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

Condensed Financial Statements as at 31 March 2010

(unaudited)

Bank Leumi le-Israel B.M.
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26 May 2010

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A. General Developments in the Group’s Business

The Directors’ Report has been prepared in accordance with the public reporting directives of the Supervisor of Banks. The principles applied in preparing the interim reports are consistent with the principles used in preparing the Annual Report as at 31 December 2009. The interim reports should be read in conjunction with the Annual Report for 2009.

Description of 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 808 billion at the end of March 2010, as compared with NIS 782 billion at the end of 2009, an increase of some 3.3%, resulting primarily from the rise in the capital market and from the increase in activity.

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

Net profit in the first quarter of 2010 totaled NIS 596 million, compared with NIS 429 million in the corresponding period in 2009, an increase of 38.9%.

Net operating profit in the first quarter of 2010 totaled NIS 592 million, compared with NIS 428 million in the corresponding period in 2009, an increase of 38.3%.

The increase in net operating profit is explained mainly by an increase in net interest income, a decrease in provisions for doubtful debts and an increase in contribution to profit of companies included on the equity basis. On the other hand, the increase in operating and other expenses partially offset the abovementioned increases.

Net profit per share during the first quarter of 2010 was NIS 0.40, compared with NIS 0.29 in the corresponding period in 2009 and NIS 1.37 in the whole of 2009.

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

	31.12.2009	31.12.2008	31.12.2007	31.12.2006	31.12.2005
	In %				
Total assets	29.6	29.3	30.0	30.1	30.0
Credit to the public	28.3	29.1	29.7	29.8	29.9
Deposits of the public	29.9	29.8	30.2	30.5	30.6
Operating profit before tax	35.0	1.5(1)	37.9	27.5(2)	30.2
Net operating profit	35.8	- (3)	38.4	25.6(2)	30.5

(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

On 31 October 1993, the State of Israel became a shareholder of the Bank, under the Bank Shares Arrangement and the Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 (the “Bank Shares Law”). As provided 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 31 March 2010 and on 10 May 2010, 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**.**

On 14 June 2006, Bank Leumi Group employees (including the Chairman of the Board of Directors) purchased 40,333,691 shares of the Bank's capital from the State as part of the privatization plan. The shares are blocked until 13 June 2010. (The Chairman of the Board of Directors purchased his shares on 5 July 2006, and those shares are blocked until 4 July 2010). During the blocked period, the State has a power of attorney to vote the shares that were purchased and to use the right to appoint directors by virtue of the shares. The blocked shares constitute 2.74% of the voting rights.

The shares were offered to employees pursuant to an outline prospectus published on 9 May 2006.

The shares were sold to the employees at a benefit and as such, were blocked for a period of 4 years until 13 June 2010 and transferred in the name of a trustee.

At the same time as the shares were purchased by the employees, a loan to cover the purchase was extended to those employees who so desired, due to be repaid at the end of the blocked period.

The total outstanding balance on the loan as of 31 March 2010 is NIS 362 million. The loans to the employees were approved by the Supervisor of Banks.

At the end of the blocked period, the employees are obliged to pay tax in respect of the benefit granted to them on purchasing the shares, and to repay the loan.

According to the outline prospectus, the trustee may effect the sale within a period of one month from the end of the blocked period. The Bank appealed to the Supervisor of Banks with a request to extend the repayment of the loans by one month, in order to enable the trustee to act in accordance with the abovementioned in the outline prospectus, and the Supervisor has approved the extension.

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 provides that "the use of 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 was of the view that, given the percentage of the State's present shareholding in the Bank, it was not possible to view the State as having control of the Bank, and, under present circumstances, in practice, there is no controlling shareholder, as defined by law, in the Bank. (With regard to the position of Eliahu Holdings, as stated, see also, its petition to the High Court on this matter as set forth below.)

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 has been 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 the means of control in the Bank has been granted a control permit.

On 27 August 2009, 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 making 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 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 its support in 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, 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 is another interpretation, as detailed above.

On 1 March 2010, a petition to the High Court was received at the Bank's offices for the grant of a conditional injunction of Shlomo Eliahu, Shlomo Eliahu Holdings Ltd. and Eliahu Insurance Company Ltd., an interested party in the Bank, against the Minister of Finance, the Government of Israel, M.I. Properties Ltd. and the Bank. In the appeal, the court was asked to grant a conditional order, obligating the respondents to give reasons why they should not immediately sell the shares of the Bank owned by the Government and why a defined and immediate time-table should not be determined for the sale of the said shares. The court was further asked to make the order absolute, as long as the respondents' reply did not comply with the provisions of the law, and with the obligation imposed thereby, and to stipulate a defined, known and immediate time-table for the sale of the Bank's shares. On 17 March 2010, the court accepted the Bank's request and removed the Bank from the appeal.

Sale of Shares in the Bank by the State

On 25 November 2009, M.I. Holdings notified the Bank that it was preparing to sell the balance of the State's holdings in the Bank, though, at this stage, it had no defined plan.

On 26 April 2010, the Bank published a notice convening an annual general meeting to be held on 2 June 2010, with the agenda including the election of directors. See "Convening of Annual General Meeting" below.

Convening and Cancellation of Special General Meeting for the Election of Directors of the Bank and Convening of Annual General Meeting, including the Subject of the Election of Directors

On 11 January 2010, Shlomo Eliahu Holdings Ltd. ("Eliahu Holdings"), an interested party in the Bank, submitted a request to convene a Special General Meeting of the shareholders of the Bank, to discuss a proposal for the appointment of Dr. David Klein to serve as a director of the Bank.

On 24 January 2010, Mr. Eitan Raff, Chairman of the Board of Directors since 1995, announced that he did not intend to offer himself for re-election at the General Meeting. In consequence, Mrs. Galia Maor, President and CEO, announced that she had decided to offer herself as a candidate for election as a director of the Bank at the General Meeting.

On 31 January 2010, the Bank convened a Special General Meeting for 11 March 2010.

The "Ometz" Non-Profit Association, and subsequently, the Movement from the Quality of Government in Israel, each separately filed a petition with the High Court against the decision of the public committee and the Bank's Shares Committee to propose the appointment of Galia Maor as director of the Bank to the General Meeting of the shareholders of the Bank.

On 15 February 2010, Mrs. Galia Maor gave notice that, in view of the circumstances created since the submission of her candidacy to serve as director of the Bank, and the approval of her candidacy by the public committee and the Shares Committee, she had reached a personal decision to withdraw her candidacy to serve as director of the Bank.

The petitions mentioned above were struck out by the Court on 8 March 2010,

On 18 February 2010, the Board of Directors of the Bank decided to cancel the convening of the Special General Meeting, since on 14 February 2010, a response had been received from the staff of the Israel Securities Authority ("the Authority") to a request for a pre-ruling by the Bank, according to which the convening of the Special General Meeting should be cancelled, and a new meeting convened, after all the shareholders had been given an appropriate opportunity to offer themselves as directors of the Bank, if in the Bank's opinion, Article 87 of the Bank's Articles of Association is in effect.

Following the cancellation of the Special General Meeting, Eliahu Holdings and Eliahu Insurance Co. Ltd. ("Eliahu") filed an originating motion and application for a temporary injunction against the Board of Directors of the Bank and against the Bank, to invalidate the decision cancelling the Special General Meeting and to hold the Special General Meeting on 11 March 2010.

On 3 March 2010, judgment was handed down by the District Court rejecting Eliahu"s application to invalidate the decision of the Board of Directors of the Bank dated 18 February 2010, meaning that the decision of the Board of Directors of the Bank to cancel the Special General Meeting convened for 11 March 2010 remains valid.

On 18 March 2010, the Bank reported by Immediate Report that it intends to convene the Annual General Meeting on 2 June 2010 ("**the Annual Meeting**"), including, on its agenda, *inter alia*, the election of directors to the Bank's Board of Directors. For this purpose, the Bank permitted applications from shareholders wishing to propose their own candidacy or the candidacy of another shareholder for election as a director at the Annual Meeting, to submit their candidacy up to 21 April 2010, all in accordance with and subject to that included in the provisions of the abovementioned Immediate Report of the Bank.

On 12 April 2010, a letter from the Bank's Shares Committee was received in the Bank, in which the committee named its candidates for election to the Board of Directors of the Bank at the Annual General Meeting.

On 14 April 2010, a petition was submitted by the Movement for the Quality of Government in Israel, which was submitted against the Public Committee for the Bank's Shares in the Arrangement, the Bank's Shares Committee, the Minister of Finance, the Supervisor of Banks, and the Governor of the Bank of Israel and the Bank with a request to disclose the names of all of the candidates for election as directors in the Bank and the minutes of the discussions and reasoning that formed a basis for the decision regarding each of the abovementioned candidates.

On 15 April 2010, a petition was submitted by Mr. Shlomo Maoz against the Public Committee for the Bank's Shares in the Arrangement, the Bank's Shares Committee and the Bank. In the petition, the petitioner requests the Bank's Shares Committee to discuss and decide on the matter of its candidacy for election as a director in the Bank on its behalf, and that the Public Committee to publish the names of the candidates that it has forwarded for the scrutiny of the Bank's share committee.

On 17 May 2010, a hearing on the abovementioned appeals was held. The appeal of Mr. Maoz was cancelled on the recommendation of the court after the petitioner retracted his appeal. On 20 May 2010, the appeal of the Movement for the Quality of Government in Israel was dismissed.

On 26 April 2010, the Bank published a notice convening an annual general meeting to be held on 2 June 2010, including, on its agenda, *inter alia*, the election of directors. The list of the candidates for election as directors include the State's candidates who were proposed by the Bank's Shares Committee, candidates who were directors retiring by rotation and offer themselves independently for re-election and candidates who are shareholders in the Bank and who offer themselves for reelection.

On 14 April 2010, a letter was received in the Bank from Shlomo Eliahu Holdings Ltd. ("Eliahu"), an interested party in the Bank, asking the Board of Directors to fix a date for convening the Annual Meeting at a date as late as possible, that is, 15 months from the date of the previous annual meeting. At the meeting, held on 25 April 2010, the Board of Directors decided to convene the Annual Meeting on the planned date, as stated above, i.e. 2 June 2010.

On 16 May, 2010, Eliahu repeated its request to re-examine the postponement of the Annual Meeting till October.

Capital Resources and Transactions in the Shares of the Bank

Shareholders' Equity of the Group as at 31 March 2010 amounted to NIS 22,696 million, compared with NIS 21,862 million at the end of 2009, an increase of 3.8%. The increase in shareholders' equity derives mainly from the profit for the first quarter of the year and an increase in the value of the available-for-sale securities portfolio.

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

In the first quarter of the year, an increase in value of NIS 328 million, net, in shareholders' equity was recorded in this item, compared with a fall in value of NIS 430 million, net, in the corresponding period in 2009. (All of the amounts are net, after the related tax effect.)

The total net accrued balance of adjustments to fair value of securities held in the available-for-sale portfolio as of 31 March 2010 amounted to a positive sum of NIS 637 million (after the tax effect).

According to the rules for computing capital adequacy – Basel II, the balance in respect of the adjustment of securities to fair value is taken into account in the computation of capital for the purposes of the minimum capital ratio. On the other hand, according to the rules of Basel I which were in practice until 2009, the adjustment of the balance in respect of securities to fair value, in general, was not taken into account in the computation of capital for the purposes of the minimum capital ratio, with the exception of unrealized losses from adjustments to the fair value of available-for-sale shares, net of the tax effect.

Shareholders' Equity relative to Total Assets reached 7.1% on 31 March 2010, compared with 6.8% on 31 December 2009.

Total Capital relative to Risk Components according to Basel II reached 14.87% as of 31 March 2010, compared with 14.09% on 31 December 2009. This ratio is higher than the minimum ratio of 9% set by the Supervisor of Banks. The ratio of primary capital to the risk components reached 8.43% as of March 31, 2010, compared with 8.33% at the problematic debts. Effective 31 December 2009, the Bank commenced reporting according to the Basel II rules, pursuant to the directives of the Supervisor of Banks.

For detailed explanation, see pages 26-31 in the Annual Report.

Capital Adequacy Ratio

The Bank has a policy, approved by the Board of Directors, to hold a level of capital adequacy that is higher than the threshold defined from time to time by the Bank of Israel and higher in general in relation to the banking system in Israel and at a rate similar to the long-term average in the OECD countries.

The Group's policy, which reflects its appetite for risk, in accordance with the abovementioned, includes a target of aggregate capital ratio of 14.0%-14.5% and an "original" Tier 1 capital ratio of between 8.0%-8.5%. In addition, the Group set a target of keeping to an "original" Tier 1 capital ratio (without complex instruments) at the time of an extreme scenario (for the purpose of maintaining a going concern) that will not fall below 6%.

The abovementioned capital adequacy ratio policy relates to future transactions of the Bank, and it comes within the definition of "forward-looking" information. For the meaning of this term, see the section, "Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report", below on page 18.

Structure of capital components for the purpose of computing the capital ratio (Table 2 Basel II))

	31 March 2010	31 December 2009
	NIS million	NIS million
Tier 1 capital:		
Shareholders' equity	**7,059**	7,059
Premium	**972**	972
Reserves	**14,706**	14,176
Capital reserves from share-based payment transactions and other funds	**197**	197
Adjustments from translation of financial statements of companies included on equity basis	**(504)**	(474)
Loans to employees for the purchase of shares of the Bank	**(371)**	(377)
Minority interest in equity of consolidated companies	**285**	282
Amounts deducted from Tier 1, including goodwill, investments and other intangible assets	**(344)**	(357)
Total Tier 1 capital	**22,000**	21,478
Tier 2 capital:		
45% of the amount of net profits, before the effect of relevant tax in respect of adjustments to fair value of available-for-sale securities	**420**	208
General provision for doubtful debts	**428**	428
Innovative and non-innovative hybrid capital instruments	**5,799**	3,523
Subordinated notes	**10,218**	10,772
Amounts deducted from Tier 2 capital	**(64)**	(68)
Total Tier 2 capital	**16,801**	14,863
Total capital base for purposes of capital adequacy	**38,801**	36,341

Capital adequacy - (Table 3 Basel II):

Risk assets and capital requirements in respect of credit risk deriving from exposures to:	**31 March 2010** Risk assets	Capital requirements (3)	31 December 2009 Risk assets	Capital requirements (3)
	NIS million		NIS million	
Sovereign risk	**1,280**	**115**	1,356	122
Debts of public sector entities	**2,178**	**196**	2,315	208
Debts of banking corporations	**10,874**	**979**	11,845	1,066
Debts of securities company	**-**	**-**	-	-
Debts of corporations	**137,297**	**12,357**	132,976	11,968
Debts collateralized by commercial real estate	**16,968**	**1,527**	16,554	1,490
Retail exposures to individuals	**20,219**	**1,820**	20,140	1,812
Loans to small business	**10,920**	**983**	10,586	953
Housing loans	**22,188**	**1,997**	22,479	2,023
Securitization	**561**	**50**	592	53
Other assets	**10,838**	**975**	10,708	964
Total in respect of credit risk (1)	**233,323**	**20,999**	229,551	20,659
Risk assets and capital requirements in respect of market risk (1)	**6,587**	**593**	7,418	668
Risk assets and capital requirements in respect of operational risk (1) (2)	**20,940**	**1,885**	20,928	1,884
Total risk assets and capital requirements	**260,850**	**23,477**	257,897	23,211
Total capital base for capital adequacy	**38,801**		36,341	
Total capital ratio	**14.87%**		14.09%	
Tier 1 capital ratio	**8.43%**		8.33%	

(1) According to the standardized approach.
(2) According to the basic indicator approach.
(3) According to the 9% minimum requirement.

Issue of Subordinated Capital Notes and Subordinated Notes

On 27 August 2009, in accordance with a permit received from the Israel Securities Authority, the Bank published a shelf prospectus allowing it to 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 par value of each of the above series. The prospectus will remain valid for two years from the date of its publication.

In February 2010, the Bank issued subordinated capital notes (series 200 and 201) in an aggregate amount of NIS 2.3 billion, pursuant to the abovementioned shelf prospectus. The capital notes are for repayment after 50 years (February 2060), with series 200 being a total of NIS 1,250 million linked to the CPI and bearing interest of 4%. The capital notes from series 201 totaling NIS 950 million are not linked and bear variable interest at the rate of the yield on T-Bills per annum, plus a margin of 1.4%. The subordinated capital notes have been approved by the Bank of Israel as Upper Tier 2 capital.

Distribution of Dividends

Dividend Policy for 2009-2010

The Supervisor of Banks has announced that he expects that the banking system will not distribute dividends in respect of 2009, in the light of the risks, in order to stabilize a strong level 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 and receive approval

At its meeting on 24 March 2010, the Board of Directors decided not to recommend a distribution of dividends in cash in respect of 2009.

On 24 March 2010, in view of the uncertainty prevailing in the Israeli economy with regard to the scope and depth of the impact of the global financial crisis on the banking system in Israel, including on the Bank, the Board of Directors decided not to set a dividend policy in respect of 2010.

Bank Leumi le-Israel B.M. and its Investee Companies

Principal Data of Leumi Group

	Jan. - Mar. 2010	Jan. - Mar. 2009	Year 2009
Income, expenses and profits (in NIS millions):			
Net interest income before provision for doubtful debts	**1,807**	1,362	7,023
Provision for doubtful debts	**130**	354	1,517
Total operating and other income	**999**	1,003	4,563
Total operating and other expenses	**1,833**	1,564	6,937
Of which: costs of privatization (issue of shares and options to employees)	**-**	-	41
Operating profit before taxes	**843**	447	3,132
Net operating profit	**592**	428	1,986
Profit from extraordinary items after tax	**4**	1	28
Net profit for the period	**596**	429	2,014
Net operating profit per NIS 1 nominal value of share capital (in NIS)	**0.40**	0.29	1.35
Net profit per NIS 1 nominal value of share capital (in NIS)	**0.40**	0.29	1.37
Assets and liabilities at end of period (NIS millions):			
Total assets (total balance sheet)	**317,631**	318,052	321,775
Credit to the public	**207,613**	212,878	204,669
Securities	**52,526**	47,677	57,505
Deposits of the public	**244,579**	254,565	250,418
Debentures and notes	**26,812**	20,567	25,261
Shareholders' equity	**22,696**	18,836	21,862
Major financial ratios in annual terms (in %):			
Credit to the public to total balance sheet	**65.4**	66.9	63.6
Securities to total balance sheet	**16.5**	15.0	17.9
Deposits of the public to total balance sheet	**77.0**	80.0	77.8
Deposits of the public to credit to the public	**117.8**	119.6	122.4
Total shareholders' equity to risk assets according to Basel II (a) (e)	**14.87**	11.90	14.09
Tier I capital to risk assets according to Basel II (e)	**8.43**	7.73	8.33
Shareholders' equity (excluding minority interest) to total balance sheet	**7.1**	5.9	6.8
Net profit to average shareholders' equity (excluding minority interest) (c)	**11.2**	9.7	10.2
Net operating profit to average shareholders' equity (excluding minority interest) (c)	**11.2**	9.6	10.1
Rate of provision for tax on the profit	**39.5**	9.4	38.0
Provision for doubtful debts from credit to the public (c)	**0.25**	0.67	0.74
Provision for doubtful debts from total risk of credit to the public (c)	**0.16**	0.44	0.49
Net interest income before provision for doubtful debts to total balance sheet (c)	**2.30**	1.72	2.18
Total income to total assets (b) (c)	**3.58**	3.01	3.60
Total income to total assets managed by the Group (b) (c) (d)	**1.40**	1.38	1.48
Total operating and other expenses to total assets (c)	**2.33**	1.98	2.16
Total expenses to total assets managed by the Group (c) (d)	**0.91**	0.91	0.89
Net profit to total average assets (c)	**0.70**	0.55	0.58
Net operating profit (loss) to total average assets (c)	**0.70**	0.55	0.57
Financial margin including income and expenses from derivative financial instruments	**1.27**	0.16	1.10
Operating expenses to total income (b)	**65.3**	66.1	59.9
Operating and other income to operating and other expenses	**54.5**	64.1	65.8
Operating and other income from total income (b)	**35.6**	42.4	39.4

(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) Data for January - March 2009 according to Basel I

B. Other Information

Principal Developments in the Economy*

General
In the first quarter of the year, the Israeli economy grew by 3.3% in real terms, on an annualized basis, compared to the fourth quarter of 2009. This continued the trend of recovery in economic activity which started during 2009. The growth in the first quarter was positively affected by an increase in private and public demand.

The rates of exchange for the shekel against both the dollar appreciated during the period and the euro, *inter alia*, as a result of the weakening of the euro worldwide, and the impact of domestic factors, such the healthy state of Israel's foreign reserves. The Israeli consumer price index fell in the first quarter by 0.9%, while the Bank of Israel continued throughout this period, the process of gradually raising interest rates, with the aim of returning them to "normal" levels, appropriate for the economy. Thus, the interest rate, which had reached 1% in December 2009, was raised, and in May 2010, stood at 1.5%.

The stock market at the start of the year reflected the increasing optimism in the economy, and the share and convertible securities index increased by some 10.6%. Similarly, the corporate debentures index recorded price increases of some 5.3%, higher than those of Government debentures. It may be that this is consequence of investors' assessment that the level of risk among many companies in the economy - is falling, against a backdrop of economic activity in most sectors of the economy.

On 26 May 2010, MSCI started to include Israel in its leading indices (MSCI World and MSCI EAFE) which are associated with the developed markets, whereas, to date, Israel had been included in the share indices of countries belonging to the developing markets.

On 10 May 2010, the Organization of Economic Cooperation and Development (OECD) announced that it was inviting Israel to join its ranks. In the announcement, it noted Israel's ability to contribute to the organization in the field of science and technology, in which Israel had made significant achievements.

The Global Economy and the Crisis in Southern Europe
During the first quarter of the year, there were several signs pointing to an improvement in global economic activity. In April 2010, the International Monetary Fund revised upwards its 2010forecast for world growth compared to previous forecasts in the course of the previous year, The Fund is currently of the opinion that growth in the United States and in the Eurozone in 2010 will be 3.1% and 1.0%, respectively, compared to negative growth of (2.4%) and (4.1%), respectively in 2009.

In February 2010, there were increased concerns in financial markets regarding the economic situation of a number of European states, particularly, Greece, Portugal, Spain and Ireland, mainly as a result of their large budget deficits and the substantial increase in Government debt, due to the financial crisis.

At the beginning of May 2010, an agreement was reached between the International Monetary Fund, the European Union and the government of Greece to place at the disposal of Greece financing for an aggregate amount of 110 billion euros, and in exchange, the Greek government undertook to instigate a number of budgetary and financial reforms over several

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

years, so as to reduce the deficit and high budgetary debt and increase the extent of competition in the Greek economy.

Business Product and Economic Sectors

The business sector product expanded in the first quarter of 2010 at annual rate of 4.8%, compared to the fourth quarter of 2009. This indicates the recovery in the activity of the business sector continues, with positive economic growth being recorded since the second quarter of 2009.

The Bank of Israel's survey of Israeli companies, which is based on the responses of more than 500 companies in the various sectors of the economy to questions on their ability to expand economic activity, also indicated a positive trend. Thus, activity in the business sector continued to expand in the first quarter of 2010, in all branches of the economy, and this increase seems to have intensified. With regard to the coming quarter, the companies in all the sectors reviewed (industry, commerce, business services, hotels, transport and communications and building) indicated continued expectation of expansion in activity.

The State Budget and its Financing

The Government budget deficit in the first quarter of 2010 amounted to some NIS 2.8 billion, compared to a planned deficit for the whole of 2010 of some NIS 42.9 billion (5.5% of GDP).

An examination of the volume of Government expenditure in the first quarter of 2010 indicates an increase in expenses. This development is particularly noticeable in comparison to the first quarter of 2009, partly with regard to the increase in Ministry budgets and partly against a backdrop of the restraint as a result of an expenditure cap which was in place last year, because the approval of the budget was postponed. In respect of the State’s revenues from taxes, in the first quarter of 2010, there was a real increase of over 8% in the level of revenues compared to the corresponding period in 2009 (ignoring any amendment for changes in tax rates), with the amount collected in the first quarter of 2010, according to a Treasury notice, being NIS 1.3 billion higher than the target set in the 2010 budget. This is a reflection of the rate of growth being greater than the estimates used as a basis for constructing the budget: The Treasury forecast for 2010 on the basis of which the budget was constructed was for (real) growth of 1.5% of GDP, while the economy has grown faster in recent quarters.

Foreign Trade and Capital Flows

The area of foreign trade in the first quarter of the year indicates a dollar growth, both in exports and in the import of goods, compared to the preceding quarter (In comparison to the corresponding period in 2009, the rates of growth were especially high – more than 30%, in both exports and imports). This is reflected in all of the import components, with industrial exports continuing to increase. To be prudent, we would point out that the impact of the increase in raw material prices could have made a significant contribution to Israel’s foreign trade expansion. In this context, it is worth noting the fact that exports of goods were higher than imports throughout the whole of last year (On the basis of data in which the effect of fluctuating components have been eliminated, it is possible to refer to a foreign trade “basic account”.) This means that there is a surplus in this account, not a deficit, a situation that supports the strength of the shekel. It appears, therefore, that, at present, despite the continuing appreciation in the real exchange rate of the shekel, the industrial sector is managing to expand its activity, against a background of a recovery in economic activity worldwide, with the current level of exports close to what it was prior to the crisis.

Figures for capital flows to and from Israel in the first quarter of 2010 indicate a trend of investments by foreign residents in Israel exceeding the investments by Israeli residents abroad. This was most prominent among financial investments, while direct investments by foreign residents maintained a relatively stable annual rate of NIS 4.2 billion in the year.

These factors have supported the shekel against various foreign currencies since the beginning of the year.

Exchange Rates and Foreign Currency Reserves

In the first three months of the year, the shekel appreciated some 1.6% against the dollar, with a sharp appreciation of the shekel against the euro of some 8.3%. The strengthening of the shekel against these major currencies is a result that combines the strengthening of the dollar against the euro on world markets and the effect of domestic factors, including, for example, an improvement in Israel's foreign currency reserves. The euro's weakness around the world and against the shekel, continued during April and May and throughout this period (up to 13 May), the shekel gained a further 5.2% against the euro.

Foreign currency balances in the Bank of Israel at the end of March 2010 amounted to US$ 62.5 billion. This compared with US$ 60.6 billion at the end of December 2009. During this period, the Bank of Israel purchased an aggregate US$ 2.3 billion of foreign currency.

Inflation and Monetary Policy

During the first quarter of 2010, the Israeli consumer price index fell by some 0.9%. An examination of the rate of increase in the consumer price index in the past 12 months indicates that the rate at March reached 3.2%, slightly higher than the upper limit for the price stability target. The item which was particularly prominent in its increase in the past year was that of transport and communication which increase by some 8.1% and contributed more than half of the total increase in the index. This was against a background of rising oil prices worldwide. In April, the CPI increased by 0.9%.

At the beginning of 2010, the Bank of Israel took steps to effect a certain reduction in its monetary policy, steps that it had begun to implement in 2009. Thus, the interest rate, which, in December 2009, stood at 1.0%, was increased, and in March, was 1.25%. In April, the rate was raised to 1.5%, and it has remained at this level in May. The improvement in the economic situation, developments in property prices and exchange rates and the inflationary environment which is still above the middle price stability target – all these supported the gradual process of raising interest rates. According to the Bank of Israel, this derives from an intention to restore interest rates to a "normal" level.

The Capital Market

The shares and convertible securities index rose by some 10.4% in the first quarter of 2010, following an increase of some 78.8% in 2009, while the TA-100 index increased by some 8.5% in this period. The increase in prices encompassed all of the main trading sectors. The sharp increases also came against a backdrop of the continued improvement in economic activity and the expansive monetary policy of the Bank of Israel, which maintains a negative real interest rate over the short term. This is aside price increases that occurred on foreign stock exchanges and they also had a positive impact. Average daily trading volumes of shares and convertible securities were expanded and amounted to some NIS 2,051 billion, and also reflected this trend. This is an increase of some 20.3% compared to the average for 2009.

In April, the trend reversed, with the TA-100 index dropping by some 5%.

The debenture market was characterized by rising prices in the first three months of the year, in both government and corporate debentures. The prices of index-linked government debentures increased slightly by some 1.7%, while unlinked debentures rose by some 1.8%.

In the non-government debentures market (corporate debentures), CPI-linked debentures recorded price increases of some 5.3% in the first three months of 2010. This may possibly result from an assessment by investors that the level of risk among many companies in the economy is falling, against a background of the recovery in economic activity in most market sectors.

Financial Assets held by the Public

The portfolio of financial assets held by the public at the end of March 2010 amounted to some NIS 2,410 billion, which is some 4.8% higher than its level at the end of 2009. This is following an increase of some 21.9% in the value of the portfolio in 2009. The increase in the value of the portfolio derives mainly from an increase in the value of shares in Israel and abroad against a background of the continued increase in prices on stock exchanges in Israel and around the world. A further expression of the significant effect that the increase in prices had can be found in an examination of the weight of the shares in the market. This weight was at a level of 25.4% at the end of March 2010.

Total financial assets of the public managed by **the Group** (deposits of the public, debentures and capital notes, securities portfolios, including securities in custody of mutual funds, provident and pension funds, and supplementary training funds to which operational, management and custody services are provided) amounted to some NIS 757 billion at the end of March 2010, compared to some NIS 736 billion at the end of December 2009, an increase of 2.8%.

Bank credit

Bank credit in the economy granted to the private sector (before provisions for doubtful debts and including housing loans) increased by just 0.2% in the first two months of the year, after it had remained stable in 2009. This was a consequence of a slight increase in credit extended to the business sector, compared to a slight decrease in the bank credit extended to the household sector. Non-bank credit also contracted slightly, despite issues of debentures by the non-financial business sector (quoted and unquoted) which, according to Bank of Israel figures, amounted to some, NIS 5.5 billion in the first quarter of the year. It appears that, in spite of the expansive economic activity and the improvement in the state of the capital market, demand for credit remains subdued. In this context, a survey conducted by the Bank of Israel indicates that the financing difficulties experienced by companies in the business sector have eased, reaching a level lower than that felt prior to the crisis.

Credit to the public in **the Bank** amounted to some NIS 134.8 billion at the end of the March 2010, compared to NIS 132.6 billion at the end of December 2009, an increase of 1.7%.

Foreign and local ratings agencies' credit ratings

On 4 May 2010, the international rating company, Standard and Poor’s raised the ratings forecast of Leumi from “negative” to “stable” and ratified Leumi’s long-term rating of BBB+ and its short-term rating of A-2. Leumi is the only one of the Israeli banks surveyed by Standard and Poor’s to receive an increased rating.

It should be noted that, in April 2009, Standard and Poor’s lowered the rating from A- to BBB+, in light of the negative impact of the global and domestic economic crisis on profits and the quality of the assets. S&P notes that the stable forecast for Leumi reflects its standings and financial performance during the period of domestic economic slowdown. The forecast and the rating also reflect Leumi’s strong presence in Israel, as well as its high liquidity and its diverse asset base.

On 5 May 2010, the international rating company, Fitch, ratified Leumi’s long-term rating of A- and “stable” forecast and short-term rating of F2. (These ratings have remained unchanged since February 2008.) Fitch noted the Israeli economy had performed better than many other economies during the global economic crisis. As a result, Fitch emphasized that the indicators relating to the quality of the assets pointed to a positive trend.

	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 2010
	S&P	A-1	A	stable	March 2010
	Fitch	F1	A	stable	November 2009
Leumi's rating in foreign currency	Moody's	P-1	A1	negative	March 2010
	S&P	A-2	BBB+	stable	May 2010
	Fitch	F2	A-	stable	May 2010
Leumi's rating in local currency	Moody's	P-1	A1	negative	March 2010
Leumi's rating in local currency for debentures and standard deposits	Ma'alot	-*	AA+	stable	May 2010
	Midrug	P-1	Aaa	stable	January 2010
Leumi's rating in local currency for subordinated capital notes	Ma'alot	-*	AA	stable	May 2010
	Midrug	Aa1	Aa1	stable	January 2010
Leumi's rating in local currency for subordinated capital notes (Upper Tier II)	Ma'alot	-*	(A+,A)**	stable	May 2010
	Midrug	-*	Aa2	stable	January 2010

* Not relevant

** A: Upper Tier II capital with compulsory conversion of principal into shares (rating updated in May 2010).
A+: "New" Upper Tier II capital, not convertible into shares (rating given in May 2010).

Developments regarding Leumi Shares

From the beginning of the year until 31 March 2010, the price of Leumi shares fell from 1,745 points to 1,734 points, a change of 0.6%. During this period, the Bank's market value fell from NIS 25.7 billion to NIS 25.6 billion.

Since the end of March and until 20 May, the share price fell to 1550 points, and the Bank's market value reached NIS 22.8 billion.

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

	For the three months ended 31 March		For the year
	2010	2009	2009
	(in percentages)		
Rate of increase of the "known" CPI	**(1.0)**	(0.7)	3.8
Rate of increase (decrease) in the rate of the US dollar	**(1.6)**	10.2	(0.7)
Rate of increase (decrease) in the rate of the euro	**(8.3)**	5.2	2.7
Rate of increase (decrease) in the rate of the pound sterling	**(8.2)**	8.0	10.2
Rate of increase (decrease) in the rate of the Swiss franc	**(4.9)**	3.1	2.9

The following table sets out the principal representative exchange rates:

	31 March		31 December	
	2010	2009	2009	2008
	In NIS			
US dollar	**3.713**	4.188	3.775	3.802
Euro	**4.991**	5.574	5.442	5.297
Pound sterling	**5.609**	5.992	6.111	5.548
Swiss franc	**3.487**	3.677	3.667	3.565

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 forecast, 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 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.

Proposed Banking Law (Service to Customer) (Amendment – Interest on Credit Balance)

A bill which is intended to require the banks to pay interest on amounts accrued on their customers’ current accounts. The proposer claims that, in light of the fact that the banks collect commissions on each transaction and debit the account with interest in respect of debit balances, they should be required to pay credit interest, as has been customary in some banks in the past.

Similar bills have been proposed in previous Knesset sessions; the bill has not been advanced and has not passed its first reading.

Property of Holocaust Victims

On 24 June 2009, the Tracing and Restitution of Property of Holocaust Victims Company Ltd. (the “Company”), which was established pursuant to the provisions of Assets of Holocaust Victims (Restitution to Heirs and Endowment for the purpose of Assistance and Commemoration) Law, 2006 (the “Law”), whereby the Court was requested to make various declarations regarding “assets of Holocaust victims” as defined in the Law, which the claims, are held or were held by the Bank. Before a response had been given by the Bank to the originating motion, an arbitration agreement was signed between the Company and the Bank bearing the date, 26 February 2010, with the aim of bringing the disputes between the parties to an effective and speedy settlement, the court handed down a judgment dismissing the originating motion.

For further details, see Note 6(c)(2)(c) to the financial statements.

Companies Tax

On 14 July 2009, the Knesset passed the Improved Economic Efficiency Law (Statutory Amendments for Implementation of the Economic Plan for 2009-2010), 2009, which determines, *inter alia*, a gradual reduction in the companies tax rates from 25% in 2010 to 18% for the year 2016 and thereafter.

Value Added Tax

On 1 July 2009, the Value Added Tax Order (Tax Rate for Non-profit Organizations and Financial Institutions) (Temporary Provisions), 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%.

On 31 December 2009, the Value Added Tax Order (Tax Rate for Non-profit Organizations and Financial Institutions) (Temporary Provisions) (Amended), 2009 was published in the Israel Government Gazette. The Order reduced the rates for salary tax and profit tax that are applicable to financial institutions, as from 1 January 2010 and continuing through 31 December 2010, from 16.5% to 16%.

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 2009.

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, 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 2009 were as follows: provisions for doubtful debts, financial instruments and derivatives, securities, obligations regarding employee rights, obligations in respect of legal claims, buildings and equipment and taxes on income.

During the period January - March 2010, there were no changes in the accounting policy on critical subjects compared with that outlined in the 2009 Annual Report.

For further details, see pages 52-57 of the Annual Report for 2009.

