	**(1.27)**		30,662	(489)	(3.22)	
Effect of derivatives: (e)								
Hedging derivatives	**526**	**(9)**			896	(6)		
Embedded derivatives and ALM	**27,411**	**(54)**			22,733	(113)		
Total liabilities	**56,290**	**(243)**		**(0.87)**	54,291	(608)		(2.25)
Interest margin			**1.92**	**1.13**			1.81	1.28

See footnotes on page 121.

(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 $ 564 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.

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

Exhibit B

	30 June 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	1,799	350	2,149	16	199
Industry	22,321	14,093	36,414	96	2,876
Construction and real estate	35,734	17,812	53,546	103	7,328
Electricity and water	1,213	321	1,534	-	5
Commerce	14,685	3,242	17,927	(4)	1,319
Hotels and restaurants	3,916	338	4,254	17	1,628
Transport and storage	4,114	1,254	5,368	9	999
Communications and computer services	4,277	1,469	5,746	26	408
Financial services	12,735	6,387	19,122	142	1,929
Business and other services	4,596	1,344	5,940	20	482
Public and community services	6,351	1,009	7,360	4	337
Private individuals - loans for housing	41,980	2,052	44,032	(1)	882
Private individuals - other	22,415	25,074	47,489	139	1,124
	176,136	74,745	250,881	567	19,516
Activities of borrowers abroad	41,976	17,425	59,402	148	3,226
Total	218,112	92,170	310,283	715	22,742
Credit risk included within the various economic sectors:					
Settlement movements (d)	2,967	1,066	4,033	4	898
Local authorities (e)	3,179	151	3,330	-	165

(a) Including credit to the public in the amount of NIS 208,005 million, investments in debentures of the public in the amount of NIS 7,896 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 2,211 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 and balances of problematic debts are stated net of specific provisions for doubtful debts.

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

Exhibit B (Cont'd)

	30 June 2008				
	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	2,029	369	2,398	(33)	258
Agriculture	23,763	12,923	36,686	421	2,135
Industry	31,263	17,035	48,298	62	4,491
Construction and real estate	1,422	210	1,632	-	5
Electricity and water	15,707	4,033	19,740	(73)	1,374
Commerce	3,681	441	4,122	6	1,249
Hotels and restaurants	4,227	1,016	5,243	16	410
Transport and storage					
Communications and	4,414	1,496	5,910	16	332
computer services	18,286	5,847	24,133	9	1,304
Financial services	4,940	1,457	6,397	4	206
Business and other services	6,207	1,230	7,437	(2)	387
Public and community services					
Private individuals - loans for housing	38,445	2,438	40,883	65	908
Private individuals - other	22,043	23,596	45,639	61	1,341
	176,427	72,091	248,518	552	14,400
Activities of borrowers abroad	39,045	19,999	59,044	28	1,109
Total	215,472	92,090	307,562	580	15,509
Credit risk included within the various economic sectors:					
Settlement movements (d)	3,240	566	3,806	(34)	425
Local authorities (e)	3,370	160	3,530	-	156

(a) Including credit to the public in the amount of NIS 202,447 million, investments in debentures of the public in the amount of NIS 10,079 million and other assets in respect of derivative instruments which represent transactions of the public in the amount of NIS 2,946 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 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

* Reclassified.

(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 debts 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:

	30 June 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	**107,434**	**5,397**	**14,014**	**6,454**	**2,156**	**703**	**59**	**-**	**1,771**	**137,988**	**3.95**	**0.36**	5.52	0.45
Total liabilities	**98,710**	**5,608**	**8,352**	**6,016**	**2,962**	**504**	**197**	**69**	**339**	**122,757**	**3.95**	**0.36**	3.99	0.37
Difference	**8,724**	**(211)**	**5,662**	**438**	**(806)**	**199**	**(138)**	**(69)**	**1,432**	**15,231**	**0.30**	**-**	1.53	0.08
Effect of future transactions and special commitments	**749**	**(5,190)**	**3,925**	**885**	**307**	**209**	**(56)**	**-**	**-**	**829**				
Exposure to interest rate fluctuations in the sector	**9,473**	**(5,401)**	**9,587**	**1,323**	**(499)**	**408**	**(194)**	**(69)**	**1,432**	**16,060**				
Accumulated exposure in the sector	**9,473**	**4,072**	**13,659**	**14,982**	**14,483**	**14,891**	**14,697**	**14,628**	**16,060**	**16,060**				
Israeli currency – linked to the CPI														
Total assets	**1,973**	**3,914**	**11,444**	**19,237**	**9,391**	**9,782**	**2,824**	**100**	**84**	**58,749**	**4.79**	**3.35**	4.92	3.33
Total liabilities	**590**	**1,495**	**6,298**	**15,781**	**9,205**	**14,459**	**2,327**	**708**	**277**	**51,140**	**4.26**	**4.42**	3.95	4.18
Difference	**1,383**	**2,419**	**5,146**	**3,456**	**186**	**(4,677)**	**497**	**(608)**	**(193)**	**7,609**	**0.53**	**(1.07)**	0.97	(0.85)
Effect of future transactions and special commitments	**(1,670)**	**(816)**	**(3,073)**	**(1,989)**	**(278)**	**(1,021)**	**(57)**	**-**	**-**	**(8,904)**				
Exposure to interest rate fluctuations in the sector	**(287)**	**1,603**	**2,073**	**1,467**	**(92)**	**(5,698)**	**440**	**(608)**	**(193)**	**(1,295)**				
Accumulated exposure in the sector	**(287)**	**1,316**	**3,389**	**4,856**	**4,764**	**(934)**	**(494)**	**(1,102)**	**(1,295)**	**(1,295)**				
Foreign currency (b)														
Total assets	**58,838**	**24,159**	**7,378**	**11,915**	**2,140**	**1,679**	**472**	**4**	**625**	**107,210**	**3.09**	**0.59**	3.55	0.55
Total liabilities	**65,232**	**26,317**	**23,228**	**2,942**	**1,104**	**357**	**144**	**-**	**111**	**119,435**	**1.58**	**0.33**	1.88	0.39
Difference	**(6,394)**	**(2,158)**	**(15,850)**	**8,973**	**1,036**	**1,322**	**328**	**4**	**514**	**(12,225)**	**1.51**	**0.26**	1.67	0.16
Effect of future transactions and special commitments	**4,822**	**6,583**	**(412)**	**(1,132)**	**(606)**	**(1,145)**	**(35)**	**-**	**-**	**8,075**				
Exposure to interest rate fluctuations in the sector	**(1,572)**	**4,425**	**(16,262)**	**7,841**	**430**	**177**	**293**	**4**	**514**	**(4,150)**				
Accumulated exposure in the sector	**(1,572)**	**2,853**	**(13,409)**	**(5,568)**	**(5,138)**	**(4,961)**	**(4,668)**	**(4,664)**	**(4,150)**	**(4,150**				

See footnotes on next page.

Exposure to Interest Rate Fluctuations - on Consolidated Basis

Exhibit C (cont'd):

	30 June 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)	**168,245**	**33,470**	**32,836**	**37,606**	**13,687**	**12,164**	**3,355**	**104**	**11,616**	**313,083**		**1.03**		1.09
Receivables in respect of open credit card transactions									**6,263**	**6,263**				
Total liabilities (c)	**164,532**	**33,420**	**37,878**	**24,739**	**13,271**	**15,320**	**2,668**	**777**	**1,349**	**293,954**		**1.06**		1.06
Payables in respect of open credit card transactions									**4,907**	**4,907**				
Difference	**3,713**	**50**	**(5,042)**	**12,867**	**416**	**(3,156)**	**687**	**(673)**	**11,623**	**20,485**		**(0.03)**		0.03
Effect of future transactions and special commitments	**3,901**	**577**	**440**	**(2,236)**	**(577)**	**(1,957)**	**(148)**	**-**	**-**	**-**				
Total exposure to interest rate fluctuations	**7,614**	**627**	**(4,602)**	**10,631**	**(161)**	**(5,113)**	**539**	**(673)**	**11,623**	**20,485**				
Total accumulated exposure	**7,614**	**8,241**	**3,639**	**14,270**	**14,109**	**8,996**	**9,535**	**8,862**	**20,485**	**20,485**				

(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

30 June 2009

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	**1,201**	**8,612**	**8,520**	**19,139**	**8,411**	**10,728**		
England	**12**	**6,902**	**1,252**	**5,445**	**2,059**	**3,386**		
France	**4,570**	**1,541**	**550**	**19**	**3**	**16**		
Holland	**-**	**1,835**	**1,570**	**-**	**-**	**-**		
Germany	**27**	**1,831**	**1,314**	**-**	**-**	**-**		
Belgium	**-**	**2,364**	**271**	**-**	**-**	**-**		
Switzerland								
Others	**241**	**6,791**	**4,523**	**2,655**	**1,558**	**1,097**		
Total country exposure	**6,051**	**29,876**	**18,000**	**27,258**	**12,031**	**15,227**		
Total exposure to LDC countries	**205**	**598**	**1,056**	**2,108**	**1,230**	**878**		

30 June 2009

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	**29,061**	**914**	**11,936**	**8,139**	**10,194**
England	**11,552**	**560**	**14,349**	**5,707**	**2,459**
France	**6,677**	**15**	**1,987**	**1,374**	**5,287**
Holland	**3,405**	**27**	**636**	**1,418**	**1,987**
Germany	**3,172**	**1**	**787**	**1,782**	**1,390**
Belgium	**2,635**	**8**	**564**	**2,002**	**633**
Switzerland					
Others	**12,652**	**601**	**4,742**	**6,828**	**4,727**
Total country exposure	**69,154**	**2,126**	**35,001**	**27,250**	**26,677**
Total exposure to LDC countries	**2,737**	**18**	**745**	**1,471**	**388**

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 1,857 million as it relates to Switzerland, Luxembourg (31 December 2008 – NIS 2,455 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 429 million and relates to 11 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 30 June 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.

