

Leumi Annual Report 2006

Bank Leumi le-Israel (Switzerland)

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**Bank Leumi le-Israel
(Switzerland)**

Head Office:
Zurich, Claridenstrasse 34

Branch:
Geneva, 80, rue du Rhône

Annual Report 2006
to be presented by the
Board of Directors to the
Annual General Meeting
of Shareholders of
Bank Leumi le-Israel (Switzerland)
on April 26, 2007

Board of Directors

Mrs. Galia Maor, Chairperson	Tel Aviv
Dr. Michael Kohn*, Deputy Chairman	Zurich
Dr. Rolf Bloch*	Muri/Bern
Mr. Dov Gilboa**	Tel Aviv (until April 24, 2006)
Dr. Michel Haymann*	Zurich
Mr. Zvi Itskovitch**	Tel Aviv
Dr. Rolf Kormann**	Ebmatingen ZH (until April 24, 2006)
Dr. Alain B. Lévy**	Geneva
Dr. Richard T. Meier*	Cham
Mr. Ehud Moverman**	Tel Aviv
Sir Bernard Schreier	Watford (U.K.)

*) Members of the Executive Committee

**) Members of the Audit Committee

Internal Audit

Youval Dichovsky	Head of Internal Audit
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General Manager

Shouky Oren

**Management and
Members of
Management
Committee**

Ursula Brunner-Egli	Executive Vice President (as of Nov. 01, 2006)
Roland Wyss	Executive Vice President
Dr. Moshe Shimony	Executive Vice President
Paul Hazan	Executive Vice President (as of Jan. 01, 2007)
Mario Alini	Senior Vice President
Marcos Wolman	Senior Vice President

Geneva Branch

Paul Hazan	Executive Vice President (until Dec. 31, 2006)
Rixa Starkman	Senior Vice President (as of Jan. 01, 2007)

Auditors

PricewaterhouseCoopers AG	Zurich
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Financial year 2006

World Economy

2006 started with an impressive growth rate in the **United States**, which heightened inflation fears. Additionally, geopolitical unrest in various regions of the world pushed energy and other commodity prices to record high levels. Subsequent higher interest rates triggered a slowdown in the housing industry.

This decline quickly affected the manufacturing sector and was also expected to hurt consumer spending during the later part of the year. However, a substantial drop in energy prices prevented a consumption collapse. A solid labor market supported consumer spending as disposable income continued to rise. These factors supported consumption, particularly during the crucial holiday season at the end of the year. Hence, the economic downturn in the US turned out to be less severe than feared, which had important consequences for the world economies.

Export-oriented countries, such as emerging markets and Europe, continued to show stronger than expected growth. Various tightening measures initiated by China did not trigger a slowdown either. Importantly, the higher EUR did not substantially affect exports from the **Euro zone**. Strong international trading activity eventually stimulated investments and hiring. The European Central Bank was continuously worried that rising energy prices would translate into higher wages. Yet no evidence of such a trend could be detected. With falling energy prices, less dynamic growth in the US and declining inflation expectations, the ECB finally lowered their inflation outlook substantially. The European Bank raised benchmark interest rates throughout the year due to robust economic growth, increased credit lending and high money supply levels.

Strong exports also supported economic growth in **Switzerland** enabling companies to raise their investment spending. While investments were initially limited to replacement and rationalization, they increasingly broadened to include expansion. Consumption proved to be very solid, supported by low unemployment rate and a more optimism about job security. The continuous opening of the labor market to EC members showed only a limited impact. Inflation remained tame, yet the Swiss National Bank continued to normalize unusually

low benchmark interest rates in view of strong economic growth.

Given surprisingly firm **UK** economic growth, limited excess capacity, rapid increases in credit and money supply, sharply rising house prices and a forecast of above targeted inflation, the Bank of England reinitiated interest rate hikes. An influx of immigrants, mainly from central Europe, covered strong demand for workers and held wage pressures in check. Yet general inflation pressures still did not abate.

The **Japanese** economy continued to expand, driven by exports and capital expenditures. Consumer spending, however, remained unexpectedly sluggish, which was somewhat surprising given the record low unemployment rate and a job-to-applicant ratio comfortably above 1. This phenomenon might be explained by slow wage growth, rising just 0.3% over the year. Additionally, some special income tax deductions had ended, further reducing disposable income. Inflation showed a solid move into positive territory and the GDP deflator, while still negative, increased on a consistent basis. Due to significant revisions to the consumer price index during the year, especially the inclusion of technology and communication items that particularly suffered from considerable price declines, the CPI barely increased in 2006. The Bank of Japan remained reluctant to raise rates given moderate consumer spending and modest inflation.

Key economic figures 2006 in major economies

Countries	Real GDP growth	CPI growth	Unemployment Rate	Central Bank Rate
US	3.4 %	2.5 %	4.6 %	5.25 %
UK	2.9 %	2.7 %	2.9 %	5.25 %
Euro Zone	3.3 %	1.9 %	7.5 %	3.5 %
Germany	3.7 %	1.7 %	9.5 %	3.5 %
France	2.2 %	1.2 %	8.6 %	3.5 %
Switzerland	2.8 %	0.5 %	3.1 %	2.00 %
Japan	2.1 %	0.3 %	4.1 %	0.25 %

Financial Markets

The **US yield curve** remained flat to inverse most of the time. At the longer end, the yield moved higher in the first half of the year, reflecting strong economic growth and fears of inflation. The trend turned in July, however, as a significant slowdown in housing activity became evident and sub-par economic growth in the second half of the year was anticipated. Inflation expectations drastically declined and the Fed signalled a "wait-and-see" policy. Overall, the 10-year Treasury yields finished the year only slightly above the previous year's level. Shorter-term rates showed a similar picture. The end of the Fed's tightening cycle had an important impact on yields during the summer months.

In the **Euro zone**, the **yield curve** continued to flatten during 2006. While the 10-year EUR bonds showed an upward move similar to the one in the United States during the first six months, the subsequent correction was less severe and was followed by a pronounced upturn in the final month of the year. The latter was a reaction to the continuation of very strong economic activity, driven by sturdy export growth. Shorter-term yields continuously moved up during the year, reflecting aggressive tightening by the European Central Bank.

2006 represented another year of stellar performance in the **stock markets**. With the exception of the Nikkei, all major equity indices showed double-digit increases. The US market was supported by continued double-digit profit growth, declining energy prices and the end of the Fed fund tightening cycle. Top performers were defensive sectors, such as telecom services and energy, while more cyclical businesses underperformed. The European stock market benefited from surprisingly strong economic growth, which led to upward earnings revisions. Corporate restructurings additionally fueled profit growth, offsetting some negative impacts from elevated commodity prices. Interestingly, interest-rate sensitive sectors showed top performance, despite rising interest rates. While earnings growth rates in Japan remained strong, the stock market upturn was somewhat limited. Emerging markets ended the year with astounding performances, mainly due to strong economic activity. Various tightening measures in China did not affect market activity.

Two themes dominated the **currency market** in 2006: the weakening of the USD and continued carry trade activity. The USD lost its attractiveness as yield differentials to other major currencies narrowed and several factors that had played in favor of the USD the previous year reversed, such as repatriation of earnings from US international corporations, inflow of petrodollars and fewer inflows of assets of Asian origin. The USD only showed strength against currencies of more speculative nature, such as the Iceland Krona, the South African Rand or the Turkish Lira. Carry trade activity continued on a strong note, hurting the JPY and the CHF.

Switzerland

The yield curve in Switzerland flattened markedly, with longer-term bonds mirroring in the pattern of the US and Europe. Short-term rates, however, rose consistently, reflecting the tightening monetary policy of the Swiss National Bank. Companies benefited from the thriving economic environment. A high level of merger and acquisition activity additionally boosted equity prices. Debt-funded actions were attractive given the low level in bond yields. Despite impressive economic growth and rising benchmark interest rates, the CHF softened. The comparatively low interest rate environment in Switzerland represented optimal conditions for carry traders.

Highlights of the Bank's activity

Bank Leumi le-Israel (Switzerland) (the Bank) was founded in 1953, and operates through a head office in Zurich and a branch in Geneva. It also has representative offices in Israel and Hungary.

The Bank is part of the Leumi Group, which is one of the two largest Israeli banks with worldwide operations and overall assets in excess of USD 136 billion.

The Bank engages mainly in private banking services to high net worth individuals, including the receipt of discretionary investment management mandates. In addition, it has a wholly owned subsidiary that manages two mutual funds in Luxembourg.

In 2006, the Bank focused on marketing and developing business activities in its key markets as well as identifying and exploring new markets. The Bank continues to strengthen its presence in the wealth management market and enhancing its reputation as an innovative, reliable, and performance driven private banking institution.

Consolidated Financial results

The consolidated financial results include Leumi Fund Holding (Lux) S.A. – Luxembourg, which engages in fund management and Leumi Asset Management (Switzerland) AG – Zurich, which provides advisory investment services. Both companies are fully owned subsidiaries of the Bank.

Net profit for 2006 was CHF 12.8 million compared to a net loss of CHF 16.5 million in 2005. The 2005 loss was caused by the high expense of implementing a new IT system and additional provisions. Gross profit (before depreciation) for the year under review rose by almost 50% compared with the previous year and was CHF 18.7 million compared to the previous CHF 12.6 million.

Although total income decreased slightly to CHF 61.4 million (2005: CHF 62.5 million) it is notable that the main source of income was private banking activities while in recent previous years income from trading activities (mainly with institutions & 3rd parties) was a significant source of income. Furthermore, the Bank substantially decreased its expenses.

As a result of increased interest levels on the CHF, Euro and USD, the consolidated net interest income increased to CHF 13.8 million (2005: CHF 13.1 million). In general the credit portfolio of the Bank is unchanged, but the significant increase in interest rates (average +1 % in the main currencies) contributed to the positive result.

Total commission income for the year under review was much higher at CHF 39.5 million (2005: CHF 34.7 million). This increase is connected to the positive performance of

the financial markets in 2006 and the growing investor confidence which translated into more private banking trading activity. In connection with this stock exchange commission rose to CHF 13.3 million which is CHF 4.4 million more than recorded in the previous year, an increase of almost 50 %. The income from investment fund distribution amounted to CHF 1.5 million and was 100 % higher than in the previous year.