Procedure for the Approval of the Financial Statements

Procedure for Approval of the Financial Statements

The Bank's Board of Directors is the entity ultimately responsible for supervision within the Bank and for the approval of the Bank's Financial Statements. All the members of the Board of Directors possess accounting and financial expertise, as set forth on pages 287-289 of the 2009 Financial Statements, 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. The Disclosure Committee checks, *inter alia*, that the information in the financial statements is accurate, complete and presented fairly. (The Disclosure Committee was set up as part of the implementation of the Supervision of Banks directive, which is based on section 302 of the SOX Law. See "Controls and Procedures with regard to Disclosure in the Financial Statements" on page 279-280 in the 2009 Report.

Prior to the discussion of the Financial Statements by the full Board of Directors, discussions are held by the Financial Statements Review Committee, 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.

The background material that is sent to the members of the Financial Statements Review Committee for discussion includes the minutes of discussions in the Disclosure Committee and its decisions, the draft Board of Directors' Report and draft of the Financial Statements. The members of the Committee also receive details regarding new disclosure requirements, if any, applicable to the Bank. Information regarding the Bank's exposure to legal claims and a description of the new legal claims and background material for discussion on the appropriateness of the classification of problematic customers and provisions, being confidential and sensitive material, is made available for the advance review of the members of the committee in the Bank's offices.

As part of the deliberations, the committee discusses the appropriateness of the provisions and the classification of the Bank's problematic debts, after the Chief Executive Officer has presented to the committee the extent of the provisions and the classification for problem debts and the changes and the trends in this area, and after the senior managers have presented the extent of the provisions and classifications for which they are responsible and have detailed the main factors of change in these areas. The subject of the legal claims and of the Bank's exposure in this regard is presented by the Bank's Chief Legal Advisor. The Senior Deputy Chief Executive Officer presents to the Committee the main and material matters in the Directors' Report and Financial Statements, the changes in critical accounting policies, if any, and the main matters discussed by the Disclosure Committee, and the Committee also discusses these matters.

Following the discussions of the Committee, there is discussion on the final draft of the Financial Statements in the full Board of Directors, attended by 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 the annual Financial Statements, the other members of the Bank’s Management also. As background material for the discussion, the Directors receive the draft Financial Statements together with extensive accompanying background material, including in-depth comprehensive analyses of the Bank’s activities in its various areas of business.

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

All the discussions of the Board of Directors, the Financial Statements Review Committee and the Committee for Disclosure regarding the Financial Statements are attended by 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 their presentation by the joint auditors to the Financial Statements Review Committee and the Audit Committee of 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 representations of the President and Chief Executive Officer and of the Senior Deputy Chief Executive Officer regarding evaluation of the Bank's disclosure controls and procedures for the Financial Statements.

On 4 February 2010, the Companies Regulations (Directives and Conditions concerning the Procedure for approving Financial Statements), 2010 were published, which will apply to financial statements prepared as of 31 December 2010 and thereafter. The regulations determine *inter alia* that the board of directors of a public company will approve the financial statements after the financial statements review committee has discussed the statements and given its recommendations to the board of directors and reported to it on every deficiency and problem discovered during the review process. The regulations determine the composition and qualifications of the members of the Financial Statements Review Committee.

Disclosure Policy

Pursuant to Bank of Israel directives, reporting requirements in Pillar 3 of the Basel II directives oblige the Bank to determine a formal disclosure policy. The policy is to refer to the banking corporation's approach to determining what disclosure is made including the internal controls on the process.

Leumi has determined its disclosure policy, which has been approved by the Board of Directors.

The disclosure policy is based on the Directives for Reporting to the Public of the Supervisor of Banks and the provisional directives of the Israel Securities Authority, which have been adopted by the Supervisor of Banks.

In accordance with the said disclosure policy, Leumi aims to provide all material information necessary to understand its statements, which will be reported clearly and in detail.

Information given in the Directors' Report is prepared in accordance with directives for Reporting to the Public, especially pursuant to “Temporary Order concerning the Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report”. In accordance with the directive, the directors' report is to include information in the Bank's business, the operating segments in which it operates, the general environment in which it operates and its influence on the Bank, the control structure of the Bank and its organizational structure, legal proceedings, material agreements, and detailed information on other matters.

With regard to information which can be quantified, quantitative data is given, and with regard to other information, qualitative data is given.

The general principle according to which information is given in the report is the principle of materiality. The Bank's business and its activities are examined according to their scope and nature, and at the end of the examination, disclosure is made regarding matters of material monetary size in relation to the annual profit of the Bank, its assets or its equity. In addition, disclosure is made of matters of public interest or of special sensitivity, such as matters connected with the structure of the Bank, its management, legislation affecting the bank and so on.

For the purposes of complying with this policy, every material subject is brought for discussion to the Disclosure Committee, (see above chapter of the Procedure for Approval of the Financial Statements), which decides in all dubious cases, whether to make the necessary disclosure. Minutes of the Disclosure Committee are sent for perusal by the members of the Financial Statements Review Committee of the Board of Directors.

See also page 118 “Controls and Procedures regarding Disclosure in the Financial Statements”.

C. Description of the Group's Business according to Segments and Areas of Activity

Development of Income, Expenses and Tax Provision

Leumi Group's **net profit** for the first quarter of 2010 was NIS 596 million, compared with NIS 429 million in the corresponding period in 2009, an increase of 38.9%.

The increase in the Group's net profit for the first quarter of 2010, as compared with the corresponding period in 2009, is explained primarily by the following factors*:

1. An increase in net interest income before provision for doubtful debts in the amount of NIS 445 million, an increase of 32.7%, before the effect of taxes.

2. A decrease in provisions for doubtful debts in the amount of NIS 224 million, before the effect of taxes, a decrease of 63.3%.

3. An increase in the Group's share in the profits of companies included on the equity basis in the amount of NIS 51 million, net.

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

1. An increase in the operating and other expenses (including salary) in the amount of NIS 269 million, an increase of 17.2%, before the effect of taxes.

2. A reduction in operating and other income of NIS 4 million, before the effect of taxes.

3. A decrease in the effective tax rate by 30.1 percentage points, as explained on page 29 in the section, provision for tax.

* Before minority interests in consolidated companies.

Net interest income before provision for doubtful debts of Leumi Group for the first quarter of 2010 amounted to NIS 1,807 million, compared with NIS 1,362 million in the corresponding period in 2009 – an increase of NIS 445 million, which constitutes an increase of 32.7%.

The increase in the Group's net interest income before provision for doubtful debts for the first quarter of 2010 as compared with the corresponding period in 2009 stems mainly from:

	For the three months ended		
	31 March 2010	31 March 2009	Change
	NIS millions		%
Current activities	**1,592**	1,633	(2.5)
Collection and reduction of interest in respect of problematic debts	**144**	89	61.8
Exchange rate differentials in respect of financing shares recorded in operating income	**(5)**	(109)	-
Profits from sale of available-for-sale debentures, net	**65**	143	(54.5)
Realized and unrealized profits from adjustments to the fair value of debentures for trading	**70**	113	(38.1)
Financing income (costs) in connection with hedging of overseas investments*	**40**	(146)	-
Adjustments to fair value of derivative instruments	**(84)**	(328)	-
Effect of the known CPI	**(15)**	(33)	-
Total	**1,807**	1,362	32.7

* Revenues from/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 recorded in the tax item. See also the impact on the tax.

As indicated in the above table, net interest income from current activities declined by 2.5%. The slight fall in the margin (from current activity) was partly compensated by the increase in the volume of activity. Most of the impact is in the index-linked shekel sector in which the volume of activity increased by some 16% and the margin fell by some 0.11%, taking into account the fact that this represents 40% of the volume of activity the impact on net interest income was material.

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

Sector	For the three months ended		
	31 March 2010	31 March 2009	Change
	NIS millions		%
Households	**498**	506	(1.6)
Small businesses	**220**	211	4.3
Corporate banking	**488**	430	13.5
Commercial banking	**361**	346	4.3
Private banking	**97**	112	(13.4)
Financial management – capital markets	**145**	(243)	+
Other	**(2)**	-	0.0
Total	**1,807**	1,362	32.7

Total **Interest Margin** (excluding transactions in financial derivatives) in the first quarter of 2010 was 2.46%, compared with 0.04% in the corresponding period in 2009. The interest margin including financial derivative transactions was 1.27% in the first quarter of 2010, compared with 0.16% during the corresponding period in 2009, and 1.10% for the whole of 2009. The method of recording in respect of derivative transactions had a significant impact on the interest margin in the periods particularly in 2009.

The low financial margin during the first quarter of 2010 was mainly affected, *inter alia*, by the following:

a. The low interest rate at the Bank of Israel, as well as 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, the interest received in respect of which has declined substantially.

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

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

d. The low overall interest margin was also affected by timing differences in measuring profitability from activities in financial derivatives and by exchange rate differentials in respect of hedging overseas investments and the investments in shares.

e. On the other hand, the increase in credit risk margins was partially offset by these effects.

The ratio of net interest income before provision for doubtful debts to the average balance of the financial assets was 2.39%, compared with 1.87% (in annual terms) during the corresponding period in 2009.

Commissions from Financing Transactions during the first quarter of 2010 amounted to NIS 90 million, compared with NIS 81 million during the corresponding period in 2009, an increase of 11.1%. 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 interest. Net income from these operations during the first quarter of 2010 amounted to NIS 313 million, compared with NIS 441 million in the corresponding period in 2009.

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

	For the three months ended		
	31 March 2010	31 March 2009	Change
	NIS millions		%
Net profit from sales of available-for-sale debentures	**66**	189	(65.1)
Decline in value of available-for-sale debentures	**(1)**	(46)	+
Profit from sales and adjustments to fair value of debentures for trading	**70**	113	(38.1)
Collection of interest in respect of doubtful debts	**144**	89	61.8
Early credit repayment commissions	**35**	27	29.6
Other	**(1)**	69	-
Total	**313**	441	(29.0)

Provision for Doubtful Debts in Leumi Group for the first quarter of 2010 amounted to NIS 130 million, compared with NIS 354 million in the corresponding period in 2009, a decrease of NIS 224 million, 63.3%.

The additional and general provision for doubtful debts, in respect of unidentified risks in the credit portfolio - which are based upon the risk characteristics of the credit portfolio - and in respect of sectoral credit excess, was reduced by NIS 29 million during the first quarter of 2010, compared with an increase of NIS 31 million during the corresponding period in 2009, and an increase of NIS 48 million for the whole of 2009.

The overall rate of the provision for doubtful debts for the first quarter of 2010 was 0.25% of total credit to the public (in annual terms), compared with a rate of 0.67% in the corresponding period in 2009, and compared with 0.74% for the whole of 2009. The rate of the overall provision for doubtful debts in relation to overall credit risk (balance sheet and off-balance sheet) was 0.16%, 0.44% and 0.49%, respectively.

The accumulated 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 871 million (constituting 0.42% of total credit to the public) on 31 March 2010, compared with NIS 900 million at the end of 2009.

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

Segment	**31 March 2010**		31 March 2009	
	NIS millions	**% ***	NIS millions	%*
Households	**20**	**0.1**	50	0.3
Small businesses	**13**	**0.3**	42	1.0
Corporate banking	**73**	**0.4**	175	0.9
Commercial banking	**31**	**0.3**	50	0.4

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

See pages 32 and 38 for further details.

The following table sets out the breakdown of the specific provision by main sector of the economy:

	31 March 2010		31 March 2009	
	NIS millions	%	NIS millions	%
Industry	**10**	**6.3**	75	23.5
Construction and real estate	**107**	**67.3**	75	23.5
Trade	**18**	**11.3**	(10)	(3.1)
Transportation and storage	**(1)**	**(0.6)**	8	2.5
Communications and computer services	**(2)**	**(1.3)**	23	7.2
Financial services	**6**	**3.8**	73	22.9
Other business services	**-**	**-**	11	3.4
Private persons - housing loans	**(5)**	**(3.1)**	5	1.6
Private persons – other	**29**	**18.2**	56	17.6
Other	**(3)**	**(1.9)**	3	0.9
Total *	**159**	**100.0**	319	100.0

In addition, at 31 March 2009, there is a provision in respect of banks amounting to NIS 4 million.

The following is the concentration of the provisions for doubtful debts:

	31 March 2010	31 March 2009
	NIS millions	
Specific provision during the period	**366**	556
Reduction in specific provision	**(200)**	(230)
Collection of debts previously written off	**(7)**	(3)
Net addition, charged to the profit and loss statement	**159**	323
Net addition, charged to the profit and loss statement in respect of additional and general provision	**(29)**	31
Total provision for doubtful debts	**130**	354

On 18 February 2010, the Supervisor of Banks announced that the Accounting Standards FAS 114 and 118 "Measurement and Disclosure of Defective Debts, Credit Risk and Provision for Credit Losses" would come into force with effect from 1 January 2011.

For details, see Note 1 to the Financial Statements.

The following is the breakdown of the provisions for doubtful debts:

	31 March 2010	31 March 2009
	NIS millions	
The Bank	**109**	299
Arab Israel Bank	**5**	7
Leumi Mortgage Bank	**(6)**	4
Leumi Card	**7**	8
Bank Leumi – U.S.A.	**2**	23
Bank Leumi – U.K.	**1**	7
Bank Leumi – Romania	**6**	5
Leumi Leasing and Investments	**6**	2
Others	**-**	(1)
Total	**130**	354

Profit from Net Interest Income after Provision for Doubtful Debts of Leumi Group for the first quarter of 2010 amounted to NIS 1,677 million, compared with NIS 1,008 million for the corresponding period in 2009, an increase of 66.4%.

Total Operating and Other Income of Leumi Group for the first quarter of 2010 amounted to NIS 999 million, compared with NIS 1,003 million in the corresponding period in 2009, an increase of 0.4%.

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

	For the three months ended			
	31 March 2010	31 March 2009	**Change**	
	NIS millions		NIS millions	%
Operating commissions (1)	**904**	831	73	8.8
Profits (losses) from investments in shares (2)	**74**	95	(21)	(22.1)
Other income (3)	**21**	77	(56)	(72.7)
Total operating and other income	**999**	1,003	(4)	(0.4)

The following are the main additional details regarding each of the abovementioned items:

1. Operating commissions (an increase of NIS 73 million):

   a. An increase in income from securities transactions in the amount of NIS 20 million, (10.2%).

   b. An increase in income from credit handling and preparation of legal documents in the amount of NIS 18 million, (28.6%).

   c. An increase in distribution commissions of financial products in the amount of NIS 18 million (48.6%).

   d. An increase in income from credit cards in the amount of NIS 14 million (7.7%).

   e. A decrease in income from account management in the amount of NIS 8 million (3.8%).

2. Profits (losses) from investments in shares (NIS 21 million).

   a. Net losses from the sale of available-for-sale securities in the amount of NIS 2 million, compared with net profits in the amount of NIS 62 million in the corresponding period in 2009.

   b. Profits from the realization and adjustment to fair value of securities for trading in the amount of NIS 2 million, compared with NIS 12 million during the corresponding period in 2009.

   c. Dividends from available-for-sale shares and shares for trading in the amount of NIS 74 million, compared with NIS 21 million in the corresponding period in 2009.

3. Other income (a decrease of NIS 56 million)

Most of the decrease is attributable to the recording of the gains from the severance pay provident fund in the amount of NIS 57 million in the first quarter of 2009. (This year, no gains in this item were recorded.)

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 35.6%, compared with 42.4% in the corresponding period in 2009 and 39.4% for the whole of 2009.

Operating and other income covers 54.5% of operating and other expenses, compared with cover of 64.1% in the corresponding period in 2009, and compared with 65.8% for the whole of 2009.

Total Operating and Other Expenses of Leumi Group in the first quarter of 2010 amounted to NIS 1,833 million, compared with NIS 1,564 million in the corresponding period in 2009, an increase of 17.2%.

Salary expenses rose by NIS 253 million in the first quarter of 2010, and by 28.7%, compared with the corresponding period in 2009. The increase in salary expenses derives primarily from the provisions for bonuses, a decrease in yield from the severance pay fund and pension fund, which also serve as a reserve for covering employee pension obligations, and an actuarial adjustment for the employees' pension obligation.

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased by NIS 16 million in the first quarter of 2010, an increase of 2.4%, compared with the corresponding period in 2009, mainly as a result of an increase in depreciation expenses of 5.4%.

Operating expenses constitute 65.3% of total income, compared with 66.1% in the corresponding period in 2009, and compared with 59.9% for the whole of 2009.

Total operating and other expenses (in annual terms) constitute 2.33% of total assets, compared with 1.98% in the corresponding period in 2009, and compared with 2.16% for the whole of 2009.

Operating Profit before Taxes of Leumi Group for the first quarter of 2010 amounted to NIS 843 million, compared with NIS 447 million in the corresponding period in 2009, an increase of 88.6%.

Provision for Taxes on Operating Profit of Leumi Group in the first quarter of 2010 amounted to NIS 333 million, compared with NIS 42 million in the corresponding period in 2009. The rate of the provision in the said period was some 39.5% of the pre-tax profit, compared with 9.4% in the corresponding period in 2009, a decrease of some 30.1 percentage points.

The changes in the rate of the provision for taxes were principally affected, by:

1. Exchange rate differentials in respect of overseas investments, which are not included in the basis of the tax computation and which were negative in the relevant period, compared with positive exchange rate differentials in the corresponding period in 2009, as detailed on page 79 of the Report, increased the rate of the tax provision by 6 percentage points, compared with a reduction of 29 percentage points in the corresponding period in 2009.

2. The recording of deferred taxes in respect of a capital loss and the profits of subsidiaries, which are authorized traders, reduced the tax rate by 4 percentage points.

Operating Profit after Taxes for the first quarter of 2010, amounted to NIS 510 million, compared with NIS 405 million in the corresponding period in 2009, an increase of 25.9%.

The Group's Share in Operating Profit (Loss) after Taxes of Companies Included on the Equity Basis amounted to NIS 85 million in the first quarter of 2010, compared with NIS 34 million in the corresponding period in 2009, i.e., an increase of some NIS 51 million in the contribution, For details, see page 69 below.

Minority Interests in the Profits of the Group in the first quarter of 2010 amounted to a profit of NIS 3 million, compared with a profit of NIS 11 million in the corresponding period in 2009.

Net Operating Profit of the Group for the first quarter of 2010 amounted to NIS 592 million, compared with a profit of NIS 428 million in the corresponding period in 2009, an increase of 38.3%.

Net Profit from Extraordinary Items after Taxes in the first quarter of 2010 amounted to NIS 4 million, compared with a profit of NIS 1 million in the corresponding period in 2009.

Net Basic Operating Profit per share reached NIS 0.40 in the first quarter of 2010, compared with NIS 0.29 in the corresponding period in 2009.

Net Basic Profit per share reached NIS 0.40 during the first quarter of 2010, compared with NIS 0.29 in the corresponding period in 2009.

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

	2010	**2009**			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	%				
Net profit	**11.2**	10.6	11.0	11.1	9.7
Net operating profit	**11.2**	10.6	11.0	10.4	9.6

Development of Profit during the Last Five Quarters

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

	2010	2009			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(NIS millions)				
Net interest income	**1,807**	1,812	1,923	1,926	1,362
Provision for doubtful debts	**(130)**	(381)	(443)	(339)	(354)
Operating and other income	**999**	1,255	1,292	1,013	1,003
Operating and other expenses	**(1,833)**	(1,975)	(1,758)	(1,640)	(1,564)
Operating profit before taxes	**843**	711	1,014	960	447
Provision for taxes	**(333)**	(241)	(499)	(409)	(42)
Operating profit after taxes	**510**	470	515	551	405
Group's share in operating profits (losses) after taxes of companies included on an equity basis after the effect of taxes	**85**	81	30	(64)	34
Minority interests in operating Losses (profits) after taxes of consolidated companies	**(3)**	(7)	(11)	(7)	(11)
Net operating income	**592**	544	534	480	428

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

	2010	2009			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(NIS millions)				
Current activity	**1,592**	1,653	1,503	1,670	1,633
Collection and reduction of interest on problematic debts	**144**	106	97	88	89
Exchange rate differentials in respect of shares recorded in operating income or the capital reserve	**(5)**	(1)	17	31	(109)
Profits (losses) from the sale of available-for-sale debentures, net	**65**	(1)	120	32	143
Realized and unrealized profits (losses) from adjustments to fair value of debentures for trading	**70**	11	60	48	113
Financing costs in connection with hedging of overseas investments	**40**	(8)	76	63	(146)
Adjustments to fair value of derivative instruments	**(84)**	49	19	(59)	(328)
Effect of the known CPI	**(15)**	3	31	53	(33)
Total	**1,807**	1,812	1,923	1,926	1,362

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

	2010	2009			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(NIS millions)				
Specific provision	**159**	385	461	396	323
Additional provision	**(29)**	(4)	(18)	(57)	31
Total	**130**	381	443	339	354
Percentage of provision out of total credit to the public (on an annual basis)	**0.25%**	0.74%	0.87%	0.66%	0.67%

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

	2010	2009			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(NIS millions)				
Operating commissions	**904**	925	915	840	831
Profits from investments in shares	**74**	236	286	90	95
Other income	**21**	94	91	83	77
Total operating and other income	**999**	1,255	1,292	1,013	1,003

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

	2010	2009			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(NIS millions)				
Salary expenses, excluding special salary expenses	**1,140**	1,102	961	948	1,003
Special salary expenses	**(4)**	86	91	(19)	(120)
Of which:					
Recording of benefit regarding sale of shares to employees	**-**	26	15	-	-
Provision for severance pay and pensions	**(4)**	55	76	(20)	(120)
Actuarial changes in respect of jubilee bonus	**-**	4	-	-	-
Miscellaneous	**-**	1	-	1	-
Total salary expenses	**1,136**	1,188	1,052	929	883

F. The following table shows the quarterly development of operating and other expenses and maintenance of buildings and equipment:

	2010	2009			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(NIS millions)				
Depreciation	**156**	157	152	155	148
Maintenance of buildings and equipment	**224**	247	214	225	216
Other expenses	**317**	383	340	331	317
Total operating and other expenses*	**697**	787	706	711	681

* Excluding salary.

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

Total Assets of Leumi Group as at 31 March 2010 amounted to NIS 317.6 billion, compared with NIS 321.8 billion at the end of 2009, a decrease of 1.3%, and a decrease of 0.1% compared with 31 March 2009.

The value of the assets in the balance sheet denominated in and or linked to foreign currency was some NIS 90.6 billion, some 28.5% of total assets. During the first quarter of 2010, the shekel appreciated against the US dollar by 1.64% and against the euro by 8.29%. The changes in the rates of exchange in the first quarter of the year led to an increase of 1.1% 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 808 billion, compared with NIS 782 billion at the end of 2009 (some US$ 218 billion and US$ 211 billion, respectively), as detailed below.

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

			Rate of change	
	31 March 2010	31 December 2009	Since December 2009	Since March 2009
	NIS millions		%	
Total assets	**317,631**	321,775	(1.3)	(0.1)
Deposits of the public	**244,579**	250,418	(2.3)	(3.9)
Debentures, capital notes and subordinated capital notes	**26,812**	25,261	6.1	30.4
Deposits from banks	**3,160**	3,785	(16.5)	(0.7)
Cash and deposits with banks	**41,664**	42,933	(3.0)	7.6
Securities	**52,526**	57,505	(8.7)	10.2
Credit to the public	**207,613**	204,669	1.4	(2.5)
Buildings and equipment	**3,543**	3,553	(0.3)	0.9

Deposits of the public amounted to NIS 244.6 billion as at 31 March 2010, compared with NIS 250.4 billion as at 31 December 2009, a decrease of 2.3%, and an increase of 3.9% compared with 31 March 2009.

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

The appreciation of the shekel in relation to most foreign currencies in the first quarter of 2010 contributed to a 1.5% decrease in total deposits of the public.

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

Segment	**31 March 2010**	31 December 2009	Change
	NIS millions		%
Households	**116,643**	118,930	(1.9)
Small businesses	**14,686**	15,057	(2.5)
Corporate banking	**23,851**	25,324	(5.8)
Commercial banking	**35,049**	33,533	4.5
Private banking	**39,105**	41,158	(5.0)
Financial management, capital markets and other	**15,245**	16,416	(7.1)
Total	**244,579**	250,418	(2.3)

Debentures, Capital Notes and Subordinated Capital Notes totaled NIS 26.8 billion on 31 March 2010, compared with NIS 25.3 billion on 31 December 2009, an increase of 6.1%, and compared with 31 March 2009, an increase of 30.4%.

Off-balance sheet activity

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

	31 March 2010	31 December 2009	Change	
	NIS millions		NIS millions	%
Securities portfolios	**429,375**	401,676	**27,699**	6.9
Of which: managed by mutual funds[(2) (3)]	**50,726**	47,666	**3,060**	6.4
Provident and pension funds[(2) (3)]	**42,265**	40,785	**1,480**	3.6
Supplementary training funds[(2) (3)]	**18,724**	17,771	**953**	5.4
Total	**490,364**	460,232	**30,132**	6.5

(1) Including an increase in the market value of securities and in value of securities of mutual and provident funds held in custody, for 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 207.6 billion on 31 March 2010, compared with NIS 204.7 billion on 31 December 2009, an increase of 1.4%, and a decrease of 2.5% compared with 31 March 2009.

The appreciation of the shekel in relation to most foreign currencies in the first quarter of 2010 led to a decrease of 0.8% in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which amounted to NIS 7,916 million on 31 March 2010, in comparison with NIS 8,206 million on 31 December 2009, a decrease of 3.5%.

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

Economy Sectors	**31 March 2010** Overall credit risk to the public	Percentage of total	31 December 2009 Overall credit risk to the public	Percentage of total	Change
	(NIS millions)	%	(NIS millions)	%	%
Agriculture	**2,316**	**0.7**	2,282	0.7	1.5
Industry	**45,075**	**14.1**	44,658	14.3	0.9
Construction and real estate	**67,232**	**21.3**	65,301	21.2	3.0
Electricity and water	**1,985**	**0.6**	1,939	0.6	2.4
Trade	**29,239**	**9.2**	27,832	8.9	5.1
Hotels, accommodation and food services	**4,886**	**1.5**	4,787	1.5	2.1
Transportation and storage	**5,676**	**1.8**	5,724	1.8	(0.8)
Communications and computer services	**7,487**	**2.3**	6,557	2.1	14.2
Financial services	**39,584**	**12.4**	39,018	12.5	1.5
Other business services	**8,403**	**2.6**	8,253	2.6	1.8
Public and community services	**8,997**	**2.8**	8,548	2.7	5.3
Private persons - housing loans	**46,982**	**14.8**	45,813	14.8	2.6
Private persons – other	**50,788**	**15.9**	50,833	16.3	(0.1)
Total	**318,650**	**100.0**	311,545	100.0	2.3

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

The following table shows the quarterly development of operating and other expenses and maintenance of buildings and equipment:

	2010	2009			
	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(NIS millions)				
Households*	**68,248**	62,242	63,252	65,401	66,889
Small businesses	**17,590**	17,711	17,099	17,283	17,653
Commercial banking	**44,210**	47,086	44,466	43,747	43,516
Corporate banking	**70,415**	77,873	74,680	70,016	69,089
Private banking	**6,150**	6,477	6,513	6,286	6,439

* 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, whereby 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 or which 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:

Credit ceiling in NIS thousands		**31 March 2010** Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	**84.7**	**6.3**	**17.4**
80	600	**13.3**	**19.5**	**12.1**
600	1,200	**1.2**	**7.9**	**3.0**
1,200	2,000	**0.3**	**3.7**	**1.7**
2,000	8,000	**0.3**	**9.0**	**5.2**
8,000	20,000	**0.1**	**7.8**	**5.3**
20,000	40,000	**0.055**	**8.1**	**6.1**
40,000	200,000	**0.035**	**16.8**	**20.2**
200,000	800,000	**0.01**	**14.0**	**17.2**
Above 800,000		**0.00**	**6.9**	**11.8**
Total		**100.00**	**100.0**	**100.0**

Credit ceiling in NIS thousands		31 December 2009 Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	84.9	6.3	18.4
80	600	13.2	19.6	13.0
600	1,200	1.1	7.7	3.2
1,200	2,000	0.3	3.6	1.7
2,000	8,000	0.3	9.1	5.8
8,000	20,000	0.1	8.0	5.9
20,000	40,000	0.05	7.9	6.3
40,000	200,000	0.04	17.2	19.2
200,000	800,000	0.01**	13.5	16.3
Above 800,000		0.00***	7.1	10.2
Total		100.0	100.0	100.0

* After deducting the specific provisions for doubtful debts.

** On 31 March 2010 - 125 borrowers and on 31 December 2009 - 118 borrowers

*** On 31 March 2010 - 21 borrowers and on 31 December 2009 - 20 borrowers.

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

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

		31 March 2010					
		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	**12**	**-**	**7,159**	**-**	**3,676**	**-**
1,200	1,600	**4**	**-**	**3,196**	**-**	**2,047**	**-**
1,600	2,000	**3**	**2**	**2,756**	**2,325**	**2,532**	**1,281**
2,000	2,400	**-**	**-**	**-**	**-**	**-**	**-**
2,400	2,800	**2**	**-**	**1,459**	**-**	**3,526**	**-**
Total		**21**	**2**	**14,570**	**2,325**	**11,781**	**1,281**

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 specified in the above table do not include any debts for which provisions were made for doubtful debts.

		31 December 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	13	1	9,635	918	2,551	109
1,200	1,600	4	-	2,517	-	3,251	-
1,600	2,000	1	1	1,349	1,349	520	520
2,000	2,400	2	-	1,293	-	3,337	-
Total		20	2	14,794	2,267	9,659	629

2. Credit risk according to economic sectors

	31 March 2010		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
	In NIS millions		
Industry	**8**	**5,368**	**6,768**
Construction and real estate	**6**	**4,015**	**1,515**
Public and community services	**2**	**1,239**	**494**
Communications and computer services	**1**	**1,214**	**280**
Financial services	**4**	**2,734**	**2,724**
Total	**21**	**14,570**	**11,781**

	31 December 2009		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
	In NIS millions		
Industry	8	5,338	6,066
Construction and real estate	7	4,462	1,757
Public and community services	1	895	5
Communications and computer services	1	1,288	211
Financial services	3	2,811	1,620
Total	20	14,794	9,659

The indebtedness of the six largest groups of borrowers represented 9.0% of total credit risk of 31 March 2010 and 73.8% of the capital calculated for the limitation on the six largest groups of borrowers.

Problematic Debts – the following table sets out the development of the problematic debts (1) (6) according to the classifications determined in the directives of the Supervisor of Banks:

	31 March 2010	31 March 2009	31 December 2009
	(NIS millions)		
Problematic debts(1)			
Non-performing	**1,707**	2,148	1,846
Restructured (2)	**626**	461	679
To be restructured (3)	**785**	746	410
In temporary arrears	**681**	574	584
Under special supervision*	**11,356**	14,732	12,349
Total balance sheet credit to problematic borrowers (1)	**15,155**	18,661	15,868
Off-balance sheet credit risk to problematic borrowers (1) (5)	**3,123**	3,236	3,065
Debentures of problematic borrowers (public)	**589**	557	683
The banks' overall credit risk (debentures + deposits in banks)	**-**	113	190
Other assets in respect of derivatives of problematic borrowers	**101**	466	252
Total credit risk in respect of problematic borrowers (1)	**18,968**	23,033	20,058
Assets received in respect of repaid credit	**84**	359	87
* of which: debts in respect of which there is a specific provision (4)	**6,325**	6,969	6,313
* of which: credit for housing in respect of which there is a provision according to the extent of the arrears	**309**	506	389

(1) Not including problematic debts 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 problematic borrowers as detailed in the disclosure format.
(7) The problematic debts 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 67 million and loans under special supervision in the amount of NIS 1,473 million were classified, and at the end of 2009, NIS 58 million and NIS 1,110 million, respectively, were classified.

Credit to Governments amounted to NIS 407 million on 31 March 2010, the same as on 31 December 2009, and a decrease of 18.6% compared with 31 March 2009.

Securities

The Group's investments in securities amounted to NIS 52,526 million on 31 March 2010, a decrease of 8.7% compared with 31 December 2009, as a result of a decrease in deposits of the public and a reduction in loans to the public.

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 amortized cost is charged to the profit and loss statement. Available-for-sale securities are presented at fair value, and the difference between fair value and amortized cost is presented as a separate item in shareholders' equity in "other overall profit" called "adjustments for presentation of available-for-sale securities at fair value" ("shareholders equity") less the related tax. Whenever the decrease in value is of a non-temporary nature, the difference is charged to the profit and loss statement. Debentures held to maturity are presented at amortized cost (par value together with accrued interest and linkage differentials, less/plus a disaggio or aggio).

For details of the accounting policy and the treatment of revaluing the securities portfolio and the distinctions between temporary decreases in value and those of a non-temporary nature, see the Section "Critical Accounting Policy" on page 54 and Note 1 to the 2009 Annual Financial Statements.

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

	31 March 2010				
	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	**727**	**21**	**-**	**748**	**727**
Available-for-sale	**39,494**	**538**	**(410)**	**39,622**	**39,622**
For trading	**9,269**	**149**	**(26)**	**9,392**	**9,392**
	49,490	**708**	**(436)**	**49,762**	**49,741**
Shares and funds					
Available-for-sale	**1,841**	**793**	**(1)**	**2,633**	**2,633**
For trading	**503**	**-**	**(351)**	**152**	**152**
	2,344	**793**	**(352)**	**2,785**	**2,785**
Total securities	**51,834**	**1,501**	**(788)**	**52,547**	**52,526**

	31 December 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	852	23	-	875	852
Available-for-sale	44,442	454	(615)	44,281	44,281
For trading	9,708	128	(51)	9,785	9,785
	55,002	605	(666)	54,941	54,918
Shares and funds					
Available-for-sale	1,849	648	(7)	2,490	2,490
For trading	446	-	(349)	97	97
	2,295	648	(356)	2,587	2,587
Total securities	57,297	1,253	(1,022)	57,258	57,505

As of 31 March 2010, some 80.4% of the Group's nostro portfolio was classified as available-for-sale securities and some 18.2% as securities for trading. This classification allows for flexibility in the management of the securities portfolio. Some 5.3% of the value of the securities represents investments in shares of companies that are not presented on the equity basis, but according to cost or to the market value of the shares traded on a stock exchange.

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

	31 March 2009	31 December 2009
	NIS millions	
Debentures redeemed and/or sold (held to redemption and available-for-sale)	**2,815**	22,387
Purchases of debentures held to redemption and available-for-sale	**2,719**	35,494
Net profit from investments in debentures:		
Financing income on accrual basis	**(1,019)**	1,557
Profit from sale and from decrease in value of available-for-sale debentures	**65**	294
Profit realized and/or unrealized from adjustments to fair value of debentures for trading	**70**	232

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

	31 March 2010			31 December 2009		
	Government of Israel	Foreign governments	Other companies	Government of Israel	Foreign governments	Other companies
	NIS millions			NIS millions		
Israeli currency:						
Unlinked	**16,457**	**-**	**108**	18,095	-	98
CPI-linked	**8,600**	**-**	**1,001**	8,656	-	1,009
Foreign currency including foreign currency-linked	**1,901**	**2,771**	**18,903**	1,962	4,037	21,061
Total debentures*	**26,958**	**2,771**	**20,012**	28,713	4,037	22,168

* of which NIS 2,551 million in subordinated debentures

There was a decrease of some NIS 2.2 billion during the first quarter of 2010, some 9.7%, in the Group's investments in corporate debentures, mainly in foreign currency debentures abroad. Some 59.8% of the amount invested in debentures is invested in government debentures, mainly of the Israeli government.

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

	31 March 2010	31 December 2009
Securities traded on an active market*	**43,589**	47,737
Securities according to prices determined according to external models**	**7,311**	8,152
Securities according to quotation from counterparty or to cost	**1,626**	1,616
Total	**52,526**	57,505

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

** Including securities in the amount of NIS 602 million which were revalued by the Bank on the basis of the discount rates determined independently of the Bank by Sha'arei Ribit Ltd.

See Note 2 to the financial statements for further details.