30 August 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 30 June 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.

30 August 2009

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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. (The Bank) and its subsidiaries, which comprises the condensed interim consolidated balance sheet as of June 30, 2009 and the related interim condensed consolidated statements of profit and loss, changes in shareholders equity and cash flows for the three and six month periods 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 June 30, 2009, and whose interest income before provision for doubtful debts constitute some 9% and some 0.1% of the total net interest income before provision for doubtful debts for the three and six month periods then ended, respectively. 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 a review 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 of the condensed interim balance sheet concerning claims against the Bank and against consolidated subsidiaries, including applications for their approval as class actions.
2. to the contents of Note 6F. 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	**Somekh Chaikin**
Certified Public Accountants (Isr.)	**Certified Public Accountants (Isr.)**

30 August 2009

Condensed Consolidated Balance Sheet as at 30 June 2009
For the Periods Ended 30 June 2009
Reported amounts

	30 June 2009	30 June 2008	31 December 2008
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Assets			
Cash and deposits with banks	**39,390**	31,229	33,130
Securities	**56,944**	43,494	44,910
Securities borrowed or purchased under agreement to resell	**1,081**	742	201
Credit to the public	**207,214**	201,717	213,215
Credit to governments	**452**	531	520
Investments in companies included on the equity basis	**1,862**	1,895	1,842
Buildings and equipment	**3,528**	3,317	3,445
Other assets	**8,875**	9,077	13,529
Total assets	**319,346**	292,002	310,792
Liabilities and equity capital			
Deposits of the public	**253,254**	221,752	244,783
Deposits from banks	**2,904**	8,966	3,742
Deposits from governments	**741**	833	831
Securities loaned or sold under agreement to repurchase	**1,174**	372	549
Debentures, bonds and subordinated notes	**22,917**	21,920	20,636
Other liabilities	**17,871**	17,506	21,334
Total liabilities	**298,861**	271,349	291,875
Minority interest	**263**	225	245
Shareholders' equity	**20,222**	20,428	18,672
Total liabilities and equity capital	**319,346**	292,002	310,792

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

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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: 30 August 2009

Condensed Consolidated Statement of Profit and Loss
For the Period Ended 30 June 2009
Reported Amounts

	For the Three Months Ended 30 June		For the Six Months Ended 30 June		For the Year Ended 31 December
	2009	2008	**2009**	2008	2008
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)				
Net interest income before provision for doubtful debts	**1,926**	1,953	**3,288**	3,913	6,380
Provision for doubtful debts	**339**	316	**693**	560	2,145
Net interest income after provision for doubtful debts	**1,587**	1,637	**2,595**	3,353	4,235
Operating and other income					
Operating commissions	**840**	882 (a)	**1,671**	1,784 (a)	3,538 (a)
Profits (losses) from investments in shares, net	**90**	(44)	**185**	(115)	(912)
Other income	**83**	26 (a)	**160**	46 (a)	174 (a)
Total operating and other income	**1,013**	864	**2,016**	1,715	2,800
Operating and other expenses					
Salaries and related expenses	**929**	975	**1,812**	2,106	4,118
Building and equipment maintenance and depreciation	**380**	344	**744**	667	1,397
Other expenses	**331**	343	**648**	683	1,488
Total operating and other expenses	**1,640**	1,662	**3,204**	3,456	7,003
Operating profits before taxes	**960**	839	**1,407**	1,612	32
Provision for taxes on operating profit	**409**	400	**451**	783	421
Operating profit (loss) after taxes	**551**	439	**956**	829	(389)
Equity in after-tax operating profits (losses) of companies included on the equity basis	**(64)**	193	**(30)**	280	249
Minority interest in after-tax operating (profits) of subsidiaries	**(7)**	7	**(18)**	2	(18)
Net operating profit (loss)	**480**	639	**908**	1,111	(158)
After-tax profit from extraordinary items	**27**	250	**28**	248	250
Net profit for the period	**507**	889	**936**	1,359	92
	(NIS)				
Basic earnings per share					
Net operating profit (loss)	**0.33**	0.44	**0.62**	0.77	(0.11)
After-tax profit from extraordinary items	**0.02**	0.17	**0.02**	0.17	0.17
Total	**0.35**	0.61	**0.64**	0.94	0.06
Diluted earnings per share					
Net operating profit (loss)	**0.33**	0.43	**0.62**	0.76	(0.11)
After-tax profit from extraordinary items	**0.02**	0.17	**0.02**	0.17	0.17
Total	**0.35**	0.60	**0.64**	0.93	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 Periods Ended 30 June 2009
Reported Amounts

	For the Three Months Ended 30 June 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	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	7,059	972	167	8,198	(1,078)	(337)	12,422	-	(369)	18,836
Net profit for the period	-	-	-	-	-	-	507	-	-	507
Expiry of options	-	-	-	-	-	-	-	-	-	-
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	96	-	-	96
Adjustments in respect of presentation of securities available forsale at fair value	-	-	-	-	1,653	-	-	-	-	1,653
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	(81)	-	-	-	-	(81)
Related tax effect	-	-	-	-	(564)	-	-	-	-	(564)
Translation adjustments for companies included on the equity basis	-	-	-	-	-	(221)	-	-	-	(221)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	-	(4)	(4)
Balance at the end of the period	7,059	972	167	8,198	(70)	(558)	13,025	-	(373)	20,222

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

See footnotes on page 139.

Condensed Consolidated Statement of Changes in Shareholders' Equity (cont'd)

Reported Amounts

	For the Three Months Ended 30 June 2008 (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	Dividen 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	7,048	446	595	8,089	7	(477)	12,486	-	(372)	19,733
Net profit for the period	-	-	-	-	-	-	889	-	-	889
Issue of shares	297	74	(289)	82	-	-	-	-	-	82
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	(47)	-	-	(47)
Benefit in respect of shares based payment transactions	-	-	17	17	-	-	-	-	-	17
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(263)	-	-	-	-	(263)
Losses in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	107	-	-	-	-	107
Related tax effect	-	-	-	-	64	-	-	-	-	64
Translation adjustments for companies included on the equity basis	-	-	-	-	-	(153)	-	-	-	(153)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	-	(1)	(1)
Balance at the end of the period	7,345	520	323	8,188	(85)	(630)	13,328	-	(373)	20,428

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

See footnotes on page 139.

Condensed Consolidated Statement of Changes in Shareholders' Equity (cont'd)

Reported Amounts

	For the Six Months Ended 30 June 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	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions									
Balance as at 1 January 2009	**7,059**	**855**	**284**	**8,198**	**(648)**	**(502)**	**11,998**	**-**	**(374)**	**18,672**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**936**	**-**	**-**	**936**
Expiry of options	**-**	**117**	**(117)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**91**	**-**	**-**	**91**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**-**	**1,172**	**-**	**-**	**-**	**-**	**1,172**
Losses in respect of securities available for sale that were realized and classified to profit and loss	**-**	**-**	**-**	**-**	**(286)**	**-**	**-**	**-**	**-**	**(286)**
Related tax effect	**-**	**-**	**-**	**-**	**(308)**	**-**	**-**	**-**	**-**	**(308)**
Translation adjustments for companies included on the equity basis	**-**	**-**	**-**	**-**	**-**	**(56)**	**-**	**-**	**-**	**(56)**
Loans to employees for purchase of Bank's shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Balance at the end of the period	**7,059**	**972**	**167**	**8,198**	**(70)**	**(558)**	**13,025**	**-**	**(373)**	**20,222**

See footnotes on page 139.

