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

Condensed Financial Statements as at 30 September 2010

(unaudited)

Bank Leumi le-Israel B.M.
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29 November 2010

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

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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 844 billion at the end of September 2010, as compared with NIS 782 billion at the end of 2009, an increase of some 7.9%, 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 operational management and custody services are provided.

Net profit in the first nine months of 2010 amounted to NIS 1,859 million, compared with NIS 1,470 million in the corresponding period in 2009, an increase of 26.5%, and in the third quarter of 2010, to NIS 603 million, compared with NIS 534 million in the corresponding period in 2009, an increase of 12.9%.

Net operating profit in the first nine months of 2010 amounted to NIS 1,673 million, compared with NIS 1,442 million in the corresponding period in 2009, an increase of 16.0%, and in the third quarter of 2010, to NIS 603 million, compared with NIS 534 million in the corresponding period in 2009, an increase of 12.9%.

The increase in net operating profit in the first half of the year is mainly explained by an increase in net interest income, a decrease in provisions for doubtful debts and an increase in the contribution to profit of companies included on equity basis. On the other hand, the increase in operating and other expenses and a decrease in operating and other income partially offset the abovementioned increases. In the third quarter of the year, net operating profit increased by 12.9% mainly due to a reduction of 89.6% in provisions for doubtful debts, offset by operating and other income.

Net profit per share during the first nine months of 2010 was NIS 1.26, compared with NIS 1.00 in the corresponding period in 2009 and NIS 0.41 in the third quarter of the year, compared to NIS 0.36 in the corresponding period in 2009, and NIS 1.37 in the whole of 2009.

Based on data of the banking system as at 30 June 2010, as published by the Bank of Israel, Leumi Group's share of the total banking system was as follows:

	30.6.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
	In %				
Total assets	29.8	29.6	29.3	30.0	30.1
Credit to the public	28.6	28.3	29.1	29.7	29.8
Deposits of the public	30.1	29.9	29.8	30.2	30.5
Operating profit before tax	30.3	35.0	1.5(1)	37.9	27.5(2)
Net operating profit	31.8	35.8	- (3)	38.4	25.6(2)

(1) After neutralizing the losses of Bank Hapoalim.
(2) The decrease in the Group's share derives mainly from the volume of extraordinary salary expenses, approximately half of which 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 30 September 2010 and on 22 November 2010, the State of Israel held 11.46% of the issued share capital and 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 were sold to employees at a special price and, as such, were blocked for a period of 4 years until 13 June 2010 (The former chairman of the Board of Directors purchased his shares on 5 July 2006, and his shares were blocked until 4 July 2010.), and transferred to a trustee. During the blocked period, the State had a power of attorney to vote by virtue of the shares that were purchased and to exercise the right to appoint directors by virtue of the shares. The blocked shares constituted 2.74% of the voting rights. The abovementioned power of attorney expired on 14 June 2010.

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

At the same time as the shares were purchased by the employees in 2006, 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.

According to the outline prospectus, the trustee was entitled to execute the sale within a time interval of one month from the end of the blocked period. The Supervisor of Banks approved the extension of the repayment of the loans by a time interval of up to one month, in order to enable the trustee to act in accordance with the outline prospectus.

The total outstanding balance on the loan as of 13 June 2010 was NIS 321 million. An extension of the maturity date of the loans to the employees was approved by the Supervisor of Banks up until 13 July 2010 and, at this date, the loans were repaid in full.

Bank Shares (Arrangement Shares) (Temporary Provision) Law, 1993 (hereinafter "the Bank Shares Law")

The Bank Shares Law authorized the Shares Committee of the Bank to use for and on behalf of the State the voting rights by virtue of the State's holdings in the Bank.

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%.

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.

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 set forth on pages 17-19 in the 2009 Annual Report.

Sale of Shares in the Bank by the State

On 9 June 2010, the Minister of Finance requested the Knesset Finance Committee to approve the sale of up to 10.46% of the State's holdings in the Bank to financial entities for marketing to investors in Israel and abroad, as part of one or more competitive procedures ("block trade"). On 3 November 2010, the Finance Committee decided to approve the said request in principle, although any sale would be subject to the approval of the closed sub-committee of the Finance Committee. However, with regard to this decision, a request for re-opening discussion (revision) was submitted, and such discussion has not yet taken place.

Collective Agreement with the Employees

On 17 November 2010, a special collective agreement concerning the rights of employees, between the Bank and the representative body of employees of the Bank ("the collective agreement"), was signed, according to which:

1. The agreement reached in the special collective agreement dated 30 November 2005 ("the previous collective agreement"), to extend until 31 December 2010 the validity of the Labor Contract and all collective agreements and arrangements, as well as all the agreements, procedures and practices granting rights to Bank employees, who are currently in the Bank, according to their individual status, as stated in Paragraph 5 of the previous collective agreement, was extended for a further period of four years – until 31 December 2014.

2. The agreement reached in the previous collective agreement, according to which the employees undertake to refrain from any industrial action in connection with the proceedings of privatizing the Bank until they are completed in full, as stated in Paragraph 7 of the previous collective agreement, shall remain in force.

The collective agreement was approved by the Audit Committee and the Board of Directors, but is still subject to approval by the General Meeting of the Bank.

Annual General Meeting and the Election of Directors

On 2 June 2010, the Annual General Meeting of the Bank was held, with the five candidates proposed by the Bank's Shares Committee being elected to office as directors in the Bank. The Bank of Israel did not object to the appointment of the five candidates, although with regard to some of them, it made certain stipulations. The stipulations were complied with in full, and on 22 July 2010, the new directors began their terms of office.

On 22 July 2010, Mr. David Brodet was elected Chairman of the Board of Directors of the Bank for a period of 3 years, and his term of office was duly approved.

Special General Meeting – 4 November 2010

On 4 November 2010, a Special General Meeting of the Bank was held in which the following resolutions were passed: the approval of the distribution of a dividend in cash, the approval of the terms of employment of the Chairman of the Board of Directors, and the approval of a framework decision to purchase an insurance policy in respect of the liability of directors and other officers of the Bank and the Group.

For further details regarding the dividend, see "Distribution of Dividend" below.

Special General Meeting – expected to take place on 28 December 2010

On 20 October 2010, the Bank published an Immediate Report regarding the intention of the Board of Directors of the Bank to hold a Special General Meeting of the Bank, the date of which will be 28 December 2010, and the Agenda of which will include, *inter alia*, the election of an external director to the Board of Directors of the Bank, in accordance with section 239 of the Companies Law, 1999.

Up until 11 November 2010, the Bank had received, applications by the Shares Committee and by shareholders wishing to offer their candidacy for election as an external director at the abovementioned meeting.

On 21 November 2010, the Bank published a notice convening a Special General Meeting of the Bank to be held on 28 December 2010, the agenda of which will include the election of an external director to the Board of Directors of the Bank, and the approval of the Bank's commitment under a special collective agreement of 17 November 2010 concerning the rights of the employees between the Bank and the representatives of the Bank's employees. For further details, see page 4.

The determining date for the purpose of the entitlement of all the shareholders to vote in the General Meeting is 28 November 2010.

Capital Resources and Transactions in the Shares of the Bank

Shareholders' Equity of the Group as at 30 September 2010 amounted to NIS 23,721 million, compared with NIS 21,862 million at the end of 2009, an increase of 8.5%. The increase in shareholders’ equity derives mainly from the profit for the first nine months of the year, the repayment of loans to employees, which, in the past, were deducted from shareholders’ equity, an increase in the value of the available-for-sale securities portfolio, and after deduction of a dividend recommended by the Board of Directors on 30 August 2010 and approved by the general meeting on November 4, 2010.

The securities portfolio (nostro) is mainly comprised of debentures issued by governments, banks and foreign financial institutions, which generally represent the use of funds raised and 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, with the difference between the value on an accrual basis with regard to bonds, and on a cost basis with regard to shares, and the fair value being recorded directly as a separate item in shareholders' equity, after a deduction for the effect of related taxes.

In the first nine months of the year, an increase in value of NIS 264 million, net, in shareholders’ equity was recorded in this item, compared with an increase in value of NIS 876 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 30 September 2010 amounted to a positive sum of NIS 573 million (after the effect of tax).

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 fair value of available-for-sale shares, net of the tax effect.

Shareholders' Equity relative to Total Assets reached 7.2% on 30 September 2010, compared with 6.8% on 31 December 2009.

Total Capital relative to Risk Components according to Basel II reached 15.25% as of 30 September 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. Tier 1 capital reached 8.52% as of 30 September 2010, compared with 8.33% at the end of 2009. This ratio is also higher than required as explained below. From 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 26-32 in the 2009 Annual Report.

Capital Adequacy Target

The Bank’s policy, as approved by the Board of Directors, is to maintain 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 OECD countries.

The Group’s policy, which reflects its appetite for risk, in accordance with the above, includes a target of an aggregate capital ratio of 14.0%-14.5% and a core capital ratio (Tier 1 capital excluding hybrid capital instruments) of between 8.0%-8.5%. In addition, the Group set a target of maintaining a core capital ratio (Tier 1 capital excluding hybrid capital instruments), when there is an extreme scenario, of not less than 6.0%.

In a circular dated 30 June 2010, the Supervisor of Banks announced that banks should adopt capital policy for an interim period that includes a target for 31 December 2010 for the core capital ratio (Tier 1 capital excluding hybrid capital instruments). The target should be fixed at a rate of not less than 7.5%. As of the date of the report, this ratio in the Bank is 8.52%, which is higher than the target set by the Supervisor.

The abovementioned capital adequacy ratio policy relates to future transactions of the Bank, and 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 on pages 17-18 below.

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

	30 September 2010	31 December 2009
	NIS millions	
Tier 1 capital:		
Shareholders' equity	**7,059**	7,059
Premium	**1,129**	972
Reserves	**14,949 ***	14,176
Other capital reserves	**10**	197
Adjustments from translation of financial statements of companies included on equity basis	**(498)**	(474)
Loans to employees for the purchase of Bank's shares	**(1)**	(377)
Minority interest in equity of consolidated companies	**310**	282
Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets	**(298)**	(357)
Total Tier 1 capital	**22,660 ***	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	**392**	208
General provision for doubtful debts	**428**	428
Innovative and non-innovative hybrid capital instruments	**5,885**	3,523
Subordinated notes	**11,330**	10,772
Amounts deducted from Tier 2 capital	**(138)**	(68)
Total Tier 2 capital after deductions	**17,897**	14,863
Total capital base for purposes of capital adequacy	**40,557**	36,341

* The reserves are after a reduction of NIS 1 billion, which includes a dividend of NIS 500 million, paid on 30 November 2010 and a further dividend of NIS 500 million, declared after the balance sheet date.

Capital adequacy - (Table 3 - Basel II):

	30 September 2010		31 December 2009	
Risk assets and capital requirements in respect of credit risk deriving from exposures to:	Risk assets	Capital requirements (3)	Risk assets	Capital requirements (3)
	NIS million			
Sovereign debts	**1,077**	**97**	1,356	122
Debts of public sector entities	**1,836**	**165**	2,315	208
Debts of banking corporations	**6,889**	**620**	10,081	907
Debts of corporations	**144,703**	**13,023**	134,740	12,127
Debts collateralized by commercial real estate	**17,434**	**1,569**	16,554	1,490
Retail exposures to individuals	**21,242**	**1,912**	20,140	1,812
Loans to small businesses	**9,478**	**853**	10,586	953
Housing loans	**24,013**	**2,161**	22,479	2,023
Securitization	**374**	**34**	592	53
Other assets	**10,456**	**941**	10,708	964
Total in respect of credit risk (1)	**237,502**	**21,375**	229,551	20,659
Risk assets and capital requirements in respect of market risk (1)	**7,842**	**706**	7,418	668
Risk assets and capital requirements in respect of operational risk (1) (2)	**20,626**	**1,856**	20,928	1,884
Total risk assets and capital requirements	**265,970**	**23,937**	257,897	23,211
Total capital base for capital adequacy	**40,557**		36,341	
Total capital ratio	**15.25%**		14.09%	
Tier 1 capital ratio	**8.52%**		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, subordinated notes and subordinated 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 August 2010, the Bank published an amendment to the shelf prospectus including a reference made to the Bank's articles, including provisions on the subject of the Board of Directors, and a reference to the provisions in the Bank's articles regarding who is entitled to be elected as director at a General Meeting.

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 4.0%. 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.

On 16 September 2010, Leumi Finance issued an amount of NIS 1.7 billion Subordinated Notes, Series 12 and 13, as follows:

Subordinated Notes Series 12 in the amount of NIS 1,050,000,000 nominal value, repayable in one payment on 10 September 2017, principal and interest linked to the Consumer Price Index, bearing annual interest at the rate of 2.6% per annum, which will be paid on 10 September in each of the years 2011 to 2017 (inclusive).

Subordinated Notes Series 13 in the amount of NIS 650,000,000 nominal value, repayable in one payment on 10 September 2017, unlinked (principal and interest) to any index, bearing annual interest at the rate of 5.4% per annum, which will be paid on 10 September in each of the years 2011 to 2017 (inclusive).

The subordinated capital notes have been approved by the Bank of Israel as Upper Tier 2 capital.

Distribution of Dividends

Payment of dividend

The Supervisor of Banks has announced that he expects the banking system not to distribute dividends in respect of 2009, in light of the risks that existed, in order to stabilize a strong level of capital for the purposes of Basel II. Any bank wishing to distribute dividends will be required to apply to the Supervisor of Banks for the receipt of approval.

Following the Bank's adoption of a capital policy for the interim period, and in view of the Bank's high capital adequacy ratios, which exceed that required by the Supervisor of Banks, and in view of its profitability in the first half of the year, the Board of Directors, at its meeting of 30 August 2010, recommended the approval of the distribution of a dividend in cash totaling NIS 500 million, representing 39.8% of the net income for the first half of 2010. The dividend of NIS 0.34 per share will be paid on 30 November 2010 to shareholders holding shares in the Bank at 16 November 2010 (the determining date). The shares will be traded ex-dividend on 17 November 2010. This resolution was approved by the General Meeting of the Bank held on 4 November 2010.

At its meeting of 29 November 2010, the Board of Directors, having received an accounting and legal opinion that all of the conditions for a permitted distribution pursuant to the Companies Law and the Directives of the Supervisor of Banks had been fulfilled, recommended the approval of the distribution of an additional dividend in cash totaling NIS 500 million, for a total of NIS 1.0 billion (including the NIS 500 million above), representing 54% of the profit for the first nine months of the year. The additional dividend of NIS 0.34 per share will be paid on 27 January 2011 to shareholders holding shares in the Bank at 10 January 2011 (the determining date). The shares will be traded ex-dividend on 11 January 2011. This resolution is conditional on the approval of the General Meeting of the Bank.

Bank Leumi le-Israel B.M. and its Investee Companies
Principal Data of Leumi Group

	Jan. - Sep.	Jan. - Sep.	Year
	2010	2009	2009
Income, expenses and profits (in NIS millions):			
Net interest income before provision for doubtful debts	**5,292**	5,211	7,023
Provision for doubtful debts	**372**	1,136	1,517
Total operating and other income	**3,021**	3,308	4,563
Total operating and other expenses	**5,627**	4,962	6,937
Of which: costs of privatization (issue of shares and options to employees)	**-**	8	41
Operating profit before taxes	**2,314**	2,421	3,132
Net operating profit	**1,673**	1,442	1,986
Profit from extraordinary items after tax	**186**	28	28
Net profit for the period	**1,859**	1,470	2,014
Net operating profit per share (in NIS)	**1.14**	0.98	1.35
Net profit per share (in NIS)	**1.26**	1.00	1.37
Assets and liabilities at end of period (NIS millions):			
Total assets (total balance sheet)	**330,659**	323,630	321,775
Credit to the public	**217,218**	203,971	204,669
Securities	**54,373**	58,381	57,505
Deposits of the public	**245,820**	249,433	250,418
Debentures and notes	**28,744**	25,471	25,261
Shareholders' equity	**23,721**	21,067	21,862
Major financial ratios (in %):			
Credit to the public to total balance sheet	**65.7**	63.0	63.6
Securities to total balance sheet	**16.4**	18.0	17.9
Deposits of the public to total balance sheet	**74.3**	77.1	77.8
Deposits of the public to credit to the public	**113.2**	122.3	122.4
Total shareholders' equity to risk assets according to Basel II (a) (e)	**15.25**	14.14	14.09
Tier I capital to risk assets according to Basel II (e)	**8.52**	8.39	8.33
Shareholders' equity (excluding minority interest) to total balance sheet	**7.2**	6.5	6.8
Net profit to average shareholders' equity (excluding minority interest) (c)	**11.0**	10.3	10.2
Net operating profit to average shareholders' equity (excluding minority interest) (c)	**9.9**	10.1	10.1
Rate of provision for tax on the profit	**37.6**	39.2	38.0
Provision for doubtful debts from credit to the public (c)	**0.23**	0.74	0.74
Provision for doubtful debts from total risk of credit to the public (c)	**0.15**	0.49	0.49
Net interest income before provision for doubtful debts to total balance sheet (c)	**2.14**	2.15	2.18
Total income to total balance sheet (b) (c)	**3.37**	3.53	3.60
Total income to total assets managed by the Group (b) (c) (d)	**1.31**	1.50	1.48
Total operating and other expenses to total balance sheet (c)	**2.28**	2.05	2.16
Total expenses to total assets managed by the Group (c) (d)	**0.89**	0.87	0.89
Net profit to average total assets (c) (f)	**0.77**	0.62	0.58
Net operating profit to average total assets (c) (f)	**0.69**	0.60	0.57
Financial margin including income and expenses from derivative financial instruments	**1.12**	1.08	1.10
Operating expenses to total income (b)	**67.7**	58.2	59.9
Operating and other income to operating and other expenses	**53.7**	66.7	65.8
Operating and other income from total income (b)	**36.3**	38.8	39.4

(a) Shareholders' equity - plus minority interest and less investments in the capital of companies included on 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 - September 2009 according to Basel I.
(f) Average assets represent the total of income-bearing balance sheet assets and other assets.

B. Other Information

Principal Developments in the Economy[*]

General

In the first nine months of 2010, the Israeli economy grew by some 3.9% in real terms, compared to the corresponding period last year. In the third quarter of the year, there was a slowdown in economic activity and the rate of growth amounted to 3.8%, in annual terms, compared with the second quarter of 2010, mainly against a background of a decline in exports.

The rapid rate of growth in relation to the estimated figure on which the State Budget was based led to surplus revenues from taxes and to a lower than expected budget deficit. During the reported period, the rate of exchange of the shekel appreciated against the dollar, the euro, and the effective basket of currencies calculated by the Bank of Israel. This was due to the sound state of Israel's overseas accounts, with financial capital transfers featuring prominently, both incoming - mainly for purposes of purchasing T-Bills (*Makam*) – and outgoing. The Israeli Consumer Price Index increased during the months of January – September by 1.9% and the Bank of Israel continued the process of gradually raising interest rates throughout this period, with the aim of returning them to “normal” levels, appropriate for the state of the economy, as well as taking into account the rise in housing prices. Thus, the interest rate, which reached 1% in December 2009, was increased, and in November 2010, stood at 2.0%. Furthermore, the Bank of Israel took (macro-stabilizing) regulatory measures with the aim of influencing the mortgage market, instead of directly raising interest rates and thus trying to bring about moderation in the rise in housing prices.

The share and convertible securities index went up during the months January-September by some 5.5%, with rising prices featuring prominently in the third quarter of the year, affected mainly by rising prices in stock exchanges worldwide and following positive data on the state of the Israeli economy. In October and November (until the 18th of the month) the index continued to rise by some 2.7%. The bond market was characterized by increases in corporate debenture indices of some 11.2%, higher than those of stocks and government debentures. This reflects a lower risk premium required by investors in companies in the economy, against the backdrop of an improvement in the state of companies and businesses.

The Global Economy and the Crisis in Southern Europe

In October 2010, the International Monetary Fund revised its forecast upwards for world growth in 2010 compared to the previous forecast published during July, but reduced slightly its forecast for 2011. This was, on the one hand, against the backdrop of strong economic activity in the first half of the year, but, on the other hand, as the result of expectations of moderation in growth next year due to the vulnerability of the financial sector in many countries, and the exhaustion of the contribution of budgetary expansion to economic growth. According to the Fund’s revised forecasts, growth in the United States and the Eurozone in 2010 will be 2.6% and 1.7%, respectively.

On 3 November 2010, the United States Federal Reserve announced that it intends to continue its policy of quantitative easement and purchase US$ 600 billion of long-term U.S. government debentures until the second quarter of 2011. This is a rate of purchases of US$ 75 billion per month. The Fed Open Market Committee (FOMC) will continue to monitor on a regular basis the rate of purchases and the total of the asset purchase plan, taking into account new data, and will adapt the purchase plan, as necessary, in order to achieve maximum employment and price stability.

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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.

In July 2010, the Committee of European Banking Supervisors published the results of “stress tests” for European banks. These tests were designed to examine the resilience of the banks in the face of adverse economic developments, while examining the impact of various scenarios of credit and market risks, and also political risks. The sample of banks included 91 European banks, reflecting 65% of total assets in European banks.

According to the negative scenario that was created, an aggregate loss of €566 billion was expected for these banks during the years 2010 and 2011. The Tier 1 capital to risk assets ratio is expected to fall from 10.3% in 2009 to 9.2% at the end of 2011, according to this negative scenario. Seven banks are expected to reach a ratio lower than 6%, which is set as the lower limit for the purpose of this test (even though there is a minimum regulatory threshold of 4% for banks that are supervised within the framework of the EU).

Business Product and Economic Sectors

The business sector product expanded in the third quarter of the year at an annual rate of 3.9%, compared to the second quarter. This is after rates of growth of about 4.8% and 5.1% respectively, in the first and second quarter of the year. This indicates a continuation of the recovery in business activity in the economy, albeit at rates lower than those before the outbreak of the global crisis.

The Bank of Israel's survey of companies for the third quarter of 2010 indicated continuing growth in business activity at a rate similar to that recorded since the beginning of the year, when further expansion in activity was anticipated also in the fourth quarter of the year. Expansion in activity encompassed most sectors of the economy, except for the construction sector. In this sector, the limitation on supply is having a pronounced effect on growth in activity, as far as concerns the number of skilled laborers and the price of land.

The State Budget and its Financing

In the months January-September, there was a Government budget deficit of some NIS 13.6 billion, excluding net granting of credit. This is compared to a planned annual deficit of some NIS 42.9 billion (5.5% of GDP). During this period, there was a surplus of some NIS 8.4 billion in revenues from taxes in excess of the target set in the budget for 2010. This was mainly against a backdrop of growth that was higher than forecast. Out of this amount, some NIS 3 billion accumulated in September, with about NIS 1 billion of it deriving from the postponement of tax refunds until October. The significance of these figures is that, this year, the budget deficit is likely to be significantly lower than the GDP target of 5.5%. This reflects a more rapid growth in comparison to estimates on the basis of which the budget was planned; the 2010 Treasury forecast on the basis of which the budget was built was for (real) growth in GDP of some 1.5%, while the present CBS forecast is for growth of some 4.0% this year.

Foreign Trade and Capital Movements

Israel’s aggregate trade deficit in the first nine months of 2010 amounted to some US$ 4.6 billion, an increase of about 18% compared with the corresponding period last year. This increase is primarily attributable to an increase in expenditure on the import of oil. According to another definition that cancels the effect of volatile components from the aggregate deficit, such as ships, aircraft, fuel, and diamonds, there was a surplus of exports over imports in this “basic” account, which increased by about US$ 1 billion. In the third quarter, this surplus decreased mainly because of a more significant reduction in exports compared with imports. This was reflected in all high-intensity technology exports.

Foreign currency capital inflows to Israel in the first nine months of 2010 were characterized by a marked growth in the component of short-term financial investments, both by foreign investors and Israelis overseas (some US$ 9.1 billion in annual terms). Thus, during January–

September, foreign residents in Israel invested some US$ 5.9 billion in quoted securities in annual terms. In contrast, direct investments in Israel, which are of a strategic nature, weakened in comparison with previous years. However, it should be noted that there was one large transaction in April for the sale of a telecommunications company, and, after cancelling out its effect, direct investments grew by some US$ 5.2 billion in annual terms since the beginning of the year, a similar rate to that in previous years.

The majority of financial investments by foreign investors was in Government bonds, particularly in T-Bills (*Makam*). In this context, Bank of Israel data on the holdings of the foreign investors in T-Bills indicate that their weighting increased sharply from some 5% at the end of 2009 to some 23.1% at the end of August 2010. The significance of this is that the value of their holdings in T-Bills increased from some NIS 4.4 billion in December 2009 to some NIS 26.7 billion (about US$ 7 billion) in August 2010, a six-fold increase. At the end of September, the weighting of the holdings of foreign investors declined to some 17.5%.

Exchange Rates and Foreign Currency Reserves

In the months, January-September, there was an appreciation of some 2.9% in the rate of the shekel against the dollar, with an appreciation of some 5.4% occurring in the third quarter of the year (the euro strengthening against the dollar in this quarter by about 9.4%). During the reporting period, the shekel appreciated against the euro by some 8.4%. Against this backdrop, there was also an appreciation of the shekel of 3.6% against the effective currency basket, which is calculated by the Bank of Israel and represents Israel’s main trading partners. The apparent robustness of Israel’s foreign accounts was of great significance and led to the strengthening of the shekel in this period.

Foreign currency balances in the Bank of Israel at the end of September 2010 amounted to some US$ 66.3 billion. This compared with US$ 60.6 billion at the end of December 2009. In the third quarter, the Bank of Israel purchased some US$ 1.3 billion in the foreign currency market, in an attempt to prevent a strengthening of the shekel.

Inflation and Monetary Policy

During the first nine months of the year, the Israeli Consumer Price Index increased by some 1.9%, while in the 12 months ended September 2010, it increased by some 2.4%. This rate is within the area of the price stability target of between 1% and 3%. The housing item, which increased by some 5.6% since the beginning of the year, contributed more than 60% of the total increase in the index. The index excluding housing rose in this period by some 0.8%. The significance of this is that the rate of price rises in the economy is relatively moderate, apart from in the area of housing.

In the third quarter of the year, the Bank of Israel continued the process of gradually increasing interest rates, measures which began in late 2009. Thus, the interest rate, which, in December 2009, stood at 1.0%, was raised, reaching, in September, a rate of 1.75%. The interest rate for the month of October was raised again to 2.0% and has not changed since then. According to the Bank of Israel, this gradual process is intended to restore interest to a “normal” level. The continuation of growth in the economy and the increase in housing prices both supported this gradual process.

The increase in housing prices has led the Bank of Israel to take regulatory (macro-stability) measures as an alternative to the direct increase of interest rates. These measures are expected to act to moderate demand for housing loans, and are likely to restrain price rises. For details regarding the new directives, see page 25.

The Capital Market

The shares and convertible securities index rose by some 5.5% in the first nine months of 2010, with an increase of some 10.8% in the third quarter. The TA-100 index rose by some 14.0% in the third quarter. Price rises in the third quarter were affected mainly by worldwide trends and good economic figures published in Israel during this period. Average daily trading volumes of shares and convertible securities increased significantly compared to the average for 2009, reaching some NIS 2,032 billion, an increase of some 19.2%.

The government bond market in the months January-September was characterized by rising prices in both index-linked and unlinked debentures, with rates higher in the index-linked segments than in the main share indices. This may be a reflection of the change in the mix of risks by different investors. The prices of index-linked government debentures increased by 8.2% (particularly notable were 5-7 year debentures, which rose by some 9.8%), while unlinked debentures increased by some 4.9% (the fixed interest (*Shahar*) debenture indices increased by some 6.1%).

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 11.2% in the first nine months of the year, a rate higher than the increase in the government debenture price index. This is seemingly a reflection of the reduction in the risk premium demanded by investors in light of the improvement in the state of the economy.

Financial Assets held by the Public

In the first nine months of the year, the value of the portfolio of financial assets held by the public increased by some 5.8%. The weight of most of the components of the portfolio (shares, index-linked, unlinked) increased since the beginning of the year, at the expense of the foreign currency component, which decreased also under the influence of the appreciation in the price of the shekel. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 24.1% in September 2010, after it amounted to some 23.3% in December 2009.

Total financial assets of the public managed by **the Group** (deposits of the public, debentures and capital notes, securities portfolios, including securities in the custody of mutual funds, provident and pension funds, and supplementary training funds for which operational management and custody services are provided) amounted to some NIS 788 billion at the end of September 2010, compared to some NIS 736 billion at the end of December 2009, an increase of 7.1%.

Bank Credit

Bank credit in the economy granted to the private sector (before provisions for doubtful debts and including housing loans) increased by some 5.7% in the first nine months of the year, after remaining stable in 2009. This was a consequence of increased credit extended to the household sector, particularly credit granted for housing (mortgages), which increased by some 11.4%, and an expansion of about 3.5% in credit granted to the business sector. Non-bank credit also increased: mainly the debt of the business sector to the household sector, deriving from the purchase of bonds by mutual funds. From the figures presented above, it appears that most of the increase in demand for credit in the economy derives from the household sector – housing and non-housing (consumer) credit and by way of the mutual funds..

Credit to the public in **the Bank** amounted to some NIS 139.5 billion at the end of September 2010, compared to NIS 132.6 billion at the end of December 2009, an increase of 5.2%.

Foreign and local rating agencies' credit ratings

On 9 September 2010, Moody's, the international rating company, affirmed Leumi’s long-term credit rating of A1 and its short-term credit rating of P-1. The company stated that "continued economic growth in Israel over the next few months could ease residual asset quality concerns and lead us to lift the negative outlook on the Bank's deposit and subordinated debt ratings. The outlook had been changed to negative in March 2009 to reflect the risk of deterioration in the Bank's financial metrics within the context of a fragile global economic recovery."

On 5 May 2010, Fitch, the international rating company, affirmed Leumi’s long-term rating of A- and “stable” outlook and short-term rating of F2. (These ratings have remained unchanged since February 2008.) Fitch noted that 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.

On 4 May 2010, Standard and Poor’s, the international rating company, raised the ratings outlook of Leumi from “negative” to “stable” and affirmed Leumi’s long-term rating of BBB+ and its short-term rating of A-2. Leumi was 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 Leumi’s rating and forecast from A- to BBB+ in the light of the negative impact of the global and domestic economic crisis on profits and the quality of the assets. S&P noted that the stable outlook for Leumi reflects its standings and financial performance during the period of domestic economic slowdown. The outlook and the rating also reflect Leumi’s strong presence in Israel, its high liquidity and its diverse revenue base.

	Rating agency	Short-term rating	Long-term rating	Long-term ratings outlook	Last update
State of Israel’s rating in foreign currency	Moody’s	P-1	A1	stable	July 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	September 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	September 2010
Leumi’s rating in local currency for debentures and standard deposits	Ma'alot	-*	AA+	stable	May 2010
	Midroog	P-1	Aaa	stable	January 2010
Leumi’s rating in local currency for subordinated capital notes	Ma’alot	-*	AA	stable	September 2010
	Midroog	-*	Aa1	stable	September 2010
Leumi’s rating in local currency for subordinated capital notes (Upper Tier II)	Ma’alot	-*	(A+,A)**	stable	May 2010
	Midroog	-*	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 updated in May 2010).

Developments in Leumi Share Price

From the beginning of the year until 30 September 2010, the price of Leumi shares fell from 1,745 points to 1,692 points, a change of 3.0%. During this period, the Bank's market value fell from NIS 25.7 billion to NIS 24.9 billion.

From the end of September and until 21 November, the share price increased by 5.7% to a level of 1,789 points, and market value reached NIS 26.4 billion.

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

	For the three months ended 30 September		For the nine months ended 30 September		For the year
	2010	2009	**2010**	2009	2009
	(in percentages)				
Rate of increase of the "known" CPI	**1.23**	2.44	**1.62**	3.62	3.8
Rate of decrease in the rate of the U.S. dollar	**(5.42)**	(4.11)	**(2.91)**	(1.16)	(0.7)
Rate of increase (decrease) in the rate of the euro	**4.83**	(0.45)	**(8.35)**	4.02	2.7
Rate of increase (decrease) in the rate of the pound sterling	**(0.38)**	(7.10)	**(5.08)**	9.00	10.2
Rate of increase in the rate of the Swiss franc	**4.64**	0.69	**2.31**	2.44	2.9

The following table sets out the principal representative exchange rates:

	30 September		31 December	
	2010	2009	2009	2008
	In NIS			
U.S. dollar	**3.665**	3.758	3.775	3.802
Euro	**4.987**	5.510	5.442	5.297
Pound sterling	**5.801**	6.047	6.111	5.548
Swiss franc	**3.752**	3.652	3.667	3.565

The following table sets out the quarterly changes in the consumer price index and exchange rates.

	2010	2009					
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)						
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**1.23**	1.34	(1.0)	0.19	2.44	1.89	(0.70)
Rate of increase (decrease) of the U.S. dollar exchange rate	**(5.42)**	4.36	(1.6)	0.45	(4.11)	(6.42)	10.20
Rate of increase (decrease) of the euro exchange rate	**4.83**	(4.67)	(8.3)	(1.24)	(0.45)	(0.71)	5.20
Rate of increase (decrease) of the pound sterling exchange rate	**(0.38)**	3.81	(8.2)	1.06	(7.10)	8.62	8.0
Rate of increase (decrease) of the Swiss franc exchange rate	**4.64**	2.82	(4.9)	0.41	0.69	1.35	3.1

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.

Banking Legislation

Proposed Pension Clearing System Law (part of Proposed Economic Policy Law for the years 2011-2012)

This a proposed Amendment to the Control of Financial Services (Pension Counseling and Pension Marketing) Law, intended to set out directives for the establishment of a system for transferring information and settling funds in the area of pension savings, so as to make efficient and enhance those working processes connected to transferring information and funds for all institutional bodies, pension counselors and pension agents; to set out directives concerning the granting of a license for the operation of the pension clearing system, to protect the interests of the users of the system and their customers, and to act to develop competition and prevent concentrations in the area of pension counseling and marketing and in the area of long-term savings. In view of the sensitive information that will accumulate in the system, directives are set forth regarding the confidentiality, retention, security and accessibility of data, with the aim of reducing risks of damage to the privacy of customers inherent in operating the system.

In May 2010, a company by the name of the Long Term Savings Clearing House Ltd. was established, and the Bank is a shareholder in the company with a representative on its behalf serving as a member of the Board of Directors of the company. The proposed law is intended to regulate the activity of the company as a pension clearinghouse.

Proposed Strengthening of Enforcement in the Capital Market (Amendments to Legislation) Law, 2010

This is a proposed Amendment to the Control of Financial Services (Pension Counseling and Pension Marketing) Law ("the Pension Counseling Law"), whose main points are:

(1) Broadening the supervisory and investigatory authorities of the Commissioner of the Capital Market, Insurance and Savings in the Finance Ministry ("the Commissioner" of "the Supervisor"), such as granting authority to summon a person for questioning, enter premises, confiscate documents, and demand documents and information;
(2) Increasing financial sanctions ("monetary sanction") that the Commissioner is authorized to impose for infringement of the Pension Counseling Law;
(3) Making it possible for the Commissioner to impose a monetary sanction on a CEO, at a rate of half the amount of the monetary sanction set out for an infringement, if the infringement of the Pension Counseling Law is made by a corporation or by any of its employees, unless it can be shown that the CEO took all reasonable measures to prevent the said infringement;
(4) Prohibiting the grant of indemnity against a monetary sanction and proscribing the entrance into a contract of insurance against a monetary sanction.

Proposed Regulation on Investment Intermediaries Law, 2010

On 22 August 2010, the Israel Securities Authority promulgated, for comments by the public, a draft of the above proposed law, whose aim is to regulate the engaging in intermediation in the all matters relating to investments. According to the proposed format, together with the regulation of activity, a supervisory council will be established, which will also have members representing the financial intermediaries, and will be supervised by the Authority.

The law stipulates basic obligations and rules of behavior regarding all investment intermediaries (except for pension counselors who are not mentioned in the law and who are under the supervision of the Finance Ministry), and, in addition, there will be detailed regulation in secondary legislation, adapted to each type of business, which will also refer to the subject of those incentives which are permitted. As far as banking corporations are concerned, the Supervisor of Banks will have certain authorities in relation to directives applying to banking corporations in connection with engaging in brokerage, nostro trading or custody.

Proposed Improvement of Efficiency of Enforcement Procedures by the Israel Securities Authority (Amendments to Legislation) Law, 2010

The purpose of the law as detailed in the explanatory section is to enforce more efficiently the provisions of the laws regulating the securities laws – Securities Law, 1968 ("the Securities Law"), the Regulation of Investment Counseling, Investment Marketing and Investment Portfolio Management Law, 1995 ("the Advisory Law"), and the Joint Trust Investments Law, 1994. It is proposed to create a new administrative proceeding for enforcement – in the event that the Chairman of the Israel Securities Authority is of the opinion that there was an infringement of a specific provision of the above laws, he will be authorized to decide to commence an administrative enforcement proceeding, and to appoint, for this purpose, an Administrative Enforcement Committee panel to discuss the infringement. The Advisory Law stipulates that the Israel Securities Authority will be authorized to determine additional acts and omissions, the execution of which will constitute a violation for which it is possible to commence administrative enforcement proceedings against the person committing the violation.

If an administrative enforcement committee has determined that a violation has been committed, various means of enforcement can be imposed on the violator, including prohibiting the violator from serving as a senior office holder in certain corporations for a certain period, canceling the license given to the violator under the Advisory Law or suspending it for a certain period, payment to parties injured by the violation, a directive to the violator to perform acts to amend the violation and prevent its reoccurrence. A monetary sanction may also be imposed on a corporation up to a maximum amount of NIS 2–5 million, a monetary sanction on an individual employee of the corporation who is not a senior office holder therein of a maximum amount between NIS 25,000 and NIS 1 million, and a monetary sanction on any other individual of a maximum amount between NIS 400,000 and NIS 1 million.

The Chairman of the Israel Securities Authority is authorized to enter into an arrangement with the violator (or suspected violator) not to start proceedings or to discontinue proceedings, subject to conditions in the framework of which the violator will agree that means of enforcement will be imposed on him of the type the

Enforcement Committee is authorized to impose in the framework of administrative enforcement proceedings.

Furthermore, it is proposed that the Israel Securities Authority will be authorized to impose a monetary sanction on a corporation of a maximum amount dependent on its shareholders' equity, such that the amount of the monetary sanction on a reporting corporation with a shareholders' equity exceeding NIS 280 million will be NIS 500,000, to impose a monetary sanction on an individual in the amount of NIS 6,000, and to impose a monetary sanction on a corporation which is an underwriter, a corporation whose main business is issuing financial products (products whose value is derived from the value of a basis asset), and on a clearinghouse. It is also proposed to increase the maximum amounts of monetary sanction which the Minister of Finance is authorized to determine.

Furthermore, it is proposed to increase the punishment for certain violations against the provisions of the above laws, and to increase the prison sentence to 3 years instead of one year for the use of insider information.

The proposed Law is awaiting approval by the Knesset in its second and third reading.

Report of the Almog Committee on Custody Services in Israel

On 3 August 2010, a joint committee of the supervisory authorities in Israel published a report on custody services in Israel, including a list of recommendations for the regulatory regulation of the area of custody services and its supervision, whose regulation under Israeli law is currently only partial.

The Committee decided that the lack of comprehensive, clear, and uniform regulation of custody activities in primary and secondary legislation increases legal risks and credit risks, and so regulation is essential, not only to increase public confidence in the capital market in Israel, but also to improve the competitiveness of the Israeli market in relation to regulated markets overseas, and it will also encourage foreign investors. The Committee decided that it is possible to find entities in the domestic market which provide custody services according to international standards.

The Committee reviewed existing regulation in Israel, and found that the main regulation currently in force on custody activities is the Proper Conduct of Banking Business Directive No. 461, which applies only to banks.

Prohibition of the Unfair Use of Information on Securities (Legislative Amendments) Law Memorandum

On 24 October 2010, the Israel Securities Authority issued a draft for comments by the public on the law memorandum.

The object of the law is the prevention of preemptive steps by other financial officers and their employees who, by virtue of their position, have at their disposal information on the execution of transactions in securities carried out by their customers. Preemption means the execution of a transaction in securities in the light of foreknowledge of an expected transaction of another in the same security. A second purpose is to create a uniform arrangement in relation to restrictions on holding and making transactions in securities, which are currently stipulated in the Investment Consultancy Arrangement, in Investment Marketing and in Investment Portfolio Management Law (hereinafter: “the Consultancy Law”), and in the Joint

Trust Investment Law (hereinafter: "the Joint Investment Law"), from the perception that there is no point in distinguishing between the parties under the supervision of the Israel Securities Authority on this matter.

