2008 Annual Report

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Report of the Board of Directors to the General Meeting of Shareholders

REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF SHAREHOLDERS

At the meeting of the Board of Directors held on March 29, 2008, 4 Nisan 5769, it was resolved to approve and publish the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as at December 31, 2008.

The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

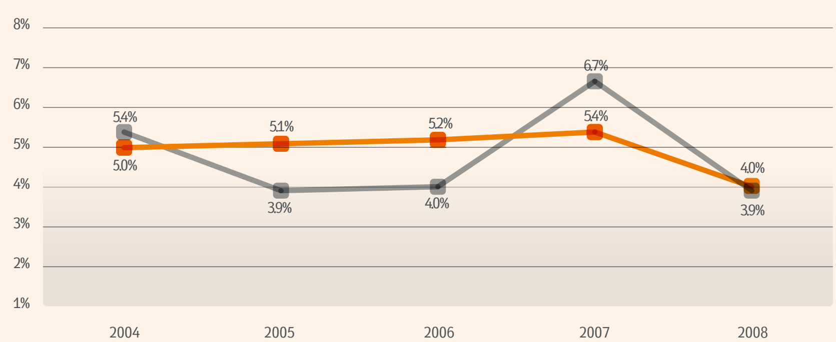
The General Environment and the Effect of External Factors on the Bank Group

Developments in Israel's Economy in 2008

Real Developments

The impact of the crisis in global and domestic financial markets and the global economic slowdown have gradually penetrated activity in Israel's real economy, and in 2008, the growth rate decreased from one quarter to the next.
Estimates by the Central Bureau of Statistics for 2008 indicate a lower growth rate in gross domestic product, which rose by 4.0% in 2008, compared to 5.4% growth in 2007. Based on data adjusted for seasonality, the growth rate declined from 4.6% in the first quarter of the year, to 3.2% in the second quarter, to 0.9% in the third quarter and to -0.5% (negative growth) in the final quarter. Growth in imports also declined, growing by 1.9% in 2008, compared to 11.7% growth in 2007.
On the use side, a decline was recorded in the growth rate of the two major factors which have led growth in the local economy over recent years, with private consumption growing by 3.9%, compared to 6.7% growth in 2007, and exports of goods and services (excluding diamonds) growing by 8.5%, compared to 9.5% growth last year. Investment in fixed assets rose in 2008 by 5.4%, after growing by 15.5% last year.
In March 2009, the Bank of Israel updated its economic growth forecast for 2009, to a rate of negative 1.5% (negative growth), compared to negative 0.2% in its previous forecast.

Development of GDP and private consumption



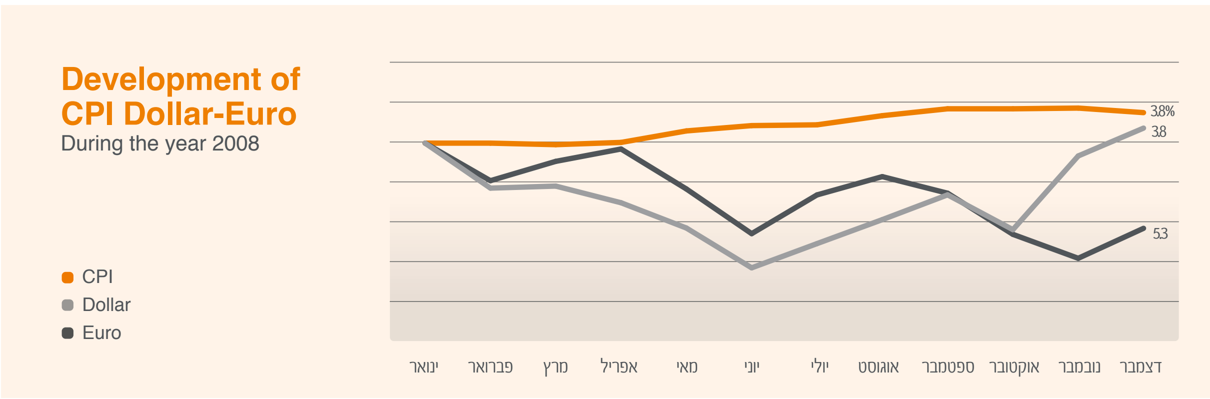
Rate of growth in private consumption
Rate of growth in gross domestic product

Inflation and exchange rates

In 2008, the Consumer Price Index rose by 3.8%, compare to a 3.4% rise in 2007. The major items contributing to the rise in the CPI were housing, home maintenance and food. Note that the CPI trend over the year was uneven, largely influenced by prices of oil and commodities on the international market, with the CPI rising sharply through September 2008, when inflation over the trailing 12 months reached 5.5%, whereas in the final quarter of 2008 the CPI declined.

In 2008, the USD was devalued by 1.1% against the NIS, reaching NIS 3.802 per 1 USD at the end of 2008, compared to NIS 3.846 at the end of 2007. The Euro was devalued against the NIS in this period by 6.4%, reaching NIS 5.297 per 1 Euro at the end of 2008, compared to NIS 5.659 per Euro at the end of 2007.

The USD/NIS exchange rate was highly volatile along the year. In continuation of the trend which had started in 2007, the exchange rate in July reached a low of NIS 3.230 to 1 USD. Against the backdrop of the stronger NIS, the Bank of Israel started buying USD in March 2008 - its first intervention in the foreign currency market in the past decade. On November 21, 2008, the exchange rate reached NIS 4.022 to 1 USD. On March 23, 2009, the exchange rate was at NIS 4.052 to 1 USD.



Monetary and fiscal policy

The Bank of Israel's interest policy in 2008 was impacted by two major factors: Growth rate on the one hand, and inflation rate on the other. Early this year, the Bank of Israel adopted an expansive policy due to the anticipated sharp slowdown in the economy, and lowered interest rates in two steps of a half percentage point each, from 4.25% in January 2008 to 3.25% in April. Upon realizing that inflation has picked up, the Bank of Israel moved to a restrictive policy, raising interest rates in four steps of one-quarter percentage point each, until interest rates stood at 4.25% in September 2008. Due to the worsening global financial crisis in September 2008, and the need to stimulate economic activity, the Bank of Israel once again changed tack and lowered interest rates in four steps, down to 2.50% in December 2008.

In the first quarter of 2009, the Bank of Israel continued its expansive policy, and lowered interest rates in two additional steps of three-quarters of a percentage point each and a further reduction of one-quarter of a percentage point - lowering interest rates to an annualized 0.75% in March 2009. On March 23, 2009, the Bank of Israel announced a further reduction of one quarter of a percentage point, so that interest rate for April would be 0.5% per annum.

In 2008, a NIS 15.2 billion deficit was recorded in the government budget, compared to near-zero deficit in 2007. The actual expense ratio of 99.4% and lower than expected revenues due to the economic slowdown both led to the government missing the target deficit; the deficit as percentage of GDP reached 2.1% - compared to the target of 1.6% - and rose for the first time after 4 straight years of declines.

Due to the economic slowdown, the government approved an economic stimulus plan amounting to NIS 20 billion. The stimulus plan includes multiple steps, including assistance to credit markets, accelerated investments, employment stimulus and assistance to growth-engine sectors.

In view of the financial crisis and geo-political events in Israel, the Bank acts in areas where it can contribute to acceleration of business activity in the economy and to business development, while adopting considered policies with regard to exposure to risk. Following the Second Lebanon War, TZAFONA corporation and the Bank established a fund for provision of loans at special conditions to businesses in Northern Israel - the TZAFONA Fund. The fund helps businesses who would use the loan to bring added value to the northern region, such as hiring new employees and manufacturing of new products. Following Operation OFERET YETZUKA, another fund, DAROMA, was established to help businesses in Southern Israel and in the border region. Furthermore, another fund was recently established in cooperation with the Manufacturers Association of Israel and the Employers Joint Fund, aimed at helping by providing loans to manufacturers of up to NIS 2 million per company. Total credit for these funds may exceed NIS 500 million.

Residential construction and the mortgage market

The residential construction sector, which has been depressed for several years, continued to tread water in 2008. Despite a 2.7% growth in residential construction investment in 2008, following a 6.0% growth in 2007, there was no increase in residential housing construction starts. Residential housing construction starts in 2008 was 30 thousand units, similar to the annualized rate over the past five years.

Demand for new apartments declined in 2008, with sales data for new apartments showing a 25% drop in sale of apartments from public construction, and a 7% decline in sales of apartments from private construction - compared to the previous year's data. The total number of transactions for sale of apartments (new and used) was stable.

The inventory of new apartments for sale from private construction at the end of 2008 was 9,870 units, a 10% decrease over the year-ago period. Despite this decline, it would seem that in recent months, the downward trend in inventory, which started in early 2007, has stopped.

In view of the global credit crisis, the 20% increase in housing loan origination in the Israeli economy in 2008 is notable. Arrears in mortgage payment, too, have yet to reflect the impact of the crisis, with total arrears continuing to decline in 2008, as did the share of the credit portfolio.

Capital market

The weakness in global capital markets and the sharp volatility which was typical of the markets in the first 9 months of this year continued into the fourth quarter of 2008. Volatility continued against the backdrop of the global financial crisis and the fear of a global economic slow-down (see below chapter on the global economy).

Capital markets in Israel operated against this global backdrop, and against the fear of the impact of the financial crisis and global slow-down on Israel.

Equity market - the Tel Aviv 25 and Tel Aviv 100 indices declines in 2008 by 46.2% and 51.1%, respectively. Even sharper declines were recorded by the Tel Tech 15 and the Banking indices, which dropped by 64.3% and 55.1%, respectively. The Real Estate 15 index declined by 79.7% in 2008. In the fourth quarter, the Tel Aviv 25 and Tel Aviv 100 indices declined by 26.2% and 29.8%, respectively.

The average daily trading volume in equities and convertible securities in 2008 amounted to NIS 1.96 billion, slightly below the average daily trading volume for 2007, which was NIS 2.07 billion.

In 2008, issuance of equities and convertible securities experienced a significant decline, amounting to NIS 6.2 billion, compared to NIS 21.4 billion on 2007.

In the first two months of 2009, volatility continued in the equity market.

Bond market - the General Bond Index and the CPI-linked Bond Index declined in 2008 by 0.7% and 5.3%, respectively. In the fourth quarter, these indices dropped by 1.4% and 6.3%, respectively. The Non-linked Bond Index rose in 2008 by 9.6%, including a 5.6% rise in the fourth quarter.

The Tel Bond 20 index declined by 3.2% in 2008. In the fourth quarter, this index dropped by 4.4%, after a 6.7% decrease in the preceding quarter. The Tel Bond 40 index, which also comprises real estate companies, has declined since its inception on February 3, 2008 through the end of 2008 by 22.5%. In the fourth quarter, this index declined by 16.4%, following an 11.1% decline in the third quarter.

Consequently to the evolving credit crisis and the increasing fear of slower growth, corporate bond margins over government bonds increased. Corporate bonds rated AAA traded at the end of the fourth quarter of 2008 at a margin of 0.98 percentage point above government bonds; bonds rated AA traded at a margin of 4.28 points above government bonds; and corporate bonds rated A traded at 24.68 percentage points above corresponding government bonds.

In 2008, the business sector raised, via bond issuance to the public and to institutional investors, a total of NIS 23.3 billion, compared to NIS 87.1 billion in 2007. In the fourth quarter of 2008, only NIS 1.3 billion were raised, compared to NIS 18.8 billion in the corresponding period last year.

The average daily trading volume in bonds for the fourth quarter of 2008 amounted to NIS 4.62 billion, compared to NIS 3.35 billion in the corresponding period last year - a 38% increase. For all of 2008, the average daily trading volume in bonds amounted to NIS 4.03 billion - a 23% increase over the average daily volume in 2007.

In the first two months of 2009, the General Bond Index rose by 4.8%, the Tel-Bond 20 Index rose by 2.8% and the Tel-Bond 40 Index rose in the same period by 10.8%. The rise occurred mostly in January, with bonds reflecting mixed trends in February.

Global economy

The global financial crisis, which started in the second half of 2007, deteriorated in 2008 and soon affected the global real economy, as well. Developed countries, such as the USA, Japan, Germany and the UK, entered a recession in 2008, and the global growth rate decreased to 3.4% (based on estimates by the International Monetary Fund) - compared to 5.2% in 2007. In order to stabilize the financial markets and to strengthen economic activity, government intervention in many countries increased significantly. Such intervention was reflected in banks being nationalized, in assistance provided to sectors in crisis and in tax abatements for businesses and households.

GDP in the USA grew by 1.1% in 2008, after growing by 2.0% in 2007. Positive growth was achieved with the aid of a stimulus plan launched in the second quarter of 2008. During the year it appeared that this stimulus plan had run out of steam, and negative growth was recorded in the second half of the year. Unemployment rose sharply in the USA this year, reaching 7.2% at the end of 2008, compared to 4.7% in November 2007.

Emerging markets, too, saw a slow-down in growth, while facing significant decline in demand from developed countries. In China, growth slowed down to 9.0%, compared to 13.0% in 2007; in India the growth rate was 7.3%, compared to 9.3% in the previous year.

The IMF's global growth forecast for 2009 is at 0.5% - the lowest rate since the Second World War. The growth forecast for the USA in 2009 is 1.6%, and for the Euro-zone it is -2.0% (negative growth).

The price of oil, which was $92 at the end of 2007, climbed in the first months of 2008 to reach a peak of $145 a barrel in July 2008. In view of the global economic slow-down, the price of oil dropped sharply in the second half of the year, reaching $36 a barrel at the end of 2008 - a 61% decline compared to the price at the end of 2007. Prices of other commodities were also subject to similar fluctuations this year.

The inflationary trend in the major economies was similar to price trends in the oil and commodity markets - although at a different magnitude. Thus, for example, the inflation rate in the USA for the trailing 12 month period reached a peak of 5.5% in July, but for all of 2008 it was merely at 0.1%.

The change of trend in inflation made it easier for central banks around the world to adopt an expansive monetary policy in an attempt to ease the credit crunch and to prevent deterioration of the economic crisis. Interest rates in the USA reached a record low at the end of the year, moving in a range between 0.00% and 0.25%, compared to 4.25% at the start of the year. In the UK, too, interest rates were sharply lowered during the year, reaching 1.50% at the start of 2009, the lowest it has ever been - compared to 5.50% at the start of 2008.