Condensed Consolidated Statement of Changes in Shareholders' Equity
Reported Amounts

	For the Six Months Ended 30 June 2008 (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	Dividen 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	-	-	-	-	-	-	1,359	-	-	1,359
Issue of shares	345	520	(289)	576	-	-	-	-	-	576
Dividend paid	-	-	-	-	-	-	-	(270)	-	(270)
Benefit in respect of shares based payment transactions	-	-	2	2	-	-	-	-	-	2
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	(47)	-	-	(47)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(1,049)	-	-	-	-	(1,049)
Losses in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	146	-	-	-	-	146
Related tax effect	-	-	-	-	316	-	-	-	-	316
Translation adjustments for companies included on the equity basis	-	-	-	-	-	(185)	-	-	-	(185)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	-	31	31

See footnotes on page 139.

Condensed Consolidated Statement of Changes in Shareholders' Equity
Reported Amounts

For the Year Ended 31 December 2008 (Audited)

	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 as at 1 January 2008	7,000	-	610	7,610	502	(445)	12,016	270	(404)	19,549
Net profit for the year	-	-	-	-	-	-	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 as at 31 December 2008	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
For the Periods Ended 30 June 2009
Reported amounts

	For the three months ended 30 June 2009	For the six months ended 30 June 2009	For the year ended 31 December 2008
	Unaudited	Unaudited	Audited
	(NIS millions)		
Cash flows generated by operating activities:			
Net profit for the year	507	936	92
Adjustments required to cash flows generated by operating activities:			
Equity in undistributed profits (losses) of companies included on equity basis (a)	66	32	(128)
Minority interest in profits of subsidiaries	7	18	18
Benefit in respect of share-based payment transactions	-	-	24
Depreciation of buildings and equipment	155	303	520
Amortization	4	8	17
Provision for doubtful debts	339	693	2,145
Change in provision for decrease in value of assets transferred to the Group's ownership	(4)	(3)	10
Net gain on sale of securities available for sale	(175)	(436)	(52)
Realized and unrealized loss (gain) from adjustment of held for trading securities to fair value	(43)	(168)	446
Gain on receipt of shares without payment	-	-	(27)
After-tax profit on realization of investments in subsidiaries and companies included on equity basis	-	-	(17)
Net (gains) losses, after tax, on sale of buildings and equipment	(27)	(28)	2
Provision for impairment of debentures available for sale	94	140	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	64	146	33
Increase (decrease) in excess of provisions for severance pay and pensions over amounts funded	(66)	(248)	672
Gain on issue of shares to third party in subsidiary	-	-	(234)
Other, net	1	-	(1)
Net cash generated by operating activities	922	1,403	5,422

(a) Net of dividend received.

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

Consolidated Statements of Cash Flows (cont'd)
For the Periods Ended 30 June 2009
Reported amounts

	For the three months ended 30 June 2009	For the six months ended 30 June 2009	For the year ended 31 December 2008
	Unaudited	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	135	(35)	5,380
Acquisition of debentures held to maturity	38	(17)	(32)
Proceeds from redemption of debentures held to maturity	16	636	41
Acquisition of securities available for sale	(8,930)	(19,862)	(46,165)
Proceeds from sale of securities available for sale	1,817	5,079	5,810
Proceeds from redemption of securities available for sale	2,527	5,967	41,593
Net increase in securities held for trading	(2,913)	(2,589)	(3,241)
Net decrease (increase) in credit to the public	5,193	5,309	(16,615)
Net decrease in credit to governments	48	68	122
Net decrease (increase) in securities borrowed or purchased under agreements to resell	(852)	(880)	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	(14)	(43)	(13)
Acquisition of buildings and equipment	(191)	(411)	(715)
Proceeds from sale of buildings, net of related taxes	36	38	45
Proceeds from realization of assets transferred to Group ownership	-	41	9
Net decrease (increase) in other assets	3,061	4,333	(5,781)
Net cash used for activities in assets	(29)	(2,366)	(18,719)
Cash flows generated by activities in liabilities and capital			
Net increase (decrease) in:			
Deposits of the public	(1,311)	8,471	6,738
Deposits from banks	(277)	(838)	(2,397)
Deposits from governments	(111)	(90)	(367)
Issue of debentures, bonds and subordinated notes	2,508	2,869	5,089
Redemption of debentures, bonds and subordinated notes	(158)	(588)	(3,701)
Increase (decrease) in other liabilities	(1,708)	(3,258)	4,838
Net increase in securities loaned or sold under agreements to repurchase	981	625	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	(4)	1	30
Net cash generated by activities in liabilities and capital	(80)	7,192	9,478
Increase (decrease) in cash	813	6,229	(3,819)
Balance of cash at beginning of period	36,421	31,005	34,824
Balance of cash at end of period	37,234	37,234	31,005

Consolidated Statements of Cash Flows (cont'd)
For the Periods Ended 30 June 2009
Reported amounts

Appendix A - Transactions not involving cash flows:
In the period of three months ended 30 June 2009:
(1) During the period, shares were transferred from credit to the public to the available for sale portfolio, in the amount of NIS 120 million, due to the end of borrowing securities/loaning of securities.
(2)
In the period of six months ended 30 June 2009:
(1) During the period, shares were transferred from available for sale portfolio to credit to the public, in the amount of NIS 87 million, due to the end of borrowing securities.
(2) Transfer during the period of real estate from credit to the public to other assets in the amount of NIS 43 million in respect of loans that were repaid.

In 2008:
(1) During the year, shares were transferred from the available for sale portfolio the credit to the public, In the amount of NIS 73 million, due to loaning of securities.
(2) During the year, a capital note was received in the available for sale portfolio from a customer against credit that was repaid in the amount of NIS 73 million.
(3) During the year, fixed assets were acquired against liabilities to suppliers, in the amount of NIS 19 million.
(4) During the year, Debentures were transferred in a foreign subsidiary from the redemption portfolio to the available for sale portfolio in the amount of NIS 126 million.

The accompanying notes are an integral part of these financial statements.

Note 1 – Significant Accounting Policies

A. The Condensed Consolidated Interim Financial Statements as at 30 June 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 2008. This does not apply to banking corporations, the financial statements of which are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

In June 2009, the Supervisor of Banks published a circular on the topic "Reporting of Banking Corporations and Credit Card Companies in Israel in accordance with International Financial Reporting Standards (IFRS)", which determines the expected manner of adoption of IFRS by banking corporations and credit card companies.

Pursuant to the circular, the target date for reporting of banking corporations and credit card companies according to IFRS is:

1. Topics that are not a core part of the banking business – beginning 1 January 2011. From this date onwards, banking corporations and credit card companies will be required to update the accounting treatment of these topics on an ongoing basis, pursuant to the transitional provisions contained in the new International Standards published in this regard, and in accordance with clarifications to be provided by the Supervisor of Banks.

2. Topics that are a core part of the banking business – beginning 1 January 2013, while the Banking Supervision Department intends to make a final decision in this regard during 2011. The final decision will be made while taking into account the timetable laid down in the USA, and the progress made in the convergence process between IFRS and the American standards on the other hand.

The circular clarifies that following completion of the process of adaptation of the directives to IFRS, the Banking Supervision Department will continue to have the authority to lay down binding clarifications regarding the manner of implementation of the requirements of IFRS, and to determine additional directives where such is required in light of the requirements of regulatory authorities in developed countries, and on topics not dealt with by IFRS. In addition, the Banking Supervision Department retains its authority to determine disclosure and reporting requirements.

Therefore, until the target dates for the adoption of IFRS as detailed above, the financial statements of a banking corporation or credit card company will continue to be prepared in accordance with the directives and guidelines of the Supervisor of Banks. At this stage, no directives have been laid down regarding the transitional provisions to be applied upon adoption of the first IFRS.

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 treatment 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" and a draft amendment of the said directive was received on 20 August 2009. The directive is based on US accounting standards (FAS 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 US. 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 accordance with the draft, in the financial statements as from 1 July 2010 (1 January 2010 in the original). 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

July 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 30 June 2009 amounted to NIS 922 million, of which the Bank's was NIS 671 million.

The Bank is examining the new draft directives published by the Bank of Israel, and their 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

	30 June 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	267	267	12	-	279
Foreign Governments	552	552	13	(1)	564
Other companies	8	8	-	-	8
Total debentures held to maturity	827	827	25	(1)	851

	30 June 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	18,891	18,568	337	(14)	18,891
Foreign Governments	321	316	6	(1)	321
Other companies	20,315	21,637	178	(1,500)	20,315
	39,527	40,521	521	(1,515)	39,527
Shares of other companies and mutual funds (b)	2,978	2,095	884	(1)	2,978
Total securities available for sale	42,505	42,616	1,405 (c)	(1,516) (c)	42,505

	30 June 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	5,321	5,173	153	(5)	5,321
Foreign Governments	5,844	5,839	6	(1)	5,844
Other companies	2,352	2,438	20	(106)	2,352
	13,517	13,450	179	(112)	13,517
Shares and mutual funds:					
Other companies	95	441	-	(346)	95
Total securities available for sale	13,612	13,891	179 (d)	(458) (d)	13,612
Total securities	56,944	57,334	1,609	(1,975)	56,968

See footnotes on page 150.