According to the proposed amendment, a financial intermediary effecting a transaction in a security, knowing of a transaction that is intended to be made in the same security or in a security related thereto or by his client or by the fund under his management or under his ownership, and the transferor of information on the aforesaid transaction, will be considered as executing a prohibited preemptive transaction, subject to five years' imprisonment or a fine of some NIS 1 million for an individual or some NIS 5 million for a corporation. A recipient of the information will also be considered as executing and making advance transactions to a lesser degree.

Amendments are also proposed with regard to restrictions on the holding of securities and making transactions in securities, which apply to various entities under the supervision of the Securities Authority. It is also proposed to provide in the law an obligation for corporations that are financial intermediaries that employ other financial intermediaries, to determine procedures that will guarantee the retention of the proposed prohibitions within the context of the proposed law and appoint a responsible official to guarantee the enforcement of these prohibitions. Within this framework, it was proposed that the Securities Authority will be qualified to determine guidelines for the procedures that the corporations will be obliged to determine.

Draft Banking (Licensing) Law

On 4 November 2010, the Finance Ministry transferred a draft of the Banking (Licensing) Law which mainly supplements the arrangements that were incorporated into the said law and the Banking Ordinance within the framework of Amendment No. 13, in force since 2004 (following the recommendations of the Marani Committee), with the aim, *inter alia*, of enabling the State to realize the balance of its holdings in banks which were under the Shares Arrangement.

The draft includes amendments to the abovementioned law and the Banking Ordinance.

Amendment No. 13 included amendments whose aim was the expansion of the supervision and control over banking corporations, *inter alia* through the supervision of the holders of the means of control or the controllers of the corporations as aforesaid.

The proposed amendment was made mainly after a further examination of the appropriateness of the Banking (Licensing) Law to the supervisory framework required in the event of a banking corporation where all of the holders of the means of control are not obligated by the permit pursuant to Section 34(b) to the said law (hereinafter: a banking corporation without an identifiable core of control) and is mainly focused on the method of the proposal of the directors in the bank and their election as aforesaid, balancing the right of the holders of the means of control to propose candidates for office as directors and to take steps for their election and the desire to prevent actual control in the banking corporation without obtaining a permit from the Bank of Israel.

- Pursuant to the Amendment, a committee will be set up with a new composition as detailed below, instead of the existing committee. This committee will appoint directors to every banking corporation whose number of members of its Board of Directors has fallen below the number decided by the Supervisor as a suitable number of directors for that banking corporation, as well as in any banking corporation in which the composition of the board of directors has not complied with all legal requirements, and after the general meeting of that bank has failed to appoint directors as required as aforesaid after two attempts. In a banking corporation without an identifiable core of control, the committee will, at every general meeting, propose candidates for the office of director according to the number of directors required for election.

- It is proposed to determine that in a banking corporation without an identifiable core of control, only the following are entitled to propose candidates for the office of director: the committee, which will propose candidates as the number of the vacant positions; and whoever holds more than two and a half percent of a certain class of the means of control in the corporation, and a group of holders who will appoint two or three holders, each of which holds more than one percent and not more than two and a half percent, and together, not less than two and a half percent and not more than five percent, of a certain class of the means of control (hereinafter – group of holders), which will be entitled to collaborate for this purpose only. A holder of more than two and a half percent of a certain class of a means of control will be entitled to propose one candidate for the office of director, and, as long as a director who is appointed according to his proposal serves, he will not be entitled to propose a further candidate, unless he has received a permit from the Commissioner after consulting with the Licenses Committee. The aforesaid will also apply with regard to a group of holders, including each member of a group of holders.

- The memorandum also amends the composition of the committee, such that the chairman of the committee will be a retired Supreme Court or District Court justice, who will be appointed at the suggestion of the Minister of Justice after consultation with the President of the Supreme Court. Two members will be from the field of business and finance or senior academic staff members in institutions of higher education (or someone who was a a staff member as aforesaid) who will be proposed by the chairman of the committee after consulting the chairman of the Securities Authority, and two members will be directors serving on the board of directors of the relevant bank as external directors (as defined in the Companies Law or in the Proper Banking Business Directives of the Bank of Israel), who will be proposed by the other members of the committee (the chairman and the two members) in consultation with the Supervisor of Banks.

    - In a banking corporation without a identifiable core of control, a candidate for the office of director will be subject to the provisions similar to those applicable to an external director pursuant to the Companies Law, for the purpose of the prohibition of any relationship, with some changes; a candidate for the office of director proposed by the committee must comply with additional restrictions and reservations for the office which apply to the members of the committee, and in addition, they must be professionally qualified or have accounting and financial expertise as required from an external director pursuant to the Companies Law.

- It is proposed to oblige the holder of more than one percent of a certain class of the means of control in a banking corporation without an identifiable core of control to report to the banking corporation on the holding of the means of control, and the banking corporation to report thereon to the public.

- It is proposed to amend the Banking Ordinance as follows:

    a. It is proposed to determine that the provision obliging a banking corporation to forward a notice in advance to the Supervisor on the appointment of any office-holder and to prevent the appointment of an office-holder as aforesaid if the Supervisor declares his opposition to the appointment (hereinafter – the appointment approval procedure) will also apply to any renewal of the term of office of an office-holder in a banking corporation. In addition, it is proposed to determine that, with regard to directors, the appointment approval procedure will be carried out at least once every three years.

b. It is proposed to expand the tests to be used by the Supervisor when he considers the suitability of a candidate for a position in the banking corporation, and particularly, to expand the tests to be used by him in checking candidates for the office of director. In addition, it is proposed to authorize the Supervisor to determine up to seven office-holders in each banking corporation to which the provision obliging the approval procedure will apply, and to determine that the directive will also apply to a legal advisor.

c. It is proposed to establish further provisions regarding the appointment of directors, their term of office and the termination of their term of office, which will apply to a banking corporation without a controlling core, notwithstanding any other provision in the law or in its articles of incorporation, some of which apply also to any other banking corporation (with a controlling core) which is a public company. *Inter alia*, it is proposed to stipulate a provision that a vote on the appointment of directors will be only at an annual meeting or a meeting convened on the instructions of the Supervisor in special cases; a directive obligating advance notice on the convening of a general meeting on the agenda of which is the appointment of directors; a directive limiting the period of the term of office of a director who is not an external director to three years, and his cumulative periods of the term of office to nine years.

- It is proposed to establish that, with regard specifying activities of banking corporations, the extension of short-term, and not only long-term, credit, to a person whose name is mentioned in a prospectus or for the purchase of the rights of a banking corporation vis-à-vis borrowers, will also not be considered as an extension of credit.

- It is proposed to establish that banks and branches of foreign banks, which, in the opinion of the Supervisor of Banks, do not have significant retail activity, will be able to take part in the ownership and management of assets of provident funds and mutual funds.

<u>Proposed Antitrust Law (Amendment – Concentration Groups)</u>

On 1 November 2010, following its approval by the Ministerial Committee for Legislative Matters, the Proposed Law for the Amendment of the Antitrust Law, intended to deal with concentration groups, was published for its first reading in the Official Gazette (*Reshumot*).

The amendment to the law seeks to change the arrangement currently stipulated in the law with regard to concentration groups, with the object of providing the Commissioner with tools for dealing with the phenomenon of an "oligopolistic market", which is controlled by a limited number of large firms.

The proposed law grants the Antitrust Commissioner extensive and far-reaching authority, both with regard to a declaration of a concentration group and with regard to authorities of action for the Commissioner after the declaration of a concentration group.

Declaration of a concentration group:

The current legal situation – The Commissioner may declare a concentration group only in cases where the concentration of assets or service is in the hands of two or more entities "who are not in competition with one another or there is only minimal competition among them", i.e., it is necessary to show actual impairment of competition.

The proposed legislation – According to the proposed law, the Commissioner may declare a concentration group, even in cases where there is no actual evidence of impairment of competition, but there are only "conditions for minimal competition".

According to the proposed law, the Commissioner may determine that a small number of persons (including companies) who control a concentration of more than half of the total supply of assets or services, or of the total of their purchase, constitute a concentration group, and each of the abovementioned persons are members of the concentration group, if he sees that conditions exist for minimal competition in businesses among the members of the group or in the relevant industry in which they operate or that the competition in businesses between them or in the relevant industry as aforesaid is minimal. The proposed law provides that the existence of at least three of the conditions set forth therein (of which one must be the existence of a barrier to entry into the industry in which the concentration group operates) will be evidence of the existence of "conditions for minimal competition".

It should be noted that pursuant to the proposed legislation, for a group to be declared a concentration group, a further condition must be fulfilled. This relates to the actual ability to generate change in the competition in the relevant sector or among the members of the group.

Regulatory authorities vis-à-vis a concentration group:

The current legal situation – The Commissioner has authority to issue instructions regarding transactions in order to preclude impairment of competition.

The proposed legislation – In addition to today's existing authority in the law, the proposed law also grants the Commissioner authority to issue instructions regarding transactions which are intended substantially to enhance competition among the members of the group or in the relevant industry or to create conditions for the substantial enhancement of competition in the industry.

Following a declaration of a concentration group, the Commissioner is granted authority to issue instructions regarding a wide range of measures "in order to preclude harm or concern about harm to the public or to competition in business among members of the group or in the industry in which they operate, or substantially to enhance competition among the members of the group or in the relevant industry, or to create conditions for the substantial enhancement of competition in the industry".

In the context of the proposed law, a special directive has been established concerning concentration groups in the area of banking, according to which the Commissioner is to notify in advance the Governor of the Bank of Israel and the Supervisor of Banks of his intention to declare a concentration group in the area of banking, or to give instructions to regulate the actions of such a concentration group. The Supervisor or the Governor are authorized to halt the activity of the Commissioner only in the event that they reach the conclusion that the exercise of such authorities will endanger the stability of a banking corporation or the banking system. A similar directive has been established for the insurance industry.

Circulars of the Supervisor of Banks

a. **Capital policies for interim periods** – Letter of 30 June 2010

- In the context of the abovementioned directive, the Supervisor of Banks demanded that the banks adopt a target as of 31 December 2010 for the core capital ratio (Tier I capital excluding hybrid capital instruments) to be not less than 7.5% - Leumi is in compliance with the requirement.

- The banks are to forward a work program for compliance with this target to the Supervisor of Banks. The Bank has forwarded such a program.

- In the absence of prior approval from the Supervisor of Banks, a banking corporation must not distribute a dividend if it does not comply with the abovementioned target or if the distribution of the dividend will result in its non-compliance with the target.

b. **Developments in risks in respect of housing loans** – Letter of 11 July 2010

- Banks are required to conduct a re-examination of the loan portfolio in the area of mortgages, and to ensure that this policy is not causing an increase in its exposure to risks in excess of the bank's risk appetite, as defined in its business strategy. The findings and steps taken as a result thereof are to be forwarded to the Supervisor of Banks.

- The banking corporation must retain an additional provision of 0.75% in respect of housing loans granted since 1 July 2010, where the ratio of the loan to the value of the mortgaged property is higher than 60% at the date of making the loan.

c. **Levered housing loans at variable interest –** Letter of 28 October 2010

Against the background of the possible implications of continuing the trend of increased risk in variable interest levered housing loans, on 28 October 2010, the Supervisor of Banks published a further letter, including a demand from the banks to weight the risk in certain loans by 100% (see below) for the purpose of computing the minimum capital ratio, instead of 35% and 75%, as was standard practice until now (in Basel II).

The aforesaid housing loans include loans in which the rate of financing is higher than 60% and the ratio of the part of the housing loan which is subject to variable interest to the total housing loan extended to the borrower is equal to 25% or more, and the amount of the aforesaid loans is higher than NIS 800 thousand and in the event that the borrowers do not fulfil the criteria of the Ministry of Construction and Housing for receiving State aid for purchasing an apartment.

The directives included in this letter apply to loans approved from 26 October and thereafter.

d. **Provision for doubtful debts in respect of acquisition groups and disclosure of acquisition groups** – Letter dated 15 August 2010

- The method of computing the provision for doubtful debts in respect of loans to acquisition groups must be carried out according to the depth of arrears, as in housing loans for a single borrower. Nevertheless, a supplemental specific provision is to be created if required in respect of losses anticipated in a project.

- Within the context of Exhibit F – Aggregate Credit Risk to the Public by Sector of the Economy, disclosure is to be made of the amount of credit for housing extended to acquisition groups that is classified under the heading of real estate and construction. In addition, at the conclusion of the project, disclosure is to be made of the amount classified from credit to real estate and construction to housing loans.

e. Update of references to the definitions in the Proper Conduct of Banking Business Directives No. 311 dated 19 October 2010 as a result of the publication of Proper Conduct of Banking Business Directive No. 200 – Measurement and Capital Adequacy - all of the references to Directive No. 200 in place of Proper Conduct of Banking Business Directive No. 311 have been changed. In the context of this amendment, Proper Conduct of Banking Business Directive No. 315 – Supplemental Provision for Doubtful Debts was amended. For further details, see page 35 below.

Draft Circulars of the Bank of Israel

a. Financing the purchase of the means of control in corporations dated 12 July 2010

- The definition of "credit for the purchase of means of control" also refers to the finance of the purchase of a corporation's activity, even if the means of control were not purchased.

- The purchase of control in a banking corporation - in the existing circular – the restriction was only if the balance of the credit was higher than 0.5% of the capital of the financing corporation; in the draft, they have added even if it is higher than 0.5% of the banking corporation acquired.

b. Draft Proper Conduct of Banking Business Directive No. 301 - Board of Directors

In August 2010, the Banking Supervision Department promulgated a draft proposal to update Proper Conduct of Banking Business Directive No. 301, including rules and guidelines regarding the efficient conduct of the board of directors, its authorities, its various committees and the way they function. The changes proposed in the draft are based on recommendations of the Basel Committee, the current practice of supervisory authorities in Israel, and updates to regulation on this topic in Israel and abroad.

Among the amendments proposed:

- It is proposed to determine additional instances when the appointment of a person as an holder of office in the banking corporation will require advance notice to the Supervisor of Banks, as follows: (1) extension of term of office or reappointment to the same position; (2) appointment to another position as holder of office; (3) appointment of director as chairman of the board of directors; (4) after a term of office of three years as director (re-approval).

- Regarding discussions by the board of directors on the matter of making and realizing fixed investments (including an investment in a controlled corporation) exceeding a certain amount to be specified by the board of directors, it is proposed to decide that the above amount will be determined such that the board of directors will be prevented from becoming involved in the routine management of the banking corporation.

- It is proposed that when discussing the credit policy of the banking corporation, the board of directors will make reference, *inter alia*, to the following topics: business and marketing targets for granting credit; geographic exposure, exposure to currencies, repayment dates, and concentrations of collaterals; credit pricing policy and the correlation between return and risk; policy for determining provisions and classification of debts; policy for debt collection and debt arrangements concerning problematic debts.

- It is proposed to determine that the hierarchy of authorities for granting credit will be decided by the board of directors so as reduce its involvement in the routine management of the banking corporation.

- It is proposed to determine that once a year, the board of directors will hold a closed-door session, without the management of the banking corporation, when the board of directors will discuss various matters connected with the relationship between management and the board of directors.

- It is proposed to determine that from now on, generally speaking, the role of the committees of the board of directors will be only to make recommendations to the board of directors, and that the board of directors of the banking corporation alone will have the authority to make final decisions, except for those cases approved in advance by the Supervisor.

- It is proposed that at least three members of the board of directors of a banking corporation should be external directors (as opposed to a quarter today). Furthermore, it is proposed to make conditions applying to all of the external directors equally, whether they were appointed under the Companies Law or whether they were appointed under Directive No. 301, while for some of the requirements, it is proposed to make these more stringent for external directors in a banking corporation than the requirements for external directors in public corporations (so, for example, it is proposed to extend the cooling-off period required from an external director in a banking corporation before appointment from two years to three years).

- It is proposed to determine that a director in a banking corporation (including the chairman of the board of directors) shall not serve (except in exceptional circumstances) as director in entities such as a mutual fund, provident fund, an insurer, a venture capital fund, a corporation whose shareholders' equity exceeds NIS 250 million (unless such corporation belongs to the same banking group) at the same time. Furthermore, it is proposed to determine that a director in a banking corporation (including the chairman of the board of directors) shall not serve (except in exceptional circumstances) as director of a subsidiary company of the banking corporation at the same time.

- It is proposed to determine that the number of members in each of the committees of the board of directors will not exceed half of the members of the board of directors.

- It is proposed to determine that a remuneration committee will be established in every banking corporation, which will discuss and recommend the remuneration policy and remuneration procedures of the banking corporation to the board of directors. In a committee such as this, the majority of the members will be external directors.

- It is proposed to determine that a risk management committee will be established in every banking corporation, to discuss and recommend risk exposure policy to the board of directors, and will supervise the activities of senior managers when managing these risks.

- It is proposed that it will be the duty of the audit committee to review the annual and quarterly statements of the banking corporation to the public, and to discuss and make recommendations to the plenum for their approval, and not the balance sheet committee.

- It is proposed to determine, *inter alia*, that it will be prohibited for a director of a banking corporation (including the chairman of the board of directors) to impose duties or to give instructions to members of management and employees of the banking corporation which are not in the framework of decisions of the board of directors, to be a party to transactions with the bank, and an intermediary in transactions with the bank, and to be a partner to discussions with customers of the banking corporation on business matters.

c. **Draft Proper Conduct of Banking Business Directive No. 314 – Treatment of Problematic Debts in Housing Loans**

On 7 November 2010, the Supervisor of Banks issued a draft notice updating the directive regarding the treatment of problematic debts in housing loans (Proper Conduct of Banking Business Directive No. 314).

As a result of the development of risks in the housing credit sector and past experience, the need has arisen to expand the application of the method for calculating the provisions for doubtful debts according to the depth of the arrears on all of the housing loans, including "large" housing loans of more than NIS 800 thousand and including loans under a pledge on the apartment and key money apartments. The directive is intended to come into force on 1 January 2011.

The subsidiary, Leumi Mortgage Bank has applying the method for making provisions according to the depth of the arrears of all the housing loans since January 2006, such that this directive will have no effect on the subsidiary and the Group at the transition date.

Property of Holocaust Victims

On 24 September 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"), filed a claim against the Bank in the District Court in Jerusalem, whereby the Court was requested to make various declarations regarding "assets of Holocaust victims" as defined in the Law, which the Company 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, and the court handed down a judgment dismissing the originating motion. The arbitration is taking place before former High Court justices Tova Strasberg Cohen and Ruth Eliaz Sternberg and Professor Omri Yadlin.

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 company 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, derivative financial instruments, securities, obligations regarding employee rights, obligations in respect of legal claims, buildings and equipment and taxes on income.

During the period January – September 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

The Bank's Board of Directors is the entity ultimately responsible for supervision within the Bank and for the approval of the Bank's financial statements. All the members of the Board of Directors possess accounting and financial expertise, and possess the qualifications of external directors (as required by the Bank Shares (Arrangement Shares) (Temporary Provisions) Law, 1993).

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

Before the financial statements are submitted to the Financial Statements Review Committee for discussion, the Bank's financial statements are discussed by the Disclosure Committee. The Disclosure Committee is a management committee comprised of all the members of the Bank's Management, as well as the Acting Head of the Commercial Banking Division, the Chief Legal Advisor and the Group Secretary. 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 pages 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 in addition. 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 and approves the financial statements.

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 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 the 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, the 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, particularly with regard 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 effect 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 monetarily, 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 148, “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 nine months of 2010 was NIS 1,859 million, compared with NIS 1,470 million in the corresponding period in 2009, an increase of 26.5%.

The net profit of the Leumi Group for the third quarter of 2010 amounted to NIS 603 million compared to NIS 534 million in the corresponding quarter in 2009, an increase of 12.9%.

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

1. A decrease in provisions for doubtful debts amounting to NIS 764 million, before the effect of taxes.

2. An increase in the Group's share in the profits of companies included on an equity basis amounting to NIS 259 million, net.

3. An increase in extraordinary operating profit amounting to NIS 158 million, net.

4. An increase in net interest income before provision for doubtful debts amounting to NIS 81 million, before the effect of taxes.

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

1. Operating and other income decreased by NIS 287 million, before the effect of taxes.

2. An increase in operating and other expenses (including salary) amounting to NIS 665 million, before the effect of taxes.

As stated above, net profit in the third quarter of the year amounted to NIS 603 million, compared to net income of NIS 534 million in the corresponding quarter of 2009, an increase of NIS 69 million, an increase of 12.9%. The main factors for the increase in profitability were as follows[*]:

1. A decrease in provisions for doubtful debts amounting to NIS 397 million, before the effect of taxes.

2. An increase in the Group's share in the profits of companies included on an equity basis amounting to NIS 27 million, net.

3. A decrease in the effective tax rate by 6.8 percentage points, as explained on page 40 in the section on provision for taxes.

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

1. Operating and other income decreased by NIS 309 million, before the effect of taxes.

2. A reduction in net interest income before provision for doubtful debts amounting to NIS 77 million, before the effect of taxes.

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[*] Before minority rights in consolidated companies.

3. An increase in operating and other expenses (including salary) amounting to NIS 52 million, before the effect of taxes.

Net interest income before provision for doubtful debts of Leumi Group for the first nine months of 2010 amounted to NIS 5,292 million, compared to NIS 5,211 million in the corresponding period in 2009, an increase of NIS 81 million, which constitutes an increase of 1.6%.

In the third quarter of the year, net interest income before provision for doubtful debts amounted to NIS 1,846 million, compared to NIS 1,923 million in the corresponding period in 2009, a decrease of 4.0%.

The changes in the Group's net interest income before provision for doubtful debts for the first nine months of 2010 compared to the corresponding period in 2009 stem mainly from:

	For the nine months ended		
	30 September 2010	30 September 2009	Change
	NIS millions		%
Current activities	**4,764**	5,020	(5.1)
Net effect in respect of non-income bearing debts	**249**	60	+
Exchange rate differentials in respect of financing shares recorded in operating income	**10**	(61)	+
Profits from sale of available-for-sale debentures, net	**174**	295	(41.0)
Realized and unrealized profits from adjustments to the fair value of debentures for trading, net	**210**	221	(5.0)
Financing income (costs) in connection with hedging of overseas investments*	**58**	(7)	+
Adjustments to fair value of derivative instruments	**(202)**	(368)	+
Effect of the known CPI	**29**	51	(43.1)
Total	**5,292**	5,211	1.6

* Revenues from/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 effect in the item on taxes.

As indicated in the above table, net interest income from current activities declined by 5.1%. The fall in the interest margin from current activity (less exceptions) was partly compensated for by the increase in the volume of activity. Most of the impact is in the foreign currency sector, which accounts for some 46% of the volume of activity, and the interest margin, which fell by 0.44 percentage points.

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

Sector	**First nine months of 2010**	First nine months of 2009	% Change
	NIS millions		
Households	**1,629**	1,568	3.8
Small businesses	**667**	628	6.2
Corporate banking	**1,511**	1,430	5.7
Commercial banking	**1,102**	1,069	3.1
Private banking	**310**	341	(9.1)
Financial management – capital markets	**73**	181	(59.4)
Other	**-**	(6)	-
Total	**5,292**	5,211	1.6

Total **Interest Margin** (excluding transactions in financial derivatives) in the first nine months of 2010 was 2.36%, compared with 2.19% in the corresponding period in 2009. The interest margin including transactions in derivatives was 1.12% in the first nine months of 2010, compared with 1.08% during the corresponding period in 2009, and 1.10% for the whole of 2009. The method of recording for derivative transactions had a significant impact on the interest margin in both periods, particularly in 2009.

The interest margin in the unlinked shekel sector during the period was 1.83%, similar to last year, and the total activity increased by some 18%. As a result, income in the sector increased by some NIS 495 million. The interest margin in the foreign currency sector fell by 0.44% to 0.53% and total income fell by some NIS 494 million. The interest margin for the period in the index sector was a negative 0.24%, compared to a negative 0.49% in the corresponding period in 2009.

The low financial margin during the first nine months of 2010 was mainly affected by the following:

a. The low level of interest of the Bank of Israel and low interest rates worldwide resulted in an erosion of the interest margin as a result of current account balances, which are non-interest bearing, and the interest received in respect thereof fell significantly compared to the past.

b. The low level of interest over time caused a contraction in the interest margin, primarily in the unlinked shekel sector in respect of fixed time-deposits in small amounts.

c. The low aggregate interest margin was also affected by timing differences in the measurement of profitability from activity in derivative financial instruments and from exchange rate differentials in respect of the hedging of investments abroad and investments in shares.

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

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

The ratio of net interest income before provision for doubtful debts to the average balance of income-yielding financial balance sheet assets was 2.32% (in annual terms), similar to the corresponding period last year.

Commissions from Financing Transactions during the first nine months of 2010 amounted to NIS 288 million, compared with NIS 256 million during the corresponding period in 2009, an increase of 12.5%. These commissions mainly include 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, for the most part, 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 nine months of 2010 amounted to NIS 893 million, compared with NIS 921 million in the corresponding period in 2009, a decrease of 3.0%

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

	For the nine months ended		
	30 September 2010	30 September 2009	Change
	NIS millions		%
Net profit from sales of available-for-sale debentures	**183**	462	(60.4)
Loss on sale and decline in value of available-for-sale debentures	**(9)**	(167)	+
Profit from sales and adjustments to fair value of debentures for trading	**210**	221	(5.0)
Collection of interest in respect of doubtful debts	**386**	274	40.9
Early credit repayment commissions	**107**	85	25.9
Other	**16**	46	(65.2)
Total	**893**	921	(3.0)

Provision for Doubtful Debts in the Leumi Group for the first nine months of 2010 amounted to NIS 372 million, compared with NIS 1,136 million in the corresponding period in 2009, a decrease of NIS 764 million or 67.3%.

In the third quarter of 2010, the provision for doubtful debts amounted to NIS 46 million, compared to NIS 443 million in the corresponding period in 2009, a decrease of NIS 397 million or 89.6%.

Pursuant to a directive of the Supervisor of Banks of 1992, a supplemental provision for doubtful debts is made in addition to the specific provision in respect of risks that are unidentified in the credit portfolio and are based on the risk characteristics in the credit portfolio, and in respect of a sector deviation for credit (a sector deviation actually exists in the Bank only in credit for construction and real estate at a rate of 4.73%). Pursuant to the aforesaid directive, when the minimum capital ratio is above 12%, the Bank is not obliged to make a provision in respect of a sectoral credit excess, in accordance with a formula determined in the above directive. Since the minimum capital ratio in the Bank complies with the aforesaid directive, the Bank has not made a supplemental provision in the amount of NIS 268 million in respect of a sectoral credit excess.

On 19 October 2010, the Supervisor of Banks published a directive in connection with the adjustments of references to Proper Conduct of Banking Business Directive No. 200, in place of Proper Conduct of Banking Business Directive No. 311 “Minimum Capital Ratio”. Pursuant to abovementioned directive, Proper Conduct of Banking Business Directive No. 315 regarding a supplemental provision in respect of a sectoral credit excess was amended, such that when the minimum capital ratio is in excess of 12% instead of 10%, as explained above. This change will not affect the financial statements, as the Bank has a large surplus in its capital adequacy ratio, as mentioned previously.

The additional and general provision for doubtful debts fell by NIS 94 million during the first nine months of 2010, compared with a reduction of NIS 44 million during the corresponding period in 2009, and a decrease of NIS 48 million for the whole of 2009.

The overall rate of the provision for doubtful debts for the first nine months of 2010 was 0.23% of total credit to the public (in annual terms), compared with a rate of 0.74% 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 0.15%, 0.49% and 0.49%, respectively.

As can be seen in the table on page 37, the decrease in provisions had a material impact on the low rate of provision.

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 806 million (constituting 0.37% of total credit to the public) on 30 September 2010, compared with NIS 900 million at the end of 2009.

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

Segment	**First nine months of 2010**		First nine months of 2009	
	NIS millions	**% ***	NIS millions	%*
Households	**103**	**0.2**	207	0.4
Private banking	**15**	**0.2**	1	-
Small businesses	**86**	**0.7**	150	1.2
Corporate banking	**215**	**0.6**	256	0.8
Commercial banking	**(36)**	**(0.1)**	511	1.0

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

See pages 43 and 49 for further details.

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

	First nine months of 2010		First nine months of 2009	
	NIS millions	% of total	NIS millions	% of total
Industry	**(18)**	**(3.9)**	184	15.7
Construction and real estate	**206**	**44.2**	296	25.3
Trade	**218**	**46.9**	114	9.7
Transportation and storage	**(60)**	**(12.9)**	95	8.1
Communications and computer services	**(14)**	**(3.0)**	41	3.5
Financial services	**(5)**	**(1.1)**	139	11.9
Other business services	**12**	**2.6**	34	2.9
Private individuals - housing loans	**(33)**	**(7.1)**	1	0.1
Private individuals – other	**148**	**31.8**	227	19.4
Other	**12**	**2.6**	40	3.4
Total *	**466**	**100.0**	1,171	100.0

*In addition, at 30 September 2009, there was a provision in respect of banks amounting to NIS 9 million.

The following is a summary of the provisions for doubtful debts:

	For the nine months ended 30 September	
	2010	2009
	NIS millions	
Specific provision during the period	**1,472**	1,876
Reduction in specific provision	**(990)**	(686)
Collection of debts previously written off	**(16)**	(10)
Net addition, charged to the profit and loss statement	**466**	1,180
Net addition (reduction) charged to the profit and loss statement in respect of additional and general provision	**(94)**	(44)
Total provision for doubtful debts	**372**	1,136

On 18 February 2010, the Supervisor of Banks announced that adoption of 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 further details, see Note 1 to the Financial Statements.

The following is the breakdown of the main provisions for doubtful debts in the Group (the Bank and consolidated companies) charged to the profit and loss account:

	First nine months of 2010	First nine months of 2009
	NIS millions	
The Bank	202	985
Arab Israel Bank	17	18
Leumi Mortgage Bank	(36)	-
Leumi Card	22	21
Bank Leumi – U.S.A.	91	34
Bank Leumi – U.K.	25	70
Bank Leumi – Romania	40	7
Leumi Leasing and Investments	14	3
Others	(3)	(2)
Total	372	1,136

Profit from Net Interest Income after Provision for Doubtful Debts of the Leumi Group for the first nine months of 2010 amounted to NIS 4,920 million, compared with NIS 4,075 million for the corresponding period in 2009, an increase of 20.7%.

Profit from net interest income after provision for doubtful debts of the Leumi Group for the third quarter of the year amounted to NIS 1,800 million, compared with NIS 1,480 million for the corresponding period in 2009, an increase of 21.6%.

Total Operating and Other Income of the Leumi Group for the first nine months of 2010 amounted to NIS 3,021 million, compared with NIS 3,308 million in the corresponding period in 2009, a decrease of 8.7%.

Total operating and other income of the Leumi Group for the third quarter of 2010 amounted to NIS 983 million, compared with NIS 1,292 million in the corresponding period in 2009, a decrease of 23.9%.

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

	For the nine months ended			
	30 September 2010	30 September 2009	Change	
	NIS millions		NIS millions	%
Operating commissions (1)	**2,733**	2,586	147	5.7
Profits from investments in shares (2)	**188**	471	(283)	(60.1)
Other income (3)	**100**	251	(151)	(60.2)
Total operating and other income	**3,021**	3,308	(287)	(8.7)

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

1. Operating commissions (an increase of NIS 147 million)

   a. An increase in income from credit handling and preparation of contracts amounting to NIS 55 million (29.6%).

   b. An increase in distribution commissions of financial products amounting to NIS 43 million (33.3%).

   c. An increase in income from credit cards amounting to NIS 34 million (5.9%).

   d. An increase in income from securities transactions amounting to NIS 20 million (3.2%).

   e. An increase in income from foreign trade activity amounting to NIS 10 million (11.8%).

   f. A reduction in revenues from account management amounting to NIS 23 million (3.6%).

2. Profits (losses) from investments in shares (a decrease of NIS 283 million).

   a. Net profits from the sale of available-for-sale securities amounting to NIS 32 million, compared with net profits and exchange rate differentials amounting to NIS 390 million in the corresponding period in 2009.

   b. Profits from the realization and adjustment to fair value of securities for trading amounting to zero, compared with NIS 6 million during the corresponding period in 2009.

   c. Dividends from available-for-sale shares and shares for trading amounting to NIS 156 million, compared with NIS 75 million in the corresponding period in 2009.

3. Other income (a decrease of NIS 151 million)

Most of the decrease is attributable to the recording of gains from the severance pay provident fund amounting to NIS 33 million in the first nine months of 2010, compared to a total of NIS 187 million in the corresponding period in 2009.

The proportion of operating and other income to total income (i.e. net interest income before provision for doubtful debts and operating and other income) was 36.3%, compared with 38.8% in the corresponding period in 2009 and 39.4% for the whole of 2009.

Operating and other income covers 53.7% of operating and other expenses, compared with cover of 66.7% in the corresponding period in 2009, and compared with 65.8% for the whole of 2009.

Total Operating and Other Expenses of the Leumi Group in the first nine months of 2010 amounted to NIS 5,627 million, compared with NIS 4,962 million in the corresponding period in 2009, an increase of 13.4%.

In the third quarter of the year, operating and other expenses amounted to NIS 1,810 million, compared with NIS 1,758 million in the corresponding period in 2009, an increase of 3.0%.

Salary expenses rose by NIS 570 million in the first nine months of 2010, and by 19.9% compared with the corresponding period in 2009.

The main factors for the increase in salary were as follows:

In the first nine months of 2010, the profits of the severance pay and pension funds, which are used as reserves to cover employee pension obligations, were low in comparison to the profits in 2009, and in 2009 facilitated a reduction of salary costs in respect of significantly larger pension obligations, particularly against a background of the funds' performance in 2008.

During the period, the provisions for bonuses were higher than the provisions in the corresponding period in 2009.

In 2009, the employees consented to a waiver of part of the promotion increment for this year only, amounting to 2.5% of salary and a cutback of 20% in the budgets intended for employee welfare, which reduced salary costs only in 2009.

In 2010, non-recurring expenses related to jubilee bonuses to employees and various non-recurring actuarial adjustments were recorded to pensions.

Operating and other expenses (maintenance of buildings and equipment, depreciation and others) increased by NIS 95 million in the first nine months of 2010, an increase of 4.5%, compared with the corresponding period in 2009, mainly as a result of an increase in expenses of marketing, advertising, professional services, depreciation and building maintenance.

Operating expenses constitute 67.7% of total income, compared with 58.2% 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 2.28% of total balance sheet, compared with 2.05% in the corresponding period in 2009, and 2.16% for the whole of 2009.

Operating Profit before Taxes of the Leumi Group for the first nine months of 2010 amounted to NIS 2,314 million, compared with NIS 2,421 million in the corresponding period in 2009, a decrease of 4.4%. For factors in the decline in operating profit before taxes, see page 32.

Operating profit before taxes in the third quarter of the year amounted to NIS 973 million, compared to NIS 1,014 million in the corresponding period in 2009, a decrease of 4.0%.

Provision for Taxes on Operating Profit of the Leumi Group in the first nine months of 2010 amounted to NIS 871 million, compared with NIS 950 million in the corresponding period in 2009. The rate of the provision in the said period was some 37.6% of the pre-tax profit, compared with 39.2% in the corresponding period in 2009, a decrease of some 1.6 percentage points.

The rate of the provision in the third quarter of the year was 42.4%, compared to 49.2% in the corresponding period in 2009, a fall of some 6.8 percentage points.

The decrease in the rate of the provision for taxes in the third quarter compared with the corresponding period last year, derived mainly from a decrease in deferred tax expenses in respect of prior years and from a reduction in tax rates.

Operating Profit after Taxes for the first nine months of 2010 amounted to NIS 1,443 million, compared with NIS 1,471 million in the corresponding period in 2009, a decrease of 1.9%.

Operating profit after taxes for the third quarter of the year amounted to NIS 560 million, compared with NIS 515 million in the corresponding period in 2009, an increase of 8.7%.

The Group's Share in Operating Profit after Taxes of Companies Included on Equity Basis amounted to NIS 259 million in the first nine months of 2010, compared with zero in the corresponding period in 2009. For details, see page 96 below.

Minority Interests in the Profits of the Group in the first nine months of 2010 amounted to a profit of NIS 29 million, similar to the corresponding period in 2009.

Net Operating Profit of the Group for the first nine months of 2010 amounted to NIS 1,673 million, compared with a profit of NIS 1,442 million in the corresponding period in 2009, an increase of 16.0%.

Net Profit from Extraordinary Items after Taxes in the first nine months of 2010 amounted to NIS 186 million, compared with a profit of NIS 28 million in the corresponding period in 2009. The increase in profit is primarily attributable to the sale of the Bank's holdings in Paz Oil Company Ltd. For further details, see below on page 95.

Net profit for the first nine months of the year amounted to NIS 1,859 million, compared with a profit of NIS 1,470 million in the corresponding period in 2009, an increase of 26.5%. The net profit for the third quarter amounted to NIS 603 million, compared to NIS 534 million, an increase of 12.9%.

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

	First nine months of 2010	First nine months of 2009
	%	%
Net profit	**11.0**	10.3
Net operating profit	**9.9**	10.1

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

	2010			2009			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	%						
Net profit	**10.7**	12.1	11.2	10.6	11.0	11.1	9.7
Net operating profit	**10.7**	8.7	11.2	10.6	11.0	10.4	9.6

Net Basic Operating Profit per Share reached NIS 1.14 in the first nine months of 2010, compared with NIS 0.98 in the corresponding period in 2009.

Net Basic Profit per Share reached NIS 1.26 during the first nine months of 2010, compared with NIS 1.00 in the corresponding period in 2009.

Development of Profit during the Last Seven quarters

A. The following table is a condensed statement of operating profit and loss after taxes for the last seven quarters:

	2010			2009			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Net interest income	**1,846**	1,639	1,807	1,812	1,923	1,926	1,362
Provision for doubtful debts	**(46)**	(196)	(130)	(381)	(443)	(339)	(354)
Operating and other income	**983**	1,039	999	1,255	1,292	1,013	1,003
Operating and other expenses	**(1,810)**	(1,984)	(1,833)	(1,975)	(1,758)	(1,640)	(1,564)
Operating profit before taxes	**973**	498	843	711	1,014	960	447
Provision for taxes	**(413)**	(125)	(333)	(241)	(499)	(409)	(42)
Operating profit after taxes	**560**	373	510	470	515	551	405
Group's share in operating profits (losses) after taxes of companies included on equity basis after the effect of taxes	**57**	117	85	81	30	(64)	34
Minority interests in operating profits after taxes of consolidated companies	**(14)**	(12)	(3)	(7)	(11)	(7)	(11)
Net operating profit	**603**	478	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			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Current activity	**1,633**	1,483	1,648	1,707	1,593	1,745	1,682
Net provision in respect of non-interest bearing debts	**34**	127	88	52	(4)	26	38
Exchange rate differentials in respect of shares recorded in operating income or the capital reserve	**19**	(4)	(5)	(1)	17	31	(109)
Profits (losses) from the sale of available-for-sale debentures, net	**78**	31	65	(1)	120	32	143
Realized and unrealized profits from adjustments to fair value of debentures for trading	**29**	111	70	11	60	48	113
Financing cost in connection with hedging of overseas investments	**51**	(33)	40	(8)	87	50	(144)
Adjustments to fair value of derivative instruments	**(22)**	(96)	(84)	49	19	(59)	(328)
Effect of the known CPI	**24**	20	(15)	3	31	53	(33)
Total	**1,846**	1,639	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					
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Specific provision	**63**	244	159	385	461	396	323
Additional provision	**(17)**	(48)	(29)	(4)	(18)	(57)	31
Total	**46**	196	130	381	443	339	354
Percentage of provision out of total credit to the public (on an annual basis)	**0.09%**	0.37%	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					
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Operating commissions	**912**	917	904	925	915	840	831
Profits from investments in shares	**14**	100	74	236	286	90	95
Other income	**57**	22	21	94	91	83	77
Total operating and other income	**983**	1,039	999	1,255	1,292	1,013	1,003

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

	2010	2009					
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Salary expenses, excluding special salary expenses	**1,075**	1,087	1,103	1,103	961	948	1,003
Special salary expenses	**(16)**	152	33	85	91	(19)	(120)
Of which:							
Recording of benefit regarding sale of shares to employees	**-**	(22)	-	26	15	-	-
Provision for severance pay and pensions	**(16)**	126	(4)	55	76	(20)	(120)
Actuarial changes in respect of jubilee bonus	**-**	-	-	4	-	-	-
Miscellaneous	**-**	48	37	-	-	1	-
Total salary expenses	**1,059**	1,239	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			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Depreciation	**160**	157	156	157	152	155	148
Maintenance of buildings and equipment	**241**	234	224	247	214	225	216
Other expenses	**350**	354	317	383	340	331	317
Total operating and other expenses*	**751**	745	697	787	706	711	681

* Excluding salary.