Trading income substantially declined to CHF 8.1 million (2005: CHF 14.6 million). The contribution from activities in structured products and alternative investments that were mainly linked to interest rate was CHF 2.0 million (2005: CHF 8.6 million), and Forex income was CHF 5.3 million (2005: CHF 6.1 million). The income from securities trading was CHF 0.8 million. The demand for interest linked products was low due to the rising interest rates and the investor's return to traditional securities.

Operating expenses decreased significantly to CHF 42.6 million (2005: 49.9 million) of which personnel expenses were CHF 23.7 million (2005: CHF 26.1 million). This substantial decrease compared with the previous year is connected to the successful completion of a major IT-project for which the Bank had recorded considerable additional expenses in 2005. Other operating expenses also declined to CHF 18.9 million (2005: CHF 23.8 million). This significant reduction is also related to the successful integration of the new core banking application "Globus" which took place during the previous year.

Depreciation of non-current assets, primarily for IT investments in connection with the replacement of the core IT system, amounted to CHF 6.1 million (2005: CHF 6.8 million).

In 2006 the Bank did not make any additional provisions related to the irregular event that was detected in 2001. In 2006 valuation adjustments, provisions and losses amounted to CHF 1.4 million (2005: CHF 21.9 million of which CHF 21.1 million were provisions).

The extraordinary income totaling CHF 2 million (2005: CHF 0.65 million) includes a VAT reimbursement of 0.5 million following an audit of the Swiss Federal Tax Authority. CHF 0.8 million was contributed from accruals no longer required by the Bank and the remaining CHF 0.7 million came from the settlement of a client's claim in favor of the Bank.

Private Banking and Business Development

During 2006, the Bank further expanded its private banking and trading activities. Following the segmentation of the client base, the Bank restructured and strengthened its private banking teams to provide more focused and efficient service to its clients. The Bank continued its efforts to improve the infrastructure and service to External Portfolio Managers.

During 2006 clients' assets increased slightly to CHF 6.5 billion compared with CHF 6.4 billion in 2005. The positive performance of clients' assets was offset by the negative fluctuation of the conversion rate for USD vs. CHF. The Bank's success in attracting new clients and new assets was counterbalanced by the outflow of some institutional clients.

Representative Offices in Israel and Hungary

The Israeli representative office in Herzlia further expanded its activities to meet the growing interest from high net-worth individuals and financial institutions for international private banking services. The Bank also successfully expanded its operations at its representative office in Budapest, Hungary. The office in Hungary will be the main door to potential clients both in Hungary and other East European countries.

Portfolio Management

During 2006, the Bank enhanced its discretionary portfolio management business infrastructure and increased the assets managed by the portfolio management unit by 8.5% in comparison with 2005. The Bank is now managing assets of some CHF 780 million in discretionary managed accounts, under five different investment strategies in various currencies, to best fit each client's investment profile and risk tolerance. In addition, the Bank offers tailor-made discretionary mandates for selected institutional clients and ultra-high net-worth individuals. The Bank is committed to develop its assets management capabilities, providing managed clients with added value service and performance. Based on this commitment during the 4th quarter of 2006 the Bank finalized the transfer of the Geneva branch's portfolio management activities to the head office in Zurich. As a result, all managed clients of the Bank are managed centrally by a seasoned team of professionals.

Cooperation with SEI investments

Working in cooperation, the Leumi Group, the Bank and SEI Investments, a leading US-based global provider of asset management and investment technology solutions, successfully introduced the new portfolio of Leumi Global Managers' funds. The Bank can now provide selected clients with access to leading investment managers from around the world. These funds performed well in comparison with their respective benchmarks.

The new IT system in context with the operational expenses

Following the successful implementation of its new core banking system "Globus" by Temenos, the Bank is now able to provide its clients with a better level of service as well as new services, such as the E-Statement service allowing clients to view their portfolios via the Internet.

The new system includes additional functionality in the areas of asset management, accounting, controls and management information, which support the business development of the Bank.

In 2006 the Bank continued to develop its IT platform and make a wider use of the synergies resulting from the modern architecture of Globus. As a result the Bank was able to increase its efficiency and lower its operational costs.

Consolidation of central services between Zurich & Geneva

In 2006 the Bank gave special attention to the use of synergies between its Head Office and the Geneva Branch. In this context the Bank centralized accounting and credit activities at the head office in Zurich as well as some logistical and organizational functions.

Basel II preparation

The Bank has a project team to analyze the potential impact of the new capital requirements which will come into force in 2007 and 2008, and to take the necessary steps for a successful and compliant implementation of these requirements. The Bank decided to make use of the transition period and to apply the new "Basel II" regulations starting in January 2008.

Compliance & Legal Function

In recent years the Bank established minimum standards for profiles of new clients. In addition, the Bank gave particular attention to enhancing the quality of clients' profiles and segmentation according to their risk profile, based on pre-defined risk criteria. In 2006 the Bank has successfully finalized this process for existing clients.

Board of Directors and its committees

During 2006, the Board of Directors and the Audit Committee of the Board each held four meetings, and the Executive Committee of the Board held five meetings.

In 2006, Dr. Rolf Kormann and Mr. Dov Gilboa retired from the Board of Directors. We thank Dr. Kormann and Mr. Gilboa for many years of valuable service and wish them both good health and success in their future.

Management

Dr. Moshe Shimony was appointed as Head of Capital Markets. Mr. Mario Alini has been appointed as a management member of the Bank in the function of Head of Finance & Risk, and Mrs. Ursula Brunner-Egli was appointed as Head of Operations.

Mr. Youval Dichovsky who served the Bank as the interim head of internal audit has been appointed as Head of Internal Audit.

Follow-up on the irregular event discovered in 2001

At the beginning of January 2001, the Bank discovered that a former management member had carried out unauthorized transactions in certain clients' accounts. The employee was immediately released from his duties and was dismissed by the Bank. During 2006, the Bank continued to settle the

remaining claims of clients who sustained monetary damages due to this event. As the vast majority of the cases were settled with previously set provisions, no additional provision was required in 2006.

Restructuring of Capital

The Board of Directors proposes to restructure the Bank's capital by reducing shareholders' equity and introducing tier 2 capital.

Shareholder Equity after distribution of the Bank's net profit

In connection with the capital restructuring the Board of Directors proposes to dissolve Other Reserves in the amount of CHF 56 510 000. Together with the net profit for the year under review and the retained earnings carried forward in the amount of CHF 12 488 576, the Annual General Meeting of Shareholders has at its disposal nearly CHF 69 million.

It is proposed by the Board of Directors to distribute an ordinary dividend of 39 % or CHF 12 870 000 of the Bank's share capital of CHF 33 million. Furthermore it is proposed to the Annual General Meeting of Shareholders to distribute an extraordinary dividend of 151.5 % which amounts to CHF 49 995 000.

After the allocation to the legal reserves in the amount of CHF 6 121 500 and the retained earnings brought forward of CHF 12 076, the published shareholders' equity will amount to CHF 152.2 million (2005: CHF 202.6 million).

Shareholders' capital with respect to tier 2

In connection with the above-mentioned profit distribution and the still-comfortable capital adequacy, the major shareholder of the Bank, Bank Leumi le-Israel B.M., has decided to grant the Bank a subordinated note in the amount of CHF 50 million, which can be considered as tier 2 capital as stipulated by the relevant banking regulations.

As a consequence the shareholders' capital as shown under the consolidated balance sheet will amount to 206.4 million of which reserves for general banking risk amount to CHF 2.4 million (2005: CHF 2.4 million).

The Board of Directors expresses its appreciation to the General Manager, members of the management and employees for their dedicated work, which allows the Bank to continue to grow and achieve its business goals.

The Board of Directors

1. Balance sheet – consolidated

(in Swiss Francs)

	Dec. 31, 2006	Preceding year	Changes
Assets			
Cash	8 189 018	10 842 103	-2 653 085
Money market instruments	0	5 261 247	-5 261 247
Due from banks	122 764 300	150 987 561	-28 223 261
Due from customers	532 164 418	552 380 708	-20 216 290
Securities trading portfolios	9 715 280	30 666 462	-20 951 182
Financial investments	181 809 759	153 751 279	28 058 480
Fixed assets	1 443 814	2 212 939	-769 125
Intangible Assets	10 918 643	15 273 648	-4 355 005
Accrued income and prepaid expenses	12 003 971	12 767 643	-763 672
Other assets	23 825 564	23 258 629	566 935
Total assets	902 834 767	957 402 219	-54 567 452
Total subordinated claims	1 035 428	3 243 628	-2 208 200
Total due from non consolidated participations and significant shareholders	4 659	318 361	-313 702
Liabilities and shareholders' equity			
Due to banks	435 527 818	404 604 878	30 922 940
Due to customers, other	173 258 340	242 953 021	-69 694 681
Accrued expenses and deferred income	12 025 969	13 535 254	-1 509 285
Other liabilities	25 945 382	24 831 718	1 113 664
Valuation adjustments and provisions	36 790 812	64 947 728	-28 156 916
Reserves for general banking risks	2 371 671	2 371 671	0
Share capital	33 000 000	33 000 000	0
Retained earnings	171 158 977	187 644 038	-16 485 061
Net consolidated income/loss	12 755 798	-16 486 089	29 241 887
Total liabilities and shareholders' equity	902 834 767	957 402 219	-54 567 452
Total due to non consolidated participations and significant shareholders	129 432 953	151 598 558	-22 165 605
Off-balance sheet transactions			
Contingent liabilities	122 469 618	108 723 509	13 746 109
Irrevocable acceptance	1 006 000	0	1 006 000
Derivative instruments – Contract volume	1 989 231 515	2 103 553 060	-114 321 545
– Positive replacement value	20 973 362	19 860 258	1 113 104
– Negative replacement value	21 863 815	22 185 110	-321 295
Fiduciary transactions	1 604 726 488	1 436 026 244	168 700 244

2. Income statement – consolidated

(in Swiss Francs)

