

Bank Leumi (Switzerland) Ltd

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Zurich, Claridenstrasse 34

Branch:

Geneva, 80, rue du Rhône

Annual Report 2008
to be presented by the
Board of Directors to the
Annual General Meeting
of Shareholders of
Bank Leumi (Switzerland) Ltd
on April 21, 2009

Board of Directors

Mrs. Galia Maor, Chairperson	Tel Aviv
Dr. Alain B. Lévy*, Deputy Chairman	Geneva
Dr. Marco Lanzi**	Weisslingen
Dr. Michel Haymann*	Zurich
Mr. Zvi Itskovitch**	Tel Aviv
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. Amnon Zaidenberg

**Management and
Members of
Management
Committee**

Mrs. Ursula Brunner-Egli	Executive Vice President
Mr. Michael Ganz	Executive Vice President
Mr. Paul Hazan	Executive Vice President
Mr. Marcos Wolman	Senior Vice President

Geneva Branch

Yossi Reuven***	First Vice President
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***) Ad interim Branch Manager

Auditors

PricewaterhouseCoopers AG	Zurich
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Annual Report 2008

The financial year 2008 under review

The year 2008 was a year of such extraordinary events that it will surely be discussed and remembered for decades to come. The striking events of 2008 and the resulting financial crisis have been referred to as once-in-a-century events and each day the effects on the non-financial markets and economies becomes more visible with almost daily reports of massive layoffs and other signs of economic weakness.

At the end of 2007, problems on the American mortgage market became apparent and liquidity and the functioning of inter-bank market were seriously disrupted. In February and March 2008, partly due to the above factors, Northern Rock was nationalised and Bear Stearns had to be rescued. The effect of these events could be considered local, as Northern Rock was a regional UK mortgage lender and Bear Stearns was a US Investment bank.

Other events were also generating interest. The commodity markets were soaring to extreme levels. In early July 2008, crude oil rose to a new record US\$ 147, which fuelled concerns about inflation. At this time discussions of a bubble in commodity prices were widespread and analysts were projecting target prices of up to US\$ 200 for Oil.

After these dramatic events in the first half-year of 2008, it could have been expected that the second half would be quieter. In reality the events from September to December 2008 were truly unimaginable.

In September the bankruptcy of Lehman Brothers, a further US Investment bank, was the impetus and in the weeks and months following this event the repercussions spread around the world. With the takeovers of Merrill Lynch and Morgan Stanley as well as the transformation of Goldman Sachs and Morgan Stanley to become Bank holding companies, the flag ships of US Investment banking had virtually disappeared from the scene within just a few months. To name a few more of the notable events; bankruptcy and nationalization of the Icelandic banking industry, rescue of AIG by the US Regulators, bankruptcy of Washington Mutual, division and nationalization of Fortis by the Benelux Countries. Numerous additional Banking Groups received funding, support and guarantees from their respective governments. Also Switzerland felt the crisis quite heavily. UBS –

after very successful years – paid a hefty price for having entered the US Investment banking market quite aggressively; toxic assets had to be taken over by the Swiss National Bank and the Swiss Government supported it with a capital injection.

Confidence in the banking system was shaken and the stability and soundness of almost all banks in the world was and is still being questioned by investors and depositors. Accompanying the extreme events described above, prices of almost all asset classes fell dramatically. Falling markets, “fear” selling and low liquidity created a self-feeding circle, causing prices to fall even more. The credit crunch, and resulting forced deleveraging by investors and hedge funds added additional pressure on the markets as the required selling of assets in markets with limited liquidity added to the downward pressure on asset prices.

The fund and hedge fund industry was in focus as a number of hedge funds had extreme liquidity and performance issues and had to be wound up or closed with extensive losses for investors.

At the end of 2008, one final shock was delivered when Bernard Madoff had to inform that he had been running a “Ponzi” scheme which ultimately amounted to US\$ 50 billion.

Hardly any bank has been untouched by the above events. In this “annus horribilis” banks actually have to be quite satisfied to come out with a positive result. Bank Leumi (Switzerland) is happy to be among them. We are able to show a profit after tax of 3.5 Million CHF in 2008. The results were impacted by the dramatic market developments, notably by three main factors: first by a drop in fee income due to decrease in assets under management (because of declining asset values), secondly because of write-downs in the Nostro portfolio, and finally because of lower income caused by the low US\$ / Swiss franc exchange rate for 2008. Bank Leumi (Switzerland) remains well capitalized.

Key economic figures 2008 in major economies

Countries	Real GDP growth	CPI growth	Unemployment Rate	Central Bank Rate
US	1.3%*	3.9%	7.2%	0–0.25%
UK	0.7%*	3.6%	6.3%	1.50%
Euro Zone	0.9%*	3.3%	8.0%	2.00%
Switzerland	1.8%*	2.4%	2.8%	0.50%
Japan	– 0.4%*	1.4%	4.4%*	0.10%

* estimated

Fixed income markets

The credit crunch and a sharply deteriorating economic outlook forced the Federal Reserve to cut interest rates to unprecedented low levels. The 2-yr Treasury yields followed this trend downwards, reaching its cycle low of 0.6 % mid December. The increased use of unorthodox monetary measures and the eagerness of investors to simply preserve capital also put enormous pressure on the 10-yr Treasury yield, which plunged close to 2 % in the final month of last year. The plunge in yield resulted in a surge in price, creating a positive performance in Treasuries which could not be achieved by investing in corporate bonds. Low quality corporate bond spreads particularly suffered from the crisis, widening by more than 45 % since the beginning of the year.