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

Total Assets of Leumi Group as at 30 September 2010 amounted to NIS 330.7 billion, compared with NIS 321.8 billion at the end of 2009, an increase of 2.8%, and an increase of 2.2% compared with 30 September 2009.

The value of the assets in the balance sheet denominated in and or linked to foreign currency was some NIS 89.0 billion, some 27.0% of total assets. During the first nine months of 2010, the shekel appreciated against the U.S. dollar by 2.91% and appreciated against the euro by 8.35%. The changes in the rates of exchange in the first nine months of the year led to a decrease of 1.2% in total assets.

Total assets under the Group's management – the total of the 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 844 billion, compared with NIS 782 billion at the end of 2009 (some US$ 230 billion and US$ 213 billion, respectively), as detailed below.

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

			Rate of change	
	30 September 2010	31 December 2009	Since December 2009	Since September 2009
	NIS millions		%	
Total assets	**330,659**	321,775	2.8	2.2
Deposits of the public	**245,820**	250,418	(1.8)	(1.4)
Debentures, capital notes and subordinated capital notes	**28,744**	25,261	13.8	12.8
Deposits from banks	**6,788**	3,785	79.3	25.8
Cash and deposits with banks	**40,360**	42,933	(6.0)	(8.1)
Securities	**54,373**	57,505	(5.4)	(6.9)
Credit to the public	**217,218**	204,669	6.1	6.5
Buildings and equipment	**3,600**	3,553	1.3	1.6

Deposits of the public amounted to NIS 245.8 billion as at 30 September 2010, compared with NIS 250.4 billion as at 31 December 2009, a decrease of 1.8%, and compared with 30 September 2009, a decrease of 1.4%.

(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 nine months of 2010 contributed in total to a 1.7% fall in total deposits of the public.

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

Segment	30 September 2010	31 December 2009	Change
	NIS millions		%
Households	**118,862**	118,930	(0.1)
Small businesses	**14,945**	15,057	(0.7)
Corporate banking	**23,504**	25,324	(7.2)
Commercial banking	**35,574**	33,533	6.1
Private banking	**37,718**	41,158	(8.4)
Financial management, capital markets and other	**15,217**	16,416	(7.3)
Total	**245,820**	250,418	(1.8)

Debentures, Capital Notes and Subordinated Capital Notes totaled NIS 28.7 billion on 30 September 2010, compared with NIS 25.3 billion on 31 December 2009, an increase of 13.8%, and compared with 30 September 2009, an increase of 12.8%.

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:

	30 September 2010	31 December 2009	Change	
	NIS millions		NIS millions	%
Securities portfolios	**451,296**	401,676	49,620	12.4
Of which: managed by mutual funds(2) (3)	**55,287**	47,666	7,621	16.0
Provident and pension funds(2) (3)	**42,722**	40,785	1,937	4.7
Supplementary training funds(2) (3)	**19,817**	17,771	2,046	11.5
Total	**513,835**	460,232	53,603	11.6

(1) Including an increase in the market value of securities and in the 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 217.2 billion on 30 September 2010, an increase of 6.1% compared with NIS 204.7 billion on 31 December 2009, an increase of 6.1%, and in comparison with 30 September 2009, an increase of 6.5%.

The appreciation of the shekel in relation to most foreign currencies in the first nine months of 2010 contributed in total to a 0.8% increase in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, on 30 September 2010, amounted to NIS 11,778 million, compared with NIS 12,091 million on 31 December 2009, a decrease of 2.6%.

The following table sets out the development of the overall credit risk(1) to the public by principal sectors of the economy:

	30 September 2010		31 December 2009		
Economy Sectors	Overall credit risk to the public	Percentage of total	Overall credit risk to the public	Percentage of total	Change
	NIS millions	%	NIS millions	%	%
Agriculture	**2,099**	**0.6**	2,282	0.7	(8.0)
Industry	**47,528**	**14.1**	44,658	14.2	6.4
Construction and real estate (2)	**66,935**	**19.9**	63,742	20.2	5.0
Electricity and water	**2,208**	**0.7**	1,939	0.6	13.9
Trade	**29,663**	**8.8**	27,953	8.9	6.1
Hotels, accommodation and food services	**4,861**	**1.4**	4,787	1.5	1.5
Transportation and storage	**5,406**	**1.6**	5,724	1.8	(5.6)
Communications and computer services	**7,622**	**2.3**	6,557	2.1	16.2
Financial services (3)	**45,546**	**13.6**	(4) 42,903	13.6	6.2
Other business services	**9,082**	**2.7**	8,253	2.6	10.0
Public and community services	**8,684**	**2.6**	8,514	2.7	2.0
Private individuals - housing loans	**53,402**	**15.9**	47,251	15.0	13.0
Private persons – other	**52,932**	**15.8**	50,867	16.1	4.1
Total	**335,968**	**100.0**	315,430	100.0	6.5

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

(2) Including housing loans extended to purchasing groups that are in the process of construction amounting to NIS 709 million and off-balance sheet credit risk amounting to NIS 1,431 million, compared to NIS 458 million and NIS 619 million, respectively, at 31 December 2010.

(3) Including parent companies and subsidiaries of banks amounting to NIS 4,075 million.

(4) Restated – debentures of foreign banking holding companies previously presented as bank debentures.

The following table shows the quarterly development of credit to the public by main activity sector:

	2010			2009			
	3rd Quarter	2nd Quarter	1st Quarter	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	NIS millions						
Households*	**73,160**	71,156	68,248	66,889	65,401	63,252	62,242
Small businesses	**17,554**	17,882	17,590	17,653	17,283	17,099	17,711
Commercial banking	**45,192**	44,921	44,210	43,516	43,747	44,466	47,086
Corporate banking	**72,275**	70,845	70,415	69,089	70,016	74,680	77,873
Private banking	**8,120**	6,666	6,150	6,439	6,286	6,513	6,477
Financial management, capital markets and others	**917**	983	1,000	1,083	1,238	1,204	1,489
Total	**217,218**	212,453	207,613	204,669	203,971	207,214	212,878

* 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.

Additional data on total credit is set forth below:

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

		30 September 2010		
Credit ceiling in NIS thousands		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	**84.6**	**6.2**	**17.7**
80	600	**13.2**	**19.0**	**11.7**
600	1,200	**1.3**	**8.4**	**3.2**
1,200	2,000	**0.4**	**4.0**	**1.8**
2,000	8,000	**0.3**	**8.9**	**5.4**
8,000	20,000	**0.1**	**7.8**	**4.8**
20,000	40,000	**0.05**	**7.6**	**5.6**
40,000	200,000	**0.04**	**17.4**	**19.6**
200,000	800,000	**0.01****	**12.1**	**18.4**
Above 800,000		**0.00*****	**8.6**	**11.8**
Total		**100.00**	**100.00**	**100.00**

		31 December 2009		
Credit ceiling in NIS thousands		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
0	80	84.9	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 30 September 2010 - 126 borrowers and on 31 December 2009 - 118 borrowers

*** On 30 September 2010 - 25 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 single borrower based on a more detailed breakdown of credit areas and based on a breakdown of economic sectors:

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

		30 September 2010					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit	
Credit ceiling (in NIS millions)		Total	Of which: related parties	Total	Of which: related parties	Total	Of which: related parties
From	To	In NIS millions					
800	1,200	**17**	**-**	**10,107**	**-**	**5,683**	**-**
1,200	1,600	**2**	**-**	**1,791**	**-**	**1,056**	**-**
1,600	2,000	**3**	**1**	**2,795**	**858**	**2,322**	**839**
2,000	2,400	**1**	**-**	**57**	**-**	**1,981**	**-**
2,400	2,700	**2**	**-**	**4,248**	**-**	**983**	**-**
Total		**25**	**1**	**18,998**	**858**	**12,025**	**839**

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 which: related parties	Total	Of which: related parties	Total	Of which: 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 by economic sectors

	30 September 2010		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit
	Total	Total	Total
	In NIS millions		
Industry	**9**	**7,193**	**7,045**
Construction and real estate	**5**	**3,392**	**1,249**
Public and community services	**2**	**1,696**	**52**
Communications and computer services	**3**	**2,744**	**422**
Financial services	**5**	**3,525**	**2,804**
Electricity and water	**1**	**448**	**453**
Total	**25**	**18,998**	**12,025**

	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 8.8% of total credit risk as of 30 September 2010 and 72.2% 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)(7) according to the classifications determined in the directives of the Supervisor of Banks:

	30 September 2010	30 September 2009	31 December 2009
	NIS millions		
Problematic debts(1)			
Non-performing	**1,522**	2,053	1,846
Restructured (2)	**785**	565	679
To be restructured (3)	**593**	464	410
In temporary arrears	**504**	589	584
Under special supervision*	**10,905**	13,464	12,349
Total balance sheet credit to problematic borrowers (1)	**14,309**	17,135	15,868
Off-balance sheet credit risk to problematic borrowers (1) (5)	**2,778**	3,172	3,065
Debentures of problematic borrowers (public)	**525**	588	683
The banks' overall credit risk (debentures + deposits in banks)	**-**	197	190
Other assets in respect of derivatives of problematic borrowers	**56**	337	252
Total credit risk in respect of problematic borrowers (1)	**17,668**	21,429	20,058
Assets received in respect of repaid credit	**79**	84	87
* of which: debts in respect of which there is a specific provision (4)	**6,341**	6,603	6,313
* of which: credit for housing in respect of which there is a provision according to the extent of the arrears	**363**	454	389

In the nine months ended 30 September 2010, non-income bearing debts decreased by 17.6%, debts under special supervision decreased by 11.7% and total problematic debts decreased by 11.9%.

(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 Conduct of Banking Business 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 amounting to NIS 61 million and loans under special supervision amounting to NIS 1,392 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 385 million on 30 September 2010, compared to NIS 407 million on 31 December 2009, a decrease of 5.4%, and a decrease of 10.5% compared with 30 September 2009.

Securities

The Group's investments in securities amounted to NIS 54.4 billion on 30 September 2010, a decrease of 5.4% compared with 31 December 2009, mainly as a result of a reduction in the foreign securities portfolio.

Securities are classified into 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 disagio or agio). At the end of September 2010, there are no debentures in the portfolios being held to maturity.

Transfer of debenture held to maturity to available-for-sale portfolio
During the third quarter of 2010, a consolidated company sold debentures totalling NIS 448 million, which were classified as bonds held to maturity. Accordingly, the Group's remaining debentures held to maturity amounting to NIS 255 million were classified as available for sale.

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 abovementioned rules:

	30 September 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	**-**	**-**	**-**	**-**	**-**
Available-for-sale	**41,595**	**677**	**(376)**	**41,896**	**41,896**
For trading	**9,461**	*** 134**	*** (34)**	**9,561**	**9,561**
	51,056	**811**	**(410)**	**51,457**	**51,457**
Shares and funds					
Available-for-sale	**2,106**	**607**	**(13)**	**2,700**	**2,700**
For trading	**576**	**-**	*** (360)**	**216**	**216**
	2,682	**607**	**(373)**	**2,916**	**2,916**
Total securities	**53,738**	**1,418**	**(783)**	**54,373**	**54,373**

* Carried to profit and loss.

	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)	57,528	57,505

As of 30 September 2010, some 82.0% of the Group’s nostro portfolio was classified as available-for-sale securities and some 18.0% as securities for trading. This classification allows for flexibility in the management of the securities portfolio. Some 5.4% of the value of the securities represents investments in shares of companies that are not reported on equity basis, but by cost or market value of the shares traded on a stock exchange.

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

	30 September 2010	31 December 2009
	NIS millions	
Debentures redeemed and/or sold (held to redemption and available-for-sale)	**25,115**	22,387
Purchases of debentures held to redemption and available-for-sale	**21,282**	35,494
Net profit from investments in debentures:		
Financing income on accrual basis	**(454)**	1,557
Profit from sale and from decrease in value of available-for-sale debentures	**174**	294
Profit realized and/or unrealized from adjustments to fair value of debentures for trading	**210**	232

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

	30 September 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	**21,515**	**-**	**378**	18,095	-	98
CPI-linked	**7,176**	**-**	**956**	8,656	-	1,009
Foreign currency including foreign currency-linked	**2,108**	**1,851**	**17,473**	1,962	4,037	21,061
Total debentures*	**30,799**	**1,851**	**18,807**	28,713	4,037	22,168

* Of which NIS 2,119 million in subordinated debentures.

There was a decrease of some NIS 3.4 billion during the first nine months of 2010, some 15.2%, in the Group's investments in corporate debentures (including banks), mainly in foreign currency debentures abroad. Some 63.5% 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:

	30 September 2010	31 December 2009
Securities traded on an active market*	**45,656**	47,737
Securities according to prices determined according to external models**	**6,397**	8,152
Securities according to quotation from counterparty or to cost	**2,320**	1,616
Total	**54,373**	57,505

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

** Including securities amounting to NIS 479 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, by sectors of the economy (in the available-for-sale and trading portfolios):

	30 September 2010	
	Issued in Israel	Issued abroad
Economy sector	NIS millions	
Agriculture	**-**	**36**
Industry	**164**	**575**
Construction and real estate	**45**	**117**
Electricity and water	**126**	**88**
Trade	**198**	**83**
Transport and storage	**33**	**17**
Communications and computer services	**130**	**156**
Financial services *	**505**	**9,352**
Business services and others	**-**	**59**
Public and community services	**26**	**68**
Total	**1,227**	**10,551**

* Including parent and subsidiary companies of banks amounting to NIS 4,075 million.

The Available-for-sale Portfolio

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

	30 September 2010		31 December 2009		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**19,091**	**22,805**	21,767	22,514	(2,676)	291
Shares and funds	**569**	**2,131**	541	1,949	28	182
Total	**19,660**	**24,936**	22,308	24,463	(2,648)	473

a. In the first nine months of 2010, NIS 409 million (before tax) 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 1,365 million (before tax) in the corresponding period of 2009. Most of the increase in value derives from subordinated debentures issued by foreign banks.

b. In addition, NIS 174 million was credited to profit and loss in respect of profits from the sale of debentures after offsetting provisions defined as decreases in the value of securities of a non-temporary nature, compared with profits of NIS 295 million in the corresponding period of 2009.

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

	For the period ended		
	30 September 2010	30 September 2009	31 December 2009
	NIS millions		
Profits (losses) in respect of available-for-sale securities which were charged to profit and loss	**(159)**	1,868	2,252
Of which: Exchange differences	**(1,081)**	332	285
Adjustments for to capital reserve of available-for-sale securities in shareholders' equity	**409**	1,365	1,481

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

			Quarterly movement		
	30 September 2010	31 December 2009	1st quarter	2nd quarter	3rd quarter
	NIS millions				
Shares	**594**	641	151	(374)	176
Israel government debentures	**302**	101	91	126	(16)
Foreign government debentures	**3**	3	1	1	(2)
Other debentures	*** (4)**	(265)	197	(43)	107
Other debt instruments	**(24)**	(18)	33	(23)	(16)
Total	**871**	462	473	(313)	249
Related tax	**(298)**	(153)	(145)	64	(64)
Net total	**573**	309	328	(249)	185

* Of which the accumulated balance of the decline in value in the deferred debentures issued by foreign banks amounted to some NIS 160 million.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio as of 30 September 2010 totaled the positive amount of NIS 573 million (after the effect of taxes). This amount represents a profit/loss which had not been realized at the date of the financial statements.

e. The following is the impairment in value of available-for-sale securities charged to shareholders' equity as at 30 September 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	-	-	-	27	27
	Other debentures	32	1	3	160	196
	Total	32	1	3	187	223
10%- 20%	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	9	9
	Other debentures	-	-	-	98	98
	Total	-	-	-	107	107
20%-30%	Shares	12	-	-	-	12
	Asset-backed debentures	-	-	-	-	-
	Other debentures	-	-	-	16	16
	Total	12	-	-	16	28
30%-35%	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	-	-
	Other debentures	-	-	-	-	-
	Total	-	-	-	-	-
35%-40%	Shares	-	-	-	-	-
	Asset-backed debentures	-	-	-	1	1
	Other debentures	-	-	-	-	-
	Total	-	-	-	1	1
Above 40%	Shares	1	-	-	-	1
	Asset-backed debentures	-	-	-	29	29
	Other debentures	-	-	-	-	-
	Total	1	-	-	29	30
Total amount	Shares	13	-	-	-	13
	Asset-backed debentures	-	-	-	66	66
	Other debentures	32	1	3	274	310
Overall total		45	1	3	340	389

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 impairment since the beginning of the decline means the duration since the beginning of any impairment in the security.

Trading Portfolio

The following table shows the composition of the trading portfolio:

	30 September 2010		31 December 2009		Change	
	NIS millions					
	Abroad	In Israel	Abroad	In Israel	Abroad	In Israel
Debentures	**2,085**	**7,476**	4,441	5,344	(2,356)	2,132
Shares and funds	**89**	**127**	93	4	(4)	123
Total	**2,174**	**7,603**	4,534	5,348	(2,360)	2,255

In respect of debentures for trading, realized and unrealized profits amounting to NIS 210 million were recorded in the profit and loss statement, compared with profits of NIS 221 million in the corresponding period in 2009, and in respect of shares and funds, realized and unrealized profits were recorded amounting to zero, compared with realized and unrealized profits of NIS 6 million in the corresponding period in 2009.

Investments in Securities Issued Abroad

The Group's securities portfolio includes some NIS 21.8 billion (some US$ 6.0 billion) of securities issued abroad, all of which (but for some 3.1%) are investment grade securities, of which some 93% are rated 'A-' and above, and of which some 25% are rated 'AAA'. The portfolio includes subordinated debentures issued by foreign banks having a fair value of NIS 2,119 million, some 9.7% of the total investment in securities issued abroad. Of the said portfolio, some NIS 19.7 billion (some US$ 5.4 billion) is classified in the available-for-sale portfolio, some NIS 2.1 billion (some US$ 0.6 billion) is classified in the securities for trading portfolio.

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

	30 September 2010		31 December 2009	
	Available-for-sale portfolio	Trading portfolio	Available-for-sale portfolio	Trading portfolio
Balance sheet value	NIS millions			
Government debentures	**2,932**	**792**	2,859	2,354
Debentures of banks and financial institutions	**10,924**	**433**	12,580	1,862
Asset-backed debentures	**4,687**	**64**	5,938	101
Other debentures	**548**	**796**	390	124
Shares and funds	**569**	**89**	541	93
Total	**19,660**	**2,174**	22,308	4,534

Management of the Bank estimates that the impairment in 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 impairment is charged to shareholders' equity. The net increase credited to shareholders' equity in respect of securities issued abroad, from the date of purchase until 30 September 2010 amounts to some NIS 95 million (some NIS 61 million after taxes). During 2009, the negative capital reserve decreased 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 nine months of 2010, this trend continued and the movement in the reserve amounting to NIS 305 million changed the net reserve to positive.

In addition to the increase in value recorded in shareholders' equity, an impairment in value of some NIS 6 million was charged to profit and loss account during the first nine months of 2010, compared with an impairment of NIS 151 million in the corresponding period in 2009.

The following table shows the fair value as at 30 September 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
	NIS millions							
United Kingdom	**1,233**	**-**	**288**	**-**	**-**	**-**	**-**	**1,521**
Austria (1)	**-**	**126**	**-**	**-**	**-**	**-**	**-**	**126**
Italy (1)	**138**	**5**	**-**	**-**	**-**	**-**	**-**	**143**
Ireland (1) (5)	**133**	**-**	**-**	**18**	**-**	**-**	**-**	**151**
Belgium (1)	**43**	**381**	**-**	**-**	**-**	**-**	**-**	**424**
Germany (1)	**652**	**-**	**-**	**5**	**-**	**-**	**4**	**661**
The Netherlands (1)	**586**	**157**	**-**	**176**	**17**	**-**	**-**	**936**
Luxembourg (1)	**35**	**-**	**49**	**-**	**-**	**-**	**-**	**84**
Spain (1) (5)	**382**	**35**	**-**	**15**	**-**	**-**	**-**	**432**
Portugal (1) (5)	**-**	**-**	**-**	**15**	**-**	**-**	**-**	**15**
Finland (1)	**28**	**29**	**-**	**-**	**-**	**-**	**-**	**57**
France (1)	**475**	**38**	**-**	**-**	**-**	**-**	**-**	**513**
Switzerland	**207**	**-**	**-**	**-**	**-**	**-**	**-**	**207**
Australia	**731**	**-**	**-**	**-**	**-**	**-**	**-**	**731**
Sweden	**18**	**85**	**-**	**-**	**-**	**-**	**-**	**103**
New Zealand	**139**	**-**	**-**	**-**	**-**	**-**	**-**	**139**
Norway	**66**	**-**	**20**	**-**	**-**	**-**	**-**	**86**
Canada	**54**	**-**	**-**	**-**	**-**	**-**	**-**	**54**
Other (2)	**130**	**11**	**-**	**-**	**-**	**-**	**114**	**255**
United States – by bank								
Citigroup Inc. NY	**-**	**101**	**-**	**817**	**-**	**-**	**-**	**918**
Chase Manhattan Bank N.A.	**388**	**-**	**-**	**-**	**-**	**-**	**-**	**388**
Merrill Lynch International B.A.	**-**	**-**	**440**	**-**	**-**	**-**	**-**	**440**
Bank of America	**583**	**-**	**-**	**-**	**-**	**-**	**-**	**583**
Goldman, Sachs and Co.	**70**	**277**	**17**	**-**	**-**	**-**	**-**	**364**
Wells Fargo Bank N.A.	**939**	**-**	**-**	**-**	**-**	**-**	**-**	**939**
Morgan Stanley	**-**	**72**	**246**	**-**	**-**	**-**	**-**	**318**
United States – other (3)	**413**	**99**	**143**	**25**	**-**	**-**	**88**	**768**
Total (4)	**7,443**	**1,416**	**1,203**	**1,071**	**17**	**-**	**206**	**11,356**

(1) Countries in the Eurozone bloc.
(2) This amount includes investments in 6 countries
(3) This amount includes investments in 13 banks in the United States.
(4) Including subordinated debentures, the fair value of which as at 30 September 2010 was NIS 2,119 million (including the available-for-sale and trading portfolios) and as at 31 December 2009, NIS 2,907 million.
(5) For further details in connection with credit exposure, see page 135.

1. Investments in foreign asset-backed securities

The Group's securities portfolio as of 30 September 2010 includes some NIS 4.8 billion (some US$ 1.3 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 81% are rated 'AAA'. Of the said portfolio, some NIS 4.7 billion (some US$ 1.3 billion) is classified in the available-for-sale portfolio, and the balance in the securities held for trading portfolio.

The following table shows a summary of investments in asset-backed securities in the available-for-sale portfolio as at 30 September 2010:

	Adjusted value	Unrealized profits	Unrealized losses	Balance sheet value (fair value)
	NIS millions			
MBS - mortgage-backed securities	**3,702**	**88**	**(30)**	**3,760**
ABS-asset-backed securities (other than mortgage-backed)	**816**	**147**	**(36)**	**927**
Of which: CLO	**722**	**137**	**(34)**	**825**
SCDO	**47**	**10**	**-**	**57**
Other	**47**	**-**	**(2)**	**45**
Total	**4,518**	**235**	**(66)**	**4,687**

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)

	30 September 2010	31 December 2009
	Accrued amount of exposure	
	NIS millions	
Mortgage-backed Securities (MBS):		
Pass-through securities:		
Securities guaranteed by US Government GNMA	**1,906**	2,123
Securities issued by FNMA and FHLMC	**277**	469
Other securities	**9**	-
Other mortgage-backed securities:		
Securities issued by FHLMC, FNMA, or GNMA, or guaranteed by these entities	**1,296**	2,313
Other mortgage-backed securities	**324**	83
Total mortgage-backed securities (MBS)	**3,812**	4,988
Asset-backed securities (ABS):		
Lines of credit for any purpose secured by dwelling	**5**	8
Credit for purchase of vehicle	**6**	12
Other credit to private persons	**6**	7
Credit not to private persons	**5**	2
CLO debentures	**825**	911
SCDO debentures	**57**	66
Others	**35**	53
Total Asset-backed (ABS)	**939**	1,059
Total Asset-backed Securities	**4,751**	6,047

Investment in asset-backed securities by risk weighting * (Table 9(g) – Basel II)

	30 September 2010	31 December 2009	**30 September 2010**	31 December 2009
	Accrued amount of exposure		Capital requirement for securitization exposure	
	NIS millions		NIS millions	
20%	**758**	640	**14**	12
50%	**149**	186	**7**	8
100%	**147**	143	**13**	13
350%	**-**	65	**-**	20
Deducted from equity	**185**	47	**-**	-
Total	**1,239**	1,081	**34**	53

* Not including GNMA, FNMA, FHLMC securities.

The Group's portfolio of available-for-sale investments in foreign asset-backed securities as of 30 September 2010 includes investments in mortgage-backed securities in the total amount of some NIS 3.8 billion. 98% of the mortgage-backed securities in the available-for-sale portfolio are guaranteed or directly issued by United States federal agencies (FNMA, FHLMC, GNMA) FNMA and FHLMC have come under governmental protection under the U.S. administration's rescue plan and the GNMA debentures have government guarantees.

As at 30 September 2010, the accumulated net increase in value charged to shareholders' equity resulting from the mortgage-backed securities portfolio was some NIS 58 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 333 million.

The forecast term to maturity for all the mortgage-backed securities portfolio is, on average, some 3.4 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), amounting to some NIS 927 million, of which CLO-type debentures account for some NIS 825 million. The projected term to maturity of the portfolio of securities that are backed by assets other than mortgages is some 4.7 years on average.

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

The Group's securities portfolio as of 30 September 2010 includes some NIS 17.0 billion (some US$ 4.7 billion) of non-asset-backed securities, which include mainly securities issued by banks and financial institutions, including subordinated debentures, the balance being mainly securities issued by the Government of Israel. Of these securities, NIS 14.9 billion (US$ 4.1 billion) are classified in the available-for-sale portfolio, and some NIS 2.1 billion in the securities for trading portfolio. Of these securities, 95% are rated 'A-' or above, of which 9% are rated 'AAA'.

For further details regarding exposure to overseas banks and financial institutions, see page 131.

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 30 September 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 74 million (NIS 48 million after tax), after a reduction of NIS 284 million in the first nine months of 2010.

The debentures that are not asset-backed securities and were issued abroad are mainly 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				Capital reserve at the end of the third quarter
	30 September 2010	30 June 2010	March 31 2010	31 December 2009	
	NIS millions				
Total subordinated bank debentures issued abroad	**1,904**	2,034	2,334	2,593	(160)
Of which: 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 about 88% are rated 'A' and higher. The value of the trading portfolio which is non-asset backed as at 30 September 2010 amounted to some NIS 2.1 billion (US$ 0.6 billion). The difference between the fair value and the amortized cost, if any, is charged to the profit and lost statement.

During 2010, some US$ 330 million were invested in credit derivatives (CDS) of the State of Israel, France, Ireland and Spain. In respect of these investments, which are revalued on a regular basis as any derivative instrument at market value, a total of NIS 1 million was charged to profit in 2010 (for the third quarter, a loss of NIS 12 million was recorded .

Investments in debentures issued in Israel

Investments in debentures issued in Israel at 30 September 2010 amounted to NIS 30.3 billion, of which NIS 28.9 billion was in debentures issued by the Government of Israel, with the balance, NIS 1.4 billion, in corporate debentures. Of the corporate debentures, 97% are rated 'A-' and higher, of which 97% 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 30 September 2010, some 64% of the investments in corporate debentures amounted to NIS 0.9 billion in the available-for-sale portfolio, with the balance in the trading portfolio.

Out of the total amount of NIS 0.9 billion in the corporate debenture portfolio in the available-for-sale portfolio, the positive capital reserve amounts to NIS 41 million, and the negative capital reserve amounts to NIS 2 million, with the highest decline in value being 2.8%.

3. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 2,916 million as at 30 September 2010, of which NIS 1,655 million was in quoted shares and NIS 1,261 million in unquoted shares. Out of the total investment, NIS 2,700 million is classified as available-for-sale and NIS 216 million is classified in the trading portfolio.

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

	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
	30 September 2010	31 December 2009	**30 September 2010**	31 December 2009	**30 September 2010**	31 December 2009	
	%		NIS millions				
Migdal Insurance and Financial Holdings Ltd. (2)	**9.80**	9.85	**734**	719	**67**	65	
Africa Israel Properties Ltd.	**2.2**	4.3	**30**	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	**80**	80	**7**	7	
Partner Communication Ltd.	**4.96**	4.99	**518**	589	**47**	53	
Electra Consumer Products (1970) Ltd. (3)	**10.0**	-	**99**	-	**9**	-	Not listed
Tower Semiconductor capital notes	**-**	-	**49**	49	**4**	4	Not listed
Visa International	**-**	-	**36**	40	**3**	4	
CLS Bank	**-**	-	**21**	21	**2**	2	Not listed
Funds	**-**	-	**758**	585	**68**	53	Not listed
Apax	**-**	-	**60**	59	**5**	5	Not listed
Other	**-**	-	**349**	228	**31**	20	282 Not listed
Total	**-**	-	**2,916**	2,587	**262**	233	

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

(1) For details of non-banking investments presented on equity basis, see page 95.

(2) For details, see page 97 to the Report

(3) Electra

On 28 March 2010, Leumi Partners signed an agreement with Eliasi Ltd. and Electra Consumer Products (1970) ("Electra") for of the acquisition of some 10% of the shares of Electra for aggregate consideration of NIS 100 million. On 26 April 2010, the transaction 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.

(4) Tnuva

On 18 October 2010, a memorandum of understanding was signed between Bank Leumi Le-Israel B.M. and/or a company under its control (hereinafter: "the Bank") and M.B.S.T. Ltd. and Mivtach Shamir Holdings Ltd. (hereinafter together: "Mivtach" or "the seller") with regard to the purchase of all of Mivtach's (indirect) holdings in the Tnuva Group (hereinafter: "the memorandum of understanding").

According to the memorandum of understanding, the Bank will purchase from the seller 13.5% of the capital of AP. MS. TN. Holdings (hereinafter "the SPV") representing some 10.36% of the Tnuva Group. In addition, the Bank will lead an investors' consortium (hereinafter: "the additional purchasers") who will be recruited by Leumi Partners Ltd., a company wholly owned by the Bank for the purpose of purchasing the balance of the Mivtach's holdings in the SPV. The total of all the shares purchased will create a holding of some 26.9333% of the SPV and an indirect holding of some 20.6665% in the Tnuva Group. The Bank will, in accordance with its commitment to the Bank of Israel, sell 3.5% of the capital of the SPV within one year of the date of completion.

The Bank and the additional purchasers (together: "the purchasers") will pay the seller on the completion date of the transaction cash consideration of NIS 1,230 million (the "consideration amount"). The exact consideration amount will be determined at the time of the completion in accordance with the size of the SPV's financial debt at that time and will be subject to various adjustments specified in the memorandum of understanding.

The transaction will include an agreed-upon adjustment mechanism, which will remain in force for a period of 4 years from the date of the completion and which will commence on the occurrence of a "sale event", which is defined in the memorandum of understanding as an initial public offering of the Tnuva Group, or a transaction in the context of which control of the Tnuva Group is sold and transferred to a third party (hereinafter: "sale event"). If a sale event occurs, the SPV's value at the sales event's execution will be examined in comparison with the SPV's value for the purpose of the execution of the transaction pursuant to the memorandum of understanding. The purchasers will receive a cash reimbursement, if there is a negative differential between the value at which the sale event is executed and the value according to which the purchasers paid the consideration to Mivtach; on the other hand, Mivtach will receive additional cash consideration from the purchasers if there a positive differential between the value at which the sale event is executed and the value according to which the purchasers paid the transaction consideration, all according to the formulae determined in the memorandum.

The adjustment mechanism is limited such that the reimbursement to the purchasers cannot exceed NIS 430 million, while the additional consideration (the upside payment) to the seller can be up to a total of NIS 278 million.

The transaction pursuant to the memorandum of understanding is subject to the signature of detailed agreements between the seller and the purchasers, and their compliance with the conditions precedent set forth in the memorandum of understanding, including regulatory approvals, examinations carried out by the purchaser in the Tnuva Group and in the SPV, the receipt of approvals from the financing banks and the signature of shareholders' agreement between the purchasers and the Apax Funds.

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	
	30 September 2010	31 December 2009
Listed shares	**1,655**	1,564
Funds according to quote by counterparty	**721**	644
Unlisted shares	**540**	379
Total	**2,916**	2,587

Other assets

As of 30 September 2010, other assets amounted to NIS 12.1 billion, compared with NIS 9.8 billion at the end of 2009, an increase of some 23.3%. The increase in this item resulted mainly from a increase in the balance of the fair value of derivative instruments carried out with and for customers amounting to about NIS 3.0 billion, and from a decrease in surplus advance payments of provisions for income tax amounting to NIS 0.5 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 30 September 2010:

	Credit to the Public			Deposits of the Public			Total Assets		
	30 September 2010	31 December 2009	Change	**30 September 2010**	31 December 2009	Change	**30 September 2010**	31 December 2009	Change
	NIS millions		%	NIS millions		%	NIS millions		**%**
Households[1]	**73,160**	66,889	9.4	**118,862**	118,930	(0.1)	**73,897**	67,530	9.4
Small businesses	**17,554**	17,653	(0.6)	**14,945**	15,057	(0.7)	**17,574**	17,689	(0.5)
Corporate banking [2]	**72,275**	69,089	4.6	**23,504**	25,324	(7.2)	**75,451**	71,685	5.3
Commercial banking	**45,192**	43,516	3.9	**35,574**	33,533	6.1	**47,135**	44,833	5.1
Private banking	**8,120**	6,439	26.1	**37,718**	41,158	(8.4)	**11,797**	11,323	4.2
Financial management - capital markets and other	**917**	1,083	(15.3)	**15,217**	16,416	(7.3)	**104,805**	108,735	(3.6)
Total	**217,218**	204,669	6.1	**245,820**	250,418	(1.8)	**330,659**	321,775	2.8

(1) Credit to households also includes housing loans (mortgages). After neutralizing this credit, credit (banking and financial) to households decreased by 9.0%. Housing loans amounted to NIS 48,670 million at the end of September 2010, having increased by 9.5%. The rate of increase in credit (banking and financial) for 2009 was 5.4%.

(2) There was an increase of some NIS 3.6 billion in credit in the corporate banking segment for activities in Israel, and an increase of 4.6% overall.

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

	Guarantees and Documentary Credit			Securities Portfolios, including Mutual Funds		
	30 September 2010	31 December 2009	Change	**30 September 2010**	31 December 2009	Change
	NIS millions		%	NIS millions		%
Households	**2,910**	484	+	**93,202**	87,282	6.8
Small businesses	**1,253**	1,300	(3.6)	**8,043**	5,353	50.3
Corporate banking	**24,261**	22,119	9.6	**87,808**	82,712	6.2
Commercial banking	**6,495**	6,808	(4.6)	**42,798**	38,987	9.8
Private banking	**674**	495	36.2	**73,066**	68,913	6.0
Financial management – capital markets and other	**754**	525	44.2	**146,379**	118,429	23.6
Total	**36,347**	31,731	14.6	**451,296**	401,676	12.3

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

	For the three months ended			For the nine months ended		
Segments	**30 September 2010**	30 September 2009	Change	**30 September 2010**	30 September 2009	Change
	NIS millions		%	NIS millions		%
Households	**68**	97	(29.9)	**158**	205	(22.9)
Small businesses	**67**	37	81.1	**197**	155	27.1
342	**342**	314	8.9	**862**	667	29.2
Commercial banking	**55**	57	(3.5)	**263**	261	0.8
Private banking	**19**	36	(47.2)	**71**	98	(27.6)
Financial management – capital markets and other	**52**	(7)	+	**308**	84	266.7
Total	**603**	534	12.9	**1,859**	1,470	26.5

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

	For the three months ended			
Segments	**30 September 2010**	30 September 2009	Change	Contribution to profit
	NIS millions		%	%
Households	**158**	193	(18.1)	8.9
Small businesses	**197**	153	28.8	11.0
Corporate banking	**862**	666	29.4	48.3
Commercial banking	**263**	259	1.5	14.8
Private banking	**71**	97	(26.8)	4.0
Financial management – capital markets and other	**232**	16	+	13.0
Total	**1,783**	1,384	28.8	100.0

Explanations for the changes in profitability are provided below.

Return on equity according to operating segments

In accordance with directives of the Bank of Israel, it was decided to calculate the return on equity to be allocated to each of the operating segments.

The equity for the purpose of calculating the capital to risk assets ratio (Tier 1 and Tier 2 capital) was allocated to the segments according to the relative share of each segment in the total of all the weighted risk assets of the Group, and according to the allocation of Pillar 2 equity for each segment in accordance with the ICAAP and partly in respect of the allocated capital in respect of extreme scenarios..

Operating segments were credited with income in respect of (Upper) Tier 1 capital allocated to the segment according to its share in the weighted risk assets as per Basel II and at a price reflecting a risk free yield, and debited in respect of Tier 2 capital according to a risk free yield. Comparative figures for 2009 were calculated in accordance with the weighted risk assets as per Basel I.

Calculations of return on equity include the relation between the net profit for each of the segments and the shareholders' equity allocated to the segment. Shareholders' equity allocated to the segment includes the relative share of the segment in the basic equity.

The following table sets out the net profit return, adjusted for risk, on equity according to operating segments calculated as described above:

	Return on equity as % of net profit				Return on equity as % of net operating profit			
Segment	**30 September 2010**	31 December 2009	**30 September 2010***	31 December 2009*	**30 September 2010**	31 December 2009	**30 September 2010***	31 December 2009*
Households	**5.5**	3.6	**5.5**	3.5	**5.5**	3.6	**5.5**	3.5
Small businesses	**20.3**	16.4	**20.3**	16.4	**20.3**	16.4	**20.3**	16.4
Corporate banking	**13.8**	14.4	**13.8**	14.4	**13.8**	14.4	**13.8**	14.4
Commercial banking	**9.5**	8.9	**9.5**	8.9	**9.5**	8.9	**9.5**	8.9
Private banking	**14.0**	18.8	**14.0**	18.8	**14.0**	18.8	**14.0**	18.8
Financial management – capital markets	**5.3**	10.5	**9.0**	10.4	**(0.7)**	10.5	**3.0**	10.4
Other	**29.3**	(11.1)	**29.3**	(11.1)	**27.5**	(17.6)	**27.5**	(17.6)

* After cancelling the effect of special salary expenses

The following tables set out the RORAC (Return on Risk Adjusted Capital) and EVA (Economic Value Added) taking into account the cost of capital in accordance with the multi-year yield determined in the Work Plan, according to operational segments:

The figures for EVA and RORAC have been calculated according to the allocation of all of the capital of the Bank between the segments (as per the actual capital adequacy pursuant to Basel II and comparative figures for 2009 pursuant to Basel I).

	As at 30 September 2010	
	Allocating all the capital	
Segment	**RORAC**	**EVA**
	%	**NIS millions**
Households	**5.5**	**(127)**
Small businesses	**20.3**	**99**
Corporate banking	**13.8**	**235**
Commercial banking	**9.5**	**(15)**
Private banking	**14.0**	**20**
Financial management – capital markets	**5.3**	**(138)**
Other	**29.3**	**97**
Total for net profit	**11.0**	**171**

	As at 31 December 2009	
	Allocating all the capital	
Segment	RORAC	EVA
	%	NIS millions
Households	3.6	(283)
Small businesses	16.4	73
Corporate banking	14.4	312
Commercial banking	8.9	(36)
Private banking	18.8	55
Financial management – capital markets	10.5	10
Other	(11.1)	(92)
Total for net profit	10.2	39

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

Segment	**2010** 3rd quarter	2009 2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Households	**68**	54	36	(36)	85	52	56
Small businesses	**67**	58	72	34	35	58	60
Corporate banking	**342**	291	229	346	313	228	125
Commercial banking	**55**	98	110	51	55	99	105
Private banking	**19**	23	29	19	35	36	26
Financial management – capital markets and others	**44**	74	114	179	41	(5)	(20)
Total	**595**	598	590	593	564	468	352

General note: The return on equity and average balance of risk assets regarding data for 30 September 2009 were calculated in accordance with Basel I directives. Current data for 2010 have been calculated in accordance with Basel II.

