

Bank Leumi (Luxembourg) S.A.

**Audited annual accounts
as at December 31, 2010**

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Bank Leumi (Luxembourg) S.A.

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MANAGEMENT REPORT 2010

Introduction

Bank Leumi (Luxembourg) S.A. is a part of the prominent LEUMI Group with Israeli roots dating back to 1902. Since its establishment in 1994, the Bank is engaged in private banking activities.

Luxembourg's flexible banking system and highly qualified staff embedded with the favorable environment, make it one of the world's most important financial centres with 148 international banks, more than 3600 funds, more than 90 insurance companies and some 300 other professionals for the financial sector. The private banking in Luxembourg is positioned number one in the Euro zone with Eur300bn AUM.

Our objective is to maximize the value proposition offered to clients, taking full advantage of our location in Luxembourg and the over 100 year-old tradition of Leumi Group worldwide. Cooperation with Leumi group entities worldwide to the benefit of our international clients is part of the Bank's code of conduct.

Integrity, professionalism and teamwork remain the foundation of our business way. Acting with integrity to meet the highest compliance standards is seen as the basis for true competitive advantage. Teamwork and professionalism are achieved through the operation of business teams. Each is responsible for the relationships with clients from different geographical regions. The teams share expertise and operational excellence, seek opportunities for efficiency, and exploit new market solutions to provide clients with even better products and services.

Business Environment

2010 was a challenging year for the private banking with low interest rates and high volatility in the currency & equity markets.

Interest rates remained low throughout the year and equity markets although high volatile kept their positive trend. The US\$ has strengthened vs. the Euro from an average rate of 1.40 in 2009 to an average of 1.33 in 2010.

Financial Results for 2010

The 2010 results shows that the Bank continues the positive trend of the last years, only interrupted by 2008 crisis in the capital markets.

2010 net profit heats € 4.8 record, an increase of 25% compared with 2009. The impressive increase is mainly due to an increase in interest income as a result of a pro-active interest rate management in the treasury area. Excluding exceptional profits in the nostro portfolio in both periods, non-interest income increased in 2010 by 25%, following an increase of the volume of trade.

Total shareholders' equity amounts to € 22,444,697.- at the end of 2010 compared with €17,591,275.- on December 31st, 2009, an increase of 27.6%. The return on average total shareholders' equity (ROE) for 2010 is 21.1% , an increase of 71.55% compared to 2009.

Efficiency ratio slightly improved to 54.2% (54.3% in 2009).

The Solvency Ratio of 12.78% at 31 December 2010 maintains a sufficient buffer in excess of the 8% regulatory requirement.

Tier II capital (subordinated loans from the parent company) totals € 10,989,800 at the end of 2010, compared with € 10,619,200 as at December 31st, 2009, an increase only due to the exchange rate €/US\$.

The Bank's NOSTRO portfolio decreased from €157,013,605 in 2009 to €116,139,291 in 2010, mainly due to maturing of the securities.

As at 31.12.2010, the Bank's balance sheet amounted to € 514,902,154 compared with €560,862,760.- as at 31.12.2009, a decrease of 8.20%

Business activity in 2010

Total customer holdings increased by \$68m' since 2009 year-end (4.6%) to a \$1,542m record (\$1,475m in 2009 and \$1,329m in 2008).

The off balance portion of customers holdings increased to 61%, compared to 53% in 2009 and 48% in 2008.

On-balance lending (loans& overdrafts) to customers increased by 32.3% compared with 2009 to €60,273,386.38. Off-balance lending (guarantees& SBL/Cs) increased by 19% to €34m. Lendings were granted to finance investments opportunities, fully secured mainly by the clients' assets held with the bank.

During 2010 the Bank made qualitative improvements in the reporting& IT systems to better control the risks embedded in our operation. The Bank also completed a comprehensive review of the core system and decided to install a new core system.

The Bank continues to act as the investment manager and the global distributor of Leumi Global Managers Fund ("LGM"). LGM is an open-ended investment company with variable capital ("*société d'investissement à capital variable*") registered in the Grand Duchy of Luxembourg as an undertaking for collective investment pursuant to Part II of the amended law of 20 December 2002 concerning undertakings for collective investment.

The Bank continues to dedicate special attention and training to Anti Money Laundering & Terrorism legislation, in order to strictly comply with the ongoing regulatory changes and to follow their implementation. During 2010, the Bank puts in place the necessary modifications required by the new law of 27 October 2010.

Risk Management

The Bank rigorously manages the risks in all operating areas. Managing risks involve identifying and assessing risks as well as implementing and reviewing the effectiveness of the controls. Risk management is an integral part of the job of each head of department. As such, controlling and mitigating risks on a day-to-day basis rests with heads of each department. Management also promotes the culture of pro-active risk management.

The Bank is subject to a minimum capital requirements externally imposed by the CSSF based on the guidelines developed by the Basel Committee on Banking Supervision. The Bank has been granted accreditation by the CSSF to adopt the Basel II Standardized approach for credit risk and the Basic Indicator Approach for operational risk.

All customers' liabilities are fully secured by liquid collateral.

The Nostro portfolio is composed by bonds only. The bonds are diversified between large amount of financial institutions rated BBB and above, which were carefully selected in the past under the parent company's guidance and approved by the investment committee in accordance with the strict guidelines imposed by the Board of Directors. The portfolio has a predominant exposure to the financial sector.