Currency markets

Despite unprecedented benchmark interest rate cuts, the USD strengthened against most currencies. The EURUSD benefited in the earlier part of the year from the view of the ECB that inflationary pressures would remain a problem in the Euro zone and that emerging markets could temper an economic slowdown. Once this thesis proved wrong, the EUR plunged from 1.60 in July to 1.23 in October. The hesitancy of the ECB to follow quantitative easing and some optimism in respect to the US stimulus package, which implies less demand for US Treasuries, led to a EURUSD rally in the final weeks of the year. The JPY highlighted that a vigorous currency is not necessarily indicative of a strong economy. The JPY is considered a safe haven in times of uncertainty. Additionally, the relatively low exposure of Japanese banks to toxic assets and Japanese investors repatriating capital supported the currency. Another currency enjoying the status as a safe haven was the CHF, which jumped from 1.00 in July to 1.23 in November. Some increased risk taking and the notion that Switzerland could not avoid a recession led to the subsequent weakness in the final weeks of the year.

Highlights of the Bank's activity

Bank Leumi (Switzerland) Ltd (the Bank) achieved a net income after tax of CHF 3.5 million in spite of the very challenging market conditions.

Business Results

During 2008, clients' assets decreased dramatically to CHF 5.3 billion compared with CHF 6.6 billion in 2007. The Bank managed to attract net new money of CHF 122 million in 2008. The decrease in client assets was caused by two main factors. A significant percentage of our client assets are in US\$ and as per the end of 2008 the US\$ closed as 1.063 versus 1.1254 at the end of 2007. The decrease in market prices across most asset classes resulted in a significant drop in client assets under management.

For the accompanying financial results, the results of the two fully owned subsidiaries are not included, and no consolidated reports are included. Leumi Fund Holding (Lux) S.A., Luxembourg is in the process of being shut down and this process should be completed in the first quarter of 2009. Leumi Asset Management (Switzerland) Ltd's activities were integrated into the Bank at the beginning of 2008, and there were no material operating activities in this entity during 2008.

Total income decreased to CHF 59.2 million (2007: CHF 64.1 million). Gross profits fell to CHF 11.1 million, compared to CHF 19.6 million for 2007. Net income after tax for 2008 amounted to CHF 3.5 million only, compared to CHF 10.5 million in 2007.

Total commission income for the year was lower at CHF 37.5 million (2007: CHF 40.7 million). This drop can be attributed to two main factors, a decline in stock exchange commissions due to lower trading by clients in the volatile and declining markets, and a decrease in fees earned due to the reduced value of client assets.

Trading income of CHF 7.6 (2007: CHF 9.2) was impacted by write-downs and losses on holdings in the nostro portfolio, particularly CHF 7.7 million "other ordinary expenses", which relates primarily to the write-down of a holding in Lehman Brothers Bonds.

In 2008, the credit portfolio contracted significantly to CHF 549 million (2007: 635 million). Deleveraging by clients who became more risk adverse and the strength of the CHF versus other major currencies contributed to the reduction in the credit portfolio from 2007 to 2008.

Net interest income remained constant CHF 14.1 million (2007: CHF 14.1 million) as the major interest rates remained stable for the first half of 2008; they decreased in late 2008 only.

Due to stringent cost management, operating expenses decreased to CHF 40.4 million (2007: CHF 44.3 million.) Personnel expenses remained constant at CHF 25.3 million (2007: CHF 25.4 million). Other operating expenses declined significantly to CHF 15.1 million (2007: CHF 18.8 million) due to cancelations of certain projects, and reductions in other non-essential services.

Depreciation of non-current assets, primarily for IT investments, amounted to CHF 6.0 million (2007: CHF 5.5 million). Valuation adjustments, provisions and losses amounted to CHF 1.9 million (2007: CHF 2.9 million). Extraordinary income amounted to CHF 2.2 million (2007: CHF 2.8 million).

Projects

Major projects were undertaken on the IT side. The Bank's platform underwent a functional upgrade to benefit from the technical release performed at the end of 2007. The data warehouse and an archiving and scanning solution were extensively developed in 2008 and put into production.

Board of Directors and its committees

During 2008, the Board of Directors held four meetings and the Audit Committee and the Executive Committee each held five meetings.

At the General Assembly of April 8, 2008, Dr. Michael Kohn retired from the Board of Directors. We thank Dr. Kohn for many years of valuable service and wish him good health and success in his future.

Management

In November 2008, Mr. Michael Ganz joined Leumi as Member of the Management Committee and the new Head of Private Banking. Dr. Moshe Shimony and Rixa Starkman departed from Leumi to take up new challenges. We thank Ms. Starkman and Dr. Moshe Shimony 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 in a challenging environment.