	2006	Preceding year	Changes
Revenues and expenses from ordinary banking activities			
Results from interest activities:			
– Interest and discount income	29 158 581	18 020 623	11 137 958
– Interest and dividend income on trading portfolios	324 385	1 337 817	–1 013 432
– Interest and dividend income on financial investments	5 804 580	5 856 893	–52 313
– Interest expenses	–21 478 182	–12 112 292	–9 365 890
Net interest income (Subtotal)	13 809 364	13 103 041	706 323
Results from commission and service fee activities:			
– Commission income on lending activities	778 661	607 901	170 760
– Commission income on securities and investment transactions	38 087 864	33 137 892	4 949 972
– Commission income on other services	2 279 016	2 434 504	–155 488
– Commission expenses	–1 652 136	–1 482 637	–169 499
Results from commission and service fee activities (Subtotal)	39 493 405	34 697 660	4 795 745
Results from trading operations	8 060 352	14 609 043	–6 548 691
Other ordinary results:			
– Results from the sale of financial investments	13 986	97 645	–83 659
– Participation income (non-consolidated)	0	0	0
Other ordinary results (Subtotal)	13 986	97 645	–83 659
Operating expenses:			
– Personnel expenses	–23 738 397	–26 115 379	2 376 982
– Other operating expenses	–18 894 985	–23 748 495	4 853 510
Operating expenses (Subtotal)	–42 633 382	–49 863 874	7 230 492
Gross profit	18 743 725	12 643 515	6 100 210
Net consolidated income/loss			
Gross profit	18 743 725	12 643 515	6 100 210
Depreciation and write-offs on non-current assets	–6 073 204	–6 800 380	727 176
Valuation adjustments, provisions and losses	–1 416 038	–21 936 770	20 520 732
Extraordinary income	2 035 580	646 437	1 389 143
Extraordinary expenses	–34 655	–133 741	99 086
Taxes	–499 610	–905 149	405 539
Net consolidated income/loss	12 755 798	–16 486 088	29 241 886

Statement of cash-flows – consolidated

(in 1000 Swiss Francs)

	2006		Preceding year	
	Source of funds	Application of funds	Source of funds	Application of funds
Cash-flow from operating results (internal sources)				
Net consolidated income	12 756	0	0	- 16 486
Depreciation and write-offs on non-current assets	6 074	0	6 800	0
Valuation adjustments and provisions	1 288	- 104	24 949	- 136
Reserves for general banking risks	0	0	0	- 514
Accrued income and prepaid expenses	764	0	0	- 3 020
Accrued expenses and deferred income	0	- 1 510	1 172	0
Dividend preceding year	0	0	0	- 8 250
Balance	19 268	0	4 515	0
Cash-flow from investment activities				
Participations	0	0	0	0
Fixed assets	7	- 567	0	- 946
Intangible assets	0	- 389	0	- 10 095
Balance	0	- 949	0	- 11 041
Cash-flow from banking operations				
Medium and long-term operations (more than 1 year)				
- Due to banks	0	0	0	- 111
- Other liabilities	0	- 3 359	0	- 689
- Due from banks	0	0	0	0
- Due from customers	0	- 22 728	65 032	0
- Financial investments	0	- 28 056	0	- 22 354
Short-term operations				
- Due to banks	30 923	0	28 973	0
- Due to customers	0	- 66 336	64 398	0
- Due from money market instruments	5 261	0	958	0
- Due from banks	28 223	0	3 285	0
- Due from customers	42 944	0	0	- 118 420
- Securities and precious metal portfolios	20 951	0	0	- 6 267
- Other assets/liabilities	546	0	1 218	0
Specific usage of valuation adjustments and provisions	0	- 29 341	0	- 1 497
Liquidity				
- Cash	2 653	0	0	- 8 000
Balance	- 18 319	0	6 526	0
Total	949	- 949	11 041	- 11 041

Notes to the Consolidated Financial Statements

Bank Leumi le-Israel (Switzerland)

1. Comments on Business Activities

Introduction

Bank Leumi le-Israel (Switzerland) is primarily active in providing private banking services to high net worth individuals worldwide and operates via the head office in Zurich and its branch in Geneva. The Bank holds a representative office in Israel and in Hungary. As of year-end, the Group employed a total of 122 members of staff (2005: 129), of which 28 (2005: 26) are located in Geneva.

Strategic business units

The Bank provides a comprehensive range of investment and asset management services. Therefore commission and service fees represent the main source of income, amounting to 64 % (2005: 56 %) of the gross income before operating expenses. Interest-bearing activities amount to 23 % (2005: 21 %) and trading to 13 % (2005: 23 %) of the gross income before operating expenses.

Core business activities are:

Asset management and investment activities

Asset and portfolio management for mainly international customers constitutes the Bank's main activity.

Trading

Foreign exchange and security trading is carried out mainly for clients and for the nostro book. The activity in structured products, which also contributes to trading income, has been introduced primarily to meet the needs of private banking clients. As of year-end, all items that are traded for the Bank's own account are in line with the guidelines approved by the Board of Directors.

Lending Activities

The Bank primarily engages in collateralized lending to private banking clients, by means of Lombard credits.

Risks

The Management of the Bank places strong emphasis on risk management as reflected in its risk policy. In principle, the Bank does not undertake any business with a high-risk profile. The supervision and control of the material risk can be summarized as follows:

Interest rate risks are controlled within the framework of the asset & liability management. The Bank hedges interest rate risks, but they are expressly considered in investing in financial securities for the Bank. The development of the financial markets is monitored daily and reported to the Investment Committee of the Bank.

As of year-end, currency risks were hedged according to the guidelines approved by the Board of Directors.

Price risk from trading activity is limited by a system defining maximum exposure. Risk related to the replacement value of open derivative items is modest. Market liquidity risk in foreign exchange trading is negligible as the Bank refrains from trading in illiquid markets.

84 % of the Bank's assets are held in Europe, North America and Israel (2005: 81 %). No loans were classified as exposed to country risk during 2006.

Credit approvals are subject to quality requirements, margins and limits, set forth in internal regulations, and regularly reported to the credit committee of the Bank. All credit positions, including derivative financial instruments, are subject to exposure limits and are continuously monitored.

Liquidity risk is monitored and controlled in line with the provisions of the Federal Law on Banks and Saving Banks (BankL).

The Legal & Compliance Department ensures that the Bank's business activities comply with the regulatory provisions in force, as well as with internal directives and guidelines. The department was responsible for the adherence to the new money laundering directive, which is in force since June 2004. For this purpose the Group implemented an adequate IT application which supports the working processes in the area of transaction monitoring efficiently.

Operating risk is defined as "risk of direct or indirect losses resulting from the inadequacy or the failure of internal procedures, persons and systems or from external events". It is limited by means of internal regulations and directives. The Internal Audit Department periodically checks the internal controls, and issues its activity reports directly to the Board of Directors or to its Audit Committee.

The Bank ensures that the executive bodies are regularly informed with respect to market, credit, liquidity, legal and operational risk by means of a management information system.

There are adequate provisions for litigation risks.

In accordance with Federal Banking Commission regulations, no business functions were outsourced.

Events after the balance sheet date

No events took place with a negative impact on the assets, financials and income situation of the Bank, which have not been considered.

2. Accounting and Valuation Principles for the Consolidation

Principles of Consolidation

The following accounting and valuation principles correspond with the bank accounting guidelines of the implementing ordinance of the federal law on banks and saving banks (BankO). The consolidated financial statements consist of the balance sheet, income statement, the statement of cash-flows and the notes to the financial statements.

The structure of the consolidated financial statements was established according to Art. 25f – Art. 25i of the BankO. Accordingly, the capital and the profit reserves as well as the income from equity participations are disclosed separately.

The group accounts outline the assets and earnings of Bank Leumi le-Israel (Switzerland) in accordance with the “true and fair view” principle.

The business activities are recorded as at value date; i.e. the recording is generally based on the transfer of power to dispose of an asset. Thus, purchased assets are only recorded at the time when the right of ownership is acquired or the authority to dispose assets is transferred.

Companies subject to full consolidation are bound by group-wide, consistent and binding valuation guidelines. All companies have the same fiscal year.

It is the Group’s policy to establish specific value adjustments for possible losses. Contingent risks are covered by global provisions and reserves and are disclosed in the consolidated balance sheet under “reserves for general banking risk”.

The capital consolidation was performed according to the purchase method.

Foreign currency transactions are converted and recorded at the respective daily exchange rates in Swiss Francs. Assets reported in the balance sheet are converted at the exchange rates valid on the balance sheet date and are posted to the appropriate income account accordingly. Any differences in exchange rates which may result between conclusion and settlement of a transaction are reported in the income statement.

All Group companies keep their accounts in Swiss Francs.

The following exchange rates (against the CHF) were applied for the currency conversions:

	2006 Balance sheet rate	Preceding year Balance sheet rate
USD	1.2207	1.3187
EUR	1.6097	1.5539
GBP	2.3891	2.2684
CAD	1.0464	1.1304
AUD	0.9612	0.9650
JPY	1.0245	1.1194

Any inter-company transactions and provisional profits are eliminated.

In addition to the Bank, the consolidated entity comprises the following fully consolidated companies:

	Equity (in CHF)	Capital Interest	Business activity
Leumi Fund Holding, Luxembourg	120 000	100 %	Investment Fund Management
Leumi Asset Man- agement, Zurich	100 000	100 %	Investment Advisory

Cash Assets, Money Market Instruments and due to Customers

Items are reported in the balance sheet at par value. The as yet unearned discount component on money market instruments is shown under the specific balance sheet position and is accrued until maturity.

Due from Banks and Customers

Items are reported in the balance sheet at par value. Value adjustments are made for discernible risk according to the principle of caution. If a debtor is more than 90 days in arrears with interest payments, the interest arrears are allocated directly to the provisions; in this instance, they are not recovered until the interest has been paid.

If a debt is deemed to be unrecoverable, either in whole or in part, or a debt waiver is granted, the debt is written off against the corresponding bad debt charge. Any previously reported amounts re-entered shall be credited directly to the bad debt charge.