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**	**Activity abroad**	**Total**
	For the three months ended 30 September 2010					
	NIS millions					
Net interest income:						
From external sources	**(193)**	**47**	**1**	**510**	**1**	**366**
Intersegmental	**615**	**(5)**	**(1)**	**(391)**	**4**	**222**
Operating and other income:						
From external sources	**148**	**117**	**128**	**32**	**1**	**426**
Intersegmental	**-**	**57**	**-**	**5**	**-**	**62**
Total income	**570**	**216**	**128**	**156**	**6**	**1,076**
Provisions for doubtful debts	**49**	**5**	**-**	**(7)**	**(1)**	**46**
Operating and other expenses:						
To external sources	**641**	**140**	**55**	**63**	**7**	**906**
Intersegmental	**3**	**(1)**	**-**	**5**	**-**	**7**
Operating profit (loss) before taxes	**(123)**	**72**	**73**	**95**	**-**	**117**
Provision (benefit) for taxes on operating profit	**(44)**	**21**	**26**	**38**	**-**	**41**
Operating profit (loss) after taxes	**(79)**	**51**	**47**	**57**	**-**	**76**
Minority interests' share in profits of consolidated companies	**-**	**(8)**	**-**	**-**	**-**	**(8)**
Net profit (loss)	**(79)**	**43**	**47**	**57**	**-**	**68**

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Activity abroad	Total
	For the three months ended 30 September 2009					
	NIS millions					
Net interest income:						
From external sources	(450)	40	1	637	(1)	227
Intersegmental	847	(3)	1	(553)	(3)	289
Operating and other income:						
From external sources	151	115	139	30	2	437
Intersegmental	-	57	-	5	-	62
Total income	548	209	141	119	(2)	1,015
Provisions for doubtful debts	69	5	-	1	-	75
Operating and other expenses:						
To external sources	528	136	77	51	6	798
Intersegmental	1	(2)	-	6	-	5
Operating profit (loss) before taxes	(50)	70	64	61	(8)	137
Provision for taxes (Benefit) on operating profit	(32)	21	24	24	(4)	33
Operating profit (loss) after taxes	(18)	49	40	37	(4)	104
Minority interests' share in profits of consolidated companies	-	(7)	-	-	-	(7)
Net profit (loss)	(18)	42	40	37	(4)	97

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Activity abroad	Total
	For the nine months ended 30 September 2010					
	NIS millions					
Net interest income:						
From external sources	(240)	134	3	1,167	2	1,066
Intersegmental	1,445	(15)	(2)	(876)	11	563
Operating and other income:						
From external sources	448	344	396	94	4	1,286
Intersegmental	(1)	166	-	15	-	180
Total income	1,652	629	397	400	17	3,095
Provisions for doubtful debts	109	15	-	(26)	5	103
Operating and other expenses:						
To external sources	1,896	416	184	185	19	2,700
Intersegmental	5	(3)	-	17	-	19
Operating profit (loss) before taxes	(358)	201	213	224	(7)	273
Provision for taxes (benefit) on operating profit	(125)	58	76	84	-	93
Operating profit (loss) after taxes	(233)	143	137	140	(7)	180
Minority interests' share in profits of consolidated companies	-	(22)	-	-	-	(22)
Net profit (loss)	(233)	121	137	140	(7)	158
% Return on equity						5.5%
Average balance of assets	16,426	6,878	104	46,858	300	70,566
of which: investments in companies included on the equity basis	-	8	-	-	-	8
Average balance of liabilities	111,562	900	-	10,207	944	123,613
Average balance of risk assets	20,320	6,777	102	24,292	355	51,846
Average balance of mutual fund and supplementary training fund assets	-	-	47,854	-	-	47,854
Average balance of securities	-	-	49,803	-	156	49,959
Average balance of other assets under management	140	-	-	6,543	-	6,683
Balance of credit to the public	17,106	6,967	108	48,670	309	73,160
Balance of deposits of the public	112,311	33	-	5,600	918	118,862

Households (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Activity abroad	Total
	For the nine months ended 30 September 2009					
	NIS millions					
Net interest income:						
From external sources	(816)	120	2	1,423	(6)	723
Intersegmental	2,021	(16)	-	(1,173)	13	845
Operating and other income:						
From external sources	457	332	380	90	6	1,265
Intersegmental	-	162	-	11	-	173
Total income	1,662	598	382	351	13	3,006
Provisions for doubtful debts	182	17	-	(1)	9	207
Operating and other expenses:						
To external sources	1,681	389	222	151	20	2,463
Intersegmental	3	(3)	-	13	-	13
Operating profit (loss) before taxes	(204)	195	160	188	(16)	323
Provision for taxes (Benefit) on operating profit	(89)	60	58	72	(4)	97
Operating profit (loss) after taxes	(115)	135	102	116	(12)	226
Minority interests' share in profits of consolidated companies	-	(21)	-	-	-	(21)
Net profit (loss)	(115)	114	102	116	(12)	205
% Return on equity						6.4%
Average balance of assets	15,335	6,327	90	41,794	333	63,879
of which: investments in companies included on the equity basis	-	8	-	-	-	8
Average balance of liabilities	113,236	599	-	11,176	1,046	126,057
Average balance of risk assets	14,212	6,187	90	35,859	355	56,703
Average balance of mutual fund and supplementary training fund assets	-	-	35,954	-	-	35,954
Average balance of securities	-	-	43,318	-	155	43,473
Average balance of other assets under management	166	-	-	7,365	-	7,531
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

Households (cont.)

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

	First nine months of 2010	First nine months of 2009	Change
	NIS millions		%
From Bank funds	**10,307**	6,826	51.0
From Ministry of Finance funds:			
Loans	**28**	46	(39.1)
Standing loans	**3**	3	-
Total new loans	**10,338**	6,875	50.4
Refinanced loans	**928**	1,595	(41.8)
Total	**11,266**	8,470	33.0

Regulatory changes relating to 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 (more than 10 apartments) 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 sector. 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 at 35% and 75%, according to the financing rate, are to be weighted at 100%, up to the stage at which ownership of the apartment is received. Furthermore, for debt limitation purposes, where there is a "material connection" between groups, the total credit will be included as a group of borrowers under Directive 313 (30% of equity), unless it complies with the single borrower limitation of 15% of equity.

Implementation of the contents of the letter commenced with the financial statements for 30 June 2010.

Leumi Mortgage Bank estimates that the effect on the capital adequacy ratio of Leumi Mortgage Bank at the date of the report will be a decrease of some 0.5%.

On 11 July 2010, the Supervisor of Banks published a directive relating to developments in risks in respect of housing loans, in which banking corporations were required to make a provision for doubtful debts in addition to the provision based on length of arrears for housing loans, and also to perform a further examination of risk management in the existing loan portfolio and credit policy in the area of mortgages.

In the light of the increase in risk in the housing market, following the recent rise in prices, banking corporations will make a further provision of 0.75% of balances of loans given from 1 July 2010, where the rate of financing for these loans is higher than 60% of the value of the property. The Bank is implementing this directive as mentioned above.

In view of the possible implications of the continuation of the increasing trend in risk in variable interest levered housing loans, on 28 October 2010, the Supervisor of Banks published a further letter, including a demand from the banks to weight the risk in certain loans by 100% (see below) for the purpose of computing the minimum capital ratio, instead of 35% and 75% as was standard practice until now (Basel II).

The aforesaid housing loans include loans in which the rate of financing is higher than 60% and the ratio of the part of the housing loan subject to variable interest to the total housing loan extended to the borrower is equal to 25% or more and the amount of the aforesaid loans is higher than NIS 800 thousand and the borrowers do not fulfill the criteria of the Ministry of Construction and Housing for receiving State aid for purchasing an apartment.

The directives included in this letter apply to loans approved from October 26, 2010 and thereafter.

The Bank is checking the implications of the directive.

Pension Counseling Services

The balances of the pension assets of customers receiving counseling in the Leumi Group up to the end of September 2010, including advanced training funds in respect of which counseling was provided in the framework of pension counseling and/or investment advice, amounted to some NIS 11.5 billion.

In July 2010, the Capital Markets, Insurance and Savings Supervisor in the Finance Ministry published a second draft circular on the adjustment of the pension savings track to features of the saver (the adjusted quantitative pension model or the Chilean model). The circular prescribes the method of enlisting members for the various pension savings products, based on features which are unique to them, and the way in which institutional entities must act in order to adapt the savings features to the needs of new and existing members during the savings period. According to the draft, every institutional entity must determine and publish a model classifying members to default tracks by the end of 2010. This model will be determined according to the saver's age and other characteristics that may be found relevant. With effect from January 2012, every member will be put onto a default track that suits him and his characteristics, unless he requests otherwise. For existing members, the circular sets cut-off dates (January 2012–December 2015) for completing the gradual transfer of existing members, in all of the tracks, starting with the members receiving pensions through to the youngest members. The application of this circular will require the adjustment of the rating models and the decision supporting systems at the consultant's disposal.

In May 2010, the Long-Term Savings Clearinghouse Company Ltd. was established to set up and manage the pension clearinghouse. The company is jointly owned by distributors (banks and insurance agents) and producers (insurance, provident fund and pension companies). Bank Leumi is a shareholder in the company and a representative on its behalf serves on the company's board of directors. In June 2010, the Finance Ministry published directives regarding the method for operating and managing the company. In August 2010, the Capital Markets, Insurance and Savings Supervisor distributed a law memorandum on the Pension Clearinghouse Law for arranging the activity of the aforesaid company.

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 6,271 million, or 9.4% compared with the end of 2009. Housing loans increased by 9.5%, and credit after cancelling out the effect of housing loans increased by 9.0%. Deposits of the public amounted to NIS 118.9 million, similar to the end of 2009.

Main Changes in Net Profit

In the first nine months of 2010, net profit in the households segment amounted to NIS 158 million, compared with NIS 205 million in the corresponding period last year, a decrease of 22.9%. The decrease in profit derives mainly from an increase in expenses of NIS 243 million. Most of the increase in expenses derives from the reasons set forth on page 34 of the report, a significant part of which is attributable to this sector. The decrease was partially offset by a decrease in the provision for doubtful debts of NIS 104 million and an increase in income amounting to NIS 89 million.

The return on equity of the net profit was 5.5%.

2. Small Businesses

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

						Overseas activity		
	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Banking and finance	Real estate	Total
	For the three months ended 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	214	6	-	1	31	9	1	262
Intersegmental	(38)	(2)	-	(1)	4	(4)	-	(41)
Operating and other income:								
From external sources	76	27	6	-	10	2	1	122
Intersegmental	-	(15)	-	-	-	-	-	(15)
Total income	252	16	6	-	45	7	2	328
Provisions for doubtful debts	23	1	-	-	4	8	-	36
Operating and other expenses:								
To external sources	139	11	3	-	21	7	1	182
Intersegmental	(1)	1	-	-	-	-	-	-
Operating profit (loss) before taxes	91	3	3	-	20	(8)	1	110
Provision for taxes on operating profit	31	2	2	-	7	-	-	42
Operating profit (loss) after taxes	60	1	1	-	13	(8)	1	68
Minority interests in profits of consolidated companies	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	60	-	1	-	13	(8)	1	67

Small Businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 30 September 2009							
	NIS millions							
Net interest income:								
From external sources	189	7	-	2	70	11	1	280
Intersegmental	(34)	-	-	(2)	(23)	(17)	-	(76)
Operating and other income:								
From external sources	68	41	7	-	11	3	1	131
Intersegmental	-	(27)	-	-	-	-	-	(27)
Total income	223	21	7	-	58	(3)	2	308
Provisions for doubtful debts	34	1	-	-	22	6	-	63
Operating and other expenses:								
To external sources	140	17	2	-	21	8	1	189
Intersegmental	(1)	1	-	-	-	-	-	-
Operating profit (loss) before taxes	50	2	5	-	15	(17)	1	56
Provision for taxes (benefit) on operating profit	14	1	2	-	6	(5)	1	19
Net profit (loss)	36	1	3	-	9	(12)	-	37

Small Businesses (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the nine months ended 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	563	15	1	4	148	33	2	766
Intersegmental	(65)	(3)	-	(3)	(16)	(12)	-	(99)
Operating and other income:								
From external sources	220	76	19	-	33	8	1	357
Intersegmental	-	(43)	-	-	-	-	-	(43)
Total income	718	45	20	1	165	29	3	981
Provisions for doubtful debts	55	2	-	-	13	16	-	86
Operating and other expenses:								
To external sources	448	32	7	-	70	23	2	582
Intersegmental	-	2	-	-	-	-	-	2
Operating profit (loss) before taxes	215	9	13	1	82	(10)	1	311
Provision for taxes on operating profit	75	4	5	-	29	-	-	113
Operating profit (loss) after taxes	140	5	8	1	53	(10)	1	198
Minority interests in profits of consolidated companies	-	(1)	-	-	-	-	-	(1)
Net profit (loss)	140	4	8	1	53	(10)	1	198
% Return on equity								20.3%
Average balance of assets	11,146	774	26	133	4,774	726	109	17,688
Average balance of liabilities	12,402	1,401	-	-	2,137	425	82	16,447
Average balance of risk assets	10,185	581	29	114	4,846	884	109	16,748
Average balance of mutual fund and supplementary training fund assets	-	-	1,971	-	-	-	-	1,971
Average balance of securities	-	-	4,643	-	-	5	-	4,648
Average balance of other assets under management	308	-	-	-	-	-	-	308
Balance of credit to the public	11,367	784	16	120	4,555	579	133	17,554
Balance of deposits of the public	12,346	-	-	-	2,168	344	87	14,945

Small Businesses (cont.)

						Overseas activity		
	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Banking and finance	Real estate	Total
	For the nine months ended 30 September 2009							
	NIS millions							
Net interest income:								
From external sources	525	14	1	5	191	42	2	780
Intersegmental	(63)	(2)	-	(4)	(53)	(30)	-	(152)
Operating and other income:								
From external sources	205	72	17	-	33	11	1	339
Intersegmental	-	(44)	-	-	-	-	-	(44)
Total income	667	40	18	1	171	23	3	923
Provisions for doubtful debts	103	1	-	-	36	7	3	150
Operating and other expenses:								
To external sources	402	31	7	-	63	27	2	532
Intersegmental	-	2	-	-	-	-	-	2
Operating profit (loss) before taxes	162	6	11	1	72	(11)	(2)	239
Provision for taxes (benefit)	57	2	4	-	26	(5)	-	84
Net profit (loss)	105	4	7	1	46	(6)	(2)	155
% Return on equity								19.0%
Average balance of assets	11,196	654	24	151	4,755	720	93	17,593
Average balance of liabilities	11,833	981	-	-	1,993	570	100	15,477
Average balance of risk assets	8,299	636	27	153	4,783	762	87	14,747
Average balance of mutual fund and supplementary training fund assets	-	-	1,483	-	-	-	-	1,483
Average balance of securities	-	-	3,136	-	-	2	-	3,138
Average balance of other assets under management	392	-	-	-	-	-	-	392
Balance of credit to the public as at 31 December 2009	11,130	757	36	148	4,780	699	103	17,653
Balance of deposits of the public as 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 99 million compared with the end of 2009, a fall of 0.6%, and total deposits of the public decreased by NIS 112 million, a fall of 0.7%.

Main Changes in the Net Profit

In the first nine months of 2010, net profit in the small businesses segment totaled NIS 197 million, compared with NIS 155 million in the corresponding period last year, an increase of 27.1%. The increase in profit derives mainly from an increase in income of NIS 58 million, from a decrease in the provisions for doubtful debts in the amount of NIS 64 million, which was partially offset by an increase in operating expenses in the amount of NIS 50 million.

The return on equity of the net profit was 20.3%.

3. Corporate Banking

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

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the three months ended 30 September 2010						
	NIS millions						
Net interest income:							
From external sources	440	7	(2)	380	1	1	827
Intersegmental	(153)	(2)	2	(223)	-	-	(376)
Operating and other income:							
From external sources	35	50	6	21	1	-	113
Intersegmental	(1)	(31)	-	-	-	-	(32)
Total income	321	24	6	178	2	1	532
Provisions for doubtful debts	(143)	2	-	(12)	(1)	-	(154)
Operating and other expenses:							
To external sources	100	18	2	28	1	1	150
Intersegmental	1	-	-	-	-	-	1
Operating profit before taxes	363	4	4	162	2	-	535
Provision for taxes on operating profit	133	1	1	57	-	-	192
Operating profit after taxes	230	3	3	105	2	-	343
Minority interests in profits of consolidated companies	-	(1)	-	-	-	-	(1)
Net profit	230	2	3	105	2	-	342

Corporate Banking (cont**.)**

					Overseas activity		
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Real estate	Total
	For the three months ended 30 September 2009						
	NIS millions						
Net interest income:							
From external sources	688	3	9	408	2	1	1,111
Intersegmental	(367)	(1)	(9)	(248)	-	1	(624)
Operating and other income:							
From external sources	318	21	7	12	3	-	361
Intersegmental	(2)	(14)	-	-	-	-	(16)
Total income	637	9	7	172	5	2	832
Provisions for doubtful debts	40	1	-	157	-	-	198
Operating and other expenses:							
To external sources	105	5	2	37	4	1	154
Intersegmental	-	-	-	-	-	-	-
Operating profit (loss) before taxes	492	3	5	(22)	1	1	480
Provision for taxes (benefit) on operating profit	171	-	2	(8)	-	1	166
Net profit (loss)	321	3	3	(14)	1	-	314

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2010						
	NIS millions						
Net interest income:							
From external sources	1,317	19	-	872	9	1	2,218
Intersegmental	(405)	(5)	-	(297)	(3)	3	(707)
Operating and other income:							
From external sources	125	137	20	50	2	1	335
Intersegmental	-	(93)	-	-	-	-	(93)
Total income	1,037	58	20	625	8	5	1,753
Provisions for doubtful debts	(190)	4	-	150	-	-	(36)
Operating and other expenses:							
To external sources	300	50	6	88	5	4	453
Intersegmental	1	-	-	-	-	-	1
Operating profit before taxes	926	4	14	387	3	1	1,335
Provision for taxes on operating profit	328	1	5	137	1	-	472
Operating profit after taxes	598	3	9	250	2	1	863
Minority interests in profits of consolidated companies	-	(1)	-	-	-	-	(1)
Net profit	598	2	9	250	2	1	862
% Return on equity							13.8%
Average balance of assets	45,439	464	156	26,762	475	100	73,396
Average balance of liabilities	24,724	2,608	26	5,179	104	314	32,955
Average balance of risk assets	63,336	406	157	26,743	730	100	91,472
Average balance of mutual fund and supplementary training fund assets	-	-	1,061	-	-	-	1,061
Average balance of securities	-	-	84,170	-	161	-	84,331
Average balance of other assets under management	201	-	-	-	-	-	201
Balance of credit to the public	44,855	466	153	26,474	145	182	72,275
Balance of deposits of the public	19,003	-	-	4,199	152	150	23,504

Corporate Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the nine months ended 30 September 2009						
	NIS millions						
Net interest income:							
From external sources	1,287	19	9	1,136	9	1	2,461
Intersegmental	(401)	(5)	(9)	(624)	4	4	(1,031)
Operating and other income:							
From external sources	418	122	20	43	5	1	609
Intersegmental	(1)	(88)	-	-	-	-	(89)
Total income	1,303	48	20	555	18	6	1,950
Provisions for doubtful debts	298	2	-	211	-	-	511
Operating and other expenses:							
To external sources	249	46	9	93	11	3	411
Intersegmental	-	-	-	-	-	-	-
Operating profit before taxes	756	-	11	251	7	3	1,028
Provision for taxes on operating profit	264	-	4	90	2	1	361
Net profit	492	-	7	161	5	2	667
% Return on equity							13.1%
Average balance of assets	50,830	481	40	27,228	559	81	79,219
Average balance of liabilities	25,689	2,876	-	5,054	652	272	34,543
Average balance of risk assets	62,884	559	1	27,305	758	65	91,572
Average balance of mutual fund and supplementary training fund assets	-	-	734	-	-	-	734
Average balance of securities	-	-	62,745	-	167	-	62,912
Average balance of other assets under management	263	-	-	-	-	-	263
Balance of credit to the public as at 31 December 2009	41,367	450	156	26,357	646	113	69,089
Balance of deposits of the public as at 31 December 2009	20,289	-	-	4,630	57	348	25,324

Corporate Banking (cont**.)**

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 3,186 million compared with the end of 2009, an increase of 4.6% and total deposits of the public decreased by NIS 1,820 million, or 7.2%.

Main Changes in Net Profit

In the first nine months of 2010, net profit in the corporate banking segment totaled NIS 862 million, compared with NIS 667 million during the corresponding period in 2009, an increase of 29.2%. The increase in profit derives mainly from an increase in net interest income of NIS 81 million and from a decrease in the provision for doubtful debts of NIS 547 million, which was partially offset by an increase in expenses of NIS 43 million and a reduction in operating income amounting to NIS 278 million. In 2009, operating income also included gains on shares of “HOT” and “Bezeq” amounting to NIS 280 million, which were attributed to this sector.

The return on equity of the net profit was 13.8%.

4. Commercial Banking

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

	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ended 30 September 2010								
	NIS millions								
Net interest income:									
From external sources	**187**	**2**	**3**	**12**	**97**	**122**	**-**	**33**	**456**
Intersegmental	**(7)**	**(1)**	**(2)**	**(9)**	**(39)**	**(22)**	**-**	**(13)**	**(93)**
Operating and other income:									
From external sources	**57**	**17**	**11**	**-**	**7**	**13**	**2**	**1**	**108**
Intersegmental	**-**	**(9)**	**-**	**-**	**-**	**-**	**-**	**-**	**(9)**
Total income	**237**	**9**	**12**	**3**	**65**	**113**	**2**	**21**	**462**
Provisions for doubtful debts	**34**	**-**	**-**	**1**	**(2)**	**76**	**-**	**11**	**120**
Operating and other expenses:									
To external sources	**132**	**5**	**10**	**1**	**10**	**77**	**2**	**12**	**249**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Operating profit before taxes	**70**	**4**	**2**	**1**	**57**	**(40)**	**-**	**(2)**	**92**
Provision for taxes on operating profit	**24**	**1**	**1**	**1**	**21**	**(10)**	**-**	**(1)**	**37**
Net profit	**46**	**3**	**1**	**-**	**36**	**(30)**	**-**	**(1)**	**55**

Commercial Banking (cont.)

						Overseas activity			
	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Banking and finance	Capital market	Real estate	Total
	For the three months ended 30 September 2009								
	NIS millions								
Net interest income:									
From external sources	244	3	1	6	99	112	-	30	495
Intersegmental	(55)	-	(1)	(6)	(49)	(18)	-	(12)	(141)
Operating and other income:									
From external sources	52	22	12	-	8	12	2	4	112
Intersegmental	-	(14)	-	-	-	-	-	-	(14)
Total income	241	11	12	-	58	106	2	22	452
Provisions for doubtful debts	63	1	-	(5)	10	45	-	3	117
Operating and other expenses:									
To external sources	129	8	7	1	14	74	-	12	245
Intersegmental	1	-	-	-	-	-	-	-	1
Operating profit (loss) before taxes	48	2	5	4	34	(13)	2	7	89
operating profit	15	-	2	2	12	(2)	-	3	32
Net profit (loss)	33	2	3	2	22	(11)	2	4	57

Commercial Banking (cont.)

	Banking and finance	Credit cards	Capital market	Mort-gages	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2010								
	NIS millions								
Net interest income:									
From external sources	**613**	**7**	**9**	**28**	**203**	**352**	**-**	**103**	**1,315**
Intersegmental	**(41)**	**(2)**	**(8)**	**(21)**	**(51)**	**(51)**	**-**	**(39)**	**(213)**
Operating and other income:									
From external sources	**168**	**47**	**38**	**2**	**20**	**30**	**7**	**5**	**317**
Intersegmental	**-**	**(29)**	**-**	**-**	**-**	**-**	**-**	**-**	**(29)**
Total income	**740**	**23**	**39**	**9**	**172**	**331**	**7**	**69**	**1,390**
Provisions for doubtful debts	**69**	**1**	**-**	**(1)**	**21**	**108**	**-**	**17**	**215**
Operating and other expenses:									
To external sources	**390**	**17**	**29**	**4**	**44**	**231**	**5**	**37**	**757**
Intersegmental	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**2**
Operating profit before taxes	**280**	**5**	**10**	**5**	**107**	**(8)**	**2**	**15**	**416**
Provision for taxes on operating profit	**99**	**1**	**4**	**2**	**38**	**5**	**1**	**3**	**153**
Net profit	**181**	**4**	**6**	**3**	**69**	**(13)**	**1**	**12**	**263**
% return on equity									**9.5%**
Average balance of assets	**22,335**	**323**	**411**	**567**	**6,669**	**12,154**	**-**	**3,562**	**46,021**
Average balance of liabilities	**26,210**	**885**	**-**	**121**	**2,166**	**8,386**	**-**	**404**	**38,172**
Average balance of risk assets	**25,452**	**268**	**400**	**1,030**	**6,256**	**11,917**	**-**	**3,562**	**48,885**
Average balance of mutual fund and supplementary training fund assets	**-**	**-**	**3,285**	**-**	**-**	**-**	**157**	**-**	**3,442**
Average balance of securities	**-**	**-**	**36,387**	**-**	**-**	**-**	**2,336**	**-**	**38,723**
Average balance of other assets under management	**564**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**564**
Balance of credit to the public	**20,951**	**317**	**443**	**664**	**7,867**	**11,812**	**-**	**3,138**	**45,192**
Balance of deposits of the public	**24,530**	**-**	**-**	**63**	**2,251**	**8,259**	**-**	**471**	**35,574**

Commercial Banking (cont.)

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2009								
	NIS millions								
Net interest income:									
From external sources	611	8	1	20	238	370	-	107	1,355
Intersegmental	(53)	(1)	(1)	(17)	(97)	(72)	-	(45)	(286)
Operating and other income:									
From external sources	159	45	37	1	23	32	4	8	309
Intersegmental	-	(30)	-	-	-	-	-	-	(30)
Total income	717	22	37	4	164	330	4	70	1,348
Provisions for doubtful debts	146	1	-	(2)	20	85	-	6	256
Operating and other expenses:									
To external sources	335	17	24	2	43	230	2	35	688
Intersegmental	1	-	-	-	-	-	-	-	1
Operating profit before taxes	235	4	13	4	101	15	2	29	403
Provision for taxes on operating profit	82	1	5	2	36	6	-	10	142
Net profit	153	3	8	2	65	9	2	19	261
% return on equity									10.3%
Average balance of assets	23,521	294	55	474	5,936	13,527	-	3,478	47,285
Average balance of liabilities	20,804	726	-	129	2,009	8,732	-	510	32,910
Average balance of risk assets	22,446	301	7	469	6,034	12,762	-	3,206	45,225
Average balance of mutual fund and supplementary training fund assets	-	-	2,749	-	-	-	97	-	2,846
Average balance of securities	-	-	30,178	-	-	1	1,831	-	32,010
Average balance of other assets under management	638	-	-	-	-	-	-	-	638
Balance of credit to the public as at 31 December 2009	20,744	322	379	508	6,019	12,026	-	3,518	43,516
Balance of deposits of the public as at 31 December 2009	23,103	-	-	72	1,990	7,991	-	377	33,533

Commercial Banking (cont**.)**

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 1,676 million compared with the end of 2009, an increase of 3.9% and total deposits of the public increased by NIS 2,041million, or 6.1%.

Main Changes in Net Profit

In the first nine months of 2010, net profit in the commercial banking segment totaled NIS 263 million, compared with NIS 261million during the corresponding period in 2009, an increase of 0.8%. The increase in profit derives mainly from an increase in net interest income of NIS 42 million, and from a decrease in the provision for doubtful debts of NIS 41million, mainly in Israel and in the UK office, which was partially offset by an increase in operating expenses of NIS 70 million.

The return on equity of the net profit was 9.5%.

5. Private Banking

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

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	For the three months ended 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	(49)	-	-	3	33	-	-	(13)
Intersegmental	84	-	-	(2)	37	-	1	120
Operating and other income:								
From external sources	9	-	38	(1)	31	34	1	112
Intersegmental	(1)	1	-	-	2	-	-	2
Total income	43	1	38	-	103	34	2	221
Provisions for doubtful debts	-	-	-	-	13	-	(1)	12
Operating and other expenses:								
To external sources	41	-	13	1	92	31	1	179
Intersegmental	1	-	-	-	1	-	-	2
Operating profit (loss) before taxes	1	1	25	(1)	(3)	3	2	28
Provision for taxes (tax benefit) on operating profit	-	-	9	-	(2)	2	-	9
Operating profit (loss) after taxes	1	1	16	(1)	(1)	1	2	19
Minority interests in profits of consolidated subsidiaries	-	-	-	-	-	-	-	-
Net profit (loss)	1	1	16	(1)	(1)	1	2	19

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the three months ended 30 September 2009							
	NIS millions							
Net interest income:								
From external sources	(82)	-	-	1	30	-	1	(50)
Intersegmental	116	-	-	2	32	-	1	151
Operating and other income:								
From external sources	9	-	34	1	36	29	-	109
Intersegmental	-	1	-	-	5	-	-	6
Total income	43	1	34	4	103	29	2	216
Provisions for doubtful debts	-	-	-	-	1	-	-	1
Operating and other expenses:								
To external sources	31	-	16	1	92	23	1	164
Intersegmental	-	-	-	-	-	-	-	-
Operating profit before taxes	12	1	18	3	10	6	1	51
Provision for taxes on operating profit	6	-	6	1	-	(1)	1	13
Operating profit (loss) after taxes	6	1	12	2	10	7	-	38
Minority interests in profits of consolidated subsidiaries	-	-	-	-	(2)	-	-	(2)
Net profit (loss)	6	1	12	2	8	7	-	36

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2010							
	NIS millions							
Net interest income:								
From external sources	(111)	-	-	6	83	-	-	(22)
Intersegmental	208	-	-	(1)	122	-	3	332
Operating and other income:								
From external sources	24	-	114	2	93	97	1	331
Intersegmental	1	1	-	-	5	-	-	7
Total income	122	1	114	7	303	97	4	648
Provisions for doubtful debts	1	-	-	-	14	-	-	15
Operating and other expenses:								
To external sources	128	1	40	4	262	83	2	520
Intersegmental	1	-	-	-	2	1	-	4
Operating profit (loss) before taxes	(8)	-	74	3	25	13	2	109
Provision for taxes (tax benefit) on operating profit	(3)	-	25	1	8	4	-	35
Operating profit (loss) after taxes	(5)	-	49	2	17	9	2	74
Minority interests in profits of consolidated subsidiaries	-	-	-	-	(3)	-	-	(3)
Net profit (loss)	(5)	-	49	2	14	9	2	71
% Return on equity								14.0%
Average balance of assets	1,216	54	1	451	9,408	-	27	11,157
Average balance of liabilities	22,327	-	-	740	16,842	-	212	40,121
Average balance of risk assets	1,534	40	1	442	7,209	-	27	9,253
Average balance of mutual fund and supplementary training fund assets	-	-	3,684	-	-	1,469	-	5,153
Average balance of securities	-	-	36,399	-	-	30,113	-	66,512
Average balance of other assets under management	264	-	-	-	-	-	-	264
Balance of credit to the public	1,244	55	1	472	6,319	-	29	8,120
Balance of deposits of the public	21,337	-	-	724	15,486	-	171	37,718

Private Banking (cont.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Capital market	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2009							
	NIS millions							
Net interest income:								
From external sources	(253)	-	-	3	82	-	(1)	(169)
Intersegmental	373	-	-	5	127	-	5	510
Operating and other income:								
From external sources	23	-	102	3	96	85	1	310
Intersegmental	1	1	-	-	11	-	-	13
Total income	144	1	102	11	316	85	5	664
Provisions for doubtful debts	1	-	-	-	-	-	-	1
Operating and other expenses:								
To external sources	104	1	44	5	285	72	3	514
Intersegmental	-	-	-	-	1	-	-	1
Operating profit (loss) before taxes	39	-	58	6	30	13	2	148
Provision for taxes on operating profit	15	-	19	2	6	3	1	46
Operating profit (loss) after taxes	24	-	39	4	24	10	1	102
Minority interests in profits of consolidated subsidiaries	-	-	-	-	(4)	-	-	(4)
Net profit (loss)	24	-	39	4	20	10	1	98
% Return on equity								22.4%
Average balance of assets	1,337	50	-	381	9,237	-	51	11,056
Average balance of liabilities	24,319	-	-	707	16,379	-	294	41,699
Average balance of risk assets	1,469	51	-	366	5,991	-	49	7,926
Average balance of mutual fund and supplementary training fund assets	-	-	2,608	-	-	1,348	-	3,956
Average balance of securities	-	-	30,044	-	-	28,565	-	58,609
Average balance of other assets under management	297	-	-	-	-	-	-	297
Balance of credit to the public as at 31 December 2009	1,117	52	-	417	4,823	-	30	6,439
Balance of deposits of the public as 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 increased by NIS 1,681 million, or 26.1%, mostly in Leumi UK, compared with the end of 2009, and total deposits of the public decreased by NIS 3,440 million (8.4%), also as a result of appreciation of the shekel in relation to the dollar..

Main Changes in Net Profit

In the first nine months of 2010, net profit in the private banking segment amounted to NIS 71 million, compared with NIS 98 million in the corresponding period in 2009, a decrease of 27.6%. The fall in profit derives from a reduction in net interest income of NIS 31 million, an increase in the provision for doubtful debts amounting to NIS 14 million (in the United Kingdom and the United States) and an increase in operating expenses amounting to NIS 9 million, which was partly offset by an increase in operating income of NIS 15 million.

The return on equity of the net profit was 14.0%.

Activity of Representative Office in Brazil

The representative offices in Brazil have been closed, but, at this stage, it has been decided to continue holding the representative's license through the company in Brazil.

As part of investigations being conducted against various financial entities in Porto Alegre, Brazil, on matters related to the exit of monies out of Brazil, apparently without the appropriate reporting, indictments have been served *inter alia* against two people who were employed in the representative office in Porto Alegre.

Representative Office of Bank Leumi USA (BLUSA) in Israel

On September 1, 2010, a representative office of Bank Leumi USA (BLUSA) was opened in Israel.

6. Financial Management – Capital Markets

In the first nine months of 2010, the net profit in the financial management segment amounted to NIS 157 million, compared with a profit of NIS 171 million in the corresponding period in 2009, the decrease of 8.2% being explained mainly by the following factors:

a. An increase in operating and other expenses amounting to NIS 248 million. Most of the increase derives from the fact that in 2009, pension costs were reduced by the profits of the pension funds amounting to NIS 168 million, compared to only NIS 18 million in 2010.

b. A decrease in operating income in the amount of NIS 242 million, of which some NIS 154 million was a reduction in the profits of the severance pay funds.

c. A decrease in net interest income amounting to NIS 108 million, mainly due to exchange rate differences in the representative offices in the United Kingdom and Romania.

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

a. An increase in profit from extraordinary items in the amount of NIS 177 million in respect of the sale of Paz Co. (see below).

b. An increase in the Group's share in profits of companies included on equity basis in the amount of NIS 240 million.

Companies Included on Equity Basis (Non-Banking) – (reported 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 equity basis amounted to NIS 1,740 million on 30 September 2010, compared with NIS 2,178 million on 31 December 2009. The decrease is attributable to the sale of Paz Co., see page 96 below.

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

Company	Book value (in NIS millions)			Market value (in NIS millions)		Capital adequacy requirements
	30 September 2010	31 December 2009	% change	**30 September 2010**	31 December 2009	**30 September 2010**
The Israel Corporation Ltd.	**1,453**	1,371	6.0	**4,812**	3,810	**131**
Paz Oil Company Ltd.*	**-**	565	-	**-**	880	**-**
Others	**287**	242	18.6	**-**	-	**24**
Total	**1,740**	2,178	(20.1)	**4,812**	4,690	**155**

* See details below.

The contribution to Group profit of companies included on an equity basis in the first nine months of 2010 amounted to NIS 259 million, compared with zero in the corresponding period last year.

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

	For the nine months ended 30 September		
	2010	2009	% change
The Israel Corporation Ltd.	**215**	(73)	+
Paz Oil Company Ltd.	**29**	66	(56.1)
Others	**15**	7	114.3
Total	**259**	-	+

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 as 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.

On 22 June 2010, the Bank sold most of its holdings in Paz. See below for details. As a result, with effect from this date, the restrictions mentioned above no longer apply to the Bank.

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 2,000 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.*

On 22 June 2010, the Bank sold most of its holdings in Paz, being an amount representing 14.97% of the issued and paid-up capital of Paz, at a price of some NIS 520 per share, for a total sum of about NIS 781 million, and at an after-tax profit of about NIS 177 million. Following the sale, the Bank exercised 11,961 options on 4 August 2010. Following the above mentioned transactions, the Bank (through Leumi Real Holdings) retained ownership of 0.95% of the issued and paid-up capital of Paz.

Through 18 November 2010, the Bank continued to sell shares and, as of that date, 0.4% of the issued and paid-up capital of Paz remains in the hands of the Bank (through Leumi Real Holdings).

The percentage remaining under the Bank's ownership is permitted under the Amendment to the Banking Law of 3 March 2010, and is reported under the item "Shares available for sale".

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. In addition, pursuant to the amendment to the Banking Law (Licensing) from March 2010, a bank is entitled to have holdings in only one insurance company where the shareholders' equity, pursuant to Section 35 of the Supervision of Financial Services Law (Insurance), 1981, exceeds NIS 2,000 million.

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.

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 nine months of 2010, the profit in the "Others" segment amounted to NIS 151 million, compared with a profit of NIS 87 million in the corresponding period last year.

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

	For the nine months ended 30 September		
	2010	2009	Change in amount
Profit (loss) from extraordinary items	**9**	28	(19)
From operating activity at the Bank	**16**	13	3
Leumi Partners	**138**	9	129
Other companies in Israel	**4**	73	(69)
Overseas companies	**5**	(4)	9
Tax adjustments [1]	**(21)**	(206)	185
Total	**151**	(87)	238

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

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 30 September 2010							
	NIS millions							
Profit from net interest income	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Operating and other income	**128**	**6**	**6**	**11**	**38**	**21**	**38**	**248**
Total income	**128**	**6**	**6**	**12**	**38**	**21**	**38**	**249**
Operating and other expenses	**55**	**3**	**2**	**10**	**13**	**7**	**33**	**123**
Operating profit before taxes	**73**	**3**	**4**	**2**	**25**	**14**	**5**	**126**
Net profit	**47**	**1**	**3**	**1**	**16**	**9**	**3**	**80**

	House-holds	Small businesses	Corporate banking	Commercial Banking	Private banking	Financial management and others	Overseas activities	Total
	For the three months ended 30 September 2009							
	NIS millions							
Profit from net interest income	2	-	-	-	-	-	-	2
Operating and other income	139	7	7	12	34	22	36	257
Total income	141	7	7	12	34	22	36	259
Operating and other expenses	77	2	2	7	16	7	18	129
Operating profit before taxes	64	5	5	5	18	15	18	130
Net profit	40	3	3	3	12	11	16	88

	Households	Small businesses	Corporate banking	Commercial banking	Private banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2010							
	NIS millions							
Profit from net interest income	**1**	**1**	**-**	**1**	**-**	**-**	**-**	**3**
Operating and other income	**396**	**19**	**20**	**38**	**114**	**79**	**109**	**775**
Total income	**397**	**20**	**20**	**39**	**114**	**79**	**109**	**778**
Operating and other expenses	**184**	**7**	**6**	**29**	**40**	**21**	**90**	**377**
Operating profit before taxes	**213**	**13**	**14**	**10**	**74**	**58**	**19**	**401**
Net profit	**137**	**8**	**9**	**6**	**49**	**37**	**14**	**260**

	Households	Small businesses	Corporate banking	Commercial Banking	Private banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2009							
	NIS millions							
Profit from net interest income	2	1	-	-	-	-	-	3
Operating and other income	380	17	20	37	102	59	98	713
Total income	382	18	20	37	102	59	98	716
Operating and other expenses	222	7	9	24	44	28	87	421
Operating profit before taxes	160	11	11	13	58	31	11	295
Net profit	102	7	7	8	39	20	10	193

In the first nine months of 2010, net operating profit after taxes from capital market operations amounted to NIS 260 million, compared with NIS 192 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 nine months of 2010 with a net profit of NIS 118 million, compared with NIS 108 million in the corresponding period in 2009.