Against the backdrop of the liquidity and trust crisis in financial markets, fear of further credit losses, slower growth in the USA and in other leading countries and the fear of the impact these may have on the global economy, declines in leading stock indices around the world continued in the fourth quarter of 2008, and even worsened for most of them.

The Dow Jones, NASDAQ and S&P 500 indices declined in 2008 by 33.8%, 40.5% and 38.5%, respectively. The FTSE 100 and Nikkei indices declined in the same period by 31.3% and 40.4%, respectively. Sharper declines were recorded by the French CAC 40 index and the Japanese Nikkei index, which declined in the period under review by 42%-43%, while the DJ EuroSTOXX index dropped by 44.3%.

In the first two months of 2009, declines continued in global equity markets, with the aforementioned major indices declining by 11%-18% from their levels at the end of 2008.

Bank Group Operations and Description of its Businesses Development

Forward-looking information

Some of the information in the Report of the Board of Directors, which does not relate to historical facts, constitutes "forward-looking information", as defined in the Securities Law, 1968 ("the Law").

The actual results of the Bank could be significantly different from those included in the forward-looking information, or all that is implied there from. Prospective information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking/ prospective information and expressions involve risk and lack of certainty, because they are based on management's assessments of future events that include many factors, including as a result of economic developments in Israel and worldwide, especially the state of the economy, including the effect of macroeconomic and geopolitical conditions; changes and developments in the inter-currency markets and the capital markets, and other factors affecting the exposure to financial risk, changes in the financial strength of borrowers, the public's preferences, legislation, supervisory regulations, the behavior of competitors, aspects related to the Bank's image, technological developments and human resources matters.

Bank Group

Mizrahi Tefahot Bank Ltd. ("the Bank") was among the first banks established in the State of Israel. The Bank was associated as a public company on June 6, 1923, under the name Mizrahi Bank Ltd., and it was issued the license to commence business on May 13, 1924. The Bank was founded at the initiative of the World Mizrahi Center, in order to facilitate the financing of settlement, construction, manufacturing, labor and commercial activities of the new settlers in the Land of Israel. In 1969, upon the merger of the businesses of the Bank with the businesses of Hapoel Hamizrahi Bank Ltd., the Bank's name was changed to United Mizrahi Bank Ltd. IN 1983, within the framework of the arrangement formulated between the Israeli Government and the banks, the shares of the Bank were transferred to the control of the State through a securities company that was established for this purpose. In the years 1995 and 1997, the Bank was privatized in two stages, and was transferred to control of the present controlling shareholders. Following the merger between United Mizrahi Bank Ltd and "Tefahot" Israel Mortgage Bank Ltd. ("Tefahot"), the merged bank's name was changed on November 7, 2005 to its present name, Mizrahi Tefahot Bank Ltd.

The Bank Group operates in Israel and overseas. The Bank Group is engaged in commercial banking (business and retail) as well as mortgage activities in Israel, through a nation-wide network of 165 branches and business centers. Furthermore, business customers are supported by business centers and professional departments at Bank headquarters, which specialize by sector. The Bank's overseas operations are conducted via several subsidiaries, 4 branches and 3 representative offices in Europe, USA and Latin America.

In addition to its banking activities, the Bank Group is engaged in various activities related to the capital market, including: Consultancy for capital market activities, management of securities portfolios for customers, distribution of mutual funds and provident fund operation. Furthermore, having completed in 2006-2007 the sale of its mutual fund and provident fund operations, the Bank was granted a license to provide retirement advisory services to salaried employees and to self-employed - and has started operations in this area as well.

During 2008, several significant changes were made to the Bank Group:

Acquisition of controlling stake in Bank Yahav - On March 27, 2007, the Bank signed a memorandum of understandings, whereby the Bank would acquire 50% of issued capital of Bank Yahav for Government Employees Ltd. ("Yahav"), including associated rights. On September 9, 2007, a detailed agreement was signed with regard to acquisition of said shares and rights based on principles set forth in the memorandum of understandings. On November 13, 2007, an addendum to the agreement was signed - setting forth the calculation method for the consideration to be paid by the bank. On July 10, 2008, the transaction closed in exchange for NIS 371 million, in addition to NIS 48 million for 50% of the excess Yahav shareholders' equity generated due to sale of its provident funds.

Acquisition of holdings in Bank Yahav is aligned with Bank business strategy which emphasizes, inter alia, development of Group retail operations.

Starting in the 3rd quarter of 2008, Bank Yahav's financial statements are consolidated with those of the Group. See Note 6.E.4) to the financial statements for additional details.

Merger of Bank Adanim - on November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee and by the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. (hereinafter: "Bank Adanim") - a wholly-owned and wholly-controlled subsidiary of the Bank - to approve the merger of Bank Adanim with the Bank. On February 23, 2009, the approval of the Registrar of Corporations for the merger was received, and as of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into the Bank. For further details, see Note 6.E.1) to the financial statements.

Agreement with Isracard - On November 13, 2007, the Bank signed a memorandum of understandings with Isracard Ltd. and Europay (Eurocard) Israel Ltd. "Isracard" and "Europay", respectively), whereby the parties would negotiate to replace their current agreed arrangements with a new agreement (for a 10-year term) aimed at issuing Mizrahi-Tefahot branded credit cards and agreeing on arrangements for operation and servicing by Isracard and/or Europay of debit cards to be issued by them and to be distributed by the Bank to its customers (hereinafter: ("the new agreement"), in exchange for allotment of 3.6% of shares of Isracard and Europay to the Bank.

On April 10, 2008, the Bank announced that negotiations regarding the new agreement have not materialized in a binding agreement. As a result of the parties not reaching a new agreement, and in accordance with the MOU to which the parties are committed, the existing contractual agreements between the parties would remain in effect for a 10-year term starting on November 13, 2007, and the bank retained 1.8% of Isracard and Europay ordinary shares allotted to it on December 19, 2007. Furthermore, the Bank may distribute its branded card through any party of its choice.

See Note 19.D.16) to the financial statements for further information.

Agreement with CAL - on November 18, 2008, the bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand, to be distributed by the Bank to its customers (hereinafter, respectively: "the agreement" and "the cards"). The agreement set forth, inter alia, operating arrangements and service provisions by CAL Group for the cards. The agreement supersedes current agreements between the Bank and CAL Group.

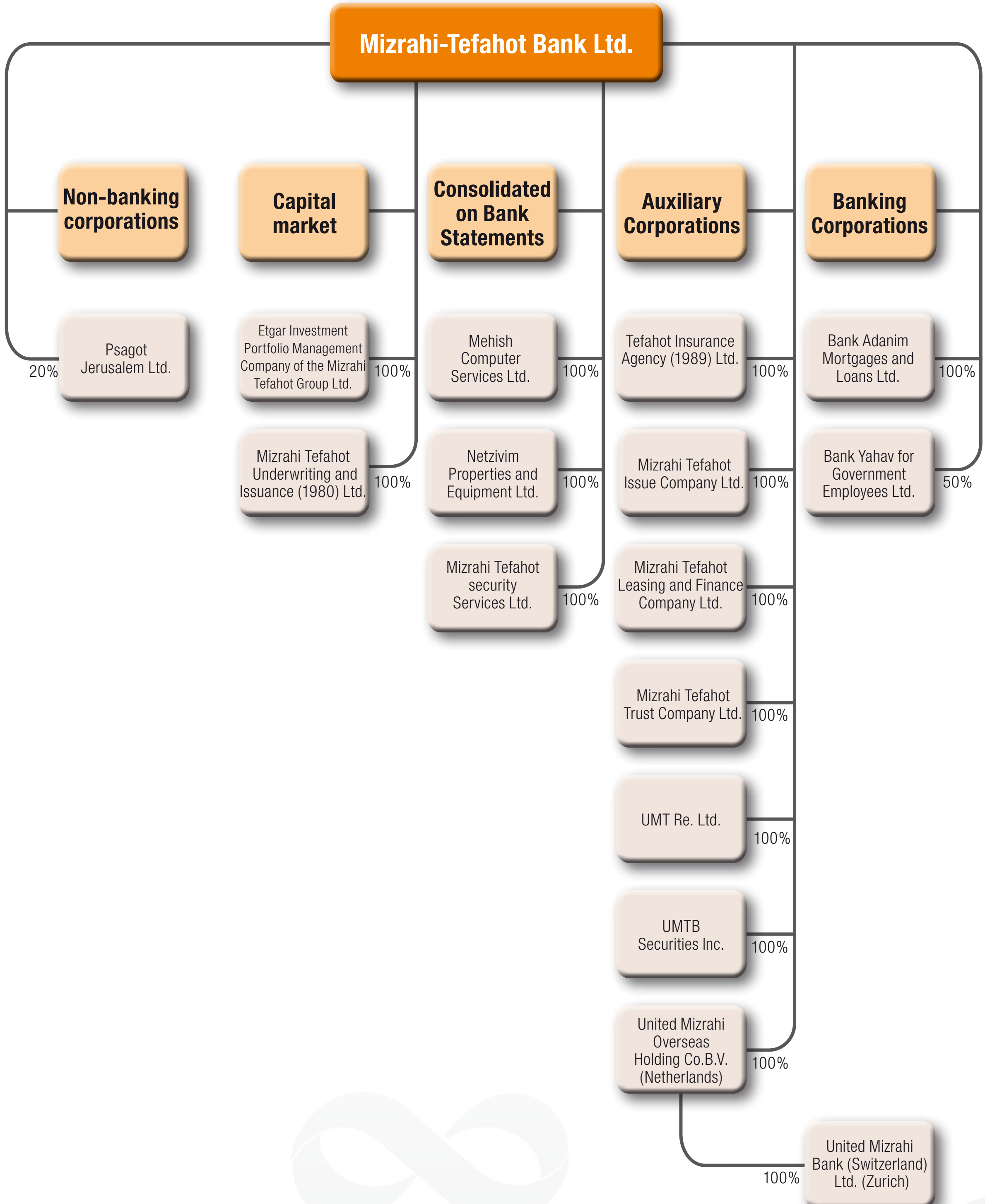
In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment and in exchange for payment of an exercise price according to a formula set forth in the agreement, ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted (hereinafter: "the option"), all subject to terms and conditions set forth in the agreement.

The agreement is effective for a 5-year term from its date of signing. Should the option be exercised or cashed as set forth in the agreement, the agreement term shall be extended to 10 years from its signing date, and may be further extended. The agreement is subject to all regulatory requirements required by statute, if any.

The agreement and option have no material impact on Group financial statements.

See Note 19.D.15) to the financial statements for further information.

Holding Structure - Major Companies[1]:



See Note 6 to the financial statements for additional information on the structural changes in the Group.

(1) The bank has holding in other companies which are not material to Bank operations.

Control of the Bank Group

To the best of the knowledge of the Bank and the Board of Directors, the holding stakes of controlling shareholders of the Bank, as of December 31, 2086, are as follows:

	Holder	No. of shares	% of capital and voting rights
Wertheim Group	M.W.Z. (Holdings) Ltd.[1]	15,643,785	7.02%
	F & W (Registered Partnership)[2]	28,975,102	13.00%
	Total Wertheim Group	44,618,887	20.02%
Ofer Group	C.A.B.M. Ltd.[3]	7,066,264	3.17%
	L.A.B.M. (Holdings) Ltd.[4]	12,862,041	5.77%
	E.A.B.M. Ltd.[5]	15,175,631	6.81%
	Ofer Brothers Properties (1957) Ltd.[6]	14,591,953	6.55%
	Ofer Brothers Investments Ltd.[7]	7,477,642	3.36%
	Total Ofer Group	57,173,531	25.66%
	Total holdings - controlling shareholders	101,792,418	45.68%
Total shares issued by the Bank		222,869,361	100.00%

(1) A private company, the shares of which are held by Mr. Moshe Wertheim (99.2%) and in trust for Mr. Moshe Wertheim by Attorney Binyamin Rothenberg (0.8%).

(2) A registered partnership held by Mr. Moshe Wertheim (1%) and by M.W.Z. (Holdings) Ltd. (99%).

(3) A private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company, the shares of which are held by Ofer Brothers Investments Ltd. (89.1%) and by Nazareth Industrial Properties (10.9%). Nazareth Industrial Properties Ltd. is a private company wholly-owned and controlled by Ofer Development and Investments Ltd., a private company wholly-owned and controlled by Ofer Brothers Properties (1957) Ltd.

(4) A private company wholly-owned and controlled by L.I.N. (Holdings) Ltd., a private company wholly-owned and controlled by Mr. Eyal Ofer (95%) and a foreign company (5%).

(5) A private company wholly-owned and controlled by Ofer Brothers Holdings Properties Ltd., a private company wholly-owned and controlled by Ofer Brothers Properties (1957) Ltd.

(6) A private company, the shares of which are held by Leora Ofer (15%), Doron Ofer (15%), Yehuda (Yuli) Ofer (36.67%), L.I.N. (Holdings) Ltd. (33.33%) (as aforesaid, a private company wholly-owned and controlled by Mr. Eyal Ofer (95%) and a foreign company (5%)).

(7) A private company wholly-owned and controlled by Ofer Brothers Properties (1957) Ltd.

Shareholder agreements

An agreement was signed on October 6, 1994 between E.A.B.M. Ltd., C.A.B.M. Ltd. and L.A.B.M. (Holdings) Ltd., as one party ("Ofer Group corporations") and between Feinberg-Wertheim (Registered Partnership)[1] as the other party ("Wertheim Group corporations") for cooperation in exercising rights associated with Bank shares ("voting agreement"). The voting agreement sets forth, inter alia, rules for joint voting of controlling shareholders at General Meetings, for each party's right of refusal upon sale of shares by the other parties, for rights to appoint Board members and rights to appoint the Chairman of the Board of Directors.

(1) The name of the partnership relevant for Bank share holdings is F&W (Registered Partnership).

Concurrently with signing of the voting agreement a cooperation agreement was signed between the corporations that are the controlling shareholders of the companies comprising the Ofer Group, i.e. between E.A.B.M. Ltd., C.A.B.M. Ltd, Ofer Brothers Properties (1957) Ltd. and Ofer Brothers Investments Ltd. ("Ofer Properties") as one party, and between L.A.B.M. (Holdings) Ltd., which is wholly-owned by L.I.N. (Holdings) Ltd. ("L.A.B.M.") as the other party, whereby in all matters relating to holdings of Bank shares, its control and management rights, the parties will divide equally. Therefore, the Ofer corporations' quota of directors (as structured above) will be divided equally between Ofer Properties and L.A.B.M. According to terms of the agreement, decisions will not be made by the Ofer Group corporations, on any matter related to the Bank, including in votes at the Bank's General Meetings, unless Ofer Properties and L.A.B.M. have given their consent.