Repo and Reverse Repo Transactions

These transactions are used mostly for short-term financing and they are therefore shown under the item “Due to Banks”. Pledged securities are disclosed as “Loans- and pension-business with securities”.

Securities and Precious Metals Trading Portfolio

Items in the trading portfolio are always valued and recorded in the balance sheet at fair value. The price quoted on a recognized exchange or a representative market is taken as the fair value. For structured products held in the trading portfolio, the price quoted is examined by means of a price model. If this is not possible, valuation is based on the principle of lower of cost or market. Transactions executed on behalf of clients are classified as trading transactions due to the fact that during a certain period the risk of such transactions remains within the Bank's own books.

Price gains and losses resulting from the valuation are recorded under "Results from trading operations". Interest and dividend income on trading portfolios are entered under the item "Interest and dividend income on trading portfolios".

Financial Investments in Securities and Precious Metals

These assets serve the medium and long-term needs of the Bank. The accrual method is applied to value such items.

Fixed Assets

Investments in fixed assets exceeding CHF 2,500 are reported in the balance sheet as assets and in accordance with the acquisition cost principle, provided they are used for longer than one accounting period.

Investments in existing fixed assets are reported in the balance sheet as assets, if, as a result, the economic value is increased on a sustained basis, the service life is considerably extended. Items are recorded at acquisition cost less straight-line depreciation over conservative estimated life of the asset. The declared value is checked yearly. In the case of decreased value or of a lowered service life, the remaining value will either be depreciated over the planned life time or an extra depreciation will be carried out. Planned and eventual additional unplanned depreciation will be recorded in the profit & loss statement under "Depreciation and write-offs on non-current assets".

The estimated utilization of investments in fixed assets is as follows:

Investments in rented property	max. 5 years
Information technology equipment	max. 4 years
Software and communication equipment	max. 3 years
Other fixed assets	max. 4 years

Intangible Assets

Acquired intangible assets are reported in the balance sheet if they provide the company with quantifiable benefits over a period of several years. They are recorded and valued at acquisition cost. As a rule, depreciation is on a straight-line basis and the depreciation period lasts a maximum of 5 years.

The estimated utilization of Intangible assets is as follows:

Software	max. 5 years
Other intangible assets	max. 4 years

The declared value is checked yearly. In the case of decreased value or of a lowered service life, the remaining value will either be depreciated over the planned life time or an extra depreciation will be carried out.

Pension Plan Liabilities

All Group employees belong to the Bank's own pension fund "Pension fund of Bank Leumi le-Israel (Switzerland)" which carries out direct investments. Only contribution-based plans are included in the fund.

Pension fund liabilities together with the assets serving as cover are structured in a legally independent foundation. The foundation has reinsured itself by taking out insurance for cases of death and disability. The manner in which the pension plans are organised, managed and funded complies with legal provisions, foundation deeds and the applicable pension regulations.

The Bank contributes to the insurance premium for the above mentioned reinsurance policy.

The financial statement of the pension fund of Bank Leumi le-Israel (Switzerland) consisting of balance sheet, profit & loss statement and the notes are according Swiss GAAP FER 26. A potential liability is being disclosed as per Swiss GAAP FER 16, a potential benefit is being used in favour of the insured employees.

Taxes

Taxes are calculated and entered in the accounts based on the results for the year under review and from an operational point of view, and reported as expenditure for the accounting period in which the corresponding income arises. Direct taxes owed that arise from current income are recorded as a deferred tax liability.

Deferred Taxes

The tax implications arising from time differences between the values disclosed in the consolidated balance sheet from assets and liabilities and their tax values are reported as deferred taxes under the provisions. The deferred taxes are determined separately in each financial period and for each tax item. Tax effects arising from loss offsetting options are disregarded.

Contingent liabilities, irrevocable commitments and similar off-balance sheet items

These items are recorded with the nominal amount in the off-balance sheet.

Valuation adjustments and provisions are established for foreseeable risks under the liabilities in the balance sheet.

Valuation Adjustments and Provisions

Valuation adjustments and provisions are established for all risks according to the principle of caution.

Precious Metals Accounts

The valuation of precious metals accounts is based on the market prices as of the balance sheet date.

Derivative Financial Instruments

Please refer to “Comments on Business Activities” on p. 10 for information regarding the Bank’s corporate policy and risk management.

Trading Transactions

Items are valued and reported at fair value (excluding derivatives which are used for hedging purposes). Such derivatives are either reported at positive replacement values or at negative replacement values under “Other Assets/Other Liabilities”. The fair value is based on market prices, price confirmation by brokers, discounted cash-flow – and option-pricing-models.

Transactions with derivative financial instruments that are based on trading purposes, realised and unrealised profits, are reported under “income from trading operations”.

Hedging Transactions

Besides trading transactions, the Group uses derivative financial instruments for hedging purposes in its asset & liability management with respect to interest rate risk, currency risk and counterparty risk. Income from hedging continues to be reported under the same income item as the corresponding income from the basic transaction to be hedged.

The Group hedges especially against interest rate risk arising from balance sheet transactions, by means of interest rate swaps in particular. The income from so-called “Macro- & Micro-Hedges” is reported under the relevant profit and loss item under the corresponding underlying.

Changes to Accounting and Valuation Principles

For the year under review, there was no change in accounting and valuation principles.

3. Information to the balance sheet – consolidated

Listing of collateral

(in 1000 Swiss Francs)

	Mortgage collateral	Type of collateral Other collateral	Without collateral a)	Total
Loans				
Due from customers	600	504 648	26 916	532 164
Total loans	600	504 648	26 916	532 164
Preceding year	600	515 859	35 922	552 381
Off-balance sheet transactions				
Contingent liabilities	0	122 161	309	122 470
Irrevocable acceptance	0	0	1 006	1 006
Total off-balance sheet transactions	0	122 161	1 315	123 476
Preceding year	0	108 007	716	108 723
	Gros debt amount	Assumed liquidation income of securities	Net debt amount	Individual provisions
Contested balances b)	33 309	10 314	22 995	36 104 b)

a) amounts covered by valuation adjustments and provisions; refer to the note disclosures "other information on the income statement".

b) CHF 33.2 million of the contested balances are in connection with unauthorised and alleged transactions of a former management member identified in the year 2001. Individual provisions cover possible other claims in connection with these unauthorised transactions.

Securities and precious metal trading portfolios, financial investments and participations – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year
Securities and precious metal trading portfolios		
– Debt securities		
– Exchange listed	2 193	19 692
– Unlisted	793	9 597
– Participation instruments	6 729	1 377
– Precious metals	0	0
Total securities and precious metal trading portfolios	9 715	30 666

As of Decembre 31, 2006 there are no securities kept in the trading book which could serve for repo transactions.

	Book Value		Fair Value	
	2006	Preceding year	2006	Preceding year
Financial investments				
– Debt securities (“accrual method”)				
– Exchange listed	147 802	135 615	148 962	140 867
– Unlisted	24 281	14 646	24 196	14 541
– Participation instruments	6 282	179	6 282	179
– Precious metals	0	0	0	0
– Premises 1)	3 445	3 311	3 445	3 311
Total financial investments	181 810	153 751	182 885	158 898

1) The premises recorded in financial investments are due to a liquidation of a Bank’s client assets.

As of Decembre 31, 2006 the fair value for securities kept in the investment book which could serve for repo transactions amounts CHF 148.96 mill.

Main participations – consolidated

(in 1000 Swiss Francs)

Name of company, location	Business	2006		Preceding year	
		Capital	Quota	Capital	Quota
Consolidated participations					
Leumi Asset Management, Zurich	Investment Advisory	100	100 %	100	100 %
Leumi Fund Holding, Luxembourg	Fonds Management	120	100 %	120	100 %

Fixed and intangible assets – consolidated

(in 1000 Swiss Francs)

	Historical cost	Write-offs/ Accumulated depreciation	Book value end of preceding year	2006			
				Additions	Deductions	Write-offs/ Depre- ciation	Book value end of current year
Fixed assets							
– other fixed assets	30 922	–28 709	2 213	567	–7	–1 329	1 444
Total fixed assets	30 922	–28 709	2 213	567	–7	–1 329	1 444
Intangible assets							
– Other intangible assets	38 156	–22 882	15 274	390	0	–4 745	10 919
Total intangible assets	38 156	–22 882	15 274	390	0	–4 745	10 919
Fire insurance value of other fixed assets							13 334
Liabilities for future operation leasing rates							49

Other assets and liabilities – consolidated

(in 1000 Swiss Francs)

	2006		Preceding year	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement value of derivative instruments				
Own trading contracts				
– replacement value of client transactions	20 395	20 164	19 590	19 377
– replacement value of nostro positions	0	0	40	100
– replacement value of asset/liabilities management	578	1 700	230	2 708
<i>Total derivative instruments</i>	<i>20 973</i>	<i>21 864</i>	<i>19 860</i>	<i>22 185</i>
Equalization account	1 275	0	2 540	0
Indirect taxes	485	3 250	608	1 490
Transit account	0	546	0	0
Coupons not cashed	0	0	0	13
Other assets and liabilities	1 093	285	251	1 144
Total	23 826	25 945	23 259	24 832

Assets pledged or ceded to secure own liabilities, and assets subject to ownership reservation – consolidated

Assets pledged

(in 1000 Swiss Francs)

	2006		Preceding year	
	Collateral resp. Book Value	Liability resp. amount used	Collateral resp. Book Value	Liability resp. amount used
Type of not available assets and reason for pledge				
Short and longterm investments for lombard credit business	5 901	0	5 903	0
Longterm investments as collateral for security clearing	23 629	0	36 676	0
Money market instruments for derivative business	0	0	5 261	0
Due from banks for derivative business	87 715	0	31 649	0
Total of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation	117 245	0	79 489	0

Loans- and pensions-business with securities

(in 1000 Swiss Francs)

	2006	Preceding year
Bookvalue of liabilities of cashdeposits in correlation with securities borrowing and reverse-repurchase business	56 000	18 000
Bookvalue of in securities lending borrowed or in securities borrowing as collateral delivered as well as for repurchase transactions transferred securities in own possession thereof unlimited right for sale or pledge allowed	55 162 55 162	17 126 17 126

As per December 31, 2006 no open securities lending and borrowing transactions on accounts.

