

Leumi Annual Report 2007

Bank Leumi (Switzerland) Ltd

Head Office:

Zurich, Claridenstrasse 34

Branch:

Geneva, 80, rue du Rhône

Annual Report 2007
to be presented by the
Board of Directors to the
Annual General Meeting
of Shareholders of
Bank Leumi (Switzerland) Ltd
on April 8, 2008

Board of Directors

Mrs. Galia Maor, Chairperson	Tel Aviv
Dr. Michael Kohn*, Deputy Chairman	Zurich
Dr. Marco Lanzi*	Weisslingen
Dr. Michel Haymann*	Zurich
Mr. Zvi Itskovitch**	Tel Aviv
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

Mr. Youval Dichovsky	Head of Internal Audit
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General Management**General Manager**

Mr. Shouky Oren	(until Nov. 30, 2007)
Mr. Amnon Zaidenberg***	(as of Jan. 10, 2008)

**Management and
Members of
Management
Committee**

Mrs. Ursula Brunner-Egli***	Executive Vice President
Dr. Moshe Shimony***	Executive Vice President
Mr. Paul Hazan***	Executive Vice President
Mr. Marcos Wolman***	Senior Vice President

Geneva Branch

Mrs. Rixa Starkman***	Senior Vice President
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***) Members of Management Committee

Auditors

PricewaterhouseCoopers AG	Zurich
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The financial year 2007 under review

The financial year 2007 will be remembered as the year of the “subprime crisis” – or perhaps rather the year when the subprime crisis began. But it was actually a year between boom and crisis. Many exchange indices were higher at the end of the year compared to their levels at the beginning of the year. The German DAX even rose by 22 percent; and despite the mediocre outlook the S&P showed a plus of 3.5 percent. Switzerland, on the other side, lost some 3.4 percent as the banking sector forms a large part of its index. Japan lost more than 11 percent.

2007 followed a number of excellent years with substantial economic growth, low interest rates, negligible inflation and low volatilities. And it had also been a – period of abundant money supply which triggered a considerable appetite for risk and a drastic reduction of risk premiums. Until July, the players in the private equity industry had vied with one another clinching mega deal after mega deal. Mergers and acquisitions flourished and astounding amounts were dealt with in carry trades. Non-traditional asset classes such as private equity, hedge funds and commodities were very popular, and emerging markets attracted a great deal of investors’ attention.

Alarm bells initially rang in late February when the news broke about a crash on the Chinese stock markets, and the shock-waves sent markets around the world tumbling. Never before has an event on the Chinese market had such consequences. But the scare was soon over, and the party on the markets continued – for some time.

The second half of the year proved to be very different. The first signs of problems on the American mortgage market emerged, or more specifically on the subprime market. It initially appeared to be a problem in a local retail market with limited importance. Consumer spending remained surprisingly robust due to solid disposable income growth. Exchange indices reached new highs in September. And the economies continued their vigorous expansion. Really bad news hit the Swiss market in early October when its largest bank was forced to announce considerable losses in the American subprime market. The news subsequently swung between good figures from the economy at large and bad or very bad news from the subprime front. In the US, a weaken-

ing jobs market only in the final months of the year led to subdued holiday spending and to continued weakness in automobile sales. The export sector remained the sole bright spot, which not only benefited from solid world growth, but also from a falling dollar.

In the process, it became evident that problems on the housing market were only the surface of much deeper problems. Some very aggressive investment banks had repackaged subprime loans in very inventive ways. They succeeded in obtaining AAA ratings for instruments which were obviously as opaque for the rating agencies as they were for investors. When it became clear that even the originating banks, in spite of highly sophisticated risk management tools, were no longer sure of the extent of their risk exposure, the markets floundered as confidence tumbled. For many instruments, market liquidity disappeared. Moreover, the banks lost trust in each other; the functioning of inter-bank markets was seriously disrupted. The situation was worsened by modern methods of securitizing loans and shifting risk from the banks to the investors market without assuring adequate transparency.

Key economic figures 2007 in major economies

Countries	Real GDP growth	CPI growth	Unemployment Rate	Central Bank Rate
US	2.2%*	4.1%	5.0%	4.25%
UK	3.1%*	2.1%	2.5%	5.50%
Euro Zone	2.6%*	3.1%	7.2%*	4.00%
Switzerland	2.6%*	2.0%	2.6%	2.75%
Japan	1.8%*	0.6%	3.8%*	0.50%

* estimated

Emerging countries played a very special role in the year under review. The BRIC countries (Brazil, Russia, India, China) in particular, but also others showed a very strong performance; Chinese indices went up by 80 percent (Shanghai) and Brazil by 44 percent. The economies of these countries even gave the impression of decoupling from the United States economy. As US news became less optimistic, more hope was placed on Europe and the emerging countries.

The fixed income markets also went through two very different phases. Distinctly positive signs from the economy resulted in rapidly raising yields in the first half of 2007 from 4.5 to 5.3 percent for US Treasury Bonds. The situation reversed rapidly in the second half when the Federal Reserve began easing monetary policy in autumn of 2007. The 10-year US Treasury yield tumbled from a high of 5.32 to a low of 3.79 percent.

On the currency markets, the prominent theme of 2006, namely the weakening of the USD also continued last year.

The reasons were manifold: Federal Reserve activities led to a significant reduction in yield differentials between USD and other currencies. The trend towards diversification of currency reserves by various countries and the abolition of the USD currency peg in certain regions also played a part. When the Federal Reserve began supporting the sluggish economy of the US, the European Central Bank followed the American example – albeit hesitantly. As the European economy was at a later stage in the cycle, there was some concern about inflation. The other major topic last year was carry trade activity which lost its attractiveness as a result of increased volatilities and hence risk-aversion. A pronounced strengthening of the Yen was one consequence. The cut in benchmark interest rates by the Bank of England triggered a sharp decline in the pound towards the end of the year. The strengthening of the Yuan continued as Chinese authorities increasingly tightened measures, which included slightly increased flexibility in its currency. The Swiss franc was rather weak in 2007, as carry traders frequently borrowed in Switzerland in order to invest the money in countries with higher yields. The gold price rose to record levels when risk aversion progressed.

Highlights of the Bank's activity

Bank Leumi (Switzerland) Ltd (the Bank) had a successful year despite the difficult market conditions. The subprime crises had no direct impact on the Bank, which continued to expand its private banking and trading activities. The bank has strengthened its teams to provide more focused and efficient services to its clients and it has continued its efforts to improve the infrastructure and services to External Portfolio Managers.

Business Results

During 2007, clients' assets increased slightly to CHF 6.6 billion compared with CHF 6.5 billion in 2006. The impact of positive money inflows was partly offset by the fluctuations of the USD/CHF exchange rate, but also by the impact of poor market performance.