The Bank's policy is to minimize currency exposures. At present, the Bank refrains from complex derivative instruments on OTC markets.

Foreign exchange transactions are mainly done for customers and are secured by deposits and assets in custody with the Bank. Counterparties used by the Bank are generally high-rated institutions in compliance with our Bank's policy as defined by the Board of Directors and the Bank's parent company.

Custodians in OECD countries of good repute hold the securities of the Bank and its customers.

Matching of assets and liabilities is monitored on a daily basis.

Legal, compliance and operational risks are adequately dealt with in accordance with the guidelines of the parent company and internal procedures approved by the Board of Directors.

At the Bank's request, the CSSF has granted its approval to the total exemption of risks limits with the mother company Bank Leumi le-Israel B.M. in accordance with point 24 Section XVI of the amended Circular CSSF 06/273.

The Bank continues to comply with all the risk ratios imposed by the CSSF, the Board and the Bank's parent company.

Future Prospects

Years of successful operations with continuous expansion and the support of Leumi Group, enable us to look to the future with confidence.

It is imperative to strike the right balance between chasing the business development targets and strengthening our infrastructure. In 2011 we aim to start changing our IT core system in order to better our services and to increase the control environment and the risk management.

The Bank is organized not only to profit from its normal business activity but also to take advantage of the opportunities which may rise in timing of regulatory changes in the Private Banking industry.

We are profoundly thankful to our clients for their continuous trust, an essential factor for our success and the longstanding partnership with them over the years.

Our thanks and appreciations goes also to our devoted staff for their efforts in providing high quality of professional services in difficult market conditions.

The Financial statements for the year ended 31 December 2010 give a true and fair view of the matters therein referred to and have been prepared from properly maintained financial record and are signed in accordance with a resolution of the Board of Directors.

No material developments took place since 31 December 2010, which would affect the reported financial results.

Chairman of the Board
Zvi ITZKOVITZ

General Manager
Yoram MOSCOVITZ

Luxembourg, March 2011



Audit report

To the Board of Directors of
Bank Leumi (Luxembourg) S.A.

Report on the annual accounts

Following our appointment by the Board of Directors dated 8 March 2010, we have audited the accompanying annual accounts of Bank Leumi (Luxembourg) S.A., which comprise the balance sheet as at 31 December 2010, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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 annual accounts give a true and fair view of the financial position of Bank Leumi (Luxembourg) S.A. as of 31 December 2010, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

PricewaterhouseCoopers S.à r.l.

Luxembourg, 25 March 2011



Philippe Sergiel

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke, is positioned above the printed name 'Philippe Sergiel'.

Bank Leumi (Luxembourg) S.A.

Balance sheet as at December 31, 2010

(expressed in euros)

	Note(s)	2010 EUR	2009 EUR
ASSETS			
Cash in hand, balances with central banks and post office banks	3.2, 4	10 067 684	9 917 816
Loans and advances to credit institutions:			
- repayable on demand	3.2, 5.1	9 637 944	15 179 965
- other loans and advances	3.2, 5.1	<u>310 545 569</u>	<u>324 860 139</u>
		320 183 513	340 040 104
Loans and advances to customers	3.2	60 273 387	45 542 559
Bonds and other fixed-income transferable securities:	3.2, 6, 7.1		
- issued by public bodies		3 733 144	3 461 325
- issued by other borrowers		<u>112 406 147</u>	<u>153 552 280</u>
		116 139 291	157 013 605
Intangible assets	7.1	494 153	586 264
Tangible assets	7.1	203 756	180 391
Other assets	5.1, 8	4 869 465	4 882 569
Prepayments and accrued income	5.1	<u>2 670 905</u>	<u>2 699 452</u>
Total assets		<u>514 902 154</u>	<u>560 862 760</u>

The accompanying notes form an integral part of these annual accounts.

Bank Leumi (Luxembourg) S.A.

Balance sheet as at December 31, 2010 (cont.)

(expressed in euros)

	Note(s)	2010 EUR	2009 EUR
LIABILITIES			
Amounts owed to credit institutions:			
- repayable on demand	3.2, 5.1	3 373 338	8 281 370
- with agreed maturity dates or periods of notice	3.2, 5.1	<u>18 931 443</u>	<u>44 517 236</u>
		22 304 781	52 798 606
Amounts owed to customers:			
- other debts:			
. repayable on demand	3.2, 5.1	94 783 530	106 520 701
. with agreed maturity dates or periods of notice	3.2, 5.1	<u>357 317 679</u>	<u>368 637 800</u>
		452 101 209	475 158 501
Other liabilities	5.1, 9	5 009 588	2 463 212
Accruals and deferred income	5.1	751 616	692 777
Provisions:			
- provisions for taxation		1 149 073	1 432 168
- other provisions		<u>151 389</u>	<u>107 020</u>
		1 300 462	1 539 188
Subordinated liabilities	3.2, 5.1, 10	10 989 800	10 619 200
Subscribed capital	11, 13	12 250 000	12 250 000
Reserves	12, 13	3 158 698	3 980 825
Profit / (Loss) brought forward	13	<u>2 182 578</u>	<u>(2 542 005)</u>
Profit for the financial year		<u>4 853 422</u>	<u>3 902 456</u>
Total liabilities		<u>514 902 154</u>	<u>560 862 760</u>

The accompanying notes form an integral part of these annual accounts.