The Board of Directors

1. Balance sheet – Bank

(in Swiss Francs)

	Dec. 31, 2008	Preceding year	Changes
Assets			
Cash	10 648 315	2 073 495	8 574 820
Money market instruments	37 206 638	0	37 206 638
Due from banks	230 526 693	86 283 141	144 243 552
Due from customers	548 998 206	634 912 164	-85 913 958
Securities trading portfolios	8 263 477	3 985 626	4 277 851
Financial investments	177 914 868	179 248 916	-1 334 048
Participations	220 000	220 000	0
Fixed assets	5 970 795	10 835 332	-4 864 537
Accrued income and prepaid expenses	16 892 127	15 058 350	1 833 777
Other assets	75 872 384	21 811 131	54 061 253
Total assets	1 112 513 503	954 428 155	158 085 348
Total subordinated claims	879 841	1 357 168	-477 327
Total due from group entities and significant shareholders	3 650 891	5 209 392	-1 558 501
Liabilities and shareholder's equity			
Due to banks	430 864 357	561 898 181	-131 033 824
Due to customers, other	417 454 819	170 819 222	246 635 597
Accrued expenses and deferred income	11 073 827	14 192 404	-3 118 577
Other liabilities	78 562 314	25 259 149	53 303 165
Valuation adjustments and provisions	8 346 981	19 600 670	-11 253 689
Share capital	33 000 000	33 000 000	0
General legal reserve	41 516 500	41 516 500	0
Other reserves	77 670 000	77 670 000	-0
Retained earnings brought forward	10 472 029	12 076	10 459 953
Net income/loss	3 552 676	10 459 953	-6 907 277
Total liabilities and shareholders' equity	1 112 513 503	954 428 155	158 085 348
Total subordinated liabilities	50 000 000	50 000 000	0
Total due to group entities and significant shareholders	275 537 780	296 290 435	-20 752 655
Off-balance sheet transactions			
Contingent liabilities	87 981 940	100 153 524	-12 171 584
Irrevocable acceptance	628 000	596 000	32 000
Derivative instruments – Contract volume	1 444 857 932	1 691 564 153	-246 706 221
– Positive replacement value	67 650 919	19 752 107	47 898 812
– Negative replacement value	75 346 788	20 630 770	54 716 018
Fiduciary transactions	1 549 845 090	1 900 586 125	-350 741 035

2. Income statement – Bank

(in Swiss Francs)

	2008	Preceding year	Changes
Revenues and expenses from ordinary banking activities			
Results from interest activities:			
– Interest and discount income	34 724 179	40 687 360	– 5 963 181
– Interest and dividend income on trading portfolios	603 165	502 677	100 488
– Interest and dividend income on financial investments	6 215 938	5 415 037	800 901
– Interest expenses	– 27 424 811	– 32 524 854	– 5 100 042
Net interest income (Subtotal)	14 118 471	14 080 220	38 251
Results from commission and service fee activities:			
– Commission income on lending activities	600 015	630 354	– 30 339
– Commission income on securities and investment transactions	35 756 065	40 353 320	– 4 597 255
– Commission income on other services	2 710 089	2 489 991	220 098
– Commission expenses	– 1 544 900	– 2 720 240	– 1 175 341
Results from commission and service fee activities (Subtotal)	37 521 270	40 753 425	3 232 154
Results from trading operations	7 645 803	9 237 263	1 591 460
Other ordinary results			
– Results from the sale of financial investments	0	94 486	– 94 486
– Other ordinary expenses	– 7 699 049	– 302 637	– 7 396 412
Other ordinary results (Subtotal)	– 7 699 049	– 208 150	– 7 490 899
Operating expenses:			
– Personnel expenses	– 25 272 617	– 25 478 483	205 866
– Other operating expenses	– 15 173 814	– 18 803 590	3 629 776
Operating expenses (Subtotal)	– 40 446 431	– 44 282 073	3 835 642
Gross profit	11 140 064	19 580 685	– 8 440 621
Net income/loss			
Gross profit	11 140 064	19 580 685	– 8 440 621
Depreciation and write-offs on non-current assets	– 6 012 361	– 5 469 568	– 542 794
Valuation adjustments, provisions and losses	– 1 922 182	– 2 891 587	969 405
Subtotal	3 205 521	11 219 530	– 8 014 009
Extraordinary income	2 137 888	2 763 437	– 625 549
Extraordinary expenses	– 383 669	– 911 578	527 909
Taxes	– 1 407 063	– 2 611 436	1 204 372
Net income/loss	3 552 676	10 459 953	– 6 907 277

	2008	Preceding year	Changes
Allocation of retained earnings			
Net income/loss	3 552 676	10 459 953	-6 907 277
Retained earnings brought forward	10 472 029	12 076	10 459 953
	<hr/>	<hr/>	<hr/>
Accumulated deficit/profit	14 024 705	10 472 029	3 552 676
Allocation of retained profit/loss			
Allocation to general legal reserve	0	0	0
Release of other reserves	0	0	0
Ordinary dividends	0	0	0
Extraordinary dividends	0	0	0
	<hr/>	<hr/>	<hr/>
Retained earnings brought forward	14 024 705	10 472 029	3 552 676

Statement of cash-flows – Bank

(in 1000 Swiss Francs)

	2008		Preceding year	
	Source of funds	Application of funds	Source of funds	Application of funds
Cash-flow from operating results (internal sources)				
Net income	3 553	0	10 460	0
Depreciation and write-offs on non-current assets	6 012	0	5 470	0
Valuation adjustments and provisions	752	-4 825	1 424	-812
Accrued income and prepaid expenses	0	-1 833	0	-3 241
Accrued expenses and deferred income	0	-3 119	2 285	0
Balance	540	0	15 586	0
Cash-flow from investment activities				
Fixed assets	0	-1 148	0	-3 942
Balance	0	-1 148	0	-3 942
Cash-flow from banking operations				
Medium and long-term operations (more than 1 year)				
– Due to banks	0	-2 484	2 484	0
– Other liabilities	0	0	0	-2 190
– Due from banks	0	0	0	0
– Due from customers	0	-29 452	0	-14 547
– Financial investments	1 334	0	2 561	0
Short-term operations				
– Due to banks	0	-128 550	123 886	0
– Due to customers	246 636	0	0	-1 323
– Due from money market instruments	0	-37 207	0	0
– Due from banks	0	-144 244	35 701	0
– Due from customers	115 367	0	0	-88 201
– Securities and precious metal portfolios	0	-4 278	-5 575	0
– Other assets/liabilities	0	-758	1 333	0
– Dividend payment		0		-62 865
Specific usage of valuation adjustments and provisions	0	-7 181	0	-20 173
Liquidity				
– Cash	0	-8 575	6 115	0
Balance	608	0	-11 644	0
Total	1 148	-1 148	3 942	-3 942