Throughout 2007, the Bank continued to offer a variety of investment products tailored to the economic environment. It extended the cooperation with leading investment houses and asset managers for the purpose of providing its customers with top quality investment funds and related products. In this process, the Bank has decided to close the mutual funds managed by Leumi Asset Management (Switzerland). This has been concluded late in 2007 only and it will be completed in the first quarter of 2008. The Bank continues to strengthen its presence in the wealth management market and to enhance its reputation as an innovative, reliable and performance driven private banking institution.

The consolidated financial results include two fully owned subsidiaries of the Bank, Leumi Fund Holding (Lux) S.A., Luxembourg, managing two mutual funds and Leumi Asset Management (Switzerland) AG, Zurich, which provides advisory investment services. Total income increased to CHF 64.7 million (2006: CHF 61.4 million). Gross profits rose to CHF 19.8 million, compared to CHF 18.7 million for 2006. Because of higher valuation adjustments and income taxes, net profits for 2007 amounted to CHF 10.7 million only, compared to CHF 12.8 million in 2006.

Total commission income for the year was slightly higher at CHF 41.4 million (2006: CHF 39.5 million). Stock exchange commissions alone rose to CHF 16.1 million which is CHF 2.8 million more than in the previous year. The positive performance of the financial markets in the first half of 2007 mainly translated into considerable trading activity. The income from the distribution of investment funds amounted to CHF 1.8 million (2006: CHF 1.5 million). Trading income increased to CHF 9.3 million (2006: CHF 8.1 million) and Forex income remained almost unchanged, CHF 5.4 million as against CHF 5.3 million in 2006.

During 2007, the credit portfolio expanded slightly, but due to currency impacts it remained stable in Swiss franc terms. Consolidated net interest income increased to CHF 14.1 million (2006: CHF 13.8 million) due to the positive interest rate environment which was largely prevalent during the first half of 2007.

Operating expenses increased to CHF 44.7 million (2006: CHF 42.6 million), principally due to an increase in personnel expenses to CHF 25.7 million (2006: CHF 23.7 million). This relates mainly to high acquisition costs in a difficult market for qualified personnel. The Bank had changes on several management positions. Moreover, the number of personnel increased as the Bank replaced expensive external resources with internal positions. Other operating expenses remained constant at CHF 19.0 million (2006: CHF 18.9 million).

Depreciation of non-current assets, primarily for IT investments, amounted to CHF 5.5 million (2006: CHF 6.1 million). Valuation adjustments, provisions and losses amounted to CHF 2.9 million (2006: CHF 1.4 million). Additional provisions (CHF 1.34 million) were necessary regarding the irregular event that was detected in 2001. The Bank is confident that the settlement of all aspects of this case will be possible very soon. - Extraordinary income amounted to CHF 2.8 million (2006: CHF 2 million).

During 2007 the major shareholder of the Bank, Bank Leumi le-Israel B.M., granted 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 Swiss banking regulations.

Shareholder' capital with respect to tier 2 as shown under the consolidated balance sheet will amount to CHF 217 million of which reserves for general banking risk amount to CHF 2.3 million (2006: CHF 2.4 million).

Projects

A number of projects were undertaken in 2007 in order to improve the efficiency of the Bank. On the business side the management of discretionary accounts from Geneva and Zurich have been consolidated. A flat fee was introduced for "managed fund accounts". This should help to increase the amount of discretionary accounts managed by the Bank.

Major projects were undertaken on the IT side. The Bank's platform is undergoing a major release upgrade in order to make it more user-friendly. In parallel, the Bank set up a new data warehouse which will be needed for compliance requirements, and an archiving and scanning project was initiated.

Regulatory changes in many areas were again a heavy burden for the Bank. In order to prepare for Basel II the Bank ran successful tests. It adopted the Standardized Approach as per January 1, 2008. This has resulted in an increase in the required capital. Moreover the Bank completed the preparation and implementation of the Swiss Federal Banking Commission Circular 06/6 Supervision and Internal Control, which further improved the monitoring and control mechanisms already implemented by the Bank. Many more rules and regulations had to be adapted.

Board of Directors and its committees

During 2007, the Board of Directors and the Audit Committee of the Board each held four meetings, the Executive Committee held five meetings.

At the General Assembly of April 26, 2007, Dr. Rolf Bloch retired from the Board of Directors. We thank Dr. Bloch for many years of valuable service and wish him good health and success in his future. At the same General Assembly of April 26, 2007, Dr. Marco Lanzi was elected to the Board of Directors.

Management

Mr. Shouky Oren resigned as General Manager on November 30, 2007 as he was offered the position of Accountant General of the State of Israel. Mr. Amnon Zaidenberg was appointed General Manager effective January 10, 2008. Mr Roland Wyss retired during 2007. Mario Alini resigned from Leumi to take up a new challenge. We thank Mr. Oren, Mr. Wyss and Mr. Alini for their years of service and wish them well in their future endeavours.

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, 2007	Preceding year	Changes
Assets			
Cash	2 073 495	8 189 018	-6 115 523
Due from banks	87 358 795	122 764 300	-35 405 505
Due from customers	634 912 164	532 164 418	102 747 746
Securities trading portfolios	4 157 106	9 715 280	-5 558 174
Financial investments	179 248 916	181 809 759	-2 560 843
Fixed assets	1 575 345	1 443 814	131 531
Intangible assets	9 259 986	10 918 643	-1 658 657
Accrued income and prepaid expenses	15 127 281	12 003 971	3 123 310
Other assets	21 815 188	23 825 564	-2 010 376
Total assets	955 528 276	902 834 767	52 693 509
Total subordinated claims	1 357 168	1 035 428	321 740
Total due from non consolidated participations and significant shareholders	5 209 392	4 659	5 204 733
Liabilities and shareholder's equity			
Due to banks	561 898 180	435 527 818	126 370 362
Due to customers, other	169 762 886	173 258 340	-3 495 454
Accrued expenses and deferred income	14 223 162	12 025 969	2 197 193
Other liabilities	25 301 713	25 945 382	-643 669
Valuation adjustments and provisions	17 262 484	36 790 812	-19 528 328
Reserves for general banking risks	2 338 186	2 371 671	-33 485
Share capital	33 000 000	33 000 000	0
Retained earnings	121 049 285	171 158 977	-50 109 692
Net consolidated income/loss	10 692 380	12 755 798	-2 063 418
Total liabilities and shareholders' equity	955 528 276	902 834 767	52 693 509
Total subordinated liabilities	50 000 000	0	50 000 000
Total due to non consolidated participations and significant shareholders	295 234 099	129 432 953	165 801 146
Off-balance sheet transactions			
Contingent liabilities	100 153 524	122 469 618	-22 316 094
Irrevocable acceptance	596 000	1 006 000	-410 000
Derivative instruments – Contract volume	1 691 564 153	1 989 231 515	-297 667 362
– Positive replacement value	19 752 107	20 973 362	-1 221 255
– Negative replacement value	20 630 770	21 863 815	-1 233 045
Fiduciary transactions	1 900 586 125	1 604 726 488	295 859 638

2. Income statement – consolidated

(in Swiss Francs)