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):

	31 March 2010	
	Issued in Israel	Issued abroad
Economy sector	NIS millions	
Industry	**105**	197
Construction and real estate	**71**	123
Electricity and water	**176**	58
Trade	**188**	-
Transport and storage	**31**	-
Communications and computer services	**127**	22
Financial services	**280**	6,366
Business services and others	**7**	62
Public and community services	**26**	77
Total	**1,011**	6,905

The Available-for-sale Portfolio

The following table shows the available-for-sale portfolio:

	31 March 2010		31 December 2009		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**19,545**	**20,077**	21,767	22,514	(2,222)	(2,437)
Shares and funds	**521**	**2,112**	541	1,949	(20)	163
Total	**20,066**	**22,189**	22,308	24,463	(2,242)	(2,274)

a. In the first quarter of 2010, NIS 473 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 686 million in the corresponding period of 2009. Most of the increase in value derives from subordinated debentures issued by foreign banks.

b. In addition, NIS 65 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 profits of NIS 143 million in the corresponding period of 2009.

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

	For the period ended		
	31 March 2010	31 March 2009	31 December 2009
	NIS millions		
Profits (losses) in respect of securities which were charged to profit and loss*	**(731)**	2,256	2,252
Adjustments for increase (decrease) in value of securities in shareholders' equity	**473**	(686)	1,481

* Of this, NIS 998 million is due to negative exchange rate differentials during the first quarter of 2010, compared with positive exchange rate differentials in the amount of NIS 1,765 million during the corresponding period of 2009, and of NIS 285 million for all of 2009.

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

	31 March 2010	31 December 2009	Quarterly movement 1st quarter
	NIS millions		
Shares	**792**	641	151
Israel government debentures	**192**	101	91
Foreign government debentures	**4**	3	1
Other debentures*	**(68)***	(265)	197
Other debt instruments	**15**	(18)	33
Total	**935**	462	473
Related tax	**(298)**	(153)	(145)
Net total	**637**	309	328

* Of which the accumulated balance of the decline in value in the debentures item, in the amount of NIS 195 million, relates mainly to the decrease in value of subordinated capital notes issued by foreign banks

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio as of 31 March 2010 totaled the positive amount of NIS 637 million (after the effect of taxes. These amounts represent losses/profits which had not been realized at the dates of the financial statements.

e. The following are the declines in value of available-for-sale securities which were charged to shareholders' equity as at 31 March 2010:

		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	4	-	2	24	30
	Other debentures	8	4	5	205	222
	Total	12	4	7	229	252
10%- 20%	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	18	18
	Other debentures	-	1	1	96	98
	Total	-	1	1	114	116
20%-30%	Shares	1	-	-	-	1
	Asset-backed debentures	-	-	-	1	1
	Other debentures	-	-	-	8	8
	Total	1	-	-	9	10
30%-35%	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	1	1
	Other debentures	-	-	-	6	6
	Total				7	7
35%-40%	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	-	-
	Other debentures	-	-	-	-	-
	Total	-	-	-	-	-
Above 40%	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	26	26
	Other debentures	-	-	-	-	-
	Total	-	-	-	26	26
Total amount	Shares	1	-	-	-	1
	Asset-backed debentures	4	-	2	70	76
	Other debentures	8	5	6	315	334
Overall total		13	5	8	385	411

For the treatment of revaluing the securities and the distinction between temporary decreases in value and those of a non-temporary nature, see page 54 in the 2009 Financial Statements.

* 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.

The Trading Portfolio

The following table shows the composition of the trading portfolio:

	31 March 2010		31 December 2009		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**3,344**	**6,048**	4,441	5,344	(1,097)	704
Shares and funds	**93**	**59**	93	4	-	55
Total	**3,437**	**6,107**	4,534	5,348	(1,097)	759

In respect of debentures for trading, realized and unrealized profits in the amount of NIS 70 million were recorded in the profit and loss statement, compared with profits of NIS 113 million in the corresponding period in 2009, and in respect of shares and funds, realized and unrealized profits were recorded in the amount of NIS 2 million, compared with realized and unrealized losses of NIS 12 million in the corresponding period in 2009.

Investments in Securities Issued Abroad

The Group's securities portfolio includes some NIS 24.1 billion (some US$ 6.5 billion) of securities issued abroad, all of which (but for some 2.7%) are investment grade securities, of which some 94% are rated 'A-' and above, of which some 34.6% are rated 'AAA'; the portfolio includes subordinated debentures issued by foreign banks having a fair value of NIS 2,551 million, some 10.6% of the total investment in securities issued abroad. Of the said portfolio, some NIS 20.0 billion (some US$ 5.4 billion) is classified in the available-for-sale portfolio, some NIS 3.4 billion (some US$ 0.9 billion) is classified in the securities for trading portfolio and the balance in the portfolio held to redemption.

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

	31 March 2010		31 December 2009	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
Balance sheet value	NIS millions			
Government debentures	**2,257**	**1,788**	2,859	2,354
Debentures of banks and financial institutions	**11,258**	**1,345**	12,580	1,862
Asset-backed debentures	**5,639**	**93**	5,938	101
Other debentures	**391**	**118**	390	124
Shares and funds	**521**	**93**	541	93
Total	**20,066**	**3,437**	22,308	4,534

The Management of the Bank estimates that the decline in the value of the available-for-sale portfolio is mostly temporary in nature. From the time the investments were made, the Bank's intention was to hold them until maturity. The Bank intends, and is able, to continue to hold the investments until the expected return of the full cost of the assets or until maturity. Therefore, this decline in value is charged to shareholders' equity. The decline charged to shareholders' equity in respect of securities issued abroad, from the date of purchase until 31 March 2010, amounts to some NIS 27 million (some NIS 17 million after taxes). During 2009, the negative fund was reduced by NIS 1,121 million. Most of the movement relates to an increase in value of subordinated debentures issued by overseas banks, as explained below. During the first quarter of 2010, the trend continued and the negative fund was reduced by NIS 193 million.

In addition to the increase in value recorded in shareholders' equity, a decline in value in the amount of some NIS 1 million was charged to the profit and loss account during the first quarter of 2010, compared to a decline in value of NIS 46 million in the corresponding period in 2009.

The following table shows the fair value as at 31 March 2010 of debentures of banks and financial institutions abroad (excluding asset-backed securities):

	AAA to AA-	A+	A	A-	BBB+ to BBB-	BB+ to B-	Unrated	Total
	In NIS millions							
United Kingdom	**296**	**361**	**271**	**89**	**20**	**-**	**-**	**1,037**
Austria (1)	**-**	**-**	**361**	**-**	**-**	**-**	**-**	**361**
Italy (1)	**-**	**-**	**239**	**-**	**-**	**-**	**30**	**269**
Ireland (1) (5)	**-**	**-**	**132**	**137**	**-**	**-**	**11**	**280**
Belgium (1)	**-**	**-**	**370**	**-**	**-**	**-**	**-**	**370**
Germany (1)	**24**	**638**	**35**	**5**	**-**	**-**	**4**	**706**
The Netherlands (1)	**50**	**-**	**961**	**281**	**29**	**-**	**-**	**1,321**
Luxembourg (1)	**-**	**-**	**134**	**-**	**-**	**-**	**-**	**134**
Spain (1) (5)	**145**	**10**	**-**	**130**	**-**	**-**	**44**	**329**
Portugal (1) (5)	**-**	**-**	**-**	**-**	**-**	**-**	**15**	**15**
Finland (1)	**29**	**28**	**-**	**-**	**-**	**-**	**-**	**57**
France (1)	**277**	**126**	**-**	**-**	**-**	**-**	**-**	**403**
Switzerland	**-**	**17**	**221**	**-**	**-**	**-**	**-**	**238**
Australia	**507**	**15**	**19**	**-**	**-**	**-**	**-**	**541**
Sweden	**94**	**-**	**290**	**-**	**-**	**-**	**19**	**403**
New Zealand	**481**	**-**	**-**	**-**	**-**	**-**	**15**	**496**
Other (2)	**69**	**112**	**67**	**11**	**-**	**-**	**198**	**457**
United States – by bank								
Citigroup Inc. NY	**-**	**-**	**-**	**976**	**-**	**-**	**-**	**976**
Chase Manhattan Bank N.A.	**-**	**474**	**-**	**-**	**-**	**-**	**-**	**474**
Merrill Lynch International B.A.	**-**	**-**	**385**	**-**	**-**	**-**	**-**	**385**
Bank of America	**-**	**173**	**558**	**-**	**-**	**-**	**-**	**731**
Goldman, Sachs and Co.	**126**	**73**	**391**	**-**	**-**	**-**	**-**	**590**
Wachovia International Banking	**460**	**-**	**-**	**-**	**-**	**-**	**-**	**460**
Wells Fargo Bank N.A.	**-**	**482**	**-**	**-**	**-**	**-**	**-**	**482**
Morgan Stanley	**-**	**-**	**334**	**-**	**-**	**-**	**-**	**334**
United States – other (3)	**310**	**211**	**121**	**-**	**73**	**-**	**86**	**801**
Total (4)	**2,868**	**2,720**	**4,889**	**1,629**	**722**	**-**	**422**	**12,650**

(1) Countries in the Eurozone bloc.
(2) This amount includes investments in 9 countries
(3) This amount includes investments in 19 banks in the United States.
(4) Including subordinated debentures, the fair value of which as at 31 March 2010 was NIS 2,551 million (including the available-for-sale and trading portfolios).
(5) For further details in connection with credit exposure, see page 106.

1. Investments in foreign asset-backed securities

The Group's securities portfolio as of 31 March 2010 includes some NIS 5.7 billion (some US$ 1.5 billion) of asset-backed securities (both mortgage-backed and non-mortgage-backed), all of which (save for 5.5%) are rated 'A-' and above, of which some 82% are rated 'AAA'. Of the said portfolio, some NIS 5.6 billion (some US$ 1.5 billion) 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 31 March 2010:

	Amortized cost	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	**4,638**	**69**	**(38)**	**4,669**
ABS-asset-backed securities (other than mortgage-backed)	**829**	**179**	**(38)**	**970**
Of which: CLO	**727**	**165**	**(36)**	**856**
SCDO	**53**	**14**	**-**	**67**
other	**49**	**-**	**(2)**	**47**
Total	**5,467**	**248**	**(76)**	**5,639**

For the definition of asset-backed securities see Note 3 to the 2009 Financial Statements.

Securitization Exposures

Investment in asset-backed securities by type of exposure (Table 9(f) – Basel II)

	31 March 2010	31 December 2009
	Accrued amount of exposure	
	NIS millions	
Mortgage-backed Securities (MBS):		
Pass-through securities:		
Securities guaranteed by US Government GNMA	**2,100**	2,123
Securities issued by FNMA and FHLMC	**436**	469
Other securities	**-**	-
Other mortgage-backed securities Securities issued by FHLMC, FNMA, or GNMA, or guaranteed by these entities	**2,147**	2,313
Other mortgage-backed securities	**76**	83
Total mortgage-backed securities (MBS)	**4,759**	4,988
Asset-backed securities (ABS):		
Lines of credit for any purpose secured by dwelling	**6**	8
Credit for purchase of vehicle	**10**	12
Other credit to private persons	**6**	7
Credit not to private persons	**3**	2
CLO debentures	**856**	911
SCDO debentures	**67**	66
Others	**33**	53
Total Asset-backed (ABS)	**981**	1,059
Total Asset-backed Securities	**5,740**	6,047

Investment in asset-backed securities by type of exposure* (Table 9(g) – Basel II)

	31 March 2010	31 December 2009	**31 March 2010**	31 December 2009
	Accrued amount of exposure		Capital requirement for securitization exposure	
	NIS millions		NIS millions	
20%	**513**	640	**9**	12
50%	**229**	186	**10**	8
100%	**166**	143	**15**	13
350%	**51**	65	**16**	20
Deducted from equity	**43**	47	**-**	-
Total	**1,002**	1,081	**50**	53

* Not including GNMA, FNMA, FHLMC securities.

The Group's portfolio of available-for-sale investments in foreign asset-backed securities as of 31 March 2010 includes investments in mortgage-backed securities in the total amount of some NIS 4.8 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) FNMA and FHLMC have come under governmental protection under the U.S. administration's rescue plan and the GNMA debentures have government guarantees.

As of 31 March 2010, the accumulated net increase in value charged to shareholders' equity resulting from the mortgage-backed securities portfolio was some NIS 31 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 76 million.

The projected term to maturity for all the mortgage-backed securities portfolio is, on average, some 3.9 years.

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 970 million, of which CLO-type debentures account for some NIS 856 million. The projected term to maturity of the portfolio of securities that are backed by assets other than mortgages is some 4.25 years on average.

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

The Group's securities portfolio as of 31 March 2010 includes some NIS 18.4 billion (some US$ 4.9 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 United Kingdom, France and Israel. Of these securities, NIS 14.4 billion (US$ 3.9 billion) are classified in the available-for-sale portfolio, and some NIS 3.3 billion in the securities for trading portfolio. Of these securities, 96% are rated 'A-' or above, of which 20%are rated 'AAA'.

For further details regarding exposure to overseas banks and financial institutions, see page 102.

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.

As of 31 March 2010, 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 199 million (NIS 129 million after tax), after a reduction of NIS 159 million in the first quarter of 2010.

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

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		
	31 March 2010	31 December 2009	Capital fund at the end of the first quarter
	NIS millions		
Total subordinated bank debentures issued abroad	**2,334**	2,593	197
Of this, subordinated debentures that declined in value by more than 35%	-	6	-

In addition, the available-for-sale portfolio includes portfolio of securities that are non-asset backed securities also in the trading portfolio. The trading portfolio includes mainly securities of banks and financial institutions, and securities portfolios managed by external investment managers and securities funds. All the securities in the trading portfolio are investment grade securities, and 99% are rated 'A' and higher. The value of the trading portfolio which is non-asset backed as at 31 March 2010 amounted to some NIS 3.3 billion (US$ 0.9 billion). The difference between the fair value and the amortized cost, if any, is charged to the profit and lost statement.

During the fourth quarter of 2010, approximately US$ 515 million was invested in the credit derivatives (CDS) of the State of Israel, the United States, France and the United Kingdom. Towards the end of the quarter, most of the positions in respect of these investments were realized. Investments in credit derivatives are revalued on a current basis, like any derivative, in accordance with the market value, in respect of investments of this type. in the first quarter of 2010, a profit of US$ 5.5 million, which is NIS 21 million, was recorded in the profit and loss statement (in the whole of 2009, NIS 2 million).

Investments in corporate debentures issued in Israel

Investments in debentures issued in Israel on 31 March 2010 amounted to NIS 26.3 billion, of which NIS 25.2 billion was in debentures issued by the Government of Israel, with the balance, NIS 1.1 billion, in corporate debentures. Of the corporate debentures, 94% are rated 'A-' and higher, of which 77% are rated 'AA-' and higher. The corporate debenture portfolio is spread among various branches of the economy. The investment in the financial services sector is the largest. As of 31 March 2010, some 76% of the investments in corporate debentures amounted to NIS 0.8 billion in the available-for-sale portfolio, with the balance in the trading portfolio.

Out of the total amount of NIS 0.8 billion in the corporate debenture portfolio in the available-for-sale portfolio, the positive capital reserve amounts to NIS 48 million, and the negative fund amounts to NIS 4 million, with the highest decline in value being 11.8%.

3. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,785 million as at 31 March 2010, of which NIS 1,731 million was in listed shares and NIS 1,054 million was in unlisted shares. Of the total investment, NIS 2,633 million is classified as available-for-sale and NIS 152 million is classified in the trading portfolio.

The following table sets out the principal investments in shares and funds recorded in the securities item (Table 13(B) Basel II) [(1)]:

	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*		Capital adequacy retirements		Listed / Not listed
	31 March 2010	31 December 2009	**31 March 2010**	31 December 2009	**31 March 2010**	31 December 2009	
	%		NIS millions				
Migdal Insurance and Financial Holdings Ltd. [(2)]	**9.85**	9.85	**787**	719	**71**	65	
Africa Israel Properties Ltd.	**3.2**	3.2	**36**	35	**3**	3	
Super-Pharm (Israel) Ltd.	**18.0**	18.0	**182**	182	**16**	16	Not listed
Otzar Hityashvuth Hayehudim B.M.	**8.62**	8.62	**88**	80	**8**	7	
Partner Communication Ltd.	**4.99**	4.99	**637**	589	**57**	53	
Tower Semiconductor capital notes	**-**	-	**49**	49	**4**	4	Not listed
Visa International	**-**	-	**40**	40	**4**	4	
CLS Bank	**-**	-	**21**	21	**2**	2	Not listed
Funds	**-**	-	**562**	546	**51**	49	Not listed
Apax	**-**	-	**62**	59	**6**	5	Not listed
Other	**-**	-	**321**	267	**29**	24	143 Not listed
Total	**-**	-	**2,785**	2,587	**251**	232	

* The value of investment in the consolidated balance sheet is equal to the balance of the fair value of the investment.

(1) See page 69 for details of non-banking investments presented on an equity basis.

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

	Balance sheet amount	
	31 March 2010	31 December 2009
Listed shares	**1,731**	1,564
Funds according to quote by counterparty	**291**	322
Unlisted shares	**763**	701
Total	**2,785**	2,587

(2) For details, see page 70 to the report.

Electra
On 28 March 2010, Leumi Partners signed an agreement with Eliasi Ltd. and Electra Consumer Products (1970) ("Electra") for of the acquisition of approximately 10% of the shares of Electra for aggregate consideration of NIS 100 million. On 26 April 2010, the transaction between Leumi Partners and Eliasi Ltd. and Electra was completed. Leumi Partners and Leumi Partners Underwriters Ltd. also operate as an investment bank in locating additional potential investors for Electra and are advising Electra on all matters connected to its issue.

Other assets

As of 31 March 2010, other assets amounted to NIS 9.0 billion, compared with NIS 9.8 billion at the end of 2009, a decrease of some 7.6%. The decrease in this item resulted mainly from a decrease in the fair value of derivative instruments carried out with and for customers in the amount of NIS 0.4 billion, and from a decrease in surplus advance payments of provisions for income tax in the amount of NIS 0.3 billion.

Operating Segments in the Group

The Group operates in various operating 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 operating segments are defined in accordance with the characteristics determined by the Bank of Israel. A detailed description of the operating segments and the manner of their measurement is provided in the Annual Report for 2009.

Following are principal data according to operating segments of the principal balance sheet items as at 31 March 2010:

	Credit to the Public			Deposits of the Public			Total Assets		
	31 March 2010	31 December 2009	Change	**31 March 2010**	31 December 2009	Change	**31 March 2010**	31 December 2009	Change
	NIS millions		%	NIS millions		%	NIS millions		**%**
Households(1)	**68,248**	66,889	2.0	**116,643**	118,930	(1.9)	**68,909**	67,530	2.0
Small businesses	**17,590**	17,653	(0.4)	**14,686**	15,057	(2.5)	**17,608**	17,669	(0.3)
Corporate banking (2)	**70,415**	69,089	1.9	**23,851**	25,324	(5.8)	**72,586**	71,685	1.3
Commercial banking	**44,210**	43,516	1.6	**35,049**	33,533	4.5	**45,762**	44,833	2.1
Private banking	**6,150**	6,439	(4.5)	**39,105**	41,158	(5.0)	**10,107**	11,323	(10.7)
Financial management - capital markets and others	**1,000**	1,083	(7.7)	**15,245**	16,416	(7.1)	**102,659**	108,735	(5.6)
Total	**207,613**	204,669	(1.4)	**244,579**	250,418	(2.3)	**317,631**	321,775	(1.3)

(1) Credit to households also includes housing loans (mortgages). After neutralizing this credit, credit (banking and financial) to households decreased by 0.4%. Housing loans amounted to NIS 45.5 billion at the end of March 2010, having increased by 2.5% The rate of increase in credit (banking and financial) for 2009 was 3.2%.

(2) There was an increase of some NIS 1.5 billion in credit in the corporate banking segment for activities in Israel, and an increase of 1.9% overall.

Following are principal data according to operating segments of off-balance sheet items and data on customers' balances in the capital market:

	Guarantees and Documentary Credit			Securities Portfolios, including Mutual Funds		
	2010	2009	Change	**2010**	2009	Change
Segments	NIS millions		%	NIS millions		%
Households	**470**	484	(2.9)	**90,477**	87,282	3.7
Small businesses	**1,296**	1,300	(0.3)	**5,601**	5,353	4.6
Corporate banking	**23,228**	22,119	5.0	**88,126**	82,712	6.5
Commercial banking	**6,856**	6,808	(0.7)	**44,527**	38,987	14.2
Private banking	**451**	495	(8.8)	**71,279**	68,913	3.4
Financial management – capital markets and others	**610**	525	16.1	**129,365**	118,429	9.2
Total	**32,911**	31,731	3.7	**429,375**	401,676	6.9

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

	For the three months ended		
	31 March 2010	31 March 2009	Change
	(NIS millions)		%
Households	**37**	55	(32.7)
Small businesses	**72**	60	20.0
Corporate banking	**229**	125	83.2
Commercial banking	**110**	105	4.8
Private banking	**29**	26	11.5
Financial management – capital markets and other	**119**	58	+
Total	**596**	429	38.9

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

	For the three months ended			
	31 March 2010	31 March 2009	Change	Contribution to profit
	(NIS millions)		%	%
Households	**36**	56	(35.7)	6.1
Small businesses	**72**	60	20.0	12.2
Corporate banking	**229**	125	83.2	38.8
Commercial banking	**110**	105	4.8	18.6
Private banking	**29**	26	11.5	4.9
Financial management – capital markets and other	**114**	(20)	+	19.4
Total	**590**	352	67.6	100.0

Explanations for the changes in profitability are provided below.

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

	2010	2009			
	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(NIS millions)				
Households	**36**	(36)	85	52	56
Small businesses	**72**	34	35	58	60
Corporate banking	**229**	346	313	228	125
Commercial banking	**110**	69	53	83	105
Private banking	**29**	7	39	44	26
Financial management – capital markets and others	**114**	173	39	3	(20)
Total	**590**	593	564	468	352

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	Mortgages	Overseas activities	Total
	For the three months ended 31 March 2010					
	NIS millions					
Profit from net interest income:						
From external sources	**163**	**43**	**1**	**113**	**-**	**320**
Inter-segmental	**212**	**(3)**	**-**	**(34)**	**3**	**178**
Operating and other income:						
From external sources	**146**	**114**	**135**	**32**	**1**	**428**
Inter-segmental	**-**	**54**	**-**	**4**	**-**	**58**
Total income	**521**	**208**	**136**	**115**	**4**	**984**
Provisions for doubtful debts	**19**	**5**	**-**	**(6)**	**2**	**20**
Operating and other expenses:						
External	**621**	**139**	**69**	**58**	**6**	**893**
Inter-segmental	**2**	**(1)**	**-**	**5**	**-**	**6**
Operating profit (loss) before taxes	**(121)**	**65**	**67**	**58**	**(4)**	**65**
Tax provision (benefit) on operating profit	**(40)**	**17**	**23**	**21**	**-**	**21**
Operating profit (loss) after taxes	**(81)**	**48**	**44**	**37**	**(4)**	**44**
Minority interests in profits of consolidated companies	**-**	**(7)**	**-**	**-**	**-**	**(7)**
Net (loss) profit	**(81)**	**41**	**44**	**37**	**(4)**	**37**
Average balance of assets	**15,753**	**6,817**	**100**	**45,242**	**308**	**68,220**
Of which: investments in companies included on the equity basis	**-**	**8**	**-**	**-**	**-**	**8**
Average balance of liabilities	**110,958**	**946**	**-**	**10,395**	**954**	**123,253**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**45,821**	**-**	**-**	**45,821**
Average balance of securities	**-**	**-**	**49,131**	**-**	**152**	**49,283**
Average balance of other assets under management	**142**	**-**	**-**	**6,743**	**-**	**6,885**
Balance of credit to the public	**15,486**	**6,835**	**100**	**45,529**	**298**	**68,248**
Balance of deposits of the public	**109,970**	**38**	**-**	**5,717**	**918**	**116,643**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activities	Total
	For the three months ended 31 March 2009					
	NIS millions					
Profit from net interest income:						
From external sources	(69)	41	1	275	(3)	245
Inter-segmental	463	(8)	-	(202)	8	261
Operating and other income:						
From external sources	153	107	113	30	2	405
Inter-segmental	(1)	52	-	3	-	54
Total income	546	192	114	106	7	965
Provisions for doubtful debts	37	7	-	4	2	50
Operating and other expenses:						
External	575	111	78	48	7	819
Inter-segmental	-	-	-	4	-	4
Operating profit (loss) before taxes	(66)	74	36	50	(2)	92
Tax provision on operating profit	(23)	23	13	18	-	31
Operating profit (loss) after taxes	(43)	51	23	32	(2)	61
Minority interests in profits of consolidated companies	-	(6)	-	-	-	(6)
Net profit (loss)	(43)	45	23	32	(2)	55
Average balance of assets	15,286	6,203	91	40,895	342	62,817
Of which: investments in companies included on the equity basis	-	9	-	-	-	9
Average balance of liabilities	114,120	533	-	11,377	1,065	127,095
Average balance of mutual funds and supplementary training funds	-	-	31,316	-	-	31,316
Average balance of securities	-	-	40,625	-	152	40,777
Average balance of other assets under management	169	-	-	7,527	-	7,696
Balance of credit to the public as at 31 December 2009	15,548	6,496	99	44,428	318	66,889
Balance of deposits of the public as at 31 December 2009	111,730	20	-	6,190	990	118,930

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

	First three months of 2010	First three months of 2009	Change
	NIS millions		%
From Bank funds	**3,148**	1,784	76.5
From Ministry of Finance funds:			
Loans	**8**	19	(57.9)
Standing loans	**1**	1	-
Total new loans	**3,157**	1,804	75
Refinanced loans	**339**	594	(42.9)
Total	**3,496**	2,398	45.8

Regulatory changes in the field of mortgages

On 25 March 2010, the Supervisor of the Banks published a final letter with regard to acquisition groups that relates, *inter alia*, to the classification of loans to acquisition groups.

Pursuant to the said letter, credit provided within the framework of an acquisition group is to be classified, up to the stage at which the customer receives the ownership of the apartment, as a loan in the real estate branch. From the aforesaid, it follows that these loans, whose balances until today had been classified as wholesale mortgage loans and which were weighted in accordance with Basel II from 35% to 75%, according to the financing rate, are to be weighted at 100%, up to the stage at which ownership of the apartment is received.

The implementation of the aforementioned in writing should take place no later than the financial statements to 30 June 2010.

According to the estimation of Leumi Mortgage Bank, the effect on the capital adequacy ratio of Leumi Mortgage Bank will be a decrease of some 0.4%. The effect on the Bank is insignificant.

Pension Counseling Services

Pension counseling services are provided at all the Bank's branches. Counseling services to pensioners are given by Investment and Pension Advisors, and counseling of a more complex nature for the self-employed/controlling shareholders and employees is provided with the guidance of a expert. In view of the complexity of operating and monitoring the counseling recommendations given to employees, the service is provided to a reduced number of customers after approval has been received from the expert counselors. As at 31 March 2010, the number of customers having received counseling amounted to 37,350, whose balances on their accounts amounted to NIS 9.2 billion.

During March 2010, the Treasury published draft directives on the subject of the ways of operating and managing the Long Term Savings Clearing House Ltd. In May 2010, the company that is to set up and manage the pension clearing services was established. This company is jointly owned by the distributors (banks and insurance agencies) and producers (insurance companies, provident and pension funds). Bank Leumi is a shareholder in the company, with representation on the Board of Directors. With the establishment of the company, a mapping of the clearing house activities will be carried out.

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 1,359 million, 2.0% compared with the end of 2009. Housing loans increased by 2.5%, and credit after neutralizing housing loans increased by 1.1%. Deposits of the public decreased by NIS 2,287 million, a decrease of 1.9 % compared with the end of 2009.

Main Changes in Net Profit

In the first quarter of 2010, net profit in the households segment amounted to NIS 37 million, compared with NIS 55 million in the corresponding period in 2009, a decrease of 32.7%. Operating profit after tax amounted to NIS 44 million compared with NIS 61 million in the corresponding period in 2009, a decrease of 27.9% The decrease in profit stems mainly from an increase in expenses of NIS 76 million which is partially offset by a decrease in the provision for doubtful debts of NIS 30 million and an increase in income in the amount of NIS 19 million.

2. Small Businesses

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

						Overseas activities		
	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Banking and finance	Real estate	Total
	For the three months ended 31 March 2010							
	NIS millions							
Profit from net interest income:								
From external sources	**156**	**5**	**-**	**1**	**56**	**11**	**1**	**230**
Inter-segmental	**2**	**(1)**	**-**	**-**	**(7)**	**(4)**	**-**	**(10)**
Operating and other income:								
From external sources	**73**	**24**	**6**	**-**	**12**	**3**	**-**	**118**
Inter-segmental	**-**	**(14)**	**-**	**-**	**-**	**-**	**-**	**(14)**
Total income	**231**	**14**	**6**	**1**	**61**	**10**	**1**	**324**
Provisions for doubtful debts	**8**	**-**	**-**	**-**	**-**	**5**	**-**	**13**
Operating and other expenses:								
External	**153**	**10**	**2**	**-**	**25**	**8**	**-**	**198**
Inter-segmental	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Operating profit (loss) before taxes	**70**	**3**	**4**	**1**	**36**	**(3)**	**1**	**112**
Provision for taxes on operating profit	**25**	**1**	**1**	**-**	**13**	**-**	**-**	**40**
Net profit (loss)	**45**	**2**	**3**	**1**	**23**	**(3)**	**1**	**72**
Average balance of assets	**11,096**	**768**	**33**	**142**	**4,816**	**681**	**102**	**17,638**
Average balance of liabilities	**12,262**	**1,421**	**-**	**-**	**2,144**	**491**	**81**	**16,399**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**1,888**	**-**	**-**	**-**	**-**	**1,888**
Average balance of securities	**-**	**-**	**3,895**	**-**	**-**	**5**	**-**	**3,900**
Average balance of other assets under management	**302**	**-**	**-**	**-**	**-**	**-**	**-**	**302**
Balance of credit to the public	**11,050**	**763**	**29**	**137**	**4,846**	**663**	**102**	**17,590**
Balance of deposits of the public	**12,055**	**-**	**-**	**-**	**2,107**	**452**	**72**	**14,686**

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 three months ended 31 March 2009							
	NIS millions							
Profit from net interest income:								
From external sources	154	5	-	1	52	15	1	228
Inter-segmental	3	(2)	-	(1)	(9)	(8)	-	(17)
Operating and other income:								
From external sources	72	17	5	-	11	4	-	109
Inter-segmental	1	(11)	-	-	-	-	-	(10)
Total income	230	9	5	-	54	11	1	310
Provisions for doubtful debts	24	-	-	-	10	6	2	42
Operating and other expenses:								
External	138	8	3	-	14	9	1	173
Inter-segmental	-	1	-	-	-	-	-	1
Operating profit (loss) before taxes	68	-	2	-	30	(4)	(2)	94
Provision for taxes (benefit) on operating profit	23	-	1	-	11	-	(1)	34
Net profit (loss)	45	-	1	-	19	(4)	(1)	60
Average balance of assets	11,456	630	31	152	4,852	756	92	17,969
Average balance of liabilities	11,832	845	-	-	1,952	585	97	15,311
Average balance of mutual funds and supplementary training funds	-	-	1,356	-	-	-	-	1,356
Average balance of securities	-	-	2,659	-	-	1	-	2,660
Average balance of other assets under management	432	-	-	-	-	-	-	432
Balance of credit to the public at 31 December 2009	11,130	757	36	148	4,780	699	103	17,653
Balance of deposits of the public at 31 December 2009	12,383	-	-	-	2,053	531	90	15,057

Small Businesses (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 63 million compared with the end of 2009, a decrease of 0.4%, and total deposits of the public declined by 2.5%.

Main Changes in the Net Profit

In the first quarter of 2010, net profit in the small businesses segment totaled NIS 72 million, compared with NIS 60 million in the corresponding period in 2009, a increase of 20.0%. The increase in profit stems mainly from an increase in income of NIS 14 million, from a decrease in the provisions for doubtful debts in the amount of NIS 29 million that were partially offset by an increase in operating expenses in the amount of NIS 25 million.

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 ended 31 March 2010						
	NIS millions						
Profit from net interest income:							
From external sources	**198**	**6**	**(1)**	**210**	**4**	**-**	**417**
Inter-segmental	**101**	**(2)**	**1**	**(29)**	**(1)**	**1**	**71**
Operating and other income:							
From external sources	**47**	**43**	**7**	**15**	**1**	**-**	**113**
Inter-segmental	**-**	**(31)**	**-**	**-**	**-**	**-**	**(31)**
Total income	**346**	**16**	**7**	**196**	**4**	**1**	**570**
Provisions for doubtful debts	**(24)**	**1**	**-**	**96**	**-**	**-**	**73**
Operating and other expenses:							
External	**88**	**16**	**2**	**33**	**2**	**1**	**142**
Inter-segmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating profit (loss) before taxes	**282**	**(1)**	**5**	**67**	**2**	**-**	**355**
Provision for taxes on operating profit	**99**	**-**	**2**	**24**	**1**	**-**	**126**
Net profit (loss)	**183**	**(1)**	**3**	**43**	**1**	**-**	**229**
Average balance of assets	**44,289**	**452**	**156**	**26,577**	**553**	**108**	**72,135**
Average balance of liabilities	**24,353**	**2,612**	**-**	**5,545**	**75**	**330**	**32,915**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**596**	**-**	**-**	**-**	**596**
Average balance of securities	**-**	**-**	**84,661**	**-**	**162**	**-**	**84,823**
Average balance of other assets under management	**211**	**-**	**-**	**-**	**-**	**-**	**211**
Balance of credit to the public	**42,884**	**426**	**156**	**26,386**	**459**	**104**	**70,415**
Balance of deposits of the public	**18,197**	**-**	**49**	**5,200**	**94**	**311**	**23,851**

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activities Banking and finance	Overseas activities Real estate	Total
	For the three months ended 31 March 2009						
	NIS millions						
Profit from net interest income:							
From external sources	210	8	-	342	1	-	561
Inter-segmental	51	(2)	-	(185)	3	2	(131)
Operating and other income:							
From external sources	32	45	7	13	2	-	99
Inter-segmental	1	(33)	-	-	-	-	(32)
Total income	294	18	7	170	6	2	497
Provisions for doubtful debts	110	1	-	64	-	-	175
Operating and other expenses:							
External	82	18	5	17	4	1	127
Inter-segmental	-	-	-	-	-	-	-
Operating profit (loss) before taxes	102	(1)	2	89	2	1	195
Provision for taxes on operating profit	36	-	1	32	1	-	70
Net profit (loss)	66	(1)	1	57	1	1	125
Average balance of assets	53,314	503	2	27,209	500	52	81,580
Average balance of liabilities	23,661	3,022	-	4,918	698	296	32,595
Average balance of mutual funds and supplementary training funds	-	-	742	-	-	-	742
Average balance of securities	-	-	54,578	-	160	-	54,738
Average balance of other assets under management	255	-	-	-	-	-	255
Balance of credit to the public as of 31 December 2009	41,367	450	156	26,357	646	113	69,089
Balance of deposits of the public as of 31 December 2009	20,289	-	-	4,630	57	348	25,324

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 1,326 million compared with the end of 2009, an increase of 1.9% and total deposits of the public decreased by NIS 1,473 million, some 5.8%

Main Changes in Net Profit

In the first quarter of 2010, net profit in the corporate banking segment totaled NIS 229 million, compared with NIS 125 million during the corresponding period in 2009, an increase of 83.2 %. The increase in profit stems mainly from an increase in net interest income of NIS 58 million, an increase in operating income of NIS 15 million and from a decrease in the provision for doubtful debts of NIS 102 million that were partially offset by an increase in expenses of NIS 15 million.