Liabilities to own pension plans – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year
Pension Fund of Bank Leumi le-Israel (Switzerland)	1 385	14 389

The Foundation of the “pension fund of Bank Leumi-le Israel (Switzerland)” aims to provide the occupational benefit plan according to the Federal Law on Occupational, Old-age, Survivors and Disability Benefit Plan (LOB) for all employees, as well as for their relatives and survivors, against the economic consequences of age, death and disability.

As a partly autonomous pension fund, neither the pension fund nor the Group bears actuarial risks.

The pension plan can be classified as a defined contribution plan. The benefits are based on the insured salary at the time of the entry of the insured incident.

Based on the last audited financial statements (according to Swiss GAAP FER 26) of the pension fund as of December 31, 2005 the cover ratio of the capital necessary to provide occupational benefit plan was 105.80 % (31.12.2004: 106.60 %).

The Board of directors is of the opinion that there will be no economical value out of this cover ratio. Such a benefit shall be used in favour of the employees. As a result of this, there's neither an economical benefit nor liability for the employer which should be reflected in the balance sheet and in the profit & loss statement.

Neither for the year under review nor in the previous year an employer contribution reserve was recorded.

Valuation adjustments and provisions/ reserves for general banking risks – consolidated

(in 1000 Swiss Francs)

	Balance, end of preceding year	Specific usage	Recoveries, overdue interest, currency differences	2006 New creation charged to income statement	Reversals credited to income statement	Balance end of current year
Reserves for deferred taxes	687	0	0	0	0	687
Valuation adjustments and provisions for loan losses (credit and country risks)	64 261	- 29 341	888	400	- 104	36 104 a)
Total valuation adjustments and provisions as per balance sheet	64 948	- 29 341	888	400	- 104	36 791
Reserves for general banking risks	2 372	0	0	0	0	2 372

a) The line item valuation adjustments and provisions for loan losses includes provisions for credit risks for doubtful loans and possible other claims in connection with unauthorised and alleged transaction of a former management member identified in the year 2001.

The amount of the valuation adjustments and provisions was determined based upon the requirements that an adequate amount has to be provided for risks which lead to a likely liability for the Bank. The amount of the provisions is based upon information available to the Bank taking into account positive and negative factors known at the time these financial statements have been prepared. It should be noted that the amount of the provisions set aside may not necessarily cover the amounts claimed by the plaintiffs as such claims may be unjustified or inflated.

Capital structure and share holders with participations above 5 % of voting rights – consolidated

(in 1000 Swiss Francs)

	2006			Preceding year		
	Total nominal value	Number of units	Dividend bearing capital	Total nominal value	Number of units	Dividend bearing capital
Share capital						
Registered shares A (100.–)	13 350	133 500	13 350	13 350	133 500	13 350
Bearer shares B (500.–)	19 650	39 300	19 650	19 650	39 300	19 650
Total capital	33 000	172 800	33 000	33 000	172 800	33 000

	2006		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Significant shareholders of Bank Leumi le-Israel (Switzerland)				
Bank Leumi le-Israel B.M., Tel Aviv	26 992	93.05 %	24 703	90.40 %

	2006		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Significant shareholders of Bank Leumi le-Israel B.M., Tel Aviv				
State of Israel	48 839	19.78 % a)	59 933	19.78 %
Barnea Investments B.V.	40 863	5.00 % b)	40 477	5.00 % b)
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies	40 891	10.00 %	40 450	9.98 %
Otzar Hityashvut Hayehudin B.M.	20 732	5.07 %	20 536	5.07 %
Others	c)	c)	c)	c)
	Rate CHF/ILS	0.2892		0.2865

a) For the year under review, the State of Israel sold 2.85 % of its shares to employees. Those shares are locked up until 2010. During the lock-up period, the State has a power of attorney to vote. Furthermore the State will offer an additional 1 % of its holdings, to the employees which will take place after privatization of the Group.

In addition, options were issued to employees (in Israel only) which will have another impact on the share dilution. The dilution has not been considered re: the calculation of of voting rights in %.

b) 4.99 % of the shares that had been bought by Barnea, are being held in trust. The "Shares Committee" of the Bank Leumi le-Israel, Tel Aviv is empowered to execute the respective voting rights. Furthermore Barnea was granted an option (under specific conditions) to purchase an additional 10.01 % of Bank Leumi B.M shares until May 24th, 2007.

c) below 5 %

Statement of changes in shareholders' equity – consolidated

(in 1000 Swiss Francs)

Shareholders' equity, at beginning of current year

Share capital	33 000
Retained earnings	187 644
Reserves for general banking risks	2 372
Net consolidated loss	- 16 486

Total shareholders' equity at beginning of current year

(before profit distribution)	206 530
+ Capital increase/decrease	0
+ Premium over nominal value	0
+/- Other allocations to/from reserves	0
- Dividends and other distributions of retained earnings brought forward	0
+ Net consolidated income	12 756
+/- Currency differences	0

Total shareholders' equity, at end of current year

(before profit distribution)	219 286
<i>Thereof</i> Share capital paid-in	33 000
Retained earnings	171 159
Reserves for general banking risks	2 372
Net consolidated income	12 756

The amount of not distributable retained earnings is 35,4 million.

Maturity structure of current assets, financial investments and borrowed funds – consolidated

(in 1000 Swiss Francs)

	At sight	Redee- mable by notice	Within 3 months	Maturities Within 3 to 12 months	Within 1 to 5 years	After 5 years	Total
Current assets							
Cash	8 189	-	-	-	-	-	8 189
Money market instruments	0	-	-	-	-	-	0
Due from banks	43 808	717	77 775	464	0	0	122 764
Due from customers	67 166	0	153 499	183 586	127 913	0	532 164
Securities and precious metal trading portfolios	9 715	-	-	-	-	-	9 715
Total current assets	128 878	717	231 274	184 050	127 913	0	672 832
Preceding year	155 234	13 370	306 797	169 552	103 866	1 319	750 138
Financial investments	9 728	0	19 539	26 246	77 439	48 858	181 810
Preceding year	179	0	8 001	15 011	78 497	52 063	153 751
Borrowed funds							
Due to banks	4 882	0	352 072	78 574	0	0	435 528
Due to customers, other	168 872	0	545	1 651	2 190	0	173 258
Total borrowed funds	173 754	0	352 617	80 225	2 190	0	608 786
Preceding year	240 343	0	304 643	97 023	4 230	1 319	647 558

Due from and due to affiliated companies and loans and exposures to the members of the bank's governing bodies – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year
Due from affiliated companies	43 001	32 188
Due to affiliated companies	43 597	3 933
Loans and exposures to the members of the bank's governing bodies	549	757

Transactions with affiliated companies and members of the bank's governing bodies

Within the group the bank represents the center of competence regarding the distribution of structured products. For the sale of such products through group companies, the bank pays the group retrocessions on a case to case basis based on the particular transaction. In the year 2006 an total of TCHF 28 had been paid and had been recorded under results from trading operations as well as commission on income on securities and investment transactions.

Members of the board of directors, members of the management as well as ordinary employees benefit from special conditions, which are stipulated in the guidelines for employees.

The conditions applied for other affiliates companies (such as security transactions, loans and compensations on deposits) are equal to clients conditions.

Assets and liabilities by domestic and foreign origin – consolidated

(in 1000 Swiss Francs)

	2006		Preceding year	
	Domestic	Foreign	Domestic	Foreign
Assets				
Cash	8 189	0	10 842	0
Money market instruments	0	0	0	5 261
Due from banks	30 898	91 866	15 130	135 858
Due from customers	36 844	495 320	44 641	507 740
Securitie trading portfolios	0	9 715	0	30 666
Financial investments	89 093	92 717	98 589	55 162
Participations	1 444	0	2 213	0
Fixed assets	10 919	0	15 274	0
Accrued income and prepaid expenses	4 591	7 413	5 955	6 813
Other assets	18 576	5 250	22 941	318
Total assets	200 554	702 280	215 585	741 818
Liabilities and shareholders' equity				
Due to banks	68 424	367 104	29 939	374 666
Due to customers, other	32 051	141 207	49 155	193 799
Accrued expenses and deferred income	7 342	4 684	8 509	5 025
Other liabilities	20 514	5 432	21 937	2 895
Valuation adjustments and provisions	26 962	9 829	40 697	24 251
Reserves for general banking risks	2 372	0	2 372	0
Share capital	33 000	0	33 000	0
Retained earnings	171 159	0	187 644	0
Net consolidated income/loss	12 756	0	-16 486	0
Total liabilities and shareholders' equity	374 579	528 255	356 767	600 636

Assets by countries/country groups – consolidated

(in 1000 Swiss Francs)

	2006		Preceding year	
	Total	in %	Total	in %
Europe				
– Switzerland	166 527	20 %	158 854	18 %
– Liechtenstein	1 982	0 %	9 043	1 %
– Belgium	34 262	4 %	52 078	6 %
– Germany	192 572	23 %	177 859	20 %
– United Kingdom	18 449	2 %	19 052	2 %
– France	17 619	2 %	35 659	4 %
– Ireland	5 287	0 %	216	0 %
– Netherland	3 037	0 %	528	0 %
– Monaco	7 668	1 %	10 402	1 %
– Luxemburg	10 354	1 %	1 563	0 %
– Austria	6 974	1 %	8 779	1 %
– Romania	2 045	0 %	2 024	0 %
– Russian Federation	1 003	0 %	164	0 %
– Sweden	5 585	0 %	2 152	0 %
– Other countries	1 953	2 %	4 964	1 %
	475 317	56 %	483 337	54 %
Israel	150 039	18 %	163 531	18 %
North America				
– United States	66 674	8 %	62 331	7 %
– Kanada	22 147	3 %	20 595	2 %
	88 821	10 %	82 926	9 %
Latin America				
– Belize	41 507	5 %	34 211	4 %
– Panama	29 939	4 %	26 978	3 %
– Brasil	9 706	1 %	14 428	2 %
– Other countries	1 067	0 %	3 415	0 %
	82 219	10 %	79 032	9 %
Africa	2 306	0 %	2 614	0 %
Caribic				
– Virgin Islands (BR)	38 460	5 %	46 527	5 %
– Neth. Antilles	610	0 %	20 858	3 %
– Cayman Islands	12 638	2 %	18 742	2 %
– Other countries	456	0 %	1 181	0 %
	52 164	6 %	87 308	10 %
Asia/Oceania	1 622	0 %	1 916	0 %
Australia and New Zealand	1 687	0 %	3 226	0 %
Total receivables/securities	854 175	100 %	903 890	100 %

