Magna 28.5.2015

BANK LEUMI LE-ISRAEL B.M. T121

Number in Registrar: 520018078 Public

Securities of the Corporation quoted on the Tel Aviv Stock Exchange

Short name: Leumi

Yehuda Halevy Street 34, Leumi House, Tel Aviv 6513616

Telephone: 076-8858111, 076-8859419, Fax: 076-8859732

Electronic mail: Yaelro@bll.co.il Broadcast on Magna 27/05/2015

www.leumi.co.il Ref: 2015-01-031191

To:	To:
Securities Authority	Tel Aviv Stock Exchange
www.isa.gov.il	www.tase.co.il

Immediate Report

Explanation: This form should not be used when there is an adapted form for the reported event

The results of an issuance should be reported on T20 and not on this form.

A report on the rating of debentures or the rating of a corporation should be submitted using Form T125.

Nature of event: Supplementary report – Periodic 2014

File attached: Definitive final supplementary report isa.pdf

The date on which the corporation was first notified of the event: 27/05/2015 at 21:40

The reference numbers of previous documents on the subject (a reference does not constitute generalization regarding the method of approach): 2015-01-07033

Previous names of reported entity:

Date of updating structure of form: 4/2/2015

Electronic name of reporting entity: Yael Rudnicki. Position: Secretary of the Bank

Name of employing company: 34 Yehuda Halevi Street, Tel Aviv 6513616 Tel: 076-88589419, Fax: 076-8859732, e-mail: Yaelru@Bll.co.il

May 27, 2015

To:	To:
Tel Aviv Stock Exchange	Securities Authority
Ahuzat Bayit Street 2	Kanfei Nesharim Street 22
Tel Aviv 6524216	Jerusalem 95464

Dear Sir/Madam,

Re: **Supplementary report to the Periodic Report of Bank Leumi Le-Israel B.M. ("the Bank") for the period ended December 31, 2014**

Further to the Periodic Report of the Bank as of December 31, 2014, which was published on March 31, 2015 (Ref: 2015-01-070033) ("**the Periodic Report**") and in anticipation of the submission of a shelf prospectus, the Bank takes pleasure in publishing a number of clarifications and supplements to the Periodic Report, as follows:

1. In the chapter 'Capital Means and Capital Adequacy':

   In the section 'Capital Adequacy Structure' (page 31 to the Report), it should be noted that as of 31.12.2014, the Tier 1 shareholders' equity ratio stands at 9.21%, and the overall capital ratio stands at 14.01%. If the Bank had adopted the Employee Liabilities standard at December 31, 2014, without the implementation of the effect of the transitional directives, the Tier 1 shareholders' equity ratio would have been 8.09%. With effect from January 1, 2017, the Bank is required to comply with a minimum Tier 1 shareholders' equity ratio of 10%, and a minimum overall capital ratio of 13.5%. In addition, the Bank is required to increase, with effect from that date, the target Tier 1 shareholders' equity ratio at which reflects 1% of the balances of housing loans. The impact of the said increase which is required at the final effective date is 0.25% in the capital adequacy ratio (This calculation is based on the total portfolio of housing loans and total credit risk assets as of the date of the report), with this impact being spread in accordance with the directive over eight quarters. In view of the aforesaid, the Bank is required to meet, as of 1.1.2017, the Tier 1 capital targets of 10.25% and overall capital targets of 13.75%, this, taking into account the transitional directives mentioned in Regulation 299 of the Supervisor of Banks.

   The total Tier 2 capital of Leumi as of the end of 2013 was NIS 14.5 billion. The instruments which were issued through 2013 and which were included in Tier 2 capital were amortized by 20%v at the beginning of each of the last five years before the repayment (or the first possible date for early redemption). These instruments do not meet the criteria required for inclusion in the capital according to the Proper Conduct of Banking Management Regulation 202 which was amended and to which the transitional provisions apply, according to which the balance of the instruments available for amortization will be fixed according to their amount at the end of 2013, and the ceiling for their recognition will be 80% with effect from January 1, 2014, and the beginning of each subsequent year, the ceiling will be reduced by 10%.