Notes to the 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 Bank employed a total of 137.4 Full Time Equivalents (2007: 143.6), of which 25 (2007: 23) 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 % (2007: 63 %) of the gross income before operating expenses. Interest-bearing activities amount to 24 % (2007: 22 %) and trading to 13 % (2007: 14 %) of the gross income before operating expenses.

Core business activities

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. 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

During the past fiscal year, the Board of Directors assessed the significant risks of the Bank in accordance with Art. 663b paragraph 12 of the Code of Obligations.

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.

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.

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 and Risk Management departments ensure that the Bank's business activities comply with the regulatory provisions in force, as well as with internal directives and guidelines.

Operational 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

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.

Deferred taxes are not considered in the financial statements of the Bank.

Consolidation

Consolidated financial statements have not been prepared. The Bank submitted a request to the regulator to release the Bank from its obligation to report consolidated financial statements for 2008. The Bank has two 100% owned subsidiaries which are not active; their results are not material to the results of the Bank. On January 16th, the Finma confirmed that the Bank was released from preparing consolidated financial statements, retroactive to the financial statement closing of December 31st 2008.

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.

It is the Bank's policy to establish specific value adjustments for possible losses. Contingent risks are covered by global provisions and reserves and are disclosed in the balance sheet.

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 difference in exchange rates which may result between conclusion and settlement of a transaction are reporting in the income statement.

The Bank maintains its accounts in Swiss Francs.

Exchange rates: The following balance sheet exchange rates have been used to convert year-end non CHF balances into CHF as per 31.12.2008.

	2008 Balance sheet rate	Preceding year Balance sheet rate
USD	1.063	1.125
EUR	1.486	1.656
GBP	1.547	2.254
CAD	0.866	1.147
AUD	0.733	0.988
JPY	1.1754	1.003

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. 5 years
Other fixed assets	max. 4 years

Pension Fund Liabilities

On January 1st, 2008 Valitas Sammelstiftung BVG took over the former personal pension fund of Bank Leumi-le-Israel (Switzerland). The authorities of the canton of Zurich (Amt für berufliche Vorsorge und Stiftungen des Kantons Zürich) have confirmed that all liabilities and assets of the former pension fund have been duly transferred to Valitas Sammelstiftung. All bank employees are members in the Valitas Sammelstiftung and the plans are contribution-based only.

Valitas Sammelstiftung manages Bank Leumi (Switzerland) Ltd's pension fund. It is a registered body in accordance with Swiss law and complies with the regulatory provisions, foundation deeds and regulations. Affiliated bodies such as our bank are represented by their administrative committees. The administrative committee of Bank Leumi (Switzerland) Ltd is staffed by representatives of the employer and employees and is responsible for the asset management.

The financial statement of the pension fund of Bank Leumi (Switzerland) Ltd consisting of balance sheet, profit & loss statement and the notes is according Swiss GAAP FER 26. Any potential liability is being disclosed as per Swiss GAAP FER 16.

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 tax liability.

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 Bank 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 Bank 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 – Bank

Listing of collateral

(in 1000 Swiss Francs)

	Mortgage collateral	Type of collateral Other collateral	Without collateral a)	Total
Loans				
Due from customers	0	541 645	7 353	548 998
Total loans	0	541 645	7 353	548 998
Preceding year	0	626 160	8 752	634 912
Off-balance sheet transactions				
Contingent liabilities	0	83 957	4 025	87 982
Irrevocable acceptance	0	0	628	628
Total off-balance sheet transactions	0	83 957	4 653	88 610
Preceding year	0	100 016	734	100 750
	Gros debt amount	Assumed liquidation income of securities	Net debt amount	Individual provisions
Contested balances b)	4 526	870	3 656	5 331 b)
Preceding year	6 252	765	5 487	16 584

a) amounts covered by valuation adjustments and provisions; refer to the note disclosures Chapter 5 “other information on the income statement”.

b) CHF 4.5 Mio 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 – Bank

(in 1000 Swiss Francs)

	2008	Preceding year
Securities and precious metal trading portfolios		
– Debt securities		
– Exchange listed	1 041	1 610
– Unlisted	390	1 403
– Participation instruments	6 832	973
Total securities and precious metal trading portfolios	8 263	3 986
of which repo eligible Securities according to Liquidity Guidelines	0	0

	Book Value		Fair Value	
	2008	Preceding year	2008	Preceding year
Financial investments				
– Debt securities (“accrual method”)				
– of which expected to be held to maturity	177 736	175 526	177 098	164 142
– Participation instruments	179	179	179	179
– Premises 1)	0	3 544	0	3 544
Total financial investments	177 915	179 249	177 277	167 865
of which repo eligible Securities according to Liquidity Guidelines	130 438	151 808		

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

Main participations – Bank

(in 1000 Swiss Francs)