4. Commercial Banking

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

						Overseas activities			
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Real estate	Total
	For the three months ended 31 March 2010								
	NIS millions								
Profit from net interest income:									
From external sources	**192**	**2**	**1**	**(3)**	**65**	**114**	**-**	**34**	**405**
Inter-segmental	**(1)**	**(1)**	**(1)**	**4**	**(14)**	**(17)**	**-**	**(14)**	**(44)**
Operating and other income:									
From external sources	**56**	**14**	**13**	**-**	**8**	**9**	**2**	**2**	**104**
Inter-segmental	**-**	**(9)**	**-**	**-**	**-**	**-**	**-**	**-**	**(9)**
Total income	**247**	**6**	**13**	**1**	**59**	**106**	**2**	**22**	**456**
Provisions for doubtful debts	**24**	**-**	**-**	**(3)**	**3**	**5**	**-**	**2**	**31**
Operating and other expenses:									
External	**132**	**5**	**7**	**-**	**18**	**77**	**2**	**14**	**255**
Inter-segmental	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Operating profit before taxes	**90**	**1**	**6**	**4**	**38**	**24**	**-**	**6**	**169**
Tax provision on operating profit	**34**	**-**	**2**	**1**	**13**	**7**	**-**	**2**	**59**
Net profit	**56**	**1**	**4**	**3**	**25**	**17**	**-**	**4**	**110**
Average balance of assets	**22,211**	**326**	**413**	**511**	**6,025**	**12,183**	**-**	**3,628**	**45,297**
Average balance of liabilities	**25,547**	**891**	**-**	**122**	**2,122**	**7,995**	**-**	**377**	**37,054**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**3,076**	**-**	**-**	**-**	**171**	**-**	**3,247**
Average balance of securities	**-**	**-**	**36,079**	**-**	**-**	**-**	**2,483**	**-**	**38,562**
Average balance of other assets under management	**541**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**541**
Balance of credit to the public	**21,464**	**319**	**448**	**508**	**6,027**	**11,779**	**-**	**3,665**	**44,210**
Balance of deposits of the public	**24,759**	**-**	**-**	**63**	**2,099**	**7,759**	**-**	**369**	**35,049**

Commercial Banking (cont**.)**

						Overseas activities			
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Real estate	Total
	For the three months ended 31 March 2009								
	NIS millions								
Profit from net interest income:									
From external sources	172	2	-	4	56	131	-	39	404
Inter-segmental	6	-	-	(3)	(13)	(31)	-	(17)	(58)
Operating and other income:									
From external sources	58	12	12	-	7	9	1	2	101
Inter-segmental	-	(8)	-	-	-	-	-	-	(8)
Total income	236	6	12	1	50	109	1	24	439
Provisions for doubtful debts	44	-	-	(2)	5	-	-	3	50
Operating and other expenses:									
External	109	5	10	1	9	84	1	11	230
Inter-segmental	-	-	-	-	-	-	-	-	-
Operating profit before taxes	83	1	2	2	36	25	-	10	159
Tax provision on operating profit	30	-	1	1	13	6	-	3	54
Net profit	53	1	1	1	23	19	-	7	105
Average balance of assets	24,794	303	8	463	6,056	14,241	-	3,396	49,261
Average balance of liabilities	20,135	715	-	129	1,911	8,957	-	606	32,453
Average balance of mutual funds and supplementary training funds	-	-	2,672	-	-	-	57	-	2,729
Average balance of securities	-	-	29,506	-	-	-	2,029	-	31,535
Average balance of other assets under management	705	-	-	-	-	-	-	-	705
Balance of credit to the public as of 31 December 2009	20,744	322	379	508	6,019	12,026	-	3,518	43,516
Balance of deposits of the public as of 31 December 2009	23,103	-	-	72	1,990	7,991	-	377	33,533

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 694 million compared with the end of 2009, an increase of 1.6% and total deposits of the public increased by NIS 1,516 million, some 4.5%

Main Changes in Net Profit

In the first quarter of 2010, net profit in the commercial banking segment totaled NIS 110 million, compared with NIS 105 million during the corresponding period in 2009, an increase of 4.8%. The increase in profit stems mainly from an increase in net interest income of NIS 17 million, and from a decrease in the provision for doubtful debts of NIS 19 million that were partially offset by an increase in operating expenses of NIS 26 million.

5. Private Banking

The following tables set out a summary of the profit and loss in 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 ended 31 March 2010							
	NIS millions							
Profit from net interest income:								
From external sources	**(20)**	**-**	**-**	**1**	**20**	**-**	**-**	**1**
Inter-segmental	**51**	**-**	**-**	**1**	**43**	**-**	**1**	**96**
Operating and other income:								
From external sources	**7**	**-**	**39**	**2**	**32**	**31**	**-**	**111**
Inter-segmental	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**2**
Total income	**38**	**-**	**39**	**4**	**97**	**31**	**1**	**210**
Provisions for doubtful debts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Operating and other expenses:								
External	**41**	**-**	**14**	**2**	**82**	**26**	**1**	**166**
Inter-segmental	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Operating profit (loss) before taxes	**(3)**	**-**	**25**	**2**	**14**	**5**	**-**	**43**
Provision for taxes (benefit) on operating profit	**(1)**	**-**	**8**	**1**	**4**	**1**	**-**	**13**
Operating profit (loss) after taxes	**(2)**	**-**	**17**	**1**	**10**	**4**	**-**	**30**
Minority interests in profits of consolidated companies	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**	**(1)**
Net profit (loss)	**(2)**	**-**	**17**	**1**	**9**	**4**	**-**	**29**
Average balance of assets	**1,164**	**53**	**1**	**449**	**9,020**	**-**	**28**	**10,715**
Average balance of liabilities	**22,915**	**-**	**-**	**742**	**17,012**	**-**	**230**	**40,899**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**3,396**	**-**	**-**	**1,447**	**-**	**4,843**
Average balance of securities	**-**	**-**	**35,247**	**-**	**-**	**30,210**	**-**	**65,457**
Average balance of other assets under management	**295**	**-**	**-**	**-**	**-**	**-**	**-**	**295**
Balance of credit to the public	**968**	**54**	**2**	**468**	**4,632**	**-**	**26**	**6,150**
Balance of deposits of the public	**21,936**	**-**	**-**	**743**	**16,189**	**-**	**237**	**39,105**

Private Banking (cont.)

	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 ended 31 March 2009							
	NIS millions							
Profit from net interest income:								
From external sources	(87)	-	-	1	23	-	(1)	(64)
Inter-segmental	129	-	-	1	44	-	2	176
Operating and other income:								
From external sources	7	-	34	1	32	28	-	102
Inter-segmental	1	-	-	-	3	-	-	4
Total income	50	-	34	3	102	28	1	218
Provisions for doubtful debts	-	-	-	-	1	-	-	1
Operating and other expenses:								
External	38	-	14	1	95	25	1	174
Inter-segmental	-	-	-	-	-	-	-	-
Operating profit before taxes	12	-	20	2	6	3	-	43
Provision for taxes on operating profit	5	-	6	1	2	1	-	15
Operating profit after taxes	7	-	14	1	4	2	-	28
Minority interests in profits of consolidated companies	-	-	-	-	(2)	-	-	(2)
Net profit	7	-	14	1	2	3	-	26
Average balance of assets	1,453	50	-	335	9,207	-	55	11,100
Average balance of liabilities	24,645	-	-	707	15,839	-	311	41,502
Average balance of mutual funds	-	-	2,408	-	-	1,294	-	3,702
Average balance of securities	-	-	28,166	-	-	28,297	-	54,463
Average balance of other assets under management	299	-	-	-	-	-	-	299
Balance of credit to the public at 31 December 2009	1,117	52	-	417	4,823	-	30	6,439
Balance of deposits of the public at 31 December 2009	23,273	-	-	727	16,935	-	223	41,158

Private Banking (cont.)

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 289 million, or 4.5%, compared with the end of 2009, and total deposits of the public decreased by NIS 2,053 million, or 5.0%.

Main Changes in Net Profit

In the first quarter of 2010, net profit in the private banking segment amounted to NIS 29 million, compared with NIS 26 million in the corresponding period in 2009, an increase of 11.5%. The increase in profit derives from a decrease in operating expenses of NIS 7 million, or 4%, and a decrease in taxation expenses of NIS 2 million which were partially offset by a decrease in income in the amount of NIS 8 million.

The Bank's activities in Brazil

Following the closing of the representative offices, it was also decided to close the company through which the representatives operated and to return the license to the authorities. The attorneys of the representative office are acting to complete the process.

6. Financial Management – Capital Markets

In the first quarter of 2010, the net profit in the financial management segment amounted to NIS 48 million, compared with a profit of NIS 70 million in the corresponding period in 2009, a decrease of NIS 22 million. The decrease in the profit stems from:

a. An increase in operating and other expenses in the amount of NIS 142 million, mainly in respect of salary expenses that are not attributable to other segments.

b. A decrease in operating income in the amount of NIS 119 million.

c. An increase in the provision for taxes in respect of exchange rate differentials from overseas investments, which are not included in the tax calculation, and which were negative in the first quarter of the year, compared with positive exchange rate differentials in the corresponding period last year.

On the other hand, the above changes were partially offset by the following:

a. An increase in net interest income in the amount of NIS 388 million.

b. An increase in the Group's portion of profits of companies included on equity basis in the amount of NIS 43 million.

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

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

Leumi Group's total investments in companies included on the equity basis amounted to NIS 2,196 million on 31 March 2010, compared with NIS 2,178 million on 31 December 2009.

Total investments in shares of companies included on equity basis (Table 13B - Basel II):

	Book value (in NIS millions)			Market value (in NIS millions)		Capital adequacy requirements
Company	**31 March 2010**	31 December 2009	% change	**31 March 2010**	31 December 2009	**31 March 2010**
The Israel Corporation Ltd.	**1,345**	1,371	(1.9)	**4,342**	3,810	**121**
Paz Oil Company Ltd.	**587**	565	3.9	**922**	880	**53**
Others	**264**	242	9.1	**-**	-	**24**
Total	**2,196**	2,178	0.8	**5,264**	4,690	**198**

The contribution to Group profit of the companies included on equity basis in the first quarter of 2010 amounted to NIS 85 million, compared with a profit of NIS 34 million in the corresponding period last year.

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

	For the three months ended 31 March		
	2010	2009	% change
The Israel Corporation Ltd.	**66**	21	214.3
Paz Oil Company Ltd.	**18**	10	80.0
Others	**1**	3	(66.7)
Total	**85**	34	150.0

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., 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.

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 more than 1% of the means of control in only one conglomerate (a corporation whose capital exceeds some NIS 1,955 million and operates in more than three branches of the economy). The Bank has holdings in one conglomerate - the Israel Corporation Ltd.

Paz Oil Company 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.

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 agreed that the sale of the Bank's holdings in Paz take place 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. The trustee is to hold the shares which shall convey to the trustee the power to vote at the general meetings of Paz, whilst the rights from the shareholding to appoint directors (and to vote on this matter at the general meetings) and to receive dividends, shall remain vested in the Bank. The Bank retains the right to decide on matters relating to the sale of shares to a third party or the right to distribute them as a dividend *in specie.*

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.

It should be noted that pursuant to the legislation enacted following the reforms in the capital market, a bank is entitled to hold 5% of the equity of an insurance company and 10% of the equity in a corporation that controls an insurance company.

On 3 March 2010, the Banking Law was amended, according to which a corporation that is an insurer is not considered a conglomerate, and therefore the Bank may hold up to 10% in the equity of an insurance company, provided that this is the only insurance company in which it has a holding.

On 15 April 2010, the trustee returned the shares in Migdal Holdings to the Bank, being in accordance with the letter from the Supervisor of the Banks which lifted the legal prohibition on the Bank's holding of shares in Migdal.

Keshet Broadcasting Ltd.

On 13 September 2009, Leumi Partners Ltd (wholly owned subsidiary of the Bank) (“Leumi Partners”) signed an agreement with GN Communication Industries Ltd (a wholly owned subsidiary of Mrs Gal Naor for the sale of 20% of the issued and paid-up share capital in Keshet Broadcasting Ltd. ("Keshet"), and for the sale of rights by virtue of shareholder's loans given by her to Keshet for the total sum of NIS 6.5 million, in return for an amount of US$ 6 million. The transaction was completed on 28 April 2010

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 quarter of 2010, the profit in the "Others" segment amounted to NIS 71 million, compared with a loss of NIS 12 million in the corresponding period last year.

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

	For the three months ended 31 March		
	2010	2009	Change in amount
Profit from extraordinary items	**4**	1	3
From operating activity at the Bank	**3**	3	-
Leumi Partners	**49**	9	40
Other companies in Israel	**1**	-	1
Overseas companies	**1**	(7)	8
Tax adjustments [(1)]	**13**	(18)	31
Total	**71**	(12)	83

(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 counselling 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 subsidiary company 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 operating segments:

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 31 March 2010							
	NIS millions							
Profit from net interest income	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Operating and other income	**135**	**6**	**7**	**13**	**39**	**25**	**35**	**260**
Total income	**136**	**6**	**7**	**13**	**39**	**25**	**35**	**261**
Operating and other expenses	**69**	**2**	**2**	**7**	**14**	**7**	**29**	**130**
Operating profit before taxes	**67**	**4**	**5**	**6**	**25**	**18**	**6**	**131**
Net profit	**44**	**3**	**3**	**4**	**17**	**12**	**5**	**88**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 31 March 2009							
	NIS millions							
Profit from net interest income	1	-	-	-	-	-	-	1
Operating and other income	113	5	7	12	34	18	33	222
Total income	114	5	7	12	34	18	33	223
Operating and other expenses	78	3	5	10	14	12	29	151
Operating profit before taxes	36	2	2	2	20	6	4	72
Net profit	23	1	1	1	14	4	3	47

In the first quarter of 2010, net operating profit after taxes from capital market operations amounted to NIS 88 million, compared with NIS 47 million in the corresponding period in 2009.

B. Credit Cards - Leumi Card

This activity includes mainly the issue of credit cards to private customers and voucher clearing 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 voucher clearing services and the development of payment solutions.

Leumi Card ended the first quarter of 2010 with a net profit of NIS 34 million, compared with NIS 32 million in the corresponding period in 2009.

During the first quarter of 2010, the volume of activity of Leumi Card card holders increased by 14.7% compared with the activity in the corresponding period in 2009. The number of valid cards increased by some 2.9% in the first quarter of 2010, as compared with the corresponding period in 2009.

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

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 31 March 2010					
	NIS millions					
Profit from net interest income	**40**	**4**	**4**	**1**	**-**	**49**
Operating and other income	**168**	**10**	**12**	**5**	**-**	**195**
Total income	**208**	**14**	**16**	**6**	**-**	**244**
Provision for doubtful debts	**5**	**-**	**1**	**-**	**-**	**6**
Operating and other expenses	**138**	**11**	**16**	**5**	**-**	**170**
Operating profit (loss) before taxes	**65**	**3**	**(1)**	**1**	**-**	**68**
Minority interests	**(7)**	**-**	**-**	**-**	**-**	**(7)**
Net profit	**41**	**2**	**(1)**	**1**	**-**	**43**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 31 March 2009					
	NIS millions					
Profit from net interest income	33	3	6	2	-	44
Operating and other income	159	6	12	4	-	181
Total income	192	9	18	6	-	225
Provisions for doubtful debts	7	-	1	-	-	8
Operating and other expenses	111	9	18	5	-	143
Operating profit (loss) after taxes	74	-	(1)	1	-	74
Net profit (loss)	45	-	(1)	1	-	45

The operating profit from credit card activities in the first quarter of 2010 amounted to NIS 43 million as compared with NIS 45 million in the corresponding period in 2009, a decline of 4.4%, resulting primarily from an increase of NIS 27 million in expenses, partially offset by an increase of NIS 19 million in income.

On 6 May 2010, Kanit decided to unconditionally waive its voting rights with regard to 2% of the issued and fully paid capital held in Leumi Card, after which it continues to retain 20% of the issued and fully paid capital of Leumi Card and 18% of the voting rights.

C. Real estate

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 31 March 2010					
	NIS millions					
Profit from net interest income	**49**	**181**	**51**	**2**	**32**	**315**
Operating and other income	**12**	**15**	**8**	**2**	**3**	**40**
Total income	**61**	**196**	**59**	**4**	**35**	**355**
Provision for doubtful debts	**-**	**96**	**3**	**-**	**2**	**101**
Operating and other expenses	**25**	**33**	**18**	**2**	**16**	**94**
Operating profit before taxes	**36**	**67**	**38**	**2**	**17**	**160**
Net profit	**23**	**43**	**25**	**1**	**11**	**103**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 31 March 2009					
	NIS millions					
Profit from net interest income	43	157	43	2	34	279
Operating and other income	11	13	7	1	2	34
Total income	54	170	50	3	36	313
Provision for doubtful debts	10	64	5	-	5	84
Operating and other expenses	14	17	9	1	14	55
Operating profit before taxes	30	89	36	2	17	174
Net profit	19	57	23	1	12	112

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 three months of			For the first three months of		
	2010(1)	2009(1)	Change	**2010**(2)	2009(2)	Change
	NIS millions		%	NIS millions		%
The Bank	**388**	162	139.5	**485**	(45)	+
Consolidated companies in Israel (3)	**149**	109	36.7	**149**	109	36.7
Overseas consolidated companies (4)	**(8)**	135	-	**(105)**	342	-
Companies included on the equity basis (3)	**63**	22	186.4	**63**	22	186.4
Net operating profit	**592**	428	38.3	**592**	428	38.3
Overseas subsidiaries' profit, in nominal terms (US$ millions) (5)	**11.7**	9.2	27.2	**11.7**	9.2	27.2

(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 increase in net operating profit at the Bank arises mainly from an increase in interest income and a reduction in provisions for doubtful debts. On the other hand, this increase was partially offset by an increase in operating and other expenses and a decrease in operating and other income.

- The increase in net operating profit of consolidated companies in Israel derives mainly from an increase in the profits of Leumi Partners and Leumi Real Holdings that were partially offset by a decrease in the profits of Arab Israel Bank

- The decrease in the profit of overseas subsidiaries derives from negative exchange rate differentials in respect of overseas investments, compared with positive exchange rate differentials in the corresponding period in 2009.

The overseas subsidiaries' operating profits in nominal terms as published by them (including the Bank's overseas branches and minority interests) totaled some US$ 11.7 million, an increase of US$ 2.5 million compared with the corresponding period in 2009. The contribution of the overseas subsidiaries in shekels, after certain adjustments to Israeli accounting principles, amounted to a loss of NIS 8 million, compared with a profit of NIS 135 million in the corresponding period in 2009. Excluding the effect of exchange rate differentials in respect of the net cost of financing sources, the loss of the overseas subsidiaries amounted to NIS 105 million,

as compared with a profit of NIS 342 million in the corresponding period in 2009, an decrease of NIS 447 million, deriving mainly from negative exchange rate differentials in respect of the overseas investments, due to the appreciation of the shekel in relation to the foreign currencies.
In the first quarter of 2009, the exchange rate differentials in respect of foreign investments were positive totaling NIS 307 million, compared to NIS 142 million negative differentials in the first quarter of 2010.

Activities of Major Investee Companies

General

The Bank Leumi Group operates in Israel and abroad through overseas subsidiaries, comprising banks, a mortgage bank, finance companies and financial service companies. The Group also invests in non-banking corporations 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 6,580 million on 31 March 2010, compared with NIS 6,340 million on 31 December 2009. The contribution to operating profit in the first quarter of 2010 was NIS 149 million, compared with NIS 109 million in the corresponding period in 2009, a increase of 36.5%.

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

	Return on Group investment		Contribution to Group profit (1)		
	For the period ending 31 March				
	2010	2009	**2010**	2009	Change
	%		NIS millions		%
Leumi Mortgage Bank	**4.6**	4.9	**27.7**	25.6	8.2
Arab Israel Bank	**24.4**	36.9	**18.0**	27.3	(34.1)
Leumi Card	**17.2**	19.7	**27.0**	25.6	5.5
Leumi Partners (2)	**67.0**	16.2	**51.0**	10.1	+
Leumi Securities (previously Psagot – Ofek)	**12.8**	2.7	**2.3**	0.3	+
Leumi Real Holdings	**12.9**	8.4	**18.6**	10.6	75.5
Leumi Leasing and Investments	**-**	1.4	**(2.2)**	2.8	-
Others	**2.6**	3.1	**6.1**	6.5	(6.2)
Total consolidated subsidiaries in Israel	**9.7**	8.1	**148.5**	108.8	36.5

(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.

Leumi Mortgage Bank Ltd.

On 11 March 2010, Leumi Mortgage Bank issued a capital note to the Bank in the amount of NIS 500 million.

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 4,249 million on 31 March 2010, compared with NIS 4,345 million on 31 December 2009.

In the first quarter of 2010, the contribution of the overseas consolidated subsidiaries to the net operating profit of the Group, as reported in shekels and after offsetting translation adjustments, amounted to a loss of NIS 8 million, compared to a profit of NIS 135 million in the corresponding period in 2009, as detailed below.

	For the three months ended 31 March	
	2010	2009
	NIS millions	
Operating profit of the subsidiaries in shekels (the Group's share)	**37**	34
Exchange rate differentials in respect of the investment	**(142)**	308
Total	**(105)**	342
Exchange rate differentials in respect of the net cost of financing sources, after taxes	**97**	(207)
Total contribution of the subsidiaries (after offsetting net financing sources)	**(8)**	135

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

	Return on the Group's investment		Contribution to the Group's profit(*)		
	For the period ending 31 March				
	2010	2009	**2010**	2009	Change
	%		NIS millions		%
Leumi USA (BLC)	**0.1**	15.1	**0.7**	83.5	-
Leumi UK	**1.5**	27.3	**2.3**	33.9	-
Leumi Switzerland	**-**	9.5	**(3.6)**	12.5	-
Leumi Luxembourg	**1.6**	-	**0.4**	1.1	-
Leumi Re	**4.7**	-	**1.1**	(2.4)	+
Leumi Romania	**-**	0.7	**(7.3)**	0.8	-
Others	**-**	17.9	**(1.6)**	5.1	-
Total overseas consolidated subsidiaries	**-**	13.9	**(8.0)**	134.5	-

(*) 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 97 million (NIS (207) million in 2009). The following are some of the sums that were offset:

Leumi USA	- NIS (26) million in 2010, compared with NIS 156 million in 2009.
Leumi UK	- NIS (33) million in 2010, compared with NIS 29 million in 2009.
Leumi Switzerland	- NIS (18) million in 2010, compared with NIS 11 million in 2009.
Leumi Romania	- NIS (12) million in 2010, compared with NIS (3) million in 2009.

The decrease in the contribution to profit derives mainly from the effect of the appreciation of the shekel in relation to most currencies. The effect of the exchange rate differentials was to decrease pre-tax profit by NIS142 million during the first quarter of 2010, compared with an increase in pre-tax profit by NIS 308 million in the corresponding period in 2009. Net financing income recorded at the Bank, which offset part of these exchange rate differentials, totaled some NIS 97 million during the first quarter of 2010, compared with expenses of NIS 207 million in the corresponding period in 2009.

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

	For the three months ending 31 March		
	2010	2009	Change
	In millions		**%**
Leumi USA (BLC) (US$)	**3.7**	1.7	+
Leumi (UK) (£)	**3.3**	3.4	(2.9)
Leumi Switzerland (CHF)	**2.2**	2.8	(21.4)
Leumi Luxembourg (€)	**0.7**	0.2	+
Leumi Re (US$)	**0.4**	(1.2)	+
Leumi Romania – Ron	**-**	4.0	-

The nominal profit of the overseas consolidated subsidiaries as reported by them totaled US$ 11.7 million in the first quarter of 2010, compared with US$ 9.2 million in the corresponding period in 2009, an increase of 27.2%.

For information regarding legal actions and other matters connected to consolidated companies, see Note 6 to the Financial Statements

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Non-Banking Activities of Companies Included on the Equity Basis

Total investments of the Group in companies included on the equity basis amounted to NIS 2,196 million on 31 March 2010, compared with NIS 2,178 million on 31 December 2009.

During the first quarter of 2010, the contribution to net profit was NIS 85 million, compared with a profit of some NIS 34 million in the corresponding period in 2009.

Exposure to Risk and Methods of Risk Management

This section is written in much greater detail in the 2009 Financial Statements (pages 193-210), and so it should be read in conjunction with this report

.

1. Market and Liquidity Risks

Strategy for Management of Market and Liquidity Risks

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

The management of market risks is intended one the one hand to support the achievement of business goals by assessing the damage that can result from exposure to risks and its limitation, in comparison with the forecasted profit from them, and on the other hand is intended to reduce the level or risk deriving from the Bank's ongoing activity. This is after taking into account the volume of activity, limitations and costs of hedging activity, changes occurring in the business environment in Israel and throughout the world, instructions and requirements of the Bank of Israel, and in developments occurring worldwide in the subject of measurement and methods of managing risks and adapting them for the purposes of the Group and the Bank. The Bank manages exposures to market risks in a dynamic manner.

The market risk management policy prescribes limits on financial exposure. These limits are intended to reduce the damage that could be caused as a result of unexpected changes in the markets. The system of limits delineates the impact of exposure of the economic value, the accounting profit and the liquidity position to unexpected changes in the various risk factors, such as interest rates, the CPI, exchange rates, etc.

Market risks management at Group level is carried out at the overall level of both the banking portfolio and the trading portfolio. However, the Bank has specific limits for the trading portfolios and for each of the subsidiary companies.

Taking into account the Bank's forecast of stabilization and moderate improvement in the economy for 2010, the Board of Directors authorized the taking of market risks and at a level slightly higher than in the years 2008-2009, which is expressed in changes in the limits.

The limits set at Board level were adapted to the risk appetite, the Bank's targets, and to a changing environment. On the one hand, limits that were effective in the light of targets set for 2010 were expanded, and on the other hand, limits found to be ineffective were made more stringent.

The limits set at the Group level include all the subsidiary companies in Israel and overseas. The overseas subsidiaries fix the risk management policy in coordination with the Bank in Israel, whereas the frameworks for market exposure risk are fixed on a uniform basis set by the Bank and approved by the Bank's Market Risk Officer.

The Bank implements Proper Conduct of Banking Business Directive No. 339 of the Supervisor of Banks, in the matter of market risk management of the Group. The directive stipulates basic principles for the manner of managing and controlling risks, including the responsibility of Management and the Board of Directors, definition of means of control and the tools for measuring risk, and means of control and supervision of these risks.

The new directives of the Bank of Israel, based on the guidelines of the second pillar of Basel II, are being implemented by stages, according to a predetermined work program.

Information on the state of exposure according to the predetermined frameworks is received from the subsidiary companies once a month or on 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 (Table 10 Basel II):

	31 March 2010	31 December 2009
	NIS millions	
Capital requirement in respect of		
Interest risks	**395**	432
Share price risk	**33**	36
Exchange rate risk	**97**	161
Options	**68**	39
Total capital requirement in respect of market risks	**593**	668

2. The Main Risks in Market Risk

2.1 Basis Exposure

According to accounting principles, 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. Exposure to the basic risks is measured as a percentage of the exposed capital of the Group.

The exposed capital, at the Bank level, includes the shareholders' equity and certain reserves, less fixed assets and investments in investee 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 exposure to basis risk is expressed as the loss that may occur as a result of changes in the CPI and exchange rates, in the difference between the value of the assets and the value of the liabilities, including the effect of futures transactions, in each of the linkage sectors.

Management policy is to manage risks deriving from basis exposure in a controlled manner within the framework of the limits set by the Board of Directors, and to establish the extent of exposure in each linkage sector on an ongoing and up-to-date basis, in accordance with economic forecasts of developments in the capital and money markets, as well as changes in prices, inflation and anticipated relative prices in the various sectors.

Exposure limits approved by the Board of Directors are allocated in accordance with considerations of expected return and risk to trading rooms, ALM and subsidiary companies. The ALM and trading rooms' positions are managed on a routine daily basis, having additional limits at the level of the risk, the instrument and the type of activity.

The subsidiaries abroad and in Israel generally maintain a balance between the assets and liabilities in the various currencies, and their available capital is invested in the local currency. These subsidiaries manage basis exposures at low volumes, based on policies anchored in resolutions of their local boards of directors, and coordinated with the Bank in Israel.

For the purposes of management and ongoing reporting, certain changes are made to take into account the Bank's economic approach to basis risks that differ from the accounting approach.

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 adjustments are made 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 limiting the impact on the reported accounting profit.

The core exposure calculated pursuant to the accepted accounted rules is presented in Note 5 to the Financial Statements.

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

		Actual exposure (%)		
	Approved limits maximum surplus (or deficit)	**31 March 2010**	31March 2009	31December 2009 **
Unlinked	50% - (100%)	**(9.8)**	(8.6)	(5.7)
CPI-linked	100% - (50%)	**7.3**	6.6	7.5
Foreign currency*	15% - (15%)	**2.5**	2.0	(1.8)

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

** Reclassified.

During the first quarter of 2010, the average percentage of the exposed capital that was invested in the CPI-linked sector was 4.4%. During the year, this rate fluctuated between 1.6% to 8.8%. 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 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, unlike exchange rate differences in respect of financing sources, thereby leading to a lack of symmetry in respect of exchange rate differences. 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 hedged by the Bank.

At the beginning of 2010, forward transactions were executed against approximately half of the expected net income in foreign currency to protect against changes in the exchange rates of the various currencies.

During the first quarter of 2010, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 31 March 2010. 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	(4)	12	2	4	10
Increase of 10% in exchange rate	(4)	24	6	17	18
Decrease of 5% in exchange rate	5	(6)	3	(4)	(10)
Decrease of 10% in exchange rate	14	(2)	7	(19)	(22)

2.2 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 compared. In addition, in each sector, a measurement is made of the exposure to changes in interest relating to the potential erosion of the economic value[1] and the annual accounting profit in consequence of a shift of the yield curves in each of the sectors.

The principal exposure is in the CPI-linked sector, since the majority of the assets and liabilities in this sector have fixed medium and long-term interest rates. As 31 March 2010, the exposure was to an increase in interest at a rate lower than that inherent in the sharp yield curves. This exposure derives mainly from subordinated notes (used as Tier II capital at Group level) issued for long terms.

In the foreign currency and unlinked shekel sectors, the interest exposure is lower, since most of the activity is at floating interest rates. In the foreign currency sector, the existence of financial instruments in the international markets facilitates the reduction of the exposure.

The exposure to an unexpected change of 1% in the rate for all periods is measured in each of the sectors individually and in all the sectors together.

- The potential erosion of the economic value – the difference between the present value of the assets and liabilities. In the calculation of the present value, the cash flows are deducted from the cash flows in the credit risk-free yields curve, i.e. from government bonds.
- The potential erosion of the accounting profit for the year as a result of change in the value of transactions assessed at market prices (derivative instruments and trading portfolios) as well as balance sheet items (loans and deposits) repayable during the year and recycled at new interest rates.

[1] The economic value of the capital is defined as the difference between the current value of the assets and the liabilities. In calculating the current value, the cash flows are deducted from the credit risk free yields curve.

Interest risk is measured and managed in practice based on various behavioural assumptions as to repayment dates of assets and liabilities. Below are the principal assumptions:

- In the index-linked sector, an estimate is taken into account regarding early repayments and withdrawals at points of exit in savings plans. The assumption regarding potential withdrawals is based on previous customer behaviour.
- According to previous accumulated experience, there is a balance in non-interest bearing current accounts, in a long-standing stable amount. Therefore, for the purposes of measuring and managing interest exposure, Bank policy is to relate to part of the non-interest bearing current account balances as long-term liabilities. Periodically the change in non-interest bearing current account balances is examined in order to decide how to spread it.
- Leumi Mortgage Bank – The management of exposures takes into account assumptions regarding early repayments of loans and deposits. The assumptions regarding the CPI- linked loans at fixed rates of interest rely on a statistical model for predicting the early repayments.

This statistical model is checked on a regular basis and its assumptions are modified according to management's expectations of early repayments for the ensuing months, based on economic parameters and developments in the financial markets (interest rates, bond prices and the rate of inflation).

2.2.1 Interest exposure and compliance with limitations

The following table presents the exposure to interest changes at the Group level, calculated according to accounting principles. During 2009, the Group complied with all the risk exposure limits set by the Board of Directors. For further details regarding risk exposure, see Exhibit C in the Management Review.

	31 March 2010			31 December 2009		
	Unlinked	CPI-linked	In or linked to foreign currency	Unlinked	CPI-linked	In or linked to foreign currency
Average duration (in years):						
assets (1)	**0.71**	**3.10**	**0.84**	0.61	3.03	0.62
liabilities (1)	**0.73**	**3.61**	**0.79**	0.62	3.65	0.55
The gap in duration in years	**(0.20)**	**(0.51)**	**0.05**	(0.01)	(0.62)	0.07
Difference in the internal rate of return (%)	**0.79**	**1.52**	**2.93**	(0.12)	1.25	3.05

(1) Excluding forward transactions and options and based on fair value figures of financial instruments.

Beginning in December 2009, there was a change in the method of calculation and presentation of the report of exposure to changes in interest rates, pursuant to new directives by the Bank of Israel on the matter. Instead of total data for balance sheet balances, Exhibit C brings fair value figures of financial instruments reported in Note 18C of the annual report regarding "Balances and Estimates of Fair Value of Financial Instruments".

The internal rate of return also changed accordingly. Instead of the internal rate of return deducting expected cash flows for the balance sheet balance, the internal rate of return is reported with the deduction of expected cash flows from the fair value.

In addition, instead of reporting the average duration which was based on contractual amounts of assets and liabilities, in 2009 the effective average duration was reported, based on the change in fair value resulting from a change in the internal rate of return of assets and liabilities.

The average duration of liabilities in the CPI-linked sector is calculated after taking into account estimates of early repayments and withdrawals at exit points of savings plans, on the basis of a model that estimates the anticipated early repayments on the basis of the behaviour of the savers. The average duration of liabilities, according to the original cash flow of the savings schemes is longer, and reaches 3.62 years, while the gap in the internal rate of return (IRR) amounts to 1.56%.

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' behaviour in the past. The average duration of assets at the end of the current period, according to the original cash flow, without taking into account early repayments, is the same, and reaches 3.10 years, and the IRR gap amounts to 1.56%.

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 behavioural 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 0.82 years in unlinked shekels and 0.86 years in foreign currency, with the IRR gap reaching 1.78% and 3.26% respectively.

Interest exposure risk is managed on the basis of economic exposures and is based on various behavioural 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 a parallel change of 1% in the interest curves.

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

	Potential erosion of economic worth[1]		**Potential erosion of annual profit****	
Effect of a parallel change of 1% in the interest curve:	**31 March 2010**	31 December 2009	**31 March 2010**	31 December 2009
Actual	**817**	656	**421**	356
Limit	**1,100**	1,000	**500**	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.

[1] The economic value of the capital is defined as the difference between the current value of the assets and the liabilities. In calculating the current value, the cash flows are deducted from the credit risk free yields curve, namely. in government bond yields.

During the first three months of 2010, the potential erosion of the economic value ranged between NIS 940 million and NIS 656 million, and that of the annual profit between NIS 421 million and NIS 356 million.

It should be noted that since the beginning of the year, a new and improved model for predicting early repayments was adopted at Leumi Mortgage Bank. The principal effect of measuring the exposure using the new model was to increase the exposure of the economic value to increases in interest rates at a rate lower than that included in the index yield curve by approximately NIS 100 million (pre-tax) at the Group level.

During the first three months of 2010, the Group complied with all interest exposure limits prescribed by the Board of Directors.

In addition, monitoring and reporting is carried out regarding the potential interest exposure arising from the Bank's liabilities for future pension and severance pay payments to active employees who have yet to retire. Employees are entitled to choose between two tracks – either to receive severance pay and provident fund savings or to receive a pension.

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

The net fair value of financial instruments before the effect of unexpected changes in interest as at 31 March 2010 (before tax, in NIS millions):

	Israeli currency		Foreign currency including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	US$	Euro	Others
Financial assets	**152,953**	**60,687**	**56,270**	**17,839**	**12,595**
Amounts receivable in respect of off-balance sheet derivative financial instruments	**139,841**	**3,043**	**103,291**	**30,245**	**31,634**
Financial liabilities	**130,704**	**53,100**	**71,762**	**22,004**	**10,005**
Amounts payable in respect of off-balance sheet derivative financial instruments	**146,648**	**11,210**	**87,298**	**25,081**	**39,325**
Net fair value of financial instruments	**15,442**	**(580)**	**501**	**999**	**(5,101)**

The net fair value of financial instruments after the impact of changes in interest rates, as at 31 March 2010, in NIS millions: (Table 14 Basel II):

	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
Change in interest rates	Un-linked	CPI-linked	Dollar	Euro	Others
Immediate parallel increase of 1%	**15,655**	**117**	**551**	**1,032**	**(5,086)**
Immediate parallel increase of 0.1%	**15,463**	**(510)**	**506**	**1,002**	**(5,099)**
Immediate parallel decrease of 1%	**15,204**	**(1,291)**	**440**	**965**	**(5,117)**

3. 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 (or interest rates). 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 back-testing 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 but on the actual expected changes in the risk factors in a particular period. The VaR of the option book in the trading portfolio is also examined using 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		
	31 March 2010	31 March 2009	31 December 2009	**31 March 2010**	31 March 2009	31 December 2009
Actual	**359**	244	359	**134**	126	188
The limit	**600**	600	600	**400**	500	500

During the first three months of 2010, the VaR of the economic value ranged between NIS 411 million and NIS 359 million.