The amount actually recognized for Tier 2 capital is the lower of the amortized amount of the instruments themselves and the ceiling for recognition pursuant to the transitional directives. Capital instruments which will be issued from the beginning of 2014 will be required to meet the criteria set forth in Proper Conduct of Banking Business Directive no. 202, for the purpose of their inclusion in the capital.

The main criteria are: An instrument must include: (1) a principal loss absorption mechanism by conversion to common shares or the amortization of the instrument when the Tier 1 shareholders' equity ratio of the banking corporation falling below 5%; (2) an item determining that on the occurrence of the trigger event for non-viability (as defined in Appendix E to the Proper Conduct of Banking Business Directive no. 202), the instrument will be immediately converted to common shares or will be wrote-down. The Bank, like many banks around the world, is prepared for raising these instruments.

Main factors affecting capital adequacy: The main factors affecting the Bank's ability to comply with the capital adequacy requirements when the new capital requirements come into force (on January 1, 2017) are the following:

- In view of the transitional directives, at January 1, 2017, only 80% of the effect of the amortization of certain components of the capital will be reflected.
- The Bank has profits from its current activity, which (net of the rate of increase in risk assets) constitute an accrual of Tier 1 shareholders' equity, i.e., a material addition to the abovementioned capital ratios.
- The implementation of the new standard for dealing with employee rights is the factor that will most significantly impact the capital ratio. An increase in market interest rates will result in a reduction in the required provision and an increase in capital. In view of the low level of market interest rates in historical terms as of December 31, 2014, an interest rate increase is a reasonable scenario.
- The Bank is taking steps to supplement the required capital by adopting management measures, such as:
  - Managing the increase in risk assets, through the optimization of the risk assets (optimization of collaterals, etc.) the selective allocation of capital in the credit, the sale of debts/risk, investment in nostro assets which require the allocation of lower capital.
  - Examining the issuance of share capital and/or additional Tier 1 capital.
  - Selling assets and floating capital, while reducing the volume of risk assets.

As of the date of the report, the Bank does not intend to discontinue activities in order to comply with the capital requirements.

Sensitivity analysis for the main factors affecting the capital adequacy

The sensitivity analysis for the main factors affecting the capital adequacy of Leumi Group is as follows:

- A change in the volume of risk assets – The risk assets of Leumi amounted to NIS 305.5 billion at the end of 2014. Every increase of 1% in the risk assets (approx. NIS 3 billion) in future years will reduce the Tier 1 shareholders' equity adequacy ratio by 0.09%, and the overall capital ratio by 0.13%.

- Profit that will accrue or a change in the capital principal – The Tier 1 shareholders' equity of Leumi amounted to NIS 28.1 billion at the end of December 31, 2014. The overall capital amounted to NIS 42.8 billion. Every accrual of net profit and/or positive change in the capital principal amounting to NIS 1 billion will improve the Tier 1 shareholders' equity adequacy ratio and the overall capital ratio by 0.32%.
- A change in exchange rates – The volume of risk assets in foreign currency of Leumi at the end of 2014 was NIS 55 billion. Every revaluation of 1% in the rate of the shekel against the foreign currencies means an increase in the Tier 1 shareholders' equity adequacy ratio of 0.02% and in the overall capital ratio of 0.03%.
- Accounting standards regarding employee rights – According to these accounting standards, the actuarial liability for employees is discounted according to the market interest rates which is influenced by the Government of Israel debenture curve and by United States AA corporate debenture margin. An increase of 0.1% in the duration of the interest curve for discounting, under the assumption that the curve falls and rises evenly, means an increase of 0.1% in the Tier 1 shareholders' equity ratio and in the overall capital ratio (under the transitional directives, the effect is more moderate – only 40% of the impact in 2015, and an additional 20% in each subsequent year).