	2007	Preceding year	Changes
Revenues and expenses from ordinary banking activities			
Results from interest activities:			
– Interest and discount income	40 707 111	29 158 581	11 548 530
– Interest and dividend income on trading portfolios	502 677	324 385	178 292
– Interest and dividend income on financial investments	5 415 037	5 804 580	–389 543
– Interest expenses	–32 520 803	–21 478 182	–11 042 621
Net interest income (Subtotal)	14 104 022	13 809 364	294 658
Results from commission and service fee activities:			
– Commission income on lending activities	630 354	778 661	–148 307
– Commission income on securities and investment transactions	40 836 032	38 087 864	2 748 168
– Commission income on other services	2 480 065	2 279 016	201 049
– Commission expenses	–2 582 291	–1 652 136	–930 155
Results from commission and service fee activities (Subtotal)	41 364 160	39 493 405	1 870 755
Results from trading operations	9 253 849	8 060 352	1 193 497
Other ordinary results:			
– Results from the sale of financial investments	94 486	13 986	80 500
– Other ordinary expenses	–302 637	0	–302 637
Other ordinary results (Subtotal)	–208 150	13 986	–222 136
Operating expenses:			
– Personnel expenses	–25 731 465	–23 738 397	–1 993 068
– Other operating expenses	–18 962 176	–18 894 985	–67 191
Operating expenses (Subtotal)	–44 693 642	–42 633 382	–2 060 260
Gross profit	19 820 239	18 743 725	1 076 514
Net consolidated income/loss			
Gross profit	19 820 239	18 743 725	1 076 514
Depreciation and write-offs on non-current assets	–5 469 568	–6 073 204	603 636
Valuation adjustments, provisions and losses	–2 891 587	–1 416 038	–1 475 549
Subtotal	11 459 085	11 254 483	204 602
Extraordinary income	2 763 437	2 035 580	727 857
Extraordinary expenses	–923 778	–34 655	–889 123
Taxes	–2 606 363	–499 610	–2 106 753
Net consolidated income/loss	10 692 380	12 755 798	–2 063 418

Statement of cash-flows – consolidated

(in 1000 Swiss Francs)

	2007		Preceding year	
	Source of funds	Application of funds	Source of funds	Application of funds
Cash-flow from operating results (internal sources)				
Net consolidated income	10 692	0	12 756	0
Depreciation and write-offs on non-current assets	5 470	0	6 074	0
Valuation adjustments and provisions	1 424	- 779	1 288	-104
Reserves for general banking risks	0	- 34	0	0
Accrued income and prepaid expenses	0	- 3 123	764	0
Accrued expenses and deferred income	2 197	0	0	-1 510
Balance	15 847	0	19 268	0
Cash-flow from investment activities				
Fixed assets	0	- 879	7	- 567
Intangible assets	0	- 3 063	0	- 389
Balance	0	- 3 942	0	- 949
Cash-flow from banking operations				
Medium and long-term operations (more than 1 year)				
– Due to banks	2 484	0	0	0
– Other liabilities	0	- 2 190	0	- 3 359
– Due from banks	0	0	0	0
– Due from customers	0	- 14 547	0	- 22 728
– Financial investments	2 561	0	0	- 28 056
Short-term operations				
– Due to banks	123 886	0	30 923	0
– Due to customers	0	- 1 305	0	- 66 336
– Due from money market instruments	0	0	5 261	0
– Due from banks	35 405	0	28 223	0
– Due from customers	0	- 88 201	42 944	0
– Securities and precious metal portfolios	5 558	0	20 951	0
– Other assets/liabilities	1 367	0	546	0
– Dividend payment		- 62 865		
Specific usage of valuation adjustments and provisions	0	- 20 173	0	- 29 341
Liquidity				
– Cash	6 115	0	2 653	0
Balance	- 11 905	0	- 18 319	0
Total	3 942	- 3 942	949	- 949

Notes to the Consolidated Financial Statements

Bank Leumi (Switzerland) Ltd

1. Comments on Business Activities

Introduction

Bank Leumi (Switzerland) Ltd 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 143.6 full time equivalents (2006: 122), of which 23 (2005: 28) 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 63% (2006: 64%) of the gross income before operating expenses. Interest-bearing activities amount to 22% (2006: 23%) and trading to 15% (2006: 13%) 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.

83% of the Bank's assets are held in Europe, North America and Israel (2006: 84%). No loans were classified as exposed to country risk during 2007.

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 implementation of the new SFBC circular 6/06 'Supervision and Internal Control'.

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 (Switzerland) Ltd 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:

	2007 Balance sheet rate	Preceding year Balance sheet rate
USD	1.1254	1.2207
EUR	1.6562	1.6097
GBP	2.2542	2.3891
CAD	1.1470	1.0464
AUD	0.9879	0.9612
JPY	1.0033	1.0245

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 (Switzerland) Ltd" 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 organized, 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 (Switzerland) Ltd 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 favor 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. 9 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 & 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	0	626 160	8 752	634 912
Total loans	0	626 160	8 752	634 912
Preceding year	600	504 648	26 916	532 164
Off-balance sheet transactions				
Contingent liabilities	0	100 016	138	100 154
Irrevocable acceptance	0	0	596	596
Total off-balance sheet transactions	0	100 016	734	100 750
Preceding year	0	122 161	1 315	123 476
	Gros debt amount	Assumed liquidation income of securities	Net debt amount	Individual provisions
Contested balances b)	6 252	765	5 487	16 584 b)
Preceding year	33 309	10 314	22 995	36 104

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

b) CHF 6.0 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)

	2007	Preceding year
Securities and precious metal trading portfolios		
– Debt securities		
– Exchange listed	1 610	2 193
– Unlisted	1 403	793
– Participation instruments	1 144	6 729
Total securities and precious metal trading portfolios	4 157	9 715
of which qualify as repos	0	0

	Book Value		Fair Value	
	2007	Preceding year	2007	Preceding year
Financial investments				
– Debt securities (“accrual method”)				
– Exchange listed	151 808	147 802	142 504	148 962
– Unlisted	18 191	24 281	16 111	24 196
– Participation instruments	5 706	6 282	5 706	6 282
– Premises 1)	3 544	3 445	3 544	3 445
Total financial investments	179 249	181 810	167 865	182 885
of which qualify as repos	151.8	147.8		

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

Main participations – consolidated

(in 1000 Swiss Francs)

Name of company, location	Business	2007		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	2007			
				Additions	Deductions	Write-offs/ Depre- ciation	Book value end of current year
Fixed assets							
– other fixed assets	31 482	– 30 038	1 444	879	0	748	1 575
Total fixed assets	31 482	– 30 038	1 444	879	0	748	1 575
Intangible assets							
– Other intangible assets	38 546	– 27 627	10 919	3 063	0	4 722	9 260
Total intangible assets	38 546	– 27 627	10 919	3 063	0	4 722	9 260
Fire insurance value of other fixed assets							13 334
Liabilities for future operation leasing rates							96