Bank Leumi (Luxembourg) S.A.

Off balance sheet items as at December 31, 2010 (expressed in euros)

	Note(s)	2010 EUR	2009 EUR
Contingent liabilities			
of which:			
- guarantees and assets pledged as collateral security	15.1	34 142 065	28 536 169
Fiduciary transactions		-	1 110 400

The accompanying notes form an integral part of these annual accounts.

Bank Leumi (Luxembourg) S.A.

Profit and loss account for the year ended December 31, 2010 (expressed in euros)

	Note(s)	2010 EUR	2009 EUR
CHARGES			
Interest payable and similar charges		2 716 043	5 216 807
Commissions payable		886 818	787 586
General administrative expenses:			
- staff costs		3 725 264	3 159 287
of which:			
. wages and salaries		2 843 595	2 416 310
. social security costs		241 721	235 607
of which: pension costs		166 182	187 638
- other administrative expenses		<u>2 291 020</u>	<u>2 209 726</u>
		6 016 284	5 369 013
Value adjustments in respect of intangible and tangible assets	7.1	423 478	461 905
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments	2.8	-	400 000
Profit on ordinary activities after tax		4 917 922	3 902 518
Other taxes not shown in the preceding items		64 500	62
Profit for the financial year		<u>4 853 422</u>	<u>3 902 456</u>
Total charges		<u>14 960 545</u>	<u>16 137 829</u>

The accompanying notes form an integral part of these annual accounts.

Bank Leumi (Luxembourg) S.A.

Profit and loss account for the year ended December 31, 2010 (cont.) (expressed in euros)

	Note(s)	2010 EUR	2009 EUR
INCOME			
Interest receivable and similar income		9 413 998	9 930 597
of which:			
<i>income from bonds and other fixed-income transferable securities</i>		<i>1 633 336</i>	<i>2 728 479</i>
Commissions receivable		4 556 031	3 832 459
Net profit on financial operations		563 917	306 310
Value re-adjustments in respect of transferable securities held as financial fixed assets	16.3	216 116	1 675 900
Other operating income	16.2	<u>210 483</u>	<u>392 563</u>
Total income		<u>14 960 545</u>	<u>16 137 829</u>

The accompanying notes form an integral part of these annual accounts.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010

Note 1 - General

Bank Leumi (Luxembourg) S.A. (the “Bank”) was incorporated as a société anonyme in the Grand Duchy of Luxembourg on November 8, 1994. The Bank is a subsidiary of Bank Leumi le-Israel B.M. Tel-Aviv and as such is included in the consolidated accounts of Bank Leumi le-Israel B.M. Tel-Aviv. The consolidated accounts may be obtained at the registered office of Bank Leumi le-Israel B.M., 34 Yehuda Halevi Street, Tel-Aviv, Israel.

The business policy and valuation principles, unless prescribed by the legal requirements existing in Luxembourg, are determined and monitored by the Board of Directors in accordance with those applied by Bank Leumi le-Israel B.M. Tel-Aviv.

The activities of the Bank are concentrated on lending and private banking activities, including foreign exchange and securities transactions. The Bank co-operates to a significant extent with its parent bank and other entities of the Leumi Group.

Note 2 - Summary of significant accounting policies

2.1 Basis of presentation

These annual accounts have been prepared in conformity with accounting principles generally accepted in the banking sector in the Grand-Duchy of Luxembourg. The accounting policies and the valuation principles are determined and applied by the Board of Directors, except those which are defined by law and by the regulations in Luxembourg.

2.2 Foreign currencies

The annual accounts are expressed in euros (“EUR”). The Bank has adopted a multicurrency accounting system, as a result of which assets and liabilities are recorded in the currencies in which they were created. For the preparation of the annual accounts, amounts in foreign currencies are translated into EUR on the following basis:

2.2.1 Spot transactions

Assets and liabilities denominated in foreign currencies are translated into EUR at exchange rates applicable at the balance sheet date.

Income, charges and purchases of fixed assets are recorded in the currency in which they are collected or disbursed and are translated into euros at rates approximating those ruling at the time of the transaction.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

2.2 Foreign currencies (cont.)

2.2.2 Forward transactions

Unsettled forward foreign exchange transactions are translated into EUR at the forward rate prevailing at the balance sheet date for the remaining maturity.

2.2.3 Foreign exchange gains and losses

Exchange gains and losses arising from the Bank's net open currency position are taken to the profit and loss in the current year.

Unrealised exchange losses on forward foreign exchange contracts are recognised in the profit and loss account. Unrealised exchange gains on forward foreign exchange contracts are not included in the profit and loss account, and are only recognised when ultimate realised, except when such contracts form an economic unit with offsetting foreign exchange transactions.

2.3 Loans and advances

Loans and advances are stated at disbursement value less repayments made and any value adjustments required. Accrued interests are recorded in balance sheet caption "prepayments and accrued income".

The policy of the Bank is to establish specific value adjustments for doubtful debts in accordance with the circumstances and for amounts specified by the Management. These value adjustments are deducted from the appropriate asset account balances.