Name of company, location	Business	2008		Preceding year	
		Capital	Quota	Capital	Quota
Main participations					
Leumi Asset Management Ltd, Zurich	Investment Advisory	100	100 %	100	100 %
Leumi Fund Holding Ltd, Luxembourg	Fonds Management	120	100 %	120	100 %

Fixed and intangible assets – Bank

(in 1000 Swiss Francs)

	Historical cost	Write-offs/ Accumulated depreciation	Book value end of preceding year	2008			
				Additions	Deductions	Write-offs/ Depre- ciation	Book value end of current year
Participations							
– Main participations	220	0	220	0	0	0	220
Total Participations	220	0	220	0	0	0	220
Fixed assets							
– Other fixed assets	32 361	– 30 786	1 575	514	0	721	1 368
– Others	41 609	– 32 349	9 260	634	0	5 291	4 603
Total fixed assets	73 970	– 63 135	10 835	1 148	0	6 012	5 971
Fire insurance value of other fixed assets							21 749
Liabilities for future operation leasing rates							45

Other assets and liabilities – Bank

(in 1000 Swiss Francs)

	2008		Preceding year	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement value of derivative instruments				
Own trading contracts				
– replacement value of asset/liabilities management	593	9 281	477	1 824
Commission agent contracts	67 058	66 06	19 275	18 807
<i>Total derivative instruments</i>	<i>67 651</i>	<i>75 347</i>	<i>19 752</i>	<i>20 631</i>
Equalization account	7 211	0	1 355	0
Indirect taxes	219	2 554	182	3 415
Transit account	0	301	0	856
Other assets and liabilities	791	360	522	357
Total	75 872	78 562	21 811	25 259

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

Assets pledged

(in 1000 Swiss Francs)

	2008		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	0	0
Long term investments as collateral for security clearing	28 448	0	32 025	0
Due from banks for derivative business	77 400	0	71 614	0
Total of assets pledged or ceded to secure own liabilities and assets subject to ownership reservation	105 848	0	103 639	0

Loans- and pensions-business with securities

(in 1000 Swiss Francs)

	2008	Preceding year
Book value of liabilities of cash deposits in correlation with securities borrowing and reverse-repurchase business	77 000	72 000
Book value 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	77 400 77 400	71 614 71 614

As per December 31, 2008 (as in preceding year) no open securities lending and borrowing transactions on accounts.

Liabilities to own pension plans – Bank

(in 1000 Swiss Francs)

Valitas Sammelstiftung BVG

2008	Preceding year
3 041	1 138

On January 1st 2008, Valitas Sammelstiftung BVG took over the former personal pension foundation of Bank Leumi le-Israel (Switzerland). The former personal pension foundation of Bank Leumi le-Israel (Switzerland) was therefore wound up and was removed from the cantonal register for occupational pension schemes retroactive to 1 January 2008.

Valitas Sammelstiftung BVG is a registered pension fund in accordance with legal provisions. It manages Bank Leumi (Switzerland) Ltd's pension fund. The Board of Trustees is the highest body. The administrative committees are the bodies at the level of the affiliated companies.

Based on the last unaudited financial statements (according to Swiss GAAP FER 26) of the pension fund as of December 31, 2008 the cover ratio of the capital necessary to provide occupational benefit plan was 101.2 % (31.12.2007: 107.8 %). The Board of directors is of the opinion that there will be no economical consequences out of this cover ratio. As a result of this, there is no 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	2008			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)	16 585	- 7 181	- 2 825	380	- 1 628	5 331 a)
Other provisions	3 016	0	0	372	- 372	3 016
Total valuation adjustments and provisions as per balance sheet	19 601	- 7 181	- 2 825	752	- 2 000	8 347

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)

	2008			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

	2008		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	27 748	93.92 %	27 727	93.90 %

	2008		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	47 110	14.20 % a)	48 839	19.78 % a)
Barnea Investments B.V.	0	0.00 %	40 863	5.00 %
Shlomo Eliahu Holdings Ltd. and its subs. and ass. companies	39 444	9.59 %	40 891	10.00 %
Others	b)	b)	b)	b)
	Rate CHF/ILS	0.2790		0.2925

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 first half was exercisable on 14 February 2008 to 41,723,516 shares. The second half can be exercisable from 14 February 2008 to 14 February 2009. All that shares that were issued to employees are included under "public".

b) 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	41 517
Other reserves	77 670
Accumulated profit	10 472

Total shareholders' equity at beginning of current year

162 659

(before profit distribution)

+ 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	3 553

Total shareholders' equity, at end of current year

166 212

(before profit distribution)

<i>Thereof</i> Share capital paid-in	33 000
General legal reserve	41 517
Other reserves	77 670
Accumulated profit	14 025

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

(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	10 648	0	0	0	0	0	10 648
Money market instruments	0	0	37 207	0	0	0	37 207
Due from banks	208 078	1 486	19 135	1 828	0	0	230 527
Due from customers	165 625	0	94 164	117 298	171 912	0	548 999
Securities and precious metal							
Trading portfolios	8 263	0	0	0	0	0	8 263
Total current assets	392 614	1 486	150 506	119 126	171 912	0	835 644
Preceding year	218 672	296	174 576	191 250	142 460	0	727 254
Financial investments	179	0	28 318	12 924	130 302	6 192	177 915
Preceding year	4 001	0	14 624	15 512	120 177	24 935	179 249
Borrowed funds							
Due to banks	119 715	0	201 349	109 800	0	0	430 864
Due to customers, other	417 456	0	0	0	0	0	417 456
Total borrowed funds	537 171	0	201 349	109 800	0	0	848 320
Preceding year	253 152	0	316 403	160 678	2 484	0	732 717

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)

	2008	Preceding year
Due from affiliated companies	107 859	37 425
Due to affiliated companies	65 366	116 263
Loans and exposures to the members of the bank's governing bodies	9 492	478

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

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.