Other assets and liabilities – consolidated

(in 1000 Swiss Francs)

	2007		Preceding year	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement value of derivative instruments				
Own trading contracts				
– replacement value of client transactions	19 275	18 807	20 395	20 164
– replacement value of asset/liabilities management	477	1 824	578	1 700
<i>Total derivative instruments</i>	<i>19 752</i>	<i>20 631</i>	<i>20 973</i>	<i>21 864</i>
Equalization account	1 355	0	1 275	0
Indirect taxes	186	3 426	485	3 250
Transit account	0	856	0	546
Other assets and liabilities	522	389	1 093	285
Total	21 815	25 302	23 826	25 945

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

Assets pledged

(in 1000 Swiss Francs)

	2007		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 long term investments for lombard credit business	0	0	5 901	0
Long term investments as collateral for security clearing	32 025	0	23 629	0
Due from banks for derivative business	71 614	0	87 715	0
Total of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation	103 639	0	117 245	0

Loans- and pensions-business with securities

(in 1000 Swiss Francs)

	2007	Preceding year
Bookvalue of liabilities of cashdeposits in correlation with securities borrowing and reverse-repurchase business	72 000	56 000
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	71 614 71 614	55 162 55 162

As per December 31, 2007 no open securities lending and borrowing transactions on accounts as well as per preceding year

Liabilities to own pension plans – consolidated

(in 1000 Swiss Francs)

	2007	Preceding year
Pension Fund of Bank Leumi (Switzerland)	1 138	1 385

The Foundation of the “pension fund of Bank Leumi (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, 2006 the cover ratio of the capital necessary to provide occupational benefit plan was 107.0% (31.12.2004: 105.80%).

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.

On September 27, 2007 the Pension Fund Board decided to reorganize the provision of vocational pensions by Bank Leumi (Switzerland) Ltd.

As of January 1, 2008, the entire vocational pension scheme will be transferred to Valitas Sammelstritung BVG, Zurich. As this change is effective January 1, 2008, it has no impact on the above disclosures, nor any impact on the 2007 financial statements.

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

(in 1000 Swiss Francs)

		2007				
	Balance, end of preceding year	Specific usage	Recoveries, overdue interest, currency differences	New creation charged to income statement	Reversals credited to income statement	Balance end of current year
Reserves for deferred taxes	687	0	0	0	-9	678
Valuation adjustments and provisions for loan losses (credit and country risks)	36 104	-20 173	-653	1 424	-118	16 584 a)
Total valuation adjustments and provisions as per balance sheet	36 791	-20 173	-653	1 424	-127	17 262
Reserves for general banking risks	2 372	0	0	0	-34	2 338

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 shareholders with participations above 5 % of voting rights – consolidated

(in 1000 Swiss Francs)

	2007			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

	2007		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Significant shareholders of Bank Leumi (Switzerland)				
Bank Leumi le-Israel B.M., Tel Aviv	27 727	93.90 %	26 992	93.05 %

	2007		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)	48 839	19.78 % a)
Barnea Investments B.V.	40 863	5.00 % b)	40 863	5.00 % b)
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies	40 891	10.00 %	40 891	10.00 %
Otzar Hityashvut Hayehudin B.M.	0	0.00 %	20 732	5.07 %
Others	c)	c)	c)	c)

Rate CHF/ILS 0.2925 0.2892

a) On June 14, 2006, the State of Israel sold 2.85 % of its shares to employees of Bank Leumi le-Israel B.M. 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 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 24, 2007. The option was not exercised and expired on May 24, 2007. Barnea is required to sell 4.99 % of its shares within a year of May 24, 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	171 159
Reserves for general banking risks	2 372
Net consolidated profit	12 756

Total shareholders' equity at beginning of current year

219 287

(before profit distribution)

+ Capital increase/decrease	0
+ Premium over nominal value	0
+/- Other allocations to/from reserves	-34
- Dividends and other distributions of retained earnings brought forward	-62 866
+ Net consolidated income	10 692
+/- Currency differences	0

Total shareholders' equity, at end of current year

167 079

(before profit distribution)

<i>Thereof</i> Share capital paid-in	33 000
Retained earnings	121 049
Reserves for general banking risks	2 338
Net consolidated profit	10 692

The amount of not distributable retained earnings is CHF 41.5 million (2006: CHF 35.4 million).

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

(in 1000 Swiss Francs)

	At sight	Redeemable by notice	Within 3 months	Maturities Within 3 to 12 months	Within 1 to 5 years	After 5 years	Total
Current assets							
Cash	2 073	0	0	0	0	0	2 073
Due from banks	53 301	296	33 762	0	0	0	87 359
Due from customers	160 388	0	140 814	191 250	142 460	0	634 912
Securities and precious metal							
Trading portfolios	4 157	0	0	0	0	0	4 157
Total current assets	219 919	296	174 576	191 250	142 460	0	728 501
Preceding year	128 878	717	231 274	184 050	127 913	0	672 832
Financial investments	4 001	0	14 624	15 512	120 177	24 935	179 249
Preceding year	9 728	0	19 539	26 246	77 439	48 858	181 810
Borrowed funds							
Due to banks	84 591	0	315 828	158 995	2 484	0	561 898
Due to customers, other	167 505	0	575	1 683	0	0	169 763
Total borrowed funds	252 096	0	316 403	160 678	2 484	0	731 661
Preceding year	173 754	0	352 617	80 225	2 190	0	608 786

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)

	2007	Preceding year
Due from affiliated companies	37 425	43 001
Due to affiliated companies	116 263	43 597
Loans and exposures to the members of the bank's governing bodies	478	549

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 2007 a total of TCHF 14 had been paid and had been recorded under results from trading operations as well as commission on income on securities and investment transactions.

During 2007, the major shareholder of the Bank, Bank Leumi le-Israel B.M, granted the Bank a subordinated note in the amount of CHF 50 million, which qualifies as tier 2 capital. This loan pays interest semiannually based on LIBOR plus a fixed margin.

In December 2007, the Bank issued a loan to a client of EUR 47 million. Subject to a master participation agreement Bank Leumi le-Israel B.M. participated with a stake of 100% in this loan. As per December 31, 2007, the loan from client, and the payable due to a affiliated company, relating this transaction are recorded in the Bank's balance sheet.