Balance sheet by currencies – consolidated

(in 1000 Swiss Francs)

	Currencies					Total
	CHF	EUR	USD	JPY	Other	
Assets						
Cash	6 309	1 347	329	0	204	8 189
Money market instruments	0	0	0	0	0	0
Due from banks	26 792	15 725	71 167	299	8 781	122 764
Due from customers	223 566	59 907	142 426	90 730	15 535	532 164
Securities and precious metal trading portfolios	0	978	8 393	0	344	9 715
Financial investments	135 666	24 486	21 658	0	0	181 810
Fixed assets	1 444	0	0	0	0	1 444
Intangible Assets	10 919	0	0	0	0	10 919
Accrued income and prepaid expenses	7 129	1 993	2 333	411	138	12 004
Other assets	23 527	299	0	0	0	23 826
Total on-balance assets	435 351	104 735	246 306	91 440	25 003	902 835
Due from FX-Spot, – Forward and – Option transactions	216 411	238 075	457 413	141 480	173 371	1 226 749
Total assets	651 762	342 809	703 719	232 920	198 374	2 129 584
Liabilities and shareholders' equity						
Due to banks	124 449	71 435	154 232	82 131	3 281	435 528
Due to customers, other	40 629	32 008	76 945	9 059	14 617	173 258
Accrued expenses and deferred income	8 105	1 568	2 068	250	35	12 026
Other liabilities	25 664	0	280	0	1	25 945
Valuation adjustments and provisions	19 075	0	11 943	0	5 773	36 791
Reserves for general banking risks	2 372	0	0	0	0	2 372
Share capital	33 000	0	0	0	0	33 000
Retained earnings	171 159	0	0	0	0	171 159
Net consolidated profit	12 756	0	0	0	0	12 756
Total liabilities and shareholders' equity	437 209	105 011	245 468	91 440	23 707	902 835
Due from FX-Spot, – Forward and – Option transactions	216 435	237 335	456 711	141 397	174 871	1 226 749
Total liabilities	653 644	342 346	702 179	232 837	198 578	2 129 584
Net position per currency	- 1 882	464	1 540	82	- 205	0

4. Information on off-balance sheet transactions

Analysis of contingent liabilities – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
Contingent liabilities			
– Credit guarantees and similar	122 470	99 493	22 977
– Irrevocable commitments	0	9 230	– 9 230
Total contingent liabilities	122 470	108 723	13 747

Outstanding derivative instruments – consolidated

(in 1000 Swiss Francs)

	Own trading contracts			Hedging-Instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments						
Forward contracts	0	0	0	0	0	0
Swaps	4 334	4 334	66 092	578	1 700	273 319
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Foreign exchange						
Forward contracts	14 088	13 857	1 242 231	0	0	0
Options (OTC)	1 973	1 973	401 442	0	0	0
Precious metals						
Forward contracts	0	0	0	0	0	0
Futures	0	0	0	0	0	0
Shares/Indicies						
Forward contracts	0	0	6 148	0	0	0
Others						
Futures	0	0	0	0	0	0
Total	20 395	20 164	1 715 913	578	1 700	273 319
Preceding year	19 630	19 477	1 870 348	230	2 708	233 205
2006						
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Analysis by counterparties						
Banks and derivative exchanges	9 403	13 388	1 143 578	10 876	11 797	1 207 335
Customers	11 570	8 476	845 654	8 984	10 388	896 218
Total	20 973	21 864	1 989 232	19 860	22 185	2 103 553
Analysis by remaining life						
Up to 3 months	11 164	10 994	1 424 508	13 105	12 981	1 516 362
Over 3 months to 1 year	4 991	5 217	319 044	6 442	6 822	370 015
Over 1 year to 5 years	484	1 319	179 588	179	2 265	130 142
Over 5 years	4 334	4 334	66 092	134	117	87 034
Total	20 973	21 864	1 989 232	19 860	22 185	2 103 553

Analysis of fiduciary transactions – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
Fiduciary transactions			
– Fiduciary placements with third party banks	1 467 075	1 247 749	219 326
– Fiduciary placements with banks of the group	94 726	150 212	–55 486
– Fiduciary credits	42 925	38 065	4 860
Total fiduciary transactions	1 604 726	1 436 026	168 700

Assets under Management – consolidated

(in Mio. Swiss Francs)

	2006	Preceding year
Assets under management:		
Assets in own managed collective financial instruments	126	116
Assets in managed accounts	776	715
Other assets under management	5 627	5 668
Total clients assets (incl. double-counted amounts)	6 529	6 499
thereof double-counted amounts	126	116
net balance of assets inflow-outflow	–32	561

Calculation Method

Assets under management include in general all liabilities due to customers, fiduciaries and all valued customer deposits. Custody-only assets (held only for transaction and custodian purposes) are not included.

Re-classifications of custody-only transactions into reported assets under management didn't occur.

Net Balance of Assets In-/Outflow

The net balance of assets in-/outflow is defined by the acquisition of new customers, customer leavings and in- and outflows of existing customers. Performance related in-/outflows such as market price changes, interests or dividend payments as well as interest charges to customers are not included in the net balance of assets in-/outflow.

All components regarding the determination of assets under management are regularly performed and reported on a monthly basis to the respective bodies.

5. Information on the income statement

Analysis of results from trading operations – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
Results from trading operations			
– Foreign exchange and other business segments	5 285	6 108	– 823
– Precious metals	0	0	0
– Securities	806	– 61	867
– Income structured product activities	1 969	8 562	– 6 593
– Interest rate instruments	0	0	0
Total results from trading operations	8 060	14 609	– 6 549

Analysis of personnel expenses – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
Personnel expenses			
– Remuneration and fees for board of directors	300	347	– 47
– Salaries	18 381	20 561	– 2 180
– Contributions to AHV and unemployment insurance	1 134	1 336	– 202
– Contributions to social benefits	1 489	1 564	– 75
– Other personnel expenses	2 434	2 307	127
Total personnel expenses	23 738	26 115	– 2 377

Analysis of other operating expenses – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
Other operating expenses			
– Occupancy expense	2 763	2 986	– 223
– Expenses for electronic data processing, machinery, furniture, vehicles and leasehold improvements	5 794	8 057	– 2 263
– Expenses for electronically communication	2 939	3 459	– 520
– Other operating expenses	7 399	9 247	– 1 848
Total other operating expenses	18 895	23 749	– 4 854

Tax expenses – consolidated

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
– Release/Creation of provision for deferred taxes	0	– 136	136
– Current tax expenses	500	1 041	– 541
Total tax expenses	500	905	– 405

Tax expenses are mainly for capital taxes, due to the possibility for unutilized tax loss carry-forwards practically no income taxes are payable. As per December 31, 2006 the possibility for tax loss carry-forwards amounts to CHF 1.5 million. There were no deferred tax asset for the possibility for unutilized tax loss carry-forwards.

Other information on the income statement – consolidated

Explanation of significant losses, extraordinary income and expense as well as with respect to the significant release of reserves for general banking risks

For the year under review extraordinary income amounted to CHF 2.04 million which is mainly due to the following items:

Under the extraordinary income there's a dissolution of economical not anymore needed accruals in the amount of CHF 0.85 million. The VAT audit for the period from 2000 until 2004 resulted in a re-imburement by the Federal Tax Authority in the amount of CHF 0.45 million. Furthermore CHF 0.7 million has been allocated to the extraordinary income due to a dissolution of a specific provision.

6. Sundries

Informations regarding market risks in the trading book – consolidated

(12 months average in 1000 Swiss Francs)

	2006	Preceding year	Changes
Debt instruments including derivatives	6 869	29 083	– 22 214
Participation certificates including derivatives	1 197	3 147	– 1 950
Foreign currency positions including derivatives	11 978	12 592	– 614
Precious metal positions including derivatives	296	236	60

Report of the group auditors
to the general meeting of
Bank Leumi le-Israel (Switzerland)
Zurich

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes / pages to 7 to 29) of Bank Leumi le-Israel (Switzerland) for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the accounting rules for banks and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG


Thomas Romer
Auditor in charge


Erik Dommach

Zurich, 23 March 2007

1. Balance sheet – Bank

(in Swiss Francs)

	Dec. 31, 2006	Preceding year	Changes
Assets			
Cash	8 189 019	10 842 103	-2 653 084
Money market instruments	0	5 261 247	-5 261 247
Due from banks	121 984 817	150 448 745	-28 463 928
Due from customers	532 164 418	552 380 708	-20 216 290
Securities trading portfolios	9 560 386	30 511 568	-20 951 182
Financial investments	181 809 759	153 751 279	28 058 480
Participations	220 000	220 000	0
Fixed assets	12 362 456	17 483 945	-5 121 489
Accrued income and prepaid expenses	11 817 272	12 608 234	-790 962
Other assets	23 817 770	23 249 342	568 428
Total assets	901 925 897	956 757 171	-54 831 274
Total subordinated claims	1 035 428	3 243 628	-2 208 200
Total due from group entities and significant shareholders	4 659	318 361	-313 702
Liabilities and shareholders' equity			
Due to banks	435 527 818	404 604 878	30 922 940
Due to customers, other	174 331 942	244 102 365	-69 770 423
Accrued expenses and deferred income	11 907 085	13 338 167	-1 431 082
Other liabilities	25 932 994	24 815 682	1 117 312
Valuation adjustments and provisions	39 162 482	67 319 399	-28 156 917
Share capital	33 000 000	33 000 000	0
General legal reserve	35 395 000	35 395 000	0
Other reserves	134 180 000	148 440 000	-14 260 000
Retained earnings brought forward	1 680	628	1 052
Net income/loss	12 486 896	-14 258 948	26 745 844
Total liabilities and shareholders' equity	901 925 897	956 757 171	-54 831 274
Total due to group entities and significant shareholders	130 506 573	152 747 903	-22 241 330
Off-balance sheet transactions			
Contingent liabilities	122 469 618	108 723 509	13 746 109
Irrevocable acceptance	1 006 000	0	1 006 000
Derivative instruments – Contract volume	1 989 231 515	2 103 553 060	-114 321 545
– Positive replacement value	20 973 362	19 860 258	1 113 104
– Negative replacement value	21 863 815	22 185 110	-321 295
Fiduciary transactions	1 604 726 488	1 436 026 244	168 700 243