As per the end of 2008, the Bank had issued loans of approximately 200 Million CHF in which, subject to a master participation agreement, Bank Leumi le-Israel B.M. participated with stakes of 100%. Under the master participation agreement, the risk and rewards of these loans have been transferred to Bank Leumi le-Isral B.M. and therefore as per December 31st 2008, the loans from clients, and the related payable due to an affiliated company, relating these transactions are not 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 – Bank

(in 1000 Swiss Francs)

	2008		Preceding year	
	Domestic	Foreign	Domestic	Foreign
Assets				
Cash	10 648	0	2 037	0
Money market instruments	0	37 207	0	0
Due from banks	28 626	201 901	17 063	69 220
Due from customers	9 949	539 050	88 222	546 690
Securitie trading portfolios	1 680	6 583	664	3 322
Financial investments	25 321	152 594	56 417	122 832
Participations	100	120	100	120
Fixed assets	5 971	0	10 835	0
Accrued income and prepaid expenses	7 296	9 596	4 815	10 244
Other assets	35 878	39 994	17 343	4 468
Total assets	125 469	987 045	197 532	756 896
Liabilities and shareholders' equity				
Due to banks	87 981	342 883	89 468	472 430
Due to customers, other	42 676	374 779	23 693	147 126
Accrued expenses and deferred income	6 019	5 055	7 750	6 441
Other liabilities	40 246	38 316	20 166	5 093
Valuation adjustments and provisions	8 347	0	19 601	0
Share capital	33 000	0	33 000	0
General legal reserve	41 517	0	41 517	0
Other reserves	77 670	0	77 670	0
Retained earnings brought forward	10 472	0	12	0
Net income/loss	3 553	0	10 460	0
Total liabilities and shareholders' equity	351 481	761 033	323 337	631 091

Assets by countries/country groups – Bank

(in 1000 Swiss Francs)

	2008		Preceding year	
	Total	in %	Total	in %
Europe				
– Switzerland	112 324	11 %	164 588	18 %
– Liechtenstein	94	0 %	1 323	0 %
– Belgium	46 109	5 %	4 995	1 %
– Germany	232 336	23 %	193 375	21 %
– United Kingdom	120 033	12 %	37 878	4 %
– France	20 290	2 %	18 668	2 %
– Ireland	4 001	0 %	7 495	1 %
– Netherland	15 308	2 %	4 515	1 %
– Monaco	9 058	1 %	9 173	1 %
– Luxemburg	6 675	1 %	7 436	1 %
– Austria	6 124	1 %	6 612	1 %
– Sweden	2 454	0 %	2 184	0 %
– Norway	10 914	1 %	6 006	1 %
– Hungary	1 718	0 %	2 028	0 %
– Other countries	3 840	0 %	12 252	1 %
	591 278	59 %	478 528	53 %
Israel	135 223	13 %	148 763	16 %
North America				
– United States	112 960	11 %	94 227	10 %
– Canada	20 598	2 %	22 780	3 %
	133 558	13 %	117 007	13 %
Latin America				
– Belize	21 516	2 %	50 127	6 %
– Panama	11 949	1 %	16 489	2 %
– Brazil	10 619	1 %	9 728	1 %
– Other countries	597	0 %	1 495	0 %
	44 681	4 %	77 839	9 %
Africa	2 163	0 %	1 763	0 %
Caribbean				
– Virgin Islands (BR)	70 609	7 %	69 268	8 %
– Neth. Antilles	2 126	0 %	2 815	0 %
– Cayman Islands	11 317	1 %	5 037	1 %
– Other countries	439	0 %	266	0 %
	84 491	8 %	77 386	9 %
Asia/Oceania	16 982	2 %	2 719	0 %
Australia and New Zealand	5 182	1 %	2 498	0 %
Total receivables/securities	1 013 558	100 %	906 503	100 %

Balance sheet by currencies – Bank

(in 1000 Swiss Francs)

	Currencies					Total
	CHF	EUR	USD	JPY	Other	
Assets						
Cash	9 433	874	107	0	261	10 648
Money market instruments	0	0	37 207	0	0	37 207
Due from banks	29 294	5 482	181 377	138	14 236	230 527
Due from customers	301 547	34 801	123 081	77 493	12 077	548 999
Securities and precious metal trading portfolios	2 904	1 916	3 443	0	0	8 263
Financial investments	145 238	20 932	11 745	0	0	177 915
Participations	220	0	0	0	0	220
Fixed assets	5 971	0	0	0	0	5 971
Accrued income and prepaid expenses	12 177	1 944	2 189	436	146	16 892
Other assets	74 317	115	1 236	204	0	75 872
Total on-balance assets	581 101	66 037	360 385	78 271	26 720	1 112 514
Due from FX-spot, – Forward and – option transactions	– 15 833	384 979	367 314	67 131	246 878	1 050 468
Total assets	565 268	451 016	727 699	145 402	273 598	2 162 982
Liabilities and shareholders' equity						
Due to banks	253 560	43 271	66 215	67 762	56	430 864
Due to customers, other	51 334	51 636	284 105	8 026	22 355	417 456
Accrued expenses and deferred income	7 975	1 469	1 276	353	0	11 073
Other liabilities	78 203	354	5	0	0	78 562
Valuation adjustments and provisions	3 108	0	837	0	4 402	8 347
Share capital	33 000	0	0	0	0	33 000
General legal reserve	41 517	0	0	0	0	41 517
Other reserves	77 670	0	0	0	0	77 670
Retained earnings brought forward	10 472	0	0	0	0	10 472
Net income/loss	3 553	0	0	0	0	3 553
Total liabilities and shareholders' equity	560 392	96 730	352 438	76 141	26 813	1 112 514
Due from FX-spot, – Forward and – option transactions	2 910	353 720	378 765	68 657	246 417	1 050 468
Total liabilities	563 302	450 450	731 203	144 798	273 230	2 162 982
Net position per currency	1 966	566	– 3 503	604	368	0