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)

	2007		Preceding year	
	Domestic	Foreign	Domestic	Foreign
Assets				
Cash	2 073	0	8 189	0
Due from banks	17 063	70 296	30 898	91 866
Due from customers	88 222	546 690	36 844	495 320
Securities trading portfolios	664	3 493	0	9 715
Financial investments	56 417	122 832	89 093	92 717
Participations	1 575	0	1 444	0
Fixed assets	9 260	0	10 919	0
Accrued income and prepaid expenses	4 883	10 244	4 591	7 413
Other assets	17 347	4 468	18 576	5 250
Total assets	197 505	758 023	200 554	702 280
Liabilities and shareholders' equity				
Due to banks	89 468	472 430	68 424	367 104
Due to customers, other	22 637	147 126	32 051	141 207
Accrued expenses and deferred income	7 776	6 447	7 342	4 684
Other liabilities	20 209	5 093	20 514	5 432
Valuation adjustments and provisions	17 262	0	26 962	9 829
Reserves for general banking risks	2 338	0	2 372	0
Share capital	33 000	0	33 000	0
Retained earnings	121 049	0	171 159	0
Net consolidated income/loss	10 692	0	12 756	0
Total liabilities and shareholders' equity	324 431	631 097	374 579	528 255

Assets by countries/country groups – consolidated

(in 1000 Swiss Francs)

	2007		Preceding year	
	Total	in %	Total	in %
Europe				
– Switzerland	164 588	18 %	166 527	19 %
– Liechtenstein	1 323	0 %	1 982	0 %
– Belgium	4 995	1 %	34 262	4 %
– Germany	193 375	21 %	192 572	23 %
– United Kingdom	37 878	4 %	18 449	2 %
– France	18 668	2 %	17 619	2 %
– Ireland	7 495	1 %	5 287	1 %
– Netherland	4 515	0 %	3 037	0 %
– Monaco	9 173	1 %	7 668	1 %
– Luxemburg	8 683	1 %	10 354	1 %
– Austria	6 612	1 %	6 974	1 %
– Italy	6 625	1 %	468	0 %
– Norway	6 006	1 %	220	0 %
– Romania	2 334	0 %	2 045	0 %
– Other countries	7 505	1 %	7 853	1 %
	479 775	53 %	475 317	55 %
Israel	148 763	16 %	150 039	18 %
North America				
– United States	94 227	10 %	66 674	8 %
– Canada	22 780	3 %	22 147	3 %
	117 007	13 %	88 821	11 %
Latin America				
– Belize	50 127	6 %	41 507	5 %
– Panama	16 489	2 %	29 939	4 %
– Brazil	9 728	1 %	9 706	1 %
– Other countries	1 495	0 %	1 067	0 %
	77 839	9 %	82 219	10 %
Africa	1 763	0 %	2 306	0 %
Caribbean				
– Virgin Islands (BR)	69 268	8 %	38 460	5 %
– Neth. Antilles	2 815	0 %	610	0 %
– Cayman Islands	5 037	1 %	12 638	1 %
– Other countries	266	0 %	456	0 %
	77 386	9 %	52 164	6 %
Asia/Oceania	2 719	0 %	1 622	0 %
Australia and New Zealand	2 498	0 %	1 687	0 %
Total receivables/securities	907 750	100 %	854 175	100 %

Balance sheet by currencies – consolidated

(in 1000 Swiss Francs)

	Currencies					Total
	CHF	EUR	USD	JPY	Other	
Assets						
Cash	470	976	239	0	388	2 073
Due from banks	18 579	1 748	61 154	1 106	4 772	87 359
Due from customers	274 149	126 845	156 959	63 629	13 330	634 912
Securities and precious metal trading portfolios	664	910	2 274	0	309	4 157
Financial investments	137 529	27 322	14 399	0	0	179 250
Fixed assets	1 575	0	0	0	0	1 575
Intangible assets	9 260	0	0	0	0	9 260
Accrued income and prepaid expenses	8 940	2 026	3 698	357	106	15 127
Other assets	20 777	517	182	339	0	21 815
Total on-balance assets	471 943	160 344	238 905	65 431	18 905	955 528
Due from FX-spot, – Forward and – option transactions	32 368	178 997	214 736	85 741	169 432	681 273
Total assets	504 311	339 341	453 641	151 172	188 337	1 636 801
Liabilities and shareholders' equity						
Due to banks	249 128	130 134	130 861	51 341	434	561 898
Due to customers, other	27 361	27 466	79 787	21 829	13 320	169 763
Accrued expenses and deferred income	9 800	1 225	2 957	239	2	14 223
Other liabilities	25 207	0	0	0	95	25 302
Valuation adjustments and provisions	841	0	10 488	0	5 933	17 262
Reserves for general banking risks	2 338	0	0	0	0	2 338
Share capital	33 000	0	0	0	0	33 000
Retained earnings	121 049	0	0	0	0	121 049
Net consolidated profit	10 692	0	0	0	0	10 692
Total liabilities and shareholders' equity	479 416	158 826	224 093	73 409	19 784	955 528
Due from FX-spot, – Forward and – option transactions	27 791	179 561	228 756	76 963	168 202	681 273
Total liabilities	507 207	338 387	452 849	150 372	187 986	1 636 801
Net position per currency	– 2 896	953	791	800	352	0

4. Information on off-balance sheet transactions

Analysis of contingent liabilities – consolidated

(in 1000 Swiss Francs)

	2007	Preceding year	Changes
Contingent liabilities			
– Credit guarantees and similar	100 154	122 470	– 22 316
Total contingent liabilities	100 154	122 470	– 22 316

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	3 635	3 635	204 308	477	1 824	228 330
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Foreign exchange						
Forward contracts	11 624	11 156	694 227	0	0	0
Options (OTC)	4 016	4 016	564 587	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	112	0	0	0
Others						
Futures	0	0	0	0	0	0
Total	19 275	18 807	1 463 234	477	1 824	228 330
Preceding year	20 395	20 164	1 715 913	578	1 700	273 319
2007						
Preceding year						
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Analysis by counterparties						
Banks and derivative exchanges	8 974	11 249	897 393	9 403	13 388	1 143 578
Customers	10 778	9 382	794 171	11 570	8 476	845 654
Total	19 752	20 631	1 691 564	20 973	21 864	1 989 232
Analysis by remaining life						
Up to 3 months	7 926	7 660	707 663	11 164	10 994	1 424 508
Over 3 months to 1 year	7 768	7 557	606 119	4 991	5 217	319 044
Over 1 year to 5 years	3 664	5 020	195 982	484	1 319	179 588
Over 5 years	394	394	181 800	4 334	4 334	66 092
Total	19 752	20 631	1 691 564	20 973	21 864	1 989 232

Analysis of fiduciary transactions – consolidated

(in 1000 Swiss Francs)

	2007	Preceding year	Changes
Fiduciary transactions			
– Fiduciary placements with third party banks	1 833 573	1 467 075	366 498
– Fiduciary placements with banks of the group	27 061	94 726	– 67 665
– Fiduciary credits	39 952	42 925	– 2 973
Total fiduciary transactions	1 900 586	1 604 726	295 860

Assets under Management – consolidated

(in Mio. Swiss Francs)

	2007	Preceding year
Assets under management:		
Assets in own managed collective financial instruments	19	126
Assets in managed accounts	693	776
Other assets under management	5 864	5 627
Total clients assets (incl. double-counted amounts)	6 576	6 529
thereof double-counted amounts	19	126
net balance of assets inflow-outflow	145	– 32

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 did not 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)