2.4 Securities portfolio

The securities of the Bank are recorded within the following category for valuation purposes:

2.4.1 Investment portfolio of financial fixed assets

This portfolio is held for investment purposes and comprises fixed-income transferable securities intended for use on a continuing basis in the Bank's activities. Such securities are recorded at historical acquisition cost in their original currency if the following conditions are met:

- They are transferable securities not subject to any permanent impairment;
- An eventual sale before maturity or a transfer into another category is subject to a formal decision from the Bank's Management.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

2.4 Securities portfolio (cont.)

2.4.1 Investment portfolio of financial fixed assets (cont.)

A value adjustment is made when the Board of Directors considers a depreciation as durable.

In cases where fixed-income securities are acquired at a premium, and cost or lower of cost and market value is used as the basis of valuation, the difference between acquisition cost and redemption value is written off in instalments to profit and loss and recorded as “interest payable and similar charges”. Instalments are charged pro rata temporis over the life of the security.

In cases where fixed-income securities are acquired at a discount, and cost or lower of cost and market value is used as the basis of valuation, the difference between acquisition cost and redemption value is included in instalments to profit and loss and recorded as “interest receivable and similar income”. Instalments are recorded pro rata temporis over the life of the security.

The Management has performed regular credit assessments of the securities based on the external ratings and considers that the depreciation of the securities is related to the current market liquidity constraints and evolution of interest rates. The Management recognises that there is no permanent impairment arising on these securities as at December 31, 2010. The fair value of the portfolio as at December 31, 2010 amounts to EUR 112 811 501.

2.4.2 Acquisition cost

The Bank records the cost of securities by the weighted average prices method.

2.5 Intangible assets

Intangible assets are valued at cost less accumulated amortisation. They are amortised on a straight-line basis at the rate of 25 % per annum.

2.6 Tangible assets

Tangible assets are used by the Bank for its own operations. Tangible assets are valued at cost less depreciation to date. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets concerned. The rates used for this purpose are:

	2010	2009
	%	%
Furniture, fixtures and fittings	25	25
Hardware equipment	25	25
Leasehold improvement	25	25
Other equipment and motor vehicles	25	25

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

2.7 Derivative instruments

2.7.1 Interest rate swaps

Interest on interest rate swaps is included in the balance sheet captions “Prepayments and accrued income” and “Accruals and deferred income”. It is charged or credited to interest receivable or payable in the profit and loss account. Interest rate swaps are only used for hedging purposes and are not valued since they form an economic unit with a specific asset.

2.8 Lump-sum provision

The lump-sum provision is a general provision for possible losses on risk weighted assets and off balance sheet items. This provision, which is tax deductible, is compensated with the related assets; the portion of the provision relating to the off balance sheet items is included in the provision for liabilities and charges “Other Provisions”.

As at December 31, 2009, the Management of the Bank decided to provide for a lump-sum provision amounting to EUR 400 000, which has been maintained as at December 31, 2010.

Note 3 - Use of financial instruments

3.1 Strategy in using financial instruments

By its nature the Bank’s activities are principally related to the use of primary non-trading financial instruments including derivatives. The Bank accepts deposits from customers at floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets, including group placements. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to private and corporate customers on a fully secured basis (Lombard Credits). Such exposures involve on-balance sheet loans and advances as well as guarantees and other similar commitments.

Hedging

The Bank hedges part of its existing interest rate risk resulting from the fixed interest rate securities held in its investment portfolio using interest rate swaps.

The Bank hedges a proportion of its foreign currency exposure resulting from the forward transactions concluded on behalf of clients by using forward foreign exchange contracts.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.2 Analysis of financial instruments

3.2.1 Information on primary financial instruments

The table below analyses the level of primary non-trading financial instruments of the Bank, in terms of carrying amounts, into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.2 Analysis of financial instruments (cont.)

3.2.1.1 Analysis of financial instruments - Primary non-trading instruments (at carrying amount - EUR) - as at December 31, 2010

Instrument class (financial assets)	Primary non-trading instruments					Total
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	> 5 years	No-maturity	
Cash in hand, balances with central banks	10 067 684	-	-	-	-	10 067 684
Loans and advances to credit institutions	189 648 620	129 757 203	777 690	-	-	320 183 513
Loans and advances to customers	24 856 711	35 023 896	392 780	-	-	60 273 387
Bonds and other fixed-income securities	20 115 837	28 186 467	50 862 262	16 974 725	-	116 139 291
Total financial assets	244 688 852	192 967 566	52 032 732	16 974 725	-	506 663 875
Non financial assets	2 718 721	-	-	-	5 519 558	8 238 279
Total assets	247 407 573	192 967 566	52 032 732	16 974 725	5 519 558	514 902 154

Instrument class (financial liabilities)	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	> 5 years	No-maturity	Total
Amounts owed to customers - other debts	321 997 549	129 346 177	757 483	-	-	452 101 209
Subordinated liabilities	-	-	10 989 800	-	-	10 989 800
Total financial liabilities	343 950 330	129 698 177	11 747 283	-	-	485 395 790
Non financial liabilities	5 009 588	-	-	-	24 496 775	29 506 363
Total liabilities	348 959 918	129 698 177	11 747 283	-	24 496 775	514 902 153

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.2 Analysis of financial instruments (cont.)