2. In the chapter ‘Structure and Development of Assets and Liabilities’:

   a. With regard to ‘Policy of securities investments management (nostro)’ (page 91 of the report), it should be clarified that the classification of a security which has been purchased by the Bank for the available-for-sale securities portfolio or for the trading securities portfolio is performed on the date of its purchase and is carried out in accordance with the Bank’s intention to use the security. Securities which are purchased for the purposes of trading (or with the aim of hedging other components of the trading portfolio), for the purposes of making a market or within the context of the trading room are classified for the trading securities portfolio, while securities purchased in the context of the asset and liability management of the Bank are classified to the available-for-sale portfolio. Securities purchased with aim of being held for the short term are usually classified to the trading portfolio, and those which are purchased for the long term are usually classified to the available-for-sale portfolio.

   b. With regard to investments in asset-backed securities issued abroad (page 94 of the report), it should be noted that the debentures were issued by the United States Federal Agencies which are rated, as of the date of the report, AAA.

3. In the chapter ‘Operating Segments, Activities in Products and Profit Centers in the Group’:

   a. With regard to the summary of the operating results of the Household segment (pages 114-115), and the Small Businesses segment (pages 121-122), it should be clarified for purposes of the method of attribution of noninterest income in the ‘credit card’ product, that a state of inter-segmental income and expenses exists when Leumi Card clears a card which the Bank has issued. In such a case, the clearing commission collected from the merchant is recorded as income in the Small Businesses segment or the Corporate segment and the interchange fee is recorded in the same segment as an expense, and at the same time, as income in the Household segment.

b. In the description of "Financial Management segment – Capital Markets", under 'Structure and corporate strategy of the segment' (page 143 of the report), it should be clarified that: the activity of Leumi Partners, which is, in essence, medium-term investment activity, is excluded from the calculations of the management of the Bank's resources and uses. This is because of the high degree of uncertainty, both in relation to the yield, and in relation to the period until realization. These uncertainties mean that, on the one hand, the activity is not included in the asset and liability management, and on the other hand, it is retained at a level of a few percentage points of the total nostro. It should be further clarified that the targets of the non-bank investment activity are attaining a surplus yield in comparison to the financial investment of the nostro, raising the value of the investment and achieving excess investment terms by leveraging the goodwill and accumulated experience of Leumi Group, supplementary activity for credit portfolio and expansion of the Group's value proposition to its customers, widening the dispersal of risks and varying the sources of the Group's income and promoting the Group's business by the leveraging of the investment for the purpose of building additional income sources for Leumi partners and other units of Group. It should be noted further, that the target for the maximum real investment volume of Leumi Partners is NIS 3 billion (and pursuant to the directive received from the Bank of Israel on March 23, 2015, the maximum real investment volume must be reduced by January 1, 2017 to NIS 2.5 billion). In general, the target volume for a single investment stands at NIS 40 – 250 million, focusing on investments with an average duration of up to six years. The real investment strategy determines a preference for private companies, but keeping an appropriate balance with public companies. In addition, the high feasibility of realization is included among the qualitative emphases in Leumi Partners' real investment policy.

c. In the description of 'Financial Management segment – Capital markets' under 'Profit of the segment' (page 143 of the report), it should be clarified that all of the Bank's actuarial income and expenses are recorded in the Financial Management segment and not in other segments. It should be further clarified that, pursuant to the Public Reporting Directives of the Supervisor of Banks, all of the expenses in respect of the employees should be allocated to the operating segments, including expenses which are not in the normal course of the sectors' activity. In addition, pursuant to the Supervisor's directives, it is permissible to classify an actuarial adjustment of pensioners to the Financial Management segment if the actuarial liabilities and reserve funds are managed there. Furthermore, according to Section 79g of the Public Reporting Directives, "If amounts have been allocated to reported data of the segment, these amounts should be allocated on a reasonable basis. When amounts have been allocated in reports to the management and the Board of Directors, an allocation should be made in the reported data of the segment in the same manner".

The manner in which the Bank allocates salary and related expenses, including yield bonuses, to the various operating segments, is in accordance with the employee's sectoral association. The expenses in connection with the actuarial liabilities are wholly attributed, both in respect of active employees, and in respect of pensioners, to the Financial Management segment, at the same time as the attribution of the income from the reserve funds.