	2007	Preceding year	Changes
Results from trading operations			
– Foreign exchange and other business segments	5 371	5 285	86
– Securities	951	806	145
– Income structured product activities	2 932	1 969	963
Total results from trading operations	9 254	8 060	1 194

Analysis of personnel expenses – consolidated

(in 1000 Swiss Francs)

	2007	Preceding year	Changes
Personnel expenses			
– Remuneration and fees for Board of Directors	375	300	75
– Salaries	19 894	18 381	1 513
– Contributions to AHV and unemployment insurance	1 216	1 134	82
– Contributions to social benefits	1 236	1 489	–253
– Other personnel expenses	3 010	2 434	576
Total personnel expenses	25 731	23 738	1 993

Analysis of other operating expenses – consolidated

(in 1000 Swiss Francs)

	2007	Preceding year	Changes
Other operating expenses			
– Occupancy expense	3 131	2 763	368
– Expenses for electronic data processing, machinery, furniture, vehicles and leasehold improvements	5 561	5 794	–233
– Expenses for electronically communication	2 873	2 939	–66
– Other operating expenses	7 397	7 399	–2
Total other operating expenses	18 962	18 895	67

Tax expenses – consolidated

(in 1000 Swiss Francs)

	2007	Preceding year	Changes
– Release/Creation of provision for deferred taxes	–9	0	–9
– Current tax expenses	2 615	500	2 115
Total tax expenses	2 606	500	2 106

Tax expenses are for both capital taxes and income taxes. The 2007 tax expense has been impacted by the utilization of the remaining loss carry-forwards of approximately CHF 1.5 million. As per December 31, 2007 there are no 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 2.80 million which is mainly due to the following items:

A Value Added Tax reimbursement from the Swiss Federal Tax Authorities of CHF 0.4 million following a reduction by the Bank of the “Vorsteuer-Pauschale”, CHF 0.2 million resulting from sale of financial investments which had been written off, and CHF 1.8 million was contributed from accruals and provisions no longer required by the Bank.

For the year under review extraordinary expenses amounted to CHF 0.9 million which is mainly due to the write-off of prepaid expenses and other assets accrual from prior periods.

6. Sundries

Information regarding market risks in the trading book – consolidated

(12 months average in 1000 Swiss Francs)

	2007	Preceding year	Changes
Debt instruments including derivatives	4 115	6 869	– 2 754
Participation certificates including derivatives	773	1 197	– 424
Foreign currency positions including derivatives	3 507	11 978	– 8 471
Precious metal positions including derivatives	256	296	– 40

Report of the group auditors
to the general meeting of
Bank Leumi (Switzerland) Ltd
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 6 to 29) of Bank Leumi (Switzerland) Ltd for the year ended 31 December 2007.

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, 19 March 2008

1. Balance sheet – Bank

(in Swiss Francs)

	Dec. 31, 2007	Preceding year	Changes
Assets			
Cash	2 073 495	8 189 019	-6 115 524
Due from banks	86 283 141	121 984 817	-35 701 676
Due from customers	634 912 164	532 164 418	102 747 746
Securities trading portfolios	3 985 626	9 560 386	-5 574 760
Financial investments	179 248 916	181 809 759	-2 560 843
Participations	220 000	220 000	0
Fixed assets	10 835 332	12 362 456	-1 527 124
Accrued income and prepaid expenses	15 058 350	11 817 272	3 241 078
Other assets	21 811 131	23 817 770	-2 006 639
Total assets	954 428 155	901 925 897	52 502 258
Total subordinated claims	1 357 168	1 035 428	321 740
Total due from group entities and significant shareholders	5 209 392	4 659	5 204 733
Liabilities and shareholders' equity			
Due to banks	561 898 181	435 527 818	126 370 363
Due to customers, other	170 819 222	174 331 942	-3 512 720
Accrued expenses and deferred income	14 192 404	11 907 085	2 285 319
Other liabilities	25 259 149	25 932 994	-673 845
Valuation adjustments and provisions	19 600 670	39 162 482	-19 561 812
Share capital	33 000 000	33 000 000	0
General legal reserve	41 516 500	35 395 000	6 121 500
Other reserves	77 670 000	134 180 000	-56 510 000
Retained earnings brought forward	12 076	1 680	10 396
Net income/loss	10 459 953	12 486 896	-2 026 943
Total liabilities and shareholders' equity	954 428 155	901 925 897	52 502 258
Total subordinated liabilities	50 000 000	0	50 000 000
Total due to group entities and significant shareholders	296 290 435	130 506 573	165 783 861
Off-balance sheet transactions			
Contingent liabilities	100 153 524	122 469 618	-22 316 094
Irrevocable acceptance	596 000	1 006 000	-410 000
Derivative instruments – Contract volume	1 691 564 153	1 989 231 515	-297 667 362
– Positive replacement value	19 752 107	20 973 362	-1 221 255
– Negative replacement value	20 630 770	21 863 815	-1 233 045
Fiduciary transactions	1 900 586 125	1 604 726 488	295 859 638

2. Income statement – Bank

(in Swiss Francs)

	2007	Preceding year	Changes
Revenues and expenses from ordinary banking activities			
Results from interest activities:			
– Interest and discount income	40 687 360	29 153 024	11 534 336
– Interest and dividend income on trading portfolios	502 677	324 385	178 292
– Interest and dividend income on financial investments	5 415 037	5 804 580	–389 543
– Interest expenses	–32 524 854	–21 484 331	–11 040 523
Net interest income (Subtotal)	14 080 220	13 797 658	282 562
Results from commission and service fee activities:			
– Commission income on lending activities	630 354	778 661	–148 307
– Commission income on securities and investment transactions	40 353 320	37 486 611	2 866 709
– Commission income on other services	2 489 991	2 288 259	201 732
– Commission expenses	–2 720 240	–1 815 136	–905 104
Results from commission and service fee activities (Subtotal)	40 753 425	38 738 395	2 015 030
Results from trading operations	9 237 263	8 066 556	1 170 707
Other ordinary results			
– Results from the sale of financial investments	94 486	13 986	80 500
– Other ordinary expenses	–302 637	0	–302 637
Other ordinary results (Subtotal)	–208 150	13 986	–222 136
Operating expenses:			
– Personnel expenses	–25 478 483	–23 433 206	–2 045 277
– Other operating expenses	–18 803 590	–18 711 200	–92 390
Operating expenses (Subtotal)	–44 282 073	–42 144 406	–2 137 667
Gross profit	19 580 685	18 472 189	1 108 495
Net income/loss			
Gross profit	19 580 685	18 472 189	1 108 495
Depreciation and write-offs on non-current assets	–5 469 568	–6 070 561	600 993
Valuation adjustments, provisions and losses	–2 891 587	–1 416 038	–1 475 549
Subtotal	11 219 530	10 985 590	233 940
Extraordinary income	2 763 437	2 032 034	731 403
Extraordinary expenses	–911 578	–34 655	–876 923
Taxes	–2 611 436	–496 073	–2 115 363
Net income/loss	10 459 953	12 486 896	–2 026 943