Note 2 - Securities (Cont'd)
Reported Amounts

	30 June 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. Securities available for sale:					
Debentures and bonds -					
Government of Israel	855	855	19	-	874
Foreign Governments	476	476	1	(3)	474
Total debentures held to maturity	1,331	1,331	20	(3)	1,348

	30 June 2008 (Unaudited)				
	Amount in balance Sheet	Amortized cost (in Shares - cost)	Accumulated other comprehensive income		Fair value (a)
			Profits	Losses	
	(NIS millions)				
2. Securities available for sale:					
Debentures and bonds-					
Government of Israel	8,242	8,181	154	(93)	8,242
Foreign Governments	787	786	3	(2)	787
Other companies	20,900	21,600	39	(739)	20,900
	29,929	30,567	196	(834)	29,929
Shares and mutual funds					
Shares of other companies and mutual funds (b)	4,135	3,606	666	(137)	4,135
Total securities available for sale	34,064	34,173	862 (c)	(971) (c)	34,064

	30 June 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	5,119	5,042	90	(13)	5,119
Foreign Governments	136	136	-	-	136
Other companies	1,627	1,647	24	(44)	1,627
	6,882	6,825	114	(57)	6,882
Shares and mutual funds:					
Other companies	1,217	1,317	-	(100)	1,217
Total securities held for trading	8,099	8,142	114 (d)	(157) (d)	8,099
Total securities	43,494	43,646	996	(1,131)	43,511

See footnotes on page 150.

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		Fair value (a)
			Profits	Losses	
	(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	932 (c)	(1,924) (c)	32,609

Note 2 - Securities (Cont'd)
Reported amounts

	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	168 (d)	(548) (d)	10,855
Total securities	44,910	46,282	1,130	(2,473)	44,939

(a) The quotations do not necessarily reflect the price which will be obtained upon sale of securities in large volumes.

(b) Including NIS 1,043 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 30 June 2008 - NIS 1,338 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. Also includes holding in Migdal holdings insurance and finance Ltd.

(c) Regarding securities available for sale, total other income (expense) 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, but not yet realized.

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

	30 June 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	814	818	6	(10)	814
Securities issued by FNMA and FHLMC	1,283	1,270	19	(6)	1,283
Total	2,097	2,088	25	(16)	2,097
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,847	1,860	10	(23)	1,847
Other Mortgage-backed securities	54	76	-	(22)	54
Total	1,901	1,936	10	(45)	1,901
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	5	6	-	(1)	5
Credit for purchase of vehicle	19	19	-	-	19
Other credit to private persons	8	8	-	-	8
Of which: CLO	730	776	36	(82)	730
Of which: CDO	24	24	-	-	24
Of which: SCDO	105	103	9	(7)	105
Others	44	43	2	(1)	44
Total	935	979	47	(91)	935
Total Asset-backed securities available for sale	4,933	5,003	82	(152)	4,933

* 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

	30 June 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	1	1	-	-	1
Total	1	1	-	-	1
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	44	43	1	-	44
Other Mortgage-backed securities	85	119	-	(34)	85
Total	129	162	1	(34)	129
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	12	19	-	(7)	12
Credit for purchase of vehicle	1	1	-	-	1
Credit not to private persons	3	7	-	(4)	3
Of which: CDO	6	7	-	(1)	6
Others	2	2	-	-	2
Total	24	36	-	(12)	24
Total Asset-backed securities held for trading	154	199	1	(46)	154

* These amounts reported in the profit and loss statement.

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

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

	30 June 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					
Pass-through securities:					
Securities guaranteed by GNMA	85	84	1	-	85
Securities issued by FNMA and FHLMC	1,168	1,180	3	(15)	1,168
Securities issued by others	10	10	-	-	10
Total	1,263	1,274	4	(15)	1,263
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,814	1,823	8	(17)	1,814
Other Mortgage-backed securities	74	90	-	(16)	74
Total	1,888	1,913	8	(33)	1,888
Asset-backed securities (ABS):					
Credit card debtors	55	55	-	-	55
Lines of credit for any purpose secured by dwelling	7	8	-	(1)	7
Credit for purchase of vehicle	64	64	-	-	64
Other credit to private persons	31	31	-	-	31
Credit not to private persons	1	1	-	-	1
Of which: CLO	1,027	1,170	-	(143)	1,027
Of which: SCDO	277	341	1	(65)	277
Others	28	29	-	(1)	28
Total	1,490	1,699	1	(210)	1,490
Total Asset-backed securities available for sale	4,641	4,886	13	(258)	4,641

* 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

	30 June 2008 (Unaudited)				
	Amount In balance sheet	Amortized Cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value
	(NIS millions)				
2. Additional details of Asset-backed securities held for trading Mortgage-backed securities (MBS):					
Pass-through securities:					
Securities issued by FNMA and FHLMC	5	5	-	-	5
Total	5	5	-	-	5
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	39	38	1	-	39
Other Mortgage-backed securities	141	153	-	(12)	141
Total	180	191	1	(12)	180
Asset-backed securities (ABS):					
Credit card debtors	9	9	-	-	9
Lines of credit for any purpose secured by dwelling	22	24	-	(2)	22
Credit for purchase of vehicle	11	11	-	-	11
Other credit to private persons	1	1	-	-	1
Credit not to private persons	13	13	-	-	13
Others	3	3	-	-	3
Total	59	61	-	(2)	59
Total Asset-backed securities held for trading	244	257	1	(14)	244

* Amounts that reported in the profit and loss statement.

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	16	22	-	(6)	16
Lines of credit for any purpose secured by dwelling	6	6	-	-	6
Credit not to private persons	10	12	-	(2)	10
CDO debentures	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

* Amounts that reported in the profit and loss statement.

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

	30 June 2009 (Unaudited)					
	Less than 12 months		More than 12 month		Total	
	Fair Value	Unrealized losses from adjustment to fair	Fair Value	Unrealized losses from adjustment to fair	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)	**586**	**(11)**	**316**	**(5)**	**902**	**(16)**
Other Mortgage-Backed Securities						
(including REMIC, CMO and STRIPPED MBS)	**233**	**(20)**	**1,026**	**(25)**	**1,259**	**(45)**
Asset-backed securities (ABS)	**155**	**(12)**	**427**	**(79)**	**582**	**(91)**
Total	**974**	**(43)**	**1,769**	**(109)**	**2,743**	**(152)**

	30 June 2008 (Unaudited)					
	Less than 12 months		More than 12 month		Total	
	Fair Value	Unrealized losses from adjustment to fair	Fair Value	Unrealized losses from adjustment to fair	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)	461	(4)	463	(11)	924	(15)
Other Mortgage-Backed Securities						
(including REMIC, CMO and STRIPPED MBS)	788	(25)	472	(8)	1,260	(33)
Asset-backed securities (ABS)	925	(154)	299	(56)	1,224	(210)
Total	2,174	(183)	1,234	(75)	3,408	(258)

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

	31 December 2008 (Audited)					
	Less than 12 months		More than 12 month		Total	
	Fair Value	Unrealized losses from adjustment to fair	Fair Value	Unrealized losses from adjustment to fair	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

	For the three months ended 30 June 2009 (unaudited)			
	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	**8,442**	**660**	**979**	**10,081**
Provisions during the period	**594**	**16**	**(12)**	**598**
Decrease in provisions	**(188)**	**(22)**	**(45)**	**(255)**
Collection of past years' write-offs	**(4)**	**-**	**-**	**(4)**
Net amount charged to statement of profit and loss	**402**	**(6)**	**(57)**	**339**
Net Write-offs (c)	**(183)**	**(16)**	**-**	**(199)**
Balance of provision at end of the period	**8,661**	**638**	**922**	**10,221**
Including balance of provision not deducted from credit to the public	**176**	**-**	**129**	**305**

	For the three months ended 30 June 2008 (unaudited)			
	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	7,279	697	850	8,826
Provisions during the period	361	86	5	452
Decrease in provisions	(80)	(48)	-	(128)
Collection of past years' write-offs	(8)	-	-	(8)
Net amount charged to statement of profit and loss (c)	273	38	5	316
Net Write-offs	(73)	(14)	-	(87)
Balance of provision at end of the period	7,479	721	855	9,055
Including balance of provision not deducted from credit to the public	248	-	118	366

(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)
Reported amounts

	For six months ended 30 June 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	1,061	105	42	1,208
Decrease in provisions	(333)	(107)	(68)	(508)
Collection of past years' write-offs	(7)	-	-	(7)
Net amount charged to statement of profit and loss (c)	721	(2)	(26)	693
Net Write-offs	(306)	(35)	-	(341)
Balance of provision at end of the period	8,661	638	922	10,221
Including balance of provision not deducted from credit to the public	176	-	129	305