The Bank is adopting this approach with regard to active employees for the following reasons:

1. The Bank management, headed by the President and CEO, just like the Board of Directors, measure the business performance of the divisions (and the business segments) while disregarding these expenses (the management approach).
2. The Bank believes that this method of attributing expenses makes it easier for the reader of the report to analyze the results of the segment more clearly, as actuarial changes included many events which constitute an exogenic activity (for example: revising mortality tables, reserve fund profits).
3. It is correct to attribute these expenses to the Financial Management segment as it is responsible for the management of all of the Bank's assets and liabilities, including actuarial liabilities and the reserve funds, while the manager of the Corporate segment has no influence over the way in which the liabilities and reserve funds are managed.

The Bank's position is that the method of attributing the expenses as stated above does not stand in contradiction of the directives and instructions of the Supervisor of Banks and it is reasonable and consistent and fairly reflects the results of the sectors.

With regard to the number of first-generation employees (for the definition of this term, see Note 15.b.1 to the financial statements), those who are employed in each of the segments, see in chapter 'Human Resources' under 'Number of positions according to operating segments'. The Bank is examining the possibility of including additional quantitative disclosures in the report in future.

d. Further to the details of the breakdown of the net profit by geographical region (page 155), the total of the expenses by geographical regions in respect of the arrangements with the U.S. authorities, and a table outlining the net profit excluding expenses in respect of the arrangements with the U.S. authorities, are as follows:

The expense in respect of the arrangements with the U.S. authorities as detailed in Note 18k to the financial statements and paragraph 6.f to this report, was attributed to the Bank and overseas subsidiaries, as follows: Switzerland – CHF 131 million, United States – USD 65 million, Luxembourg – EUR 8 million and the balance of the expense was attributed to the Bank.

	Net profit excluding expenses in respect of arrangements with the U.S. authorities (NIS millions)		
	December 31 2014	**December 31 2013**	**Change**
Israel	2,532	1,793	739
United States	16	66	(50)
United Kingdom	73	(67)	140
Switzerland	(49)	(57)	8
Luxembourg	(1)	15	(16)
Romania	(58)	(7)	(51)
Other – overseas	15	3	12
Total	2,528	1,746	782

4. In the chapter 'Risk Exposure and Risk Management', with regard to the tables dealing with the summary of exposures to unexpected changes in interest rates at the Group level (page 204), it should be noted that for the purpose of measuring the summary of exposures to unexpected changes in interest rates at the Group level, the measurement is made for both an increase and a decrease in interest rates in each linkage segment, afterwards the result which inflicts the maximum damage upon the Bank is selected and this is reported. It should be further noted that the measurement of an effect of 1% is a kind of ruler which is intended to convey an understanding of the sensitivity of the existing structure of assets and liabilities to changes in interest rates. The calculation carried out takes into account the effect on the Bank's economic value, with the interest rates varying over the whole curve by 1% without changing the structure of the assets and liabilities.

   When the interest rate is significantly negative, the structure of the assets and liabilities will necessarily change (for example – directing deposits to other channels outside the banking system, extending the average duration of the deposits, changing the Bank's policy with regard to extending credit, etc.)

If the Bank had believed that there was a high probability that the interest rates would fall by 1%, and turn negative, it should have constructed various scenarios making assumptions with regard to the abovementioned questions. The Bank does not do this because of the low probability that it will refer to such a scenario.

5. In the chapter ’Human Resources’ with regard to “Number of positions by operating segment’, it should be added that as of March 31, 2015, 4,298 employees of the Bank were first-generation employees (as this term is defined in Note 15b.1), of which 2,509 were in the Household segment, 580 in the Small Businesses segment, 500 in the Commercial segment, 135 in the Private Banking segment, 344 in the Corporate segment and 230 in the Financial Management segment.