	2007	Preceding year	Changes
Allocation of retained earnings			
Net income/loss	10 459 953	12 486 896	- 2 026 943
Retained earnings brought forward	12 076	1 680	10 396
	10 472 029	12 488 576	- 2 016 547
Allocation of retained profit/loss			
Allocation to general legal reserve	0	- 6 121 500	6 121 500
Release of other reserves	0	56 510 000	- 56 510 000
Ordinary dividends 39 %	0	- 12 870 000	12 870 000
Extraordinary dividends 151.5 %	0	- 49 995 000	49 995 000
	10 472 029	12 076	10 459 953

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, 2007, the Bank employed 143.6 Full Time Equivalents (2006: 122), of whom 23 (2006: 28) 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)

	2007		Preceding year	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement value of derivative instruments				
Own trading contracts				
– replacement value of customer transactions	19 275	18 807	20 395	20 164
– replacement value of asset/liabilities management	477	1 824	578	1 700
<i>Total derivative instruments</i>	<i>19 752</i>	<i>20 631</i>	<i>20 973</i>	<i>21 864</i>
Equalization account	1 355	0	1 275	0
Indirect taxes	182	3 415	478	3 250
Transit account	0	856	0	534
Other assets and liabilities	522	357	1 092	285
Total	21 811	25 259	23 818	25 933

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

Assets pledged

(in 1000 Swiss Francs)

	2007		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 long term investments for lombard credit business	0	0	5 901	0
Long term investments as collateral for security clearing	32 025	0	23 629	0
Due from banks for derivative business	71 614	0	87 715	0
Total of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation	103 639	0	117 245	0

Loans- and pensions-business with securities

(in 1000 Swiss Francs)

	2007	Preceding year
Book value of liabilities of cash deposits in correlation with securities borrowing and reverse-repurchase business	72 000	56 000
Book value of securities lending borrowed or in securities borrowing as collateral delivered as well as for repurchase transactions transferred securities in own possession	71 614	55 162
thereof unlimited right for sale or pledge allowed	71 614	55 162

As per December 31, 2007 no open securities lending and borrowing transactions on accounts as well as per preceding year.

Liabilities to own pension plans – Bank

(in 1000 Swiss Francs)

	2007	Preceding year
Pension Fund of Bank Leumi (Switzerland)	1 138	1 385

The Foundation of the “pension fund of Bank Leumi (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, 2006 the cover ratio of the capital necessary to provide occupational benefit plan was 107.0 % (31.12.2005: 105.8 %).

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.

On September 27th 2007, the Pension Fund Board decided to reorganize the provision of vocational pensions by Bank Leumi (Switzerland) Ltd. As of January 1st 2008, the entire vocation pension scheme will be transferred to Valitas Sammelstritung BVG, Zurich. As this change is effective January 1st 2008, it has no impact on the above disclosures, nor any impact on the 2007 financial statements.

Valuation adjustments and provisions – Bank

(in 1000 Swiss Francs)

	Balance, end of preceding year	2007			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)	36 103	- 20 173	- 651	1 424	- 118	16 585 a)
Other provisions	3 059	0	0	0	- 43	3 016
Total valuation adjustments and provisions as per balance sheet	39 162	- 20 173	- 651	1 424	- 161	19 601

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 shareholders with participations above 5 % of voting rights – Bank

(in 1000 Swiss Francs)

	2007			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 (Switzerland)

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

	2007		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
Bank Leumi le-Israel B.M., Tel Aviv	27 727	93.90 %	26 992	93.05 %

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

	2007		Preceding year	
	Nominal value	Voting rights in %	Nominal value	Voting rights in %
State of Israel	48 839	19.78 % a)	48 839	19.78 % a)
Barnea Investments B.V.	40 863	5.00 % b)	40 863	5.00 % b)
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies	40 891	10.00 %	40 891	10.00 %
Otzar Hityashvut Hayehudin B.M.	0	0.00 %	20 732	5.07 %
Others	c)	c)	c)	c)

Rate CHF/ILS 0.2925 0.2892

a) On June 14, 2006, the State of Israel sold 2.85 % of its shares to employees of Bank Leumi le-Israel B.M. 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 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. The option was not exercised and expired on May 24th 2007. Barnea is required to sell 4.99 % of its shares within a year of May 24, 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	134 180
Accumulated profit	12 489

Total shareholders' equity at beginning of current year

(before profit distribution) **215 064**

+ Capital increase/decrease	0
+ Premium over nominal value	0
+/- Other allocations to/from reserves	0
- Dividends and other distributions of retained earnings brought forward	-62 865
+ Net profit	10 460

Total shareholders' equity, at end of current year

(before profit distribution) **162 659**

<i>Thereof</i> Share capital paid-in	33 000
General legal reserve	41 517
Other reserves	77 670
Accumulated profit	10 472

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)

	2007	Preceding year
Due from affiliated companies	37 425	43 001
Due to affiliated companies	116 263	43 597
Loans and exposures to the members of the bank's governing bodies	478	549

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 2007 an total of TCHF 14 had been paid and had been recorded under results from trading operations as well as commission on income on securities and investment transactions.

During 2007, the major shareholder of the Bank, Bank Leumi le-Israel B.M, granted the Bank a subordinated note in the amount of CHF 50 million, which qualifies as tier 2 capital. This loan pays interest semiannually based on LIBOR plus a fixed margin.

In December 2007, the Bank issued a loan to a client of EUR 47 million. Subject to a master participation agreement Bank Leumi le-Israel B.M. participated with a stake of 100 % in this loan. As per December 31st, 2007, the loan from client, and the payable due to a affiliated company, relating this transaction are recorded in the Bank's balance sheet.

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)

	2007	Preceding year	Changes
Fiduciary transactions			
– Fiduciary placements with third party banks	1 833 573	1 467 075	366 498
– Fiduciary placements with banks of the group	27 061	94 726	– 67 665
– Fiduciary credits	39 952	42 925	– 2 973
Total fiduciary transactions	1 900 586	1 604 726	295 860

Assets under Management – Bank

(in Mio. Swiss Francs)

	2007	Preceding year
Assets under management:		
Assets in own managed collective financial instruments	19	126
Assets in managed accounts	693	776
Other assets under management	5 864	5 627
Total clients assets (incl. double-counted amounts)	6 576	6 529
thereof double-counted amounts	19	126
net balance of assets inflow-outflow	145	– 32

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)

	2007	Preceding year	Changes
Results from trading operations			
– Foreign exchange and other business segments	5 371	5 291	80
– Securities	934	576	358
– Income structured product activities	2 932	2 200	732
Total results from trading operations	9 237	8 067	1 170

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 2.80 million which is mainly due to the following items:

A Value Added Tax reimbursement from the Swiss Federal Tax Authorities of CHF 0.4 million following a reduction by the Bank of the "Vorsteuer-Pauschale", CHF 0.2 million resulting from sale of financial investments which had been written off, and CHF 1.8 million was contributed from accruals and provisions no longer required by the Bank.