During the first nine months of 2010, the volume of activity by Leumi Card cardholders increased by 10.1% compared with the activity in the corresponding period in 2009. The number of valid cards increased by some 9.1% in the first nine months of 2010, as compared with the corresponding period last year.

The following tables set out details of 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 30 September 2010					
	NIS millions					
Profit from net interest income	**42**	**4**	**5**	**1**	**-**	**52**
Operating and other income	**174**	**12**	**19**	**8**	**1**	**214**
Total income	**216**	**16**	**24**	**9**	**1**	**266**
Provision for doubtful debts	**5**	**1**	**2**	**-**	**-**	**8**
Operating and other expenses	**139**	**12**	**18**	**5**	**-**	**174**
Operating profit before taxes	**72**	**3**	**4**	**4**	**1**	**84**
Minority interests	**(8)**	**(1)**	**(1)**	**-**	**-**	**(10)**
Net profit	**43**	**-**	**2**	**3**	**1**	**49**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the three months ended 30 September 2009					
	NIS millions					
Profit from net interest income	37	7	2	3	-	49
Operating and other income	172	14	7	8	1	202
Total income	209	21	9	11	1	251
Provisions for doubtful debts	5	1	1	1	-	8
Operating and other expenses	134	18	5	8	-	165
Operating profit before taxes	70	2	3	2	1	78
Share of minority shareholders	(7)	-	-	-	-	(7)
Net profit	42	1	3	2	1	49

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the nine months ended 30 September 2010					
	NIS millions					
Profit from net interest income	**119**	**12**	**14**	**5**	**-**	**150**
Operating and other income	**510**	**33**	**44**	**18**	**1**	**606**
Total income	**629**	**45**	**58**	**23**	**1**	**756**
Provision for doubtful debts	**15**	**2**	**4**	**1**	**-**	**22**
Operating and other expenses	**413**	**34**	**50**	**17**	**1**	**515**
Operating profit (loss) before taxes	**201**	**9**	**4**	**5**	**-**	**219**
Minority interests	**(22)**	**(1)**	**(1)**	**-**	**-**	**(24)**
Net profit (loss)	**121**	**4**	**2**	**4**	**-**	**131**

	House-holds	Small businesses	Corporate banking	Commercial banking	Private banking	Total
	For the nine months ended 30 September 2009					
	NIS millions					
Profit from net interest income	104	12	14	7	-	137
Operating and other income	494	28	34	15	1	572
Total income	598	40	48	22	1	709
Provisions for doubtful debts	17	1	2	1	-	21
Operating and other expenses	386	33	46	17	1	483
Operating profit (loss) before taxes	195	6	-	4	-	205
Minority interests	(21)	-	-	-	-	(21)
Net profit (loss)	114	4	-	3	-	121

The operating profit from credit card activities in the first nine months of 2010 amounted to NIS 132 million as compared with NIS 121 million in the corresponding period in 2009, an increase of 8.2%, resulting primarily from an increase in revenues of NIS 47 million, partially offset by an increase in expenses of NIS 32 million.

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 30 September 2010					
	NIS millions					
Profit from net interest income	**35**	**157**	**58**	**1**	**58**	**309**
Operating and other income	**10**	**21**	**7**	**(1)**	**4**	**41**
Total income	**45**	**178**	**65**	**-**	**62**	**350**
Provision for doubtful debts	**4**	**(12)**	**(2)**	**-**	**6**	**(4)**
Operating and other expenses	**21**	**28**	**10**	**1**	**15**	**75**
Operating profit (loss) before taxes	**20**	**162**	**57**	**(1)**	**41**	**279**
Net profit (loss)	**13**	**105**	**36**	**(1)**	**28**	**181**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the three months ended 30 September 2009					
	NIS millions					
Profit from net interest income	47	160	50	3	33	293
Operating and other income	11	12	8	1	6	38
Total income	58	172	58	4	39	331
Provision for doubtful debts	22	157	10	-	3	192
Operating and other expenses	21	37	14	1	15	88
Operating profit (loss) before taxes	15	(22)	34	3	21	51
Net profit (loss)	9	(14)	22	2	11	30

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the nine months ended 30 September 2010					
	NIS millions					
Profit from net interest income	**132**	**575**	**152**	**5**	**125**	**989**
Operating and other income	**33**	**50**	**20**	**2**	**11**	**116**
Total income	**165**	**625**	**172**	**7**	**136**	**1,105**
Provision for doubtful debts	**13**	**150**	**21**	**-**	**17**	**201**
Operating and other expenses	**70**	**88**	**44**	**4**	**45**	**251**
Operating profit before taxes	**82**	**387**	**107**	**3**	**74**	**653**
Net profit	**53**	**250**	**69**	**2**	**51**	**425**

	Small businesses	Corporate banking	Commercial banking	Private banking	Overseas activities	Total
	For the nine months ended 30 September 2009					
	NIS millions					
Profit from net interest income	138	512	141	8	91	890
Operating and other income	33	43	23	3	14	116
Total income	171	555	164	11	105	1,006
Provision for doubtful debts	36	211	20	-	9	276
Operating and other expenses	63	93	43	5	43	247
Operating profit before taxes	72	251	101	6	53	483
Net profit	46	161	65	4	33	309

For details of the additional provision for doubtful debts in respect of excess sectoral credit, see page 36 above.

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 nine months of			For the first nine months of		
	2010(1)	2009(1)	Change	**2010**(2)	2009(2)	Change
	NIS millions		%	NIS millions		%
The Bank	**928**	970	(4.3)	**1,017**	943	**7.8**
Consolidated companies in Israel (3)	**499**	450	10.9	**499**	450	**10.9**
Overseas consolidated companies (4)	**29**	87	(66.7)	**(60)**	114	**-**
Companies included on equity basis (3)	**217**	(65)	+	**217**	(65)	**+**
Net operating profit	**1,673**	1,442	16.0	**1,673**	1,442	**16.0**
Overseas subsidiaries' profit, in nominal terms (US$ millions) (5)	**24.4**	23.9	2.1	**24.4**	23.9	**2.1**

(1) Translation adjustments in respect of overseas investments are 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) Companies included on equity basis belonging to Israeli companies are included in the data of the consolidated companies in Israel.

(4) After certain adjustments to Israeli accounting principles.

(5) As reported by the overseas subsidiaries, including overseas branches and minority interests.

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

- The decrease in net operating profit at the Bank arises mainly from an increase in operating expenses and a decrease in operating income and net interest income. This reduction was partially offset by a decrease in provisions for doubtful debts. Most of the explanations for the abovementioned changes are presented on pages 32-44 as part of the discussion on the Group's results and those arising mainly from the Bank's results.

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

- 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, as well as a decrease in the profits of Leumi Romania..

- The increase in income of companies included on an equity basis derives from an increase in income from the Israel Corporation.

The overseas subsidiaries' operating profits in nominal terms as published by them (including the Bank's overseas branches and minority interests), translated for convenience to U.S. dollars, totaled some US$ 24.4 million, an increase of US$ 0.5 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 60 million, compared with a profit of NIS 114 million in the corresponding period in 2009. Excluding the effect of exchange rate differentials in respect of the net cost of financing sources, the profit of the overseas subsidiaries amounted to NIS 29 million, compared with a profit of NIS 87 million in the corresponding period in 2009, an decrease of NIS 58 million, deriving mainly from negative exchange rate differentials in respect of overseas investments, due to the appreciation of the shekel in relation to the foreign currencies. In the first nine months of 2010, the exchange rate differentials in respect of foreign investments were positive totaling NIS 129 million, compared with positive differentials amounting to NIS 29 million in the first nine months 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 7,075 million on 30 September 2010, compared with NIS 6,340 million on 31 December 2009. The contribution to operating profit in the first nine months of 2010 was NIS 499 million, compared with NIS 450 million in the corresponding period in 2009, an increase of 10.9%.

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 30 September				
	2010	2009	**2010**	2009	Change
	%		NIS millions		%
Leumi Mortgage Bank	**7.5**	5.7	**140.8**	93.0	51.4
Arab Israel Bank	**21.3**	25.3	**53.2**	65.5	(18.8)
Leumi Card	**18.5**	20.2	**94.2**	86.5	8.9
Leumi Partners (2)	**47.9**	5.7	**147.9**	12.3	+
Leumi Securities (previously Psagot – Ofek)	**5.9**	84.7	**3.4**	26.6	-
Leumi Real Holdings	**41.5**	16.1	**206.6**	66.6	+
Leumi Leasing and Investments	**1.7**	5.0	**11.1**	31.4	(64.6)
Others	**3.4**	10.5	**24.0**	68.2	(64.8)
Total consolidated subsidiaries in Israel	**14.0**	10.6	**681.2**	450.1	51.3

(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 an equity basis of Leumi Partners.

Arab Israel Bank

Following an Audit Report by the Bank of Israel in July 2008 on the subject of money-laundering, a request was made on 21 June 2010 to the Monetary Sanctions Imposition Committee to impose a monetary sanction on the Arab Israel Bank for an apparent violation of the provisions of section 7 of the Prohibition of Money Laundering Law.

On 15 August 2010, the Bank submitted its response to the Monetary Sanctions Imposition Committee and on 5 September 2010, representatives of the Bank appeared before the committee and made oral representations regarding the impositions.

No provision has been made at this stage in respect of any monetary sanction that may be imposed.

Overseas Consolidated Subsidiaries

The Bank's investments in overseas consolidated subsidiaries amounted to NIS 4,283 million on 30 September 2010, compared with NIS 4,345 million on 31 December 2009.

In the first nine months of 2010, the contribution of overseas consolidated subsidiaries to the net operating profit of the Group, after offsetting translation adjustments, amounted to a profit of NIS 29 million, compared with a profit of NIS 87 million in the corresponding period in 2009, as detailed below:

	For the first nine months of	
	2010	2009
	NIS millions	
Operating profit of the subsidiaries in shekels (the Group's share)	**69**	85
Exchange rate differentials in respect of the investment	**(129)**	29
Total	**(60)**	114
Exchange rate differentials in respect of the net cost of financing sources, after taxes	**89**	(27)
Total contribution of the subsidiaries (after offsetting net financing sources)	**29**	87

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

	Return on the Group's investment		Contribution to the Group's profit(*)		
	For the period ending 30 September				
	2010	2009	**2010**	2009	Change
	%		NIS millions		%
Leumi USA (BLC)	**1.2**	1.0	**22.2**	17.8	24.7
Leumi UK	**5.0**	7.7	**22.6**	35.1	(35.6)
Leumi Switzerland	**3.8**	4.2	**16.2**	17.5	(7.4)
Leumi Luxembourg	**13.3**	75.9	**10.0**	11.2	(10.7)
Leumi Re	**5.8**	-	**4.2**	(2.6)	+
Leumi Romania	**-**	1.8	**(46.5)**	5.8	-
Others	**-**	1.1	**(2.5)**	2.1	-
Total overseas consolidated subsidiaries	**0.8**	2.7	**26.2**	86.9	(69.9)

(*) Translation adjustments in respect of the overseas investments were offset against translation adjustments in respect of the Bank's financing sources after the effect of taxes, in the amount of NIS 89 million (NIS (27) million in the corresponding period in 2009). The following are some of the sums that were offset:

Leumi USA - NIS 45 million in 2010, compared with NIS 18 million in 2009.
Leumi UK - NIS (20) million in 2010, compared with NIS (33) million in 2009.
Leumi Switzerland - NIS (9) million in 2010, compared with NIS (13) million in 2009.
Leumi Romania - NIS 22 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 NIS 129 million during the first nine months of 2010, compared with an increase in pre-tax profit by NIS 29 million in the corresponding period in 2009. Net financing income after tax recorded at the Bank, which offset part of these exchange rate differentials, totaled some NIS 89 million during the first nine months of 2010, compared with expenses of NIS 27 million in the corresponding period in 2009.

In addition, the decrease in contribution to profit derives from an increase in the provision for doubtful debts amounting to NIS 34 million compared to 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 nine months ending 30 September		
	2010	2009	Change
	In millions		**%**
Leumi USA (BLC) (US$)	**12.7**	5.3	139.6
Leumi UK (£)	**5.8**	4.0	45.0
Leumi Switzerland (CHF)	**5.1**	6.8	(25.0)
Leumi Luxembourg (€)	**2.7**	2.1	28.6
Leumi Re (US$)	**2.0**	(0.5)	+
Leumi Romania – (Ron *)	**(24.8)**	11.7	-

* US$ 1 = Ron 3.23

The nominal profit of the overseas consolidated subsidiaries as reported by them totaled US$ 24.7 million in the first nine months of 2010, compared with US$ 24.8 million in the corresponding period in 2009, a decrease of 0.4%.

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

Non-Banking Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis amounted to NIS 1,740 million on 30 September 2010, compared with NIS 2,178 million on 31 December 2009.

During the first nine months of 2010, the contribution to net profit was NIS 259 million, compared with a contribution of zero in the corresponding period in 2009.

In connection with the sale of Paz Oil Company Ltd., see also page 96.

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.

In July 2010, Dr. Hedva Bar was appointed as a member of management of the Bank with the rank of Executive Vice President and as Chief Risk Manager of the Leumi Group.

This appointment was made further to a circular of the Supervisor of Banks' circular of December 2009 for the appointment of a Chief Risk Manager and the risk management function in the Bank. In the coming months, the structure of the Risk Management Unit will be determined.

Until the process of establishing the new risk management unit has been completed, risk managers who have served until now will continue in their positions and the risk management committees will operate in the format that has operated to date and in collaboration with the Chief Risk Manager.

For details regarding risk management, see pages 191-192 in the 2009 Financial Statements.

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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 other economic indices.

The policy for managing market risks is intended, on the one hand, to support the achievement of business goals by assessing the risks and damage that can result from exposure to risks and their limitation, in comparison with the forecast profit from them, and, on the other hand, to reduce the level of risk deriving from the Bank's ongoing activity, 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, directives and requirements of the Bank of Israel, and developments occurring worldwide with regard to measurements and methods of managing risks and adapting them to the needs of the Group and the Bank.

The Bank's management of its exposure to market risks is constantly reviewed and updated.

The market risk management policy prescribes limits on financial exposure. These limits are intended to reduce the damage that may result from of unexpected changes in the markets. The system of limits demarcates 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.

The limits set at the Group level include all the subsidiary companies in Israel and overseas. The overseas subsidiaries determine the market 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, on the matter of the Group’s market risk management. The directive stipulates basic principles for the manner of managing and controlling risks, including the responsibility of the Management and the Board of Directors, the definition of the 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, which are based on the guidelines of the second pillar of Basel II, are being implemented in stages, according to a predetermined work program.

Information on the exposure position according to the frameworks so determined 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 sets forth the capital requirements in respect of market risks (Table 10 Basel II):

	30 September 2010	31 December 2009
	NIS millions	
Capital requirement in respect of:		
Interest risks	**551**	432
Share price risk	**21**	36
Exchange rate risk	**59**	161
Options	**75**	39
Total capital requirement in respect of market risks	**706**	668

2. Main Risks in Market Risk

2.1 Basis Exposure

In accordance with 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 Group’s exposed capital.

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

The exposure to basis risk is reflected in the loss that may occur due to changes in the CPI and exchange rates, as a result of 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 maintain close control over risks deriving from basis exposure, remaining within the limits set by the Board of Directors, and to establish the extent of exposure in each linkage sector on a regular and current 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, instrument and 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 drawn from resolutions of their local boards of directors, and in coordination with the Bank in Israel.

For the purposes of day-to-day management and reporting, certain changes have been made to take into account the Bank's economic approach to basis risks, which differs 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, although 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 object of limiting the impact on the reported accounting profit.

The exposure position in the basis, calculated pursuant to generally accepted accounting principles, is presented in Note 5 to the Financial Statements.

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

	Approved limits maximum surplus (or deficit)	**Actual exposure (%)**		
		30 September 2010	30 September 2009	31December 2009 **
Unlinked	50% - (100%)	**9.0**	10.5	(5.7)
CPI-linked	100% - (50%)	**(10.0)**	(8.2)	7.5
Foreign currency*	15% - (15%)	**1.0**	(2.3)	(1.8)

* In addition, the Bank and the subsidiaries have limits on the maximum exposure in each currency.
** Reclassified.

During the first nine months of 2010, the CPI-linked balance sheet sector showed an average deficit (short) of 2% of exposed capital. This rate fluctuated between a surplus of 8% and a deficit of 13%. 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 pre-tax profit.

Changes in the exchange rate affect the effective tax rate, since the exchange rate differences in respect of the overseas investments are not taken into account in the income basis for calculating the tax provision, 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 taking into account the volume of the overseas investments, this may have a material effect on the tax provision. 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 nine months 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 30 September 2010. The measurement relates to the effect of such changes on the capital of the Bank and includes activity in balance sheet and off-balance sheet instruments:

	US$	€	£	CHF	Yen
	NIS millions				
Increase of 5% in exchange rate	(21)	(1)	3	(5)	3
Increase of 10% in exchange rate	(59)	(3)	4	(10)	11
Decrease of 5% in exchange rate	29	4	-	2	1
Decrease of 10% in exchange rate	97	24	6	2	4

2.2 Interest Exposure

The exposure to risk from changes in interest arises from the gap between the interest payment dates and the interest adjustment dates of the assets and liabilities in each of the sectors. In order to manage 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, a measurement is made in each sector of the exposure to changes in interest relating to the potential erosion of the economic value[1] and of the annual accounting profit as a result of a shift in the yield curves in each of the sectors.

The principal exposure is in the CPI-linked sector. In this sector, the majority of the assets and liabilities in this sector have fixed medium and long-term interest rates. As at 30 September 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.

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

[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 yield curve.

- The potential erosion of the economic value – the difference between the present value of the assets and liabilities. In calculating the present value, the cash flows are deducted from the cash flows in the credit risk-free yield curve, i.e. from government bonds.
- The potential erosion of the annual accounting profit 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.

Interest risk is measured and managed in practice on the basis of various behavioral assumptions as to repayment dates of assets and liabilities. The principal assumptions are as follows:

- In the index-linked sector, an estimate regarding early repayments and withdrawals at exit points in savings plans is taken into account. The assumption regarding potential withdrawals is based on previous customer behavior.
- According to previously accumulated experience, there is a long-standing stable credit balance in non-interest bearing current accounts. Accordingly, for the purposes of measuring and managing interest exposure, Bank policy is to regard part of the non-interest bearing current account balances as long-term liabilities. Periodically, the change in the non-interest bearing current account balances is examined in order to decide how it should be spread.
- 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 regularly checked and its assumptions are modified according to management's expectations of early repayments for the ensuing months, based upon 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. In the first nine months of 2010, the Group complied with all the risk exposure limits set by the Board of Directors. For further details regarding risk exposure, see Exhibit B in the Management Review.

	30 September 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)]	**0.69**	**2.85**	**0.73**	0.61	3.03	0.62
Liabilities [(1)]	**0.67**	**3.46**	**0.76**	0.62	3.65	0.55
Gap in duration (in years)	**0.02**	**(0.61)**	**(0.03)**	(0.01)	(0.62)	0.07
Difference in the internal rate of return (%)	**0.75**	**0.77**	**1.89**	(0.12)	1.25	3.05

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

Commencing December 2009, there was a change in the method of calculating and presenting the report of exposure to changes in interest rates, as a result of new directives by the Bank of Israel on the matter. Instead of total data for balance sheet balances, Exhibit B sets forth details of the fair value of financial instruments as reported in Note 18d of the annual report regarding "Balances and Estimates of the 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, from 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.

In calculating the average duration of liabilities in the CPI-linked sector, an estimate of early repayments and withdrawals at exit points of savings plans is taken into account, on the basis of a model which estimates the anticipated early repayments based on the behavior of savers. The average duration of liabilities, according to the original cash flow of the savings schemes is longer, reaching 3.47 years, with a gap in the internal rate of return (IRR) of 0.67%.

The data presented above take into account early repayments of CPI-linked mortgages according to a statistical model that estimates expected repayments on the basis of the borrowers' past behavior. The average duration of assets at the end of the reported period, according to the original cash flow, without taking into account early repayments, is longer, reaching 3.37 years, and an IRR gap of about 0.67%.

Current account balances are presented in Exhibit B to the Management Review, pursuant to directives of the Bank of Israel, as demand deposits for up to one month. However, for the purposes of interest exposure, a certain percentage of the current account balances in shekels and in foreign currency is spread over a repayment period of up to ten years, in accordance with a behavioral model whose basic assumptions are regularly updated. Taking into account the above assumptions, the average duration of liabilities is longer, reaching 0.76 years in unlinked shekels and 0.87 years in foreign currency, with an IRR gap of 1.92% and 2.32% respectively.

Interest risk is managed on the basis of various behavioral assumptions regarding the original payment dates of the assets and liabilities. With the aim of limiting interest risks, the Board of Directors of the Bank and the boards of directors of the Israel and overseas subsidiaries have approved limits on the maximum potential erosion of the economic value and the accounting profit as a result of a corresponding change of 1% in the interest curves.

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

	Potential erosion of economic worth[1]		Potential erosion of annual profit**	
Effect of a corresponding change of 1% in the interest curve:	**30 September 2010**	31 December 2009	**30 September 2010**	31 December 2009
Actual	**787**	656	**260**	356
Limit	**1,100**	1,000	**500**	650

* In a direction that adversely affects to the Bank.
** The maximum erosion of the annual profit, based on an examination of the next three years.

During the first nine months of 2010, the potential erosion in the economic value ranged from NIS 940 million to NIS 774 million, and that of the annual profit from NIS 421 million to NIS 260 million.

During the first nine 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 pension and severance pay payments to active employees who have yet to retire.

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

The net fair value of financial instruments, before the effect of changes in interest, as at 30 September 2010, in NIS millions:

	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
	Unlinked	CPI-linked	Dollar	Euro	Others
Financial assets	**167,794**	**61,123**	**54,678**	**15,806**	**13,757**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**159,421**	**3,055**	**161,771**	**35,970**	**40,577**
Financial liabilities	**137,614**	**54,372**	**71,792**	**20,476**	**10,386**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**168,796**	**10,601**	**147,333**	**31,469**	**44,622**
Net fair value of financial instruments	**20,805**	**(795)**	**(2,676)**	**(169)**	**(674)**

[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, i.e., in government bond yields

The net fair value of financial instruments after the effect of changes in interest rates, as at 30 September 2010, in NIS millions: (Table 14 - Basel II):

	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency		
Change in interest rates	Unlinked	CPI-linked	Dollar	Euro	Others
Immediate corresponding increase of 1%	**20,775**	**(231)**	**(2,513)**	**(142)**	**(684)**
Immediate corresponding increase of 0.1%	**20,802**	**(738)**	**(2,660)**	**(166)**	**(675)**
Immediate corresponding decrease of 1%	**20,813**	**(1,411)**	**(2,829)**	**(206)**	**(644)**

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, with a 99% confidence level, and for a position-holding period of two weeks. The VaR model has a number of weaknesses. The model assumes that the statistical structure of the changes in prices (or interest rates) that is foreseen in the capital market gives an indication of the future behavior of these prices (or interest rates). The parametric VaR model we use also assumes a multivariate normal distribution of the changes in the risk factors. This measurement, by definition, ignores losses that are may be incurred 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 with a probability of 99%. After the two-week period, 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 relying not on a particular probability structure, but on the actual expected changes in the risk factors in a particular period. The VaR of the plain vanilla options 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 economic value			VaR in mark-to-market portfolios		
	30 September 2010	30 September 2009	31 December 2009	**30 September 2010**	30 September 2009	31 December 2009
Actual	**232**	364	359	**57**	82	188
The limit	**600**	600	600	**400**	500	500

During the first nine months of 2010, the VaR of the economic value ranged from NIS 411 million to NIS 163 million and the VaR on the Group's mark-to-market portfolios ranged from NIS 158 million to NIS 57 million

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

4. Stress Scenarios

From time to time, the global and domestic markets are subject to shocks, which manifest themselves in especially high volatility of the parameters that deviate from normal historical behavior. The VaR or other models do not provide information regarding losses that may occur under extreme market conditions, and exceeding the predetermined confidence level. Thus, in addition, 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 regarding basis and interest exposures and VaR detailed above, the Board of Directors has also set a limit for the maximum potential loss in the event of a realization of a stress scenario in market risk. The scenario includes extreme changes that may occur simultaneously in the principal parameters of market risks. The current limit, relating solely to market risks, provides that the decrease in the economic value of shareholders' equity resulting from a stress scenario will not exceed NIS 2 billion, after taxes. During the first nine months of 2010, the Bank complied with this limit.

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 revision of the stress tests. The Committee generally meets at least once a month. The set of stress scenarios includes reference to aspects of market risks, credit risks and operating risk, and includes scenarios that combine the various types of risk. In the Committee's meetings, scenarios are examined and updated in accordance with developments and different assessments.

The Committee is comprised of representatives of various units specializing in the management of 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 that are not within the direct expertise of members of the Committee.

As part of the Committee's activity, a set of stress tests is defined at Group level, the aim of which 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 it believes 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, continuing to conduct its business, even 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, particularly 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. 313), with all its implications and the "drying up" of the domestic and global bond market.

The material stress scenarios have been 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 incurring 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 day-to-day 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 various 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 insofar as there are more liquid assets (such as cash, deposits at the Bank of Israel, a realizable bond 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 change in the balance of deposits and credit for all payment periods, under different scenarios, is established according to different parameters depending on the level of the scenario's severity. The behavioral functions are defined on the basis of the judgment of the business functions, 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 judgment of the senior professional functions 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 forecast 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 30 September 2010 (without movement between sectors*):

	Israeli currency for one month		Foreign currency for one month	
	Gap	Ratio	Gap	Ratio
Scenario/period	NIS billions			
Regular	**44.9**	**8.0**	**11.4**	**3.6**
Statistical	**39.1**	**4.2**	**7.7**	**1.9**
Stress at Leumi	**29.9**	**1.9**	**8.1**	**1.4**
Systemic stress	**33.6**	**2.4**	**13.6**	**2.2**

* 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 measurement relates solely to the Bank, and includes a line for support to Leumi Romania amounting to US$ 50 million, and to Leumi U.K. amounting to £ 120 million.

During the first nine 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 Bank's credit policy statement 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 and supervised management of risks. This is effected through the diversification 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. The overall policy is based on the "risk appetite" of the Leumi Group as defined from time to time by the Board of Directors of the Bank. The risk "appetite" established 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 properly 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 with automatic systems to support the process of examining a borrower's risk level, the expectancy of a loss and the return required for these risks.

The Bank is in the process of setting up an advance system for managing the loan portfolio with the aim of upgrading its abilities to control the various risks, particularly 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 coordinated pricing system of credit risks.

In the context of the Bank's credit policy in Israel, principles and rules have been 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 and to operating segments.

The Bank's Board of Directors approves the Bank's credit policy and voluntary limits, including the restrictions to the sectors of the economy.

As outlined 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 improve the quality of the Bank's credit portfolio and customer service, the Bank has established independent units to manage credit risks. These units conduct an independent examination of the credit risks and the risk aspects with regard to most of the credit extended to the business and commercial sectors.

Provision for doubtful debts and classification of problematic debts

As part of the means that the Bank employs to manage credit risks 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, pursuant to which a thorough scan is made of the credit portfolio, utilizing several criteria that provide an early warning of the transition of a debt to a problematic one.

The Bank’s large customers, which 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 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.

Every quarter, a discussion is held in the committee for doubtful debts of the Bank, chaired by the President and CEO, 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 financial statements, where the provision for doubtful debts and the classification of problematic debts are examined, in order to approve 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

From the end of the second quarter of 2009, there have been 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 that are typified by growth potential and not high 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 a constant 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 regularly conducts an examination and update of risk ratings to ensure they reflect the borrowers' present state, with particular 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. In addition, the Bank continues to be active in locating and correcting shortcomings in credit documentation and collateral.

For the purpose of managing the Bank's credit portfolio as a whole, as part 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 structure of the credit portfolio in accordance with its risk levels and factors, the formulation of recommendations regarding the credit portfolio's optimal structure and its limits and the formulation of recommendations regarding voluntary limits in various 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 execution of transactions/measures with the aim of improving the portfolio's structure and risks. All this is in order to bring about the 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 favor of business creation in market segments / more profitable borrowers from the aspect of yield/risk, and also to improve margins.

The following sets out 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):

Type of credit exposure	**30 September 2010**	31 December 2009	**30 September 2010**	31 December 2009
	Gross credit Risk exposures		Average gross credit risk exposures*	
	NIS million		NIS million	
Credit	**255,734**	246,409	**251,437**	**247,395**
Debentures	**42,810**	45,879	**42,828**	**39,299**
Others	**12,975**	13,138	**12,704**	**12,932**
Guarantees and liabilities on account of customers	**106,451**	95,393	**99,912**	**95,680**
Transactions in derivative financial instruments	**14,435**	9,956	**11,463**	**10,948**
Total	**432,405**	410,775	**418,344**	**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 set forth details of gross credit exposure (after deducting the provision for doubtful debts) according to risk weighting, the exposure being distributed by the 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**

	30 September 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposures (1)
	NIS millions									
Sovereign debts	**56,397**	**2,565**	**-**	**242**	**-**	**563**	**-**	**-**	**-**	**59,767**
Debts of public-sector entities	**-**	**3,560**	**-**	**3,223**	**-**	**-**	**34**	**-**	**-**	**6,817**
Debts of banking corporations	**-**	**19,753**	**-**	**2,546**	**-**	**1,578**	**29**	**-**	**-**	**23,906**
Debts of corporations	**-**	**835**	**-**	**3,823**	**-**	**172,678**	**10,600**	**-**	**-**	**187,936**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**17,240**	**1,183**	**-**	**-**	**18,423**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**50,546**	**592**	**1,039**	**-**	**-**	**52,177**
Loans to small businesses	**-**	**-**	**-**	**-**	**15,090**	**128**	**833**	**-**	**-**	**16,051**
Housing mortgages	**-**	**-**	**35,814**	**-**	**16,251**	**840**	**209**	**-**	**-**	**53,114**
Securitization	**-**	**758**	**-**	**149**	**-**	**147**	**-**	**-**	**185**	**1,239**
Other assets	**2,699**	**-**	**-**	**-**	**-**	**9.917**	**359**	**-**	**-**	**12,975**
Total credit risk	**59,096**	**27,471**	**35,814**	**9,983**	**81,887**	**203,683**	**14,286**	**-**	**185**	**432,405**

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

	30 September 2010									
	0%	20%	35%	50%	75%	100%	150%	350%	Deduction from equity	Gross credit exposures (1)
	NIS millions									
Sovereign debts	**58,735**	**2,565**	**-**	**241**	**-**	**564**	**-**	**-**	**-**	**62,105**
Debts of public-sector entities	**-**	**1,297**	**-**	**3,192**	**-**	**-**	**27**	**-**	**-**	**4,516**
Debts of banking corporations	**-**	**18,940**	**-**	**3,655**	**-**	**1,578**	**29**	**-**	**-**	**24,202**
Debts of corporations	**-**	**835**	**-**	**3,823**	**-**	**162,319**	**10,373**	**-**	**-**	**177,350**
Debts collateralized by commercial real estate	**-**	**-**	**-**	**-**	**-**	**16,206**	**1,171**	**-**	**-**	**17,377**
Retail exposures to individuals	**-**	**-**	**-**	**-**	**48,089**	**591**	**976**	**-**	**-**	**49,656**
Loans to small businesses	**-**	**-**	**-**	**-**	**13,568**	**127**	**763**	**-**	**-**	**14,458**
Housing mortgages	**-**	**-**	**35,810**	**-**	**16,140**	**839**	**208**	**-**	**-**	**52,997**
Securitization	**-**	**758**	**-**	**149**	**-**	**147**	**-**	**-**	**185**	**1,239**
Other assets	**2,699**	**-**	**-**	**-**	**-**	**9,917**	**359**	**-**	**-**	**12,975**
Total credit risk	**61,434**	**24,395**	**35,810**	**11,060**	**77,797**	**192,288**	**13,906**	**-**	**185**	**416,875**

(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 carrying out 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 debts	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	-	15,930	-	13,471	-	293	84	-	-	29,778
Debts of corporations	-	500	-	3,807	-	161,049	7,975	-	-	173,331
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	21,340	77,722	189,129	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 debts	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	-	16,109	-	13,927	-	293	11	-	-	30,340
Debts of corporations	-	500	-	3,807	-	154,562	7,752	-	-	166,621
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	21,793	73,559	181,731	11,322	65	47	399,323

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

	30 September 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	**31,040**	**25,770**	**-**	**2,957**	**-**	**59,767**
Debts of public-sector entities	**3,090**	**3,571**	**-**	**156**	**-**	**6,817**
Debts of banking corporations	**7,684**	**6,723**	**-**	**1,747**	**7,752**	**23,906**
Debts of corporations	**110,001**	**5,507**	**-**	**65,745**	**6,683**	**187,936**
Debts collateralized by commercial real estate	**17,055**	**-**	**-**	**1,368**	**-**	**18,423**
Retail exposures to individuals	**25,594**	**-**	**-**	**26,583**	**-**	**52,177**
Loans to small businesses	**12,268**	**-**	**-**	**3,783**	**-**	**16,051**
Housing mortgages	**49,002**	**-**	**-**	**4,112**	**-**	**53,114**
Securitization	**-**	**1,239**	**-**	**-**	**-**	**1,239**
Other assets	**-**	**-**	**12,975**	**-**	**-**	**12,975**
Total credit risk	**255,734**	**42,810**	**12,975**	**106,451**	**14,435**	**432,405**

	31 December 2009					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Sovereign debts	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	8,486	-	1,608	5,105	29,778
Debts of corporations	103,532	5,279	-	59,669	4,851	173,331
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):

	30 September 2010					
	Credit	Bonds	Others	Guarantees and other obligations	Transactions in financial derivatives	Total
	NIS millions					
Up to one year	**137,222**	**15,804**	**3,601**	**66,799**	**6,648**	**230,074**
From one to five years	**46,322**	**13,940**	**512**	**25,716**	**2,180**	**88,670**
More than five years	**72,177**	**13,066**	**601**	**13,936**	**4,572**	**104,352**
Non-monetary items	**13**	**-**	**8,261**	**-**	**1,035**	**9,309**
Total	**255,734**	**42,810**	**12,975**	**106,451**	**14,435**	**432,405**

	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):

	30 September 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 debts	**59,767**	**-**	**2,338**	**-**	**62,105**
Debts of public-sector entities	**6,817**	**(2,263)**	**-**	**(38)**	**4,516**
Debts of banking corporations	**23,906**	**-**	**296**	**-**	**24,202**
Debts of corporations	**187,936**	**(340)**	**-**	**(10,246)**	**177,350**
Debts collateralized by commercial real estate	**18,423**	**-**	**-**	**(1,046)**	**17,377**
Retail exposures to individuals	**52,177**	**(3)**	**-**	**(2,518)**	**49,656**
Loans to small businesses	**16,051**	**(26)**	**-**	**(1,567)**	**14,458**
Housing mortgages	**53,114**	**(2)**	**-**	**(115)**	**52,997**
Securitization	**1,239**	**-**	**-**	**-**	**1,239**
Other assets	**12,975**	**-**	**-**	**-**	**12,975**
Total	**432,405**	**(2,634)**	**2,634**	**(15,530)**	**416,875**

	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 debts	53,879	-	2,971	(1)	56,849
Debts of public-sector entities	8,900	(2,968)	-	(3)	5,929
Debts of banking corporations	29,778	-	610	(48)	30,340
Debts of corporations	173,331	(589)	-	(6,121)	166,621
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):

	30 September 2010				
	Par value balances	Gross positive fair value of contracts	Set-off benefits	Eligible collateral	Net credit exposure of derivatives
	NIS millions				
Interest contracts	**172,224**	**4,805**	**-**	**-**	**4,805**
Foreign currency contracts	**212,471**	**7,322**	**-**	**-**	**7,322**
Contracts in respect of shares	**14,050**	**1,809**	**-**	**-**	**1,809**
Commodities and other contracts	**2,190**	**499**	**-**	**-**	**499**
Credit derivative transactions	**2,708**	**-**	**-**	**-**	**-**
Total	**403,643**	**14,435**	**-**	**-**	**14,435**

	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

2. **The following table presents the credit exposure with respect to the fair value of derivatives, according to counterparties to the contract (presented in other assets as at 30 September 2010):**

	AAA to AA-	A+	A	A-	BBB to BBB-	Below B-	Unrated	Total
Overseas Banks	NIS millions							
Euro zone[1]	**1,645**	**15**	**-**	**-**	**-**	**66**	**12**	**1,738**
United Kingdom [2]	**482**	**375**	**173**	**-**	**11**	**-**	**32**	**1,073**
United States	**637**	**69**	**150**	**-**	**-**	**-**	**50**	**906**
Other	**297**	**-**	**-**	**-**	**-**	**-**	**15**	**312**
Total overseas banks	**3,061**	**459**	**323**	**-**	**11**	**66**	**109**	**4,029**
Israeli banks [3]	**30**	**305**	**-**	**116**	**629**	**-**	**11**	**1,091**
Corporate customers by branch of the economy								
Financial services[4]								**2,408**
Industry[5]								**955**
Construction and real estate								**180**
Transportation and storage								**43**
Trade								**118**
Electricity and water								**204**
Business services								**55**
Private individuals								**88**
Communications and computer services								**18**
Others								**11**
Total corporate customers								**4,080**
Others*								**244**
Total exposure								**9,444**

* 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 4 countries.
(2) This amount includes transactions with 14 banks.
(3) This amount includes transactions with 10 banks.
(4) This amount includes transactions with 307 customers, where the highest amount for a single customer is NIS 656 million.
(5) This amount includes transactions with 270 customers, where the highest amount for a single customer is NIS 719 million.

3. Credit exposure to overseas financial institutions

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

	As at 30 September 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-	**7,256**	**7,444**	**579**	**15,279**
A+ to A-	**2,216**	**3,690**	**217**	**6,123**
BBB+ to BBB-	**76**	**17**	**28**	**121**
BB+ to B-	**118**	**-**	**21**	**139**
Below B	-	-	-	-
Unrated	**1,052**	**206**	**49**	**1,307**
Total current credit exposure to overseas financial institutions	**10,718**	**11,357**	**894**	**22,969**
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 30 September 2010, was NIS 2,119 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, through 2009, the overseas banks in respect of which there is credit exposure are rated by two or three of the leading international rating agencies. (S&P, Moody's, Fitch). Commencing 2010, only the rating by Moody’s was used for the Bank’s purposes.

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 41%, Europe (Germany, France, Switzerland, Spain and the Benelux countries) 28%, United Kingdom 20%, and other countries 11%.

The exposure includes mainly deposits in overseas banks, some 26.9% 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 nine months 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 57.

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 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.

4. 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 II):

	30 September 2010		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
USA	**24,561**	**11,149**	**35,710**
UK	**8,617**	**8,618**	**17,235**
France	**2,702**	**2,742**	**5,444**
Germany	**3,650**	**4,803**	**8,453**
Switzerland	**1,849**	**1,977**	**3,826**
Others	**11,963**	**3,085**	**15,048**
Total	**53,342**	**32,374**	**85,716**

	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
Switzerland	2,366	1,589	3,955
Others	16,173	4,273	20,446
Total	64,289	29,454	93,743

* 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 30 September 2010:

Rating	Balance sheet exposure	Off-balance-sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which, problematic
OECD countries	**49,338**	**30,813**	**80,151**	**93.51**	**2,165**
High-income countries	**1,764**	**570**	**2,334**	**2.72**	**2**
Countries with mid-high income	**2,011**	**584**	**2,595**	**3.03**	**152**
Countries with mid-low income	**228**	**403**	**631**	**0.73**	**1**
Countries with low income	**1**	**4**	**5**	**0.01**	**-**
Total	**53,342**	**32,374**	**85,716**	**100.00**	**2,320**

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 1,561 million and relates to 14 countries.

The countries are rated according to national income per capita as follows:
High income - exceeding US$ 12,196 per capita.
Mid-high income - from US$ 3,946 to US$ 12,195 per capita.
Mid-low income - from US$ 996 to US$ 3,945 per capita.
Low income – up to US$ 995 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, Israel, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, Slovenia, the Netherlands, Sweden, Poland, Germany and Korea

b. Countries with high income:

Cyprus, Hong Kong, Monaco, Singapore, Cayman Islands and Croatia

c. Countries with mid-high income:

Argentina, Brazil, Bulgaria, Chile, Mexico, Panama, 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

Exposure to certain foreign countries:

Country	30 September 2010				
	Credit to the public	Bonds	Deposits	Other	Total
	NIS million				
Ireland	**32**	**35**	**-**	**198**	**265**
Greece	**8**	**-**	**-**	**1**	**9**
Spain	**3**	**431**	**19**	**160**	**613**
Portugal	**-**	**15**	**-**	**-**	**15**
Total	**43**	**481**	**19**	**359**	**902**

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

The Group policy document on the subject of compliance was revised and approved by the Board of Directors in 2010.