Permits and Arrangements with Regard to Control of the Bank

To the best of the Bank's knowledge, after a NIS 90 million capital infusion into Ofer Brothers Properties (1957) Ltd., the Supervisor of Banks informed the representative of Ofer Properties in a letter dated March 6, 2008, that in view of efforts by Ofer Group to permanently resolve the issue of holding of means of control, the Bank of Israel intends to allow continued negotiations aimed at regulating Ofer Group holding of means of control in the Bank, to the satisfaction of the Supervisor of Banks, through December 31, 2009, provided that after said date, if said holdings have yet to be regulated, Ofer Brothers Properties (1957) Ltd. would maintain a ratio of capital to sources of 40% or higher, in accordance with generally accepted accounting practices.

On August 11, 2008, the Bank received from LIN (Holdings) Ltd. - an interested party in the Bank - ("LIN") the following report:

"Subsequent to LIN's announcement dated April 22, 2007 and to the immediate report issued by the Bank on April 22, 2007 with regard to transfer of LIN's shares to a foreign trust, whose major beneficiary in respect of Bank shares is Mr. Eyal Ofer, we hereby inform you that on August 7, 2008 an amendment to the control permit was received from Bank of Israel, authorizing the aforementioned share transfer to the foreign trust; this transaction was completed on August 8, 2008. LIN holds 33.33% of the share capital of Ofer Brothers Assets (1957) Ltd. as well as 100% of the share capital of LABM (Holdings) Ltd., which are both interested parties in the Bank. We also hereby inform you that subsequent to the aforementioned share transfer, LIN's holdings were re-structured, whereby LIN transferred some of its non-banking holdings to another company."

Investments in Bank Capital and Transactions in Bank Shares

- On June 1, 2008, the Bank allocated to Mr. Eliezer Yones, Bank President, via a trustee, 658,987 ordinary Bank shares of NIS 0.1 par value each. This is subsequent to exercise of 1,092,888 options allocated to the trustee on December 23, 2004 pursuant to the stock option plan in accordance with a private offer to the Bank President, approved by the Board of Directors on October 25, 2004 which is part of terms of employment of the President. For further details, see Note 16.A.1.a to the financial statements.

- On February 1, 2009, the Bank allotted to the trustee, on behalf of Mr. Eliezer Yones, 5,571,381 option warrants, not listed for trading on the stock exchange, pursuant to provisions of the option warrant allotment plan in accordance with a private offering approved by the Bank Board of Directors on November 30, 2008 - which is an integral part of the president's employment terms. The ordinary shares, of NIS 0.1 par value each, to be allotted upon exercise of the option warrants, would be listed for trading on the stock exchange. These option warrants are in addition to Bank securities held by the president in person and via the trustee, as set forth in the above chapter on control of the Bank.

  For further details, see Note 16.A.1.b to the financial statements.
- On January 8, 2008 the Bank was informed that the group of companies consisting of David Lubinski Ltd., Clal Holdings Insurance Business Ltd. and Epsilon Investments Ltd., indirectly controlled by the same controlling shareholders, own Bank shares totaling more than 5% of the Bank’s issued share capital (on the announcement date - 5.325%). The Bank was further informed that the date of the transaction which caused the aforementioned group to become an interested party in the Bank was January 1, 2008, due to combination of holdings by Bank Hapoalim provident funds acquired by Clal Holdings Insurance Business Ltd.

  On March 4, 2008 the Bank was informed that following sale of Bank shares on the stock exchange, the aforementioned group was no longer an interested party in the Bank.

Board of Directors’ decision with regard to capital adequacy ratio

On May 14, 2007 the Board of Directors passed a resolution, instructing Bank management to act so as to have capital adequacy ratios (including upper tier II capital) of no less than 11.2% starting with financial statements for the second quarter of 2007.

On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12.0% by end of 2009, without change to the Bank’s dividend distribution policy (see below).

These resolutions are in conjunction with the resolution by the Bank’s Board of Directors from April 2006, stipulating that the Tier I and Tier II capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%. Said resolutions were made in view of the custom among banks globally to maintain capital adequacy rates higher than the minimum requirements imposed by regulators, in order to reflect to investors and depositors the conservative approach and international standards which the Bank wishes to adopt, as well as in view of the intent of the Supervisor of Banks to adopt Basel II regulations and to have capital allocated for operating risk as well. The ratio of capital to risk components as of December 31, 2008 was 11.31%. The ratio of capital to risk components excluding upper Tier II capital was 10.07%. See Note 14 to the financial statements for details.

Raising of capital sources

In conjunction with the Bank’s work plan, which is set by the Board of Directors and includes growth objectives for different operating segments, an assessment is made of the impact of achieving said objectives on total risk assets for the Bank, and hence on its capital adequacy ratio. Accordingly, along with business and profitability objectives, a plan is set to raise capital sources in order to maintain capital adequacy, in accordance with instructions of the Board of Directors as set forth above.

For details of raising funds by means of obligatory notes and debentures, see chapter on Sources and Financing.

In February 2009, the Bank raised NIS 400 million against allotment of additional complex capital notes, considered to be upper Tier II capital, amounting to NIS 434 million par value, as well as NIS 337 million against additional subordinated capital notes, considered to be Tier II capital (via Mizrahi-Tefahot Issuance Company Ltd.) with NIS 325 million par value. See Note 14 to the financial statements for details.

According to Bank management estimates, the Bank should complete, by end of 2009, the raising of upper Tier II capital amounting up to NIS 500 million (of which NIS 400 million was raised, as set forth above, in February 2009) to be used for the Bank's current operations. This amount would be raised as upper Tier II capital, by means of complex capital notes, and subject to prevailing market terms upon the issuance date. In addition, the Bank would issue subordinated notes, considered to be Tier II capital, as required.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Dividend Distribution

Dividend distribution policy

On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policy, whereby, provided that the Bank's capital ratio is not less than 10%, a dividend will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policy is in effect as from the year 2006. On December 24, 2007, the Bank Board of Directors determined, in conjunction with approval of the strategic five-year plan, that during the plan term, the Bank's adopted dividend distribution policy would be maintained.

In addition to the aforesaid, the distribution of a dividend by the Bank is subject to the provisions of law and additional limitations, as provided in Notes 13 and 14 to the financial statements.

In view of the global financial crisis and the implications there of on the Israeli capital market, the Bank has avoided distribution of dividends in the second half of 2008.

Distributed Dividends

Below are details of dividends distributed by the Bank since 2006 through the publication date of these financial statements (in reported amounts):

Payment date	Dividend per share (in Agorot)	Total dividend paid (NIS in millions)
September 13, 2006	57.00	125
December 19, 2006	91.41	200
June 13, 2007	90.49	200
September 19, 2007	56.46	125
December 19, 2007	33.82	75
February 19, 2008	33.80	75
June 11, 2008	33.78	75

Profit and Profitability

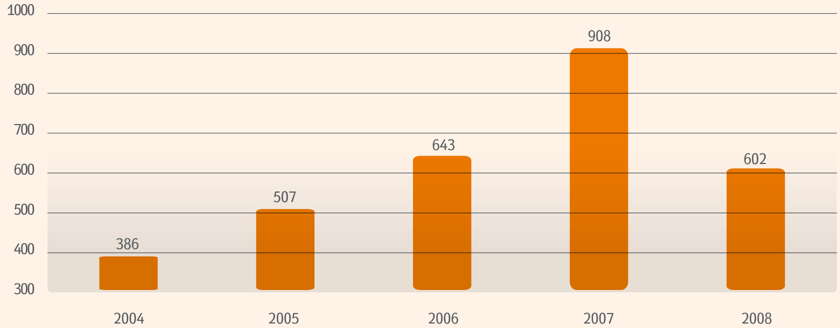
Operating net profit for the Group in 2008 amounted to NIS 601 million, compared to NIS 681 million in the same period last year - a 11.7% decrease. This profit reflects return on equity of 10.4%, compared with 12.9% in 2007. Operating net profit in the fourth quarter of 2008 amounted to NIS 96 million, compared to NIS 153 million in the same period last year - a 37.3% decrease. This profit reflects a 6.7% annualized return on equity, compared to 11.6% in the corresponding period last year.

Group net profit in 2008 amounted to NIS 602 million, compared to NIS 908 million (including NIS 227 million from extraordinary items, primarily resulting from sale of the Bank Group's provident fund operations) in the corresponding period last year. This profit reflects return on equity of 10.4%, compared with 17.2% in 2007.

Net income for the Group in the fourth quarter of 2008 amounted to NIS 96 million, compared to NIS 147 million in the same period last year. This profit reflects a 6.7% annualized return on equity, compared to 11.2% in the corresponding period last year.

Profit from extraordinary items in 2008 amounted to NIS 1 million, compared to NIS 227 million in the corresponding period last year, primarily due to sale of the Group's provident fund operations.

Net profit
(NIS in millions)



Below are the major contributing factors to Group profit from extraordinary items in 2008 compared to 2007:

- A NIS 195 million - or 9.8% - increase in profit from financing operations before provision for doubtful debts, from current operations, excludes the impact of initial consolidation of Bank Yahav (the increase excludes impact of accounting treatment, provision for impairment and other factors, see below under analysis of profit from financing operations), compared to the corresponding period last year.

  Most of the increase in profit from financing operations is from retail operations: Financing profits in the retail segments (excluding impact of initial consolidation of Bank Yahav) rose by 15.8%. Mortgage operations grew by 24% - or NIS 82 million. In addition, Bank Yahav contributed NIS 141 million to profit from financing operations - or 7%.
- A NIS 25 million increase - or 2.4% - in operating commission revenues, excluding the impact of initial consolidation of Bank Yahav's financial statements. The increase, including the impact of initial consolidation of Bank Yahav's financial statements, amounted to NIS 70 million.

The following key factors caused a decline in Group profit from current operations:

- Increase of NIS 268 million in provision for doubtful debts and other credit instruments. This increase is primarily due to a NIS 167 million increase in current provision for doubtful debts, inter alia due to implications of the financial crisis on the business sector, and to a NIS 101 million increase in provision for impairment of Bank investments in securities primarily exposed to fluctuations in overseas financial markets due to the global crisis.
- Operating and other revenues, excluding the impact of initial consolidation of Bank Yahav which amounted to NIS 59 million, decreased in 2008 by NIS 20 million, or 1.7%, over the corresponding period last year.

  The major causes of this decrease in revenues were loss of revenues from provident fund management fees, amounting to NIS 22 million, and a decrease in dividend revenues amounting to NIS 22 million.
- Payroll expenses in the second, third and fourth quarters of 2008, excluding the impact of initial consolidation of the Bank Yahav financial statements, declined by comparison to the first quarter. Payroll expenses in 2008, excluding the impact of initial consolidation of the Bank Yahav financial statements, rose by NIS 22 million in comparison to 2007 - a 1.9% growth.
- Operating and other expenses, excluding payroll expenses, and excluding the impact of initial consolidation of Bank Yahav, increased in 2008 by NIS 36 million over the corresponding period last year, a 4.7% increase, primarily due to an increase in amortization expenses for computers, buildings and equipment.
- A NIS 67 million increase in provision for taxes on operating profit (compared to the provision amount had the Adjustment Act been in effect) due to rescinding of the Adjustment Act starting in 2008.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debts amounted to NIS 2,289 million in 2008, compared with NIS 2,026 million in the corresponding period last year - an increase of 13.0%. Group profit from financing operations before provision for doubtful debts in the fourth quarter of 2008 amounted to NIS 588 million, compared with NIS 507 million in the same period last year - a 16.0% increase.

Most of the increase in profit from financing operations is from retail operations (see details below): Financing profits in the retail segments (excluding impact of initial consolidation of Bank Yahav) rose by 15.8%. Mortgage operations grew by 24% - or NIS 82 million.

Below is an analysis of development of major items for profit from financing operations (NIS in millions):

	For the Year Ended December 31			Fourth Quarter		
	2008	2007	Rate of change	2008	2007	Rate of change
Current operations	2,183	1,988	9.8%	552	495	11.5%
Profit from interest on problem loans	155	171		51	31	
Profit (loss) from realization and impairment of debentures held for sale and debentures held for trading, net[1]	(197)	(90)		(111)	(81)	
Effect of accounting treatment of derivatives at fair value and others[2]	7	(43)		24	62	
Initial consolidation of Bank Yahav	141	-		72	-	
Total	2,289	2,026	13.0%	588	507	16.0%

(1) Includes provision amounting to NIS 215 million in 2008 (of which NIS 120 million in the fourth quarter) for impairment of Bank investments in securities exposed to fluctuations in overseas financial markets due to the financial crisis, compared to a provision of NIS 114 million (of which NIS 90 million in the fourth quarter of 2007).
(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.

Below are details of financing profit by major operating segments of the Group (NIS in millions)[1]:

Operating segment	2008	2007	Rate of change
Retail banking:			
Mortgages	422	340	24.1%
Household[2]	771	576	33.9%
Small business	329	277	18.8%
Total[2]	**1,522**	**1193**	**27.6%**
Private banking	81	49	65.3%
Commercial banking	148	115	28.7%
Business Banking	541	462	17.1%
International operations[3]	-	(9)	-
Financial management[4]	(3)	216	-
Total	**2,289**	**2,026**	**13.0%**

(1) For definition of operating segments, see below the chapter on "Bank Group Operating Segments".
(2) Including NIS 141 million in respect of initial consolidation of Bank Yahav in the second half of 2008. Excluding this impact, financing profit from households grew by 9.4% and for all retail banking - by 15.8%.
(3) In 2007, results of international operations were presented as a separate segment. In 2008, results of international operations are included under the different segments, mostly under private banking, business banking and financial management.
(4) The decrease in segment profit from financing operations is primarily due to a provision amounting to NIS 215 million in 2008 (of which NIS 120 million in the fourth quarter) for impairment of Bank investments in securities exposed to fluctuations in overseas financial markets due to the global crisis, compared to a provision of NIS 114 million in 2007 (of which NIS 90 million in the fourth quarter of 2007). The provision in 2007 was separately classified under results of international operations.