3.2.1.2 Analysis of financial instruments - Primary non-trading instruments (at carrying amount - EUR) - as at December 31, 2009

Instrument class (financial assets)	Primary non-trading instruments					Total
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	> 5 years	No-maturity	
Cash in hand, balances with central banks	9 917 816	-	-	-	-	9 917 816
Loans and advances to credit institutions	199 743 587	139 575 454	721 063	-	-	340 040 104
Loans and advances to customers	15 796 410	29 387 179	358 970	-	-	45 542 559
Bonds and other fixed-income securities	10 416 367	35 176 584	89 900 994	21 519 660	-	157 013 605
Total financial assets	235 874 180	204 139 217	90 981 027	21 519 660	-	552 514 084
Non financial assets	16 997	-	-	-	8 331 679	8 348 676
Total assets	235 891 177	204 139 217	90 981 027	21 519 660	8 331 679	560 862 760

Instrument class (financial liabilities)	Primary non-trading instruments					Total
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	> 5 years	No-maturity	
Amounts owed to credit institutions	46 330 998	6 467 608	-	-	-	52 798 606
Amounts owed to customers - other debts	368 646 579	105 809 594	702 328	-	-	475 158 501
Subordinated liabilities	-	1 041 000	9 578 200	-	-	10 619 200
Total financial liabilities	414 977 577	113 318 202	10 280 528	-	-	538 576 307
Non financial liabilities	2 463 212	-	-	-	19 823 241	22 286 453
Total liabilities	417 440 789	113 318 202	10 280 528	-	19 823 241	560 862 760

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.2 Analysis of financial instruments (cont.)

3.2.2 Information on derivative financial instruments

3.2.2.1 Description of derivative financial instruments used

The Bank enters only in the following derivative instruments for hedging purposes:

Forward foreign exchange transactions are contractual obligations to buy or sell foreign currency on a future date at a specified price established in an organised financial market.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps).

3.2.2.2 Analysis of derivative financial instruments

The tables below analyse the level of derivative financial instruments (non-trading) within the Bank, broken down in terms of notional amount, into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. OTC derivative instruments and exchange-traded instruments are separately disclosed.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable or unfavourable as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extend to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Derivative non-trading instruments (disclosed on basis of nominal amounts) OTC as at December 31, 2010						Fair value
in EUR	< 3months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total	Total
Forward Foreign Exchange Transactions	23 532 347	31 289 614	-	-	54 821 961	54 858 191
Interest rate Swap	-	-	13 700 736	3 742 515	17 443 251	17 213 939
Exchange Swaps	5 917 000	633 600	-	-	6 550 600	6 563 069

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.2 Analysis of financial instruments (cont.)

3.2.2 Information on derivative financial instruments (cont.)

3.2.2.2 Analysis of derivative financial instruments (cont.)

Derivative non-trading instruments (disclosed on basis of nominal amounts) OTC as at December 31, 2009						Fair value
in EUR	< 3months	> 3 months < 1 year	> 1 year < 5 years	> 5 years	Total	Total
Forward Foreign Exchange Transactions	7 560 088	5 453 590	-	-	13 013 678	13 026 068
Interest rate Swap	-	-	10 416 585	3 470 005	13 886 590	13 811 754

3.3 Credit risk

3.3.1 Description of credit risk

The Bank takes on exposure to credit risk which is the risk that a counterpart will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Groups of borrowers. Such risks are monitored on a revolving basis and subject to a monthly review. Limits on the level of credit risk are to be approved by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Derivatives

The Bank has a very low level of activity regarding derivative instruments. Forward foreign exchange contracts are occasionally concluded with customers and the positions are closed through reversed forward foreign exchange contracts. The Bank entered into interest rate swaps with related entities. The Bank maintains strict control limits on net open derivative positions. The Bank's credit risk represents the potential cost to replace the derivative contracts if counterparts fail to perform their obligation. To control the level of credit risk taken, the Bank assesses counterparts using the same technique as for its lending activities or concentrates such activity with related entities.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.3 Credit Risk (cont.)

3.3.2 Measures of credit risk exposure

Information on credit risk as it relates to financial instruments is disclosed on the basis of the carrying amount that best represents the maximum credit risk exposure at the balance sheet date without taking account of any collateral.

Credits are mainly granted to customers for the purposes of investment management through Lombard Credits (including loans, overdraft, foreign exchange, guarantees) and Fiduciary Loans. Decisions on credits shall be made by obtaining sufficient collateral. Credit facilities are approved according to the Credit Activity Guidelines as adopted by the Board of Directors.

With respect to derivative instruments dealt in other than on a recognised, regulated market (OTC), the carrying amount (principal or notional amount) does not reflect the maximum risk exposure. The maximum exposure to credit risk is arrived at by determining the risk-equivalent amount.

The Bank calculates credit risk associated with OTC derivative instruments using the original exposure approach. The disclosure is restricted to the risk-equivalent amounts obtained under this method, in accordance with the provisions of Circular 06/273 as amended.

The table below discloses the level of credit exposure in terms of notional amounts, initial risk-equivalent amount and net risk exposure adjusted for any collateral, broken down by the degree of credit worthiness of the counterparty based on internal or external ratings.