2. Income statement – Bank

(in Swiss Francs)

	2006	Preceding year	Changes
Revenues and expenses from ordinary banking activities			
Results from interest activities:			
– Interest and discount income	29 153 024	18 019 579	11 133 445
– Interest and dividend income on trading portfolios	324 385	1 337 817	–1 013 432
– Interest and dividend income on financial investments	5 804 580	5 856 893	–52 313
– Interest expenses	–21 484 331	–12 119 088	–9 365 243
Net interest income (Subtotal)	13 797 658	13 095 201	702 457
Results from commission and service fee activities:			
– Commission income on lending activities	778 661	607 901	170 760
– Commission income on securities and investment transactions	37 486 611	32 513 969	4 972 642
– Commission income on other services	2 288 259	2 444 503	–156 244
– Commission expenses	–1 815 136	–1 693 625	–121 511
Results from commission and service fee activities (Subtotal)	38 738 395	33 872 748	4 865 647
Results from trading operations	8 066 556	14 578 362	–6 511 806
Other ordinary results			
– Results from the sale of financial investments	13 986	97 645	–83 659
– Participation income (consolidated)	0	2 500 000	–2 500 000
Other ordinary results (Subtotal)	13 986	2 597 645	–2 583 659
Operating expenses:			
– Personnel expenses	–23 433 206	–25 787 101	2 353 895
– Other operating expenses	–18 711 200	–23 546 169	4 834 969
Operating expenses (Subtotal)	–42 144 406	–49 333 270	7 188 864
Gross profit	18 472 189	14 810 686	3 661 503
Net income/loss			
Gross profit	18 472 189	14 810 686	3 661 503
Depreciation and write-offs on non-current assets	–6 070 561	–6 797 533	726 972
Valuation adjustments, provisions and losses	–1 416 038	–21 936 770	20 520 732
Extraordinary income	2 032 034	782 437	1 249 597
Extraordinary expenses	–34 655	–133 741	99 086
Taxes	–496 073	–984 027	487 954
Net income/loss	12 486 896	–14 258 948	26 745 844

	2006	Preceding year	Changes
Allocation of retained earnings			
Net income/loss	12 486 896	- 14 258 948	26 745 844
Retained earnings brought forward	1 680	628	1 052
	12 488 576	- 14 258 320	26 746 896
Allocation of retained profit/loss			
Allocation to general legal reserve	- 6 121 500	0	- 6 121 500
Release of other reserves	56 510 000	14 260 000	42 250 000
Ordinary dividends 39 %	- 12 870 000	0	- 12 870 000
Extraordinary dividends 151.5 %	- 49 995 000	0	- 49 995 000
	12 076	1 680	10 396
Retained earnings brought forward			

The Bank's Activity

Description of Business Activities

The description of the Bank's business activity is included in the consolidated financial statements of the Bank.

As of December 31, 2006, the Bank employed 120 people (2005: 127), of whom 28 (2005: 26) are located in Geneva.

Accounting and Valuation Principles of the Bank

The financial statements of the Bank have been prepared in accordance with the relevant Swiss Accounting Standards stipulated in the Swiss Code of Obligations, the Federal Law on Banks and Saving Banks, and the accounting rules defined by the Federal Banking Commission.

In general, the Bank's financial statements are based on the same accounting policies and valuation principles used for the consolidated financial statements. The Bank's financial statements may include and be influenced by hidden reserves. Deferred taxes are not considered in the financial statements of the Bank.

In addition, the intangible assets that are recorded separately in the consolidated financial statements are recorded as fixed assets. Participations are reported at acquisition cost principle. In case of a decreased value, depreciation will be carried out.

Change in Accounting and Valuation principles of the Bank

For the year under review, there was no change in accounting and valuation principles.

Other assets and liabilities – Bank

(in 1000 Swiss Francs)

	2006		Preceding year	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement value of derivative instruments				
Own trading contracts				
– replacement value of customer transactions	20 395	20 164	19 590	19 377
– replacement value of nostro positions	0	0	40	100
– replacement value of asset/liabilities management	578	1 700	230	2 708
<i>Total derivative instruments</i>	<i>20 973</i>	<i>21 864</i>	<i>19 860</i>	<i>22 185</i>
Equalization account	1 275	0	2 540	0
Indirect taxes	478	3 250	599	1 474
Transit account	0	534	0	0
Coupons not cashed	0	0	0	13
Other assets and liabilities	1 092	285	250	1 144
Total	23 818	25 933	23 249	24 816

Assets pledged or ceded to secure own liabilities, and assets subject to ownership reservation – Bank

Assets pledged

(in 1000 Swiss Francs)

	2006		Preceding year	
	Collateral resp. Book Value	Liability resp. amount used	Collateral resp. Book Value	Liability resp. amount used
Type of not available assets and reason for pledge				
Short and longterm investments for lombard credit business	5 901	0	5 903	0
Longterm investments as collateral for security clearing	23 629	0	36 676	0
Money market instruments for derivative business	0	0	5 261	0
Due from banks for derivative business	87 715	0	31 649	0
Total of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation	117 245	0	79 489	0

Loans- and pensions-business with securities

(in 1000 Swiss Francs)

	2006	Preceding year
Bookvalue of liabilities of cashdeposits in correlation with securities borrowing and reverse-repurchase business	56 000	18 000
Bookvalue of in securities lending borrowed or in securities borrowing as collateral delivered as well as for repurchase transactions transferred securities in own possession	55 162	17 126
thereof unlimited right for sale or pledge allowed	55 162	17 126

As per December 31, 2006 no open securities lending and borrowing transactions on accounts.

Liabilities to own pension plans – Bank

(in 1000 Swiss Francs)

	2006	Preceding year
Pension Fund of Bank Leumi le-Israel (Switzerland)	1 385	14 389

The Foundation of the “pension fund of Bank Leumi-le Israel (Switzerland)” aims to provide the occupational benefit plan according to the Federal Law on Occupational, Old-age, Survivors and Disability Benefit Plan (LOB) for all employees, as well as for their relatives and survivors, against the economic consequences of age, death and disability.

As a partly autonomous pension fund, neither the pension fund nor the Group bears actuarial risks.

The pension plan can be classified as a defined contribution plan. The benefits are based on the insured salary at the time of the entry of the insured incident.

Based on the last audited financial statements (according to Swiss GAAP FER 26) of the pension fund as of December 31, 2005 the cover ratio of the capital necessary to provide occupational benefit plan was 105.80 % (31.12.2004: 106.60 %).

The Board of directors is of the opinion that there will be no economical value out of this cover ratio. Such a benefit shall be used in favour of the employees. As a result of this, there's neither an economical benefit nor liability for the employer which should be reflected in the balance sheet and in the profit & loss statement.

Neither for the year under review nor in the previous year an employer contribution reserve was recorded.

Valuation adjustments and provisions – Bank

(in 1000 Swiss Francs)

	Balance, end of preceding year	2006				Balance end of current year
		Specific usage	Recoveries, overdue interest, currency differences	New creation charged to income statement	Reversals credited to income statement	
Valuation adjustments and provisions for loan losses (credit and country risks)	64 261	– 29 341	887	400	– 104	36 103 a)
Other provisions	3 059	0	0	0	0	3 059
Total valuation adjustments and provisions as per balance sheet	67 320	– 29 341	887	400	– 104	39 162

a) The line item valuation adjustments and provisions for loan losses includes provisions for credit risks for doubtful loans and possible other claims in connection with unauthorised and alleged transaction of a former management member identified in the year 2001.

The amount of the valuation adjustments and provisions was determined based upon the requirements that an adequate amount has to be provided for risks which lead to a likely liability for the Bank. The amount of the provisions is based upon information available to the Bank taking into account positive and negative factors known at the time these financial statements have been prepared. It should be noted that the amount of the provisions set aside may not necessarily cover the amounts claimed by the plaintiffs as such claims may be unjustified or inflated.

Capital structure and share holders with participations above 5 % of voting rights – Bank

(in 1000 Swiss Francs)

	2006			Preceding year		
	Total nominal value	Number of units	Dividend bearing capital	Total nominal value	Number of units	Dividend bearing capital
Share capital						
– Registered shares A (100.–)	13 350	133 500	13 350	13 350	133 500	13 350
– Bearer shares B (500.–)	19 650	39 300	19 650	19 650	39 300	19 650
Total capital	33 000	172 800	33 000	33 000	172 800	33 000

Significant shareholders of Bank Leumi le-Israel (Switzerland)

Bank Leumi le-Israel B.M., Tel Aviv

	2006		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
	26 992	93.05 %	24 703	90.40 %

Significant shareholders of Bank Leumi le-Israel B.M., Tel Aviv

State of Israel
Barnea Investments B.V.
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies
Otzar Hityashvut Hayehudin B.M.
Others

	2006		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
State of Israel	48 839	19.78 % a)	59 933	19.78 %
Barnea Investments B.V.	40 863	5.00 % b)	40 477	5.00 % b)
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies	40 891	10.00 %	40 450	9.98 %
Otzar Hityashvut Hayehudin B.M.	20 732	5.07 %	20 536	5.07 %
Others	c)	c)	c)	c)

Rate CHF/ILS 0.2892 0.2865

a) For the year under review, the State of Israel sold 2.85 % of its shares to employees. Those shares are locked up until 2010. During the lock-up period, the State has a power of attorney to vote. Furthermore the State will offer an additional 1 % of its holdings, to the employees which will take place after the privatization of the Group.