The average balances of financial assets in the different linkage segments (including impact of derivatives) are as follows:

Linkage segment - financial assets	2008	2007	Rate of change
Israeli currency - non-linked	79,528	62,137	28.0%
Israeli currency - linked to the CPI	40,851	39,950	2.3%
Foreign currency(1)	63,955	60,896	5.0%
Total	184,334	162,983	13.1%

(1) Local activity and overseas affiliates (includes foreign currency-linked Israeli currency).

The increase in average balance of financial assets in the non-linked segment is due to a significant increase in derivative instrument operating volume and to a NIS 3.4 billion growth in average balance of non-linked assets in respect of initial consolidation of Bank Yahav with Group financial statements.

Interest margins (difference between the rate of income on assets and the rate of expenses on liabilities) in the various linkage segments (including the effect of derivatives, in percent) are as follows:

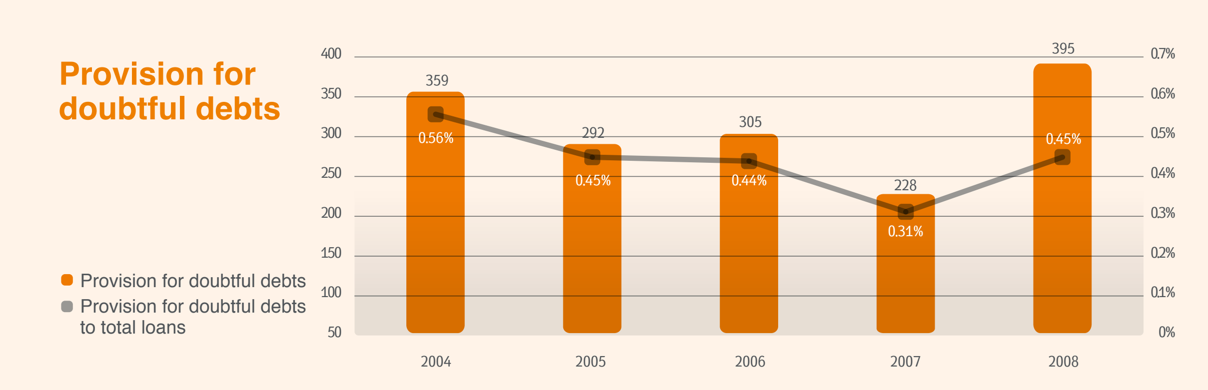
Linkage segment	2008	2007
Israeli currency - non-linked	1.36	1.50
Israeli currency - linked to the CPI	0.73	0.54
Foreign currency(1)	0.55	0.08
Total including impact of derivatives	0.96	0.77
Total excluding impact of derivatives	2.50	1.34

(1) Local activity and overseas affiliates (includes foreign currency-linked Israeli currency).

Provision for doubtful debts for the Group in 2008 amounted to NIS 395 million, compared to NIS 228 million in 2007 - a 73.2% increase. In the fourth quarter of 2008, provision for doubtful debts amounted to NIS 182 million, compared with NIS 50 million in the corresponding period last year, an increase of 264.0%.

The increase in provisions is primarily due to an increase in specific provisions in respect of problem loans, due, inter alia, to the impact of the financial crisis on the business sector.

In 2008, provisions for doubtful debts and other credit instruments increased by NIS 268 million. This increase is primarily due to a NIS 167 million increase in current provision for doubtful debts, inter alia due to implications of the financial crisis on the business sector, and to a NIS 101 million increase in provision for impairment of Bank investments in securities primarily exposed to fluctuations in overseas financial markets due to the global crisis.



Development of provision for doubtful debts (NIS in millions) is as follows:

	For the Year Ended December 31	
	2008	2007
Specific provision:		
By extent of arrears	34	30
Other	345	218
Total specific provision	379	248
General and additional provision	16	(20)
Total	395	228
Rate of provision for doubtful debts to total credit to the public	0.45%	0.31%

Details of provision for doubtful debts by major Group operating segments (NIS in millions) are as follows:

Operating segment	2008	2007	Rate of change
Retail banking:			
Mortgages	42	41	2.4%
Household	(1)45	26	73.1%
Small business	89	74	20.3%
Total	**176**	**141**	**24.8%**
Private banking	1	-	
Commercial banking	25	7	257.1%
Business banking(2)	180	77	133.8%
International operations	-	3	-
Financial management	13	-	-
Total	**395**	**228**	**73.2%**

(1) Includes NIS 6 million due to impact of initial consolidation of Bank Yahav financial statements.
(2) The increase in provision for doubtful debts in the banking business segment, amounting to NIS 103 million, is due inter alia to implications of the financial crisis on the business sector, mostly on several major borrowers.

The balance of the general and supplementary provision for doubtful debts in the Group's balance sheet amounted to NIS 194 million as of December 31, 2008, compared with NIS 172 million as of December 31, 2007.

Group profit from financing operations after provision for doubtful debts in 2008 amounted to NIS 1,894 million, compared with NIS 1,798 million in the same period last year - an increase of 5.3%. Excluding the impact of initial consolidation of Bank Yahav financial statements, profit from financing operations after provision for doubtful debts decreased by 2.2% compared to 2007. The increase in profit from financing operations before provision for doubtful debts amounting to NIS 195 million, due to the increase in Bank current operations, was offset by a NIS 101 million increase in provision for impairment of Bank investments in securities primarily exposed to fluctuations in overseas financial markets due to the global crisis.

In the fourth quarter of 2008, profit from financing operations after provision for doubtful debt amounted to NIS 406 million, compared with NIS 457 million in the same period last year, an decrease of 11.2%. Excluding the impact of initial consolidation of Bank Yahav financial statements, profit from financing operations after provision for doubtful debts decreased by 25.8% compared to the corresponding period last year.

Total operating and other income in 2008 amounted to NIS 1,229 million, compared to NIS 1,190 million in 2007 - a 3.3% increase.

Excluding revenues of NIS 59 million due to initial consolidation of Bank Yahav financial statements, impact of dividend revenues amounting to NIS 32 million received in 2008 in respect of equity investment, compared to NIS 57 million in the corresponding period last year, as well as loss of revenues amounting to NIS 22 million from provident fund management fees due to sale of these operations, total operating and other revenues increased by 2.4%.

In the fourth quarter of 2008, operating and other income amounted to NIS 331 million, compared to NIS 303 million in the corresponding period last year, a 9.2% increase.

Excluding the impact of initial consolidation of Bank Yahav financial statements, operating and other income remained unchanged from the corresponding period last year.

Income from operating commissions for the Group was NIS 1,104 million in 2008, compared with NIS 1,034 million in 2007, an increase of 6.8%.

Income from operating commissions for the Group excluding income of NIS 45 million arising from initial consolidation of Bank Yahav financial statements, grew by 2.4% over 2007. In the fourth quarter of 2008, operating commission revenues amounted to NIS 295 million, compared to NIS 265 million in the corresponding period last year, an 11.3% increase. Excluding the impact of initial consolidation of Bank Yahav statements, income from operating commissions in the fourth quarter of 2008 increased by 3.4% over the corresponding period last year.

Net profit from equity investments in 2008 amounted to NIS 46 million, compared to NIS 65 million in 2007. This profit includes dividend revenues amounting to NIS 32 million received in 2008 from equity investments, compared to NIS 57 million in 2007.

In the fourth quarter of 2008, net profit from equity investments amounted to NIS 16 million, compared with NIS 20 million in the same period last year.

Other income for the Group totaled NIS 79 million in 2008, compared with NIS 91 million in 2007, a decrease of 13.2%.

Excluding NIS 14 million in revenues due to initial consolidation of Bank Yahav financial statements, other income for the Group decreased by 28.6%. The decrease is primarily due to loss of revenues amounting to NIS 22 million from provident fund management fees, due to sale of provident fund operations.

In the fourth quarter of 2008, other revenues amounted to NIS 20 million, compared to NIS 18 million in the same period last year, an 11.1% increase.

Excluding the impact of initial consolidation of Bank Yahav financial statements, other income for the Group decreased by 22.2%, primarily due to a decrease in income from provident fund operating fees and from mutual fund distribution fees, in view of the declines in capital markets which led to lower asset valuations.

Operating and other expenses for the Group, excluding the impact of initial consolidation of Bank Yahav financial statements, increased by 3.0%. The impact of initial consolidation of Bank Yahav financial statements added NIS 156 million, such that total operating and other expenses in 2008 amounted to NIS 2,153 million, compared to NIS 1,938 million in 2007. In the fourth quarter of 2008, excluding the impact of initial consolidation of Bank Yahav financial statements, operating and other expenses decreased by 0.2% over the corresponding period last year. The impact of initial consolidation of Bank Yahav financial statements added NIS 78 million, such that total operating and other expenses in the quarter amounted to NIS 588 million, compared to NIS 511 million in the corresponding period in 2007.

Payroll and associated expenses for the Group, excluding the impact of initial consolidation of Bank Yahav financial statements, increased by 1.9%. The impact of initial consolidation of Bank Yahav financial statements added NIS 82 million, such that total payroll and associated expenses in 2008 amounted to NIS 1,273 million, compared to NIS 1,169 million in 2007.

Payroll expenses in the fourth quarter of 2008, excluding the impact of initial consolidation of Bank Yahav's financial statements, decreased by 0.7% compared to the corresponding period last year. The impact of initial consolidation of Bank Yahav financial statements added NIS 38 million, such that total payroll and associated expenses in the fourth quarter amounted to NIS 327 million, compared to NIS 291 million in the corresponding period last year.

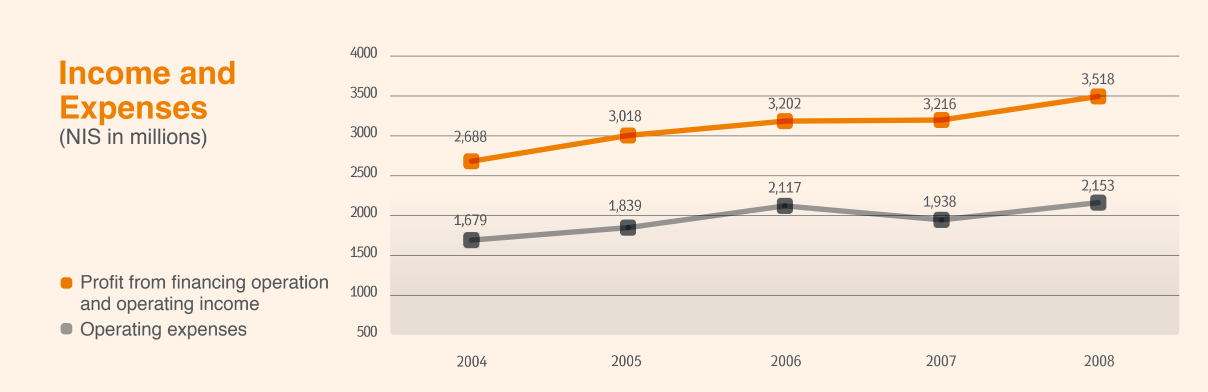
Maintenance and depreciation expenses for buildings and equipment, excluding the impact of initial consolidation of Bank Yahav financial statements, increased by 5.9%. The impact of initial consolidation of Bank Yahav financial statements added NIS 27 million, such that total maintenance and depreciation expenses for buildings and equipment in 2008 amounted to NIS 473 million, compared to NIS 421 million in 2007.

In the fourth quarter of 2008, excluding the impact of initial consolidation of Bank Yahav financial statements, Maintenance and depreciation expenses for buildings and equipment increased by 7.3%. The impact of initial consolidation of Bank Yahav financial statements added NIS 14 million, such that total naintenance and depreciation expenses for buildings and equipment in the quarter amounted to NIS 132 million, compared to NIS 110 million in the corresponding period last year - a 20.0% increase.

Other operating expenses for the Group in 2008, excluding the impact of initial consolidation of Bank Yahav financial statements, increased only by 3.4% over 2007. The impact of initial consolidation of Bank Yahav financial statements added NIS 47 million, such that total operating and other expenses in 2008 amounted to NIS 407 million, compared to NIS 348 million in 2007.

In the fourth quarter of 2008, excluding the impact of initial consolidation of Bank Yahav's financial statements, other operating expenses decreased, compared to the corresponding period last year, by 5.5% - due, inter alia, to a decrease in commissions paid to the stock exchange in respect of customer activity in the capital market.

The impact of initial consolidation of Bank Yahav financial statements added NIS 25 million, such that total operating and other expenses in the quarter amounted to NIS 129 million, compared to NIS 110 million in the corresponding period in 2007.



As a result of developments in profit and expenses, changes toe financial ratios were as follows:

	For the Year Ended December 31	
	2008	2007
Operational Coverage Ratio(1)	57.1%	61.4%
Cost-Income Ratio(2)	61.2%	60.3%
Excluding the impact of initial consolidation of Bank Yahav financial statements:		
Operational Coverage Ratio(1)	58.6%	61.4%
Cost-Income Ratio(2)	60.2%	60.3%

(1) Total operating and other profit to total operating and other expenses.
(2) Total operating and other expenses to total operating and financing profit before provision for doubtful debts.

Group pre-tax operating profit in 2008 amounted to NIS 970 million, compared to NIS 1,050 million in 2007. Excluding pre-tax operating profit amounting to NIS 38 million due to initial consolidation of Bank Yahav's financial statements, pre-tax operating profit decreased by 11.2%. This decrease in profit is primarily due to an increase in provision for doubtful debts and other credit instruments as a result of implications of the financial crisis.

In the fourth quarter of 2008, pre-tax operating profit amounted to NIS 149 million, compared to NIS 249 million in the corresponding period last year, a decrease of 40.2%. Excluding NIS 17 million in profit due to initial consolidation of Bank Yahav financial statements, the decrease over the corresponding period last year was 47.0%.

Provision for taxes on operating profit amounted to NIS 356 million in 2008, compared with NIS 368 million in 2007, a decrease of 3.3%.

In the fourth quarter of 2008, provision for taxes on operating profit amounted to NIS 47 million, compared to NIS 95 million in the corresponding period last year, a 50.5% decrease.

The in provision for taxes was also impacted by the rescinding of the Inflationary Adjustment Act and by revisions made to the VAT Act, which led to a NIS 67 million increase in provision for taxes on operating profit compared to 2007.

For details on repeal of the Adjustment Act, see Note 28D to the financial statements.

Operating net profit in 2008 amounted to NIS 601 million, compared to NIS 681 million in the same period last year - a 11.7% decrease.

Operating net profit in the fourth quarter of 2008 amounted to NIS 96 million, compared to NIS 153 million in the corresponding period last year - a 37.3% decrease.