Credit risk information - OTC derivative instruments (in EUR) as at December 31, 2010

Counterparty solvency	Notional amount* (1)	Risk-equivalent amount* (2)	Collateral (3)	Net risk exposure (4) = (2) - (3)
Forward Foreign Exchange Transactions:				
- Weighting at 2%	40 936 709	818 734	-	818 734
- Weighting at 5%	13 921 447	696 072	-	696 072
Interest rate Swap:				
- Weighting at 3%	11 455 227	343 657	-	343 657
- Weighting at 5%	2 245 509	112 275	-	112 275
- Weighting at 10%	3 742 515	374 252	-	374 252
Exchange Swap				
- Weighting at 2%	6 563 069	131 261	-	131 261

*net of the effect of any enforceable netting agreements

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.3 Credit Risk (cont.)

Credit risk information - OTC derivative instruments (in EUR) as at December 31, 2009

Counterpart solvency	Notional amount* (1)	Risk-equivalent amount*(2)	Collateral (3)	Net risk exposure (4) = (2) - (3)
Forward Foreign Exchange Transactions:				
- Weighting at 2%	13 026 060	260 521	-	260 521
Interest rate Swap:				
- Weighting at 3%	10 416 595	312 498	-	312 498
- Weighting at 10%	3 470 005	347 001	-	347 001

*net of the effect of any enforceable netting agreements

3.3.3 Concentration of credit risk

The table below shows credit risk concentration as it relates to financial instruments from on- and off balance sheet exposures by geographic location and economic sector.

Geographic and economic concentrations of credit risk:

	2010	2009
<i>Geographic Concentration</i>		
	%	%
Israel	52.23	41.90
Luxembourg	1.77	1.71
U.S.A.	16.82	19.23
Other OECD countries	26.12	32.24
Other countries	<u>3.06</u>	<u>4.92</u>
Total	<u>100.00</u>	<u>100.00</u>
<i>Economic Concentration</i>		
	%	%
Banks and finance	72.72	80.33
Other	<u>27.28</u>	<u>19.67</u>
Total	<u>100.00</u>	<u>100.00</u>
<i>Bank Securities' Portfolio</i>		
	%	%
- Government bonds	3.21	2.20
- Other	<u>96.79</u>	<u>97.80</u>
Total	<u>100.00</u>	<u>100.00</u>
<i>Group Concentration</i>		
	%	%
Group	56.71	55.70
Other	<u>43.29</u>	<u>44.30</u>
Total	<u>100.00</u>	<u>100.00</u>

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

3.4 Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, both of which are exposed to general and specific market movements. The Bank monitors these market risk exposures on a regular basis. The Board of Directors has specified maximum exposures for both interest rate risk, calculated on a 3-month basis, and the maximum overnight exposure to currency rates.

Note 4 - Cash, balances with central banks and post offices banks

In accordance with the requirements of the European Central Bank, the Central Bank of Luxembourg implemented effective January 1, 1999, a system of mandatory minimum reserves which applies to all Luxembourg credit institutions. The minimum reserve balance as at December 31, 2010 held by the Bank with the Central Bank of Luxembourg amounts to EUR 10 060 358 (in 2009: EUR 9 908 083).

Note 5 - Affiliated undertakings

5.1 Transactions with other Bank Leumi Group Companies

	2010	2009
	EUR	EUR
ASSETS		
Loans and advances to credit institutions:		
- repayable on demand	2 732 124	3 973 600
- other loans and advances	<u>310 545 570</u>	<u>324 860 138</u>
	313 277 694	328 833 738
Other assets	27 871	99 887
Prepayments and accrued income	2 125 667	2 041 390

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

5.1 Transactions with other Bank Leumi Group Companies (cont.)

LIABILITIES

Amounts owed to credit institutions:

- repayable on demand	3 241 668	8 267 338
- with agreed maturity dates or periods of notice	<u>18 931 443</u>	<u>44 517 236</u>
	22 173 111	52 784 574

Amounts owed to customers:

- other debts:		
. repayable on demand	707 222	3 593 008
. with agreed maturity dates or periods of notice	<u>1 497 000</u>	<u>11 069 093</u>
	2 204 222	14 662 101

Other liabilities	271 848	188 229
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Accruals and deferred income	211 135	185 440
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Subordinated liabilities	10 989 800	10 619 200
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Note 6 - Transferable securities

6.1 Listed and unlisted transferable securities

6.1.1 Listed transferable securities

	2010	2009
	EUR	EUR
Bonds and other fixed-income transferable securities		
- issued by public bodies	3 733 144	3 461 325
- issued by credit institutions	75 178 737	117 845 635
- issued by other institutions	<u>37 227 410</u>	<u>35 706 645</u>
	<u>116 139 291</u>	<u>157 013 605</u>

6.1.2 Unlisted transferable securities

At year-end, there are no unlisted securities which are dealt with a broker (in 2009: EUR 2 082 000).

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

6.2 Bonds and other fixed-income transferable securities

	2010	2009
	EUR	EUR
Financial fixed assets	<u>116 139 291</u>	<u>157 013 605</u>

Bonds and other fixed-income transferable securities maturing in 2011 amount to EUR 48 331 530 (in 2010: EUR 45 625 040).

6.2.1 Bonds and other fixed-income transferable securities purchased at a premium

Instalments amounting to EUR 131 121 (in 2009: EUR 87 212) have been charged to profit and loss in the current year in respect of the amortisation of differences between acquisition cost and redemption value of fixed-income securities held as financial fixed assets and valued at amortised cost. The cumulated amortisation amount totalled EUR 244 144 (in 2009: EUR 117 571) at the end of the year.