During the first three months of 2010, The VaR on the Group's mark-to-market portfolios ranged between NIS 188 million and NIS 134 million.

During the first three months of 2010, the Group complied with all the VaR limits set by the Board of Directors.

4. Stress Scenarios

The global and domestic markets are subject to shocks from time to time, which manifest themselves in especially high volatility of the parameters, which deviate from normal historical behaviour. The VaR or other models do not provide information about losses that may occur under extreme market conditions, and exceeding the predetermined confidence level. Thus, in addition to the VaR measurement, risk is also measured in various stress scenarios. These include all risk factors to which the Bank is exposed and represent a part of the ICAAP process described on page 235 of the Annual Report.

In addition to the limits detailed above regarding basis and interest exposures and VaR, the Board of Directors has also set limits for the maximum potential loss in the event of a realization of a stress scenario in market risk. The scenario includes extreme changes that occur simultaneously in the principal parameters of market risks. The current limit, which relates solely to market risks, determines that the decrease in economic value of shareholders’ equity resulting from a stress scenario will not exceed NIS 2 billion, after taxes. The Bank complied with this limit during the course of the first three months of 2010.

Stress tests at Leumi are built by the Stress Tests Committee headed by the Chief Risk Controller. The Committee is responsible for the periodic definition and updating of the stress tests. The Committee meets generally at least once a month. The set of stress scenarios includes reference to aspects of market risks, credit risks, operating risk, and includes combined scenarios of types of risk. In meetings of the Committee, scenarios are examined and updated in accordance with developments and various assessments.

The Committee is comprised of representatives of various units specializing in managing various risks and also representing the business side. If necessary, the Committee makes use of opinions of additional experts for purposes of assessing specific risks which are not within the direct expertise of members of the Committee.

In the framework of the activity of the Committee, a set of stress tests has been defined at Group level, whose aim is to cover a large number of serious to reasonable scenarios, to which the Bank is exposed during the course of its activity as a going concern and to identify concealed risks not at times of crisis. The Stress Tests Committee has prepared a preliminary prioritization of the scenarios, which in its opinion are the most significant for the Group, either because of the seriousness of the scenario or because of the probability of its occurrence (or a combination of both).

In order to ensure the Bank's survival as a going concern which continues to conduct its business also in the event of serious but reasonable stress scenarios, the Bank verifies that the minimum capital adequacy ratio will not be less than the minimum required by the Supervisor of Banks (presently 9%) at any moment in time during a stress scenario.

These requirements exist for all stress scenarios examined by the Group, and especially the most serious scenario, including a significant worsening in non-banking indices and a marked rise in provisions for doubtful debts, the collapse of a foreign bank to which the Group is materially exposed, the collapse of a group of borrowers (as defined in Proper Conduct of Banking Business Directive No. 311), with all its implications and the "drying up" of the domestic and global bond market.

The material stress scenarios were examined against the three-year program and it was found that Leumi Group complies with all the limits it set for itself as described above, without the need for updating the work plan.

5. 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.

Responsibility for managing liquidity risk in units overseas devolves on the units themselves, together with advice, coordination and professional support of the ALM Department in Israel. For every overseas unit of the Bank, the liquidity management policy is approved by the local Board of Directors. The risk management policy of overseas units is determined in accordance with Group policy and subject to directives of local regulations in every unit. In this framework, limits are set, and compliance with limits is examined in the framework of the market and liquidity risk management committees, both at the units and in Israel.

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 include a normal business scenario and stress scenarios affecting the Bank and the entire banking system.

The liquidity position is examined in each of the scenarios by means of two quantitative indices: the liquidity gap and the liquidity ratio. 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, thus the Bank secures its ability to meet all its liquidity needs.

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 behavioural 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.

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, as follows:

- As part of the ongoing management of liquidity in Israeli currency and foreign currency, forecasts are made of the daily liquidity situation, using the Bank's existing information systems. At the end of each business day, the gap between the forecasted liquidity and the actual liquidity is measured. The spread of the gap is used for updating the model and for improving the quality of the forecasting of the liquidity situation.
- In the foreign currency sector, the rate of long-term assets being financed by short-term liabilities, the "long/short" ratio is also monitored. The Market Risks Manager sets limits on this ratio from time to time according to the circumstances in the markets.
- In the Israeli currency and foreign currency sectors, the trends in the liquidity position are examined (daily, monthly, etc.) over a protracted period, in order to monitor the developments in deposits of the public, in credit to the public and liquidity in general.

5.1. Liquidity Status and Compliance with Limits

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.

The following table shows the liquidity gap and liquidity ratio in Israeli currency and foreign currency, in each of the four types of defined scenarios, for a repayment period of one month, as at 31 March 2010 (without connection between sectors*):

	Israeli currency for one month		Foreign currency for one month	
	Gap	Ratio	Gap	Ratio
Scenario/period	NIS millions			
Regular	**40,485**	**20.0**	**20,467**	**16.9**
Statistical	**33,716**	**4.8**	**17,087**	**4.7**
Stress at Leumi	**16,276**	**1.4**	**6,680**	**1.3**
Systemic stress	**25,062**	**2.0**	**5,051**	**1.2**

*Bank Leumi assumes that in stress situations the foreign currency sector, if it has a liquidity surplus, can assist the Israel currency sector and *vice versa*.

The above measurements relate solely to the Bank, and include a support line to Leumi Romania amounting to US$ 50 million, and to Leumi U.K. amounting to 120 million sterling.

During the first three months of 2010, the Group complied with all limits prescribed by the Board of Directors.

Credit Risk

For details regarding the exposure to and management of credit risks, see pages 218-235 of the Annual Report for 2009.

Once a year, the credit policy statement of the Bank is updated and approved by the Board of Directors. This document serves as a policy guideline for the Bank's operations in Israel, with the exception of certain areas where there is a Group policy.

The main principles of the credit policy statement are presented to the subsidiaries in Israel and abroad. The document serves as a guideline for the credit policy to be adopted by them.

The Bank’s credit policy is based on the spreading of risks and their supervised management. This is effected through the spread of the Bank’s credit portfolio among the various sectors of the economy and among a large number of borrowers. In its capacity as a central player in the providing finance to 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 the diverse public sector, to individuals and to households.

The credit policy of the Bank is derived from its overall risk management policy. One of the basic elements of the overall policy is the "risk appetite" of Leumi Group as defined from time to time by the Board of Directors of the bank. The 'risk appetite" decided upon obligates compliance with a number of principles of risk policy which have implications for credit policy, whose aim is to improve the quality of the loan portfolio and to manage its inherent risk.

Managing the loan portfolio in the Bank requires *inter alia* having a quantitative assessment of the risk level of the borrowers. To achieve this aim, models are built in the Bank and automatic systems to support the process of examining the risk level of the borrower, the expectancy of loss and the return required for these risks.

The Bank is in process of setting up an advance system for managing the loan portfolio with the aim of upgrading its abilities to control the various risks, and especially various concentration risks, to maintain limits over the risk factors in the area of credit, to direct activities with the objective of improving the ratio of return on risk and to facilitate a more suitable pricing system of credit risks.

In the context of the Bank's credit policy in Israel, principles and rules were prescribed in accordance with 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 and collateral policy, as well as sectoral and other limits.

As described in the 2009 Annual Report, in order to optimize the decision making process in the credit portfolio, as well as to tighten credit control, and to improve the quality of the Bank's credit portfolio and customer service, 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 with regard to most of the credit provided to the business and commercial sectors.

Provision for doubtful debts and classification of problematic debts

Amongst the means the Bank employs to manage the credit risk is a methodology to locate and identify problematic debts which it implements in all lines of business. This methodology includes a structured quarterly work process, in the framework of which a thorough scan is made of the credit portfolio, whilst utilizing several criteria that provide an early warning of the transition of a debt to a problematic one.

The large customers of the Bank that are handled by the corporate division are also subjected to a quarterly credit control process, which also examines borrowers whose risk rating is better than that which would normally require inclusion in the customer population defined as sensitive

Another aspect of the methodology applied is the systematic examination of the appropriateness of the provision for doubtful debts, in respect of those debts about which the Bank has doubts, whilst specifying basic criteria for the way in which the provision for doubtful debts is to be calculated. Every quarter a fairness test is made of the provision in all the business branches for classified customers and/or those for whom a provision already exists.

Each quarter, a discussion is held in the committee for doubtful debts of the Bank, chaired by the Head General Manager, with regard to the quarterly provision required and the recommendations for the classification of debts as problematic. Furthermore, discussions are also held in the committee of the Board of Directors for examining the the financial statements, where the provision for doubtful debts and the classification of problematic debts are examined prior to approving the amounts of the provisions.

The control process ends with decisions on classification or the making of a provision, and with reporting thereon to the accounts department.

Emphasis on business strategy

The Israeli economy was affected indirectly and in the short term by the global crisis beginning in the fourth quarter of 2008, and its activities were characterized by "drying up" of the capital market, as well as a slowdown in growth which became negative for a short and limited period.

The last few months have seen a trend of a significant appreciation in the real exchange rate of the Israeli shekel. This trend was mainly evident against the euro which is now at its lowest for a year and a half (principally due to the pressure on the currency as a result of the financial crisis affecting the countries of southern Europe).

The appreciation of the exchange rate of the shekel has also been seen against other currencies of Israel's main trading partners.

This trend, should it continue, will have a negative impact on the revenues of most exporters to the euro zone, on local manufacturers contending with competing imports, on tourism from Europe, and on customers who made real investments in Europe.

Beginning at the end of the second quarter of 2009, recovery was felt in the markets in Israel (a reawakening of the capital market and demand in the residential real estate sector). The recovery is a consequence, *inter alia,* of the expansionary monetary policy which also contributed to a moderation of the negative effects of the world crisis.

With increasing signs of recovery in certain segments and populations, the Bank is adopting a broader policy, to provide a suitable response to cover the needs of customers in the various operating segments, with an emphasis on financing sectors of the economy typified by growth potential and not with a high level of risk.

As a rule, the Bank adopts a cautious credit policy in relation to the various sectors of the economy and credit segments.

The Bank operates an ongoing policy of identifying sensitive borrowers and sectors of the population, maintaining a close and regular supervision over the effects of the erosion and exposures on the relevant borrowers.

The Bank carries out on a regular basis an examination and updating of risk ratings to ensure they reflect the borrowers' present state, whilst putting emphasis on the customers that are exposed to certain sectors of the economy, both locally and overseas, as well as having connections to geographic areas that are particularly affected. Furthermore the Bank continues to be active in the identification and correction of shortcomings in the credit documentation and collateral.

For the purpose of managing the Bank's credit portfolio as a whole, within the framework of the Corporate Division, there exists a **Credit Portfolio Management Unit** whose functions include, *inter alia*, the following matters: evaluation of the credit portfolio's performance in terms of yield versus risk, the creation of transparency in the credit portfolio in accordance with its risk levels and factors, formulation of recommendations regarding the credit portfolio's optimal structure and its limits and formulation of recommendations regarding voluntary limits in different segments (such as economic sectors). In addition, the unit examines the impact of new transactions on the credit portfolio's structure and risks, and it makes recommendations regarding the carrying-out of transactions/measures in order to improve the portfolio's structure and risks. All this is in order to bring about active management of the portfolio that will lead to improving the order of priorities with regard to the allocation of capital, and the releasing of capital, against which credit was given that is low yielding relative to risk, in favour of business creation in market segments/ more profitable borrowers from the aspect of yield/risk, and also to improve profitability

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

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

Credit risk exposure by principal types of credit exposure (Table 4(b) – Basel II):

	31 March 2010	31 December 2009	**31 March 2010**	31 December 2009
Type of credit exposure	Gross credit Risk exposures		Average gross credit risk exposures*	
	NIS million		NIS million	
Credit	**248,032**	246,409	**247,954**	247,395
Debentures	**40,987**	45,879	**41,330**	39,299
Others	**13,017**	13,138	**12,910**	12,932
Guarantees and liabilities on account of customers	**100,054**	95,393	**96,278**	95,680
Transactions in derivative financial instruments	**9,556**	9,956	**10,143**	10,948
Total	**411,646**	410,775	**408,615**	406,254

* The average is calculated based on the five preceding quarters.

Credit risk in accordance with the standardized approach (Table 5 – Basel II)*:

The tables below show details of gross credit exposure (after deducting provision for doubtful debts) according to risk weighting, the exposure being distributed by counterparty, before and after deduction of credit risk in respect of recognized collateral.

Amount of exposure after provision for doubtful debts and before deduction of credit risk**

	31 March 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposures (1)
	NIS millions									
Sovereign risk	47,228	3,662	-	136	-	620	-	-	-	51,646
Debts of public-sector entities	-	4,914	-	3,598	-	7	20	-	-	8,539
Debts of banking corporations	-	13,187	-	16,334	-	202	1	-	-	29,724
Debts of securities companies	-	-	-	-	-	-	-	-	-	-
Debts of corporations	-	117	-	502	-	161,782	11,354	-	-	173,755
Debts collateralized by commercial real estate	-	-	-	-	-	16,473	1,388	-	-	17,861
Retail exposures to individuals	-	-	-	-	47,999	24	1,014	-	-	49,037
Loans to small businesses	-	-	-	-	16,705	578	1,436	-	-	18,719
Housing mortgages	-	-	33,370	-	13,906	841	229	-	-	48,346
Securitization	-	513	-	229	-	166	-	51	43	1,002
Other assets	2,347	1	-	-	-	10,332	337	-	-	13,017
Total credit risk	49,575	22,394	33,370	20,799	78,610	191,025	15,779	51	43	411,646

Amount of exposure after provision for doubtful debts and after deduction of credit risk**

	31 March 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposures (1)
	NIS millions									
Sovereign risk	50,133	3,662	-	136	-	619	-	-	-	54,550
Debts of public-sector entities	-	2,011	-	3,596	-	7	20	-	-	5,634
Debts of banking corporations	-	13,385	-	16,777	-	202	1	-	-	30,365
Debts of securities companies	-	-	-	-	-	-	-	-	-	-
Debts of corporations	-	117	-	502	-	155,353	11,135	-	-	167,107
Debts collateralized by commercial real estate	-	-	-	-	-	15,455	1,322	-	-	16,787
Retail exposures to individuals	-	-	-	-	45,716	24	920	-	-	46,660
Loans to small businesses	-	-	-	-	15,016	577	1,324	-	-	16,917
Housing mortgages	-	-	33,367	-	13,794	841	229	-	-	48,231
Securitization	-	513	-	229	-	166	-	52	43	1,002
Other assets	2,347	1	-	-	-	10,332	337	-	-	13,017
Total credit risk	52,480	19,689	33,367	21,240	74,526	183,576	15,298	51	43	400,270

(1) Before converting to credit of off-balance sheet components, as required in the Basel II Directives (e.g. weighting of unutilized facilities), and before deduction of credit risk as a result of the execution od certain actions (e.g. use of guarantees).

* For details, see Tables 4 (b) and 4 (d) below.
** The deduction of credit risk expresses the final classification of the risk weighting between the various rates.

Amount of exposure after provision for doubtful debts and before deduction of credit risk**

	31 December 2009									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposures (1)
	NIS millions									
Sovereign risk	48,814	4,413	-	175	-	477	-	-	-	53,879
Debts of public-sector entities	-	5,141	-	3,700	-	12	47	-	-	8,900
Debts of banking corporations	-	16,285	-	16,856	-	293	84	-	-	33,518
Debts of securities companies	-	-	-	-	-	-	-	-	-	-
Debts of corporations	-	145	-	467	-	161,004	7,975	-	-	169,591
Debts collateralized by commercial real estate	-	-	-	-	-	15,752	1,345	-	-	17,097
Retail exposures to individuals	-	-	-	-	47,577	159	987	-	-	48,723
Loans to small businesses	-	-	-	-	16,884	144	858	-	-	17,886
Housing mortgages	-	-	32,594	-	13,261	887	220	-	-	46,962
Securitization	-	640	-	187	-	142	-	65	47	1,081
Other assets	2,595	-	-	-	-	10,214	329	-	-	13,138
Total credit risk	51,409	26,624	32,594	21,385	77,722	189,084	11,845	65	47	410,775

Amount of exposure after provision for doubtful debts and after deduction of credit risk**

	31 December 2009									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposures (1)
	NIS millions									
Sovereign risk	51,785	4,413	-	175	-	476	-	-	-	56,849
Debts of public-sector entities	-	2,172	-	3,698	-	12	47	-	-	5,929
Debts of banking corporations	-	16,464	-	17,312	-	293	11	-	-	34,080
Debts of securities companies	-	-	-	-	-	-	-	-	-	-
Debts of corporations	-	145	-	467	-	154,517	7,752	-	-	162,881
Debts collateralized by commercial real estate	-	-	-	-	-	14,845	1,284	-	-	16,129
Retail exposures to individuals	-	-	-	-	45,242	158	912	-	-	46,312
Loans to small businesses	-	-	-	-	15,174	142	768	-	-	16,084
Housing mortgages	-	-	32,592	-	13,143	886	219	-	-	46,840
Securitization	-	640	-	186	-	143	-	65	47	1,081
Other assets	2,595	-	-	-	-	10,214	329	-	-	13,138
Total credit risk	54,380	23,834	32,592	21,838	73,559	181,686	11,322	65	47	399,323

Credit risk exposure by counterparty (by main types of credit exposure – (Table 4(d) – Basel II):

	31 March 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign risk	**28,413**	**22,340**	**-**	**893**	**-**	**51,646**
Debts of public-sector entities	**3,188**	**5,198**	**-**	**153**	**-**	**8,539**
Debts of banking corporations	**12,101**	**10,864**	**-**	**1,559**	**5,200**	**29,724**
Debts of securities companies	**-**	**-**	**-**	-	-	-
Debts of corporations	**105,301**	**1,583**	**-**	**62,515**	**4,356**	**173,755**
Debts collateralized by commercial real estate	**16,452**	**-**	**-**	**1,409**	**-**	**17,861**
Retail exposures to individuals	**23,455**	**-**	**-**	**25,582**	**-**	**49,037**
Loans to small businesses	**13,817**	**-**	**-**	**4,902**	**-**	**18,719**
Housing mortgages	**45,305**	**-**	**-**	**3,041**	**-**	**48,346**
Securitization	**-**	**1,002**	**-**	**-**	**-**	**1,002**
Other assets	**-**	**-**	**13,017**	**-**	**-**	**13,017**
Total credit risk	**248,032**	**40,987**	**13,017**	**100,054**	**9,556**	**411,646**

	31 December 2009					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign risk	27,309	25,587	-	983	-	53,879
Debts of public-sector entities	3,324	5,446	-	130	-	8,900
Debts of banking corporations	14,579	12,226	-	1,608	5,105	33,518
Debts of securities companies	-	-	-	-	-	-
Debts of corporations	103,532	1,539	-	59,669	4,851	169,591
Debts collateralized by commercial real estate	16,317	-	-	780	-	17,097
Retail exposures to individuals	23,352	-	-	25,371	-	48,723
Loans to small businesses	13,816	-	-	4,070	-	17,886
Housing mortgages	44,180	-	-	2,782	-	46,962
Securitization	-	1,081	-	-	-	1,081
Other assets	-	-	13,138	-	-	13,138
Total credit risk	246,409	45,879	13,138	95,393	9,956	410,775

Distribution of portfolio by repayment period and by main types of credit exposure – (Table 4(e) – Basel II):

	31 March 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	**135,184**	**9,201**	**3,546**	**64,844**	**3,982**	**216,757**
From one to five years	**59,249**	**15,373**	**361**	**22,475**	**2,611**	**100,069**
More than five years	**53,484**	**16,413**	**555**	**12,735**	**2,638**	**85,825**
Non-monetary items	**115**	**-**	**8,555**	**-**	**325**	**8,995**
Total	**248,032**	**40,987**	**13,017**	**100,054**	**9,556**	**411,646**

Distribution of portfolio by repayment period and by main types of credit exposure – (Table 4(e) – Basel II):

	31 December 2009					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	141,293	8,578	3,234	63,034	4,541	220,680
From one to five years	67,516	20,989	790	19,735	2,099	111,129
More than five years	37,600	16,312	793	12,624	2,637	69,966
Non-monetary items	-	-	8,321	-	679	9,000
Total	246,409	45,879	13,138	95,393	9,956	410,775

Reduction of credit risk (Table 7) – Basel II):

	31 March 2010				
	Gross credit exposure	Total exposure covered by guarantees and deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions				
Sovereign risk	**51,646**	**-**	**2,905**	**(1)**	**54,550**
Debts of public-sector entities	**8,539**	**(2,902)**	**-**	**(3)**	**5,634**
Debts of banking corporations	**29,724**	**-**	**642**	**(1)**	**30,365**
Debts of securities companies	**-**	**-**	**-**	**-**	**-**
Debts of corporations	**173,755**	**(612)**	**-**	**(6,036)**	**167,107**
Debts collateralized by commercial real estate	**17,861**	**(11)**	**-**	**(1,063)**	**16,787**
Retail exposures to individuals	**49,037**	**(3)**	**-**	**(2,374)**	**46,660**
Loans to small businesses	**18,719**	**(19)**	**-**	**(1,783)**	**16,917**
Housing mortgages	**49,346**	**-**	**-**	**(115)**	**48,231**
Securitization	**1,002**	**-**	**-**	**-**	**1,002**
Other assets	**13,017**	**-**	**-**	**-**	**13,017**
Total	**411,646**	**(3,547)**	**3,547**	**(11,376)**	**400,270**

	31 December 2009				
	Gross credit exposure	Total exposure covered by guarantees and deducted	Total amounts added	Total exposure covered by eligible financial collateral	Net credit exposure
	NIS millions				
Sovereign risk	53,879	-	2,971	(1)	56,849
Debts of public-sector entities	8,900	(2,968)	-	(3)	5,929
Debts of banking corporations	33,518	-	610	(48)	34,080
Debts of securities companies	-	-	-	-	-
Debts of corporations	169,591	(589)	-	(6,121)	162,881
Debts collateralized by commercial real estate	17,097	-	-	(968)	16,129
Retail exposures to individuals	48,723	(3)	-	(2,408)	46,312
Loans to small businesses	17,886	(21)	-	(1,781)	16,084
Housing mortgages	46,962	-	-	(122)	46,840
Securitization	1,081	-	-	-	1,081
Other assets	13,138	-	-	-	13,138
Total	410,775	(3,581)	3,581	(11,452)	399,323

Below are credit risk balances to third parties (Table 8 – Basel II):

	31 March 2010				
	Par value balances	Gross positive fair value of contracts	Set off benefits	Eligible collateral	Net credit exposure of derivatives
	NIS millions				
Interest contracts	**166,442**	**3,403**	**-**	**-**	**3,403**
Foreign currency contracts	**150,967**	**5,228**	**-**	**-**	**5,228**
Contracts in respect of shares	**6,491**	**658**	**-**	**-**	**658**
Commodities and other contracts	**2,332**	**267**	**-**	**-**	**267**
Credit derivative transactions	**594**	**-**	**-**	**-**	**-**
Total	**326,826**	**9,556**	**-**	**-**	**9,556**

	31 December 2009				
	Par value balances	Gross positive fair value of contracts	Set off benefits	Eligible collateral	Net credit exposure of derivatives
	NIS millions				
Interest contracts	154,261	2,987	-	-	2,987
Foreign currency contracts	157,482	5,578	-	-	5,578
Contracts in respect of shares	8,198	679	-	-	679
Commodities and other contracts	2,156	712	-	-	712
Credit derivative transactions	831	-	-	-	-
Total	322,928	9,956	-	-	9,956

4. **The following table presents the credit exposure with respect to the fair value of derivatives, according to counterparties to the contract (presented in other assets as at 31 March 2010):**

	AAA to AA-	A+	A	A-	BBB to BBB-	Below B-	Unrated	Total
Overseas Banks	NIS millions							
Euro zone[(1)]	**264**	**444**	**120**	**170**	**-**	**-**	**-**	**998**
United Kingdom [(2)]	**102**	**367**	**219**	**67**	**15**	**-**	**27**	**797**
United States	**7**	**422**	**94**	**6**	**-**	**-**	**77**	**606**
Other	**42**	**121**	**62**	**-**	**-**	**-**	**-**	**225**
Total overseas banks	**415**	**1,354**	**495**	**243**	**15**		**104**	**2,626**
Israeli banks [(3)]	**2**	**152**	**-**	**107**	**374**	**-**	**15**	**650**

Corporate customers by branch of the economy	
Financial services[(4)]	**1,439**
Industry[(5)]	**597**
Construction and real estate	**144**
Transportation and storage	**81**
Trade	**81**
Electricity and water	**156**
Business services	**31**
Private individuals	**8**
Communications and computer services	**20**
Others	**9**
Total corporate customers	**2,566**
Others*	**177**
Total exposure	**6,019**

* 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 7 countries.
(2) This amount includes transactions with 19 banks.
(3) This amount includes transactions with 11 banks.
(4) This amount includes transactions with 289 customers, where the highest amount for a single customer is NIS 326 million.
(5) This amount includes transactions with 275 customers, where the highest amount for a single customer is NIS 431 million.

Credit exposure to overseas financial institutions

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

	As at 31 March 2010			
	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-	**2,685**	**2,868**	**120**	**5,673**
A+ to A-	**9,270**	**9,239**	**454**	**18,963**
BBB+ to BBB-	**79**	**122**	**44**	**245**
BB+ to B-	**231**	**-**	**5**	**236**
Below B	**1**	**-**	**-**	**1**
Unrated	**1,004**	**421**	**48**	**1,473**
Total current credit exposure to overseas financial institutions	**13,270**	**12,650**	**671**	**26,591**
Problem loan balances	-	-	-	-

	As at 31 December 2009			
	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–	3,540	3,454	111	7,105
A+ to A–	10,862	10,353	464	21,679
BBB+ to BBB-	89	426	10	525
BB+ to B–	156	18	2	176
Below B	-	-	-	-
Unrated	663	242	46	951
Total current credit exposure to foreign financial institutions	15,310	14,493	633	30,436
Problem loan balances	4	186	-	190

(1) Overseas financial institutions include banks, investment banks, insurance companies and institutional bodies.

(2) Deposits in banks, credit to the public, securities that were borrowed or purchased in the context of buy-back agreements and other assets in respect of derivatives (fair value of derivatives).

(3) Including subordinated bank debentures, whose fair value, as at 31 March 2010, was NIS 2,551 million, and as at 31 December 2009, was NIS 2,907 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 bank's 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 by country is divided as follows: United States 42% Europe (Germany, France, Switzerland, Spain and the Benelux countries) 24% United Kingdom 17% and other countries 17%;

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 2009 and the first quarter of 2010, 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.

Additional details regarding investments in securities, mainly debentures of overseas banks, are presented on page 44.

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 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 risk according to final risk is distributed among geographical regions and countries, the main exposure being to countries in Western Europe and in North America. The exposure to country risk is the exposure to customers who operate in these countries (Table 4(c) Basel 2):

	31 March 2010		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
USA	**25,140**	**11,221**	**36,361**
UK	**7,596**	**7,289**	**14,885**
France	**4,175**	**2,600**	**6,775**
Germany	**3,916**	**2,772**	**6,688**
Others	**16,055**	**4,863**	**20,918**

	31 December 2009		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
USA	24,433	11,155	35,588
UK	8,475	7,869	16,344
France	4,611	2,348	6,959
Holland	3,514	216	3,730
Germany	4,717	2,004	6,721
Others	16,173	4,273	20,446

* In connection with exposure to foreign countries, see also Exhibit D.

The following table presents the exposure to countries according to the credit rating of the countries as rated by the World Bank, in NIS millions as at 31 March 2010:

Rating	Balance sheet exposure	Off-balance-sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which, problematic
OECD countries	**52,981**	**27,151**	**80,132**	**93.6**	**1,950**
High-income countries	**1,503**	**643**	**2,146**	**2.5**	**-**
Countries with mid-high income	**2,057**	**563**	**2,620**	**3.1**	**43**
Countries with mid-low income	**337**	**382**	**719**	**0.8**	**4**
Countries with low income	**4**	**6**	**10**	**-**	**-**
Total	**56,882**	**28,745**	**85,627**	**100.0**	**1,997**

The amount of exposure to 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 1,644 million and relates to 19 countries.

The countries are rated according to national income per capita as follows:
High income - exceeding US$ 11,906 per capita.
Mid-high income - from US$ 3,856 to US$ 11,905 per capita.
Mid-low income - from US$ 976 to US$ 3,855 per capita.
Low income – up to US$ 975 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, Columbia, Peru.

d. Countries with mid-low income:

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

e. Countries with low income:

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

Exposures to certain foreign countries:

	31 March 2010						
	Credit to the public	Bonds	Deposits	Derivatives	Other	Total	Total to 20 May 2010
Country	NIS million						
Ireland	**19**	**280**	**-**	**5**	**1**	**305**	**225**
Greece	**5**	**-**	**-**	**-**	**-**	**5**	**5**
Spain	**7**	**331**	**370**	**29**	**12**	**749**	**533**
Portugal	**-**	**15**	**-**	**-**	**-**	**15**	**15**
Total	**31**	**626**	**370**	**34**	**13**	**1,074**	**778**

The exposure in Ireland is principally to the Irish Government. Most of the exposure in Spain is to Santander Bank, the majority of whose revenues are from sources outside of Spain.

Operating and Legal Risks

See pages 210-213 of the Annual Report of 2009 for details of operating and legal risks.

Risk Factor Table

There were no changes to the Risk Factor table from the table appearing on page 237 of the 2009 Annual Report

Linkage Status and Liquidity Status

Linkage Status

During the first quarter of 2010, there was no significant change in the Group's exposure in the CPI-linked sector which stood at NIS 0.5 billion.

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

	As at 31 March 2010			As at 31 December 2009		
	Unlinked	CPI-linked	Foreign currency[2]	Unlinked	CPI-linked	Foreign currency[2]
	NIS millions					
Total assets [1]	**157,845**	**59,665**	**107,730**	155,049	59,822	113,484
Total liabilities [1]	**140,696**	**59,159**	**110,945**	137,408	59,404	117,710
Total exposure in sector	**17,149**	**506**	**(3,215)**	17,641	418	(4,226)

(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 also in respect of foreign currency earnings.

Funding and Liquidity Status

In the first quarter of 2010, the Bank of Israel increased the volume of net Treasury Bill tenders by some NIS 13 billion, to a level of some NIS 98 billion, and also contributed to the improvement in the banking system's liquidity by purchasing approximately US$ 2 billion in the domestic market.

The volume of the banking system's balances with the Bank of Israel (current account balances and monetary deposits) at the end of March 2010 stood at some NIS 98 billion, compared with some NIS 105 billion at the end of December 2009.

The volume of Leumi's balances with the Bank of Israel at the end of March 2010 stood at some NIS 25 billion, compared with some NIS 24 billion at the end of December 2009

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, including long term. Some 42% of the assets are deposited in banks and/or are invested in securities, primarily in government debentures.

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.

At the end of March 2010, the Bank had solo cash and deposits in banks amounting to some NIS 73 billion, of which some NIS 32 billion was in Leumi Mortgage Bank.

The Bank also has a solo securities portfolio of some NIS 44 billion, which is mainly invested in Israeli government debentures, foreign government debentures, and debentures of foreign banks.

The Bank’s net liquid assets – cash, deposits at banks and securities (less deposits from banks stood at 40% of the Bank’s total assets as at 31 March 2010, compared with 41% as at 31 December 2009.

The ratio of credit to the public to deposits of the public on 31 March 2010 was 60% - compared with 58% on 31 December 2009.

The low rate of interest, and the possibility of repaying credit without a penalty, at any given moment, caused a shift in the public preferences and the customers’ transition to prime based credit, primarily in mortgages.

Moreover, the low rates of interest world-wide and in Israel caused the shifting of money from fixed term deposits to current accounts causing a shortening of the overall average repayment term of the public deposits.

The low rates of interest and the optimism in the capital markets also contributed to the diversion of the public money from deposits to investments in the capital market.

The balance of deposits of the public at the Bank declined during the first three months of 2010 by NIS 4.5 billion (2.0%). The fall was primarily in the foreign currency sector that declined by 2.8%, and after neutralizing the impact of changes in the shekel’s exchange rate against foreign currencies, showed an increase of 0.8%. Furthermore during the first quarter, subordinated notes and capital notes were issued totaling some NIS 2 billion.

From 2009 onwards, Leumi Group has issued subordinated notes and capital notes, raising NIS 7.7 billion, of which NIS 5.3 billion are classified as upper Tier II capital, with the remainder classified as lower Tier II capital. Approximately NIS 5.4 billion of the capital raised was CPI linked. The issues were carried out by Bank Leumi (NIS 3.4 billion) and Leumi Financing (NIS 4.3 billion)

The capital notes that are recognized by the Bank of Israel as upper Tier II capital were issued for a period of 50 years, with an option for the Bank of early repayment every year after the end of 11 years, if certain conditions exist.

During the reviewed period, the volume of the customers’ off-balance sheet monetary assets at the Bank increased by some NIS 27.4 billion. After neutralizing the effects of the increase in the market value of the investments and the changes in the foreign exchange rates, a positive increment was recorded of some NIS 7.8 billion in these assets of the customers.

During the first three months of 2010, the volume of credit to the public increased by NIS 2.2 billion (+1.7%). The increase was recorded in all the linked sectors.

Basel II

In Leumi's financial statements, the calculation of risk assets and the capital adequacy ratio as of 31 March 2010 include, as with the entire local banking system, the figures of Leumi Group in accordance with the standardized approach of Basel II. During 2009, capital adequacy data was reported in accordance with the principles of the standardized approach in Basel II, as well as those according to the principles of Basel I. With effect from 2010, only Basel II data was reported

The minimum capital adequacy ratio required by the Supervisor of Banks is 9%, of which 8% is in respect of the First Pillar. The results reported by Leumi as at 31 March 2010, according to a preliminary assessment by the Bank, cover the capital required in respect of the First Pillar and the Second Pillar including stress scenarios used by the Bank in its internal preparations.

This assessment has not yet undergone the supervisory process of the Supervisor of Banks.

Since 2006, Leumi Group has been preparing for the implementation of the Basel II instructions through a Group-wide project in Israel and abroad. The project's management is the coordinating body, responsible to the Senior Deputy Chief Executive Officer, who heads the project's steering committee, acting through designated working teams throughout the Bank.

At the core of the instructions and requirements under the directives of the standardized approach is the Bank of Israel's Basel II Provisional Directive. This directive was published on 31 December 2008, and is based mostly on the Basel Accord. The directive also includes changes and adjustments required by the Supervisor of Banks.

As part of the Group's preparations for the initial official publication of capital adequacy ratios based on Basel II principles and regulations as of 31 December 2009, a number of required directives have been implemented:

- Study of the requirements in the Basel and Bank of Israel documents and the carrying out of gap analyses prepared required by them.

- Intensified activity at Bank and Group level for closing and reducing the gaps which were identified.

- In January 2010, the Bank submitted a report to the Supervisor of Banks showing the status of gaps remaining to be dealt with in the framework of the 18 guidelines of the Second Pillar. The report included data from the Bank and its four subsidiaries in Israel – Arab-Israel Bank, Leumi Mortgage Bank, Leumi Card and Leumi Partners, accompanied by a time-table for the completion of the treatment of the above during 2010.

- Adjustments to the infrastructure systems through purchase and upgrading of risk management and capital calculation systems have been purchased or upgraded, and linking them to existing systems. Some of the purchased systems will begin operating during 2010. These systems upgrade and significantly improve the Bank's ability with regard to effective risk-focused management.

- Data collection and the establishment of databases required for the assessment of risk variables.

- Organizational and process changes in the area of credit risk management, including examination of the risk management functional structure and the function of the Chief Risk Officer in the Bank and the group's subsidiaries..

- Model development processes, in credit risks for assessing risk components.

- Surveying and mapping of operational risks as part of a three year program to implement the standardized approach also for operational risks, as well.