In addition, options were issued to employees (in Israel only) which will have another impact on the share dilution. The dilution has not been considered re: the calculation of voting rights in %.

b) 4.99 % of the shares that had been bought by Barnea, are being held in trust.

The "Shares Committee" of the Bank Leumi le-Israel, Tel Aviv is empowered to execute the respective voting rights.

Furthermore Barnea was granted an option (under specific conditions) to purchase an additional 10.01 % of Bank Leumi B.M shares until May 24th, 2007.

c) below 5 %

Statement of changes in shareholders' equity – Bank

(in 1000 Swiss Francs)

Shareholders' equity, at beginning of current year

Share capital	33 000
General legal reserve	35 395
Other reserves	148 440
Accumulated loss	– 14 258

Total shareholders' equity at beginning of current year

(before profit distribution) **202 577**

+ Capital increase/decrease	0
+ Premium over nominal value	0
+/- Other allocations to/from reserves	0
– Dividends and other distributions of retained earnings brought forward	0
+ Net profit	12 487

Total shareholders' equity, at end of current year

(before profit distribution) **215 064**

<i>Thereof</i> Share capital paid-in	33 000
General legal reserve	35 395
Other reserves	134 180
Accumulated profit	12 489

Due from and due to affiliated companies and loans and exposures to the members of the bank's governing bodies – Bank

(in 1000 Swiss Francs)

	2006	Preceding year
Due from affiliated companies	43 001	32 188
Due to affiliated companies	43 597	3 933
Loans and exposures to the members of the bank's governing bodies	549	757

Transactions with affiliated companies and members of the bank's governing bodies

Within the group the bank represents the center of competence regarding the distribution of structured products. For the sale of such products through group companies, the bank pays the group retrocessions on a case to case basis based on the particular transaction. In the year 2006 an total of TCHF 28 had been paid and had been recorded under results from trading operations as well as commission on income on securities and investment transactions.

Members of the board of directors, members of the management as well as ordinary employees benefit from special conditions, which are stipulated in the guidelines for employees.

The conditions applied for other affiliates companies (such as security transactions, loans and compensations on deposits) are equal to clients conditions.

Analysis of fiduciary transactions – Bank

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
Fiduciary transactions			
– Fiduciary placements with third party banks	1 467 075	1 247 749	219 326
– Fiduciary placements with banks of the group	94 726	150 212	–55 486
– Fiduciary credits	42 925	38 065	4 860
Total fiduciary transactions	1 604 726	1 436 026	168 700

Assets under Management – Bank

(in Mio. Swiss Francs)

	2006	Preceding year
Assets under management:		
Assets in own managed collective financial instruments	126	116
Assets in managed accounts	776	715
Other assets under management	5 627	5 668
Total clients assets (incl. double-counted amounts)	6 529	6 499
thereof double-counted amounts	126	116
net balance of assets inflow-outflow	–32	561

Calculation Method

Assets under management include in general all liabilities due to customers, fiduciaries and all valued customer deposits. Custody-only assets (held only for transaction and custodian purposes) are not included.

Re-classifications of custody-only transactions into reported assets under management didn't occur.

Net Balance of Assets In-/Outflow

The net balance of assets in-/outflow is defined by the acquisition of new customers, customer leavings and in- and outflows of existing customers. Performance related in-/outflows such as market price changes, interests or dividend payments as well as interest charges to customers are not included in the net balance of assets in-/outflow.

All components regarding the determination of assets under management are regularly performed and reported on a monthly basis to the respective bodies.

5. Information on the income statement

Analysis of results from trading operations – Bank

(in 1000 Swiss Francs)

	2006	Preceding year	Changes
Results from trading operations			
– Foreign exchange and other business segments	5 291	6 077	– 786
– Precious metals	0	0	0
– Securities	576	– 61	637
– Income structured product activities	2 200	8 562	– 6 362
– Interest rate instruments	0	0	0
Total results from trading operations	8 067	14 578	– 6 511

Other information on the income statement – Bank

Explanation of significant losses, extraordinary income and expense as well as with respect to the significant release of hidden reserves

For the year under review extraordinary income amounted to CHF 2.04 million which is mainly due to the following items:

Under the extraordinary income there's a dissolution of economical not anymore needed accruals in the amount of CHF 0.85 million. The VAT audit for the period from 2000 until 2004 resulted in a re-imburement by the Federal Tax Authority in the amount of CHF 0.45 million. Furthermore CHF 0.7 million has been allocated to the extraordinary income due to a dissolution of a specific provision.

6. Sundries

Informations regarding market risks in the trading book – Bank

(12 months average in 1000 Swiss Francs)

	2006	Preceding year	Changes
Debt instruments including derivatives	6 869	29 083	– 22 214
Participation certificates including derivatives	1 042	2 992	– 1 950
Foreign currency positions including derivatives	11 978	12 592	– 614
Precious metal positions including derivatives	296	236	60

Report of the statutory auditors
to the general meeting of
Bank Leumi le-Israel (Switzerland)
Zurich

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes / page 31 to 40) of Bank Leumi le-Israel (Switzerland) for the year ended 31 December 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Thomas Romer
Auditor in charge



Erik Dommach

Zurich, 23 March 2007

The Israeli Economy in 2006

Economic growth

GDP growth reached a relatively high real level of 5 % in 2006, according to preliminary estimates by the Central Bureau of Statistics (CBS), in spite of the various geo-political shocks that occurred during the year.

The relatively high growth rate follows the positive trends seen in 2004 and 2005. Growth in the Israeli economy has become less dependent on exports (which increased by 5.1 % in 2006), and more significantly driven by private consumption (a 4.6 % increase), and investment in fixed assets (a 6.1 % increase). Public consumption expenditure increased 3.2 % in 2006, primarily due to a 5.7 % rise in security related expenditures as a result of the fighting in the north from mid July through mid August.

Capital flows

The past year was characterized by a high flow of investments into the country from overseas. Particularly notable were the direct investments made by foreigners, which reached in 2006 an average of US\$ 1.099 million per month. The largest of these acquisitions was the purchase of the Israeli company "Iscar" by American businessman Warren Buffet in the beginning of May for a total of US\$ 4 billion. There were also tens of strategic acquisitions by a variety of investors in the high-tech sector, investments in the area of financial services, real estate investments, and more.

Fiscal Policy

The fiscal restraint implemented by the government over recent years has contributed to a continuing decline in the ratio of government debt to GDP, which is currently at 86 %, and to an improvement in Israel's risk level, as reflected in the yield spreads between US dollar bonds issued by the State of Israel and those issued by other countries. The government deficit amounted to a low level of only 0.9 % of GDP, as a result of a sharp increase in tax revenues.

The exchange rate, inflation and monetary policy

The improvement in the state of the Israeli economy, the flow of investments from overseas, and the weakness of the US dollar in global markets over the course of the past year, have all contributed to a significant strengthening of the exchange rate of the shekel vis-à-vis the dollar during 2006.

Over 2006, the CPI declined by 0.1 %, well below the lower limit of the inflation target range of 1–3 %. The Bank of Israel lowered the interest rate in late December 2006 to 4.5%. This step was intended to facilitate the return of the rate of inflation back into the price stability target range.

The sovereign credit rating

The Fitch international credit rating agency announced on December 18th that it was changing its outlook on the State of Israel's foreign and local currency Issuer Default Rating ("IDR") to Positive from Stable, while confirming its current rating on the country of A minus. According to the announcement, this step is attributed to the degree of economic resilience demonstrated by the Israeli economy, as seen in the fact that there was only limited impact of the fighting in Lebanon over the summer on the Israeli economy, and also due to positive indicators seen in Israel's foreign accounts. In the first half of 2006 Moody's international credit rating agency also raised its credit rating outlook on Israel.

Performance of Tel-Aviv Stock Exchange traded shares

The activity in the local stock market during 2006 reflected the strength of the Israeli economy. The General Share Index registered a gain of 5.9 % during 2006, following a gain of 33 % in 2005. Increases of 12.5 % were recorded in the TA-25 index of blue chip shares and 12.0 % in the TA-100 index of most actively traded shares.

The sharp declines in emerging stock markets in May and June impacted the Tel Aviv Stock Exchange to a lesser degree than that seen in other developing countries. For example, during the second half of May and the first half of June the Indian stock market plummeted 30 %, the equity markets in Thailand and South Korea fell 18 %, and the equity markets in Eastern Europe registered price declines of 24 % on average. Meanwhile, the leading shares indices in Israel, the TA-25 and the TA-75, fell during the same period by only 8 % and 14 %, respectively.

This show of resilience by the Israeli stock market is attributed to the strong confidence that foreign investors have in the Israeli economy, stemming from, among other things, positive macro-economic data published throughout the year. It is important to note that this confidence was demonstrated also through the many strategic real acquisitions made by foreign investors in Israel.

A breakdown of the local stock market by sector shows that the weakest sectors during 2006 included the chemicals, rubber, and plastics sector, which lost 19.4 % of its value during the year, and the technology sector, which fell 1.4 %. The banking sector as well displayed relative weakness throughout the year, as the index of banking shares showed a moderate gain of only 4.8 %, following an upward spike of more than 50 % in 2005. In contrast, the real estate sector showed impressive growth in 2006, with the index of real estate shares gaining 63.0 %.

The relative weakness seen in the banking shares was apparently attributed to, among other things, the Bachar Committee reforms, which forced the banks to sell off their mutual and provident funds. The main purchasers of the provident and mutual funds were the insurance companies. The insurance sector share index on the local market increased 11.8 % in 2006.

Bank Leumi le-Israel Group

Bank Leumi le-Israel B.M.

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Foreign Resident and Tourist Centres

Tel Aviv
Jerusalem
Haifa
Netanya
Herzliya Pituach
Bat Yam
Ashdod

Subsidiaries in Israel

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(28 branches)

Leumi & Co. Investment
House Ltd.
25, Kalisher Street
Tel Aviv 65156
Tel.: 00972 (3) 514 12 12
FAX: 00972 (3) 514 12 75

Bank Leumi le-Israel Trust
Company Ltd.
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Tel.: 00972 (3) 517 07 77
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