After-tax profit from extraordinary items for the Group in 2008 amounted to NIS 1 million, compared to NIS 227 million in 2007, primarily due to sale of the Group's provident fund operations.

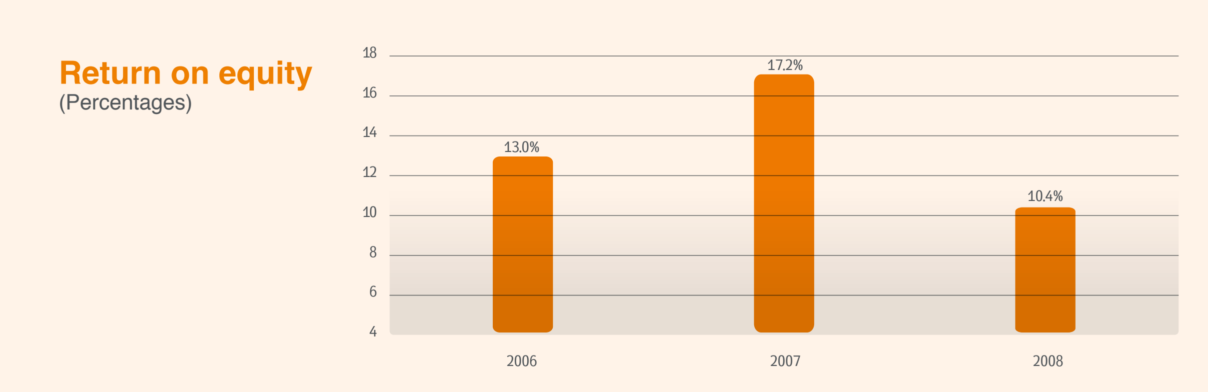
Return(1) on Group profit and its development relative to shareholders' equity(2) (in %):

	2008	2007	2006
From current operations	10.4	12.9	(3)8.6
Net profit	10.4	17.2	13.0

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of profit and expenses rates, less average balance of minority interest and less/plus the average balance of unrealized profit/loss from adjustment to fair value of debentures held for trading as well as profit/loss from debentures held for sale.

(3) Excluding extraordinary items - 12.3%.



Earnings per share

Earnings per ordinary, NIS 0.1 par value share are as follows (in NIS):

	2008	2007	2006
Basic earnings per share:			
From current operations	2.70	3.08	1.95
From net profit	2.71	4.11	2.94
Diluted earnings per share:			
From current operations	2.68	3.03	1.91
From net profit	2.69	4.04	2.88

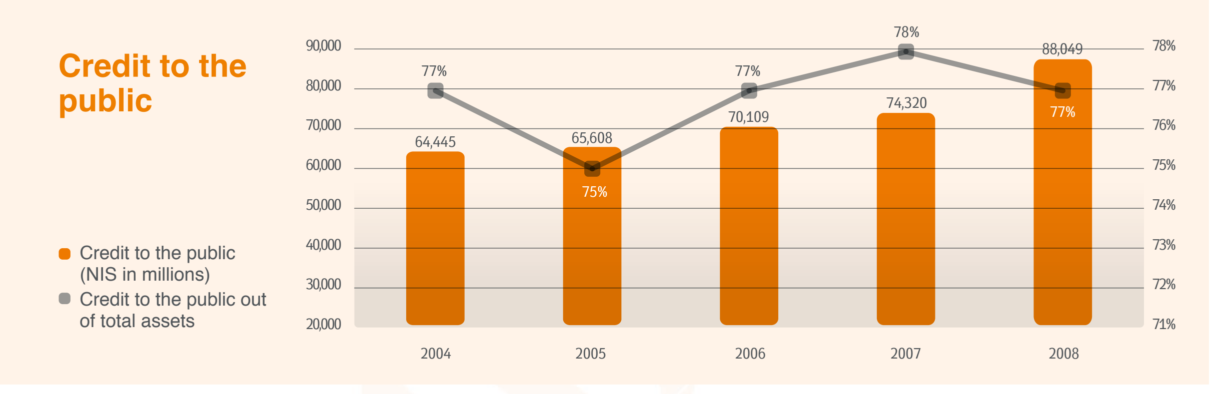
Development of balance sheet items

Development in loans to the public according to main operating segments:

	December 31		
	2008	2007	Change in %
Balance sheet total	114,012	95,317	19.6
Credit to the public	88,049	74,320	18.5
Deposits from the public	91,779	75,290	21.9
Securities	9,259	6,145	50.7
Shareholders' equity	5,952	5,557	7.1

Loans to the public - Loans to the public on the consolidated balance sheet as of December 31, 2008 accounted for 77% of total assets, compared with 78% as of the end of 2007. The Group's loans to the public increased in 2008 by NIS 13.7 billion, a 18.5% increase. Excluding initial consolidation of Bank Yahav's loans to the public, amounting to NIS 3.8 billion, and the impact of NIS revaluation, loans to the public in 2008 increased by 14.5%.

The Bank is conducting a comprehensive review of its exposure to borrowers. In addition, the Bank reviews the impact of scenarios (significant change in exchange rates, in stock indices, in bond yields etc.) in order to identify potential impact to borrowers. Due to the global financial crisis, the Bank reviews its customers' exposures, in particular customers in the capital market sector who are exposed to this crisis and to international financial institutions. In cases where a gap is created between the collateral required from a customer and the customer's credit exposure - steps are taken to reduce the gap in collateral. In conjunction with the aforementioned, borrowers are required to provide additional collateral in order to reduce the Bank's exposure. In addition to the aforementioned steps, credit portfolios are currently carefully scrutinized and provisions for doubtful debts have been provided as needed. The increase in provision for doubtful debts is due, inter alia, to the implications of the financial crisis on the business sector.



Loans to the public by linkage segments (NIS in millions) is as follows:

Linkage segment	Balance as of December 31			Segment share of total credit to the public as of December 31	
	2008	2007	Change in %	2008	2007
Israeli currency					
Non-linked	39,913	27,911	43.0%	45.3%	37.5%
CPI-linked	34,211	33,586	1.9%	38.9%	45.2%
Foreign currency and foreign currency linked	13,925	12,823	8.6%	15.8%	17.3%
Total	88,049	74,320	18.5%	100%	100%

Loans to the public by operating segments (NIS in millions) is as follows:

Operating segment	2008	2007	Rate of change
Mortgages	41,593	35,795	16.2%
Household	(1)(2)12,907	7,808	65.3%
Total - Households	54,500	43,603	25.0%
Small business	4,955	4,806	3.1%
Private banking	(2)1,350	-	
Commercial banking	4,545	4,087	11.2%
Business banking	(2)22,699	17,412	30.4%
International operations	(2)-	4,412	
Total - business and others	33,549	30,717	9.2%
Total	88,049	74,320	18.5%

(1) Includes NIS 3,823 million due to impact of Bank Yahav consolidation.

(2) Includes credit to the public in respect of international operations: in the household segment - NIS 679 million; in the private banking segment - NIS 1,350 million; and in the business banking segment - NIS 2,151 million.

Development of Group credit risk distribution by size of borrower is as follows:

	2008		2007	
Borrower credit risk (NIS in thousands)	Share of total Group credit risk	Share of total Group number of borrowers	Share of total Group credit risk	Share of total Group number of borrowers
Up to 150	16.8%	80.6%	13.7%	77.6%
150-600	25.4%	16.4%	25.3%	19.4%
600-2,000	12.2%	2.5%	10.0%	2.4%
Above 2,000	45.6%	0.5%	51.0%	0.6%

Credit Risk According to major industrial sectors[1] in respect of borrower operations in Israel (in NIS millions)

	2008		2007		
Sector	Balance sheet credit risk	% of total balance sheet credit risk	Balance sheet credit risk	% of total balance sheet credit risk	% change
Private individuals (includes mortgages)	53,890	62.8%	43,665	60.9%	23.4%
Construction and real estate	7,411	8.6%	6,609	9.2%	12.1%
Financial services	7,000	8.2%	7,256	10.1%	(3.5%)
Industry	6,826	8.0%	4,645	6.5%	46.9%
Commerce	4,842	5.6%	4,437	6.2%	9.1%
Other	5,787	6.7%	5,040	7.0%	14.8%
Total	85,756	100%	71,652	100%	19.7%

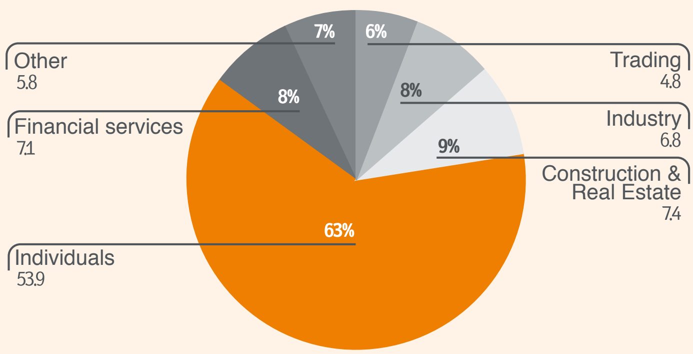
(1) Includes loans to the public, investments in debentures of the public.

Credit risk for credit to the public is composed of on-balance-sheet risk and off-balance-sheet credit risk, which are weighted by nature of the borrower and credit type, as per Bank of Israel instructions. On-balance-sheet risk includes balances of credit to the public, derivative instruments purchased by the public and Group investment in public debentures. Off-balance-sheet credit risk includes guarantees and transactions in off-balance-sheet instruments, obligations to provide credit and unutilized credit facilities.

Total Group credit risk as of December 31, 2008 amounted to NIS 132.7 billion, compared to NIS 119.9 billion in 2007 - an increase of 10.67% primarily due to increase in housing loans.

Credit rish classified by economic sector - at December 31, 2008

(NIS in billions)



Total Group credit risk for problem loans at December 31 (NIS in millions):

	2008	(1)2007
Non-accrual debt	1,145	934
Rescheduled debt	194	185
Debt designated for rescheduling	-	2
Debt in temporary arrears	1,034	1,027
Includes: In respect of hous ing loans	537	615
Debt under special supervision	3,582	1,582
Includes: Debt in respect of which a specific provision was made	989	120
Includes: Housing loans for which there is a provision based on length of arrears	615	670
Total balance sheet credit to problem borrowers	5,955	3,730
Off-balance sheet credit to problem borrowers	941	616
Debentures of problem borrowers	112	-
Problem loans of financial institutions	12	-
Total credit risk, including in respect of problem borrowers	7,020	4,346

(1) Reclassified.

Securities - the balance of investments in securities increased in 2008 by NIS 3.1 billion. Excluding initial consolidation of Bank Yahav's securities, amounting to NIS 3.5 billion, the balance of securities decreased by 6.3%.

Distribution of Group security portfolio by linkage segment (NIS in millions) is as follows:

	Balance as of December 31		
Linkage segment	2008	2007	Change in %
Israeli currency			
CPI-linked	1,953	1,207	62%
Non-linked	2,755	1,742	58%
Foreign currency and foreign currency linked[(1)]	4,171	2,797	49%
Non-monetary items	380	399	(5%)
Total	9,259	6,145	51%

(1) The increase in 2008 was primarily due to acquisition of Israeli and foreign government bonds.

Distribution of balance of Group investment in securities by issuer type (NIS in millions) as of December 31, 2008 is as follows:

	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities held for sale:				
Debentures of the Government of Israel	6,237	57	110	6,184
Foreign government debentures	513	2	-	515
Bank debentures	1,572	4	61	1,515
Corporate debentures	158	1	17	142
Asset-backed debentures	110	-	27	83
Other stocks	332	55	7	380
Total securities held for sale	8,922	119	222	8,819
Securities held for trading:				
Debentures of the Government of Israel	437	-	-	437
Corporate debentures	3	-	-	3
Total securities held for trading	440	-	-	440
Total securities	9,362	119	222	9,259

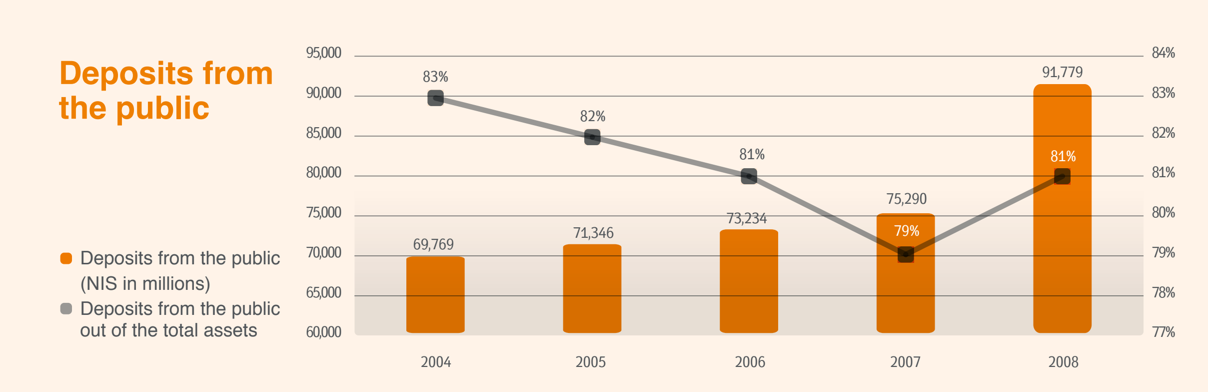
Below is additional information with regard to impairment of a temporary nature of securities held for sale, listing the duration of impairment and its share out of the amortized cost as of December 31, 2008 (NIS in millions):

	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	to 6 months	6-9 months	9-12 months	Over 12 months	Total
Stocks held for sare					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	-	-
Over 40%	5	-	-	2	7
Total	5	-	-	2	7
Asset-backed debentures held for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	27	27
Over 40%	-	-	-	-	-
Total	-	-	-	27	27
Other debentures held for sale					
Up to 20%	93	35	9	32	169
20%-40%	-	11	-	7	18
Over 40%	-	-	-	1	1
Total	93	46	9	40	188

See Note 3 to the financial statements for additional information.

Deposits from the public - these account for 81% of the total consolidated balance sheet as of December 31, 2008, compared with 79% at the end of 2007.

In 2008, deposits from the public for the Bank Group increased by NIS 16.5 billion, an increase of 21.9%. Excluding initial consolidation of deposits from the public at Bank Yahav, amounting to NIS 11.0 billion, and the impact of NIS revaluation, the increase in total deposits from the public was 8.4%.