4. Information on off-balance sheet transactions

Analysis of contingent liabilities – Bank

(in 1000 Swiss Francs)

	2008	Preceding year	Changes
Contingent liabilities			
– Credit guarantees and similar	<u>87 982</u>	<u>100 154</u>	<u>– 12 172</u>
Total contingent liabilities	<u>87 982</u>	<u>100 154</u>	<u>– 12 172</u>

Outstanding derivative instruments – Bank

(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	8 024	8 024	62 522	593	9 281	251 876
Futures	0	0	0	0	0	0
Options (OTC)	0	0	0	0	0	0
Foreign exchange						
Forward contracts	57 315	57 801	1 095 154	1 478	0	14 194
Options (OTC)	241	241	21 078	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	34	0	0	0
Others						
Futures	0	0	0	0	0	0
Total	65 580	66 066	1 178 788	2 071	9 281	266 070
Preceding year	19 275	18 807	1 463 234	477	1 824	228 330

	2008			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	32 015	40 525	862 429	8 974	11 249	897 393
Customers	35 636	34 822	582 429	10 778	9 382	794 171
Total	67 651	75 347	1 444 858	19 752	20 631	1 691 564
Analysis by remaining life						
Up to 3 months	47 213	47 401	887 673	7 926	7 660	707 663
Over 3 months to 1 year	11 797	11 577	299 677	7 768	7 557	606 119
Over 1 year to 5 years	7 414	15 142	189 869	3 664	5 020	195 982
Over 5 years	1 227	1 227	67 639	394	394	181 800
Total	67 651	75 347	1 444 858	19 752	20 631	1 691 564

Analysis of fiduciary transactions – Bank

(in 1000 Swiss Francs)

	2008	Preceding year	Changes
Fiduciary transactions			
– Fiduciary placements with third party banks	1 455 067	1 833 573	– 378 506
– Fiduciary placements with banks of the group	53 179	27 061	26 118
– Fiduciary credits	41 599	39 952	1 647
Total fiduciary transactions	1 549 845	1 900 586	– 350 741

Assets under Management – Bank

(in Mio. Swiss Francs)

	2008	Preceding year
Assets under management:		
Assets in own managed collective financial instruments	0	19
Assets in managed accounts	482	693
Other assets under management	4 834	5 864
Total clients assets (incl. double-counted amounts)	5 316	6 576
thereof double-counted amounts	0	19
net balance of assets inflow-outflow	122	145

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 calculated regularly 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)

	2008	Preceding year	Changes
Results from trading operations			
– Foreign exchange and other business segments	8 177	5 371	2 806
– Securities	– 1 218	934	– 2 152
– Income structured product activities	687	2 932	– 2 245
Total results from trading operations	7 646	9 237	– 1 591

Analysis of personnel expenses – Bank

(in 1000 Swiss Francs)

	2008	Preceding year	Changes
Personnel expenses			
– Remuneration and fees for board of directors	212	375	– 163
– Salaries	18 721	19 699	– 978
– Contributions to AHV and unemployment insurance	1 080	1 162	– 82
– Contributions to social benefits	1 826	1 236	590
– Other personnel expenses	3 433	3 006	427
Total personnel expenses	25 272	25 478	– 206

Analysis of other operating expenses – Bank

(in 1000 Swiss Francs)

	2008	Preceding year	Changes
Other operating expenses			
– Occupancy expense	2 654	3 097	– 443
– Expenses for electronic data processing, machinery, furniture, vehicles and leasehold improvements	5 199	5 486	– 287
– Expenses for electronically communication	2 094	2 873	– 779
– Other operating expenses	5 227	7 348	– 2 121
Total other operating expenses	15 174	18 804	– 3 630

Other information on the income statement

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 2.10 million which is primarily due to the release of provisions no longer economically required by the bank.

For the year under review extraordinary expenses amounted to CHF 0.4 million which is primarily due to write-off of asset accruals from prior periods.