	For the three months ended 30 June 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	814	163	(9)	968
Decrease in provisions	(283)	(97)	(11)	(391)
Collection of past years' write-offs	(17)	-	-	(17)
Net amount charged to statement of profit and loss (c)	514	66	(20)	560
Net Write-offs	(285)	(33)	-	(318)
Balance of provision at end of the period	7,479	721	855	9,055
Including balance of provision not deducted from credit to the public	248	-	118	366

(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

30 June 2009 (unaudited)						
		Problematic debts				
				Specific provision		
	Credit	Balance sheet debt balance	Including amount in arrears (c)	According to depth of arrears (d)	Other	Total
	(NIS millions)					
Housing loans that require calculating the provision according to depth of arrears	**28,449**	**585**	**205**	**455**	**-**	**455**
"Large" loans (a)	**7,680**	**134**	**146**	**139**	**-**	**139**
Other loans (b)	**7,172**	**189**	**25**	**44**	**7**	**51**
Balance of provision at end of the period	**43,301**	**908**	**376**	**638**	**7**	**645**

30 June 2008 (unaudited)						
		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	27,426	607	340	502	-	502
"Large" loans (a)	5,490	122	218	172	-	172
Other loans (b)	6,778	203	28	47	13	60
Balance of provision at end of the period	39,694	932	586	721	13	734

(a) Housing loans the balance of each is higher than NIS 851 thousand (30 June 2008 - NIS 828 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 851 thousand (30 June 2008 - NIS 828 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 112 million (30 June 2008 - NIS 146 million).

Note 4 - Shareholders' Equity and Capital Adequacy

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

Reported amounts

	30 June 2009	30 June 2008	31 December 2008
	(Unaudited)		(Audited)
	(NIS millions)		
1. Bank's capital for purposes of calculating the capital ratio			
Tier I capital	**20,301**	20,375	19,307
Total capital	**32,270**	31,365 (b)	29,765 (b)

	30 June 2009		30 June 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	**319,679**	**209,474**	292,335	209,664	311,125	217,747
Off-balance sheet instruments	**50,828**	**33,656**	48,007	32,773	50,883 (a)	33,743 (a)
Total credit risk assets	**370,507**	**243,130**	340,342	242,437	362,008	251,490
Market risk	**-**	**8,038**	-	7,435	-	5,476
Total risk assets	**370,507**	**251,168**	340,342	249,872	362,008	256,966

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

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

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

Reported amounts

	30 June 2009	30 June 2008	31 December 2008
	(Unaudited)		(Audited)
	(%)		
3. Ratio of capital to risk assets			
The ratio of tier I capital to risk assets	**8.08**	8.15	7.51
The ratio of total capital to risk assets	**12.85**	12.55 (b)	11.58 (b)
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	**6.28**	6.50	6.15
The ratio of total capital to risk assets	**9.44**	9.76	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	**15.50**	16.75	13.41
The ratio of total capital to risk assets	**19.95**	17.12	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	**10.00**	8.60	9.31
The ratio of total capital to risk assets	**13.05**	10.90	12.40
Ratio of total minimum capital to risk assets required by the local Authorities	**10.00**	10.00	10.00

(a) Restated.

(b) Reclassified as a result of a change in allocation of Tier 1 and Tier 2 capital against market risk exposure like the allocation of capital against credit risk and this is as a result of a clarification from the Bank of Israel.

Note 5 - Assets and Liabilities Classified According to Linkage Basis as at 30 June 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 securities	21,174	457	12,231	2,444	3,072	12	39,390
Securities	15,966	7,451	16,598	12,759	1,097	3,073	56,944
Securities borrowed or purchased under agreement to resell	1,002	-	79	-	-	-	1,081
Credit to the public (b)	102,211	50,455	36,797	7,117	10,633	1	207,214
Credit to governments	-	249	203	-	-	-	452
Investments in affiliated companies	8	-	-	-	-	1,854	1,862
Buildings and equipment	-	-	-	-	-	3,528	3,528
Other assets	3,873	137	2,911	432	854	668	8,875
Total assets	144,234	58,749	68,819	22,752	15,656	9,136	319,346
Liabilities							
Deposits of the public	114,151	27,156	77,863	24,160	9,891	33	253,254
Deposits from banks	1,055	598	598	339	302	12	2,904
Deposits from governments	53	516	162	10	-	-	741
Securities loaned or sold under agreement to repurchase	992	-	182	-	-	-	1,174
Debentures, bonds and subordinated notes	1,915	19,058	1,944	-	-	-	22,917
Other liabilities	9,480	3,812	2,529	549	924	577	17,871
Total liabilities	127,646	51,140	83,278	25,058	11,117	622	298,861
Difference	16,588	7,609	(14,459)	(2,306)	4,539	8,514	20,485
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	1,926	(8,891)	11,700	1,166	(5,901)	-	-
Options in the money, net (in terms of underlying asset)	(874)	(1)	(85)	360	600	-	-
Options out of the money, net (in terms of underlying asset)	(223)	(12)	63	53	119	-	-
Total	17,417	(1,295)	(2,781)	(727)	(643)	8,514	20,485
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,694)	(1)	336	652	707	-	-
Options out of the money, net (discounted par value)	(2,527)	(38)	1,474	250	841	-	-

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

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 30 June 2008 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	4,922	546	19,846	3,288	2,627	-	31,229
Securities	7,981	6,031	13,605	9,598	927	5,352	43,494
Securities borrowed or purchased under agreement to resell	641	-	101	-	-	-	742
Credit to the public (b)	97,972	54,147	32,538	6,745	10,289	26	201,717
Credit to governments	-	248	283	-	-	-	531
Investments in affiliated companies	7	-	-	-	-	1,888	1,895
Buildings and equipment	-	-	-	-	-	3,317	3,317
Other assets	4,264	144	2,332	713	803	821	9,077
Total assets	115,787	61,116	68,705	20,344	14,646	11,404	292,002
Liabilities							
Deposits of the public	97,150	26,062	66,843	21,658	9,837	202	221,752
Deposits from banks	5,987	866	1,072	881	160	-	8,966
Deposits from governments	53	655	114	11	-	-	833
Securities loaned or sold under agreement to repurchase	255	-	117	-	-	-	372
Debentures, bonds and subordinated notes	3,001	16,916	2,003	-	-	-	21,920
Other liabilities	9,587	3,856	1,685	752	1,062	564	17,506
Total liabilities	116,033	48,355	71,834	23,302	11,059	766	271,349
Difference	(246)	12,761	(3,129)	(2,958)	3,587	10,638	20,653
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	4	(4)	-	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	8,503	(7,617)	603	2,220	(3,709)	-	-
Options in the money, net (in terms of underlying asset)	400	(10)	125	(423)	(92)	-	-
Options out of the money, net (in terms of underlying asset)	(106)	(1)	95	(4)	16	-	-
Total	8,551	5,133	(2,302)	(1,169)	(198)	10,638	20,653
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	318	(20)	684	(654)	(328)	-	-
Options out of the money, net (discounted par value)	1,843	(8)	(1,546)	(171)	(118)	-	-

(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)	4,751 (d)	986 (d)	(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	(3,769)	(1,485)	(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.
(d) Reclassified.

Note 6 - Contingent Liabilities and Special Commitments
Reported

	30 June 2009	30 June 2008	31 December 2008
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
A. Off-balance sheet financial instruments			
Balances of contracts or their stated amounts as at the end of the year			
Transactions in which the balance reflects a credit risk			
Documentary credits	**2,209**	3,063	1,631
Credit guarantees	**6,300**	7,551	6,821
Guarantees to apartment purchasers	**8,187**	8,161	8,117
Other guarantees and liabilities	**14,457**	12,910	14,454
Commitments regarding uncompleted credit card transactions unutilized credit card facilities	**17,865**	15,965	16,651
Other unutilized revolving credit facilities to the public and credit facilities on demand	**15,845**	18,425	16,967
Irrevocable commitments to provide credit which has been approved and not yet granted (a)	**18,417**	19,918	19,627
Commitments to issue guarantees	**6,852**	5,562	7,361

(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 392 million (30 June 2008 - NIS 335 million, 31 December 2008 - NIS 380 million).

	30 June 2009	30 June 2008	31 December 2008
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	**155**	184	170
Second year	**133**	127	132
Third year	**105**	105	105
Fourth year	**85**	79	89
Fifth year	**50**	53	54
After five years	**122**	90	117
Total	**650**	638	667
(2) Commitments to purchase securities	**351**	393	371
(3) Commitments to invest in buildings, equipment and in other ass	**219**	184	214
(4) Future deposits			
Transactions with depositors for purposes of receipt of large deposits at various future dates and at determined in advance as of the date of the investment fixed interest rates			
Details of future deposits and deposits dates as was determined by the terms of the transactions:			
First year	**17**	17	17
Second year	**17**	17	17
Third year	**17**	17	17
Fourth year	**17**	17	17
Fifth year	**17**	17	17
After five years	**21**	38	32
Total future deposits	**106**	123	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 101 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 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. On 19 July 2009, the Supreme Court issued a decision denying the appeal, in accordance with the parties' agreement.