6.2.2 Bonds and other fixed-income transferable securities purchased at a discount

Instalments amounting to EUR 45 794 (in 2009: EUR 40 394) have been taken to income in respect of the amortisation of differences between acquisition cost and redemption value of fixed-income securities held as financial fixed assets and valued at amortised cost. The cumulated amortisation amount totalled EUR 33 827 (in 2009: EUR 48 346) at the end of the year.

6.3 Bonds eligible for refinancing with a central bank

As at December 31, 2010, the bonds eligible for refinancing with a central bank of the Euro zone amount to EUR 11 452 743 (in 2009: EUR 41 937 232).

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

Note 7 - Fixed assets

7.1 Movements in fixed assets

	GROSS VALUE					VALUE ADJUSTMENTS				CARRYING VALUE
	Gross value at the beginning of the financial year	Additions	Re-adjustments	Disposals	Gross value at the end of the financial year	Cumulative value adjustments at the beginning of the financial year	Adjustments	Re-adjustments	Cumulative value adjustments at the end of the financial year	Net book value at the end of the financial year
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
BONDS AND OTHER FIXED INCOME TRANSFERABLE SECURITIES	157 013 605	2 244 377	7 242 866	(50 361 557)	116 139 291	-	-	-	-	116 139 291
INTANGIBLE FIXED ASSETS										
- Other intangible assets	1 584 168	245 956	-	-	1 830 124	(997 904)	(338 067)	-	(1 335 971)	494 153
TANGIBLE FIXED ASSETS										
- Other fixtures and fittings, tools and equipment	767 752	114 076	-	(5 300)	876 528	(587 361)	(85 411)	-	(672 772)	203 756

All tangible assets are used by the Bank for its own operations.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

Note 8 - Other assets

At December 31, 2010, “other assets” consist principally of the following:

	2010	2009
	EUR	EUR
Cheques for collection	9 987	16 997
Commissions receivable	192 585	330 895
Income tax advances	2 150 745	2 868 332
Other assets	<u>2 516 148</u>	<u>1 666 345</u>
	<u>4 869 465</u>	<u>4 882 569</u>

Note 9 - Other liabilities

At December 31, 2010, “other liabilities” consist principally of the following:

	2010	2009
	EUR	EUR
Cheques for collection	496 512	71 116
Commissions payable	-	231
Preferential creditors	21 306	25 755
Other liabilities	<u>4 491 770</u>	<u>2 366 110</u>
	<u>5 009 588</u>	<u>2 463 212</u>

Note 10 - Subordinated liabilities

At December 31, 2010, the Bank had the following subordinated liabilities:

Currency	Nominal value	Interest rate	Maturity date
USD	2 000 000	LIBOR USD 3M + max 1%	19/04/2014
USD	3 300 000	LIBOR USD 3M + max 1%	14/07/2013
USD	1 500 000	LIBOR USD 3M + max 1%	22/06/2015
EUR	5 900 000	LIBOR EUR 6M + 2.15%	28/03/2013

The charges paid for the subordinated liabilities during the year amount to EUR 204 827 (in 2009: EUR 319 651).

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

Note 11 - Subscribed capital

The authorised share capital amounts to EUR 17 500 000.

On April 24, 2009 the subscribed capital unpaid has been called and paid up.

As per Extraordinary General Meeting held on April 28, 2009, the subscribed capital has been increased by an amount of EUR 3 500 000 without the issue of new share, by contribution in cash.

As at December 31, 2010, the subscribed capital amounts to EUR 12 250 000 divided into 12 250 shares with a nominal value of EUR 1 000.

Note 12 - Reserves

Reserves include:

12.1 Legal reserve

In accordance with Luxembourg law, the Bank must transfer at least 5% of its annual profit to the legal reserve until this equals 10% of subscribed capital. The legal reserve is not available for distribution.

12.2 Reserve relating to net worth tax credit

In accordance with the tax law in force since January 1, 2002, the Bank reduces the Net Worth Tax by deducting it from itself. In order to comply with the tax law, the Bank decided to allocate under non-distributable reserves (item "other reserve") an amount that corresponds to five times the amount of reduced Net Worth Tax. This reserve is non-distributable for a period of five years from the year following the one during which the Net Worth Tax was credited.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

Note 13 - Changes in shareholders' equity

The movements of the shareholders' equity of the Bank are summarised below:

	Subscribed capital	Reserves	(Loss)/Profit brought forward	Profit for the financial year	Total
	EUR	EUR	EUR	EUR	EUR
Balance at December 31, 2009	12 250 000	3 980 824	(2 542 005)	3 902 456	17 591 275
Allocation of the profit of the previous year:					
- Transfer to the legal reserve	-	195 123	-	(195 123)	-
- Transfer from NWT reserve to Result brought forward	-	(1 017 250)	1 017 250	-	-
- Profit brought forward	-	-	3 707 333	(3 707 333)	-
Profit for the financial year	-	-	-	<u>4 853 422</u>	<u>4 853 422</u>
Balance at December 31, 2010	<u>12 250 000</u>	<u>3 158 697</u>	<u>2 182 578</u>	<u>4 853 422</u>	<u>22 444 697</u>

The annual general meeting of shareholders dated April 27, 2010 approved the appropriation of the 2009 result.