On July 1, 2010, the amendment to Proper Banking Management Directive 411 – "Prevention of Money Laundering and the Finance of Terrorism and the Identification of Customers" came into force. The Bank has made preparations for the amendments to the directive and adjustments to the relevant procedures and to the Bank's systems have been carried out. The Leumi Group Policy Statement on the Prevention of Money Laundering and the Finance of Terrorism and the Identification of Customers has also been updated accordingly.

The main points of the amendment to Directive 411 are as follows:

1. An examination of customers and parties to a transaction will be made according to lists of organizations and terror activists identified by other entities (for example the United Nations or the U.S. Government – Office of Foreign Assets Control - OFAC).
2. Expansion of the "Know Your Customer" obligation.
3. Imposition on banking corporations of the duty to carry out checks and monitoring on the activities of passers-by (activity conducted other than through an account) depending on the level of risk exposure.

See pages 210-214 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

The following sets out the linkage balance sheet status, as shown by Note 5 to financial statements:

The following table sets out the linkage balance sheet status:

	As at 30 September 2010			As at 31 December 2009		
	Unlinked	CPI-linked	Foreign currency(2)	Unlinked	CPI-linked	Foreign currency(2)
	NIS millions					
Total assets (1)	**173,113**	**58,515**	**110,646**	155,049	59,822	113,484
Total liabilities (1)	**152,420**	**60,321**	**113,732**	137,408	59,404	117,710
Total exposure in sector	**20,693**	**(1,806)**	**(3.086)**	17,641	418	(4,226)

(1) Including forward transactions and options.
(2) Including foreign-currency-linked.
(3) The foreign currency short position arises mainly from a hedging transaction in respect of the investments in overseas subsidiaries, and also in respect of the hedging of some of future foreign currency earnings.

For the purposes of day-to-day management and reporting, certain changes have been made bringing into account the Banks economic approach to base risk, in contrast to the accounting approach. Exposure in the base calculated using the economic approach is set forth in the chapter “Exposure to Risk and the Ways of Managing Them”.

Funding and Liquidity Status

In the first nine months of 2010, the Bank of Israel increased the volume of net Treasury Bill auctions by some NIS 46 billion, to a level of some NIS 131 billion.

The volume of the banking system’s balances with the Bank of Israel (current account balances and monetary deposits) at the end of September 2010 stood at some NIS 81 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 September 2010 stood at some NIS 27 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 38% of the assets are deposited in banks and/or are invested in securities, primarily in government debentures, compared to 41% as of 31 December 2009.

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 September 2010, the Bank had cash and deposits in banks amounting to some NIS 76 billion, an increase of NIS 3.7 billion, 5.1%. Of this, some NIS 36 billion was deposited in Leumi Mortgage Bank.

The Bank also has a securities portfolio of some NIS 46 billion, which is invested mainly in Israeli government debentures, foreign government debentures, and debentures of foreign banks.

In the first nine months of 2010, the amount of total credit to the public increased by NIS 6.9 billion, 5.2%. The increase was in the unlinked and foreign currency sectors.

The ratio of credit to the public to deposits of the public on 30 September 2010 was some 61%, compared with 58% on 31 December 2009.

This year, the trend of the customers' transition to prime-based credit, primarily in mortgages continued. Total prime-based credit granted by Leumi Mortgage Bank at 30 September 2010 amounted to NIS 18.8 billion, an increase of NIS 3.2 billion, 20.4%, compared to 31 December 2009.

The trend of diverting funds from short-term deposits to current accounts as a result of the low interest rates prevailing in Israel and worldwide was halted in the first nine months of the year.

The balance of deposits of the public at the Bank, including subordinated notes and capital notes, increased during the first nine months of 2010 by NIS 1.6 billion (some 0.7%). This change includes sources raised in February through upper Tier II subordinated capital notes totalling NIS 2.3 billion, and NIS 1.7 billion which was raised through lower Tier II subordinated capital notes in September.
The increase was primarily in the shekel sectors, which increased by NIS 4.9 billion, some 3.1%. In contrast, the foreign currency and foreign currency-linked sector recorded a decrease amounting to NIS 3.3 billion (some 4.2%), offset by exchange rate differences (without change).

During the reviewed period, the volume of customers' off-balance sheet monetary assets at the Bank increased by some NIS 53.5 billion. After neutralizing the effects of the increase in market value, a positive increment amounting to some NIS 35.0 billion was recorded in these customer assets.

Basel II

Leumi Group has been prepared for the implementation of the directives required under Basel II since 2006, by means of a project applying to the entire group in Israel and abroad. The project administration is the entity coordinating activity on the issue and reports to the Senior Vice-President of the Bank, the head of the Steering Committee for the project, and it operates by means of special working teams throughout the Bank.

The calculation of risk assets and the capital adequacy ratio as of 30 September 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, and commencing 2010, the report to the public is according to Basel II principles.

The minimum capital adequacy ratio required by the Supervisor of Banks is 9%, of which 8% is in respect of the First Pillar and a minimum core capital ratio (Tier 1 capital without hybrid capital instruments) of 7.5% commencing 31 December 2010. The results reported by Leumi as at 30 September 2010, according to assessments 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 assessments.

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, which was published on 31 December 2008, and is based mostly on the Basel Committee Accord. The directive also includes changes and adjustments required by the Supervisor of Banks. This directive was incorporated by the Supervisor of Banks in June 2010 in the framework of the Proper Banking Conduct Directives.

As part the initial official publication of capital adequacy ratios at the end of 2009, based on Basel II regulations, the Group implemented the necessary directives, including:

- A study of the requirements in the Basel and Bank of Israel documents and the performance of gap analyses based thereon.

- Intensified activity at Bank and Group level for closing and reducing the gaps that 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 risk 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 formulating the structure of the risk management function and the Chief Risk Officer (CRO) in the Bank and the Group's subsidiaries.

- Processes for developing credit risk models for assessing risk components.

- Surveying and mapping operational risks as part of a three year program to implement the standardized approach also for operational risks (allocation of revenues according to 8 lines of business in Basel II).

- 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 data systems which were 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 and databases.

6. Changing and upgrading policy and procedures in the organization 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 defined, and the quality of risk management for the allocation of the required capital.

Banking corporations are also required 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 6 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 to the Bank of Israel in accordance with Basel I principles, for the duration of 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 existing and developing risks, 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, the Bank takes 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 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 does 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 collated in the ICAAP document as at 31 December 2009, submitted to the Supervisor of Banks at the end of June 2010. On the basis of this document, 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).

With regard to the validation of the model, the formulation of the policy and its actual application as required by regulatory directives were completed.

We should point out that, pursuant to the requirements of the Supervisor of Banks, the Group is obliged to submit the ICAAP Report for 2010 by April 2011.

Appointment of Chief Risk Manager and Formulation of Structure of Risk Management Function

Following the publication by the Supervisor of the final and binding version of a circular of the Supervisor of Banks, the Bank appointed a Chief Risk Manager. In the coming months, the structure of the risk management division will be determined. Establishing the 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 a number of matters requiring implementation in the Group's preparations in 2010:

1. **First Pillar** – completion of subjects required by the standardized approach such as: computer implications, the use of securities to reduce risk, computerization of 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.
   - Upgrading risk management processes 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. Implementation of the principles of corporate governance, in accordance with the Bank of Israel circular for setting up the risk management function headed by the Chief Risk Officer.

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

5. Formulation of the preferred method of treatment of risk management in overseas units from the aspects of advice, support and control, adapted to Group risk management policy.

6. Completion of reporting required pursuant to the Third Pillar.

Trends and Forward-looking Information

In December 2009, discussion documents were published by the Bank for International Settlements (BIS) on various subjects connected to Basel II. The trend indicated by the various consultative documents is for a stricter approach in risk management directives and their respective capital requirements. In September 2010, the aforesaid was backed up by the publication of a press release presenting a number of reliefs to the December 2009 proposals. These were submitted for decision at the G20 Conference that took place in Seoul in November. The following are a number of key points in the proposals that were discussed in November:

1. Tier 1 and anti-cyclical capital cushion

    - A requirement for keeping a capital preservation cushion of 2.5% as a solution for periods of economic and financial pressure. The total requirement for a Tier 1 capital ratio will stand at 8.5%.

    - A requirement for an anti-cyclical cushion ranging from 0%-2.5%, to be applied according to each country's circumstances. Purpose of the cushion – supervision of systems including in periods of massive growth in credit, to protect the banking system.

    Note: The Supervisor of Banks in Israel has presented a requirement of 7.5% for core capital ratio to the banking system from 31 December 2010.

2. Determination of transition period in order to enable the banks to attain the aforesaid targets:

    - An increase from 2% to 4.5% on the common equity ratio with effect from 1 January 2015.
    - Aggregate Tier 1 capital which includes the common equity and other instruments will increase from 4% to 6% in the same period.

3. Completion of the abovementioned requirements through leverage at a rate of 3%, based on Tier 1 capital. During the running period, at the same time, continuing until the first half of 2017, with the aim of including the change in the First Pillar with effect from 1 January 2018.

4. The banks which are considered essential to the system will have the ability to absorb losses in excess of the percentages set out above.

5. Implementation at policy level will begin on 1 January 2013, and until that date, the following percentages should be achieved:

   - Ratio of common equity to risk-weighted assets (RWA) ratio - 3.5%
   - Ratio of Tier 1 capital to risk-weighted assets (RWA) ratio - 4.5%
   - Aggregate capital to risk-weighted assets (RWA) ratio - 8%

6. Regulatory adjustments including capital reductions, e.g., deferred taxes arising from timing differences, to be gradually deducted from common equity by 1 January 2018.

7. The capital cushion for times of crisis will be implemented between 1 January 2016 and the end of 2018, so that it will be fully implemented by 1 January 2019, gradually, as follows:

   - On 1 January 2016 – 0.625% of the total risk-weighted assets (RWA)
   - An increase of 0.625% each year thereafter, such that at 1 January 2019, it will stand at 2.5%.

   It is recommended for countries that anticipate an accelerated growth in credit, to expedite the construction of the abovementioned cushion, so that the matter may be put to the discretion of the supervisors in those countries.

8. Capital instruments that do not fulfil the criteria for inclusion in Tier 1 core capital will be taken out of capital by 1 January 2013.

9. Liquidity ratios:

   A period of examination in the years 2011-14 such that:

   - The presentation of a 30-day short-term liquidity coverage ratio (LCR) on 1 January 2015.
   - A net stable funding ratio (NSFR) (recalculated) on 1 January 2018.

   The full details on the subject of liquidity appears in the BIS's December 2009 consultative document, with the proposed changes to the deposit and liability coefficients in the BIS document from 26 July 2010, which were confirmed at the Governors' meeting on 12 September 2010.

   The purpose of the strictures proposed by BIS is to generate an improvement in the banks' capacity to survive in times of crisis, in view of the lessons from the 2008 crisis, bringing in improvements to the area of risk management with an emphasis on:

   - Improvement in the quality of capital
   - Adjustment of measurement of risk to the Bank's risk level
   - Reinforcement of supervision – Determination of better tools to adapt the capital requirements to each bank according to its risk profile
   - Reduction of dependence of the capital requirements on the economic situation
   - Increase of transparency of risk management methods

At this stage, it is impossible to assess the impact of the abovementioned recommendations, if and when they are implemented, on the capital adequacy ratio and the required ratio, although the general global trend of increasingly stringent regulation of banking systems should be noted.

In addition, further documents of the BIS - on corporate governance and remuneration - were published. These proposed changes are sometimes presented as amendments to Basel II and are therefore presented as "Basel III".

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.

Furthermore during the second quarter, additional documents of the BIS were published on the subjects of corporate governance and remuneration. The changes proposed are described widely as 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:

		Directors Report		Financial Statements	
Subject	Table	to 30 September 2010	for 2009	to 30 September 2010	for 2009
General	1	-	Page 12	-	-
Capital Structure (Qualitative and Quantitative)	2	Page 7	Pages 27-28	Note 4	Note 13
Capital Adequacy (Qualitative and Quantitative)	3	Page 8	Pages 28-29	-	-
Risk Exposures and Assessment – General Qualitative Disclosure		-	Pages 191-192	-	
Credit Risk Qualitative Disclosure	4	Pages 120-122	Pages 218-228	-	-
Credit Risk Exposures by Main Types of Credit	4(b)	Page 123	Page 215		
Exposures by Geographic Area to Foreign Countries	4(c)	Page 131	Page 243	Exhibit D	Exhibit F
Credit Risk Exposures by Counterparty and Main Types of Credit	4(d)	Page 125	Page 222	-	
Credit Exposures by Repayment Period	4(e)	Page 127	Page 222		
Problematic Credit Risk Exposures and Provision for Doubtful Debts by Economic Sector	4(f)	-	-	Exhibit C	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 123-125	Page 217	-	-
Reduction of Credit Risk (Qualitative and Quantitative)	7	Page 128	Pages 229-232	-	-
Credit Exposures in Derivatives by Third Party (Qualitative and Quantitative)	8	Page 129	Pages 232-234	-	-
Securitization (Qualitative and Quantitative)	9(f), 9(g)	Page 59 Page 59	Pages 109-110	Note 2	Note 3
Market Risk (Qualitative and Quantitative)	10	Page 110	Pages 193-209	-	-
Operational Risk - Qualitative Disclosure	12	Page 135	Pages 210-214	-	-
Investments in Shares (Qualitative and Quantitative)	13(b)	Page 62	Pages 113-117	-	-
Investment in Shares of Companies Included on Equity Basis	13(b)	Page 95	Pages 160-163	-	-
Interest Risk	14	Page 116	Pages 197-201	Exhibit B	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 237 million as of 30 September 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 appealed the ruling. At this early stage, the effects of the ruling cannot be assessed.

c. On 15 November 2010, the Tel Aviv District Court confirmed the consent of the parties regarding removal of the petitioner from the request for the approval of the submission of a derivative claim served on 11 March 2007 on behalf of the Bank against Mr. Lev Leviev and against officers in the Bank and its subsidiary, on the matter of a sale agreement dated 13 February 2006, pursuant to which the Bank sold the shares held by the Bank in Africa-Israel Investment Company Ltd. to Mr. Leviev and/or to a company under his control and, as alleged in the petition as amended in 2008, at the date of signing the sale agreement, Mr. Leviev concealed certain facts from the Bank, which, according to the petitioner, resulted in the Bank’s selling the shares in Africa for an amount NIS 213 million lower than their “true” value.

D. Additional Matters

Leumi for the Community - Social Involvement

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

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

The activities of the various projects during the school year opened as usual with the over 16,000 children and youth from the social and geographic periphery and all layers and sectors of the population taking part.
Leumi announced its involvement in the "City in Change" project which will take place in Givat Olga in collaboration with the Lautman Fund and "Zionism 2000".

"A Million Good Reasons"
The joint Leumi-YouTube venture, "A Million Good Reasons" was launched. As part of the venture, Leumi will distribute NIS 1 million to associations, in accordance with the votes of surfers on the YouTube website. The various associations, which have budgets not exceeding NIS 5 million, are invited to present their activity by means of short films on the YouTube website, and the surfers are asked to rate the associations and, in essence, determine which of them is worthy of a donation. In the context of the venture, Leumi will provide an aggregate sum of NIS 1 million in support to 50 associations.

Leumi for the Arts – "Row of Bodies" Exhibition
The ""Row of Bodies" exhibition from the collection of the Arts Centre in Ein Harod shows the many and varied faces of Israeli society and culture, as reflected in the works of Israeli artists from various generations, including Uri Reizman, Michael Gross, Moshe Kopferman, Henry Slezniak, Ruth Schluss, Moshe Gershony and others.
The exhibition was on display in the "Leumi Mani House" – Leumi's Visitors and Arts Center from the end of July 2010 to the beginning of November 2010.

Summary of Leumi's Donations and Sponsorships
During the first nine months of 2010, Leumi Group donated and provided sponsorships for social welfare and community purposes in the amount of some NIS 22 million, of which donations totaled some NIS 17.4 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 Internal Auditor's report for the first half of 2010 was submitted on 14 October 2010 and discussed in the Audit Committee on 19 October 2010 and 4 November 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 30 September 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 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 functions 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.

Appointments

On 27 May 2010, the Board of Directors of Bank Leumi USA (BLUSA) approved the appointment of Mr. Itzhak Eyal as CEO of the bank. The appointment took effect on 1 October 2010. Mr. Eyal replaced Mr. Uzi Rosen, who asked to conclude his duties after six years in the position.

In July 2010, Dr. Hedva Bar was appointed as Chief Risk Officer of the Leumi Group and a member of Management with the rank of Executive Vice President.

Dr. Ruth Arad, who has served as Chief Risk Controller and Head of the Risk Management Department, will cease to serve as Executive Vice President on 30 April 2011.

Board of Directors

On 24 January 2010, Mr. Eitan Raff, the Chairman of the Board of Directors since 1995, announced that he was not intending to submit his candidacy for re-election to the General Meeting.

At the Annual General Meeting of the Bank that took place on 2 June 2010, 4 new directors were elected, Mr. David Brodet, Mr. Yehuda Drori, Mr. Yoav Nardi, and Dr. Ehud Shapira, to replace Mr. Eitan Raff, Ms. Nurit Segal, Mr. Yaacov Goldman, and Mr. Moshe Vidman. In addition, Mr. Moshe Dovrat was reelected to serve as a director.

The Bank of Israel raised no objection to the appointment of the five candidates, but made various conditions in respect of some of them. The conditions were complied with in full, and on 22 July 2010, the period of service of the new directors commenced.

The Board of Directors expressed its thanks to Mr. Eitan Raff who served as Chairman of the Board of Directors for 15 years and retired at the beginning of July 2010, Mr. Raff contributed greatly to the Bank's success and improvement of its business. The Board of Directors also expressed its thanks to the retiring directors: Mr. Yaakov Goldman, Mr. Moshe Widman, and Ms. Nurit Segal who also had made a great contribution to the advancement and improvement of the Bank's business.

On 22 July 2010, Mr. David Brodet was elected as Chairman of the Board of Directors of the Bank for a period of 3 years, and his term of office was duly approved.

For information regarding the said Annual General Meeting of the Bank and Special General Meetings, see pages 4-5 above.

At the meeting of the Board of Directors held on 29 November 2010, it was resolved to approve and publish the Group's condensed unaudited Consolidated Financial Statements as of 30 September 2010 and for the periods ending on that date.

During the period of January to September 2010, the Board of Directors held 43 plenary meetings and 79 committee meetings.

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

_______________	_________________
David Brodet	Galia Maor
Chairman of the Board of Directors	President and Chief Executive Officer

29 November 2010

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

	For the three months ended 30 September							
	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) (d)	**159,805**	**1,477**	**3.75**		147,323	1,076	2.95	
Effect of embedded and ALM derivatives (e)	**57,053**	**73**			36,719	44		
Total assets	**216,858**	**1,550**		**2.89**	184,042	1,120		2.46
Liabilities (d)	**133,388**	**(465)**	**(1.40)**		126,334	(313)	(0.99)	
Effect of embedded and ALM derivatives (e)	**60,375**	**(40)**			36,687	(35)		
Total liabilities	**193,763**	**(505)**		**(1.05)**	163,021	(348)		(0.86)
Interest margin			**2.35**	**1.84**			1.96	1.60
Israeli currency – linked to the CPI								
Assets (c) (d)	**57,964**	**1,265**	**9.02**		58,997	2,045	14.60	
Effect of embedded and ALM derivatives (e)	**2,831**	**39**			3,126	28		
Total assets	**60,795**	**1,304**		**8.86**	62,123	2,073		14.03
Liabilities (d)	**48,347**	**(1,071)**	**(9.16)**		47,939	(1,657)	(14.56)	
Effect of embedded and ALM derivatives (e)	**10,398**	**(138)**			12,823	(250)		
Total liabilities	**58,745**	**(1,209)**		**(8.49)**	60,762	(1,907)		(13.16)
Interest margin			**(0.14)**	**0.37**			0.04	0.87
Foreign currency –								
(including Israeli currency linked								
to foreign currency)								
Assets (c) (d) (h)	**90,817**	**(1,497)**	**(6.43)**		100,371	(2,217)	(8.55)	
Effect of derivatives: (e)								
Hedging derivatives	**387**	**(1)**			1,612	(1)		
Embedded derivatives and ALM	**142,687**	**(3,249)**			111,337	(2,135)		
Total assets	**233,891**	**(4,747)**		**(7.87)**	213,320	(4,353)		(7.92)
Liabilities (d)	**105,360**	**2,612**	**9.55**		112,683	3,356	11.39	
Effect of derivatives: (e)								
Hedging derivatives	**458**	**2**			1,488	3		
Embedded derivatives and ALM (d)	**133,195**	**2,558**			103,236	1,637		
Total liabilities	**239,013**	**5,172**		**8.38**	217,407	4,996		8.88
Interest margin			**3.12**	**0.51**			2.84	0.96

See notes on page 153.

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

	For the three months ended 30 September							
	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)		%	%
Total monetary assets generating interest Income (d) (f)	**308,586**	**1,245**	**1.62**		306,691	904	1.18	
Effect of derivatives: (e)								
Hedging derivatives	**387**	**(1)**			1,612	(1)		
Embedded derivatives and ALM	**202,571**	**(3,137)**			151,182	(2,063)		
Total assets	**511,544**	**(1,893)**		**(1.47)**	459,485	(1,160)		(1.01)
Total monetary liabilities generating interest expenses (d)	**287,095**	**1,076**	**1.49**		286,956	1,386	1.92	
Effect of derivatives: (e)								
Hedging derivatives	**458**	**2**			1,488	3		
Embedded derivatives and ALM (d)	**203,968**	**2,380**			152,746	1,352		
Total liabilities	**491,521**	**3,458**		**2.78**	441,190	2,741		2.46
Interest margin			**3.11**	**1.31**			3.10	1.45
In respect of options		**(17)**				(62)		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated)		**(10)**				20		
Financing commissions and other financing income (g)		**294**				372		
Other financing expenses		**14**				12		
Net interest income before provision for doubtful debts		**1,846**				1,923		
Provision for doubtful debts (including general and supplementary provision)		**(46)**				(443)		
Net interest income after provision for doubtful debts		**1,800**				1,480		
Monetary assets generating interest income (d) (f)	**308,586**				306,691			
Assets derived from derivative instruments (h)	**8,379**				6,025			
Other monetary assets (d)	**3,324**				1,948			
General provision and supplementary provision for doubtful debts	**(818)**				(918)			
Total monetary assets	**319,471**				313,746			
Monetary liabilities generating interest expenses (d)	**287,095**				286,956			
Liabilities derived from derivative instruments (h)	**9,755**				7,359			
Other monetary liabilities (d)	**7,172**				7,751			
Total monetary liabilities	**304,022**				302,066			
Total monetary assets exceed monetary liabilities	**15,449**				11,680			
Non-monetary assets	**8,379**				8,900			
Non-monetary liabilities	**327**				314			
Total capital resources	**23,501**				20,266			

See notes on page 153.

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:

In the unlinked Israeli currency sector for the three and nine month period an amount of NIS 81 million and NIS 33 million respectively (30 September 2009 – NIS 78 million and NIS 183 million respectively).

In the linked Israeli currency sector for the three and nine month period an amount of NIS 344 million and NIS 255 million respectively (30 September 2009 – NIS 303 million and NIS 225 million respectively).

In the foreign currency sector (which includes Israeli currency linked to foreign currency) for the three and nine month period an amount of NIS 13 million and NIS (65) million respectively (30 September 2009 – NIS (1,063) million and NIS (1,873) million respectively).

(d) Excluding derivative instruments.

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

(f) The average balance of unrealized profits (losses) on adjustment to fair value of debentures held for trading and available for sale has been deducted from (added to) the average balance of assets in the various sectors, for the three and nine month period amounts of NIS 438 million and NIS 223 million respectively (30 September 2009 - NIS (682) million and NIS (1,465) million respectively).

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

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

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

	For the three months ended 30 September							
	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
	(U.S.$ millions)		%	%	(U.S.$ millions)		%	%
Foreign currency:								
Local operations (including Israeli currency linked to foreign currency)								
Assets (c) (d)	**14,292**	**71**	**2.00**		16,391	86	2.12	
Effect of derivatives: (e)								
Hedging derivatives	**101**	**(1)**			415	-		
Embedded derivatives and ALM	**37,162**	**37**			28,606	19		
Total assets	**51,555**	**107**		**0.83**	45,412	105		0.93
Liabilities (d)	**19,361**	**(27)**	**(0.56)**		19,600	(36)	(0.73)	
Effect of derivatives: (e)								
Hedging derivatives	**115**	**1**			383	(1)		
Embedded derivatives and ALM	**34,661**	**(23)**			26,513	-		
Total liabilities	**54,137**	**(49)**		**(0.36)**	46,496	(37)		(0.31)
Interest margin			**1.44**	**0.47**			1.39	0.62
Foreign currency –								
Foreign operations								
(integrated operations)								
Assets (c) (d)	**9,315**	**55**	**2.38**		9,344	69	2.98	
Effect of embedded and ALM derivatives (e)	**90**	**(5)**			45	-		
Total assets	**9,405**	**50**		**2.14**	9,389	69		2.96
Liabilities (d)	**8,056**	**(12)**	**(0.60)**		9,327	(27)	(1.14)	
Effect of embedded and ALM derivatives (e)	**114**	**(26)**			49	(22)		
Total liabilities	**8,170**	**(38)**		**(1.87)**	9,376	(49)		(2.08)
Interest margin			**1.78**	**0.27**			1.84	0.88
Total:								
generating financing income (c) (d)	**23,607**	**126**	**2.15**		25,735	155	2.43	
Effect of derivatives: (e)								
Hedging derivatives	**101**	**(1)**			415	0		
Embedded derivatives and ALM	**37,252**	**32**			28,651	19		
Total assets	**60,960**	**157**		**1.03**	54,801	174		1.28
generating financing expense (d)	**27,417**	**(39)**	**(0.57)**		28,927	(63)	(0.86)	
Effect of derivatives: (e)								
Hedging derivatives	**115**	**1**			383	(1)		
Embedded derivatives and ALM	**34,775**	**(49)**			26,562	(22)		
Total liabilities	**62,307**	**(87)**		**(0.56)**	55,872	(86)		(0.61)
Interest margin			**1.58**	**0.47**			1.57	0.67

See notes on page 155.

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

Nominal U.S. $

Exhibit A (cont'd)

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 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 domestic and foreign operations, in the amount of US$3 million (30 September 2009 - US$(268) million).

(d) Excluding derivative instruments.

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

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

	For the nine months ended 30 September							
	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)	**157,784**	**4,140**	**3.51**		135,749	3,181	3.14	
Effect of embedded and ALM derivatives (d)	**49,044**	**313**			39,067	298		
Total assets	**206,828**	**4,453**		**2.88**	174,816	3,479		2.66
Liabilities (e)	**131,934**	**(1,201)**	**(1.22)**		122,155	(825)	(0.90)	
Effect of embedded and ALM derivatives (d)	**53,502**	**(263)**			34,197	(160)		
Total liabilities	**185,436**	**(1,464)**		**(1.05)**	156,352	(985)		(0.84)
Interest margin			**2.29**	**1.83**			2.24	1.82
Israeli currency – linked to the CPI								
Assets (c) (e)	**58,813**	**2,624**	**5.99**		58,804	4,045	9.28	
Effect of embedded and ALM derivatives (d)	**3,015**	**26**			3,286	148		
Total assets	**61,828**	**2,650**		**5.76**	62,090	4,193		9.10
Liabilities (e)	**48,270**	**(2,219)**	**(6.18)**		46,442	(3,123)	(9.07)	
Effect of embedded and ALM derivatives (d)	**10,662**	**(413)**			12,823	(1,091)		
Total liabilities	**58,932**	**(2,632)**		**(6.00)**	59,265	(4,214)		(9.59)
Interest margin			**(0.19)**	**(0.24)**			0.21	(0.49)
Foreign currency –								
(including Israeli currency linked								
to foreign currency)								
Assets (c) (e)	**88,932**	**(1,958)**	**(2.92)**		106,018	3,789	4.79	
Effect of derivatives: (e)								
Hedging derivatives	**803**	**(3)**			2,059	(1)		
Embedded derivatives and ALM	**135,993**	**(3,628)**			112,291	978		
Total assets	**225,728**	**(5,589)**		**(3.29)**	220,368	4,766		2.89
Liabilities (e)	**104,493**	**3,969**	**5.03**		113,888	(1,812)	(2.13)	
Effect of derivatives: (e)								
Hedging derivatives	**777**	**6**			1,915	4		
Embedded derivatives and ALM	**125,181**	**2,656**			108,537	(1,422)		
Total liabilities	**230,451**	**6,631**		**3.82**	224,340	(3,230)		(1.92)
Interest margin			**2.11**	**0.53**			2.66	0.97

See notes on page 153.

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

	For the nine months ended 30 September							
	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)	**305,529**	**4,806**	**2.10**		300,571	11,015	4.92	
Effect of derivatives:								
Hedging derivatives	**803**	**(3)**			2,059	(1)		
Embedded derivatives and ALM (d)	**188,052**	**(3,289)**			154,644	1,424		
Total assets	**494,384**	**1,514**		**0.41**	457,274	12,438		3.64
Total monetary liabilities generating interest expenses (d)	**284,697**	**549**	**0.26**		282,485	(5,760)	(2.73)	
Effect of derivatives: (e)								
Hedging derivatives	**777**	**6**			1,915	4		
Embedded derivatives and ALM	**189,345**	**1,980**			155,557	(2,673)		
Total liabilities	**474,819**	**2,535**		**0.71**	439,957	(8,429)		(2.56)
Interest margin			**2.36**	**1.12**			2.19	1.08
In respect of options		**51**				12		
In respect of other derivatives (excluding options, hedging derivative instruments, ALM derivatives and embedded derivatives which have been separated) (e)		**11**				13		
Financing commissions and other financing income (g)		**1,171**				1,144		
Other financing income		**10**				33		
Net interest income before provision for doubtful debts		**5,292**				5,211		
Provision for doubtful debts (including general and supplementary provision)		**(372)**				(1,136)		
Net interest income after provision for doubtful debts		**4,920**				4,075		
Monetary assets generating interest income (d) (f)	**305,529**				300,571			
Assets derived from derivative instruments (h)	**7,248**				7,655			
Other monetary assets (d)	**3,591**				2,143			
General provision and supplementary provision for doubtful debts	**(860)**				(945)			
Total monetary assets	**315,508**				309,424			
Monetary liabilities generating interest expenses (d)	**284,697**				282,485			
Liabilities derived from derivative instruments (h)	**8,469**				8,408			
Other monetary liabilities (d)	**7,840**				7,808			
Total monetary liabilities	**301,006**				298,701			
Total monetary assets exceed monetary liabilities	**14,502**				10,723			
Non-monetary assets	**8,670**				8,884			
Non-monetary liabilities	**384**				359			
Total capital resources	**22,788**				19,248			

See notes on page 153.

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

Nominal U.S. $

Exhibit A (cont'd)

	For the nine months ended 30 September							
	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)	14,338	222	2.07		16,419	323	2.63	
Effect of derivatives: (e)								
Hedging derivatives	214	(1)			514	7		
Embedded derivatives and ALM	35,949	8			27,975	117		
Total assets	50,501	229		0.61	44,908	447		1.33
Liabilities (d)	19,532	(74)	(0.51)		19,442	(139)	(0.96)	
Effect of derivatives: (e)								
Hedging derivatives	205	1			478	(20)		
Embedded derivatives and ALM	33,072	(50)			27,013	(54)		
Total liabilities	52,809	(123)		(0.31)	46,933	(213)		(0.61)
Interest margin			1.56	0.30			1.67	0.72
Foreign currency –								
Foreign operations								
(integrated operations)								
Assets (c) (d)	9,177	207	3.02		10,156	259	3.42	
Effect of embedded and ALM derivatives (e)	59	19			104	16		
Total assets	9,236	226		3.28	10,260	275		3.59
Liabilities (d)	8,122	(49)	(0.81)		9,102	(103)	(1.51)	
Effect of embedded and ALM derivatives (e)	68	(27)			115	(22)		
Total liabilities	8,190	(76)		(1.24)	9,217	(125)		(1.81)
Interest margin			2.21	2.04			1.91	1.78
Total:								
Interest income (c) (d)	23,515	429	2.44		26,575	582	2.93	
Effect of derivatives: (e)								
Hedging derivatives	214	(1)			514	7		
Embedded derivatives and ALM	36,008	27			28,079	133		
Total assets	59,737	455		1.02	55,168	722		1.75
Interest expense (d)	27,654	(123)	(0.59)		28,544	(242)	(1.13)	
Effect of derivatives: (e)								
Hedging derivatives	205	1			478	(20)		
Embedded derivatives and ALM	33,140	(77)			27,128	(76)		
Total liabilities	60,999	(199)		(0.44)	56,150	(338)		(0.80)
Interest margin			1.85	0.58			1.80	0.95

See notes on page 159.

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

Nominal U.S. $

Exhibit A (cont'd)

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 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$16 million (30 September 2009 - US$464 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.

Exposure to Interest Rate Fluctuations - on Consolidated Basis
Reported amounts
Exhibit B:

	30 September 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	Effective Duration (b)	Total fair value	Effective Duration (b)	Internal rate of return
	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)	130,252	6,972	19,863	6,409	1,370	2,235	127	1	565	167,794	3.81	0.36	151,443	3.25	0.30
Derivative financial instruments (excluding options)	32,894	48,138	37,205	16,087	7,069	9,585	117	-	-	151,095	-	1.09	127,973	-	0.98
Options (in terms of basis asset) (d)	2,620	3,005	2,488	213	-	-	-	-	-	8,326	-	-	3,515	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	165,766	58,115	59,556	22,709	8,439	11,820	244	1	565	327,215	3.81	0.69	282,931	3.25	0.61
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments															
Financial liabilities (a)	113,095	5,858	9,230	7,618	851	950	2	-	10	137,614	3.07	0.30	130,944	3.36	0.30
Derivative financial instruments (excluding options)	40,627	50,355	36,538	15,418	6,576	9,383	174	-	-	159,071	-	1.03	130,050	-	0.97
Options (in terms of basis asset) (d)	2,650	2,598	4,039	354	-	16	-	-	-	9,657	-	-	4,639	-	-
Off-balance sheet financial instruments	-	-	68	-	-	-	-	-	-	68	-	0.50	67	-	0.50
Total fair value	156,372	58,811	49,875	23,390	7,427	10,349	176	-	10	306,410	3.07	0.67	265,700	3.36	0.62
Financial instruments, net															
Exposure to interest rate fluctuations	9,394	(696)	9,681	(681)	1,012	1,471	68	1							
Accumulated exposure in the sector	9,394	8,698	18,379	17,698	18,710	20,181	20,249	20,250							
Israeli currency – linked to the CPI															
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments															
Financial assets (a)	2,227	3,620	15,601	18,014	11,050	8,789	1,653	71	98	61,123	2.69	2.85	61,644	3.67	3.14
Derivative financial instruments (excluding options)	132	718	1,048	138	140	879	-	-	-	3,055	-	2.85	2,825	-	0.73
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	2,359	4,338	16,649	18,152	11,190	9,668	1,653	71	98	64,178	2.69	2.85	64,469	3.67	3.03
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments															
Financial liabilities (a)	3,529	2,592	7,147	14,532	11,053	12,684	2,590	245	-	54,372	1.92	3.73	52,286	2.41	3.93
Derivative financial instruments (excluding options)	397	1,912	2,253	2,546	2,592	813	-	-	-	10,513	-	2.06	10,997	-	2.32
Options (in terms of basis asset) (d)	-	-	-	8	-	-	-	-	-	8	-	-	10	-	-
Off-balance sheet financial instruments	-	-	80	-	-	-	-	-	-	80	-	0.50	49	-	0.50
Total fair value	3,926	4,504	9,480	17,086	13,645	13,497	2,590	245	-	64,973	1.92	3.46	63,342	2.41	3.65
Financial instruments, net															
Exposure to interest rate fluctuations	(1,567)	(166)	7,169	1,066	(2,455)	(3,829)	(937)	(174)							
Accumulated exposure in the sector	(1,567)	(1,733)	5,436	6,502	4,047	218	(719)	(893)							

See notes on page 162.

Exposure to Interest Rate Fluctuations - on Consolidated Basis

Reported amounts

Exhibit B (cont'd):

	30 September 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	Effective Duration (b)	Total fair value	Effective Duration (b)	Internal rate of return
	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)	44,924	20,816	6,532	5,850	4,077	1,706	37	13	286	84,241	3.10	0.61	93,470	3.90	0.57
Derivative financial instruments (excluding options)	68,084	47,855	40,448	24,605	4,683	11,414	1,105	-	159	198,353	-	0.92	137,537	-	0.84
Options (in terms of basis asset) (d)	6,641	8,011	15,652	1,973	2,012	5,676	-	-	-	39,965	-	-	43,401	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	119,649	76,682	62,632	32,428	10,772	18,796	1,142	13	445	322,559	3.10	0.73	274,408	3.90	0.62
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments															
Financial liabilities (a)	61,289	17,309	20,380	2,908	332	389	47	-	-	102,654	1.21	0.31	107,860	0.86	0.27
Derivative financial instruments (excluding options)	57,222	39,513	40,635	26,193	6,654	13,266	1,112	-	159	184,754	-	1.17	128,582	-	0.97
Options (in terms of basis asset) (d)	6,588	8,398	14,056	1,853	2,012	5,676	-	-	-	38,583	-	-	42,128	-	-
Off-balance sheet financial instruments	-	-	87	-	-	-	-	-	-	87	-	0.50	86	-	0.50
Total fair value	125,099	65,220	75,158	30,954	8,998	19,331	1,159	-	159	326,078	1.21	0.76	278,656	0.86	0.55
Financial instruments, net															
Exposure to interest rate fluctuations	(5,450)	11,462	(12,526)	1,474	1,774	(535)	(17)	13							
Accumulated exposure in the sector	(5,450)	6,012	(6,514)	(5,040)	(3,266)	(3,801)	(3,818)	(3,805)							
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)	177,403	31,408	41,996	30,273	16,497	12,730	1,817	85	3,890	316,099	3.00	0.92	309,180	3.65	0.96
Derivative financial instruments (excluding options)	101,110	96,711	78,701	40,830	11,892	21,878	1,222	-	1,210	353,554	-	1.01	268,630	-	0.91
Options (in terms of basis asset) (d)	9,261	11,016	18,140	2,186	2,012	5,676	-	-	-	48,291	-	-	46,916	-	-
Accumulated exposure in the sector	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total fair value	287,774	139,135	138,837	73,289	30,401	40,284	3,039	85	5,100	717,944	3.00	0.90	624,726	3.65	0.86
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments															
Financial liabilities (a) (c)	177,913	25,759	36,757	25,058	12,236	14,023	2,639	245	55	294,685	2.01	0.94	291,152	2.39	0.94
Derivative financial instruments (excluding options)	98,246	91,780	79,426	44,157	15,822	23,462	1,286	-	1,157	355,336	-	1.13	269,888	0.00	1.02
Options (in terms of basis asset) (d)	9,238	10,996	18,095	2,215	2,012	5,692	-	-	-	48,248	-	-	46,777	-	-
Off-balance sheet financial instruments	-	-	235	-	-	-	-	-	115	350	-	0.50	313	0.00	0.50
Total fair value	285,397	128,535	134,513	71,430	30,070	43,177	3,925	245	1,327	698,620	2.01	0.97	608,130	2.39	0.90
Financial instruments, net															
Exposure to interest rate fluctuations	2,377	10,600	4,324	1,859	331	(2,893)	(886)	(160)							
Accumulated exposure in the sector	2,377	12,977	17,301	19,160	19,491	16,598	15,712	15,552							

See notes on page 162.

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Notes:

(a) Excluding balance-sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments. The figures in the "Without fixed maturity" column are the non-discounted balance-sheet balances, including overdue balances in the amount of NIS 949 million.

(b) Weighted average as per fair value of effective duration.

(c) Including non-monetary assets shown in "Without fixed maturity" column.