For the year under review extraordinary expenses amounted to CHF 0.9 million which is mainly due to the write-off prepaid expenses and other assets accrual from prior periods.

6. Sundries

Informations regarding market risks in the trading book – Bank

(12 months average in 1000 Swiss Francs)

	2007	Preceding year	Changes
Debt instruments including derivatives	4 115	6 869	– 2 754
Participation certificates including derivatives	601	1 042	– 441
Foreign currency positions including derivatives	3 507	11 978	– 8 471
Precious metal positions including derivatives	256	296	– 40

Report of the statutory auditors
to the general meeting of
Bank (Switzerland) Ltd
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 (Switzerland) Ltd for the year ended 31 December 2007.

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, 19 March 2008

The Israeli Economy in 2007

The Israeli economy has grown rapidly over the past few years, at a rate of over 5% per year with 5.3% GDP growth in 2007. The composition of growth over the last few years has been encouraging since it has been made up of both export growth and domestic demand. The unemployment rate accordingly dropped to 7.3% in the third quarter of 2007, reflecting an increase of about 4.9% in the number of employed in the third quarter of 2007 compared to the same period in 2006.

The shockwaves in the US mortgage market have not been reflected in the real estate market in Israel to date. Israel's resilience in this area is due to the substantial differences in the structure of its property and mortgage markets and to the institutional arrangements in Israel compared to the US. The main differences are the comparatively low degree of dependence of Israeli households in mortgage loans as a source of funding ongoing household expenditure; the high savings rate in Israel; the considerable assessment done on Israeli borrowers' ability to repay mortgage loans prior to these loans being granted; the fact that housing starts in Israel have been very moderate in recent years.

Fiscal performance in 2007 was good and the state budget was balanced throughout 2007 despite the projected deficit of 18.7 billion shekels (2.9% of GDP) for the whole of 2007. This development, together with the privatization of the Haifa Refineries, had a positive impact on the capital markets in 2007, especially on the debentures market due to the fact that the government greatly eased the pressures on this market since it was not required to issue substantial numbers of debentures to finance budget deficits.

As a result of the ongoing improvement in the state of the Israeli economy, the country's credit rating was increased by Standard & Poor's credit rating agency. At the end of November 2007, Standard & Poor's announced that it was raising the long-term foreign currency credit rating for the State of Israel from A minus to A and indicated that the rating forecast was "positive".

The shekel appreciated by 7% against the US dollar during 2007. The appreciation of the shekel first and foremost reflects the weakness of the dollar on global markets. The strengthening of the shekel has been underpinned in recent years by foreign investment in Israel from abroad and by excellent export performance.

Despite the 7% appreciation of the shekel against the US dollar in 2007, the Bank of Israel has not met the price stability goal and the inflation rate in 2007 rose above 3%. The 3.4% inflation rate in 2007 is a result of supply-side price increases, especially the substantial price rise in the cost of energy as well as increases in the price of other raw materials worldwide that affect the various items in the RPI basket. The ability to absorb these increases reflects the strength of demand in the economy.

In 2007, the Tel-Aviv Stock Exchange TA-25 index of blue-chip shares rose by 31%, whereas the TA-75 index of second-tier stocks rose by only 7.7%. This is because property shares, which are heavily represented in the TA-75 index, registered only a moderate increase of 4.8% during the year. Bank shares were also relatively weak in 2007 as their share prices increased by only 7.5% throughout the year. The poorest performing sector of 2007 was the technology sector, which registered a sharp decline in the fourth quarter that consequently led the sector to register a 3.5% decline for the entire year. By contrast, the best performing sector in the local stock market in 2007 was the chemical sector, which showed a consistent upward trend throughout the year, reflecting the sharp rise in the prices of chemical products around the world – and agricultural chemicals in particular. The chemical sector consequently registered an impressive increase of 53.3% in 2007.

In summary, it may be said that the main factors that adversely affected the local stock market in 2007 were the high volatility in world stock markets triggered by the sub-prime crisis in the US and the turnaround in Israel's interest rates from a downward trend in the first half of the year to an upward trend in the second half. These developments created difficulties for the local stock market, as they did for other stock markets around the world in the second half of 2007. Nevertheless, most Israeli stock indices finished the year with a positive return, which reflects the continuing strength of the local market, and this trend is supported by positive macroeconomic data.

Bank Leumi Group

Bank Leumi At Your Service Worldwide

With a tradition of sound, professional banking expertise, based on over 100 years of solid performance, Leumi is Israel's leading financial group.

The strength of Leumi is represented by an international network, comprising 83 branches, subsidiaries and representative offices strategically located in 21 countries throughout the world, in addition to 235 branches in Israel.

No matter where you are, whether in Israel or abroad, Leumi is always at your service.

ISRAEL

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Fax: 1-305-702-3502
Full Service Commercial Branch

Cayman Islands

Grand Cayman

British West Indies
c/o Bank Leumi USA
International Customer Service
564 Fifth Avenue
New York, NY 10036
Tel.: 1-212-626-1001
Fax: 1-212-626-1009
Limited Service/Specialized
Banking

Bank Leumi le-Israel B.M.

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c/o New York Regional Office
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New York, NY 10036
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Administration Management

CANADA

ONTARIO

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Toronto, Ontario M2N 6L7
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Fax: 1-416-594-0801
Representative Office

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1 Westmount Square, Suite 400
Montreal, Quebec H3Z 2P9
Tel.: 1-514-931-4457
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Representative Office

Bank Leumi le-Israel B.M. Financial Companies

CAYMAN ISLANDS

George Town Branch
British West Indies
Limited Service/Specialized
Banking

CURAÇAO

Leumi International Investments
N.V.
Financial Company

Mailing Address for Cayman Islands and Curaçao:

c/o Bank Leumi (Luxembourg)
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Montevideo

Edificio World Trade Center
Luis A. de Herrera 1248, Torre A
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Full Service Commercial Bank

Punta del Este

Avenida Gorlero, Calle 28
Edif. Torre de las Americas
Local 006, **Punta del Este**
Tel.: 598-42-44303
Fax: 598-42-44492
Full Service Commercial Branch

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Calle Manuel Maria Icaza No. 10
Edificio Grobman
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Panama City, Rep. de Panama
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Representative Office

Sao Paulo – Rep. Office closed as of 31.12. 2007

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Full Service Commercial Bank/
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Commercial Lending Services
Website: www.leumiabl.com

Channel Islands Subsidiaries

Bank Leumi (Jersey) Limited
P.O. Box 510, 27 Hill Street
St. Helier, Jersey JE4 5TR
Channel Islands
Tel.: 44-1534-702-525
Fax: 44-1534-617-446
Specialized International Private
Banking
Website: www.leumijersey.com

Leumi Overseas Trust
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Banking

Leumi Switzerland Representative Office in Hungary

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Tauentzienstrasse 7 b/c
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Representative Office

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Bank Leumi (Switzerland)