Distribution of deposits from the public by linkage segments (NIS in millions) is as follows:

	Balance as of December 31		Rate of change	Share of total deposits from the public as of December 31	
Linkage segment	2008	2007	(%)	2008	2007
Israeli currency					
Non-linked	49,273	36,125	36.4%	53.7%	48.0%
CPI-linked	22,999	20,020	14.9%	25.0%	26.6%
Foreign currency and foreign currency linked	19,507	19,145	1.9%	21.3%	25.4%
Total	91,779	75,290	21.9%	100.0%	100.0%

Distribution of deposits from the public by operating segments (NIS in millions) is as follows:

Operating segment	2008	2007	Rate of change
Retail banking:			
Household	(1)(2)47,597	30,731	54.9%
Small business	6,591	(3)6,497	1.4%
Total	54,188	37,228	45.6%
Private banking	(2)6,809	2,204	208.9%
Commercial banking	2,510	2,432	3.2%
Business banking	(2)13,655	10,753	27.0%
International operations	(2)-	5,481	
Financial management	14,617	(3)17,192	(15.0%)
Total	91,779	75,290	21.9%

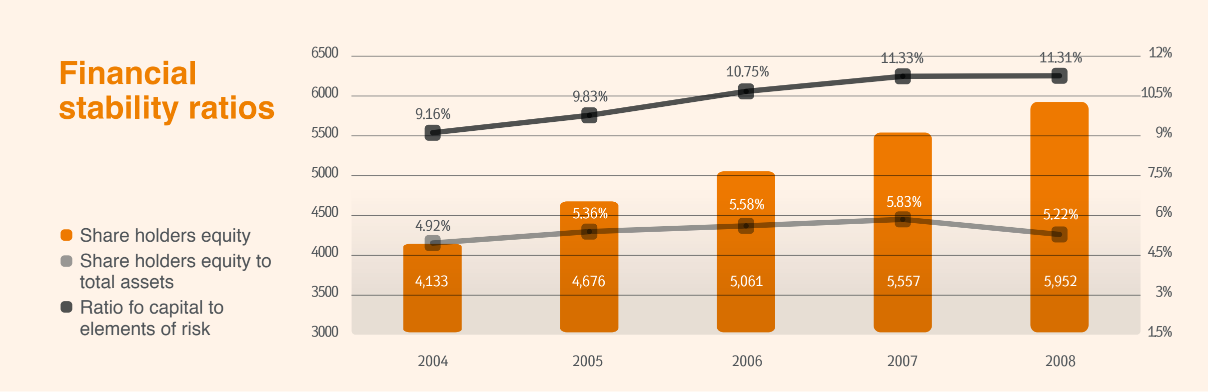
(1) Includes NIS 11,013 million due to impact of Bank Yahav consolidation.
(2) Includes deposits from the public in respect of international operations: in the household segment - NIS 284 million; in the private banking segment - NIS 3,999 million; and in the business banking segment - NIS 1,889 million.
(3) Reclassified.

For further details on deposits from the public and deposits from banks, see Notes 9 and 10 to the financial statements.

Shareholders' equity

According to the measurement principles prescribed by the Supervisor of Banks with respect to securities held for sale, the adjustment of these securities to their fair value is recorded directly to shareholders' equity. The change in the capital reserve in 2008, net of the related tax, was a decrease of NIS 119 million. Shareholders' equity as of December 31, 2008 includes a negative capital reserve of NIS 92 million, due to adjustment of securities held for sale to fair value, after applicable taxes.

The Group ratio of shareholders' equity to total assets on December 31, 2008 reached 5.2%, compared with 5.8% at the end of 2007.



Ratio of capital to risk components

As per instructions of the Supervisor of Banks, any banking corporation is required to maintain a total minimum capital ratio of no less than 9% of weighted total of risk components of its balance sheet assets and off-balance-sheet items, and said instructions set forth the manner of calculation of total capital and total risk components.

Development of Group ratio of capital to risk components is as follows:

	December 31	
	2008	2007
Ratio of Tier I capital to risk elements	6.64%	6.69%
Ratio of total capital to risk elements	11.31%	11.33%
Minimum capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The ratio of capital to risk components as of December 31, 2008 also accounts for the capital adequacy requirement due to market risk, in accordance with Directive 341 - Adequacy of Capital in Respect of Market Risk, the effect of which on the capital ratio, as of December 31, 2008, is 0.31%.

The balance of complex capital notes and subordinated notes for Group capital adequacy, as of December 31, 2008, amounts to NIS 4,300 million, compared to NIS 3,710 million at the end of 2007. These amounts include complex capital notes listed for trading, amounting to NIS 1,172 million. See Notes 11 and 14 to the financial statements for further details.

Main Investees

The contribution of investees to net operating profit million in 2008 amounted to NIS 103 million, compared with NIS 69 million last year.

Bank Yahav for Government Employees Ltd. ("Bank Yahav")

Bank Yahav is a private company. On July 10, 2008, the Bank concluded the transaction to acquire 50% of Bank Yahav's issued capital and associated rights, and thereby Bank Yahav became a subsidiary of the Bank and the former's financial statements were initially consolidated within the Bank's consolidated financial statements as of September 30, 2008. As a result of the foregoing, the consolidated balance sheet as of December 31, 2008 includes assets of Bank Yahav amounting to NIS 11.8 billion. The total investment cost amounted to NIS 419 million, and the excess acquisition cost over Bank share of Bank Yahav's shareholder equity as of June 30, 2008 amounted to NIS 91 million, representing goodwill, amortized over 10 years.

Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981. On January 28, 2009, the replacement license for the bank's previous license dated January 11, 2005, was received which allows the bank to do business with government and public sector employees. In accordance with the new license, Bank Yahav may engage in new operations and may expand its customer base in comparison with the situation prior to receiving the license, and subject to advance permission by the Supervisor of Banks.

Along with this license, Bank Yahav received approval from the Supervisor of Banks to provision of services to individual customers (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit.

Bank Yahav has completed preparations for operating in accordance with the new license, subject to policy of the Bank Board of Directors on this matter.

After its acquisition by the Bank, in mid-2008, Bank Yahav started implementation of a work plan intended to expand its operations, improve availability of services provided by the bank to other regions of the country and enhance the range of products offered at its branches - while benefiting from synergies with Bank Mizrahi-Tefahot. Inter alia, Bank Yahav acted to expand its branch network to 33 branches at the end of 2008, compared to 27 branches at the end of 2007. Bank Yahav also establishes a nation-wide call center in Jerusalem and two advisory centers. Two mortgage counters were opened in Bank Yahav branches, where Yahav customers are offered mortgages from Bank Mizrahi-Tefahot, and the plan is to open a further 9 counters at Bank Yahav branches through mid-2009. This move to increase investment in infrastructure and improve availability and accessibility to customers, was essentially completed in the fourth quarter of 2008. In 2009, Bank Yahav is expected to focus its infrastructure-related operations on adapting its IT systems to those of Mizrahi-Tefahot.

Bank Yahav offers customers attractive terms, and charges low fees for current account management. A survey by the Bank of Israel revealed that, based on bank fee price lists for July 2008, Bank Yahav charged the lowest fees for teller-assisted and direct channel transactions.

In spite of the strong competition, customer numbers and volume of activity at the bank continued to grow in 2008, as set forth below.

Bank Yahav's contribution to Group net profit in 2008 amounted to NIS 8 million (initially consolidated in the third quarter of this year). Bank Yahav's net profit return on equity (average equity, as defined in the Supervisor of Banks' Public Reporting Directive) in first 9 months of 2008 was 21.2%, and average net operating profit return on equity was 6.0%. Bank Adanim's balance sheet total as of December 31, 2008 amounted to NIS 11,823 million, compared to NIS 9,350 million on December 31, 2007. The balance of credit to the public as of December 31, 2008 amounted to NIS 3,823 million, compared to NIS 2,390 million at end of 2007. As set forth above, Bank Yahav's 2007 financial results were not included in Group financial statements.

See Note 6.E.4) to the financial statements for additional details.

Bank Adanim Mortgages & Loans Ltd. ("Bank Adanim")

as set forth above of December 31, 2008, Bank Adanim is a private company, wholly-owned by the Bank. Pursuant to the resolution by the Bank Board of Directors dated November 24, 2008 to approve the merger of Bank Adanim with the Bank, the merger was recorded with the Registrar of Companies on February 23, 2009. For details of the Bank Adanim merger, see Note 6.E.1) to the financial statements.

Bank Adanim's contribution to Group net income in 2008, including amortization of goodwill, amounted to NIS 28 million, compared to NIS 22 million in 2007. Net profit return on equity (average equity, as defined in the Supervisor of Banks' Public Reporting Regulations) amounted in 2008 to 9.0%, compared to a 10.2% return in 2007. Bank Adanim's balance sheet total on December 31, 2008 amounted to NIS 4,720 million, compared to NIS 4,043 million on December 31, 2007. The balance of credit to the public as of December 31, 2008 amounted to NIS 4,625 million, compared to NIS 3,937 million at end of 2007.

Tefahot Insurance Agency (1989) Ltd. ("Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly owned by the Bank, which manages life insurance policies and property insurance policies of customers obtaining mortgages from the Bank.

The contribution of Tefahot Insurance to Group net profit in 2008 amounted to NIS 42 million, similar to its contribution in 2007.

Net return on equity reached 14.2% in 2008, compared to 15.5% in 2007.

See Note 19.D.13)b. to the financial statements for information on the institution of a new arrangement for marketing insurance incidental to mortgages.

Other investees operating in Israel

Other investees operating in Israel, most of which are under the full control of the Bank and are supported by its infrastructure, contributed NIS 5 million to the Bank's profits in 2008, net, compared with NIS 8 million, net, in 2007.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. "Mizrahi Bank Switzerland") is focused on international private banking services. The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in 2008 amounted to CHF 3.0 million, compared to CHF 2.8 million in 2007.

Mizrahi Bank Switzerland's balance sheet total as of December 31, 2008 amounted to CHF 129 million, compared to CHF 141 million at the end of 2007.

Total credit to the public as of December 31, 2008 amounted to CHF 72 million, compared to CHF 86 million at end of 2007; total deposits at banks as of December 31, 2008 amounted to CHF 46 million, compared to CHF 36 million at end of 2007. Total deposits from the public as of December 31, 2008 amounted to CHF 52 million, compared to CHF 35 million at end of 2007; total deposits from banks as of December 31, 2008 amounted to CHF 26 million, compared to CHF 59 million at end of 2007.

These data exclude off-balance-sheet items, such as fiduciary deposits and customer security portfolios which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland), which owns United Mizrahi Bank Switzerland, to Group net profit in 2008, amounted to a profit of NIS 19 million, compared with a profit of NIS 2 million in 2007.

Excluding the impact of changes in exchange rates, the company's contribution to Group net profit in 2008 amounted to a profit of NIS 13 million, similar to its contribution in 2007.

Investment in non-banking corporations

The Bank has a department tasked with monitoring nostro investments made in non-banking corporations, and reviewing the value of these investments on an ongoing basis. About 80% of these investments are negotiable and presented at their market value. The other investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of December 31, 2008 amounted to NIS 352 million, compared to NIS 410 million at end of 2007, as follows:

A. These investments include NIS 281 million invested in negotiable securities included in the portfolio of securities held for sale (NIS 345 million as of end 2007); this amount includes NIS 276 million (NIS 322 million as of end 2007), constituting the market value of securities pledged for debt of a certain customer, which were classified under securities in accordance with the letter from the Supervisor of Banks.

B. NIS 36 million is in respect of participation units in various equity funds (NIS 25 million as of end of 2007).

C. NIS 11 million (similar to the end of 2007) constitutes the balance of the Bank's investment in Psagot Jerusalem Ltd., a private company that had purchased land in Jerusalem for its development for residential construction, including an investment in capital notes that amounted to NIS 26 million as of December 31, 2008 (NIS 24 million as of the end of 2007). In addition, the Bank provided credit to Psagot Jerusalem Ltd., which as of December 31, 2008 amounted to NIS 30 million (as of the end of 2007 - NIS 33 million).

D. Investments in several different other corporations, which are stated at cost, the balance of the investment in which totaled NIS 24 million as of December 31, 2008, compared to NIS 29 million as of the end of 2007.

Bank net revenues from dividends and realized gains from investments in non-banking corporations, after provision for impairment, in 2008 amounted to NIS 49 million, compared to NIS 66 million in 2007.

International operations

General information regarding international operations

International operations segment of the Bank Group include business operations and private banking services via subsidiaries and branches in Israel and overseas.

Bank Group international operations are primarily focused on private banking, providing financial services to Israeli customers who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as set forth below.

All of the international operations in Israel and overseas report to the international operations sector (starting in 2009 - the private banking and international operations sector) in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control Division in the Comptrollership, Planning & Operations Division.

International presence - affiliates, products and customers

These are the different affiliates, their business and specific issues of legislation and regulation for each affiliate:

Swiss subsidiary - UMB (Switzerland) Ltd. - specializes in private banking services, has one branch, owned by a wholly-owned holding company of the Bank registered in Holland - UMOHC B.V. ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland.

USA subsidiary - UMTB Securities Inc., a wholly - owned subsidiary of the Bank incorporated in the State of Delaware in the USA. Provides broker-dealer services for Bank customers for transactions in securities traded on the USA capital markets. The company holds a license from the Securities and Exchange Commission (SEC) to transact in securities traded on USA capital markets, and is a member of the National Association of Security Dealers (NASD).

Bank's overseas branches - Overseas branches offer their customers full banking services, in accordance with the local laws and regulations. The branches are subject to the local and Israeli regulation.

- **Los Angeles Branch**: The branch is engaged mainly in commercial banking, private banking and foreign trade. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's customers are local, Israeli and international customers.
- **London Branch**: The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's customers are local, Israeli and international customers.
- **Cayman Islands Branch**: The Cayman Islands branch provides private banking services and is operated through the representation of the Bank by the Butterfield Bank in the Cayman Islands, pursuant to the management agreement between it and the Bank.

International private banking branches in Israel: The Bank operates three special branches, located in Jerusalem, Tel Aviv and Ashdod, serving foreign resident customers.

These branches provide full banking services to their customers, primarily private banking. The branches are under Israeli supervision and report to the International Operations sector.