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. 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 not yet 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 was required 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 filed its response to the petition for the approval of the claim as a class action. On 9 June 2009, the Court granted the plaintiffs' petition to withdraw from the claim; the Court struck the claim and the petition to approve it 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.

M. 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 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 take note of them 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. The Bank has submitted its response to the petition for approval of the claim as a class action.

N. 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 NIS 149.5 million.

The petitioner bases the claim on, *inter alia*, violation of the Control of Financial Services (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 present his position, both from the substantive and public viewpoints, since this would assist in clarifying and deciding the questions raised in the class action. The Bank has submitted its response to the petition for approval of the claim as a class action.

O. 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 some 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 Services (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, both from the substantive and public viewpoints, present his position, since this would assist in clarifying and deciding the questions raised in the class action. The Bank has submitted its response to the petition for approval of the claim as a class action.

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

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

A. On 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 Ltd. and Bank Hapoalim B.M., (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%. The Bank submitted its response to the petition for approval of the claim as a class action. On 1 June 2009, the petitioners filed a petition to attach as evidence, within the framework of the petition for approval as a class action, the Antitrust General Director’s determination dated 26 April 2009, pursuant to which the Banks (Leumi, Hapoalim, Discount., Mizrahi and the International) had maintained restrictive trade agreements regarding the transfer of information concerning commissions. The respondent Banks opposed this and the Court has not yet ruled on the matter.

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 26 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 Mizrahi Bank Ltd. The claim is based on damages claimed in the amount of about NIS 68,125,000 (according to the petitioner's calculations), caused to all the customers of the banks from whose profits from interest in respect of debentures and/or dividents in respect on shares - tax was deducted at source, this from 1 January 2003 until 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 petitioner's calculation, the banks should have deducted the commissions from the income subject to deduction at source, and only then carried out the deduction at source.

The petitioner 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 petitioner's claim, by acting as stated the banks violated their duty of care, fiduciary duty and duty to make proper disclosure towards the group, which apply to them under the Banking Law, the Consumer Protection Law and the Torts 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.

C. 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, Mizrahi Bank and the First International Bank. The petition is based on the Antitrust General Director’s determination of 26 April 2009. The petitioners allege that in accordance with the determination, the banks made restrictive arrangements regarding the exchange of information 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 was reflected in over-payments of commissions. The petitioners estimate 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 petition 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 petitioners 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 section 2(a) of the Restrictive Trade Practices Law and within 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.

D. Note 18(M.) on page 397 of the 2008 Annual Report details were provided regarding demands concerning the assets of Holocaust victims, which were addressed to the Bank prior to the filing of the originating motion described below, and regarding the Bank’s appointment of an external examiner for the purpose of investigating this matter. On 24 June 2009, an originating motion was filed against the Bank in the Jerusalem District

Court, under which the Court was asked to make various declarations regarding the "assets of Holocaust victims" as defined in the Assets of Holocaust Victims (Restitution to Heirs and Endowment for the purpose of Assistance and Commemoration) Law, 2006, and *inter alia*, to declare as follows: (a) that the Bank has financial obligations regarding the assets of Holocaust victims in an aggregate amount of NIS 26,845,410, as at 31 May 2009; and that (b) the Bank's financial obligations also apply to assets of Holocaust victims that the Bank held in the past but which the Bank had transferred to third parties prior to the Law's enactment; and (c) that in the cases in which there is evidentiary doubt, including doubt as to whether a particular asset is an "asset of a Holocaust victim" or as tp whether a particular asset is currently held by the Bank, the burden of proof should be borne by the Bank.

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 originating motion or whether it is necessary to add to the provision that has been made with respect the above-mentioned demands or with respect to the contents of the examiner's report.

E. On 2 August 2009, a financial claim was filed against the Bank in the Haifa District Court for NIS 100,000,000. The plaintiff claims that the Bank had breached its commitment to finance a construction project that had been initiated by a company in which the plaintiff held shares at that time, that the Bank transferred funds from the company's account to the account of one of the plaintiff's partners in violation of the agreements and the instructions given to the Bank and that the Bank had unreasonably refused to make credit available to the company. The damages claimed by the plaintiff include various lost profits, loss of investment, loss of the plaintiff's share in the company and damage to reputation.

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 claim.

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 representatives prepared excessive valuations 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 of the claim has been stayed until the appeals regarding the matter mentioned 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 Migdal Insurance Company Ltd. ("Migdal") regarding the partial payment of life insurance compensation. The estimated amount of the class action, as claimed by the petitioner, is NIS 150 million.

The petitioner and her deceased spouse took 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 carrying-out a number of actions for examining 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 in their respect. 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 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 some 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.

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 early stage to estimate the chances of the claim.

5. The following is a description of petitions for approval of class actions that have been submitted against the Bank Leumi le-Israel Trust Company (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 these petitions, and for this reason, no provision was made for them.

A. On 5 April 2009, a petition for approval of a class action 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 World 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 difficulty. 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 massive damage. 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 requested that World Currencies 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 of other financial entities, in order to reduce the scope of the damage caused to the debenture-holders.

In the opinion of the Bank's Management, on the basis of the opinion of the management of the Trust Company, 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.

B. On 23 June 2009, a petition for approval of a class action was filed with the Tel Aviv-Jaffa District Court against Standard & Poors Ma'a lot Ltd., Keshet Debentures Ltd. ("Keshet"), Bank Leumi le-Israel Trust Company, Aaron Biram, Eran Fuchs, Moti Ma'aravi, Rami Ordan, Excellence Nashua Underwriting (1993) Ltd. and Express Finances Ltd. The amount claimed against all the respondents in the class action stands at NIS 219,684,607. 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 the debentures issued by Keshet, in that it reduced the rating of the debentures from AA+ 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 Keshet was required to report to the debenture-holders regarding the implications of the Lehman Group's business deterioration with respect to the chances that the debentures would be repaid, and regarding the fact that the Lehman Bank was in significant business difficulty. It was further alleged that Keshet should have published an immediate report regarding the absolute dependence on the income from the Notes backing the debentures and regarding the significant danger concerning its ability to make payments with respect to the debentures. It was further claimed that Keshet was negligent to the point of being in breach of trust in failing to take measures to prevent a failure to pay the debenture holders, including in failing to do the following: take measures to replace the Notes that backed the debentures; requesting that Ma'alot update and/or adjust and/or change the debentures' rating. It was further alleged that Keshet failed in not insuring the deposits and in issuing debentures that were backed in full by the assets of only one bank. In addition, it was alleged that Keshet significantly reduced the scope of its assets through a significant change in the service agreement between it and Excellence Investments (which controls Excellence Nessuah). Excellence Nessuah Underwriting (1993) Ltd. and Express Financing Ltd. are the owners, in equal parts, of Keshet. Regarding the Trust Company, which served as the trustee for the holders of the debentures issued by Keshet, the petitioner alleges that it did not do all that it could in order to ensure the fulfilment of Keshet's obligations to the debenture-holders as established in the prospectus, because it should have asked Keshet to inform the debenture-holder public regarding the implications of the Lehman Bank's deterioration for the debentures' rating and/or for the company's ability to repay the debentures at the time set for their repayment. The petitioner further alleges that once the Trust Company became aware of the difficulties that the Lehman Bank was encountering, it should have demanded that Keshet replace the Notes with Notes of other financial entities, in order to reduce the scope of the damage caused to the debenture-holders. It is further alleged that the Trust Company should have requested that Keshet insure the deposits, for the purpose of insuring the funds that the public had effectively invested in the Lehman Bank.

In the opinion of the Bank's Management, on the basis of the opinion of the management of the Trust Company, 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 legal proceedings concerning supervision by governmental authorities and other pending 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 respect thereof.

   For further details of these proceedings, see the Paz financial statements as at 30 June 2009.

2. In a letter dated 3 July 2007, the Bank of Israel notified the Bank that Paz is considered to be a conglomerate, as detailed in Note 11 A 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 of the Israel Corporation Ltd., Zim Integrated Shipping Services Ltd. ("Zim") has a deficit in its working capital as at 30 June 2009. Zim unilaterally announced the deferral of payments of principal to its financial debtors, pursuant to a "standstill" situation *vis-à-vis* such debtors, and presented them with an outline for a rehabilitation program. As at the date of approval of the Financial Statements, Zim is negotiating with these parties (who have the right to demand full payment of the amounts owed to them), with a view to obtaining approval for the outline of the said rehabilitation plan.
However, should the rehabilitation plan not be approved and/or the required finance not be obtained from the Israel Corporation Ltd. and the debtors in the interim period until the formulation of a full rehabilitation plan, there arise substantial doubts with regard to the continued existence of Zim as a "going concern". No adjustment has been included in the financial statements of the Israel Corporation Ltd., with regard to the values of the assets and liabilities of Zim and their classification, which might be required in as far as Zim is unable to continue to operate as a "going concern".