6. With regard to the notes to the 2014 financial statements:

   a. With regard to that stated in Note 1(r) regarding ‘Employee Rights’, it should be noted that had the Bank implemented the Securities Authority Staff’s accounting position regarding a deep market, the estimate of the balance of liabilities as of December 31, 2014 would have been expected to increase by NIS 3.3 billion and the balance of the assets would be expected to increase by NIS 1.2 billion, in comparison to the balance of liabilities and assets as stated in the financial statements.

   b. As regards the details presented in Note 3 regarding mortgage-backed and asset-backed securities which are in positions of unrealized losses, it is clarified that the losses are arising from market risks and not from credit risks.

   c. With regard to that stated in Note 4b regarding ‘Credit quality – Debt arrears status, it should be clarified that according to the directive of the Supervisor of Banks concerning measurement and disclosure of impaired debts, credit risk and provision for credit losses, debts which have been valued on a collective basis and in arrears of between 90 and 150 days have been classified as problem debts (‘unimpaired’), and as such, accrue interest income. The duty to classify a debt in arrears of 90 days and more as impaired debts which do not accrue interest income applies to debts which have been examined on an individual basis. This directive does not apply to balances in respect of housing loans, which are computed in accordance with the depth of arrears. It should be noted that within the balance of the unimpaired debts in arrears of 90 days and more, as of December 31, 2014, NIS 896 million is credit granted by the Bank (excluding subsidiaries), of which NIS 128 million is in respect of non-housing loans, the arrears period in respect of which is between 90 and 149 days and some NIS 768 million is in respect of housing loans, of which a total of NIS 164 million is in arrears of up to 149 days, NIS 222 million is in arrears of between 150 and 249 days, and the balance is in respect of a debt in arrears of 150 days and more.

   d. With regard to the details presented in Note 1(r) regarding employee rights and in Note 15b.1 regarding severance pay and pension, it should be clarified that: in accordance with a letter of the Supervisor of Banks dated February 11, 2015, the method of accruing liabilities for pension was changed. In accordance with the method that was applied prior to this letter, the reserves for pension are based on an actuarial calculation, which reflects the past experience and a management evaluation with regard to the expected retirement dates of the Bank’s employees and the expected benefits on retirement, which are attributed on a linear basis over the expected period of employment. Pursuant to the new method for accrual, the Bank accrues the pension liability of first-generation employees using a straight-line method up to the calculated age of early retirement (hereinafter: “**average retirement age**”). The accrual of the liabilities in subsequent years to the average retirement age is carried out according to a formula of the benefit program of first-generation employees. The average retirement age is calculated on the basis of the actual average retirement ages of first-generation employees in the past five years (men and women), making certain adjustments in accordance with the requirements of the Supervisor of Banks, the effect of which on the average retirement age is immaterial. This average includes all types of retirement made in these in years, i.e., ordinary retirement and early retirement, including retirement within the framework of structural changes. The average retirement age for men and women is 64.18 and 61.45, respectively.

The average retirement age is only used for the purpose of accruing a liability, and it is not used for calculating the expected period of service or the expected retirement age, which are based on the age at which the Bank anticipates the retirement, and this is because the average retirement age takes into account retirement data arising from early retirement arrangements within the framework of structural changes that occurred in the past, which do not necessarily reflect the future (as the Bank has no commitment to future structural changes as of the reporting data). The retirement data which is used for calculating the eligibility to pension is 67 for men (calculated according to their eligibility pursuant to the Pension Law) and 65.75 for women (which is calculated according to the actual retirement age, excluding early retirement age data within the framework of structural changes).

e. With regard to that stated in Note 18(j)(4) regarding the arrangement with the U.S. authorities, it should be noted that, to the best of the Bank's knowledge, the SEC investigation is focused on the provision of services to U.S. customers in the context of which securities advice services were given, in an alleged breach of the United States Investment Advisors Act and an alleged breach of the U.S. Broker-Dealer provisions of the law.

The Bank has legal claims in connection with the matters which are the subject of the SEC investigation, including demands regarding statute of limitations in respect of transactions carried out before September 2009. In addition, according to the Bank's position, the Bank has already repaid profits that were generated in respect of the activity involving US persons through 2010 within the framework of the arrangement with the DOJ (disgorgement).