Representative offices: The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay and Germany. In December 2008, the Bank received a license from the Supervisory Authority in Panama to establish an affiliate. This affiliate should be opened in 2009.

Legislation and regulation

The overseas affiliates are subject, inter alia, to the laws of the country in which they operate, and to the regulation of the relevant authorities in that country, as set forth below:

Subsidiary in Switzerland - The EBK - Eidgenossische Bankenkommission, the federal regulatory authority of Switzerland.

Subsidiary, UMTB Securities Inc. - the American Securities and Exchange Commission (SEC) and National Association of Securities Dealers (NASD).

Los Angeles branch - The State of California Financial Institution Department, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank. In accordance with the regulations of the Federal Deposit Insurance Corporation (FDIC), the Los Angeles Branch must hold "eligible assets", as defined in the regulations, at a rate of 106% of total liabilities. According to these regulations, a deposit in a bank that did not waive the set off agreement opposite the depositor does not meet the definition of "eligible assets". Therefore, the Los Angeles Branch has limited possibilities for depositing in the Bank in Israel. Furthermore, branch operations are subject to limitations of the US Bank Holding Company Act of 1956.

For details of the FDIC audit conducted in this branch in late 2007 and of the cease and desist order signed by the branch and by US regulators as a result of the audit findings, see chapter on Legal Proceedings.

London branch - the Financial Services Authority (FSA).

Cayman Islands branch - the Cayman Islands Monetary Authority (CIMA).

Mexico affiliate - Comision Nacional Bancaria y de Valores (banking regulators).

Uruguay affiliate - Banking regulation - Banco Central Del Uruguay.

Panama affiliate - banking supervision - Superintendencia de Bancos.

In view of the crisis in global financial markets, the Bank's overseas affiliates have tightened the means of control and reporting of exposures to the head office, including a comprehensive sweep of all accounts and customers, in order to better supervise and control the credit portfolio. Specifically, Bank exposure to entities directly and indirectly exposed to the global financial crisis have been mapped and evaluated. Furthermore, the Bank regularly monitors its exposure to foreign financial institutions, in accordance with directives of the Supervisor of Banks.

For details regarding risk management at the Bank, see chapter on Risk Management.

Affiliates operations in a competitive market

Bank affiliates overseas compete with local banks in their countries, with international banks and with affiliates of Israeli banks overseas. Competition is focused on the level of service and range of services provided to customers.

Each international operations affiliate has a unique target audience.

Critical success factors are based on providing global service at an international level. Service provided to customers is based on understanding their personal needs and providing individual solutions based on intensive knowledge of local markets in order to find the appropriate range of products.

In order to compete with current competition in this segment, extensive resources are dedicated to recruiting high-quality staff with extensive global market experience, in professional training of staff, and in offering a high-quality range of products compared to global competition. The Bank is also focused on providing high-quality service and maintaining strong customer relationships, organizing professional events for select customers, intensive launching of custom products for customers and efforts to locate and recruit new customers on a day-to-day basis.

Business goals and strategy

The Bank develops its business world-wide, including expanded operations in existing affiliates and review of acquisition of financial institutions in designated target countries.

The Bank strives to create strategic alliances with leading financial institutions in international banking and jointly working with them. The Bank also reviews options for launching unique products appropriate for each affiliate, which respond to varying needs in each market along with technology, business and regulatory changes.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include future forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market world-wide, other factors that impact the exposure to financial risk, customers' financial robustness, the public's preferences, legislation, directives of regulatory entities in Israel and overseas, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Fixed assets and installations

Information on the Bank's fixed assets is presented in Note 7 - "Buildings and equipment" in the financial statements. See the section on IT systems and computers below for additional details.

Real property

The total area of the land owned by the Bank or leased by the Bank for its use, as of December 31, 2008, is 107 thousand m^2, as provided in the table below:

	Thousands of m^2 (gross) as of December 31, 2008		
Type of property(1)	Owned	Leased	Total area
Branches throughout Israel	33.6	25.3	58.9
Offices and warehouses	29.5	11.1	40.6
Properties not in use, but have potential future use(2)	4.2	2.4	40.6
Disused property offered for sale or to be vacated	0.5	0.1	0.6
Total	67.8	38.9	106.7

(1) The Bank owns 2 lots designated for future use which are not listed in the above table: A lot in Herzliya with a gross area of 1.3 thousand m^2, and a lot in Lod with a gross area of 4.7 thousand m^2 (as set forth below). Furthermore, the Bank owns 5.3 thousand m^2 of parking space (both covered and uncovered) which is not listed in the above table.

(2) Some 0.9 thousand m^2 of the property not in use potentially to be used in the future, is leased to others, and 4.3 thousand m^2 of said property is undergoing renovations.

It is the Bank's policy to hold only those properties the Bank actually needs or expects to need in the future. The bank regularly reviews the extent, attributes and location of required area, based on its business plan and nation-wide branch deployment plan, and makes the required adjustments.

On November 3, 2008, the Bank acquired land with an area of 4.7 thousand m^2 in the Northern Industrial Zone of the city of Lod. The Bank intends to construct on this lot a main building with gross area of 17,000 m^2 and a covered parking garage with a gross area of 12,000 m^2. This building would serve the Bank, inter alia, as a service center which will house, according to plans, primarily the Bank's major IT infrastructure and services, training operations, call centers, back-office operations and storage services.

This information is forward-looking information and is based on various assumptions and forecasts, inter alia, with regard to the economy, legislation, regulatory directives, technological developments, developments in the construction and real estate market and human resource issues. This information may not materialize, or may materialize in part, at the extent and date determined by Bank management, or due to possible changes in various influencing factors which are not entirely under Bank control.

The amortized cost of buildings and real estate for the Bank Group (including installations and leasehold improvements), net of provision for impairment, as of December 31, 2008 amounts to NIS 830 million, compared to NIS 677 million at the end of 2007. This increase is mostly due to assets of Bank Yahav, which was initially consolidated on the Bank's financial statements on September 2008, and to investment in the lot at Lod, as set forth above.

Intangible assets

The Bank Group has data base entries of customers and employees.
The Bank owns the rights to the trademarks "Mizrahi-Tefahot", including in conjunction with the infinity symbol, "Tefahot No. 1 in Mortgages" and "Retirement Portfolio Based on a Nobel Prize Winning Model" - as well as variations there of. The Bank owns the rights to trademarks associated with the Bank's name in the USA, Switzerland and in the European Union as well. Additional applications were also filed for registration of trademarks related to the Bank name in the USA.

Computerization and Operations in the Bank

General

IT services for Bank Mizrahi-Tefahot are provided by a wholly-owned subsidiary of the Bank - Mehish Computer Services Ltd. ("Mehish"). Mehish works to develop sophisticated IT systems and to continuously improve the level of the Bank's technology equipment.
The main site serving the Bank Group IT systems includes mainframe computers, servers, data storage systems, communications equipment, printers and terminal equipment, all serving as development and operational infrastructure of Mehish systems (see below under section - "Infrastructure and operation").
The Disaster Recovery Site (DRP), located separately, includes a mainframe computer, servers, storage, communications and terminal equipment (see section "Backup and Disaster Recovery" below).
Located in the Bank's branches spread throughout the country is equipment serving as the operational infrastructure of the branches: branch server, end user stations, communications equipment, printers and other special equipment such as: counters providing information for customers, scanners and check readers.

IT services for Bank Yahav and Bank Adanim

After acquisition of 50% of Bank Yahav shares by the Bank, Mehish is acting to provide IT services to Bank Yahav, replacing the services provided to Bank Yahav by Bank HaPoalim. These activities will take place in 2009 and will continue in 2010 as well.
As of the publication date of these financial statements, Bank Yahav customers may receive banking services at Mizrahi-Tefahot branches, as they used to receive at Bank HaPoalim branches.
In conjunction with preparations for the merger of Bank Adanim into Mizrahi-Tefahot, the former's IT infrastructure has been moved to Mehish facilities. Adanim has implemented the mortgage system developed by Mizrahi-Tefahot for new customers.

Infrastructure and operations

The core banking systems are based on a mainframe platform manufactured by IBM. Most of the new projects are now being developed in the open environment of Windows and Linux platforms. In the open environment around the mainframes are close interfaces designed to transfer data between the two environments. The system operates on three mainframe computers and several hundred servers. Most of the updating of the core systems is done nightly, updating the data base for the current activity that occurred during that day and the main books of the Bank, in order to provide the Bank with updated data in preparation for the next day's opening.

Backup and disaster recovery

The Bank's disaster recovery policies are based on building the main systems in a backup site within a time frame of not more than 8 hours. To this end, a disaster recovery plan (DRP) was built, based on an agreement with IBM, to obtain backup facility services at the IBM site, combined with equipment owned by the Bank installed at the backup site. The solution includes a mainframe computer, data storage means, servers and 150 work stations. The data at the DRP site is updated in real time by the "hot backup" method. Several open systems, which were defined as having a low critical level, are not included at the backup site at this time. These systems use a "cold backup". In 2009, site expansion will continue and systems will be added, according to priorities to be set by the Bank. In order to ensure reliability of backup using the DRP site, and the ability to recover from disaster, drills are conducted semi-annually. In addition to the backup system, other means provide physical equipment security, in both the main site and the backup site: identification of leaks, identification of flooding, preventing electrical surges, etc.

Information security

The Bank Group has a function for managing the security of applications and the network, which is responsible for data security, in accordance with Proper Banking Conduct Regulation 357, as follows:

- Realization of the Bank's policy on data security issued from a technology standpoint, including in overseas branches.
- Implementation of regulatory requirements related to data security.
- Immediate response to data security event.
- Approval of the transfer and removal of information, in accordance with the Bank's policy.
- Involvement in design and implementation of projects and project approval from information security standpoint.
- Developing infrastructures and management of data security projects.
- Information security policy for overseas branches.

The Bank is ISO-certified with regard to information security for direct banking.

See the chapter on Risk Management for Bank policy on information security.

Vendors

Mehish has several significant suppliers of hardware and software infrastructure:

- IBM - hardware and software for mainframes in a server environment and for storage infrastructure, including maintenance services. IBM provides the main infrastructure in hardware and software for the core banking systems. IBM is a major international corporation, providing similar services, on an almost exclusive basis, to all major banks in Israel, and to most of the world's major banks.
- Microsoft - operating systems and infrastructure for servers, computerized office and end stations.
- CA - mainframe software.

Projects

The Bank Group, via Mehish, is pursuing multiple projects requiring major IT investment, which are in various development and deployment stages. These projects may be grouped as follows:

A. Projects under development:

- New branch system - using the "NET" technology, which will replace the old system based on OS/2 technology. In 2008, a pilot was conducted of this system, where in three branches were operated. In 2009, this system will be deployed to all Bank branches.
- Provident fund operation for members - a system developed using ".NET" technology, enabling a significant upgrade of provident fund operations and complete compliance with statutory instructions. Phase I of this system has been put into operation, and as of the date of publication of these financial systems, phase II of the system is under development.
- Basel II project - cross-functional project for implementation of computer systems which would allow the Group to operate in compliance with Basel II directives.
- Impaired debt management system - a system intended as response to directives of the Bank of Israel with regard to this issue.

B. Projects put into operation in recent years, which are handled in conjunction with the regular work plan:

- New mortgage-management system - replacement of the old mortgage-management system with a modern technology system, which enables, inter alia, the shift to online activity and processing, balance processing on a daily basis, and flexibility in specifications and day-to-day operation of various mortgage products. All Bank branches involved in mortgage processing use the new mortgage system.
- Customer relations systems - CRM. Mizrahi-Tefahot is the first bank to operate such system in branches and customer centers. In 2009, mortgage branches would be added to the system.
- Pension advisory service - based on the CRM system and constitutes part of the Bank's preparations for providing pension consultancy for salaried employees and for the self-employed.
- Profitability system - a system that enables measurement of profitability, from the level of a single transaction, through the various hierarchal levels in the organizational structure up to the level of the organization as a whole.
- Financial advisory service - a system which enables provision of advanced advisory services to customers by Bank investment advisors.
- Data warehouse - a system for collecting business and marketing data on a daily basis and enables analysis of a large number of dimensions, for the Bank's relevant business issues.
- Insurance agency - a system for management of insurance incidental to providing a mortgage, via the Group's insurance agency.

C. IT infrastructure development - investment in infrastructure development forms an important basis, allowing the bank to meet expansion of its business as well as development of new, state-of-the-art banking systems. This includes, inter alia, mainframe computer upgrade, server farm expansion and upgrade, storage system customization, communication system expansion and workstation replacement at branches.

Total investment in hardware and software (including capitalized cost of in-house software development) in 2008 and 2007 amounted to NIS 172 million and NIS 163 million, respectively.

Off-balance sheet activity

Provident funds - the Group provides operating services to provident funds. The asset value of provident funds to which the Group provides operating services on December 31, 2008 amounted to NIS 41.3 billion (of which NIS 16.7 billion via Bank Yahav), compared to NIS 30.1 billion as of December 31, 2007.

Customer activity in securities - The value of the securities portfolios in Bank custody, held by customers, reached NIS 75.8 billion at the end of 2008 (of which NIS 4.5 billion at Bank Yahav), compared with NIS 95.6 billion at the end of 2007, a decrease of 20.7%. The decrease is primarily due to impairment of market value of these securities, in view of the financial crisis.

Operations based on extent of collection - the Bank has credit and deposits from deposits whose repayment to the depositor is contingent on collection of credit (or deposits) for which the Bank receives margin- or collection-fee based revenue. The balance of credit from deposits based on extent of collection as of December 31, 2008 amounted to NIS 18.3 billion (of which NIS 1.8 billion at Bank Yahav), compared to NIS 16.9 billion at end of 2007. These amounts exclude standing loans and government deposits extended for them. See Note 19.B to the financial statements for additional information.

Description of Businesses of the Bank Group by Operating Segment

Bank Group operating segments

The Bank manages its operations in six major operating segments, which are distinguished by customer characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as set forth below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for customers and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes small household customers and mortgage operations. The division provides appropriate banking services and financial products to segment customers, including in the field of mortgages.

Small business segment - under responsibility of the Retail Division, which also serves small business customers, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment customers.