- Carrying out required adjustments in risk management policy and guidelines (credit, market and operational risk policy).

- Measurement of the profitability of lines of business also on the basis of models for adjusted return on risk – RORAC (Return on Risk Adjusted Capital) and EVA (Economic Value Added).

In the context of the preparations for readiness, the Bank relies on a number of central computer systems purchased and adapted for this purpose. The systems are used for calculating risk assets and capital requirements, and for managing the Group loan portfolio.

Leumi Group has prepared to implement the directives with emphasis on the following:

1. Enhanced corporate governance, internal control, audit and compliance.

2. Changed thinking and corporate culture in the transfer to effective management of the loan portfolio, the pricing of risks and measuring performance at the Bank and the line of business level on a risk-adjusted basis.

3. Segmentation of lines of business in accordance with business activity and the allocation of capital required for each of the lines of business.

4. Upgrading activity by product managers and activities for increasing the management and monitoring of risks.

5. Combining all information systems for risk management into an integrated system by synchronizing the different systems.

6. Changing and upgrading policy and organization-wide procedures together with business cooperation between lines of business and synchronizing the different activities.

7. Establishing the ICAAP process as a central management tool for planning capital and risk management.

8. Improving the Bank's strength as a result of adopting advanced risk evaluation methodologies.

9. Improving profitability as a result of raising the quality of risk management and advanced methodologies for identifying and evaluating risks.

10. Creating a clear link between the risk profile of the corporation, in light of the risk appetite that had been defined, and the quality of risk management for the allocation of the required capital.

Banking corporations have also been required by the Supervisor of Banks to determine capital adequacy targets for 2010 on the basis of the principles of the standardized approach of Basel II. Leumi's capital adequacy targets, as approved by the Board of Directors, are presented on page 7 of the report.

Together with the calculation of capital adequacy ratios in accordance with the Basel II principles, as described above, banking corporations are also required to continue reporting data also in accordance with Basel I principles, during 2010.

ICAAP (Internal Capital Adequacy Assessment Process)

The aims of the process are to examine the capital required to support the various risks to which the Group is exposed, to identify and deal with risks of which it was unaware, to verify that the effective capital of the Group is larger than capital requirements at all times, and to improve risk management in the Group. In the framework of the process, the risk appetite and the risk-bearing ability were defined, a comprehensive and forward-looking process was undertaken to map out and evaluate risk to which the Group is exposed, a comprehensive framework was developed for analyzing stress scenarios in the framework of managing the Group as a going concern, and risk management processes and the structure of risk management in the Group were examined.

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 light of the economic forecasts.

   In the framework of examining risk-bearing ability, the Group examines its survival capacity in different types of stress scenarios covering all material risks to which the Group is exposed, and at various levels of severity, such as a sectoral crisis, a mild or a severe recession. Stress scenarios are developed in a designated steering committee for the subject comprising risk managers and content managers from various business areas and representatives of subsidiary companies, and the material results of the above discussions are reported to the Board of Directors and Management in the framework of their risk committees.

   Results of significant scenarios are examined against the present capital structure and the multi-year plan. It should be pointed out that, even under the most severe scenarios, according to internal calculations and before the subject goes through the Supervisory Review Process, the Group would not exceed the risk-bearing ability it has determined for itself. In the framework of the capital adequacy assessment process and as part of improving risk management, stress scenarios have become an integral part of routine risk management both at Group level and at the level of the business units and subsidiary companies.

2. An annual review of risk management in the Group, an examination of risk management according to the standard approach determined in the context of Basel II, the identification of strengths and weaknesses and the construction of work programs for the improvement and update of risk management processes, also, *inter alia*, in light of economic reviews and update of economic forecasts. The assessment of risk management processes is closely linked to capital adequacy assessment, since, without strong and adequate risk management, a larger allocation 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 at the end of the second quarter of 2010. On the basis of the document to be submitted to the Bank of Israel, a dialogue will take place with the Supervisor of Banks with the aim of approving the capital adequacy determined by the Bank as a target in accordance with Basel II principles.

This process will be examined by the Supervisor of Banks as part of the Supervisory Review Process (SRP).

"Chief Risk Manager and Risk Management Function" Circular

Following the publication by the Supervisor of the final and binding version of the circular on 22 December 2009, the Bank is required to submit for approval of the Supervisor before 30 June 2010 the planned structure of the risk management function. The Bank has begun preparations for the matter while reviewing the recommended and appropriate structure at Bank and subsidiary companies level. The Group's preparations for establishing the structure require the investment of significant management and financial resources. Establishing a Group risk management structure as required by the principles of the Supervisor's circular, and in accordance with the business outlook of the Bank, will significantly improve and upgrade risk management processes on a broad-based level and from aspects of corporate governance, controls and risk management itself.

Below are the matters requiring implementation in the Group's expected preparations planned for 2010:

1. **First Pillar** – completion of subjects required by the standardized approach such as: computer implications, the use of securities as collateral, the use of external ratings, etc., including intensive attention to enhancing data.

2. **Second Pillar** – completion of treatment of gaps found in the 18 guidelines of the second pillar, as presented in the table on the previous page.

    - Upgrading risk management as required by the guidelines.
    - The use and assimilation of ICAAP as a central tool in capital planning and risk management.
    - The assimilation of the use of stress scenarios in the business area.
    - Synchronization of new systems coming online in 2010.

3. Formulation of an appropriate risk management system to include:

   - Active supervision on the part of the Board of Directors and Senior Management.
   - Appropriate policy, procedures and limitations.
   - Identifying, measuring, controlling, monitoring and reporting risks comprehensively and on time.
   - Management information system.

4. Organization for the implementation of corporate governance, in accordance with the Bank of Israel circular to the risk management functions and the Chief Risk Officer.

5. Allocation of capital and its loading on the various profit centers and the measurement of risk-adjusted performance using the standard approach.

6. Formulation of the preferred method of treatment for risk management in overseas units from the aspects of advice, support and control.

7. Completion of the report required pursuant to Pillar 3.

Trends and Forward-looking Information

In December 2009, discussion documents were published by the Bank for International Settlements (BIS) on the subject of Basel II. The trend indicated by the various BIS discussion documents is for a stricter approach in risk management directives and their respective capital requirements, in 5 main areas:

1. Capital base – improvement of capital quality with emphasis on Tier 1 and a reduction of its components such as the proposal to cancel the tertiary capital component.

2. The trading portfolio – increasing capital requirements in this respect, as a result of the requirement of an extreme VAR calculation, the addition of tests for risks of downgrading of the security, migration, etc.

3. Leverage ratio – its reporting as part of sensitivity to risk while increasing its components such as off-balance sheet instruments and preventing the deduction or offsetting of collateral.

4. Economic cyclicality – adjusting capital buffers to a complete business cycle.

5. Quantitative liquidity ratio – stricter directives such as the addition of a 30-day liquidity ratio, and stricter assets, liabilities and capital factors.

The aim of the greater strictness proposed by the BIS is to bring about an improvement in the resilience capacity of banks in times of crisis, in view of the lessons of the 2008 crisis, while including improvements in the area of risk management and emphasis on:

- Improvement in capital quality.

- Adapting the measurement of risks to the risk level of the Bank.

- Strengthening supervision – determining better tools for adapting capital requirements for every bank in accordance with its risk profile.

- Lowering dependency of capital requirements on the financial situation.

- Increasing transparency of risk management methods.

At this stage, it is not possible to assess the effect of the above recommendations if and when implemented on capital adequacy ratios and capital required, although it should be pointed out that the general trend worldwide is to strengthen financial regulation of the banking system.

At a conference organized by the Bank of Israel, on the subject of the launching of Basel II, held on 18 March 2010, the Supervisor of Banks said that work is currently being completed on the preparation of rules and principles relating to the subject of the capital basis and the components of capital in the new era of Basel II, as derived from the instructions described above, Information with regard to the intention to raise the capital adequacy ratios and the first tier capital rate to 8% and 9%, in a way that first tier capital will not be include complex capital instruments, was, *inter alia*, published in the news media.

Furthermore during the second quarter, additional documents of the BIS were published on the subjects of corporate governance and remuneration. The suggested changes are not presented as part of changes to Basel II and are therefore shown as "Basel III,".

Certain data required under the third pillar of Basel II has been expanded and/or added in the Directors' Report and Financial Statements for 2009 and for this report in accordance with the directives of the Banking Supervision Department, as set out below:

Subject	Table	Directors Report		Financial Statements	
		to 31 March 2010	for 2009	to 31 March 2010	for 2009
General	1	-	Page 12	-	-
Capital Structure (Qualitative and Quantitative)	2	Page 8	Pages 27-28	Note 4	Note 13
Capital Adequacy (Qualitative and Quantitative)	3	Page 9	Pages 28-29	-	-
Risk Exposures and Assessment – General Qualitative Disclosure		-	Pages 191-192	-	
Credit Risk Qualitative Disclosure	4	Pages 91-94	Pages 218-228	-	-
Credit Risk Exposures by Main Types of Credit	4(b)	Page 94	Page 215		
Exposures by Geographic Area to Foreign Countries	4(c)	Page 104	Page 243	Exhibit D	Exhibit F
Credit Risk Exposures by Third Party and Main Types of Credit	4(d)	Page 97	Page 222	-	
Credit Exposures by Repayment Period	4(e)	Page 98	Page 222		
Problematic Credit Risk Exposures and Provision for Doubtful Debts by Economic Sector	4(f)	-	-	Exhibit B	Exhibit E
Total Impaired Loans and Provisions by Geographic Area	4(g)	-	-	Exhibit D	Exhibit F
Movement in Balances of Provision for Credit Losses	4(h)	-	-	Note 3	Note 4c
Credit Exposures by Risk Weighting	5	Pages 94-96	Page 217	-	-
Reduction of Credit Risk (Qualitative and Quantitative)	7	Page 99	Pages 229-232	-	-
Credit Exposures in Derivatives by Third Party (Qualitative and Quantitative)	8	Page 100	Pages 232-234	-	-
Securitization (Qualitative and Quantitative)	9(f), 9(g)	Pages 48-49	Pages 109-110	Note 2	Note 3
Market Risk (Qualitative and Quantitative)	10	Page 81	Pages 193-209	-	-
Operational Risk - Qualitative Disclosure	12	Page 106	Pages 210-214	-	-
Investments in Shares (Qualitative and Quantitative)	13(b)	Page 51	Pages 113-117	-	-
Investment in Shares of Companies Included on Equity Basis	13(b)	Page 69	Pages 160-163	-	-
Interest Risk	14	Page 87	Pages 197-201	Exhibit C	Exhibit D

Legal Proceedings

a. The Directors' Report in the Annual Report for 2009 provides details of civil and other legal proceedings to which the Bank and consolidated companies are parties.

As of the date of the publication of this Report, no material changes have occurred in these proceedings, except as detailed in Note 6 to the Financial Statements.

Details of proceedings pending against the Bank involving sums exceeding 1% of the shareholders' equity of the Bank (some NIS 226 million as of 31 March 2010), are given in Note 6 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 cannot be assessed.

D. Additional Matters

Leumi for the Community - Social Involvement

Leumi's involvement in the community continued in 2010 in the main areas in which the Group focuses: education, culture, children, youth, and health.

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

- The *Kimcha de'Pischa* campaign 2010 – this is the sixth year that "Leumi Tomorrow", together with Leumi's management and staff have organized the campaign
  The total amount donated to the campaign stood at about half a million shekel, with which over 1,700 food parcels were distributed in advance of the Pesach holiday to needy families supported by organizations and institutions in which Leumi employees are active as volunteers throughout the year, and to the families of the youngsters participating in the projects of "Leumi Tomorrow".

- Youth Leading Change – Tomorrow" – In advance of the Pesach holiday, a ceremony was held on the Carmel to mark the end of a leadership course in which 2,500 members of the youth group led team and leadership exercises, at the end of which they set out on a "stretcher march" to the summit of the Carmel. Participating in the course were members of the youth groups “Leumi Aharai (Follow Me) Along The Way – To the IDF” (a project for preparing youth for the IDF from underprivileged backgrounds),"Leumi on the Way to Matriculation" (additional studies for youth not part of the matriculation framework), and “Leumi Tomorrow – On our Way” – (which focuses on the preparation of youth of Ethiopian background for the IDF, and their integration into Israeli society).

- Nirim Youth Village – supported by "Leumi Tomorrow", establishment of " Mechinat Nirim", for youth at high risk in the age group 14-15, who are prepared for absorption at the Village for a year's preparatory course after which they are integrated into a three-year challenge based coaching program operated on site, until their recruitment into the army.

"Leumi for the Arts" – "Ha-Tayva" Exhibition.
During the months of January to April 2010, the Visitors Center at the reconstructed Leumi House at Beit Manny hosted the exhibition " Ha-Tayva", in which were exhibited a selection of various works of generations of "Bezalel" graduates.

Summary of Leumi’s Donations and Sponsorships during the first quarter of 2010
During the first quarter of 2010, Leumi Group donated and provided sponsorships for social welfare and community purposes in the amount of some NIS 8.5 million, of which the donations totaled some NIS 6.5 million.

Internal Auditor

Details regarding the Group's Internal Audit, 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 2009.

The Chief Internal Auditor’s report for the latter half 2009 was submitted on 11 March 2010 and was discussed by the Audit Committee on 23 March 2010.

The Chief Internal Auditor’s annual report for 2009 in respect of the Bank was submitted on 14 April 2010 and was discussed by the Audit Committee on 18 April 2010.

Controls and Procedures

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 31 March 2010, no material change occurred in 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, reference should be made to five components:

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 is 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 was 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 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 expressed 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 internal parties, rapid adaptation to new regulatory directives, etc.

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

Board of Directors

On 24 January 2010, Mr. Eitan Raff, Chairman of the Bank's Board of Directors since 1995 announced that he did not intend to stand for re-election at the forthcoming general meeting.

For further information regarding the convening of a special general meeting of the Bank and its cancellation, see page 5 above.

For information regarding the convening of the annual general meeting of the Bank, which has on its agenda, *inter alia,* the election of directors, see page 5 above.

At the meeting of the Board of Directors held on 26 May 2010, it was resolved to approve and publish the Group's condensed unaudited consolidated Financial Statements as of 31 March 2010 and for the periods ending on that date.

During the period of January to March 2010, the Board of Directors held 22 plenary meetings and 31 committee meetings.

The Bank's Board of Directors expresses its appreciation and gratitude to employees and managers of the Bank and 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

26 May 2010

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

	For the three months ended 31 March							
	2010				2009			
			Rate of income (expenses)				Rate of income (expenses)	
	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives	Average balance (b)	Financing income (expenses)	Excluding the effect of derivatives	Including the effect of derivatives
	(NIS millions)		%	%	(NIS millions)		%	%
Israeli currency - unlinked								
Assets (c) (e)	**154,688**	**1,260**	**3.30**		126,553	1,102	3.53	
Effect of embedded and ALM derivatives (d)	**41,568**	**33**			41,923	171		
Total assets	**196,256**	**1,293**		**2.66**	168,476	1,273		3.06
Liabilities (e)	**129,702**	**(302)**	**(0.93)**		119,932	(298)	(1.00)	
Effect of embedded and ALM derivatives (d)	**47,295**	**(21)**			33,037	(92)		
Total liabilities	**176,997**	**(323)**		**(0.73)**	152,969	(390)		(1.02)
Interest margin			**2.37**	**1.93**			2.53	2.04
Israeli currency – linked to the CPI								
Assets (c) (e)	**59,769**	**45**	**0.30**		59,649	271	1.83	
Effect of embedded and ALM derivatives (d)	**3,083**	**(9)**			3,264	70		
Total assets	**62,852**	**36**		**0.23**	62,913	341		2.19
Liabilities (e)	**48,274**	**(45)**	**(0.37)**		45,539	(182)	(1.61)	
Effect of embedded and ALM derivatives (d)	**10,922**	**(1)**			12,691	(446)		
Total liabilities	**59,196**	**(46)**		**(0.31)**	58,230	(628)		(4.38)
Interest margin			**(0.07)**	**(0.08)**			0.22	(2.19)
Foreign currency –								
(including Israeli currency linked								
to foreign currency)								
Assets (c) (e)	**90,135**	**(2,984)**	**(12.60)**		107,249	9,727	41.52	
Effect of derivatives: (e)								
Hedging derivatives	**1,142**	**(1)**			2,294	-		
Embedded derivatives and ALM	**137,815**	**(2,580)**			105,720	6,140		
Total assets	**229,092**	**(5,565)**		**(9.37)**	215,263	15,867		32.91
Liabilities (e)	**107,075**	**3,720**	**13.19**		111,623	(9,978)	(40.84)	
Effect of derivatives: (e)								
Hedging derivatives	**1,053**	**1**			2,130	1		
Embedded derivatives and ALM	**125,470**	**2,271**			105,631	(5,705)		
Total liabilities	**233,598**	**5,992**		**9.87**	219,384	(15,682)		(31.81)
Interest margin			**0.59**	**0.50**			0.68	1.10

See footnotes on page 123.

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

	For the three months ended 31 March							
	2010				2009			
			Rate of income				Rate of income	
	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 (e) (f)	**304,592**	**(1,679)**	**(2.19)**		293,451	11,100	16.01	
Effect of derivatives:								
Hedging derivatives	**1,142**	**(1)**			2,294	-		
Embedded derivatives and ALM (d)	**182,466**	**(2,556)**			150,907	6,381		
Total assets	**488,200**	**(4,236)**		**(3.43)**	446,652	17,481		16.60
Total monetary liabilities generating interest expenses (d)	**285,051**	**3,373**	**4.65**		277,094	(10,458)	(15.97)	
Effect of derivatives: (e)								
Hedging derivatives	**1,053**	**1**			2,130	1		
Embedded derivatives and ALM	**183,687**	**2,249**			151,359	(6,243)		
Total liabilities	**469,791**	**5,623**		**4.70**	430,583	(16,700)		(16.44)
Interest margin			**2.46**	**1.27**			0.04	0.16
In respect of options		**(7)**				56		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**24**				3		
Financing commissions and other financing income (g)		**403**				498		
Other financing income		**-**				24		
Net interest income before provision for doubtful debts		**1,807**				1,362		
Provision for doubtful debts (including general and supplementary provision)		**(130)**				(354)		
Net interest income after provision for doubtful debts		**1,677**				1,008		
Monetary assets generating interest income (d) (f)	**304,592**				293,451			
Assets derived from derivative instruments (h)	**6,466**				9,609			
Other monetary assets (d)	**3,607**				2,210			
General provision and supplementary provision for doubtful debts	**(895)**				(943)			
Total monetary assets	**313,770**				304,327			
Monetary liabilities generating interest expenses (d)	**285,051**				277,094			
Liabilities derived from derivative instruments (h)	**7,464**				9,918			
Other monetary liabilities (d)	**7,605**				7,576			
Total monetary liabilities	**300,120**				294,588			
Total monetary assets exceed monetary liabilities	**13,650**				9,739			
Non-monetary assets	**8,811**				9,074			
Non-monetary liabilities	**389**				430			
Total capital resources	**22,072**				18,383			

See footnotes on page 123.

Notes:

(a) The data in this exhibit is shown 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 consolidated companies, 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 specific provisions for doubtful debts.

(c) The average balance of unrealized profits (losses) from adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of the assets as follows:

The unlinked Israeli currency sector for the three month period amounts to NIS 16 million (31 March 2009 - NIS 132 million).

The linked Israeli currency sector for the three month period amounts to NIS 158 million (31 March 2009 - NIS 268 million).

The foreign currency sector (which includes Israeli currency linked to foreign currency) for the three month period amounts to NIS (180) million (31 March 2009 - NIS (2,213) million).

(d) Excluding derivative instruments.

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

(f) The average balance of unrealized losses on adjustment to fair value of debentures held for trading and available for sale has been added to the average balance of the assets in the various sectors. The three month period amounts to NIS 6 million (31 March 2009 - NIS 1,813 million).

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

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

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

	For the three months ended 31 March							
	2010				2009			
			Rate of income				Rate of income	
	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
	(U.S.$ millions)		%	%	(U.S.$ millions)		%	%
Foreign currency:								
Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d)	14,671	76	2.08		16,759	137	3.31	
Effect of derivatives: (e)								
Hedging derivatives	305	1			580	-		
Embedded derivatives and ALM	36,718	4			26,540	95		
Total assets	51,694	81		0.63	43,879	232		2.14
Liabilities (d)	20,188	(23)	(0.46)		19,587	(61)	(1.24)	
Effect of derivatives: (e)								
Hedging derivatives	281	-			538	-		
Embedded derivatives and ALM	33,416	(16)			26,494	(48)		
Total liabilities	53,885	(39)		(0.29)	46,619	(109)		(0.94)
Interest margin			1.62	0.34			2.07	1.20
Foreign currency – Foreign operations (integrated operations)								
Assets (c) (d)	9,281	76	3.31		10,726	88	3.33	
Effect of embedded and ALM derivatives (e)	36	21			182	16		
Total assets	9,317	97		4.20	10,908	104		3.86
Liabilities (d)	8,290	(19)	(0.92)		8,912	(37)	(1.66)	
Effect of embedded and ALM derivatives (e)	41	-			208	-		
Total liabilities	8,331	(19)		(0.92)	9,120	(37)		(1.65)
Interest margin			2.39	3.28			1.67	2.21
Total:								
Interest income (c) (d)	23,952	152	2.56		27,485	225	3.32	
Effect of derivatives: (e)								
Hedging derivatives	305	1			580	-		
Embedded derivatives and ALM	36,754	25			26,722	111		
Total assets	61,011	178		1.17	54,787	336		2.48
Interest expense (d)	28,478	(42)	(0.59)		28,499	(98)	(1.37)	
Effect of derivatives: (e)								
Hedging derivatives	281	-			538	-		
Embedded derivatives and ALM	33,457	(16)			26,702	(48)		
Total liabilities	62,216	(58)		(0.38)	55,739	(146)		(1.05)
Interest margin			1.97	0.79			1.95	1.43

See footnotes on page 125.

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

(a) The data in this exhibit is shown 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 consolidated companies 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$ 48 million (31 March 2009 US$ 561 million).

(d) Excluding derivative instruments.

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

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

Exhibit B

	31 March 2010 (Unaudited)				
	Balance sheet credit risk *	Off-balance sheet credit risk **	Total credit risk to public	Expense in the period for specific provision for doubtful debts	Balance of problematic debts ***
	NIS millions				
Activities of borrowers in Israel:					
Agriculture	1,879	351	2,230	1	159
Industry	20,928	14,518	35,446	11	2,117
Construction and real estate	35,782	23,057	58,839	6	6,425
Electricity and water	1,224	471	1,695	-	3
Commerce	14,313	3,698	18,011	5	1,346
Hotels and restaurants	3,469	277	3,746	(4)	1,569
Transport and storage	3,899	1,180	5,079	(2)	826
Communications and computer services	5,025	2,131	7,156	(2)	299
Financial services	13,607	11,536	25,143	5	581
Business and other services	4,263	1,536	5,799	-	405
Public and community services	6,279	973	7,252	-	257
Private individuals - loans for housing	45,808	2	45,810	(5)	800
Private individuals - other	23,291	25,561	48,852	26	965
	179,767	85,291	265,058	41	15,752
Activities of borrowers abroad	39,076	14,516	53,592	118	3,216
Total	218,843	99,807	318,650	159	18,968
Credit risk included within the various economic sectors:					
Settlement movements ****	2,762	877	3,639	14	746
Local authorities *****	3,168	137	3,305	-	79

* Including credit to the public in the amount of NIS 176,393 million in respect of activity in Israel and NIS 31,968 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,011 million in respect of activity in Israel and NIS 6,905 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 2,363 million in respect of activity in Israel and NIS 203 million in respect of activity abroad.

** Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

*** 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.

**** Kibbutzim and moshavim, regional and national organizations and corporations controlled by settlement movement.

***** Including corporations under their control.

Note - Credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

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

Exhibit B (cont'd)

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

* Including credit to the public in the amount of NIS 175,151 million in respect of activity in Israel and NIS 38,573 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 907 million in respect of activity in Israel and NIS 6,931 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 2,731 million in respect of activity in Israel and NIS 388 million in respect of activity abroad.

** Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

*** 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.

**** Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.

***** Including corporations under their control.

Note - 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 2009 (Audited)				
	Balance sheet credit risk *	Off-balance sheet credit risk **	Total credit risk to public	Expense in the period for specific provision for doubtful debts	Balance of problematic debts ***
	NIS millions				
Activities of borrowers in Israel:					
Agriculture	1,821	353	2,174	31	168
Industry	20,359	13,984	34,343	221	2,101
Construction and real estate	35,451	21,598	57,049	290	6,193
Electricity and water	1,207	418	1,625	-	2
Commerce	13,857	3,435	17,292	87	1,340
Hotels and restaurants	3,595	288	3,883	48	1,599
Transport and storage	3,890	1,290	5,180	53	888
Communications and computer services	4,318	1,875	6,193	45	378
Financial services	13,808	10,382	24,190	128	1,470
Business and other services	4,267	1,403	5,670	39	341
Public and community services	6,159	1,072	7,231	1	235
Private individuals - loans for housing	44,715	2	44,717	(12)	791
Private individuals - other	23,105	25,365	48,470	300	952
	176,552	81,465	258,017	1,231	16,458
Activities of borrowers abroad	40,058	13,470	53,528	325	3,410
Total	216,610	94,935	311,545	1,556	19,868
Credit risk included within the various economic sectors:					
Settlement movements ****	2,843	910	3,753	10	776
Local authorities *****	3,307	140	3,447	-	87

* Including credit to the public in the amount of NIS 172,930 million in respect of activity in Israel and NIS 32,514 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,051 million in respect of activity in Israel and NIS 7,155 million in respect of activity abroad, and other assets in respect of derivative instruments corresponding to transactions with the public in the amount of NIS 2,571 million in respect of activity in Israel and NIS 389 million in respect of activity abroad.

** Credit risk on off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

*** 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.

**** Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.

***** Including corporations under their control.

Note - Credit risk and balances of problematic debts are stated net of specific provisions for doubtful debts.

Exposure to Interest Rate Fluctuations - on Consolidated Basis

Exhibit C:

	31 March 2010												31 December 2009	
	On demand up to one month	One to three months	Three months to one year	One to three years	Three to five years	Over five to ten years	Over ten to twenty years	Over twenty years	Without fixed maturity	Total	Internal rate of return	Average maturity	Internal rate of return	Average maturity
	NIS millions										%	Years	%	Years
Israeli currency - unlinked														
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments														
Financial assets (a) (c)	124,917	7,431	13,356	4,963	971	760	21	-	534	152,953	3.41	0.25	3.24	0.30
Derivative financial instruments (excluding options)	24,533	39,236	39,097	17,924	6,527	7,881	31	-	-	135,229	-	1.25	-	0.98
Options (in terms of basis asset) (e)	1,215	919	2,422	6	50	-	-	-	-	4,612	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	150,665	47,586	54,875	22,893	7,548	8,641	52	-	534	292,794	3.41	0.71	3.24	0.61
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments														
Financial liabilities (a)	106,377	6,258	7,975	6,503	2,993	569	3	-	26	130,704	2.63	0.30	3.36	0.30
Derivative financial instruments (excluding options)	31,350	39,968	39,687	16,820	5,788	7,292	131	-	-	141,036	-	1.15	-	0.97
Options (in terms of basis asset) (e)	1,362	1,223	2,771	131	50	-	-	-	-	5,537	-	-	-	-
Off-balance sheet financial instruments	-	-	75	-	-	-	-	-	-	75	-	0.50	-	0.50
Total fair value	139,089	47,449	50,508	23,454	8,831	7,861	134	-	26	277,352	2.63	0.73	3.36	0.62
Financial instruments, net														
Exposure to interest rate fluctuations	11,576	137	4,367	(561)	(1,283)	780	(82)	-						
Accumulated exposure in the sector	11,576	11,713	16,080	15,519	14,236	15,016	14,934	14,934						
Israeli currency – linked to the CPI														
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments														
Financial assets (a)	1,696	5,947	12,620	17,701	10,224	9,559	2,671	176	93	60,687	3.54	3.22	3.67	3.14
Derivative financial instruments (excluding options)	284	763	1,791	6	102	97	-	-	-	3,043	-	0.72	-	0.73
Options (in terms of basis asset) (e)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	1,980	6,710	14,411	17,707	10,326	9,656	2,671	176	93	63,730	3.54	3.10	3.67	3.03
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments														
Financial liabilities (a)	1,113	2,120	10,791	12,908	11,738	10,590	3,687	153	-	53,100	2.02	3.90	2.41	3.93
Derivative financial instruments (excluding options)	959	1,038	2,624	2,973	2,576	977	-	-	-	11,147	-	2.24	-	2.32
Options (in terms of basis asset) (e)	-	-	1	6	-	-	-	-	-	7	-	-	-	-
Off-balance sheet financial instruments	-	-	56	-	-	-	-	-	-	56	-	0.50	-	0.50
Total fair value	2,072	3,158	13,472	15,887	14,314	11,567	3,687	153	-	64,310	2.02	3.61	2.41	3.65
Financial instruments, net														
Exposure to interest rate fluctuations	(92)	3,552	939	1,820	(3,988)	(1,911)	(1,016)	23						
Accumulated exposure in the sector	(92)	3,460	4,399	6,219	2,231	320	(696)	(673)						

See footnotes on page 131.

Exposure to Interest Rate Fluctuations - on Consolidated Basis

Exhibit C (cont'd):

	31 March 2010												31 December 2009	
	On demand up to one month	One to three months	Three months to one year	One to three years	Three to five years	Over five to ten years	Over ten to twenty years	Over twenty years	Without fixed maturity	Total	Internal rate of return	Average maturity	Internal rate of return	Average maturity
	NIS millions										%	Years	%	Years
Foreign currency and foreign currency linked														
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments														
Financial assets (a) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments (excluding options)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Options (in terms of basis asset) (e)	44,627	21,933	7,395	6,613	3,266	2,407	73	9	381	86,704	3.80	0.65	3.90	0.57
Off-balance sheet financial instruments	43,656	32,032	34,567	13,927	5,101	7,873	182	-	161	137,499	-	1.13	-	0.84
Total fair value	92,832	61,971	49,947	21,717	9,345	15,256	255	9	542	251,874	3.80	0.84	-	0.62
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments														
Financial liabilities (a)	92,832	61,971	49,947	21,717	9,345	15,256	255	9	542	251,874	3.80	0.84	3.90	0.62
Derivative financial instruments (excluding options)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Options (in terms of basis asset) (e)	64,589	16,996	18,285	3,478	338	28	41	-	16	103,771	0.88	0.27	0.85	0.27
Off-balance sheet financial instruments	33,789	23,363	36,340	17,094	5,826	8,501	-	-	161	125,074	-	1.40	-	0.97
Total fair value	102,577	48,072	62,331	21,630	7,142	13,505	41	-	177	255,475	0.88	0.79	-	0.55
Financial instruments, net														
Exposure to interest rate fluctuations	102,577	48,072	62,331	21,630	7,142	13,505	41	-						
Accumulated exposure in the sector	-	-	-	-	-	-	-	-						
Total exposure to interest rate fluctuations														
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments														
Financial assets (a) (c)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments (excluding options)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Options (in terms of basis asset) (e)	171,240	35,311	33,371	29,277	14,461	12,726	2,765	185	3,922	303,258	3.57	0.96	3.65	0.96
Off-balance sheet financial instruments	68,473	72,031	75,455	31,857	11,730	15,851	213	-	486	276,096	-	1.19	-	0.91
Total fair value	245,477	116,267	119,233	62,317	27,219	33,553.00	2,978	185	4,408	611,637	3.57	1.01	-	0.86
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments														
Financial liabilities	245,477	116,267	119,233	62,317	27,219	33,553	2,978	185	4,408	611,637	3.57	1.01	3.65	0.86
Derivative financial instruments (excluding options)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Options (in terms of basis asset) (e)	172,079	25,374	37,051	22,889	15,069	11,187	3,731	153	194	287,727	1.99	0.95	2.39	0.94
Off-balance sheet financial instruments	66,098	64,369	78,651	36,887	14,190	16,770	131	-	447	277,543	-	1.30	-	1.02
Total fair value	243,738	98,679	126,311	60,971	30,287	32,933	3,862	153	756	597,690	2	1	0	1
Financial instruments, net														
Exposure to interest rate fluctuations	243,738	98,679	126,311	60,971	30,287	32,933	3,862	153						
Accumulated exposure in the sector	-	-	-	-	-	-	-	-						

See footnotes on page 131.

(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 1,065 million.
(b) Local operations, including Israeli currency linked to foreign currency, and units abroad whose operating currency is the same as the operating currency of the Bank..
(c) Including non-monetary assets in the "Without fixed maturity" column.

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

Country Exposure
Reported Amounts

Exhibit D:

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

31 March 2010 (Unaudited)

Balance Sheet Exposure

	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (a)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities
Country	(NIS millions)					
United States	483	7,189	7,521	17,364	7,417	9,947
England	19	3,767	1,077	4,435	1,702	2,733
France	1,271	2,394	510	-	-	-
Holland	-	-	-	-	-	-
Germany	33	2,782	1,101	-	-	-
Others	200	8,463	6,481	2,406	1,495	911
Total country exposure	2,006	24,595	16,690	24,205	10,614	13,591
Total exposure to LDC countries	138	321	1,093	1,924	1,078	846

31 March 2010 (Unaudited)

	Balance Sheet Exposure		Off - Balance Sheet Exposure			
	Total balance sheet exposure				Cross-Border Balance Sheet Exposure	
		Balance of problematic debts (b)	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)					
Country						
United States	25,140	921	11,221	-	6,333	8,860
England	7,596	439	7,289	2	3,290	1,573
France	4,175	18	2,600	-	2,041	2,134
Holland	-	-	-	-	-	-
Germany	3,916	-	2,772	-	2,129	1,787
Others	16,055	619	4,863	-	8,560	6,584
Total country exposure	56,882	1,997	28,745	2	22,353	20,938
Total exposure to LDC countries	2,398	47	951	-	910	642

(a) Includes governments, official institutions and central banks.

(b) Balances of problematic debts less debts covered by eligible collateral for purposes of per borrower or group borrowers' debt limitation. This does not include elements of off-balance credit risk.

(c) Exposure to PIGS countries amount to NIS 1,074 million.

Country Exposure
Reported Amounts

Exhibit D (cont'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 2009 (Audited)

Balance Sheet Exposure

	Cross-Border Balance Sheet Exposure			Net Foreign-office Claims on Local Residents		
	To governments (a)	To banks	To others	Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Balance sheet exposure after deducting local liabilities
Country	(NIS millions)					
United States	105	8,114	6,294	17,300	7,380	9,920
England	677	3,575	1,104	4,927	1,808	3,119
France	2,196	2,431 (c)	516	19	4	15
Holland	-	1,591	1,923	-	-	-
Germany	109	3,438	1,170	-	-	-
Others	217	8,604 (c)	5,868	2,592	1,655	937
Total country exposure	3,304	27,753	16,875	24,838	10,847	13,991
Total exposure to LDC countries	148	244	1,169	2,100	1,217	883

31 December 2009 (Audited)

	Balance Sheet Exposure		Off - Balance Sheet Exposure		Cross-Border Balance Sheet Exposure	
	Total balance sheet exposure	Balance of problematic debts (b)	Total off-balance sheet exposure	Of which: Problematic off-balance sheet credit risk	Repayment up to one year	Repayment over one year
	(NIS millions)					
Country						
United States	24,433	923	11,155	-	5,801	8,712
England	8,475	525	7,869	3	3,138	2,218
France	5,158	13	2,348	-	2,126 (c)	3,017
Holland	3,514	12	216	-	1,429	2,085
Germany	4,717	-	2,004	-	2,704	2,013
Others	15,626	694	4,273	-	9,118 (c)	5,571
Total country exposure	61,923	2,167	27,865	3	24,316	23,616
Total exposure to LDC countries	2,444	126	971	-	1,108	453

(a) Includes governments, official institutions and central banks.

(b) Balances of problematic debts less debts covered by eligible collateral for purposes of per borrower or group borrowers' debt limitation. This does not include elements of off-balance credit risk.

(c) Reclassified.

Country Exposure

Exhibit D (cont'd):

Notes:

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 after the effect of guarantees, liquid collateral and credit derivatives.
- 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 as it was calculated for the purposes of per borrower debt limitation.