(d) Duration less than 0.05 years.

General notes:

(1) In this table, the data by periods shows the present value of future cash flows, discounted at the internal rate of return used for discounting them to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 18D in the Annual Financial Report.

(2) The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.

(3) The effective duration of a group of financial instruments constitutes an approximation of the percentage change in the fair value of the group of financial instruments that would be caused as a result of a small change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.

(4) The effect of hedging transactions is included in total assets or total liabilities, as applicable.

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

Exhibit C

	30 September 2010				
	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk to public	Expense in the period for specific provision for doubtful debts	Balance of problematic debts (3)
	NIS millions				
Activities of borrowers in Israel:					
Agriculture	1,654	329	1,983	6	124
Industry	21,680	13,993	35,673	(36)	1,753
Construction and real estate (6)	37,636	21,554	59,190	46	5,868
Electricity and water	1,298	566	1,864	-	4
Commerce	15,563	3,693	19,256	83	1,313
Hotels and restaurants	3,392	296	3,688	3	1,449
Transport and storage	3,977	897	4,874	(66)	587
Communications and computer services	5,079	2,052	7,131	(14)	294
Financial services	14,471	13,875	28,346	(19)	659
Business and other services	4,551	1,790	6,341	9	425
Public and community services	5,945	1,028	6,973	-	243
Private individuals - loans for housing	48,957	3,136	52,093	(33)	711
Private individuals - other	24,901	26,058	50,959	133	964
	189,104	89,267	278,371	112	14,394
Activities of borrowers abroad	44,653	12,944	57,597	354	3,274
Total	233,757	102,211	335,968	466	17,668
Credit risk included within the various economic sectors:					
Settlement movements (4)	2,768	952	3,720	(41)	666
Local authorities (5)	3,063	123	3,186	-	83

(1) Including credit to the public in the amount of NIS 184,094 million in respect of activity in Israel and NIS 33,805 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 1,227 million in respect of activity in Israel and NIS 10,551 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 3,783 million in respect of activity in Israel and NIS 297 million in respect of activity abroad.

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

(3) 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.

(4) Kibbutzim and moshavim, regional and national organizations and corporations controlled by settlement movement.

(5) Including corporations under their control.

(6) Including housing loans made to purchasing groups in process of construction in the amount of NIS 709 million and off-balance sheet credit risk in the amount of NIS 1,431 million.

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 C (cont'd)

	30 September 2009				
	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk to public	Expense in the period for specific provision for doubtful debts	Balance of problematic debts (3)
	NIS millions				
Activities of borrowers in Israel:					
Agriculture	1,790	346	2,136	20	180
Industry	20,774	14,022	34,796	154	2,472
Construction and real estate (6) (7)	35,813	18,684	54,497	270	6,519
Electricity and water	1,242	312	1,554	-	3
Commerce	14,042	4,037	18,079	33	1,412
Hotels and restaurants	3,727	329	4,056	17	1,533
Transport and storage	4,051	1,326	5,377	52	914
Communications and computer services	3,905	1,636	5,541	41	373
Financial services	13,652	7,634	21,286	130	1,574
Business and other services	4,404	1,299	5,703	24	294
Public and community services	6,304	1,016	7,320	4	249
Private individuals - loans for housing (7)	43,005	1,507	44,512	1	843
Private individuals - other	22,776	25,153	47,929	215	1,154
	175,485	77,301	252,786	961	17,520
Activities of borrowers abroad (8)	43,659	14,654	58,313	210	3,712
Total	219,144	91,955	311,099	1,171	21,232
Credit risk included within the various economic sectors:					
Settlement movements (4)	2,864	1,060	3,924	3	851
Local authorities (5)	3,179	144	3,323	-	90

(1) Including credit to the public in the amount of NIS 172,150 million in respect of activity in Israel and NIS 32,599 million in respect of activity abroad, investments in debentures of the public in the amount of NIS 941 million in respect of activity in Israel and NIS 10,775 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 2,394 million in respect of activity in Israel and NIS 285 million in respect of activity abroad.

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

(3) 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.

(4) Kibbutzim and moshavim, regional and national organizations and corporations controlled by settlement movement.

(5) Including corporations under their control.

(6) Including housing loans made to purchasing groups in process of construction in the amount of NIS 406 million and off-balance sheet credit risk in the amount of NIS 585 million.

(7) Reclassified.

(8) Reclassified – Debentures of banking holding companies abroad were reported as debentures of banks.

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 C (cont'd)

	31 December 2009				
	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk to public	Expense in the period for specific provision for doubtful debts	Balance of problematic debts (3)
	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 (6) (7)	35,909	19,581	55,490	290	6,193
Electricity and water	1,207	418	1,625	-	2
Commerce	13,857	3,556	17,413	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 (7)	44,257	1,898	46,155	(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 (8)	43,943	13,470	57,413	325	3,410
Total	220,495	94,935	315,430	1,556	19,868
Credit risk included within the various economic sectors:					
Settlement movements (4)	2,843	910	3,753	10	776
Local authorities (5)	3,307	140	3,447	-	87

(1) 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 11,040 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.

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

(3) 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.

(4) Kibbutzim and moshavim, regional and national organizations and corporations controlled by the settlement movement.

(5) Including corporations under their control.

(6) Including housing loans made to purchasing groups in process of construction in the amount of NIS 458 million and off-balance sheet credit risk in the amount of NIS 619 million.

(7) Reclassified.

(8) Reclassified – Debentures of banking holding companies abroad were reported as debentures of banks.

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

Country Exposure
Reported Amounts

Exhibit D:

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

	30 September 2010					
	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	186	3,095	11,699	17,448	7,867	9,581
England	-	4,395	1,021	5,109	1,775	3,334
France	497	1,621	584	-	-	-
Switzerland	4	314	760	1,282	511	771
Germany	154	2,241	1,255	-	-	-
Others	565	4,983	5,572	1,946	1,054	892
Total country exposure	1,406	16,649	20,891	25,785	11,207	14,578
Total exposure to LDC countries	113	109	1,178	1,893	1,053	840
Total exposure to PIGS countries (c)	183	480	63	-	-	-

	30 September 2010					
	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	24,561	1,026	11,113	-	6,306	8,674
England	8,750	478	8,567	-	2,965	2,451
France	2,702	26	3,087	-	780	1,922
Switzerland	1,849	515	1,977	-	616	462
Germany	3,650	2	4,792	-	2,068	1,582
Others	12,012	273	3,195	-	5,561	5,559
Total country exposure	53,524	2,320	32,731	-	18,296	20,650
Total exposure to LDC countries	2,240	153	991	-	1,056	344
Total exposure to PIGS countries (c)	726	4	176	-	317	409

(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 includes the following countries: Portugal, Ireland, Greece and Spain.

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

	30 September 2009					
	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	85	3,941	10,780	17,524	7,711	9,813
England	19	6,352	1,322	4,794	1,858	2,936
France	2,215	2,648	531	19	4	15
Holland	-	1,601	1,614	-	-	-
Germany	101	1,487	1,327	-	-	-
Switzerland (c)	4	223	1,018	1,553	599	954
Others (c)	212	7,206	4,858	2,189	1,215	974
Total country exposure	2,636	23,458	21,450	26,079	11,387	14,692
Total exposure to LDC countries	175	289	1,263	2,092	1,213	879

	30 September 2009					
	Balance Sheet Exposure		Off - Balance Sheet Exposure			
	Total balance sheet exposure				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	24,619	922	9,391	-	5,946	8,860
England	10,629	514	10,557	30	5,183	2,510
France	5,409	14	2,062	-	2,143	3,251
Holland	3,215	13	339	-	1,042	2,173
Germany	2,915	-	807	-	1,606	1,309
Switzerland (c)	2,199	182	1,062	-	754	491
Others (c)	13,250	207	1,555	-	7,018	5,258
Total country exposure	62,236	1,852	25,773	30	23,692	23,852
Total exposure to LDC countries	2,606	34	449	-	1,220	507

(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) Restated.

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					
	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	4,319 (c)	10,089 (c)	17,300	7,380	9,920
England	677	3,485 (c)	1,194 (c)	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	-	-	-
Switzerland (c)	4	311	725	1,902	576	1,326
Others (c)	214	8,293	5,143	2,155	1,218	937
Total country exposure	3,305	23,868	20,760	26,303	10,986	15,317
Total exposure to LDC countries	148	244	1,169	2,100	1,217	883

	31 December 2009					
	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	24,433	923	11,155	-	5,801	8,712
England	8,475	525	7,869	3	3,138	2,218
France	5,158 (c)	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
Switzerland (c)	2,366	486	1,589	-	707	333
Others (c)	14,587	208	2,684	-	8,412	5,238
Total country exposure	63,250	2,167	27,865	3	24,317	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) Restated.

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 30 September 2010 amounts to NIS 2,255 million, attributed to 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 1,561 million and relates to 14 countries.

Certification

I, Galia Maor, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 September 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.

29 November 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 30 September 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.

29 November 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 30 September, 2010 and the related interim condensed consolidated statements of profit and loss, changes in shareholders' equity and cash flows for the three and nine month periods 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 30 September, 2010 and whose interest income before provision for doubtful debts included in the consolidated statements of profit and loss constitute some 8% and some 3% of the total consolidated net interest income before provision for doubtful debts for the three month period and nine month period respectively 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 above conclusion**,** we draw attention to:

1. that stated in Note 6C clauses 2, 4 and 5B 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 6D concerning claims relating to a company included on equity basis and dependence on receipt of services from infrastructure companies.
3. that stated in Note 6E concerning the ruling of the Antitrust General Director.

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.)

29 November 2010

Condensed Consolidated Balance Sheet as at 30 September 2010
Reported amounts

	30 September 2010	30 September 2009	31 December 2009
	(Unaudited)	(Unaudited)	(Audited)
	(NIS millions)		
Assets			
Cash and deposits with banks	**40,360**	43,934	42,933
Securities	**54,373**	58,381	57,505
Securities borrowed or purchased under agreement to resell	**914**	1,823	744
Credit to the public	**217,218**	203,971	204,669
Credit to governments	**385**	430	407
Investments in companies included on the equity basis	**1,740**	1,908	2,178
Buildings and equipment	**3,600**	3,544	3,553
Other assets	**12,069**	9,639	9,786
Total assets	**330,659**	323,630	321,775
Liabilities and equity capital			
Deposits of the public	**245,820**	249,433	250,418
Deposits from banks	**6,788**	5,395	3,785
Deposits from governments	**614**	719	712
Securities loaned or sold under agreement to repurchase	**709**	1,316	273
Debentures, bonds and subordinated notes	**28,744**	25,471	25,261
Other liabilities	**23,953**	19,955	19,182
Total liabilities	**306,628**	302,289	299,631
Minority interest	**310**	274	282
Shareholders' equity	**23,721**	21,067	21,862
Total liabilities and equity capital	**330,659**	323,630	321,775

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

David Brodet
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: 29 November 2010

Condensed Consolidated Statement of Profit and Loss
For the Periods Ended 30 September 2010
Reported Amounts

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2010	2009	**2010**	2009	2009
	(Unaudited)		(Unaudited)		(Audited)
	(NIS millions)		(NIS millions)		
Net interest income before provision for doubtful debts	**1,846**	1,923	**5,292**	5,211	7,023
Provision for doubtful debts	**46**	443	**372**	1,136	1,517
Net interest income after provision for doubtful debts	**1,800**	1,480	**4,920**	4,075	5,506
Operating and other income					
Operating commissions	**912**	915	**2,733**	2,586	3,511
Profits from investments in shares, net	**14**	286	**188**	471	707
Other income	**57**	91	**100**	251	345
Total operating and other income	**983**	1,292	**3,021**	3,308	4,563
Operating and other expenses					
Salaries and related expenses	**1,059**	1,052	**3,434**	2,864	4,052
Building and equipment maintenance and depreciation	**401**	366	**1,172**	1,110	1,514
Other expenses	**350**	340	**1,021**	988	1,371
Total operating and other expenses	**1,810**	1,758	**5,627**	4,962	6,937
Operating profits before taxes	**973**	1,014	**2,314**	2,421	3,132
Provision for taxes on operating profit	**413**	499	**871**	950	1,191
Operating profit after taxes	**560**	515	**1,443**	1,471	1,941
Group equity in after-tax operating profits (losses) of companies included on equity basis	**57**	30	**259**	-	81
Minority interest in after-tax operating profits of consolidated companies	**(14)**	(11)	**(29)**	(29)	(36)
Net operating profit	**603**	534	**1,673**	1,442	1,986
After-tax profit from extraordinary items	**-**	-	**186**	28	28
Net profit for the period	**603**	534	**1,859**	1,470	2,014
	(NIS)				
Basic and diluted earnings per share					
Net operating profit	**0.41**	0.36	**1.14**	0.98	1.35
After-tax profit from extraordinary items	**-**	-	**0.12**	0.02	0.02
Total	**0.41**	0.36	**1.26**	1.00	1.37

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

Condensed Consolidated Statement of Changes in Shareholders' Equity
For the Periods Ended 30 September 2010
Reported Amounts

	For the three months ended 30 September 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	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions									
Balance at the beginning of the period	7,059	1,129	10	8,198	388	(460)	14,866	500	(2)	23,490
Net profit for the period	-	-	-	-	-	-	603	-	-	603
Dividend proposed	-	-	-	-	-	-	-	(500)	-	(500)
Dividend declared after the date of the balance sheet	-	-	-	-	-	-	(500)	500	-	-
Other comprehensive loss in companies included on equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	(20)	-	-	(20)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	327	-	-	-	-	327
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	(78)	-	-	-	-	(78)
Related tax effect	-	-	-	-	(64)	-	-	-	-	(64)
Translation adjustments for companies included on equity basis	-	-	-	-	-	(38)	-	-	-	(38)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	-	1	1
Balance at the end of the period	7,059	1,129	10	8,198	573	(498)	14,949	500	(1)	23,721

See footnotes on page179.

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

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

Reported Amounts

	For the three months ended 30 September 2009 (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	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions									
Balance at the beginning of the period	7,059	972	167	8,198	(70)	(558)	13,025	-	(373)	20,222
Net profit for the period	-	-	-	-	-	-	534	-	-	534
Other comprehensive loss in companies included on equity basis which was directly recorded in retained earnings	-	-	-	-	-	-	(63)	-	-	(63)
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	878	-	-	-	-	878
Losses in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	(399)	-	-	-	-	(399)
Related tax effect	-	-	-	-	(181)	-	-	-	-	(181)
Translation adjustments for companies included on equity basis	-	-	-	-	-	82	-	-	-	82
Loans to employees for purchase of Bank's shares	-	-	-	-	-	-	-	-	(6)	(6)
Balance at the end of the period	7,059	972	167	8,198	228	(476)	13,496	-	(379)	21,067

See footnotes on page 179.

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

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

Reported Amounts

	For the nine months ended 30 September 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	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions									
Balance at 31 December 2009 (Audited)	**7,059**	**972**	**197**	**8,228**	**309**	**(474)**	**14,176**	**-**	**(377)**	**21,862**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**1,859**	**-**	**-**	**1,859**
Dividend proposed	**-**	**-**	**-**	**-**	**-**	**-**	**(500)**	**-**	**-**	**(500)**
Dividend declared after the date of the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**	**(500)**	**500**	**-**	**-**
Employee benefit - tax effect	**-**	**-**	**(30)**	**(30)**	**-**	**-**	**-**	**-**	**-**	**(30)**
Release of shares	**-**	**157**	**(157)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other comprehensive income in companies included on equity basis which was directly recorded in retained earnings	**-**	**-**	**-**	**-**	**-**	**-**	**(86)**	**-**	**-**	**(86)**
Adjustments in respect of presentation of securities available for sale at fair value	**-**	**-**	**-**	**-**	**615**	**-**	**-**	**-**	**-**	**615**
Profits in respect of securities available for sale that were realized and classified to profit and loss	**-**	**-**	**-**	**-**	**(206)**	**-**	**-**	**-**	**-**	**(206)**
Related tax effect	**-**	**-**	**-**	**-**	**(145)**	**-**	**-**	**-**	**-**	**(145)**
Translation adjustments for companies included on equity basis	**-**	**-**	**-**	**-**	**-**	**(24)**	**-**	**-**	**-**	**(24)**
Loans to employees for purchase of Bank's shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**376**	**376**
Balance at the end of the period	**7,059**	**1,129**	**10**	**8,198**	**573**	**(498)**	**14,949**	**500**	**(1)**	**23,721**

See footnotes on page 179.

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

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

Reported Amounts

	For the nine months ended 30 September 2009 (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	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions									
Balance at 31 December 2008 (Audited)		-	-	-	-	-	-	-	-	-
Net profit for the period	7,059	855	284	8,198	(648)	(502)	11,998	-	(374)	18,672
Expiry of options	-	-	-	-	-	-	-	-	-	-
Other comprehensive loss in companies included on the equity basis which was directly recorded in retained earnings	-	117	(117)	-	-	-	-	-	-	-
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	-	-	28	-	-	28
Losses in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	-	-	-	-	-	-
Related tax effect	-	-	-	-	(685)	-	-	-	-	(685)
Translation adjustments for companies included on the equity basis	-	-	-	-	(489)	-	-	-	-	(489)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	26	-	-	-	26
Balance at the end of the period	-	-	-	-	-	-	-	-	(5)	(5)

See footnotes on page 179.

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

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	Dividend declared after balance sheet date	Loans to employees for purchase of the Bank's shares	Total shareholders' equity
	NIS millions									
Balance as at 31 December 2008 (Audited)		-	-	-	-	-	-	-	-	-
Net profit for the year	7,059	855	284	8,198	(648)	(502)	11,998	-	(374)	18,672
Expiry of options	-	-	-	-	-	-	2,014	-	-	2,014
Benefit in respect of shares based payment transactions	-	-	-	-	-	-	-	-	-	-
Other comprehensive profit in companies included on the equity basis which was directly recorded in retained earnings	-	-	30	30	-	-	-	-	-	30
Adjustments in respect of presentation of securities available for sale at fair value	-	-	-	-	-	-	164	-	-	164
Profits in respect of securities available for sale that were realized and classified to profit and loss	-	-	-	-	-	-	-	-	-	-
Related tax effect	-	-	-	-	(876)	-	-	-	-	(876)
Translation adjustments for companies included on equity basis	-	-	-	-	(524)	-	-	-	-	(524)
Loans to employees for purchase of Bank's shares	-	-	-	-	-	28	-	-	-	28
Balance as at 31 December 2009	-	-	-	-	-	-	-	-	(3)	(3)

(a) Including NIS 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 operating currency of the Bank.

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

Consolidated Statements of Cash Flows
For the Periods Ended 30 September 2010
Reported amounts

	For the three months ended 30 September 2010	For the three months ended 30 September 2009 (b)	**For the nine months ended 30 September 2010**	For the nine months ended 30 September 2009 (b)	For the year ended 31 December 2009
	Unaudited		Unaudited		Audited
	(NIS millions)				
Cash flows generated by operating activities:					
Net profit for the year	**603**	534	**1,859**	1,470	2,014
Adjustments required to cash flows generated by operating activities:					
Equity in undistributed losses (profits) of companies included on equity basis (a)	**(54)**	(30)	**(213)**	-	(79)
Minority interest in profits of subsidiaries	**14**	11	**29**	29	36
Depreciation of buildings and equipment	**160**	152	**473**	455	612
Amortization	**5**	4	**13**	12	21
Provision for doubtful debts	**46**	443	**372**	1,136	1,517
Change in provision for decrease in value of assets transferred to the Group's ownership	**1**	1	**3**	(2)	-
Net gain on sale of securities available for sale	**(78)**	(410)	**(212)**	(846)	(1,085)
Realized and unrealized gain from adjustment of held for trading securities to fair value	**(24)**	(59)	**(210)**	(227)	(240)
Gain on receipt of shares without payment	**-**	-	**-**	-	(1)
Net gains, after tax, on sale of buildings and equipment	**-**	-	**(4)**	(28)	(28)
Provision for impairment of debentures available for sale	**-**	11	**5**	151	200
Provision for impairment of shares available for sale	**-**	-	**1**	10	9
Deferred taxes in respect of operating profit, net	**13**	58	**(90)**	204	166
Increase (decrease) in excess of provisions for severance pay and pensions over amounts funded	**(17)**	(15)	**168**	(263)	(309)
Other, net	**1**	(6)	**2**	(6)	(6)
Net cash generated by operating activities	**670**	694	**2,014**	2,095	2,827

(a) Net of dividend received.
(b) Reclassified.

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

Consolidated Statements of Cash Flows (cont'd)
For the Periods Ended 30 September 2010
Reported amounts

	For the three months ended 30 September 2010	For the three months ended 30 September 2009 (b)	For the nine months ended 30 September 2010	For the nine months ended 30 September 2009 (b)	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	**396**	212	**1,287**	177	**(562)**
Acquisition of debentures held to maturity	**-**	(28)	**(77)**	(46)	**(68)**
Proceeds from redemption of debentures held to maturity	**-**	29	**226**	665	**725**
Acquisition of securities available for sale	**(11,709)**	(9,819)	**(21,547)**	(29,689)	**(36,231)**
Proceeds from sale of securities available for sale	**3,374**	4,956	**11,503**	10,035	**14,880**
Proceeds from redemption of securities available for sale	**5,321**	1,721	**13,532**	7,688	**9,102**
Net decrease (increase) in securities held for trading	**150**	2,577	**315**	(12)	**1,213**
Net decrease (increase) in credit to the public	**(4,734)**	2,799	**(12,879)**	8,108	**7,212**
Net decrease in credit to governments	**11**	22	**22**	90	**113**
Acquisition of shares in companies included on equity basis	**-**	(4)	**(6)**	(36)	**(39)**
Proceeds of realization of investment in companies included on equity basis	**-**	-	**766**	-	**-**
Acquisition of buildings and equipment	**(208)**	(167)	**(537)**	(578)	**(759)**
Net decrease (increase) in securities borrowed or purchased under agreements to resell	**(189)**	(742)	**(170)**	(1,622)	**(543)**
Proceeds from sale of buildings, net of related taxes	**4**	2	**19**	40	**42**
Proceeds from realization of assets transferred to Group ownership	**7**	-	**7**	41	**43**
Net decrease in other assets	**(1,068)**	(941)	**(2,351)**	3,392	**3,388**
Net cash generated by (used for) activities in assets	**(8,645)**	617	**(9,890)**	(1,747)	**(1,484)**
Cash flows generated by activities in liabilities and capital					
Net increase (decrease) in:					
Deposits of the public	**(5,857)**	(3,821)	**(4,598)**	4,650	**5,635**
Deposits from banks	**3,500**	2,491	**3,003**	1,653	**43**
Deposits from governments	**(295)**	(22)	**(98)**	(112)	**(119)**
Issue of debentures, bonds and subordinated notes	**1,700**	1,937	**4,000**	4,806	**4,806**
Redemption of debentures, bonds and subordinated notes	**(23)**	(40)	**(795)**	(628)	**(865)**
Dividend paid to minority shareholders of consolidated companies	**-**	-	**(2)**	-	**-**
Net increase (decrease) in other liabilities	**2,556**	2,763	**4,268**	(495)	**(1,318)**
Net increase (decrease) in securities loaned or sold under agreements to repurchase	**(31)**	142	**436**	767	**(276)**
Repayment of loans to employees for purchase of the Bank's shares	**1**	-	**376**	1	**1**
Net cash generated by activities in liabilities and capital	**1,551**	3,450	**6,590**	10,642	**7,907**
Increase (decrease) in cash	**(6,424)**	4,761	**(1,286)**	10,990	**9,250**
Balance of cash at beginning of period	**45,393**	37,234	**40,255**	31,005	**31,005**
Balance of cash at end of period	**38,969**	41,995	**38,969**	41,995	**40,255**

(a) Reclassified.

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

Consolidated Statements of Cash Flows (cont'd)
For the Periods Ended 30 September 2010
Reported amounts

Appendix A - Transactions not involving cash flows:

In the period of three months ended 30 September 2010:
(1) Dividend proposed in the amount of NIS 500 million.
(2) During the period, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 69 million, due to the loaning of securities.
(3) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 1 million, in respect of loans that were repaid.

In the period of three months ended 30 September 2009:
(1) During the period, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 65 million, due to the loaning of securities.
(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 18 million, in respect of loans that were repaid.

In the period of nine months ended 30 September 2010:
(1) Dividend proposed in the amount of NIS 500 million.
(2) During the period, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 40 million, due to the loaning of securities.
(3) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 3 million, in respect of loans that were repaid.

In the period of nine months ended 30 September 2009:
(1) During the period, securities from the available-for-sale portfolio to credit to the public, in the amount of NIS 152 million, due to the loaning of securities.
(2) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 61 million, in respect of loans that were repaid.
(3) During the period, fixed assets were acquired against liabilities to suppliers in the amount of NIS 12 million.

In 2009:
(1) During the year, securities were transferred from the available-for-sale portfolio to credit to the public, in the amount of NIS 359 million, due to loaning of securities.
(2) During the year, 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 Condensed Financial Statements.

Note 1 - Significant Accounting Policies

A. The Condensed Consolidated Interim Financial Statements as at 30 September 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 (ASC-860) – "Accounting for Transfers and Servicing of Financial Assets" which establishes stricter terms for accounting treatment as a sale for the transfer of part of financial assets and includes clarifications of the terms for subtraction of financial assets, and FAS 167 (ASC-810) – "Consolidation of Variable Interest Entities", which updates the criteria for the identification of Variable Interest Entities (VIEs) and for establishing the identity of the primary beneficiary. 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 material.

(2) Adoption of the new hierarchy in implementation of U.S. Accounting Standards

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

The Standard establishes the FASB Accounting Standards Codification (ASC) as the exclusive source of generally accepted accounting principles in the United States applicable to reporting corporations which are not government agencies, with the exception of the instructions of the US Securities and Exchange Commission (SEC). Therefore, all rules not adopted in the aforesaid manner and rules not stemming from instructions of the SEC in the U.S. are not included in the codification and have become non-binding rules. Following the codification, the US Financial Accounting Standards Board will no longer publish in the form of Standards, Staff Positions, or clarifications and guidelines on specific issues, but will publish Accounting Standards Updates (ASU), to update the codification.

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 U.S. 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 deemed an accounting principle generally accepted by U.S. banks, and will be binding on banking corporations and credit card companies in matters of implementing U.S. accounting principles adopted in the past or to be adopted in the future in the framework of the Public Reporting Directives of the Banking Supervision Department.

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

(3) 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 stipulates rules for examining if certain characteristics of embedded credit derivatives in financial instruments require accounting treatment of the separation of the embedded derivative.

The update provides criteria for examining if the embedded credit derivative meets the "clearly and closely related" criterion set out in FAS 133, where if this exists it is possible not to separate the embedded derivative from the host contract.

The update clarifies that the existence of a concentration of credit risk deriving from the inferiority of rights of one financial instrument compared to another, will not be considered as an embedded derivative. The instructions set out applied beginning from the first quarterly period occurring after 15 June 2010. The effect of initial implementation of ASU 2010-11 is not material.

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 provides 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 standards for periods commencing 1 January 2008. The above does not yet apply to banking corporations and credit card companies, whose financial statements are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Some of the 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 International Financial Reporting Standards (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 the International Standards, 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 will retain 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, and on 26 July 2010, the Supervisor of Banks issued circulars concerning the adoption of certain International Financial Reporting Standards (IFRS). Pursuant to the circulars, certain International Financial Reporting Standards (IFRS) were adopted with the necessary interpretations published by the IASB referring to implementation of standards addressing matters that are not a core part of the banking business. In accordance with the consolidated version of the Public Reporting Directives, International Financial Reporting Standards were adopted in the areas listed below:

Reporting Standard	**Subject**
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 33	Earnings per Share
IFRS 2	Share-based Payment
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 34	Interim Financial Reporting
IFRS 3 (2008)	Business Combinations
IAS 27 (2008)	Consolidated and Separate Financial Statements
IAS 28	Investments in Companies Included on Equity Basis
IAS 36	Impairment of Assets
IAS 17	Leases
IAS 16	Fixed Assets
IAS 40	Investment Property
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IAS 10	Events after the Reporting Period
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 31	Interests in Joint Ventures
IAS 38	Intangible Assets

International Financial Reporting Standards listed above are to be adopted in accordance with 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 International Financial Reporting Standards or in the implementation instructions of the Supervisor, banking corporations shall treat the issue according to accounting principles generally accepted by U.S. banks specifically applicable to these matters;

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

- Where an International Standard contains a reference to another International Standard not adopted in the Public Reporting Directives, the banking corporation shall act in accordance with the Reporting Directives and with generally accepted accounting principles in Israel;

- Where an International Standard contains a reference to the 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 International Financial Reporting Standards and related interpretations from 1 January 2011 forward. The first-time implementation of the International Financial Reporting Standard adopted in this circular shall be performed in accordance with transitional directives established in the International Financial Reporting Standard, including the retroactive adjustment of comparative figures if required by the specific Standard.

As of 1 January 2011, banking corporations are to update on a regular basis the accounting treatment of the subjects dealt with in the circular, in accordance with new International Financial Reporting Standards to be published on these subjects and in accordance with the principles for adoption and clarifications of the Banking Supervision Department.

The Bank is examining the implications of the adoption of International Financial Reporting 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 Public Reporting Directives of the Supervisor of Banks.

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 in the transaction shall be included in shareholders’ equity. A debit difference effectively constitutes a dividend and accordingly reduces 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 regarding 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 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 amending the Public Reporting Directives, on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk and Provision for Credit Losses." The directive adapts reporting principles applying to banking corporations in Israel in the matter with those applying to banks in the US, and is based, *inter alia,* on generally accepted accounting standards in the US, US banking regulatory provisions, and the directives of the US Securities and Exchange Commission dealing with banks. The provisions included in the circular constitute a material change in relation to existing provisions regarding classification of problem loans and the measurement of provisions for credit losses in respect of such debts.

The main changes included in the Directive are:

Banking corporations are required to maintain a provision for credit losses at a level appropriate to cover expected credit losses relating to its loan 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 impairment of the debt, based on the present value of the expected cash flows, discounted at the debt's effective interest rate; or when a debt is dependent on collateral or when the seizure of an asset is anticipated, based on the fair value of the collateral pledged to secure such credit.

- Group provision for credit losses – will be implemented for provisions for impairment for large groups of relatively small and homogeneous debts, 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 of debts with similar risk characteristics. The determination of the estimates of credit losses is to be documented.

New categories of problem loans have been defined, including:

- Impaired debt - credit in respect of which the banking corporation anticipates that it cannot collect the entire amount due, according to the contractual terms of the loan agreement, and for which the provision for credit losses is measured by way of a specific provision. The above classification is to be applied also for credit in arrears above 90 days, restructured debts, and on a current account balance in an over-limit situation, which are defined as problem debts in arrears.

- Inferior credit risk – defined as 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 distinct possibility that the banking corporation will suffer some loss if the deficiencies are not remedied.

No interest income is to be recorded for impaired debts (not including index-linkage and foreign currency linkage differentials added to the principal).

- Provisions in respect of the accounting write-off of problematic debts were made stricter. The Directive stipulates *inter alia* that:

- Any debt considered uncollectible, or a debt which the Bank has made efforts to collect over an extended period, is to be written off in the accounts.

- An accounting write-off is to be made immediately against the provision for credit losses of any part of a debt which exceeds the value of the collateral, which is identified as uncollectible.

- The accounting write-off for a debt in respect of which specific provisions for credit losses have been made should not be postponed. Generally, the write-off should be after two years.

- Problematic debts in respect of which the provision is measured based on a group provision for credit losses – it is stipulated that a write-off is to be made if the period of arrears exceeds 150 days.

- Qualitative and quantitative disclosure requirements in financial statements with respect to problem loans have been expanded.

- Detailed requirements have been laid down for preparing procedures to ensure a systematic 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 over the methods and processes established.

- The Directive will be implemented for financial statements as from 1 January 2011. The Directive will not be implemented retroactively for financial statements for previous periods. 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 at the date of implementation of the Directive but not yet collected 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.

- Differences generated at the date of initial implementation of the new instructions, between the balance of provisions for credit losses under existing instructions, and their balance calculated under the new instructions, will be charged to the retained earnings item in shareholders' equity.

In the Bank's opinion, the new directive will not affect the ability of the Bank to meet the capital adequacy ratio in accordance with the requirement of the Supervisor of Banks.

Also published, in the framework of the Directive of the Supervisor of Banks of 18 February 2010, were additional 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 over-limit debts in current accounts to the treatment accepted in the U.S., and the adaptation of certain Proper Conduct of Banking Business directives to the new directives, as well as expanding disclosure requirements for financial statements as of 31 December 2010.

The following changes, among others, have been proposed in the new directives:

- A requirement to include a pro-forma note to the financial statements referring to the impact of the Directive on major balance sheet items on the assumption that the Directive was implemented on 31 December 2010.

- A requirement to include in the Directors' Report a discussion on the impact of the Directive on major balance sheet items in the financial statements, and on credit quality, if the Directive was implemented on that date.

- Cancelling paragraph 5 of Proper Conduct of Banking Business Directive No. 325, on the subject of "Management of Credit Facilities", relating to accounting aspects of classifying certain accounts as problematic and the recognition of 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.

- A temporary directive has been included for implementation in the years 2011-2012 (hereinafter: "the transitional period"), which contains a simpler model for calculating credit loss provisions on a group basis. According to the temporary directive, the rate of provisions for credit losses on a group basis will be determined for the transitional period based on the range of historical rates for provisions for doubtful debts during the years 2008-2010, segmented by sector of the economy.

- 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 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 debts as mentioned: "Impaired debts", "Inferior debts" and "Debts under special supervision".

The supplementary provision serves only as an indicator regarding the group provision so that if the amount of the total group provision is less than the supplementary and general provision, the provision is to be made for the higher of the two calculations.

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%

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 setting up 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.

As part of the Bank’s preparations for the implementation of the above Directive, a steering committee has been appointed, whose members include representatives of accounting, the business divisions, and the computerization function. Sub-committees have been set up to deal with the establishment of working methods and the Directive’s requirements.

Preparations have been made for the modification of the computer systems, in which material changes to the information systems are required in order to carry out work processes that are 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 credit losses has been completed and the final stage of preparations 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. Regarding the Bank's opinion as to the impact anticipated on capital adequacy, see above. Pursuant to Bank of Israel directives, data on 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 published 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 instructions for implementation.

The circular distinguishes between two types of data used in establishing fair value:
Observable inputs provide information available to the market received from independent sources, whereas unobservable inputs reflect assumptions by the banking corporation. These types of data create a fair value hierarchy detailed as follows:

- Level 1 inputs: quoted prices (not adjusted) in active markets for identical assets or liabilities.
- Level 2 inputs: prices quoted for similar assets or liabilities in active markets; prices quoted for identical assets or liabilities in inactive markets; prices derived from evaluation models in which all the significant inputs are observable in the market, or are supported by observable market data.
- Level 3 inputs: unobservable inputs for the asset or the liability deriving from evaluation model for which one or more of the significant inputs are not observable.

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 it 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 certain 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 methods of assessment implemented by it for measuring 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 January 2010 the FASB published an update of the Accounting Standard concerning improved disclosure regarding fair value measurement. According to the update, it is required to disclose amounts of significant transfers from fair value measurement as per level 2, to measurement as per level 1 and *vice versa* and also to include explanations of these transfers. It will also be required to make disclosure of gross amounts of the changes in fair value measurement as per level 3 deriving from an acquisition, sale, issuance and repayment.

In light of the foregoing, the Bank is examining the effects of adopting 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 banking corporation to elect, on defined dates, to measure financial instruments and certain other items (the eligible items) at fair value, which under the 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 election 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 bases for measurement of similar types of assets and liabilities.

Notwithstanding the above, the circular clarifies that a banking corporation shall not elect the fair value alternative unless it has developed in advance know-how, systems, procedures, and controls at a high level, which will enable it to measure the item to a high degree of reliability. Thus, a banking corporation shall not elect the fair value alternative with regard to any asset requiring classification as 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 retained earnings. In addition, a banking corporation electing 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 elected 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 made of 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 election of the fair value alternative for an existing security held to maturity on initial adoption shall not cast doubt on the banking corporation's future intention to hold other bonds to maturity.

  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.

Note 2 - Securities

Reported Amounts

	30 September 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: (f)					
Debentures and bonds					
Government of Israel	-	-	-	-	-
Foreign Governments	-	-	-	-	-
Other companies	-	-	-	-	-
Total debentures held to maturity	-	-	-	-	-

	30 September 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	23,815	23,513	318	(16)	23,815
Foreign Governments	1,059	1,056	5	(2)	1,059
Other companies	17,022	17,026	354	(358)	17,022
	41,896	41,595	677	(376)	41,896
Shares of other companies and mutual funds (b)	2,700	2,106	607	(13)	2,700
Total securities available for sale	44,596	43,701	1,284 (c)	(389) (c)	44,596

	30 September 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	6,984	6,891	102	(9)	6,984
Foreign Governments	792	793	1	(2)	792
Other companies	1,785	1,777	31	(23)	1,785
	9,561	9,461	134	(34)	9,561
Shares and mutual funds:					
Other companies	216	576	-	(360)	216
Total securities available for sale	9,777	10,037	134 (d)	(394) (d)	9,777
Total securities	54,373	53,738	1,418	(783)	54,373

See notes on page 196.

Note 2 - Securities (Cont'd)
Reported Amounts

	30 September 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	269	269	9	-	278
Foreign Governments	550	550	-	0	550
Other companies (e)	71	71	-	(3)	68
Total debentures held to maturity	890	890	9	(3)	896

	30 September 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	23,508	23,325	190	(7)	23,508
Foreign Governments	295	290	6	(1)	295
Other companies (e)	20,221	20,726	329	(834)	20,221
	44,024	44,341	525	(842)	44,024
Shares and mutual funds					
Other companies (b)	2,373	1,687	687	(1)	2,373
Total securities available for sale	46,397	46,028	1,212 (c)	(843) (c)	46,397

	30 September 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	6,304	6,187	119	(2)	6,304
Foreign Governments	2,327	2,313	14	-	2,327
Other companies	2,371	2,383	36	(48)	2,371
	11,002	10,883	169	(50)	11,002
Shares and mutual funds:					
Other companies	92	442	-	(350)	92
Total securities held for trading	11,094	11,325	169 (d)	(400) (d)	11,094
Total securities	58,381	58,243	1,390	(1,246)	58,387

See notes on page 196.

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 notes on page 196.

Note 2 - Securities (Cont'd)

Notes:

(a) Fair value amounts are generally based on Stock Exchange prices, which do not necessarily reflect the price which will be obtained upon a large-volume sale of securities.

(b) Including NIS 1,261 million with respect to shares which have no readily available fair value, which are shown at cost (31 December 2009 - NIS 1,023 million and 30 September 2009 - NIS 1,007 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.

(f) Transfer of debentures held to maturity in the available-for-sale portfolio. A consolidated company sold debentures totaling NIS 448 million, which were classified as debentures to maturity. Accordingly, debentures remaining to maturity in the Group totaling NIS 255 million were classified as debentures available-for-sale. Classification of debentures held-to-maturity will be made in the future in accordance with the directives of the Supervisor of Banks.

Securities lent in the amount of NIS 599 million (31 December 2009 – NIS 559 million and at 30 September 2009 – NIS 352 million) are shown under credit to the public.

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

	30 September 2010 (Unaudited)				
	Amount in balance sheet	Amortized Cost	Accumulated other comprehensive income (loss) *		Fair value
			profits	losses	
	(NIS millions)				
1. Debentures available for sale:					
Pass-through securities:					
Securities guaranteed by GNMA	1,906	1,847	59	-	1,906
Securities issued by FNMA and FHLMC	276	264	12	-	276
Total	2,182	2,111	71	-	2,182
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	1,266	1,250	17	(1)	1,266
Other Mortgage-backed securities	312	341	-	(29)	312
Total	1,578	1,591	17	(30)	1,578
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	2	4	-	(2)	2
Credit for purchase of vehicle	6	6	-	-	6
Other credit to private persons	6	6	-	-	6
CLO	825	722	137	(34)	825
CDO	27	27	-	-	27
SCDO	57	47	10	-	57
Others	4	4	-	-	4
Total	927	816	147	(36)	927
Total Asset-backed debentures available for sale	4,687	4,518	235	(66)	4,687

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

Note 2 - Securities (Cont'd)

Of which: Asset-backed securities

Reported amounts

	30 September 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
Other securities	9	9	-	-	9
Total	10	10	-	-	10
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	30	29	1	-	30
Other Mortgage-backed securities	12	15	-	(3)	12
Total	42	44	1	(3)	42
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	3	-	-	3
Credit for purchase of vehicle	-	-	-	-	-
Credit not to private persons	5	5	-	-	5
CDO	2	6	-	(4)	2
Others	2	3	-	(1)	2
Total	12	17	-	(5)	12
Total Asset-backed debentures held for trading	64	71	1	(8)	64

* These profits (losses) are charged to the profit and loss account.