For further details of these matters, see the Israel Corporation Ltd.'s financial statements as at 30 June 2009.

F. 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 in the Antitrust Tribunal. At this early stage, the effects of the ruling cannot be assessed.

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

Reported Amounts (Unaudited)

A. Scope of Activity

	30 June 2009				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts respect of goods and Others
	(NIS millions)				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Forward contracts	-	-	-	-	-
Swaps	-	1,287	-	-	-
Total	-	1,287	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	782	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	6,128	-	167	64
Forward contracts	11,029	14,051	79,681	-	738
Traded options					
Put options	-	-	3,722	5,925	98
Call options	-	1	4,177	5,925	106
Put options	43	19,446	23,086	754	63
Call options	-	16,805	23,532	897	101
Swaps	1,372	102,089	11,583	-	-
Total	12,444	158,520	145,781	13,668	1,170
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	50,412	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	98
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-
Spot contracts	-	-	8,197	-	-
Total	-	-	8,197	-	98
Overall total	12,444	159,807	153,978	13,668	1,268

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Unaudited)

	30 June 2009				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts respect of goods and Others
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	39	-	-	-
Gross negative fair value	-	28	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	5	2,762	2,665	183	16
Gross negative fair value	390	2,720	3,462	173	17
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	-	-	-	-	2

(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)

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for h

	30 June 2008				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts respect of goods and Others
	(NIS millions)				
(1) Amount of derivative instruments					
a) Hedged instruments (1)	-	-	-	-	6
Swaps	-	1,808	21	-	-
Total	-	1,808	21	-	6
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	642 (a)	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	65	6,999	-	2,593	91
Forward contracts	8,082	21,058	78,016	-	1,209
Traded options					
Put options	-	-	7,052	9,966	133
Call options	-	-	7,153	9,976	133
Other options					
Put options	50	15,500	32,670	1,421	-
Call options	20	12,222	30,858	1,695	-
Swaps	1,275	56,201	5,701	-	-
Total	9,492	111,980	161,450	25,651	1,566
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	28,037 (a)	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	1,434
Spot contracts	-	-	7,441	-	-
Total	-	-	7,441	-	1,434
Overall total	9,492	113,788	168,912	25,651	3,006

(a) Reclassified

(1) Except credit derivatives and Spot contracts.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Unaudited)

	30 June 2008				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts respect of goods and Others
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	71	-	-	6
Gross negative fair value	-	30	17	-	6
b) ALM derivatives (1)(2)					
Gross positive fair value	45	1,421	4,126	343	25
Gross negative fair value	286	1,268	4,631	355	25
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the					
banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	20

(1) Except credit derivatives.

(2) Derivatives constituting part of the Bank's system of management of assets and liabilities, not intended for hedging.

Note 7 – Activity in Derivatives – Scope, Credit Risks and Repayment Dates (cont'd)
Reported Amounts (Audited)

	31 December 2008				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts respect of goods and Others
	(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	85,754 (a)	-	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	177,624	12,405	1,545
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	38,505 (a)	-	-	-
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	185,159	12,405	1,792

(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 (Audited)

	31 December 2008				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts respect of goods and Others
	(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

	30 June 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)	**119**	**3,236**	**3**	**-**	**2,312**	**5,670**
Off-balance sheet credit risk in respect of derivative Instruments (3)	**970**	**16,397**	**161**	**-**	**8,605**	**26,133**
Total credit risk in respect of derivative instruments	**1,089**	**19,633**	**164**	**-**	**10,917**	**31,803**

	30 June 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)	279	2,859	17	-	2,882	6,037
Off-balance sheet credit risk in respect of derivative Instruments (3)	1,185	13,567	94	3	6,724	21,573
Total credit risk in respect of derivative instruments	1,464	16,426	111	3	9,606	27,610

	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	15,955 (a)	207	2	6,813	25,440
Total credit risk in respect of derivative instruments	3,116	21,013	225	3	11,130	35,487

(1) Net accounting arrangements do not exist.

(2) Of which, balance sheet balance from derivative instruments which are stand alone – NIS 5,670 million (30 June 2008 – NIS 6,037 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

	30 June 2009 (Unaudited)				
	Up to three Months	three months to one year	one five years	More than five years	Total
	(NIS millions)				
Interest (Swap) contracts:					
Shekel – index	3,552	4,687	2,433	1,772	12,444
Other	24,422	46,388	55,279	33,718	159,807
Foreign currency contracts	85,869	48,152	10,828	9,129	153,978
Contracts in respect of shares	10,913	2,185	570	-	13,668
Contracts in respect of commodities and others	904	242	63	59	1,268
Total	125,660	101,654	69,173	44,678	341,165
	-	-	-	-	-
31 June 2008 (Unaudited)	114,259	127,160	51,246	28,184	320,849
31 December 2008 (Audited)	186,690(a)	81,748	48,776	43,300	360,514

(a) Reclassified

Note 8 – Net Interest Income Before Provision for Doubtful Debts

Reported amounts (Unaudited)

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	(NIS millions)			
A. Income on assets (a)				
Credit to the public	**556**	702	**7,364**	503
Credit to governments	**(7)**	(6)	**24**	(28)
Deposits with Bank of Israel and cash	**(287)**	(69)	**193**	(136)
Deposits with banks	**(324)**	(1,230)	**927**	(2,994)
Securities borrowed or purchased under agreement to resell	**(4)**	1	**5**	7
Debentures	**(924)**	(971)	**1,601**	(1,900)
Total income on assets	**(990)**	(1,573)	**10,114**	(4,548)
B. Expenses on liabilities (a)				
Deposits of the public	**3,736**	3,822	**(6,333)**	8,952
Deposits from governments	**(7)**	(9)	**(24)**	2
Deposits from Bank of Israel	**1**	(24)	**1**	(38)
Deposits from banks	**11**	52	**(18)**	(8)
Securities loaned or sold under agreement to repurchase	**11**	5	**(11)**	7
Debentures, bonds and subordinated notes	**(439)**	(535)	**(763)**	(634)
Total expense on liabilities	**3,313**	3,311	**(7,148)**	8,281
C. From derivative instruments and hedging activities				
Ineffective portion of hedge relationships (b)	**-**	(4)	**-**	5
Net income (expenses) from ALM derivative instruments (c)	**(658)**	51	**(464)**	(386)
Net income (expenses) from other derivative instruments	**(10)**	(3)	**(7)**	(22)
Total income from derivative instruments and hedging activities	**(668)**	44	**(471)**	(403)
D. Other income and expenses				
Financing commissions	**86**	77	**167**	155
Profits (losses) from sale of debentures available for sale, net (e)	**32**	(80)	**175**	(52)
Losses realized and not yet realized in respect of fair value adjustments of trading debentures, net	**48**	(4)	**161**	70
Other financing income (expenses)	**108**	167	**269**	425
Other financing income (expenses)	**(3)**	11	**21**	(15)
Total other income and expenses	**271**	171	**793**	583
Total net interest income before provision for doubtful debts	**1,926**	1,953	**3,288**	3,913
Of which: net, exchange difference	**(97)**	44	**(70)**	27
E. Detail of net effect of hedging derivative instruments on net interest income				
Financing income (expenses) on assets	**(1)**	3	**3**	(2)
Financing income (expenses) on liabilities	**1**	(10)	**(2)**	-

(a) Including effective portion of hedge relationships.

(b) Excluding effective portion of hedge relationships.

(c) Derivative instruments that 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 128 million (30 June 2008 – NIS (446) million).

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

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

Reported amounts (Unaudited)

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	**2009**	2008
	(NIS millions)		(NIS millions)	
Gains on sale of shares available for sale	**49**	1	**121**	9
Profits (losses) on sale of shares available for sale (b)	**-**	(28)	**(10)**	(103)
Realized and unrealized losses from adjustments				
to fair value of held for trading shares, net	**(5)**	(69)	**7**	(94)
Dividend on shares available for sale				
and on held for trading shares	**46**	52	**67**	73
Total from investments on shares	**90**	(44)	**185**	(115)

(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 30 June 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 debts								
From outside entities -	251	272	789	456	(55)	214	(1)	1,926
Intercompany operations -	295	(59)	(276)	(102)	212	(67)	(3)	-
Total	546	213	513	354	157	147	(4)	1,926
Operating and other income:								
From outside entities -	423	99	149	95	99	119	29	1,013
Intercompany operations -	57	(7)	(41)	(8)	3	-	(4)	-
Total	480	92	108	87	102	119	25	1,013
Total income	1,026	305	621	441	259	266	21	2,939
Provision for doubtful debts	82	45	138	89	(1)	(14)	-	339
After-tax profit from extraordinary items	-	-	-	-	-	-	27	27
Net profit (loss)	54	58	228	93	57	(5)	22	507

Note 10 - Information on activity by banking sectors (cont'd)
Reported amounts

	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	Statement of profit and loss for the Three Months Ended 30 June 2008 (Unaudited) (a)							
	(NIS millions)							
Net interest income (loss) before provision for doubtful debt:								
From outside entities -	74	331	1,038	603	(180)	90	(3)	1,953
Intercompany operations -	580	(107)	(578)	(227)	287	58	(13)	-
Total	654	224	460	376	107	148	(16)	1,953
Operating and other income:								
From outside entities -	424	112	105	108	87	(1)	29	864
Intercompany operations -	65	(7)	(42)	(8)	4	1	(13)	-
Total	489	105	63	100	91	-	16	864
Total income	1,143	329	523	476	198	148	-	2,817
Provision for doubtful debts	63	19	128	121	(1)	(14)	-	316
After-tax profit(loss) from extraordinary items	202	18	2	26	3	(1)	-	250
Net profit (loss)	356	103	179	113	34	108	(4)	889

(a) Reclassified.