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:
As of 31 March 2010 amounts to NIS 5,690 million, attributed to Belgium, Switzerland and Holland (31 December 2009 – NIS 5,080 million attributed to Belgium, Switzerland and Canada)

Part C – The exposure to the foreign countries with liquidity difficulties as defined by Bank of Israel (a country which receives financial assistance from IMF or its liabilities have a credit rating of CCC or lower) amounts to NIS 1,644 million and relates to 19 countries.

Certification

I, Galia Maor, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2010 (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 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, the Audit Committee and the Financial Statements Review 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.

26 May 2010

Galia Maor
President and Chief Executive Officer

Certification

I, Zeev Nahari, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 31 March 2010 (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, the Audit Committee and the Financial Statements Review 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.

26 May 2010

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. (henceforth: "the Bank") and its subsidiaries, which comprises the condensed interim consolidated balance sheet as of 31 March, 2010 and the related interim condensed consolidated statements of profit and loss, changes in shareholders' equity and cash flows for the three month period ending on that date. The Board of Directors and Management are responsible for the preparation and presentation of 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 consolidated companies, whose assets included on consolidation constitute approximately 2% of total consolidated assets as of 31 March, 2010, and whose interest income before provision for doubtful debts constitute some 2% of the total net interest income before provision for doubtful debts included in the consolidated statements of profit and loss for the three month period ending on that date. 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 corporations 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 to:

1. that stated in Note 6C. clauses 2, 4 and 5 of the condensed interim balance sheet concerning claims against the Bank and against consolidated subsidiaries, including petitions for their approval as class actions.
2. that stated in Note 6F. concerning the ruling of the Antitrust General Director.
3. that stated in Note 6 clauses D1 and E concerning claims relating to companies included on equity basis and a debt arrangement related to a subsidiary of a company included on equity basis.

The Bank is unable to estimate the effect of the said matters on the Bank, if any, on its financial condition and on its operating results, and whether or not they will be of a material nature.

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

26 May 2010

Condensed Consolidated Balance Sheet as at 31 March 2010
Reported amounts

	31 March 2010	31 March 2009	31 December 2009
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Assets			
Cash and deposits with banks	**41,664**	38,712	42,933
Securities	**52,526**	47,677	57,505
Securities borrowed or purchased under agreement to resell	**638**	229	744
Credit to the public	**207,613**	212,878	204,669
Credit to governments	**407**	500	407
Investments in companies included on the equity basis	**2,196**	2,048	2,178
Buildings and equipment	**3,543**	3,513	3,553
Other assets	**9,044**	12,495	9,786
Total assets	**317,631**	318,052	321,775
Liabilities and equity capital			
Deposits of the public	**244,579**	254,565	250,418
Deposits from banks	**3,160**	3,181	3,785
Deposits from governments	**678**	852	712
Securities loaned or sold under agreement to repurchase	**175**	193	273
Debentures, bonds and subordinated notes	**26,812**	20,567	25,261
Other liabilities	**19,246**	19,603	19,182
Total liabilities	**294,650**	298,961	299,631
Minority interest	**285**	255	282
Shareholders' equity	**22,696**	18,836	21,862
Total liabilities and equity capital	**317,631**	318,052	321,775

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

Eitan Raff
Chairman of the
Board of Directors

Galia Maor
President and Chief
Executive Officer

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

Date of approval of the Financial Statements: 26 May 2010

Condensed Consolidated Statement of Profit and Loss
For the Periods Ended 31 March 2010
Reported Amounts

	For the three months ended 31 March		For the year ended 31 December
	2010	2009	2009
	(Unaudited)		(Audited)
	(NIS millions)		
Net interest income before provision for doubtful debts	**1,807**	1,362	7,023
Provision for doubtful debts	**130**	354	1,517
Net interest income after provision for doubtful debts	**1,677**	1,008	5,506
Operating and other income			
Operating commissions	**904**	831	3,511
Profits from investments in shares, net	**74**	95	707
Other income	**21**	77	345
Total operating and other income	**999**	1,003	4,563
Operating and other expenses			
Salaries and related expenses	**1,136**	883	4,052
Building and equipment maintenance and depreciation	**380**	364	1,514
Other expenses	**317**	317	1,371
Total operating and other expenses	**1,833**	1,564	6,937
Operating profits before taxes	**843**	447	3,132
Provision for taxes on operating profit	**333**	42	1,191
Operating profit after taxes	**510**	405	1,941
Group equity in after-tax operating profits of companies included on equity basis	**85**	34	81
of consolidated companies	**(3)**	(11)	(36)
Net operating profit	**592**	428	1,986
After-tax profit from extraordinary items	**4**	1	28
Net profit for the period	**596**	429	2,014
	(NIS)		
Basic and diluted earnings per share			
Net operating profit	**0.40**	0.29	1.35
After-tax profit from extraordinary items	**-**	-	0.02
Total	**0.40**	0.29	1.37

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

Condensed Consolidated Statement of Changes in Shareholders' Equity
For the Periods Ended 31 March 2010
Reported Amounts

	For the three months ended 31 March 2010 (Unaudited)								
					Accumulated other comprehensive income (expenses)				
	Share capital	Premium	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions								
Balance at 31 December 2009	7,059	972	197	8,228	309	(474)	14,176	(377)	21,862
Net profit for the period	-	-	-	-	-	-	596	-	596
Expiration of options	-	-	-	-	-	-	-	-	-
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	(66)	-	(66)
Adjustments in respect of presentation of securities available forsale at fair value	-	-	-	-	536	-	-	-	536
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	(63)	-	-	-	(63)
Related tax effect	-	-	-	-	(145)	-	-	-	(145)
Translation adjustments for companies included on equity basis	-	-	-	-	-	(30)	-	-	(30)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	6	6
Balance at the end of the period	7,059	972	197	8,228	637	(504)	14,706	(371)	22,696

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

See footnotes on page 142.

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

Reported Amounts

	For the three months ended 31 March 2009 (Unaudited)				Accumulated other comprehensive income				
	Share capital	Premium	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions								
Balance at the beginning of the period	7,059	855	284	8,198	(648)	(502)	11,998	(374)	18,672
Net profit for the period	-	-	-	-	-	-	429	-	429
Expiration of options	-	117	(117)	-	-	-	-	-	-
Other comprehensive income in companies included on the equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	(5)	-	(5)
Benefit in respect of shares based payment transactions	-	-	-	-	-	-	-	-	-
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	(481)	-	-	-	(481)
Losses in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	(205)	-	-	-	(205)
Related tax effect	-	-	-	-	256	-	-	-	256
Translation adjustments for companies included on the equity basis	-	-	-	-	-	165	-	-	165
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	5	5
Balance at the end of the period	7,059	972	167	8,198	(1,078)	(337)	12,422	(369)	18,836

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

See footnotes on page 142.

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

Reported Amounts

	For the year ended 31 December 2009 (Audited)								
					Accumulated other comprehensive income (expenses)				
	Share capital	Premium	Capital reserves in respect of share-based payment transactions and others (a)	Total share capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments (b)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions								
Balance as at 31 December 2008 (Audited)	7,059	855	284	8,198	(648)	(502)	11,998	(374)	18,672
Net profit for the year	-	-	-	-	-	-	2,014	-	2,014
Expiration of options	-	117	(117)	-	-	-	-	-	-
Benefit in respect of shares based payment transactions	-	-	30	30	-	-	-	-	30
Other comprehensive profit in companies included on the equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	164	-	164
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	2,357	-	-	-	2,357
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	(876)	-	-	-	(876)
Related tax effect	-	-	-	-	(524)	-	-	-	(524)
Translation adjustments for companies included on equity basis	-	-	-	-	-	28	-	-	28
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	(3)	(3)
Balance as at 31 December 2009	7,059	972	197	8,228	309	(474)	14,176	(377)	21,862

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

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

Consolidated Statements of Cash Flows
For the Periods Ended 31 March 2010
Reported amounts

	For the three months ended 31 March 2010	For the three months ended 31 March 2009	For the year ended 31 December 2009
	Unaudited	Unaudited	Audited
	(NIS millions)		
Cash flows generated by operating activities:			
Net profit for the year	**596**	429	2,014
Adjustments required to cash flows generated by operating activities:			
Equity in undistributed profits of companies included on equity basis (a)	**(83)**	(34)	(79)
Minority interest in profits of subsidiaries	**3**	11	36
Depreciation of buildings and equipment	**156**	148	612
Amortization	**4**	4	21
Provision for doubtful debts	**130**	354	1,517
Change in provision for decrease in value of assets transferred to the Group's ownership	**2**	1	-
Net gain on sale of securities available for sale	**(65)**	(261)	(1,085)
Realized and unrealized gain from adjustment of held for trading securities to fair value	**(72)**	(125)	(240)
Gain on receipt of shares without payment	**-**	-	(1)
Net gains, after tax, on sale of buildings and equipment	**(5)**	(1)	(28)
Provision for impairment of debentures available for sale	**1**	46	200
Provision for impairment of shares available for sale	**1**	10	9
Deferred taxes in respect of operating profit, net	**(102)**	82	166
Increase (decrease) in excess of provisions for severance pay and pensions over amounts funded	**27**	(182)	(309)
Other, net	**-**	(1)	(6)
Net cash generated by operating activities	**593**	481	2,827

(a) Net of dividend received.

Consolidated Statements of Cash Flows (cont'd)
For the Periods Ended 31 March 2010
Reported amounts

	For the three months ended 31 March 2010	For the three months ended 31 March 2009	For the year ended 31 December 2009
	Unaudited	Unaudited	Audited
	(NIS millions)		
Cash flows generated by activities in assets:			
Net increase in deposits with banks for an initial period exceeding three months	**240**	(170)	(562)
Acquisition of debentures held to maturity	**(53)**	(55)	(68)
Proceeds from redemption of debentures held to maturity	**178**	620	725
Acquisition of securities available for sale	**(2,705)**	(10,932)	(36,231)
Proceeds from sale of securities available for sale	**4,726**	3,262	14,880
Proceeds from redemption of securities available for sale	**2,956**	3,440	9,102
Net decrease in securities held for trading	**410**	324	1,213
Net decrease (increase) in credit to the public	**(3,060)**	116	7,212
Net decrease in credit to governments	**-**	20	113
Acquisition of shares in companies included on equity basis	**(3)**	(29)	(39)
Acquisition of buildings and equipment	**(161)**	(220)	(759)
Net decrease (increase) in securities borrowed or purchased under agreements to resell	**106**	(28)	(543)
Proceeds from sale of buildings, net of related taxes	**14**	2	42
Proceeds from realization of assets transferred to Group ownership	**-**	41	43
Net decrease in other assets	**707**	1,272	3,388
Net cash used for activities in assets	**3,355**	(2,337)	(1,484)
Cash flows generated by activities in liabilities and capital			
Net increase (decrease) in:			
Deposits of the public	**(5,839)**	9,782	5,635
Deposits from banks	**(625)**	(561)	43
Deposits from governments	**(34)**	21	(119)
Issue of debentures, bonds and subordinated notes	**2,300**	361	4,806
Redemption of debentures, bonds and subordinated notes	**(1,193)**	(430)	(865)
Net increase (decrease) in other liabilities	**506**	(1,550)	(1,318)
Net decrease in securities loaned or sold under agreements to repurchase	**(98)**	(356)	(276)
Repayment of loans to employees for purchase of the Bank's shares	**6**	5	1
Net cash generated by activities in liabilities and capital	**(4,977)**	7,272	7,907
Increase (decrease) in cash	**(1,029)**	5,416	9,250
Balance of cash at beginning of period	**40,255**	31,005	31,005
Balance of cash at end of period	**39,226**	36,421	40,255

Consolidated Statements of Cash Flows (cont'd)
For the Periods Ended 31 March 2010
Reported amounts

Appendix A - Transactions not involving cash flows:

In the period of three months ended 31 March 2010:

(1) During the period, securities were transferred from the available for sale portfolio to credit to the public, in the amount of NIS 42 million, due to loaning of securities.

In the period of three months ended 31 March 2009:

(1) During the period, securities were transferred from the available for sale portfolio to credit to the public, in the amount of NIS 207 million, due to loaning of securities.
(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 43 million, in respect of loans that were repaid.

In 2009:

(1) During the period, securities were transferred from the available for sale portfolio the credit to the public, In the amount of NIS 359 million, due to loaning of securities.
(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 65 million, in respect of loans that were repaid.

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 31 March 2010 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 2009, apart from that stated in paragraph B below. These Statements should be read in conjunction with the Annual Financial Statements as at 31 December 2009 and for the year ended on that date, and their accompanying Notes.

B. Initial Implementation of Accounting Standards

(1) Pursuant to the Supervisor of Banks' Circular dated 6 September 2009, banking corporations and credit card companies (hereinafter - "banking corporations") are required to implement the rules laid down in FAS 166 – "Accounting for Transfers of Financial Assets" which establishes stricter terms for accounting treatment as a sale for the transfer of part of financial assets including clarifications of the terms for subtraction of financial assets, and FAS 167 – "Consolidation of Variable Interest Entities", which updates the criteria for the identification of Variable Interest Entities (VIEs). In addition the rules establish disclosure requirements established from 1 January 2010 and onwards, in accordance with the transitional provisions established in those Standards. As a general rule, these transitional provisions require the following:

- Implementing the Standard's recognition and measurement requirements regarding transfers of financial assets that are carried out from 1 January 2010 and onwards.

- Examining, as of 1 January 2010 and onwards, whether, in accordance with FAS 167, it is necessary to consolidate entities that were defined pursuant to the old rules as qualified special purpose entities.

In addition, a banking corporation is permitted not to make disclosure of comparative figures for 2009 with regard to the disclosure requirements that were added for the first time because of the Banking Supervision Department's circular.

The impact of the initial implementation for the said standards is not expected to be material.

(2) On 1 July 2009, the U.S. Financial Accounting Standards Board (FASB) made a change in the organization of accounting standards. The change was carried out in the framework of American Accounting Standard 168, on "Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (currently ASC 105 – Generally Accepted Accounting Principles), published by the FASB.

As of 1 January 2010, pursuant to instructions of the Banking Supervision Department, the Bank adopted the new hierarchy. Furthermore, pursuant to the decision of the Banking Supervision Department, notwithstanding the hierarchy stipulated in the American Standard No. 168, any position published by banking supervisory authorities in the U.S., or by a team of banking supervisory authorities in the U.S., regarding the manner of implementation of accounting principles generally accepted in the U.S, is an accounting principle generally accepted by U.S. banks, and will also obligate banking corporations and credit card companies in matters of implementing these accounting principles.

Implementing the Codification had no impact on accounting principles applying to the banks, except for the manner in which banks refer to accounting principles generally accepted by banks in the U.S.

C. Future Application of Accounting Standards and Directives of the Supervisor of Banks

(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) (hereinafter – the "Standard"). The Standard prescribes that entities that are subject to the Securities Law, 1968, and are required to report according to the regulations of this law, shall prepare their financial statements in accordance with IFRS for periods commencing 1 January 2008. The above does not yet apply to banking corporations, whose financial statements are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

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

In June 2009, the Supervisor of Banks published a circular on the subject of "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 standards is:

1. Subjects 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 subjects 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. Subjects 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 U.S., and progress made in the convergence process between the International and American Standards Boards.

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 the international standards, and to determine additional directives where such is required in light of the requirements of regulatory authorities in developed countries worldwide, or on subjects not dealt with in the international standards. 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 noted above, the financial statements of a banking corporation or a credit card company will continue to be prepared in accordance with the directives and guidelines of the Supervisor of Banks.

On 31 December 2009, the Supervisor of Banks issued a circular concerning the adoption of certain IFRS standards. Pursuant to the circular, certain IFRS standards were adopted with the necessary interpretations published by the IASB which address matters that are not a core part of the banking business. Specifically, in the circular, IFRS standards were adopted in the areas listed below:

Accounting policies, changes in accounting, changes in foreign exchange rates, earnings per share, share-based payment, hyperinflationary economies and interim financial reporting, business combinations, consolidated statements and investments in companies included on equity basis, impairment of assets, leases, fixed assets and investment property.

IFRS standards to be adopted according to the following principles (unless determined otherwise by the Supervisor of Banks):

- In cases where material matters are not specifically addressed by the standards or interpretations, or there are a number of alternatives for the treatment of a material matter, banking corporations shall act according to specific implementation instructions established by the Supervisor;

- In cases where a material issue arises which is not resolved in the IFRS or in the implementation instructions of the Supervisor, banking corporations shall treat the issue according to GAAP at US banks specifically applicable to these matters;

- Where an IFRS contains a reference to another IFRS adopted in the Public Reporting Directives, the banking corporation shall act in accordance with the IFRS;

- Where an IFRS contains a reference to another IFRS not adopted in the Public Reporting Directives, the banking corporation shall act in accordance with the Reporting Directives and with Israeli GAAP;

- Where an IFRS contains a reference to a definition of a term defined in the Public Reporting Directives, the reference to the definition in the Directives shall replace the original reference.

- Banking corporations shall implement the above IFRS standards from 1 January 2011 forward.

The first-time implementation of the IFRS standard adopted in this circular shall be performed in accordance with transitional directives established in the IFRS, including the retroactive adjustment of comparison figures if required by the specific standard.

The Bank is examining the implications of the adoption of IFRS standards on its financial statements; at this stage, it cannot estimate the expected effect of the first-time implementation thereof.

(2) Accounting Standard No. 23 – "The Accounting Treatment of Transactions between an Entity and its Controlling Shareholder"

In December 2006, the Israel Accounting Standards Board published Accounting Standard No. 23, “The Accounting Treatment of Transactions between an Entity and its Controlling Shareholder” ("Standard 23"). Standard 23 effectively replaces the main provisions of the Securities Regulations (Presentation of Transactions between a Company and its Controlling Shareholder in the Financial Statements), 1996, as adopted in the Supervisor of Banks' directives dealing with reporting to the public. Standard 23 provides that assets 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 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 May 2008, a letter was circulated by the Supervisor of Banks stating that a reexamination was taking place of 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, according to which the following rules will apply:

- International financial reporting standards;
- Accounting rules generally accepted in the U.S. applying to banking corporations in the U.S.
- In the absence of any specific reference being made in the accounting principles generally accepted in the U.S., the relevant parts in Standard 23 are to be implemented, provided that they do not contradict international financial reporting standards as well as the accounting principles generally accepted in the U.S. as mentioned above.

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.

(3) Measurement and Disclosure of Impaired Debts, Credit Risk and Provisions for Credit Losses

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

The main changes included in the Directive are:

a. New categories of problem loans which are defined as impaired debts, are set out, 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;
   - Furthermore, credit which is insufficiently protected by the present established value and the debtor's ability to pay or by the pledged collateral, and regarding which there is a clear possibility that the banking corporation will suffer some loss if the deficiencies are not remedied, is defined as an inferior credit risk.

b. 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.
   Provisions for credit losses will include:

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

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

- Group provisions for credit losses – for large groups of relatively small and homogeneous debts, the fall in value of which is examined on a group basis, and for debts that have been separately examined and found not to be impaired. Measurement of credit losses will be carried out based on past credit loss rates for each homogeneous group. The determination of the estimates of credit losses is to be documented.

c. 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).

d. 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.

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

f. 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.

g. The Directive will be implemented in the financial statements as from 1 January 2011. The Directive will not be implemented retroactively in the financial statements for previous periods. Transitional adjustments arising from the adoption of this Directive will be included directly in the retained earnings item in shareholders' equity. At the time of initial 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, any inferior or impaired 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.

Also published, in the framework of the Directive of the Supervisor of Banks from 18 February 2010, were additional draft directives regarding the manner of implementation of the requirements for the determination of a group provision for credit losses, the adaptation of the classification requirements for debts in excess in current accounts to the treatment acceptable in the U.S., and the adaptation of certain Proper Banking Management directives to the new directives, as well as the commencement date for the new Directive and related transitional provisions.

The following changes, among others, have been proposed in the new directives:

- Cancelling paragraph 5 of Proper Conduct of Banking Business Directive 325, on the subject of "Management of Credit Facilities", relating to accounting aspects of classifying certain accounts as problematic and recognizing interest income. These matters will be dealt with in the framework of the general directive on measurement of provisions for credit losses and disclosure with regard to problematic debts.

- With the aim of simplifying the rules for the measurement of provisions for credit losses on a group basis, which requires the use of complex statistical models and data history of accounting write-offs, which do not exist in the banking system, a temporary order has been included in the draft directive to be implemented in the years 2011-2012 (hereinafter: "the transitional period"), including a simpler model for calculating credit loss provisions on a group basis.

- With the aim of adapting the definitions and terms included in Proper Conduct of Banking Business Directive No. 315, on the subject of "Supplementary provision for doubtful debts", to the terms included in the new draft directives, effective 1 January 2011 the term "problematic debts" will be changed to "Credit risk under negative classification and credit risk under special supervision", and will include three types of the said debts: "Impaired debts", "Inferior debts" and "Debts under special supervision".

  The rates of supplementary provision applying to the various types of problematic debts will be as follows:

  - Credit risk "under special supervision" – 1%

  - "Inferior" credit risk – 2%

  - "Impaired" credit risk – 4%

  The supplementary provision serves only as an indicator regarding the Group provision, so that if the total Group provision is less than the supplementary and general provision, the provision is to be made according to the higher of the two calculations.

- Reporting to the Supervisor of Banks on changes expected in shareholders' equity, credit to the public and credit risk commencing 31 December 2009, as if the new directives were implemented at that date, for each quarter during 2010.

Implementing the provisions of the Directive requires the upgrading and/or building of a computer infrastructure system in order to ensure the process for evaluating and making provisions for credit losses, including internal control systems to check on proper implementation of the Directive, and validation of the effectiveness of the method for calculating the provision. Bank management has made preparations for the implementation of the Directive.

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.

Preparations have begun for the modification of the computer systems, in which material changes to the information systems are required in order to carry out work processes required on implementation as well as for reports to the Banking Supervision Department.

As of the date of the publication of this Report, 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. In 2010, training was carried out for employees in the business divisions on the subject and it was integrated in courses on lending.

At this stage there is only a preliminary estimate of the implications of implementing the Directive on the Bank's future financial results. Pursuant to Bank of Israel directives, information and the effects of the change in the method are given to the Bank of Israel.

(4) Fair Value Measurements and the Fair Value Alternative

On 31 December 2009, the Supervisor of Banks issued a circular regarding fair value measurements and the fair value alternative. The circular adopts *inter alia*:

a. Fair Value Measurements - US Financial Accounting Standard FAS 157 (ASC 820-10), henceforth: "FAS 157"

FAS 157 defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed implementation instructions. In addition, FAS 157 expands the disclosure requirements for measurements of fair value. The implementation of the rules set forth in FAS 157 will require the cessation of the use of the blockage factor in the calculation of fair value, and will replace the directives which prohibit the recognition of day one profits and require that the fair value of derivative instruments not traded on an active market be determined according to the transaction price. In addition, FAS 157 requires the banking corporation to reflect credit risk and other risks of the bank in the measurement of the fair value of debt, including derivatives, issued by the banking corporation and measured at fair value.

FAS 157 will apply from 1 January 2011 forward, with the exception of several financial instruments to be adopted for the first time in a limited format of retroactive implementation.
The difference between the balance-sheet balances of the financial instruments and the fair values of those instruments shall be recognized as a cumulative effect in the opening balance of surpluses as of 1 January 2011, which will be presented separately. Furthermore, new disclosure requirements will be implemented.

The banking corporation shall be required to reexamine its implemented assessment methods for the measurement of fair value, taking into consideration the relevant circumstances for the various transactions, including prices of recent transactions in the market, indicative prices of assessment services, and the results of back-testing of similar types of transactions.

In light of the foregoing, the Bank is examining the effects of the adoption of the standard on the financial statements; at this stage, the Bank cannot estimate the expected effect of the first-time implementation of FAS 157.

b. The Fair Value Alternative for Financial Assets and Financial Liabilities - US Financial Accounting Standard FAS 159 (ASC 825-10), henceforth: "FAS 159"

The purpose of FAS 159 is to allow for the reduction of fluctuations in reported profits arising from the measurement of hedged assets and liabilities and derivative hedging instruments using different measurement bases.

FAS 159 allows a choice, on defined dates, to measure financial instruments and certain other items (the eligible items) at fair value, which under Public Reporting Directives are not required to be measured at fair value. Unrealized profits and losses in respect of changes in the fair value of the items for which the fair value alternative is selected shall be reported in the statement of profit and loss for each consecutive reporting period. In addition, prepaid costs and fees related to the items for which the fair value alternative is selected shall be recognized in profit and loss on the date of creation, rather than deferred. The choice to apply the fair value alternative, as noted above, shall be made instrument by instrument, and cannot be cancelled. In addition, FAS 159 establishes presentation and disclosure requirements aimed at facilitating comparisons between banking corporations that choose different measurement bases for similar types of assets and liabilities.

Notwithstanding the above, the circular clarifies that a banking corporation shall not choose the fair value alternative unless it has developed in advance, knowledge, systems, procedures, and controls at a high level, which will enable it to measure the item at a high degree of reliability. Thus, a banking corporation shall not choose the fair value alternative with regard to any asset classified in level 2 or level 3 of the fair value hierarchy, or with regard to any liability, unless it receives advance approval to do so from the Supervisor of Banks.

FAS 159 will apply from 1 January 2011 onwards. Implementation through retroactive adoption or implementation through early adoption is prohibited.

The Supervisor of Banks published transitional directives referring to implementation regarding eligible assets existing at the inception date, and securities available for sale and securities held to maturity, as follows:

- Implementation for eligible items existing at the inception date: Balance-sheet balances of these eligible items shall be adjusted to fair value, and the effect of the initial re-measurement at fair value shall be allocated as an adjustment in respect of the cumulative effect to the opening balance of surpluses. In addition, a banking corporation choosing the fair value alternative for items existing at the inception date shall include extensive disclosures, as required in the Circular, in its annual financial statements and in its first interim financial statements for 2011.

- Securities available for sale and securities held to maturity: If the fair value alternative is chosen for any of these securities at the inception date, accrued profits and losses not yet realized at that date shall be included in the adjustment in respect of the cumulative effect, and the security in question shall be reported as of that date as a security held for trading. In addition, separate disclosure shall be given to the amount of unrealized profits and losses reclassified from cumulative other comprehensive profit, and to the amount of unrealized profits and losses not previously recognized. The choice of the fair value alternative for an existing security held to maturity at the initial adoption shall not cast doubt on the banking corporation's intention to hold other bonds to maturity in the future.

  The Bank is examining the implications of adopting the standard for the financial statements; at this stage, the Bank cannot estimate the expected effect of the first-time implementation of FAS 159.

(5) In January 2010, the FASB published Accounting Standards Update (ASU) 2010-11. This update excludes the separation of certain embedded credit derivatives from the scope of American Accounting Standard FAS 133 (ASC 815-15), and determines guidelines for examining whether certain features of embedded credit derivatives in financial instruments require accounting treatment for separating the embedded derivative.

The update provides criteria for examining whether the embedded credit derivative meets the "clearly and closely related" criterion set out in FAS 133, the existence of which allows for not separating the embedded derivative from the host contract.

The update explains that the existence of a concentration of credit risk deriving from the inferior rights of one financial instrument as compared with another, will not be considered as an embedded derivative.

The guidelines set out in the update will apply as of the first quarterly period following 15 June 2010. Early adoption is possible in the first quarterly period following publication of the update.

The Bank is examining the implications of adopting the standard for the financial statements; at this stage, the Bank cannot estimate the expected effect of the first-time implementation of ASU 2010-11.

Note 2 - Securities
Reported Amounts

	31 March 2010 (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	161	161	6	-	167
Foreign Governments	511	511	15	-	526
Other companies	55	55	-	-	55
Total debentures held to maturity	727	727	21	-	748

	31 March 2010 (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	21,018	20,826	197	(5)	21,018
Foreign Governments	472	468	5	(1)	472
Other companies	18,132	18,200	336	(404)	18,132
	39,622	39,494	538	(410)	39,622
Shares of other companies and mutual funds (b)	2,633	1,841	793	(1)	2,633
Total securities available for sale	42,255	41,335	1,331 (c)	(411) (c)	42,255

	31 March 2010 (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	5,779	5,693	90	(4)	5,779
Foreign Governments	1,788	1,776	16	(4)	1,788
Other companies	1,825	1,800	43	(18)	1,825
	9,392	9,269	149	(26)	9,392
Shares and mutual funds:					
Other companies	152	503	-	(351)	152
Total securities available for sale	9,544	9,772	149 (d)	(377) (d)	9,544
Total securities	52,526	51,834	1,501	(788)	52,547

See footnotes on page 158.

Note 2 - Securities (Cont'd)

Reported Amounts

	31 March 2009 (Unaudited)				
	Amount in Balance Sheet	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
1. Debentures held to maturity:					
Debentures and bonds -					
Government of Israel	266	266	14	-	280
Foreign Governments	606	606	14	(1)	619
Other companies (e)	69	69	-	-	69
Total debentures held to maturity	941	941	28	(1)	968

	31 March 2009 (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	13,533	13,017	521	(5)	13,533
Foreign Governments	339	333	8	(2)	339
Other companies (e)	19,492	22,213	88	(2,809)	19,492
	33,364	35,563	617	(2,816)	33,364
Shares and mutual funds					
Of other companies (b)	2,716	2,206	511	(1)	2,716
Total securities available for sale	36,080	37,769	1,128 (c)	(2,817) (c)	36,080

	31 March 2009 (Unaudited)				
	Amount in Balance Sheet	Amortized cost (in Shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair Value (a)
	(NIS millions)				
3. Securities held for trading:					
Debentures and bonds -					
Government of Israel	5,356	5,175	181	-	5,356
Foreign Governments	3,267	3,195	72	-	3,267
Other companies	1,919	2,098	14	(193)	1,919
	10,542	10,468	267	(193)	10,542
Shares and mutual funds:					
Other companies	114	459	-	(345)	114
Total securities held for trading	10,656	10,927	267 (d)	(538) (d)	10,656
Total securities	47,677	49,637	1,423	(3,356)	47,704

See footnotes on page 158.

Note 2 - Securities (Cont'd)
Reported Amounts

	31 December 2009 (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	271	271	7	-	278
Foreign Governments	522	522	16	-	538
Other companies (e)	59	59	-	-	59
Total debentures held to maturity	852	852	23	-	875

	31 December 2009 (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	23,368	23,267	132	(31)	23,368
Foreign Governments	1,161	1,158	5	(2)	1,161
Other companies (e)	19,752	20,017	317	(582)	19,752
	44,281	44,442	454	(615)	44,281
Shares and mutual funds					
Other companies (b)	2,490	1,849	648	(7)	2,490
Total securities available for sale	46,771	46,291	1,102 (c)	(622) (c)	46,771

	31 December 2009 (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	5,074	5,028	69	(23)	5,074
Foreign Governments	2,354	2,340	14	-	2,354
Other companies	2,357	2,340	45	(28)	2,357
	9,785	9,708	128	(51)	9,785
Shares and mutual funds:					
Other companies	97	446	-	(349)	97
Total securities held for trading	9,882	10,154	128 (d)	(400) (d)	9,882
Total securities	57,505	57,297	1,253	(1,022)	57,528

See footnotes on page 158.

Note 2 - Securities (Cont'd)

Notes:

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

(b) Including NIS 1,054 million with respect to shares which have no readily available fair value, which are presented at cost (31 December 2009 - NIS 1,023 million and 31 March 2009 - NIS 1,145 million).

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

(d) Reported in the profit and loss statement, but not yet realized.

(e) Reclassified.

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

	31 March 2010 (Unaudited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) * profits	losses	Fair value
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	2,100	2,077	29	(6)	2,100
Securities issued by FNMA and FHLMC	427	413	14	-	427
Total	2,527	2,490	43	(6)	2,527
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,111	2,089	26	(4)	2,111
Other Mortgage-backed securities	31	59	-	(28)	31
Total	2,142	2,148	26	(32)	2,142
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	2	4	-	(2)	2
Credit for purchase of vehicle	10	10	-	-	10
Other credit to private persons	6	6	-	-	6
CLO	856	727	165	(36)	856
CDO	23	23	-	-	23
SCDO	67	53	14	-	67
Others	6	6	-	-	6
Total	970	829	179	(38)	970
Total Asset-backed debentures available for sale	5,639	5,467	248	(76)	5,639

* Amounts charged to capital reserve as part of adjustments of securities available for sale at fair value.

Note 2 - Securities (Cont'd)

Of which: Asset-backed securities

Reported amounts

	31 March 2010 (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. Debentures held for trading:					
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	36	35	1	-	36
Other Mortgage-backed securities	45	52	-	(7)	45
Total	81	87	1	(7)	81
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	4	6	-	(2)	4
Credit for purchase of vehicle	-	-	-	-	-
Credit not to private persons	3	3	-	-	3
CDO	2	6	-	(4)	2
Others	2	2	-	-	2
Total	11	17	-	(6)	11
Total Asset-backed debentures held for trading	93	105	1	(13)	93

* These profits/losses are charged to the profit and loss account.

3. The portfolio for redemption includes a security issued by the FHLMC, of which the balance sheet value and fair value is in the amount of some NIS 8 million.

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

	31 March 2009 (Unaudited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) * profits	losses	Fair value
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	448	446	2	-	448
Securities issued by FNMA and FHLMC	1,288	1,282	16	(10)	1,288
Securities issued by others	-	-	-	-	-
Total	1,736	1,728	18	(10)	1,736
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,284	2,310	8	(34)	2,284
Other Mortgage-backed securities	63	71	-	(8)	63
Total	2,347	2,381	8	(42)	2,347
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	5	8	-	(3)	5
Credit for purchase of vehicle	24	24	-	-	24
Other credit to private persons	10	10	-	-	10
CLO	627	826	-	(199)	627
CDO	26	26	-	-	26
SCDO	116	117	11	(12)	116
Others	43	43	1	(1)	43
Total	851	1,054	12	(215)	851
Total Asset-backed debentures available for sale	4,934	5,163	38	(267)	4,934

* Amounts charged to capital reserve as part of adjustments of securities available for sale at fair value.

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

	31 March 2009 (Unaudited)				
	Amount In balance sheet	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	(NIS millions)				
2. Debentures held for trading:					
Pass-through securities:					
Securities issued by FNMA and FHLMC	3	3	-	-	3
Total	3	3	-	-	3
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	75	73	2	-	75
Other Mortgage-backed securities	109	151	-	(42)	109
Total	184	224	2	(42)	184
Asset-backed securities (ABS):					
Credit card debtors	-	-	-	-	-
Lines of credit for any purpose secured by dwelling	14	22	-	(8)	14
Credit for purchase of vehicle	5	5	-	-	5
Credit not to private persons	9	13	-	(4)	9
CDO	4	10	-	(6)	4
Others	3	3	-	-	3
Total	35	53	-	(18)	35
Total Asset-backed debentures held for trading	222	280	2	(60)	222

* These profits/losses are charged to the profit and loss account.

3. The portfolio for redemption includes a security issued by the FHLMC, of which the balance sheet value and fair value is in the amount of some NIS 9 million.

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

	31 December 2009 (Audited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) * profits	losses	Fair value
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	2,123	2,125	14	(16)	2,123
Securities issued by FNMA and FHLMC	460	448	12	-	460
Securities issued by others	-	-	-	-	-
Total	2,583	2,573	26	(16)	2,583
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,274	2,273	12	(11)	2,274
Other Mortgage-backed securities	33	61	-	(28)	33
Total	2,307	2,334	12	(39)	2,307
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	5	-	(2)	3
Credit for purchase of vehicle	12	12	-	-	12
Other credit to private persons	7	7	-	-	7
CLO debentures	911	763	184	(36)	911
CDO debentures	25	25	-	-	25
SCDO debentures	66	56	10	-	66
others	24	25	-	(1)	24
Total	1,048	893	194	(39)	1,048
Total Asset-backed debentures available for sale	5,938	5,800	232	(94)	5,938

* Amounts charged to capital reserve 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 2009 (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. Debentures held for trading:					
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	39	38	1	-	39
Other Mortgage-backed securities	50	59	-	(9)	50
Total	89	97	1	(9)	89
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	5	7	-	(2)	5
Credit for purchase of vehicles	-	-	-	-	-
Credit not to private persons	2	5	-	(3)	2
CDO debentures	2	7	-	(5)	2
Others	2	2	-	-	2
Total	11	21	-	(10)	11
Total Asset-backed debentures held for trading	101	119	1	(19)	101

* These profits/losses are charged to the profit and loss account.