Note 14 - Assets and liabilities denominated in foreign currencies

	2010 EUR	2009 EUR
Total assets in foreign currencies	<u>442 887 341</u>	<u>486 392 549</u>
Total liabilities in foreign currencies	<u>435 081 344</u>	<u>482 602 386</u>

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

Note 15 - Contingent liabilities and commitments

15.1 Contingent liabilities

Contingent liabilities reported off balance sheet as at December 31, 2010 comprise:

	2010	2009
	EUR	EUR
- Guarantees and other direct substitutes for credit	<u>34 142 065</u>	<u>28 536 169</u>

In 2010 and 2009, there was no amount relating to Bank Leumi Group Companies.

15.2 Other commitments

The following commitments outstanding at December 31, 2010 have been included neither in the balance sheet nor in off balance sheet accounts:

The premises of the Bank are rent. During the year 2010, the Bank had an annual lease commitment of EUR 243 843 (in 2009: EUR 247 642).

15.3 Deposit guarantee and investor compensation scheme

The Bank is a member of the non-profit organisation “Association pour la Garantie des Dépôts, Luxembourg” (AGDL).

The sole purpose of the AGDL is the establishment of a system of mutual guarantee of cash deposits and of receivables from investment operations made by individuals with members of the AGDL, without distinction of their nationality or residence, by corporations incorporated under Luxembourg or another European Union Member State law, which are authorised, because of their size, to prepare an abridged balance sheet in conformity with the applicable law, as well as by those corporations of a similar size as defined by law of another European Union Member State.

The AGDL reimburses to the deposit holder the amount of his guaranteed cash deposits and to the investor the amount of his guaranteed receivable with a maximum foreign currency equivalent limit of EUR 100 000 per guaranteed cash deposit and EUR 20 000 per guaranteed receivable arising from investment operations other than that relating to a cash deposit.

In 2008, in the context of the claims made by the AGDL, the Bank used its existing AGDL provision and recorded in other operating charges the claims exceeding the existing provision (EUR 509 686). As at December 31, 2008, a provision of EUR 317 896 corresponds to the claims not already made at that date.

In 2010, the Bank has been reimbursed of the claims by the AGDL for EUR 68 245 (2009: EUR 159 493). This reimbursement was recorded in other operating income in the profit and loss account (note 16.2).

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

15.3 Deposit guarantee and investor compensation scheme (cont.)

At December 31, 2010, the Bank has no provision in connection with this deposit guarantee and investor compensation scheme.

The Management of the Bank does not consider part or all of the advance payments made to the AGDL to be recoverable as at December 31, 2010 and therefore did not book a receivable.

15.4 Management and representative services

The Bank has provided third parties with the following management and representative services in the course of the financial year:

- Investment management and advice;
- Safekeeping and administration of securities;
- Fiduciary services (activity ended during the year);
- Company incorporation services.

Note 16 - Profit and loss account

16.1 Sources of income by geographical region

By application of Article 69(2) of the law on the annual accounts of credit institutions, sources of income have not been analysed by geographical region.

16.2 Other operating income

Other operating income as December 31, 2010 represents:

	2010	2009
	EUR	EUR
Reimbursement of VAT and corporate taxes	142 237	233 070
Reimbursement of AGDL claims	<u>68 245</u>	<u>159 493</u>
	<u>210 482</u>	<u>392 563</u>

16.3 Value adjustments and re-adjustments in respect of transferable securities held as financial fixed assets

As in 2009, value re-adjustments in respect of transferable securities held as financial fixed assets correspond to net realised gains as at December 31, 2010.

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

16.4 Tax charge

The Bank is liable to taxes on income and net assets. The Luxembourg tax authorities have issued assessments for the years up to and including 2005 for income taxes and for the net worth tax. Tax liabilities are recorded under “Provisions for taxation” in the balance sheet as at December 31, 2010. Tax advances paid are separately disclosed under “Other assets” in the balance sheet.

Note 17 - Staff and directors

17.1 Staff

Average number of employees during the financial year:

	2010	2009
Managers	3	3
Employees	<u>25</u>	<u>25</u>
	<u>28</u>	<u>28</u>

Certain members of staff also render services to other companies of the Bank Leumi Group which operate through Luxembourg. A portion of their salaries is recharged to these companies for the services rendered.

17.2 Information relating to Management

In the year 2010, Management received emoluments totalling EUR 582 180 (in 2009: EUR 611 519) in respect of their duties. No remuneration is paid to the non-executive directors.

Pension commitments in respect of the 3 managers amount to EUR 28 195 as at December 31, 2010 (in 2009: EUR 26 247).

There are loans of EUR 6 000 granted to one member of the Management as at December 31, 2010 (in 2009: EUR 12 000).

As at December 31, 2010, no guarantee has been issued in favour of member of the Management (in 2009: none).

Bank Leumi (Luxembourg) S.A.

Notes to the annual accounts as at December 31, 2010 (cont.)

Note 18 - Fees of the independent auditor

The fees (excluding VAT) of the independent auditor of the Bank for the year ending December 31, 2010 are as follows:

	2010	2009
	EUR	EUR
Audit	103 400	100 800
Tax	<u>11 000</u>	<u>15 120</u>
TOTAL	<u>114 400</u>	<u>115 920</u>