Note 10 - Information on activity by banking sectors (cont'd)

Reported amounts

	Statement of profit and loss for the six Months Ended 30 June 2009 (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 -	496	500	1,350	860	(119)	201	-	3,288
Intercompany operations -	556	(76)	(407)	(179)	426	(315)	(5)	-
Total	1,052	424	943	681	307	(114)	(5)	3,288
Operating and other income:								
From outside entities -	828	208	248	197	201	275	59	2,016
Intercompany operations -	111	(17)	(73)	(16)	7	1	(13)	-
Total	939	191	175	181	208	276	46	2,016
Total income	1,991	615	1,118	862	515	162	41	5,304
Provision for doubtful debts	132	87	313	139	-	22	-	693
After-tax profit from extraordinary items	-	-	-	-	-	-	28	28
Net profit	108	118	353	192	107	48	10	936

Note 10 - Information on activity by banking sectors (cont'd)

Reported amounts

	Statement of profit and loss for the six Months Ended 30 June 2008 (audited) (a)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (expenses) before provision for doubtful debt:								
From outside entities -	38	618	1,883	1,191	(309)	492	-	3,913
Intercompany operations -	1,247	(168)	(848)	(420)	522	(295)	(38)	-
Total	1,285	450	1,035	771	213	197	(38)	3,913
Operating and other income:								
From outside entities -	849	230	148	216	197	7	68	1,715
Intercompany operations -	123	(18)	(77)	(16)	8	1	(21)	-
Total	972	212	71	200	205	8	47	1,715
Total income	2,257	662	1,106	971	418	205	9	5,628
Provision for doubtful debts	130	33	274	158	(1)	(34)	-	560
After-tax profit(loss) from extraordinary items	202	18	2	26	3	(2)	(1)	248
Net profit (loss)	511	202	385	272	74	(57)	(28)	1,359

Note 10 - Information on activity by banking sectors (cont'd)
Reported amounts

	Statement of profit and loss for the six Months Ended 30 June 2008 (audited)							
	Household banking	small buisness banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (expenses) 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	253	296	272	113	(1,469)	(191)	92

(a) Reclassified

Note 11 – Miscellaneous Matters

A. 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 proposed law for the amendment to section 24A of the Banking Law, see below. The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

The financial statements of Paz 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.

At the Bank’s request, the Bank of Israel approved the sale of the Bank's holdings in Paz by 30 December 2010, subject to the Bank’s holdings in Paz being transferred to a trustee. To this end, the Bank transferred its holdings to a trustee at the end of June 2009.

B. Migdal Insurance and Financial Holdings Ltd.

The Bank holds 9.85% of the issued and fully paid 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 the shares in Migdal 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 27 July 2009, the Knesset approved, in its first reading, a proposed Law for the Amendment of Section 24A of the Banking (Licensing) Law, which would provide that a corporation which is an insurer may operate in the insurance industry only. The Bank is holding discussions with the Bank of Israel regarding the effect of the said proposed amendment of the law on the Bank's holdings in the shares of Migdal Holdings.

C. On 12 February 2009, the employee options plan ended, at which time the 24,062,240 options that remained in circulation and which had not been exercised, were expired.

D. Union Bank

On 17 November 2003, an agreement was signed between the Bank, Sherodar Assets Ltd. ("Sherodar") and Yeshayu Landau Holdings (1993) Ltd. ("Landau") 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 held by the Bank, for a period ending on 17 November 2010.
On 11 May 2009, the Bank gave Sherodar and Landau notice regarding the exercise of the put option.
The transaction was completed on 28 June 2009 and the Bank sold the said shares, constituting all of the Bank's holdings in Bank Igud, to Landau and Sherodar, in exchange for a total amount of some NIS 108 million. The Bank's profit from the sale of the said shares is some NIS 17 million, net.

Note 12 – Post Balance Sheet Events

A. Hot Cable Communications Systems ltd.

On 3 August 2009, the Bank sold 11,376,902 ordinary shares of Hot-Cable Communications Systems Ltd. ("Hot"), which had been held by the Bank to Cool Holding Ltd. for a total amount of NIS 381 million. The Bank's after-tax profit from the sale is expected to be some NIS 120 million.

B. In accordance with the Supervisor of Banks' July 2003 instructions, the classification of credit given to a certain customer for the financing of the purchase of shares in the Bezeq company was changed from the credit to the public item to the securities item. On 10 August 2009, the customer's receiver announced that he had completed a transaction for the sale of 155,000,000 shares of NIS 1 par value each in the company, constituting 5.849% of Bezeq's share capital, and that the consideration, some NIS 1,137 million after deducting commissions and expenses, would be used to reduce the customer's debts to the banks, in accordance with each bank's share in the financing of the purchase of the Bezeq shares in 1999. The Bank's share in this consideration, after deducting commissions and expenses, is some NIS 272 million and the Bank will record a net profit of some NIS 55 million.

C. On 21 August 2009, the Bank signed an agreement with the Scailex Corporation Ltd. ("Scailex") for the acquisition of 7,677,037 ordinary shares constituting 4.99% of the issued and paid-up share capital of Partner Communications Ltd. (on an undiluted basis and after neutralizing dormant shares), for a consideration of NIS 514,553,405. The agreement includes standard minority protection rights and an option to purchase debentures convertible into Scailex shares in the amount of some NIS 103 million.

The agreement is conditional on the completion by Scailex of the transaction with Advent Investments Pte Ltd., a Singaporean corporation controlled by Hutchison Telecommunications International Ltd.

Leumi Partners Ltd. (a wholly owned subsidiary of the Bank) acted as the investment house in all aspects related to this transaction, including vis-à-vis additional potential investors and therefore Scailex has agreed to pay Leumi Partners a finders fee in the amount of US$ 3 million to be paid upon the completion of the transaction.

D. On 27 August 2009, in accordance with a permit received from the Israel Securities Authority, the Bank published a shelf prospectus, under which it was issue up to 6 series of debentures (series 400 to 405), up to 11 series of subordinated capital notes (series 250 to 256 and series 300 to 303) and up to 6 series of subordinated capital notes (series 200 to 205). The maximum amount of debentures and capital notes which the Bank may issue under this shelf prospectus is NIS 4 billion nominal of each of the above series.

Note 13 – Changes in Tax Legislation

A. Changes in Valued Added Tax rates

On 1 July 2009, the Value Added Tax Order (Tax Rate for Non-profit Organizations and Financial Institutions) 2009 was published in the Israeli Government Gazette. The Order raised the rates for salary tax and profit tax that are applicable to financial institutions, beginning on 1 July 2009 and continuing through 31 December 2010, from 15.5% to 16.5%.

As the Bank is a "financial institution" for the purpose of the Value Added Tax Law, the increase in the profit tax will increase the overall tax rate to which the Bank is subject, such that in 2009 it will be subject to an overall tax rate of 36.21% instead of 35.93% (an increase of 0.28 percentage points) and in 2010, it will be subject to an overall tax rate 35.62% instead of 35.06% (an increase of 0.56 percentage points).

The deferred taxes as at 30 June 2009 were calculated according to the amended tax rates, as the amendment was in fact completed during the period of the report.

During the first half of the year, the total impact of the change in the rate of the value added tax on the provision for taxes was not material.

B. Changes in Companies Tax Rates

In July 2009, the Knesset approved the Improved Economic Efficiency Law (Statutory Amendments for Implementation of the Economic Plan for 2009-2010), 2009, which determined, *inter alia,* a gradual reduction in the companies tax rates from 25% in 2010 to 18% for the year 2016 and thereafter. The tax rate to which the banks will be subject, including the profit tax, will drop from 35.62% in 2010 to 29.0% for the year 2016 and thereafter.

As the amendment was completed after the date of the balance sheet, the implications of the change of the tax rates will be expressed in the financial statements for the third quarter of 2009.

The change in the tax rates will increase the tax expense for the third quarter of 2009 in the amount of some NIS 153 million, taking into account the balance of deferred taxes as at 30 June 2009.