3. The portfolio for redemption includes a security issued by the FHLMC, of which the balance sheet value and fair value is in the amount of some NIS 8 million.

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

	31 March 2010 (Unaudited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustment to fair	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	**372**	**(6)**	**5**	**-**	**377**	**(6)**
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	**124**	**-**	**598**	**(32)**	**722**	**(32)**
Asset-backed securities (ABS)	**5**	**-**	**437**	**(38)**	**442**	**(38)**
Total	**501**	**(6)**	**1,040**	**(70)**	**1,541**	**(76)**

	31 March 2009 (Unaudited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustment to fair	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	128	(2)	423	(8)	551	(10)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	253	(7)	1,175	(35)	1,428	(42)
Asset-backed securities (ABS)	332	(87)	410	(128)	742	(215)
Total	713	(96)	2,008	(171)	2,721	(267)

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

	31 December 2009 (Audited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustment to fair	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	980	(16)	6	-	986	(16)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	373	(4)	711	(35)	1,084	(39)
Asset-backed securities (ABS)	25	-	461	(39)	486	(39)
Total	1,378	(20)	1,178	(74)	2,556	(94)

Note 3 - Provision for Doubtful Debts
Reported amounts

	For the three months ended 31 March 2010 (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	9,189	578	900	10,667
Provisions during the period	308	58	7	373
Decrease in provisions	(136)	(64)	(36)	(236)
Collection of past years' write-offs	(7)	-	-	(7)
Net amount charged to statement of profit and loss	165	(6)	(29)	130
Net write-offs (c)	(161)	(17)	-	(178)
Balance of provision at end of the period	9,193	555	871	10,619
Including balance of provision not deducted from credit to the public	115	-	123	238

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

(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

31 March 2010 (unaudited)

		Problematic debts				
				Specific provision		
	Credit (e)	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	**28,726**	**506**	**162**	**391**	**-**	**391**
"Large" loans (a)	**10,591**	**116**	**141**	**129**	**-**	**129**
Other loans (b)	**7,864**	**212**	**22**	**35**	**7**	**42**
Balance of provision at end of the period	**47,181**	**834**	**325**	**555**	**7**	**562**

31 March 2009 (unaudited)

		Problematic debts				
				Specific provision		
	Credit (e)	Balance sheet debt balance	Including amount in arrears (c)	According to depth of arrears (d)	Other	Total
	(NIS millions)					
Housing loans that require calculating the provision according to depth of arrears	27,947	642	209	461	-	461
"Large" loans (a)	7,215	144	152	153	-	153
Other loans (b)	7,213	219	27	46	8	54
Balance of provision at end of the period	42,375	1,005	388	660	8	668

(a) Housing loans the balance of each of which is higher than NIS 864 thousand (31 March 2009 - NIS 835 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 of which is lower than NIS 864 thousand (31 March 2009 - NIS 835 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 110 million (31 March 2009 - NIS 126 million).

(e) The remaining balance of housing loans is NIS 7,533 million (31 March 2009 – NIS 6,129 million).

Note 4 - Shareholders' Equity and Capital Adequacy

Capital adequacy according to Basel I is calculated pursuant to Directives Nos. 311 and 341 issued by the Supervisor of Banks, regarding "Minimum Capital" ratio and "Allocation of Capital in respect of Exposure to Market Risks".

Reported amounts

	31 March 2010	31 March 2009	31 December 2009
	NIS millions		
	Basel II	Basel I	Basel II
Capital for purposes of calculating capital ratio			
Tier 1 capital, after deduction	**22,000**	**19,890**	21,478
Tier 2 capital, after deduction	**16,801**	**10,745** (a)	14,863
Tier 3 capital	**-**	**-**	-
Total capital	**38,801**	**30,635**	36,341
Weighted balance of risk assets			
Credit risk	**233,323**	**251,233**	229,551
Market risk	**6,587**	**6,315**	7,418
Operational risk	**20,940**	**-**	20,928
Total weighted balance of risk assets	**260,850**	**257,548**	257,897
Ratio of capital to risk assets			
Ratio of Tier 1 capital to risk assets	**8.43%**	**7.73%**	8.33%
Ratio of total capital to risk assets	**14.87%**	**11.90%**	14.09%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	**9.00%**	9.00%
Principal subsidiary companies			
Leumi Mortgage Bank			
Ratio of Tier 1 capital to risk assets	**10.96%**	**6.13%**	10.87%
Ratio of total capital to risk assets	**16.05%**	**9.20%**	16.32%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	**9.00%**	9.00%
Arab Israel Bank			
Ratio of Tier 1 capital to risk assets	**11.24%**	**14.77%**	10.70%
Ratio of total capital to risk assets	**16.43%**	**19.31%**	15.91%
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	**9.00%**	9.00%
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk assets	**13.50%**	**20.00%**	13.50% (c)
Ratio of total capital to risk assets	**13.50%**	**20.00%**	13.50% (c)
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	**9.00%**	9.00%
Bank Leumi USA			
Ratio of Tier 1 capital to risk assets	**(b)**	**9.83%**	(b)
Ratio of total capital to risk assets	**(b)**	**13.07%**	(b)
Ratio of total minimum capital required by the local authorities	**(b)**	**10.00%**	(b)

(a) For purposes of Basel I the balances of investments in shares and subordinated notes of financial companies are deducted from the capital.

(b) The US branch is not obliged to calculate the capital adequacy ratio according to Basel II.

(c) Restated pursuant to a change in allocation of exposure to credit risk of banking corporations.

Note 5 - Assets and Liabilities Classified According to Linkage Basis as at 31 March 2010 (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	27,665	402	8,297	3,538	1,748	14	41,664
Securities	16,565	9,601	13,717	8,879	979	2,785	52,526
Securities borrowed or purchased under agreement to resell	638	-	-	-	-	-	638
Credit to the public (b)	109,076	49,284	33,696	5,995	9,461	101	207,613
Credit to governments	-	247	160	-	-	-	407
Investments in affiliated companies	8	-	-	-	-	2,188	2,196
Buildings and equipment	-	-	-	-	-	3,543	3,543
Other assets	3,893	131	2,939	232	975	874	9,044
Total assets	157,845	59,665	58,809	18,644	13,163	9,505	317,631
Liabilities							
Deposits of the public	117,462	26,045	69,682	22,120	9,118	152	244,579
Deposits from banks	1,795	332	672	233	128	-	3,160
Deposits from governments	47	438	182	11	-	-	678
Securities loaned or sold under agreement to repurchase	119	-	56	-	-	-	175
Debentures, bonds and subordinated notes	4,200	21,268	1,344	-	-	-	26,812
Other liabilities	10,690	3,994	2,264	387	1,099	812	19,246
Total liabilities	134,313	52,077	74,200	22,751	10,345	964	294,650
Difference	23,532	7,588	(15,391)	(4,107)	2,818	8,541	22,981
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	(5,405)	(7,074)	12,113	3,967	(3,601)	-	-
Options in the money, net (in terms of underlying asset)	(442)	(1)	64	92	287	-	-
Options out of the money, net (in terms of underlying asset)	(536)	(7)	580	(48)	11	-	-
Total	17,149	506	(2,634)	(96)	(485)	8,541	22,981
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(741)	(1)	192	112	438	-	-
Options out of the money, net (discounted par value)	(2,013)	(18)	1,123	(371)	1,279	-	-

(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 whose basis refers to a non-monetary item.

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 31 March 2009 (Unaudited)
Reported amounts

	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In U.S. dollars	In Euro	In other currencies	Non-monetary items (c)	Total
	(NIS millions)						
Assets							
Cash and deposits with banks	13,998	466	14,758	6,664	2,826	-	38,712
Securities	11,648	6,479	18,428	7,315	977	2,830	47,677
Securities borrowed or purchased under agreement to resell	95	-	84	-	50	-	229
Credit to the public (b)	101,378	51,060	42,538	7,534	10,361	7	212,878
Credit to governments	-	244	256	-	-	-	500
Investments in affiliated companies	8	-	-	-	-	2,040	2,048
Buildings and equipment	-	-	-	-	-	3,513	3,513
Other assets	4,751	156	5,076	716	1,178	618	12,495
Total assets	131,878	58,405	81,140	22,229	15,392	9,008	318,052
Liabilities							
Deposits of the public	112,104	27,168	81,595	24,528	9,122	48	254,565
Deposits from banks	1,256	555	729	188	453	-	3,181
Deposits from governments	131	533	175	13	-	-	852
Securities loaned or sold under agreement to repurchase	-	-	193	-	-	-	193
Debentures, bonds and subordinated notes	1,896	16,396	2,275	-	-	-	20,567
Other liabilities	9,080	3,499	4,510	709	1,253	552	19,603
Total liabilities	124,467	48,151	89,477	25,438	10,828	600	298,961
Difference	7,411	10,254	(8,337)	(3,209)	4,564	8,408	19,091
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	-	-	-	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	8,411	(9,078)	4,961	1,022	(5,316)	-	-
Options in the money, net (in terms of underlying asset)	(831)	(9)	312	193	335	-	-
Options out of the money, net (in terms of underlying asset)	(52)	(2)	91	53	(90)	-	-
Total	14,939	1,165	(2,973)	(1,941)	(507)	8,408	19,091
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,535)	(10)	648	347	550	-	-
Options out of the money, net (discounted par value)	(918)	(22)	867	69	4	-	-

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

Note 5 - Assets and Liabilities Classified According to Linkage Basis (cont'd)
as at 31 December 2009 (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	26,348	446	9,792	3,944	2,401	2	42,933
Securities	18,193	9,665	15,195	10,134	1,731	2,587	57,505
Securities borrowed or purchased under agreement to resell	744	-	-	-	-	-	744
Credit to the public (b)	105,910	49,318	32,494	6,578	10,349	20	204,669
Credit to governments	-	259	148	-	-	-	407
Investments in affiliated companies	8	-	-	-	-	2,170	2,178
Buildings and equipment	-	-	-	-	-	3,553	3,553
Other assets	3,846	134	3,016	302	1,713	775	9,786
Total assets	155,049	59,822	60,645	20,958	16,194	9,107	321,775
Liabilities							
Deposits of the public	119,050	26,976	70,868	23,787	9,675	62	250,418
Deposits from banks	2,115	439	776	212	243	-	3,785
Deposits from governments	55	471	179	7	-	-	712
Securities loaned or sold under agreement to repurchase	216	-	57	-	-	-	273
Debentures, bonds and subordinated notes	3,214	20,329	1,718	-	-	-	25,261
Other liabilities	9,719	3,942	2,211	536	2,040	734	19,182
Total liabilities	134,369	52,157	75,809	24,542	11,958	796	299,631
Difference	20,680	7,665	(15,164)	(3,584)	4,236	8,311	22,144
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	-	-	-	-	-
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	(1,989)	(7,238)	11,120	3,477	(5,370)	-	-
Options in the money, net (in terms of underlying asset)	(576)	(9)	299	188	98	-	-
Options out of the money, net (in terms of underlying asset)	(474)	-	393	(31)	112	-	-
Total	17,641	418	(3,352)	50	(924)	8,311	22,144
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,021)	(16)	706	262	69	-	-
Options out of the money, net (discounted par value)	(1,358)	(3)	1,270	(114)	205	-	-

(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 whose basis refers to a non-monetary item.

Note 6 - Contingent Liabilities and Special Commitments
Reported Amounts

	31 March 2010	31 March 2009	31 December 2009
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
A. Off-balance sheet financial instruments			
Balances of contracts or their stated amounts as at the end of the period			
Transactions in which the balance reflects a credit risk			
Documentary credits	**2,598**	1,541	1,773
Credit guarantees	**6,114**	6,999	6,199
Guarantees to apartment purchasers	**9,585**	7,820	9,250
Other guarantees and liabilities	**14,614**	15,578	14,509
Commitments regarding uncompleted credit card transactions unutilized credit card facilities	**18,578**	17,673	18,348
Other unutilized revolving credit facilities to the public and credit facilities on demand	**13,892**	17,187	14,211
Irrevocable commitments to provide credit which has been approved and not yet granted (a)	**20,929**	19,465	17,827
Commitments to issue guarantees	**8,288**	6,941	7,793
Unutilized facilities for activity in derivative instruments	**4,317**	-	4,060

(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 371 million (31 March 2009 - NIS 419 million, 31 December 2009 - NIS 377 million).

	31 March 2010	31 March 2009	31 December 2009
B. Other contingent liabilities and special commitments:			
(1) Long-term rental contracts -			
Rental of buildings, equipment and vehicles and maintenance fees regarding commitments payable in the following years:			
First year	**212**	167	228
Second year	**139**	137	145
Third year	**118**	106	123
Fourth year	**94**	87	100
Fifth year	**62**	54	65
After five years	**179**	115	203
Total	**804**	666	864
(2) Commitments to purchase securities	**328**	502	399
(3) Commitments to invest in buildings, equipment and in other assets	**140**	195	123
(3) Commitments to underwrite securities	**6**	-	-
(5) Future deposits			
Transactions with depositors for purposes of receipt of large deposits at various future dates and as 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	**12**	17	17
After five years	**12**	24	15
Total future deposits	**92**	109	100

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

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, and 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 205 million.

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

A. On 12 September 2006, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim B.M. and Israel Discount Bank Ltd. The amount claimed in the class action for which approval has been requested is NIS 7 billion, while in the body of the claim, it is contended that the damage to the claimant 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 determined 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. On 31 January 2010, the Tel Aviv District Court decided to postpone proceedings in the claim until the granting of a decision on the application for leave of appeal submitted to the Supreme Court.

B. 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, and (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 the claim described in paragraph A. above as a class action. 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.

C. On 3 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 276 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, as a result of which, the plaintiffs suffered significant damages, including a decline in the value of their apartments. These claims are in addition to five other claims that have been filed against the Bank on the same grounds, and which are being heard separately. The total amount of all the claims in connection with this project is some NIS 288.6 million. On 10 August 2009, the Tel Aviv-Jaffa District Court rejected one of the additional claims which had been submitted separately against the Bank, by 3 purchasers and was identical to the above-mentioned 260 claims. The plaintiffs appealed the above ruling. The Court ordered a stay of proceedings in the claims pending judgment on the appeal submitted against the above judgment.

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

The petitioners claim that they held and hold units in mutual funds that were managed by fund managers controlled by the Bank. According to the petitioners, beginning in 2004, the Bank 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 the petitioners, although the Bank sold its holdings in the fund managers to third parties during 2006, 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 they allege, removes all substance from the sale of the control of the fund managers.

The petitioners argue that they and the other holders of mutual fund units that were or are under the Bank's control, have suffered damages that reflect the reduction in the value of the mutual fund units due to the alleged over-charging. The Bank has filed its response to the petition for the approval of the claim as a class action.

E. On 26 June 2007, a petition to approve a class action against the Bank, for a claim in the amount of NIS 200 million, was filed in the Tel Aviv- Jaffa District Court. 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.

F. 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.

G. 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 said 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. On 18 October 2009, the District Court approved the claim as a class action. On 15 November 2009, the District Court gave an order postponing the execution of its decision for approval of the claim as a class action, until the decision of the Supreme Court in the appeal by the Bank. On 18 November 2009, the Bank filed an application to the Supreme Court for leave of appeal against the decision of the District Court to approve the class action. In a decision on 1 December 2009, the Supreme Court decided that the application for leave to appeal requires a response, and ordered the plaintiff to submit its response to the application for leave to appeal. The response of the plaintiff was filed on 14 January 2010. A decision has yet to be handed down on the actual application for leave to appeal. Proceedings in the District Court are suspended pending a decision on the application for leave to appeal.

H. 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. According to the petitioner, the Banks' alleged behavior constitutes 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. On 17

May 2010, the District Court rejected the petition for approval as a class action.

I. On 28 September 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank and Bank Otzar Hachayal in 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 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 meaning that 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 have taken place, 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.

J. 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, *inter alia*, on 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 Kahal) that were owned and/or controlled by the respondent bank, and transferred to their replacements. The petitioner added the Supervisor of the Capital Market, Insurance and Savings to the claim and to the petition for approval since, according to the petitioner, the Supervisor is charged with licensing, control and implementation of the provisions of the Provident Funds Law, and it is therefore appropriate that he 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. On 30 June 2009 the court ruled that Kahal was wrongfully added as a respondent and dismissed the petition against it. The Bank has submitted its response to the petition for approval of the claim as a class action. On 11 March 2010, the Attorney-General informed the Court that he would not take part in the proceedings in this claim.

K. 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, according to the petitioner, constitutes the consideration received by the Bank from the sale. The petitioner bases the claim, *inter alia*, on 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. On 11 March 2010, the Attorney-General informed the Court that he would not take part in the proceedings in this claim.

L. 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, *inter alia*, on 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. On 11 March 2010, the Attorney-General informed the Court that he would not take part in the proceedings in this claim.

M. On 2 August 2009, a financial claim in the amount of NIS 100 million was filed against the Bank in the Haifa District Court. 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, and 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 his reputation.

N. On 29 October 2009 a claim was filed in the Central District Court for declaratory judgments to the effect that the seven respondent banks (the Bank, Bank Hapoalim, Israel Discount Bank, the First International Bank of Israel, Mizrahi Tefahot Bank, Mercantile Discount Bank and Union Bank) are not entitled to charge the petitioners with "default" interest differentials, as defined in the claim, and that the amount of the default interest differentials must be reduced from an amount of NIS 841 million to an amount of NIS 37 million. Alternatively, they request a ruling that the banks are entitled to charge the petitioners with interest differentials in accordance with the Adjudication of Interest and Linkage Law, 1961 only, this being with regard to the petitioners' debt that had accrued from 12 May 2003 and onwards. The petitioners claim is, *inter alia*, that the "default interest" is nothing other than "agreed compensation" as defined in Section 15(A) of the Contracts Law (Remedies), 1970, which a court may reduce "if it finds that the compensation was established without any reasonable relation to the damage that had been foreseeable as being the reasonable result of a breach at the time the contract was made"; that the reduction of the default interest amounts is also required in accordance with the interpretation of the loan agreement and according to the intention of the parties; that the charging of the petitioners with default interest will constitute unjustified enforcement of the loan agreement; that the banks' insistence on charging the petitioners with default interest constitutes a lack of good faith, and that the banks' charging of default interest will constitute unjust enrichment on their part. The claim does not make a monetary attribution of a specific claimed share of each of the banks in the amount of the default interest differentials, but details are provided of each bank's participation in the financing, with the Bank's share being claimed to be 24%. On 11 February 2010 a monetary claim was submitted in the amount of NIS 829,529,867, instead of the claim for declarative orders which was deleted.

O. 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 Tefahot 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 dividends in respect on shares - tax was deducted at source, dating 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 incumbent upon 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.

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.

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., ("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, that 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 Tefahot and First International) had maintained restrictive trade agreements regarding the transfer of information concerning commissions, as evidence in the framework of the application to approve the claim as a class action. The respondent Banks opposed this and, on 6 October 2009, the Court decided that the hearing on the petition to attach the Director's determination is superfluous in view of its decision to incorporate the hearing on the claim with a later claim (for details see Paragraph B below), to which the Director's determination would be attached anyway. On 29 November 2009, the Court decided to stay proceedings in the claim for two years (subject to the provisions set out in that decision) in view of the respondents' intention to submit a petition for leave to appeal the Director's determination in the Antitrust Court. 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 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 Tefahot 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 overpayments 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 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 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. Proceedings in the petition for approval have been delayed for two years, as stated in the decision of 29 November 2009 described in paragraph A. above. 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 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 assets of Holocaust victims (as such terms are defined in the Law) in Israel, must transfer them to the Tracing and Return of Property of Holocaust Victims Company Ltd. ("the Company"), which was established pursuant to the provisions of the Law, together with linkage differentials and interest in amounts determined by a special revaluating committee.

On 4 March and 18 September, 2008 and February 11, 2009, the Company made three requests to the Bank for payment of amounts in respect "the assets of the Holocaust Victims", as defined in the Law, which allegedly, are being held or were held by the Bank ("the demands"). The Bank responded to these three requests while rejecting the claim that it has any financial liability with respect to the majority of the assets included in therein.

However, 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.

As a result of the Bank's response to the demands, on 24 June 2009, the Company filed an originating motion against the Bank in the Jerusalem District Court, pursuant to which the Court was asked to make various declarations relating to the “assets of the Holocaust Victims” as defined in the Assets of Holocaust Victims (Restitution to Heirs and Endowment for the Purposes 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 some NIS 247 million 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 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 to whether a particular asset is currently held by the Bank, the burden of proof should be borne by the Bank. No response has yet been given by the Bank to the originating motion, an arbitration agreement has been signed between the bank bearing the date February 26, 2010, with the object of bringing to a speedy and effective arbitration of the disputes between the parties. Pursuant thereto, the Company will submit an amended claim and the Bank will submit a defense accordingly. As part of the arbitration agreement, the Company's ability to make further monetary demands on the Bank in the future was restricted, subject to the conditions and reservations set forth in the arbitration agreement.

In the Bank's opinion, based on the opinions of the Bank's legal advisors, at this early stage (prior to the submission of the amended claim and prior to the submission of a response on behalf of the Bank to what is claimed by the Company), it is not possible *inter alia*, to assess the chances of the claim of the Company and whether there is a necessity for an addition to the provision made in the past by the Bank, in respect of the demands.

D. On 3 May 2010, a petition for approval of a class action was filed in the Central District Court claiming an amount of some NIS 209 million as of the date the claim was filed. The claim also includes additional non-monetary reliefs. The plaintiff is interest in representing all those holding debentures of Heftziba Hofim Ltd. ("Heftziba Hofim") prior to the suspension of their trading at the beginning of August 2007.

The petitioner claims that during the years 2006-2007, prior to the end of each quarter, the Bank granted loans in amounts of tens of millions of shekels to a company wholly owned by Mr. Boaz Yonah. According to the petitioner's claim, these funds were immediately transferred to the account of Heftziba Hofim, so as to provide momentary cover for withdrawals of funds by Mr. Yonah from Heftziba Hofim, and, at the beginning of each successive quarter, the monies were withdrawn from the funds of Hefziba Hofim, transferred to Mr. Yonah's private accounts, and from there returned to the Bank.

The petitioner claims that the purpose of the above financial activities was to distort the financial statements of Heftziba Hofim, so as to make false momentary presentations to the public regarding the true condition of Heftziba Hofim. The petitioner claims that as a result of cooperation by the Bank and the false representations made to the public the investments of those holding debentures of Heftziba Hofim were eventually written off. According to his claim, warning signs of the crisis in the company were concealed from the debenture holders which could have induced them to immediately sell their holdings; and vital information was withheld from those joining during the creation of the alleged misrepresentations which could have prevented them investing in the debentures of Heftziba Hofim. In the view of Bank Management, based on the opinion of the Bank's legal advisors, it is not possible, at this early stage, to evaluate the chances of the petition.

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

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

The petitioners, who took out loans from Leumi Mortgage Bank, are making claims regarding the value of buildings for purposes of property insurance in the framework of loans taken from Leumi Mortgage Bank. According to the petitioners, Leumi Mortgage Bank or its 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. The petition to add another petitioner to the claim, in place of the one who withdrew, is pending in court. Arbitration is being conducted between the parties.

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. The decision has not been rendered yet.

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:

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 million. 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 fulfillment 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 that World Currencies replace the Notes with Notes of other financial entities, in order to reduce the extent of the damage caused to the debenture-holders. The Court decided that this claim will be combined with a petition for approval of a previous claim as a class action filed in relation to the issue of those debentures. The Company has submitted its response to the petition for approval as a class action.

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 some NIS 220 million. 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; request 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 extent 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 fulfillment 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. The response of the company has been submitted for a petition for approval and the response of the petitioner to the response. 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. For this reason, no provision has been made.

6. On 14 January 2010, a claim and a petition for approval as a class action was filed in the Tel Aviv District Court for the sum of NIS 73.2 million against Leumi Card and Leumi Card Credits. The claimant claims that the respondents charged him commissions in full and on all the business that they conducted with him in an agreement for the provision of settlement services in the last 7 years (members of the group), in respect of cancelled transactions, even though the claimant and the members of the group did not get any service and returned the monies to their customers. In the opinion of the Bank's Management, on the basis of the opinion of the management of Leumi Card, which is based on the opinion of Leumi Card's legal advisors, with regard to the chances of the claim, it is not possible, at this stage, to estimate its chances, and for this reason, no provision has been made.

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 31 March 2010.

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.

1. 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.

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

3. A consolidated subsidiary of the Israel Corporation Ltd., Zim Integrated Shipping Services Ltd. ("Zim") has a deficit in its working capital as at 31 March 2010, which mainly resulted from a classification of short term liabilities due to the failure to comply with financial standards set in the loan agreements. The Israel Corporation Ltd.'s financial statements include details of the understandings and agreements reached with creditors, suppliers and service providers, as well as with the shareholders, before and after the balance sheet date (and to some extent, even signed in a binding manner before the publication of these financial statements). These agreements and understandings mainly lay down the deferment, waiver and/or payment plan for the debts, as well as the transfer of capital by the shareholders, and which, in the opinion of the management and board of directors of Zim, will allow Zim to finance its activities and to comply with its commitments during the twelve months from the balance sheet date.

For further details of these matters, see the financial statements of Israel Corporation Ltd. as at 31 March 2010.

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

	31 March 2010 (Unaudited)				
	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	-	1,477	-	-	-
Total	-	1,477	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	1,083	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	11,299	85	947	779
Forward contracts	9,345	20,050	96,185	-	1,229
Traded options					
Put options	-	43	5,757	4,944	36
Other options					
Call options	-	43	5,379	4,944	42
Put options	21	19,636	26,185	417	283
Call options	50	15,924	26,164	600	283
Swaps	1,162	107,091	14,579	-	-
Total	10,578	174,086	174,334	11,852	2,652
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	56,355	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	594
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-
Spot foreign exchange contracts	-	-	8,576	-	-
Total	-	-	8,576	-	594
Overall total	10,578	175,563	182,910	11,852	3,246

(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)

A. Scope of Activity (cont'd)

	31 March 2010 (Unaudited)				
	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	-	27	-	-	-
Gross negative fair value	-	14	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	91	2,455	3,077	325	40
Gross negative fair value	323	3,122	3,511	324	43
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	-	-	-	-	4
Gross negative fair value	-	-	-	-	-

(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)

A. Scope of Activity (cont'd)

	31 March 2009 (Unaudited)				
	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	-	1,472	-	-	-
Total	-	1,472	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	783 (a)	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	13,845	-	102	71
Forward contracts	11,600	18,808	100,730	-	1,254
Traded options					
Put options	-	-	6,166	5,703	188
Call options	-	1	7,378	5,703	188
Other options					
Put options	36	13,955	26,673	993	-
Call options	-	12,770	26,286	1,211	-
Swaps	1,372	92,682	8,514	-	-
Total	13,008	152,061	175,747	13,712	1,701
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	44,958 (a)	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	230
Spot foreign exchange contracts	-	-	10,274	-	-
Total	-	-	10,274	-	230
Overall total	13,008	153,533	186,021	13,712	1,931

(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)

A. Scope of Activity (cont'd)

	31 March 2009 (Unaudited)				
	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	-	64	-	-	-
Gross negative fair value	-	44	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	136	3,528	4,362	188	39
Gross negative fair value	273	3,547	4,532	185	39
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	-
d) Credit derivatives					
Credit derivatives in which the					
banking institution is a guarantor					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	-	-	-	14

(1) Except credit derivatives.

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

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

A. Scope of Activity (cont'd)

	31 December 2009 (Audited)				
	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	-	1,409	-	-	-
Total	-	1,409	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	526	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	7,920	189	381	851
Forward contracts	9,030	18,450	103,622	-	1,230
Traded options					
Put options	-	-	3,394	7,144	47
Call options	-	-	3,875	7,144	53
Other options					
Put options	21	17,440	26,033	495	11
Call options	50	14,007	26,220	673	22
Swaps	1,169	102,226	11,811	-	-
Total	10,270	160,043	175,144	15,837	2,214
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	53,500	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	831
Spot foreign exchange contracts	-	-	11,765	-	-
Total	-	-	11,765	-	831
Overall total	10,270	161,452	186,909	15,837	3,045

(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)

A. Scope of Activity (cont'd)

	31 December 2009 (Audited)				
	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	-	37	-	-	10
Gross negative fair value	-	21	-	-	10
b) ALM derivatives (1)(2)					
Gross positive fair value	60	2,159	3,347	295	532
Gross negative fair value	366	2,764	3,627	299	530
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

B. Credit Risk in Respect of Derivative Instruments According to Counterparty of the Contract

	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	31 March 2010 (Unaudited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	**457**	**3,276**	**-**	**-**	**2,286**	**6,019**
Off-balance sheet credit risk in respect of derivative Instruments (3)	**1,016**	**20,255**	**2**	**-**	**9,473**	**30,746**
Total credit risk in respect of derivative instruments	**1,473**	**23,531**	**2**	**-**	**11,759**	**36,765**

	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	31 March 2009 (Unaudited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	191	4,768	7	-	3,351	8,317
Off-balance sheet credit risk in respect of derivative Instruments (3)	1,693	17,650	198	-	7,448	26,989
Total credit risk in respect of derivative instruments	1,884	22,418	205	-	10,799	35,306

	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	31 December 2009 (Audited)					
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	861	3,286	-	-	2,293	6,440
Off-balance sheet credit risk in respect of derivative Instruments (3)	842	20,098 (a)	2	-	9,080	30,022
Total credit risk in respect of derivative instruments	1,703	23,384	2	-	11,373	36,462

(1) Net accounting arrangements do not exist.
(2) Of which, balance sheet balance from derivative instruments which are stand alone – NIS 6,019 million (31 March 2009 – NIS 8,317 million, 31 December 2009 – NIS 6,440 million), that is included in other assets
(3) Off-balance credit risk of derivative instruments (including derivative instruments with negative fair value) as was calculated for purposes of per borrower debt limitations.

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

C. Repayment Dates – Nominal Amounts

	31 March 2010 (Unaudited)				
	Up to three Months	three months to one year	From one five years	More than five years	Total
	(NIS millions)				
Interest (Swap) contracts:					
Shekel – index	**2,944**	**4,077**	**3,457**	**100**	**10,578**
Other	**28,590**	**49,363**	**54,337**	**43,273**	**175,563**
Foreign currency contracts	**103,288**	**65,274**	**7,894**	**6,454**	**182,910**
Contracts in respect of shares	**10,385**	**974**	**493**	**-**	**11,852**
Contracts in respect of commodities and others	**1,503**	**1,442**	**245**	**56**	**3,246**
Total	**146,710**	**121,130**	**66,426**	**49,883**	**384,149**
Total March 2009 (Unaudited)	150,898	112,586	66,512	38,209	368,205
Total December 2009 (Audited)	171,138	97,953	62,824	45,598	377,513

Note 8 – Net Interest Income before Provision for Doubtful Debts

Reported amounts (Unaudited)

	For the three months ended 31 March	
	2010	2009
	(NIS millions)	
A. Income on assets (a)		
Credit to the public	**(36)**	6,808
Credit to governments	**(1)**	31
Deposits with Bank of Israel and cash	**(32)**	480
Deposits with banks	**(596)**	1,251
Securities borrowed or purchased under agreement to resell	**3**	9
Debentures (d)	**(1,019)**	2,525
Total income on assets	**(1,681)**	11,104
B. Expenses on liabilities (a)		
Deposits of the public	**3,379**	(10,069)
Deposits from governments	**1**	(17)
Deposits from Bank of Israel	**-**	-
Deposits from banks	**76**	(29)
Securities loaned or sold under agreement to repurchase	**(1)**	(22)
Debentures, bonds and subordinated notes	**(80)**	(324)
Total expense on liabilities	**3,375**	(10,461)
C. From derivative instruments and hedging activities		
Ineffective portion of hedge relationships (b)	**-**	-
Net income (expenses) from ALM derivative instruments (c)	**(314)**	194
Net income (expenses) from other derivative instruments	**24**	3
Total income from derivative instruments and hedging activities	**(290)**	197
D. Other income and expenses		
Financing commissions	**90**	81
Profits from sale of debentures available for sale, net (e)	**65**	143
Realized and unrealized profits in respect of fair value adjustments of trading debentures, net	**70**	113
Other financing income	**178**	161
Other financing income (expenses)	**-**	24
Total other income and expenses	**403**	522
Total net interest income before provision for doubtful debts	**1,807**	1,362
Of which: net, exchange difference	**3**	(78)
E. Detail of net effect of hedging derivative instruments on net interest income		
Financing income (expenses) on assets	**(2)**	4
Financing income (expenses) on liabilities	**2**	(3)

(a) Including effective portion of hedge relationships.
(b) Excluding effective portion of hedge relationships.
(c) Derivative instruments included in the Bank's asset and liability management system which are not designated for hedging relationships.
(d) Including negative interest and exchange difference in respect of mortgage-backed bonds (MBS) in the amount of about NIS (13) million (31 March 2009 – NIS 364 million).
(e) Including provision for decline in value that was not temporary in nature.

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

Reported amounts (Unaudited)

	For the three months ended 31 March	
	2010	2009
	(NIS millions)	
Gains on sale of shares available for sale	**8**	72
Losses on sale of shares available for sale (b)	**(10)**	(10)
Realized and unrealized profits from adjustments to fair value of held for trading shares, net	**2**	12
Dividend on shares available for sale and on held for trading shares	**74**	21
Total from investments on shares	**74**	95

(a) Including mutual funds.
(b) Including provision for decline in value that was not temporary in nature.

Note 10 - Information on Activity by Operating Segments

Reported amounts

	Statement of profit and loss For the Three Months Ended 31 March 2010 (Unaudited)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before provision for doubtful debt:								
From outside entities -	320	230	417	405	1	431	3	1,807
Intercompany operations -	178	(10)	71	(44)	96	(286)	(5)	-
Total	498	220	488	361	97	145	(2)	1,807
Operating and other income:								
From outside entities -	428	118	113	104	111	38	87	999
Intercompany operations -	58	(14)	(31)	(9)	2	-	(6)	-
Total	486	104	82	95	113	38	81	999
Total income	984	324	570	456	210	183	79	2,806
Provision for doubtful debts	20	13	73	31	-	(7)	-	130
After-tax profit from extraordinary items	-	-	-	-	-	-	4	4
Net profit	37	72	229	110	29	48	71	596

Note 10 - Information on Activity by Operating Segments (cont'd)
Reported amounts

	Statement of profit and loss For the Three Months Ended 31 March 2009 (Unaudited) (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 -	245	228	561	404	(64)	(13)	1	1,362
Intercompany operations -	261	(17)	(131)	(58)	176	(230)	(1)	-
Total	506	211	430	346	112	(243)	-	1,362
Operating and other income:								
From outside entities -	405	109	99	101	102	156	31	1,003
Intercompany operations -	54	(10)	(32)	(8)	4	1	(9)	-
Total	459	99	67	93	106	157	22	1,003
Total income	965	310	497	439	218	(86)	22	2,365
Provision for doubtful debts	50	42	175	50	1	36	-	354
After-tax profit (loss) from extraordinary items	-	-	-	-	-	-	1	1
Net profit (loss)	55	60	125	105	26	70	(12)	429

(a) Reclassified.

Note 10 - Information on Activity by Operating Segments (cont'd)
Reported amounts

	Statement of profit and loss for the year ended 31 December 2009 (Audited)							
	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 -	1,064	1,036	3,028	1,747	(203)	333	18	7,023
Intercompany operations -	1,017	(180)	(1,136)	(336)	638	13	(16)	-
Total	2,081	856	1,892	1,411	435	346	2	7,023
Operating and other income:								
From outside entities -	1,701	459	937	418	438	460	150	4,563
Intercompany operations -	233	(59)	(120)	(39)	16	3	(34)	-
Total	1,934	400	817	379	454	463	116	4,563
Total income	4,015	1,256	2,709	1,790	889	809	118	11,586
Provision for doubtful debts	281	228	579	383	35	11	-	1,517
extraordinary items	-	-	-	-	-	-	28	28
Net profit (loss)	161	188	1,013	311	116	273	(48)	2,014

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). 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 agreed that the sale of the Bank's holdings in Paz take place 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.