In addition, according to the Bank's position, the profits generated for it from the alleged breaches from 2011 are low, and do not necessarily represent profits from illegal activity, this, in view of the fact that, with effect from 2009, the Bank commenced a process of changing its procedures of advising to U.S. customers.

The discussions with the SEC are currently at the stage of provision of information and documentation to the SEC.

The Group, based on an opinion of the United States lawyers advising the Group in the SEC investigation, considers that there is no reason for making a provision in the financial statements in respect thereof. Nevertheless, in accordance with an instruction of the Bank of Israel dated May 25, 2015, according to which, "for the time being, the Bank is obliged to include a provision in the amount of the expected loss, according to your estimations, in respect of the investigation. For reasons of prudence, this provision must not be less than USD 5 million". The Bank will make a provision of USD 5 million in the Bank's financial statements for the first quarter of 2015.

f. With regard to that stated in Note 18k regarding the arrangement concluded with the U.S. authorities (the DOJ and NYDFS), it should be noted that the amount of expenses amounting to NIS 1,658 thousand does not include exchange rate differences amounting to NIS 150 million, which is included, similar to the rest of the foreign currency income and expense items, in noninterest financing income within the item of net exchange rate differences.

In addition, it should be noted that as of December 31, 2014, a liability for payment to the DOJ was included in the Bank's financial statements, amounting to NIS 1,033 thousand, which was paid in the first quarter of 2015. The payment to DFS was made during 2014.

g. With regard to Note 18e to the financial statements as of December 31, 2014 – 'Changes in items measured at fair value on a recurring basis included at Level 3' – it should be noted that a technical error occurred in the data included in the note. The correct data are as follows:

	For the year ended 31 December 2014										
		Total realized / unrealized and included profits (losses)									
	Fair value at beginning of the year	In profit and loss Statement	In other total profit	Acquisitions and issues	Sales	Clearances	Adjustments from translation of financial statements	Transfers to Level 3	Transfers from Level 3	Fair value at 31 December 2014	Unrealized profits (losses) in respect of instruments held at 31 December 2014
	NIS millions										
Assets:											
Available-for-sale securities											
Foreign governments	7	-	-	-	(7)	-	-	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
Overseas financial institutions	120	(1)	-	-	-	(119)	-	-	-	-	-
MBS / ABS	1,733	77	(5)	557	(160)	(192)	(1)	-	-	2,009	289
Others in Israel	9	-	-	-	-	9	-	-	-	-	-
Total available-for-sale bonds	1,869	76	(5)	557	(167)	(320)	(1)	-	-	2,009	289
Available-for-sale shares	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	86	18	-	-	-	-	-	41	-	145	88
Interest contracts	391	137	-	-	-	(105)	-	-	-	423	-
Foreign currency contracts	1,334	(622)	-	1,595 (b)	-	-	-	-	-	2,307	1,273 (a)
Shares contracts	-	64	-	-	-	-	-	-	-	64	64
Goods and other contracts	-	64	-	-	-	-	-	-	-	64	64
Total assets in respect of derivative instruments	1,811	(339)	-	1,595	-	(105)	-	41	-	3,003	1,562
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,680	(263)	(5)	2,152	(167)	(425)	(1)	41	-	5,012	1,851
Liabilities											
Liabilities in respect of derivative instruments											
Shekel-index contracts	75	(71)	-	-	-	-	-	37	-	41	38
Interest contracts	-	-	-	-	-	-	-	-	-	-	-
Foreign currency contracts	304	(194)	-	-	-	-	-	-	-	110	(181)
Total liabilities in respect of derivative instruments	379	(265)	-	-	-	-	-	37	-	151	(143)
Total others	-	11	-	-	-	-	-	-	-	11	11
Total liabilities	379	(254)	-	-	-	-	-	37	-	162	(132)

h. With regard to Note 27 regarding net interest income, it is clarified that the transfer prices at which the profit center making the loan is debited and at which the profit center receiving the deposit is credited are identical (to the assets and liabilities with identical average duration and linkage).

Sincerely

Bank Leumi Le-Israel B.M.

By:
Ron Fainaro, Head of Financial Division
Hannan Friedman, Chief Legal Advisor