6. Sundries

Information regarding market risks in the trading book – Bank

(12 months average in 1000 Swiss Francs)

	2008	Preceding year	Changes
Debt instruments including derivatives	2 250	4 115	– 1 865
Participation certificates including derivatives	6 503	601	5 902
Foreign currency positions including derivatives	2 517	3 507	– 990
Precious metal positions including derivatives	111	256	– 145

Report of the statutory auditor
to the general meeting of
Bank Leumi (Switzerland) Ltd
Zurich

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Bank Leumi (Switzerland) Ltd, which comprise the balance sheet, income statement, statement of cash flows and notes (pages 6 to 29), for the year ended 31 December 2008.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies 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
Audit expert
Auditor in charge



Erik Dommach
Audit expert

Zurich, 15 April 2009

The Israeli Economy in 2008

Gil Bufman

February 18, 2009

The government's official estimate is that Israel's GDP grew by 4.1% in 2008. However, according to these estimates GDP growth slowed sharply in the second half of the year. The weakening of the momentum of the economy during the second half of 2008 was clearly seen in other data, such as the composite state-of-the-economy index, which is published by the Bank of Israel. In a longer term view, over the past two decades, Israel has become one of the world's high-tech development leaders. For this reason, the sharp slowdown of the US economy, one of Israel's main trading partners, is expected to continue to affect Israeli GDP growth.

Following the ongoing improvement in the state of the Israeli economy in previous years, with GDP growing by more than 5% per year from mid-2003 through mid-2008, the country's credit rating was increased by the various credit rating agencies. For example, Standard & Poor's announced at the end of November 2007 an upgrade of the credit rating for the State of Israel for long term foreign currency from A minus to A and to date this remains the country's rating.

The exchange rate of the shekel at the end of 2008 was NIS 3.80:US\$1, almost unchanged from its level at the end of 2007 of NIS 3.85:US\$1. The resilience of the shekel, despite global financial turmoil, seems to be related to the country's strong external account position. This includes Israel's balance of payments which continues to have a surplus in the current account and an ongoing balance between capital inflows and outflows.

The consumer price index rose by 3.8% in 2008, reflecting substantial price increases in two components: housing, which registered an increase of 12.1% and thus contributed 2.5 percentage points to the rise in the overall index; and food, which rose by 9.1% and thus contributed 1.3 percentage points to the overall index. The increase in the housing component last year reflected a combination of the surplus demand for housing and the de-linking of housing prices from the US dollar as the practice of denominating housing rental contracts. The price increases registered in the food component were the result of the impact of the substantial rise in raw material prices around the world in the first half of 2008. Since then there have been substantial price declines, but only some of these have been reflected in a decline in the food component.

In 2008 the deficit in the state budget (excluding net credit granted) amounted to NIS 15.2bn, representing 2.1% of GDP. This compares to a planned budget deficit of only 1.6% of GDP. This is actually the first upward deviation from the target deficit level after four years in which the actual deficit was below the target. It is important to emphasize that the budgeted expenditure framework was not fully utilized (99% was used). At the same time there was also a significant decline in state tax revenues.

The downward trend in the Tel-Aviv Stock Exchange (TASE) intensified in the last quarter of 2008, while in the background the sharp fall in stock prices continued around the world. Overall, Israel's General Stock Index fell by 46% in 2008. Above average rates of decline were seen in the shares of the following sectors: holding and investment companies (-75%), real estate companies (-69%), insurance companies (-61%) and commercial banks (-55%).

The corporate bond market experienced sharp price declines that started in September 2008. Overall, in 2008 the corporate bond total return index dropped by 17%. The sharp decline of the corporate bond market in 2008 differed substantially from the positive developments registered in Israel's government bond market with its index rising by approximately 10%. The severe developments in the corporate bond market in 2008 were a reaction to the sharp slowdown in global economic activities and uncertainty in the global markets. As a result, investors have become increasingly risk averse over the course of the last year.

Disclosure of Required and Eligible Capital

Information regarding Capital Adequacy as per 31 December 2008

(in 1000 Swiss Francs)

	31 December 2008*
Required capital for credit risk	52 570
Required capital for non-counterparty related risks	2 985
Required capital for market risk	1 939
Required capital for operational risk	9 436
Total required capital	66 930
Total eligible capital	219 004
Ratio of eligible/required capital required under Swiss Law	3.27

* as this is the first time the Bank is reporting under the FINMA circular, prior year figures are not required.

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 245 branches in Israel.

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

ISRAEL

Bank Leumi le-Israel B.M.

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Fax: 972-3-514-8656
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Tel-Aviv

Dizengoff Top Tower, 17th Floor
55 Dizengoff Street,
Tel-Aviv 64332
Tel.: 972-3-621-7333
Fax: 972-3-621-7355
French & German speakers

Dizengoff Top Tower, 23rd Floor
55 Dizengoff Street,
Tel-Aviv 64332
Tel.: 972-3-621-7444
Fax: 972-3-621-7455/6
English, Spanish & Russian speakers

Jerusalem

19 King David Street
Jerusalem 94101
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Fax: 972-2-624-0431

Leumi Foreign Residents & Tourist Centers

Tel-Aviv Main Branch

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Tel-Aviv 66884
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Fax: 972-3-514-8744

Dizengoff Branch

50 Dizengoff Street,
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Tel.: 972-3-526-0452
Fax: 972-3-526-0455

Bialik Branch

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Jerusalem King George Branch

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Fax: 972-4-830-0684

Netanya Netanya Branch

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Netanya 42400
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Fax: 972-9-860-4571

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Bat Yam Bat Yam Branch

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Bat Yam 59315
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Fax: 972-3-500-1988

Ashdod Rogozin Branch

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Fax: 972-8-868-8355

Eilat Eilat Branch

Shderot Hatmarim,
Commercial Center
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Fax: 972-8-636-4166

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Investment house

Bank Leumi le-Israel Trust Company Ltd.

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Bank Leumi USA Subsidiary

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Full Service Commercial Branch

International Private Banking

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Grand Cayman

British West Indies
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*Limited Service / Specialized
Banking*

**CURAÇAO
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Punta del Este

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