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

	30 September 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	1,336	1,324	14	(2)	1,336
Securities issued by FNMA and FHLMC	879	865	19	(5)	879
Securities issued by others	-	-	-	-	-
Total	2,215	2,189	33	(7)	2,215
Other Mortgage-backed securities (including CMO and STRIPPED MBS)					
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	2,346	2,348	20	(22)	2,346
Other Mortgage-backed securities	30	62	-	(32)	30
Total	2,376	2,410	20	(54)	2,376
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	3	6	-	(3)	3
Credit for purchase of vehicle	15	15	-	-	15
Other credit to private persons	7	7	-	-	7
CLO	857	761	153	(57)	857
CDO	32	25	7	-	32
SCDO	121	99	26	(4)	121
Others	30	31	-	(1)	30
Total	1,065	944	186	(65)	1,065
Total Asset-backed debentures available for sale	5,656	5,543	239	(126)	5,656

* Amounts charged to capital reserve as part of adjustments to fair value of available-for-sale securities.

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

	Amount In balance sheet	Amortized Cost	Unrealized profits from adjustments to fair value*	Unrealized losses from adjustments to fair value*	Fair value
	30 September 2009 (Unaudited)				
	(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	40	39	1	-	40
Other Mortgage-backed securities	64	83	-	(19)	64
Total	104	122	1	(19)	104
Asset-backed securities (ABS):					
Lines of credit for any purpose secured by dwelling	9	13	-	(4)	9
Credit for purchase of vehicle	1	1	-	-	1
Credit not to private persons	2	5	-	(3)	2
CDO	2	4	-	(2)	2
Others	2	5	-	(3)	2
Total	16	28	-	(12)	16
Total Asset-backed debentures held for trading	121	151	1	(31)	121

* 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 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 to fair value of available-for-sale securities.

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

	30 September 2010 (Unaudited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	-	-	-	-	-	-
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	132	-	457	(30)	589	(30)
Asset-backed securities (ABS)	2	-	436	(36)	438	(36)
Total	134	-	893	(66)	1,027	(66)

	30 September 2009 (Unaudited)					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	173	(2)	192	(5)	365	(7)
Other Mortgage-Backed Securities (including REMIC, CMO and STRIPPED MBS)	142	(28)	869	(26)	1,011	(54)
Asset-backed securities (ABS)	32	-	513	(65)	545	(65)
Total	347	(30)	1,574	(96)	1,921	(126)

- Losses less than NIS 1 million.

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 adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value	Fair Value	Unrealized losses from adjustments to fair value
	(NIS millions)					
Additional details of asset-backed securities available for sale which include unrealized losses from adjustments to fair value						
Pass-through (MBS)	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)

- Losses less than NIS 1 million.

Note 3 - Provision for Doubtful Debts
Reported amounts

	For the three months ended 30 September 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	**9,263**	**524**	**823**	**10,610**
Provisions during the period	**505**	**16**	**6**	**527**
Decrease in provisions	**(424)**	**(30)**	**(23)**	**(477)**
Collection of past years' write-offs	**(4)**	**-**	**-**	**(4)**
Net amount charged to statement of profit and loss	**77**	**(14)**	**(17)**	**46**
Net write-offs (c)	**(83)**	**(11)**	**-**	**(94)**
Balance of provision at end of the period	**9,257**	**499**	**806**	**10,562**
Including balance of provision not deducted from credit to the public	**140**	**-**	**125**	**265**

	For the three months ended 30 September 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	8,661	638	922	10,221
Provisions during the period	667	43	(3)	707
Decrease in provisions	(204)	(42)	(15)	(261)
Collection of past years' write-offs	(3)	-	-	(3)
Net amount charged to statement of profit and loss (c)	460	1	(18)	443
Net write-offs	(129)	(24)	-	(153)
Balance of provision at end of the period	8,992	615	904	10,511
Including balance of provision not deducted from credit to the public	133	-	126	259

(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

Reported amounts

	For the nine months ended 30 September 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	1,373	99	33	1,505
Decrease in provisions	(857)	(133)	(127)	(1,117)
Collection of past years' write-offs	(16)	-	-	(16)
Net amount charged to statement of profit and loss	500	(34)	(94)	372
Net write-offs (c)	(432)	(45)	-	(477)
Balance of provision at end of the period	9,257	499	806	10,562
Including balance of provision not deducted from credit to the public	140	-	125	265

	For the nine months ended 30 September 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	1,728	148	39	1,915
Decrease in provisions	(537)	(149)	(83)	(769)
Collection of past years' write-offs	(10)	-	-	(10)
Net amount charged to statement of profit and loss	1,181	(1)	(44)	1,136
Net write-offs (c)	(435)	(59)	-	(494)
Balance of provision at end of the period	8,992	615	904	10,511
Including balance of provision not deducted from credit to the public	133	-	126	259

(a) Not including provision for interest in respect of the period after the loans were determined to be doubtful. With respect to loans in arrears for which a provision was established to the extent of the arrears, no accrual for interest was recorded thereon.
(b) Including the general and special provision for doubtful debts.
(c) After deducting collection of debts written off in previous years.

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

	30 September 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	**29,528**	**441**	**145**	**349**	**-**	**349**
"Large" loans (a)	**12,721**	**111**	**127**	**119**	**-**	**119**
Other loans (b)	**8,202**	**183**	**21**	**31**	**9**	**40**
Balance of provision at end of the period	**50,451**	**735**	**293**	**499**	**9**	**508**
Of which: Purchasing groups (f)	**709**	**-**	**-**	**-**	**-**	**-**

	30 September 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	29,088	558	194	436	-	436
"Large" loans (a)	8,314	120	145	138	-	138
Other loans (b)	7,364	191	24	41	6	47
Balance of provision at end of the period	44,766	869	363	615	6	621
Of which: Purchasing groups (f)	406	-	-	-	-	-

(a) Housing loans the balance of each of which is higher than NIS 887 thousand (30 September 2009 - NIS 871 thousand), including loans for purchase of housing and loans secured by a housing mortgage.
(b) Loans for any purpose secured by mortgage, the balance of each of which is lower than NIS 887 thousand (30 September 2009 - NIS 871 thousand).
(c) Including interest on the amount in arrears.
(d) Including balance of specific provision in excess of amount required according to depth of arrears in the amount of NIS 105 million (30 September 2009 - NIS 106 million).
(e) The balance of loans secured by a housing mortgage is NIS 8,256 million (30 September 2009 - NIS 6,640 million).
(f) In respect of housing loans granted to certain purchasing groups in process of construction, which have been classified as credit to the construction and real estate sector.

Note 4 - Capital Adequacy

Reported amounts

	30 September 2010	30 September 2009	31 December 2009	
	NIS millions			
	Basel II	Basel I	Basel II	
Capital for purposes of calculating capital ratio				
Tier 1 capital, after deduction	**22,660**	20,868	21,478	
Tier 2 capital, after deduction	**17,897**	14,300(a)	14,863	
Tier 3 capital	-	-	-	
Total capital	**40,557**	35,168	36,341	
Weighted balance of risk assets				
Credit risk	**237,502**	239,371	229,551	
Market risk	**7,842**	9,391	7,418	
Operational risk	**20,626**	-	20,928	
Total weighted balance of risk assets	**265,970**	248,762	257,897	
Ratio of capital to risk assets				
Ratio of Tier 1 capital to risk assets	**8.52%**	8.39%	8.33%	
Ratio of total capital to risk assets	**15.25%**	14.14%	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	**9.91%**	6.55%	10.64%	(c)
Ratio of total capital to risk assets	**14.88%**	9.84%	15.97%	(c)
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	**11.83%**	15.70%	10.70%	
Ratio of total capital to risk assets	**16.79%**	20.02%	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	**14.10%**	20.30%	13.50%	(d)
Ratio of total capital to risk assets	**14.10%**	20.30%	13.50%	(d)
Ratio of total minimum capital required by the Supervisor of Banks	**9.00%**	9.00%	9.00%	
Bank Leumi USA (b)				
Ratio of Tier 1 capital to risk assets	**10.80%**	10.51%	10.97%	
Ratio of total capital to risk assets	**13.77%**	13.72%	14.44%	
Ratio of total minimum capital required by the local authorities	**10.00%**	10.00%	10.00%	

(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, and so the ratios reported are according to Basel I.
(c) Restated pursuant to a provision for doubtful debts in respect of purchasing groups.
(d) Restated pursuant to a change in allocation of exposure to credit risk of banking corporations.

In accordance with a Bank of Israel directive of 15 August 2010 concerning a provision for doubtful debts in respect of purchasing groups and disclosure about purchasing groups, all data for prior periods included in the financial statement referring to purchasing groups are to be reclassified. The capital adequacy ratio for 31 December 2009 does not include the effect of the said reclassification. The effect on the consolidated capital adequacy ratio as at 31 December 2009 is a reduction of 0.03%.

Note 5 - Assets and Liabilities Classified According to Linkage Basis
as at 30 September 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	29,690	386	6,658	2,208	1,411	7	40,360
Securities	21,893	8,132	12,300	7,732	1,400	2,916	54,373
Securities borrowed or purchased under agreement to resell	914	-	-	-	-	-	914
Credit to the public (b)	115,456	49,641	35,801	6,175	10,139	6	217,218
Credit to governments	-	259	126	-	-	-	385
Investments in affiliated companies	7	-	-	-	-	1,733	1,740
Buildings and equipment	-	-	-	-	-	3,600	3,600
Other assets	5,153	97	3,052	633	1,627	1,507	12,069
Total assets	173,113	58,515	57,937	16,748	14,577	9,769	330,659
Liabilities							
Deposits of the public	119,780	26,032	70,516	20,412	9,035	45	245,820
Deposits from banks	5,385	261	773	186	183	-	6,788
Deposits from governments	42	358	207	7	-	-	614
Securities loaned or sold under agreement to repurchase	654	-	55	-	-	-	709
Debentures, bonds and subordinated notes	4,794	22,857	1,093	-	-	-	28,744
Other liabilities	12,367	4,537	2,891	939	1,709	1,510	23,953
Total liabilities	143,022	54,045	75,535	21,544	10,927	1,555	306,628
Difference	30,091	4,470	(17,598)	(4,796)	3,650	8,214	24,031
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	(8,138)	(6,268)	15,054	4,793	(5,441)	-	-
Options in the money, net (in terms of underlying asset)	(625)	(8)	124	(285)	794	-	-
Options out of the money, net (in terms of underlying asset)	(635)	-	74	140	405	16	-
Total	20,693	(1,806)	(2,346)	(148)	(592)	8,230	24,031
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,279)	(16)	346	(302)	1,251	-	-
Options out of the money, net (discounted par value)	664	(3)	(1,463)	(342)	1,108	36	-

(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 30 September 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	28,455	454	7,969	2,940	4,110	6	43,934
Securities	19,821	9,294	15,184	10,522	1,095	2,465	58,381
Securities borrowed or purchased under agreement to resell	1,823	-	-	-	-	-	1,823
Credit to the public (b)	104,494	49,849	32,294	7,231	10,090	13	203,971
Credit to governments	-	257	173	-	-	-	430
Investments in affiliated companies	8	-	-	-	-	1,900	1,908
Buildings and equipment	-	-	-	-	-	3,544	3,544
Other assets	3,866	150	2,434	587	1,865	737	9,639
Total assets	158,467	60,004	58,054	21,280	17,160	8,665	323,630
Liabilities							
Deposits of the public	116,166	27,557	71,671	24,152	9,836	51	249,433
Deposits from banks	3,633	441	563	395	363	-	5,395
Deposits from governments	42	496	169	12	-	-	719
Securities loaned or sold under agreement to repurchase	1,260	-	56	-	-	-	1,316
Debentures, bonds and subordinated notes	3,186	20,458	1,827	-	-	-	25,471
Other liabilities	10,016	4,003	2,052	860	2,286	738	19,955
Total liabilities	134,303	52,955	76,338	25,419	12,485	789	302,289
Difference	24,164	7,049	(18,284)	(4,139)	4,675	7,876	21,341
Effect of derivative instruments that are not hedging derivatives:							
Derivative instruments (excluding options)	(4,256)	(8,113)	14,037	4,416	(6,084)	-	-
Options in the money, net (in terms of underlying asset)	(795)	(19)	1,119	(305)	-	-	-
Options out of the money, net (in terms of underlying asset)	(912)	-	561	21	330	-	-
Total	18,201	(1,083)	(2,567)	(7)	(1,079)	7,876	21,341
Effect of derivative instruments that are not hedging derivatives:							
Options in the money, net (discounted par value)	(1,183)	(32)	1,573	(345)	(13)	-	-
Options out of the money, net (discounted par value)	(3,061)	(7)	2,401	136	531	-	-

(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 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

	30 September 2010	30 September 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	**2,585**	1,916	1,773
Credit guarantees	**6,197**	6,549	6,199
Guarantees to apartment purchasers	**10,800**	8,935	9,250
Other guarantees and liabilities	**14,515**	14,331	14,509
Commitments regarding uncompleted credit card transactions unutilized credit card facilities	**19,519**	18,156	18,348
Other unutilized revolving credit facilities to the public and credit facilities on demand	**14,565**	14,009	14,211
Irrevocable commitments to provide credit which has been approved and not yet granted (a)	**19,871**	18,653	17,827
Commitments to issue guarantees	**8,636**	6,864	7,793
Unutilized facilities for activity in derivative instruments	**4,371**	-	4,060
Approval in principle to maintain the rate of interest in Leumi Mortgage Bank (b)	**2,250**	1,903	2,980

(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 220 million (30 September 2009 - NIS 376 million, 31 December 2009 - NIS 377 million).

	30 September 2010	30 September 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	**164**	**156**	**228**
Second year	**153**	**135**	**145**
Third year	**126**	**106**	**123**
Fourth year	**99**	**84**	**100**
Fifth year	**70**	**50**	**65**
After five years	**185**	**123**	**203**
Total	**797**	**654**	**864**
(2) Commitments to purchase securities	**240**	**319**	**399**
(3) Commitments to invest in buildings, equipment and in other assets	**239**	**179**	**123**
(4) 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	**6**	**18**	**15**
Total future deposits	**86**	**103**	**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 138 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 any of the respondents. 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 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 delay proceedings in the claim until the granting of a decision on the application for leave of appeal submitted to the Supreme Court. On 27 May 2010, the Attorney General submitted his position, the essence of which is that the decision of the District Court cannot remain as is, since identical prices between banks themselves do not provide a basis for a reasonable possibility of the existence of a restrictive arrangement, and that in his opinion the matter should be returned to the District Court for the completion of clarification and the handing down of a new decision. The Supreme Court held that the hearing of the application for leave of appeal will take place before a panel of seven judges.

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, 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. On 17 June 2010, the appeal was dismissed, and following this the Bank filed a petition to dismiss the above 260 claims. On 20 June 2010, the Court handed down a decision according to which there are grounds for dismissal of the claims, and requested the parties' response. A decision has not yet been handed down.

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 had 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 so doing 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 notices 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 calculates a minimum fee for a securities deposit that is charged unlawfully at the end of the quarter, since at the time it is charged it does not take into account amounts of securities management fees charged when a security is sold during the 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 Tel-Aviv District Court handed down its decision dismissing 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 grounds for the action are based on the fact that the banks did not announce that they collect an exercise commission, they 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 had 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, in terms of the public interest, it 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 in 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 Commissioner'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 revaluation committee.

On 4 March 2008, 18 September 2008 and February 11 2009, respectively, the Company made three demands 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 have been held by the Bank ("the demands"). The Bank responded to these three demands 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 offset 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. Before the Bank's response was given to the originating motion, an arbitration agreement was signed between the Bank bearing the date February 26, 2010, with the aim of bringing the disputes between the parties to a speedy and effective arbitration. In view of the agreement between the parties, a verdict was given dismissing the originating motion. Furthermore, 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 arbitration framework, the Company filed an amended claim against the Bank, based mainly on what was claimed in the originating motion, with the amount claimed being amended to some NIS 305 million, as at 30 April 2010. In response, the Bank entered a defense plea on its own behalf, in which it refutes the indebtedness attributed to it by the Company. In addition, the Company filed a supplementary claim against the Bank in the framework of the arbitration, in which were included thousand of assets in which the Company has not yet completed its investigation, and so the amount of the monetary indebtedness attributed to the Bank by the Company was not included. Furthermore, in the framework of the supplementary claim, additional assets were added to the Company's claim that have been investigated by the Company, in respect of which the additional monetary indebtedness attributed to the Bank is some NIS 37 million, as at 30 June 2010. The Bank's response to the supplementary claim has not yet been filed.

In the Bank's opinion, based on the opinions of the Bank's legal advisors, at this early stage (prior to the submission of a response on behalf of the Bank to everything claimed by the Company, and prior to any hearing whatsoever on the claims of the parties in the arbitration framework), it is not possible *inter alia*, to assess the chances of the claim of the Company and whether there is a need 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 interested 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 temporary 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 temporary false 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; included among the borrowers who joined the said life insurance were 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. The parties reached a compromise arrangement in the suit, and on 7 September 2010, the Tel-Aviv District Court approved the arrangement with certain changes. On 28 October 2010, an appeal was filed by the representative of the plaintiff with the Supreme Court against the approval of the compromise arrangement, in which the Supreme Court was requested to approve the arrangement as is, without changes concerning professional fees for the representative of the plaintiff, and the special compensation for the plaintiff ordered by the District Court.

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 the 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 another decision is rendered (in this Paragraph: "the other decision"), which deals with a similar issue. The other decision has not yet been handed down.

On 7 June 2010, the other decision was handed down, in the framework of which the appeal submitted by the Bank was accepted, and the verdict of the Magistrates Court was canceled, including its decisions against the status of the additional borrower. Leumi Mortgage Bank was informed that the plaintiffs' position is that they will decide if to go back on the petition for approval or not only when it will be clear to them if a reservation will be submitted against the other decision in the Supreme Court. No such reservation has been submitted, but on 11 October 2010 an additional verdict was handed down in the Tel-Aviv District Court in the proceedings against another bank (in this Paragraph: "the additional verdict") in which the "additional borrower" issue was discussed. Following the additional verdict, the circumstances and consequences of which differ from the other verdict, Leumi Mortgage Bank was informed that the plaintiffs insist on continuing proceedings in the petition for approval.

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 risks of the Notes 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 with regard to 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'alot Ltd., Keshet Debentures Ltd. ("Keshet"), Bank Leumi le-Israel Trust Company ("the 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 with regard to the fact that a company in the Lehmann Group ("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 Keshet'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. This petition was dismissed and its contents and the parties to it were combined in a petition for approval as another class action for the amount of NIS 286 million, which was submitted in connection with the above debentures (The Trust Company was not a party to the other petition in its original version, before combining both versions). 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 combined 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 in the amount of some NIS 74 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. A response has been submitted by Leumi Card and Leumi Card Credits to the application for approval of the claim as a class action.

7. A claim was filed against Bank Leumi (UK) in the amount of some US $50 million by a customer of Bank Leumi (UK) as a counter-claim to the claim filed by Bank Leumi (UK) against her in respect of a debt of some €13 million, which was created from activity in derivatives. According to the claim of the customer, Bank Leumi (UK) did not comply with regulatory requirements in that it classified her as a professional customer in the capital market, instead of as a private customer, and made inaccurate or false representations in connection with the transactions, which resulted in her being caused damages and a loss. Bank Leumi (UK) has filed a defense plea.

D. The Israel Corporation Ltd.

1. Legal claims been made against certain investee companies of the Israel Corporation Ltd. contending that personal and property damage caused to the plaintiffs resulted from the pollution of the Kishon River, in which the plaintiffs contend the above mentioned investee companies had a part, and, against a consolidated company, legal proceedings are taking place, legislation has been enacted and orders have been issued concerning the activity of this company.

   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") is involved as a respondent in a petition for the approval for filing a derivative action which was submitted to the District Court by a shareholder holding shares in the Israel Corporation. If the plaintiff is allowed to file a derivative action in the name of the Israel Corporation, and if this claim is eventually accepted, Zim may be obligated to make good the Israel Corporation an amount of $246 million (or $111 million if alternative relief claimed by the plaintiff is granted). The Management of Zim, based on the opinion of their legal advisers, are of the opinion that at this early stage, it is unable to form an opinion as to the chances of the claim.

For further details of these matters, see the financial statements of the Israel Corporation Ltd. as at 30 September 2010.

E. On 26 April 2009, a ruling of the Antitrust Commissioner 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 appealed this ruling. At this stage, no assessment can be made of the implications of the ruling.

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

A. Scope of Activity

	30 September 2010 (Unaudited)				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Forward contracts	-	-	6	-	-
Swaps	-	2,238	-	-	-
Total	-	2,238	6	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	1,956	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	10,347	-	249	771
Forward contracts	7,612	10,847	134,764	-	424
Traded options					
Options written	-	-	6,617	8,193	19
Options purchased	-	-	6,586	8,193	26
Other options					
Options written	20	18,841	39,355	4,873	138
Options purchased	-	13,202	37,885	5,261	143
Swaps	1,182	126,795	16,733	346	1,037
Total	8,814	180,032	241,940	27,115	2,558
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	65,633	-	-	-
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	-	-	-	-	1,950
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	758
Spot foreign exchange contracts	-	-	16,287	-	-
Total	-	-	16,287	-	2,708
Overall total	8,814	182,270	258,233	27,115	5,266

(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)

	30 September 2010 (Unaudited)				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	19	-	-	-
Gross negative fair value	-	105	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	101	3,661	4,338	1,043	276
Gross negative fair value	371	4,397	5,001	1,030	285
c) Other derivatives (1)					
Gross positive fair value	-	-	-	-	-
Gross negative fair value	-	1	-	-	-
d) Credit derivatives					
Credit derivatives in which the banking institution is a guarantor					
Gross positive fair value	-	-	-	-	1
Gross negative fair value	-	-	-	-	49
Credit derivatives in which the banking institution is a beneficiary					
Gross positive fair value	-	-	-	-	5
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)

	30 September 2009 (Unaudited)				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(1) Amount of derivative instruments					
a) Hedged instruments (1)					
Forward contracts	-	-	-	-	-
Swaps	-	1,289	-	-	-
Total	-	1,289	-	-	-
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	745	-	-	-
b) ALM derivatives (1)(2)					
Futures contracts	-	6,815	-	309	127
Forward contracts	10,063	15,729	90,183	-	701
Traded options					
Options written	-	162	4,432	7,138	32
Options purchased	-	163	4,875	7,138	39
Other options					
Options written	41	20,542	22,823	653	41
Options purchased	-	17,632	23,144	800	41
Swaps	1,369	104,696	11,901	-	-
Total	11,473	165,739	157,358	16,038	981
Of which: Swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	53,797	-	-	-
c) Other derivatives (1)					
Swaps	-	-	-	-	-
Total	-	-	-	-	-
d) Credit derivatives and Spot contracts					
Credit derivatives in which the banking institution is a guarantor	-	-	-	-	827
Credit derivatives in which the banking institution is a beneficiary	-	-	-	-	-
Spot foreign exchange contracts	-	-	11,926	-	-
Total	-	-	11,926	-	827
Overall total	11,473	167,028	169,284	16,038	1,808

(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)

	30 September 2009 (Unaudited)				
	Interest contracts				
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Contracts in respect of goods and others
	(NIS millions)				
(2) Gross fair value of derivative instruments					
a) Hedged derivatives (1)					
Gross positive fair value	-	36	-	-	-
Gross negative fair value	-	27	-	-	-
b) ALM derivatives (1)(2)					
Gross positive fair value	54	3,372	3,043	315	25
Gross negative fair value	470	3,190	4,398	308	24
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	-	-	-	-	1

(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 in 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					
Options written	-	-	3,394	7,144	47
Options purchased	-	-	3,875	7,144	53
Other options					
Options written	21	17,440	26,033	495	11
Options purchased	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 in 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

	30 September 2010 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	**642**	**5,120**	**-**	**-**	**3,682**	**9,444**
Off-balance sheet credit risk in respect of derivative Instruments (3)	**1,157**	**26,531**	**2**	**18**	**10,679**	**38,387**
Total credit risk in respect of derivative instruments	**1,799**	**31,651**	**2**	**18**	**14,361**	**47,831**

	30 September 2009 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	232	3,843	-	-	2,770	6,845
Off-balance sheet credit risk in respect of derivative Instruments (3)	865	17,826	4	-	9,525	28,220
Total credit risk in respect of derivative instruments	1,097	21,669	4	-	12,295	35,065

	31 December 2009 (Audited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Balance sheet balances of assets derived from derivative instruments (1) (2)	861	3,286	-	-	2,293	6,440
Off-balance sheet credit risk in respect of derivative Instruments (3)	842	20,098	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 stand-alone derivative instruments - NIS 9,444 million (30 September 2009 – NIS 6,845 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

	30 September 2010 (Unaudited				
	Up to three Months	three months to one year	From one year to five years	More than five years	Total
	(NIS millions)				
Interest (Swap) contracts:					
Shekel – index	2,732	2,951	3,006	125	8,814
Other	18,965	35,453	70,328	57,524	182,270
Foreign currency contracts	167,368	71,426	8,619	10,820	258,233
Contracts in respect of shares	15,986	10,512	567	50	27,115
Contracts in respect of commodities and others	1,796	2,314	1,156	-	5,266
Total	206,847	122,656	83,676	68,519	481,698
Total September 2009 (Unaudited)	148,468	106,393	65,258	45,512	365,631
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 30 September		For the nine months ended 30 September	
	2010	2009	**2010**	2009
	(NIS millions)		(NIS millions)	
A. Income on assets (a)				
Credit to the public	**1,197**	1,392	**5,459**	8,756
Credit to governments	**(1)**	2	**11**	26
Deposits with Bank of Israel and cash	**(7)**	(107)	**159**	86
Deposits with banks	**101**	(116)	**(389)**	811
Securities borrowed or purchased under agreement to resell	**5**	(1)	**15**	4
Debentures (d)	**(49)**	(268)	**(454)**	1,333
Total income on assets	**1,246**	902	**4,801**	11,016
B. Expenses on liabilities (a)				
Deposits of the public	**1,727**	2,284	**1,887**	(4,049)
Deposits from governments	**12**	(14)	**(2)**	(38)
Deposits from Bank of Israel	**-**	-	**-**	1
Deposits from banks	**(151)**	(213)	**(97)**	(231)
Securities loaned or sold under agreement to repurchase	**1**	4	**(8)**	(7)
Debentures, bonds and subordinated notes	**(515)**	(671)	**(1,225)**	(1,434)
Total expense on liabilities	**1,074**	1,390	**555**	(5,758)
C. From derivative instruments and hedging activities				
Ineffective portion of hedge relationships (b)	**2**	-	**2**	-
Net income (expenses) from ALM derivative instruments (c)	**(774)**	(773)	**(1,258)**	(1,237)
Net income (expenses) from other derivative instruments	**(10)**	20	**11**	13
Total income from derivative instruments and hedging activities	**(782)**	(753)	**(1,245)**	(1,224)
D. Other income and expenses				
Financing commissions	**95**	89	**288**	256
Profits from sale of debentures available for sale, net (e)	**78**	120	**174**	295
Realized and unrealized profits in respect of fair value adjustments of trading debentures, net	**29**	60	**210**	221
Other financing income	**92**	103	**499**	372
Other financing income (expenses)	**14**	12	**10**	33
Total other income and expenses	**308**	384	**1,181**	1,177
Total net interest income before provision for doubtful debts	**1,846**	1,923	**5,292**	5,211
Of which: net, exchange difference	**19**	(1)	**8**	(71)
E. Detail of net effect of hedging derivative instruments on net interest income				
Financing income (expenses) on assets	**1**	(2)	**(5)**	1
Financing income (expenses) on liabilities	**(2)**	4	**6**	2

(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 interest and positive (negative) exchange rate differentials in respect of mortgage-backed bonds (MBS) in the amount of some NIS 13 million for the nine months ended in September 2010 and NIS 18 million for the three months ended in September 2010 (30 September 2009 – NIS (5) million and NIS (133) million respectively).
(e) Including provision for impairment that was not temporary in nature.

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

Reported amounts (Unaudited)

	For the three months ended 30 September		For the nine months ended 30 September	
	2010	2009	**2010**	2009
	(NIS millions)		(NIS millions)	
Gains on sale of shares available for sale	**-**	281	**45**	402
Losses on sale of shares available for sale (b)	**-**	(2)	**(13)**	(12)
Realized and unrealized profits from adjustments to fair value of held for trading shares, net	**(5)**	(1)	**-**	6
Dividend on shares available for sale and on held for trading shares	**19**	8	**156**	75
Total from investments on shares	**14**	286	**188**	471

(a) Including mutual funds.
(b) Including provision for impairment 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 30 September 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 debts								
From outside entities -	366	262	827	456	(13)	(54)	2	1,846
Intercompany operations -	222	(41)	(376)	(93)	120	171	(3)	-
Total	588	221	451	363	107	117	(1)	1,846
Operating and other income:								
From outside entities -	426	122	113	108	112	54	48	983
Intercompany operations -	62	(15)	(32)	(9)	2	1	(9)	-
Total	488	107	81	99	114	55	39	983
Total income	1,076	328	532	462	221	172	38	2,829
Provision for doubtful debts	46	36	(154)	120	12	(11)	(3)	46
Net profit	68	67	342	55	19	48	4	603

Note 10 - Information on Activity by Operating Segments (cont'd)
Reported amounts

	Statement of profit and loss for the three months ended 30 September 2009 (Unaudited) (a)							
	Household banking	Small business banking	Corporate banking	Commercial banking	Private banking	Financial management	Other	Total consolidated
	(NIS millions)							
Net interest income (loss) before provision for doubtful debt:								
From outside entities -	227	280	1,111	495	(50)	(142)	2	1,923
Intercompany operations -	289	(76)	(624)	(141)	151	404	(3)	-
Total	516	204	487	354	101	262	(1)	1,923
Operating and other income:								
From outside entities -	437	131	361	112	109	121	21	1,292
Intercompany operations -	62	(27)	(16)	(14)	6	-	(11)	-
Total	499	104	345	98	115	121	10	1,292
Total income	1,015	308	832	452	216	383	9	3,215
Provision for doubtful debts	75	63	198	117	1	(11)	-	443
Net profit	97	37	314	57	36	90	(97)	534

(a) Reclassified.

Note 10 - Information on Activity by Operating Segments (cont'd)
Reported amounts

	Statement of profit and loss For the Nine Months Ended 30 September 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 -	1,066	766	2,218	1,315	(22)	(59)	8	5,292
Intercompany operations -	563	(99)	(707)	(213)	332	132	(8)	-
Total	1,629	667	1,511	1,102	310	73	-	5,292
Operating and other income:								
From outside entities -	1,286	357	335	317	331	153	242	3,021
Intercompany operations -	180	(43)	(93)	(29)	7	2	(24)	-
Total	1,466	314	242	288	338	155	218	3,021
Total income	3,095	981	1,753	1,390	648	228	218	8,313
Provision for doubtful debts	103	86	(36)	215	15	(6)	(5)	372
After-tax profit from extraordinary items	-	-	-	-	-	177	9	186
Net profit	158	197	862	263	71	157	151	1,859

Note 10 - Information on Activity by Operating Segments (cont'd)
Reported amounts

	Statement of profit and loss For the Nine Months Ended 30 September 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 -	723	780	2,461	1,355	(169)	59	2	5,211
Intercompany operations -	845	(152)	(1,031)	(286)	510	122	(8)	-
Total	1,568	628	1,430	1,069	341	181	(6)	5,211
Operating and other income:								
From outside entities -	1,265	339	609	309	310	396	80	3,308
Intercompany operations -	173	(44)	(89)	(30)	13	1	(24)	-
Total	1,438	295	520	279	323	397	56	3,308
Total income	3,006	923	1,950	1,348	664	578	50	8,519
Provision for doubtful debts	207	150	511	256	1	11	-	1,136
After-tax profit (loss) from extraordinary items	-	-	-	-	-	-	28	28
Net profit	205	155	667	261	98	171	(87)	1,470

(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
After-tax profit (loss) from extraordinary items	-	-	-	-	-	-	28	28
Net profit (loss)	161	188	1,013	311	116	273	(48)	2,014

Note 11 – Miscellaneous Matters and Events After the Balance Sheet Date

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 2,000 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.

On 22 June 2010, the Bank sold most of its holdings in Paz, being an amount representing 14.97% of the issued and paid-up capital of Paz, at a price of some NIS 520 per share, for a total sum of about NIS 781 million, and at an after-tax profit of about NIS 177 million. Following the sale, the Bank exercised 11,961 options on 4 August 2010, Following the above-mentioned transactions, the amount still retained by the Bank (through Leumi Real Holdings) is a holding of 0.95% of the issued and paid-up capital of Paz. The percentage holding remaining under the Bank’s ownership is permitted under the Amendment to the Banking Law of 3 March 2010, and is reported under the item "Shares available for sale". Up until 18 November 2010, the Bank had sold about 0.56% of the issued and paid-up capital of Paz.

B. Distribution of a Dividend

The Board of Directors decided at its meeting of 30 August 2010, after receiving accounting and legal opinions, that all conditions had been met under the Companies Law and the directives of the Supervisor of Banks for an allowable distribution, to approve the distribution of a dividend in cash totaling NIS 500 million, representing 39.8% of the net income for the first half of 2010. The dividend of about NIS 0.34 per share will be paid on 30 November 2010 to shareholders holding shares in the Bank on 16 November 2010 (the determining date). The shares were traded ex-dividend on 17 November 2010. This decision is subject to approval at the General Meeting of the Bank. This resolution was approved by the General Meeting of the Bank held on 4 November 2010.

At its meeting of 29 November 2010, the Board of Directors, having received an accounting and legal opinion that all of the conditions for a permitted distribution pursuant to the Companies Law and the Directives of the Supervisor of Banks had been fulfilled, recommended the approval of the distribution of an additional dividend in cash totaling NIS 500 million, for a total of NIS 1.0 billion (including the NIS 500 million above), representing 54% of the profit for the first nine months of the year. The additional dividend of about NIS 0.34 per share will be paid on 27 January 2011 to shareholders holding shares in the Bank at 10 January 2011 (the determining date). The shares will be traded ex-dividend on 11 January 2011. This resolution is conditional on the approval of the General Meeting of the Bank.

C. Collective Agreement with Employees

On 17 November 2010, a special collective agreement concerning the rights of employees, between the Bank and the representative body of employees of the Bank ("the Collective Agreement"), was signed, according to which:

1. The agreement reached in the special collective agreement dated 30 November 2005 ("the previous collective agreement"), to extend until 31 December 2010 the validity of the Employment Code and all collective agreements and arrangements, as well as all the agreements, procedures and practices granting rights to Bank employees, who are currently in the Bank, according to their individual status, as stated in Paragraph 5 of the previous collective agreement, was extended for a further period of four years – until 31 December 2014.

2. The agreement reached in the previous collective agreement, according to which the employees undertake to refrain from any industrial action in connection with the proceedings of privatizing the Bank until they are completed in full, as stated in Paragraph 7 of the previous collective agreement, shall remain in force.

The collective agreement was approved by the Audit Committee and the Board of Directors and is subject to approval by the General Meeting of the Bank.

D. Investment in Tnuva

On 18 October 2010, a memorandum of understanding was signed between Bank Leumi Le-Israel B.M. and/or a company under its control (hereinafter: “the Bank”) and M.B.S.T. Ltd. and Mivtach Shamir Holdings Ltd. (hereinafter together: “Mivtach” or “the seller”) with regard to the purchase of all of Mivtach’s (indirect) holdings in the Tnuva Group (hereinafter: “the memorandum of understanding”).

According to the memorandum of understanding, the Bank will purchase from the seller 13.5% of the capital of AP. MS. TN. Holdings (hereinafter “the SPV”) representing some 10.36% of the Tnuva Group. In addition, the Bank will lead an investors’ consortium (hereinafter: “the additional purchasers”) who will be recruited by Leumi Partners Ltd., a company wholly owned by the Bank for the purpose of purchasing the balance of the Mivtach’s holdings in the SPV. The total of all the shares purchased will create a holding of some 26.9333% of the SPV and an indirect holding of some 20.6665% in the Tnuva Group. The Bank will, in accordance with its commitment to the Bank of Israel, sell 3.5% of the capital of the SPV within one year of the date of completion.

The Bank and the additional purchasers (together: “the purchasers”) will pay the seller on the completion date of the transaction cash consideration of NIS 1,230 million (the “consideration amount”). The exact consideration amount will be determined at the time of the completion in accordance with the size of the SPV’s financial debt at that time, will be subject to various adjustments specified in the memorandum of understanding.

The transaction will include an agreed-upon adjustment mechanism, which will remain in force for a period of 4 years from the date of the completion and which will commence on the occurrence of a “sale event”, which is defined in the memorandum of understanding as an initial public offering of the Tnuva Group, or a transaction in the context of which control of the Tnuva Group is sold and transferred to a third party (hereinafter: “sale event”). If a sale event occurs, the SPV’s value at the sales event’s execution will be examined in comparison with the SPV’s value for the purpose of the execution of the transaction pursuant to the memorandum of understanding. The purchasers will receive a cash reimbursement, if there is a negative differential between the value at which the sale event is executed and the value according to which the purchasers paid the consideration to Mivtach; on the other hand, Mivtach will receive additional cash consideration from the purchasers if there a positive difference between the value at which the sale event is executed and the value according to which the purchasers paid the transaction consideration, all according to the formulae determined in the memorandum.

The adjustment mechanism is limited such that the reimbursement to the purchasers cannot exceed NIS 430 million, while the additional consideration (the upside payment) to the seller can be up to a total of NIS 278 million.

The transaction pursuant to the memorandum of understanding is subject to the signature of detailed agreements between the seller and the purchasers, and their compliance with the conditions precedent set forth in the memorandum of understanding, including regulatory approvals, examinations carried out by the purchaser in the Tnuva Group and in the SPV, the receipt of approvals from the financing banks and the signature of shareholders' agreement between the purchasers and the Apax Funds.

E. Terms of Employment of the Chairman of the Board of Directors

The Audit Committee, the Board of Directors, and the General Meeting of the Bank approved the terms of employment of the Chairman of the Board of Directors, who is employed in a full-time capacity as an active Chairman of the Board.
The employment of the Chairman is for a period of three years commencing on 4 August, 2010 "the employment period"). If the Chairman, on the termination of the period of employment term of office, is elected to serve for an additional period of service, the terms of the agreement between the parties shall continue to apply; in this event, however, the terms regarding advance notice and regarding the entitlement to an adaptation grant shall not apply.

The Bank and the Chairman may terminate the agreement between them by the giving of advance notice as follows: (1) If the Chairman's employment is terminated due to involuntary retirement during the employment period, the period of advance notice shall be for up to 9 months, provided that it will not exceed the date of the termination of the employment period; (2) If the Chairman's employment is terminated due to voluntary retirement during the employment period (except in exceptional circumstances when the Chairman may be refused compensation), and if the Chairman's employment is terminated after the employment period (for as long as he is elected for an additional period of service) - the period of advance notice shall be for 6 months. It should be explained that the Bank will be entitled to require that the period of advance notice be during actual work, in whole or in part. During the period of advance notice, the Chairman shall be entitled to a salary and to all other social benefits.

If the employment of the Chairman is terminated, for any reason whatsoever (except in exceptional circumstances when the Chairman may be refused compensation), the Chairman shall be entitled to severance compensation of 150% of his last salary multiplied by the number of years (and/or any part thereof) that he served as Chairman of the Board of Directors. This is in addition to the Chairman's entitlement to monies and rights accumulated in the compensation and provident funds.
If the Chairman's employment is terminated due to involuntary retirement during the employment period, or if the Chairman's employment is terminated after the employment period, for any reason whatsoever, the Chairman shall be entitled to a 6 month adaptation period, during which he will receive monthly salaries (including social benefits). The adaptation period shall commence at the end of the advance notice period (if existing). The Chairman undertook to serve a 6 month "cooling-off" period, during which he will be entitled to a salary and other social benefits. It is clarified that if the "cooling-off" period is concurrent with the advance notice period and/or the adaptation period, wholly or partially, the Chairman shall be entitled only to payment in respect of the advance notice period of the adaptation period, as applicable.