Private banking - customers of the private banking segment are under responsibility of the private banking sector of the Retail Division (starting in 2009 - the private banking and international operations sector of the Financial Division). Private banking customers are individual customers with liquid assets (primarily short-term deposits and security investments) over NIS 2.5 million, and corporations with liquid assets in excess of NIS 8 million. Customers of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking - customers of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 625 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.
Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business customers. Criteria by which customers are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.
Financial management - operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The main products offered by the Bank's different operating segments are:

- **Banking and finance** - an array of banking services offered to private and corporate customers, including management of checking account, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** - security transactions for customers on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank customers.
- **Credit cards** - A set of financial products and banking services given in conjunction with credit cards issued to Bank customers by credit card companies in Israel.
- **Mortgages** - Housing loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.
- **Construction and real estate** - banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

During 2007 the Bank launched a new system for profitability measurement, which measures results of Bank operations and provides a break-down of asset and liability balances from the individual transaction level through the organizational structure hierarchy up to the enterprise-wide level. Bank management uses the new system to analyze operating results by organizational criteria and by product offered by the Bank to customers. Profit is assigned in the system to customers and to products, which are presented in accordance with the Bank's organizational structure.

In order to analyze results of Bank operations by relevant criteria, customers have been assigned in the system to the organizational units in charge of servicing them. Information presented below by operating segment is based on the Bank's organizational structure on customer assignment to various departments and hence to operating segments, and on attribution of results and balances to customers and segments in the new system.

The principles used in assigning balances, income and expenses to customers in the system are as follows:

- Credit interest income and deposit interest expenses are directly attributed to the customer. For credit, an expense set at cost of capital raised is attributed to customers, against an inter-segment credit to the Financial Management segment. For deposits, a revenue set at cost of capital raised is attributed to customers, against an inter-segment debit to the Financial Management segment. In addition, each segment receives an inter-segment credit in respect of its use of shareholders' equity, excluding the cost of raising funding.
- Income from financing operations from external entities for derivative instruments is calculated base don changes to fair value of such derivatives. For derivative instrument operations with customers, transaction pricing (both for future transactions using discounting, and for options - using the Black and Scholes model) is based on spreads between the interest curve used by the Bank for transactions on which it the seller, and the interest curve used by the Bank for transactions on which it the buyer. This spread is attributed to customers and to the operating segments to which these customers' activity is attributed. Changes to fair value, in excess of profitability due to the financial spread inherent in derivatives, are attributed to the Financial Management segment.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Provision for doubtful debts is directly attributed to customers for whom it is made.
- Commission- and other income is specifically attributed to customers.
- Salary expense is attributed to customers assigned to specific contact persons. In addition, salary expenses of managers and staff of headquarter departments not referring to specific customers, are assigned to customers.
- Maintenance and other expenses are assigned to customers using the appropriate ratios.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of customers services by the branches.
- Provision for tax on operating profit is attributed to customers, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Profit from extraordinary items is specifically attributed to segments, as the case may be.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to customers.
- Fixed assets are attributed based on appropriate ratios.

International operations were presented in 2007 as a separate segment. In these financial statements, results of international operations for 2008 were assigned to the different segments. Analysis of segment results below makes reference, inter alia, to the impact of assignment of international operations to the various segments, wherever such impact has been material.

Below are details of the impact of international operations on results of the different operating segments of the Bank Group in 2008 (NIS in millions):

	Household	Private banking	Business banking	Financial management	Total
	Reported amounts (NIS in millions)				
Profit from financing operations before provision for doubtful debts	16	53	53	(132)	(10)
Operating and other revenues	1	47	6	8	62
Total profit	17	100	59	(124)	52
Provision for doubtful debts	-	1	2	-	3
Other operating expenses - total	11	46	42	9	108
Operating profit (loss) before taxes	6	53	15	(133)	(59)
Provision for taxes on operating profit	2	20	6	(50)	(22)
After-tax operating profit (loss)	4	33	9	(83)	(37)
Net profit (loss)	4	33	9	(83)	(37)

Financial Information on Operating Segments

The Bank is one of the five largest banking groups, with its share of the five largest groups in terms credit to the public reaching 12%. Since uniform rules have not been prescribed to allocate the customers to the segments, it is not possible to compare information regarding the Bank's pro rata share of the banking system in the different operating segments, in profit and return on capital.
Summary of financial results of operating sectors, as defined by the Bank, (reported amounts, NIS in millions).
See Note 31 to the financial statements for details.

Profitability

	Net operating profit		Net profit		Return on equity (in %)	
	For the Year Ended December 31		For the Year Ended December 31		For the Year Ended December 31	
	2008	2007	2008	2007	2008	2007
Household:						
- Mortgages	265	230	265	230	12.8	12.7
- Other	113	87	113	208	17.3	44.1
Private banking	57	38	57	90	101.0	-
Small business	51	26	51	65	12.3	21.6
Commercial banking	39	23	39	24	14.3	9.2
Business banking	162	226	162	231	8.9	13.0
International operations	-	(56)	-	(56)	-	(24.0)
Financial management	(86)	107	(85)	116	(17.9)	26.3
Total	601	681	602	908	10.4	17.2

Household segment

General information on the operating segment

The household segment typically includes individual customers with low levels of indebtedness and relatively limited financial transactions, which do not warrant inclusion in the business segment or the private banking segment. Segment customers include customers with individual accounts, joint accounts for couples etc. The segment also includes mortgage borrowers. The segment is highly scattered. This segment is operated under responsibility of the Bank's Retail Division.

On July 10, 2008, a transaction was concluded whereby the Bank acquires 50% of the issued capital of Bank Yahav. As a Bank specialized in the retail sector, turning Yahav into a part of the Mizrahi-Tefahot Group should contribute to a stronger household segment within the Group.

On November 24, 2008, the Bank Board of Directors resolved to approve the merger of Bank Adanim, a wholly-owned subsidiary of the Bank, into the Bank. On February 23, 2009 the merger was recorded by the Registrar of Companies. The merger of Adanim would allow the Bank to approach additional potential customers with offers to provide a range of banking services via the Bank Group.

In December 2008, the Bank launched a new, unique service - the LIVE branches - which are branches providing personalized service during extended business hours using a range of communication channels between customers and bankers.

Products

Below is a description of the notable products in the household segment and the primary services offered within the scope of these products:

Banking and finance

Most of the services are provided within this framework:

- **Credit and debitory accounts** - The credit limits for debitory account activity are determined according to the customer’s needs, the level of his income and the judgment of the Bank based on factors including economic models. In accordance with Proper Conduct of Banking Business Regulation 325, customers are not allowed to exceed their determined credit limit.
- **Investments** - providing investment-related services to customers, such as: Various deposits for different terms.
- **Loans - general-purpose loans** which include, inter alia, loans not intended for home purchase secured by pledging a lien on a residential property, and other loans for various terms and under different conditions.
- **Assistance in financing the purchase of vehicles** - In recent years, activity in the area of loans to purchase autos from the importer, and it constitutes an important element of the segment’s activities. Within this framework, the Bank works together with several auto importers, while offering joint campaigns for financing the vehicle purchases by the customers.

Mortgages

The main services in the mortgages sector are loans from the Bank's funds; additionally, the Bank is engaged in the mortgages sector in providing execution and clearinghouse services for loans provided by the State, including loans in conjunction with the Ministry of Housing and Construction Assistance Program. mortgage operations also include the offering of life and property insurance to borrowers (insurance incidental to the mortgage) via the Bank-owned insurance agency.

Volume of mortgages granted by the Household segment are as follows:

	Loans issued (in NIS millions)			Rate of change	
	2008	2007	2006	2008 over 2007	2007 over 2006
Mortgages issued (for housing and any purpose)					
From the Bank's funds	10,667	7,465	5,539	42.9%	34.8%
From the Treasury's funds					
Directed loans	595	773	802	(23.0%)	(3.6%)
Standing loans and grants	228	166	223	37.3%	(25.6%)
Management for others	1	66	92	(98.5%)	(28.3%)
Total new loans	11,491	8,470	6,656	35.7%	27.3%
Recycled loans	988	1,124	757	(12.1%)	48.5%
Total loans issued	2,479	9,594	7,413	30.1%	29.4%
Number of borrowers (includes recycled loans)	40,987	35,938	26,805	14.0%	34.1%

A description of the main mortgage services is provided below:

Loans out of Bank funds - loans out of Bank funds and at its risk, which it grants as free loans (which are not within the scope of the Ministry of Housing's aid program) for the purchase of real estate, for construction, generally for the borrower's residence. The loans are issued for a long term of up to 30 years, considering the kind of loan and repayment ability of the borrower.

The Bank issues credit in different linkage segments and uses a "combined mortgage"-a loan composition that combines the following elements or a part thereof: CPI-linked element at fixed or variable interest, non-linked shekel element and a dollar-linked element. The combined mortgage enables the Bank to maintain profitability and spread risk to the customer. In view of the low inflation rate and lower interest rates set by the Governor of the Bank of Israel, in 2008 borrowers preferred to obtain loans in the non-linked, NIS-denominated sector, as well as adjustable-rate loans in the CPI-linked sector, where the interest rate is more attractive, compared to fixed-rate, CPI-linked loans. Furthermore, in 2008 the extent of USD-linked loan origination was very low.

Services within the Ministry of Housing's assistance program - Beyond the banking activity of granting credit, the Bank acts as an extension of the State in servicing eligible Ministry of Housing recipients. These services include loans within the Ministry of Construction and Housing's assistance program, including location-based loans, contingent grants and rental subsidies (until 2006), as provided below:

A. Loans - beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. This agreement has been continuously extended each year, most recently through June 30, 2009.

In February 2008, the Ministry of Finance issued a tender for providing loans, out of Bank funds and under the Bank's responsibility, to eligible borrowers having a low point rating, which is in place concurrently with and in addition to the aforementioned agreement. The new agreement became effective starting in May 2008 for 1 year. After this year, the agreement would be renewed for one more year, up to a cumulative maximum total term of 5 years, unless one of the parties announces its wish to terminate the agreement. In accordance with terms of the new agreement, as set forth in the tender, the loans to eligible borrowers with a low point rating are granted out of Bank funds and under Bank responsibility. The interest on the loan is determined based on the interest rate for assistance out of Ministry of Finance funds, or the known average interest rate for mortgages, as published by the Bank of Israel - whichever is lower. However, in accordance with instructions of the Ministry of Finance and counter to provisions of the tender, starting on March 1, 2009 the loan interest rate would be determined based on the assistance interest rate (even if the known average interest rate should be lower than the assistance interest rate).

Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with conditions in place for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For the loans to eligible borrowers having a low point rating, the Ministry of Finance would pay the banks granting assistance out of Bank funds, the interest difference between the actual interest charged for the loans, and the average interest as published by the Bank of Israel, plus a margin of 0.0% to 0.4%, depending on the financing rate, area where the property is acquired (as specified by the Ministry of Finance), and on existence of credit insurance, plus an additional margin of 0.24%, as determined for the Bank, being the winner of the bid (the additional margin for other, non-winning banks, is lower). In accordance with the Ministry of Finance guidelines, any Bank choosing to do so, may transition to settlement using the average interest rate for the period instead of the average known interest rate. The Bank decided to transition to settlement using the average interest rate for the period, and will do so upon completion of the required IT support. Concurrently with loan origination as set forth above, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

Furthermore, it was determined for all eligible borrowers, that those eligible for assistance at "market interest" terms, would receive, starting on May 1, 2008, the assistance loans at an interest rate to be determined in accordance with the average mortgage interest for the loan term (subject to the aforementioned terms), as known upon the execution date.

Bank management estimates that impact of the new tender would moderate, in coming years, the decline in revenues from new loans in the eligible borrowers' credit portfolio, due to previous Ministry of Finance tenders. The share of this credit portfolio for which the Bank is responsible would increase at the same time.

Bank revenues from all loans to eligible borrowers under State responsibility in 2008 amounted to NIS 102 million, compared to NIS 104 million in 2007.

In addition to ordinary loans in conjunction with the Assistance Program, there is a special arrangement for providing subsidized loans, issued by the Ministry of Housing and Construction under conditions that are updated from time to time, the objective of which is to encourage the purchase of new homes in certain communities that the State has an interest in populating ("location-based loans").

In the loans area, the Bank is involved, in addition to the ordinary banking services, in the array of administrative aspects required for services to Ministry of Housing and Construction eligible participants, such as issuance of eligibility certificates.

B. Contingent grant - A loan given as part of housing assistance that gradually is converted to a grant, subject to the conditions stipulated by the Ministry of Housing and Construction.

Life insurance and property insurance of borrowers (incidental to mortgages) - The vast majority of borrowers are insured in life insurance policies related to the loan, and most of the properties serving as collateral are insured in property insurance.

The borrowers so interested may join an insurance arrangement with one of the insurers with which the insurance agency owned by the Bank has an undertaking, or, alternatively, to make suitable insurance arrangements independently, provided that the policy is assigned to the Bank. It was practice of the vast majority of borrowers to take out property and life insurance, which are conditions for receiving the loans, within the framework of the Bank's arrangement through the Bank, and effective December 1, 2005, through an agency wholly-owned and controlled by the Bank, as provided below.

Marketing of insurance

On February 17, 2005, the Superintendent of Insurance and the Supervisor of Banks informed the banks of their policy on the matter of "marketing life and property insurance ancillary to a housing loan by a banking corporation".

Pursuant to these instructions, starting on December 1, 2005, the Bank's insurance is marketed by a wholly-owned insurance agency of the Bank (Tefahot Insurance Agency (1989) Ltd.), the activities of which are separate from the activities of the Bank and are limited solely to property insurance, including water damage, and life insurance incidental to the loan given by the Bank.

In order to maintain the required separation between the mortgage activities and insurance activities, special stations linked directly to the Bank-owned insurance agency were set up in the Bank branches that issue mortgages. At these stations, the customer purchases life insurance and property insurance independently and produces the insurance forms necessary for taking out the loan.

The new arrangement, heightens competition in the marketing of insurance to mortgage customers. In the life insurance segment, the Bank's insurance agency has prepared to face the growing competition in the sector, and is able to offer attractive insurance rates.

Starting in 2003, the building insurance eates were set for insurance companies by tge Supervisor of Insurance, and starting on said year, these rates have been decreasing through 2008, and are expected to decrease further in 2009 as well. This insurance rate reduction also decreases the share of the premium which constitutes the Bank's insurance agency commission in respect of building insurance.

Until the date of the financial statements, this change in the damages rate did not have a material effect on the Bank's income from the sale of insurance. The Bank does not expect the aforementioned changes to have a material effect on its income in the future.

The Bank's income from insurance incidental to mortgage (in NIS millions):

	All of 2008	All of 2007
Property insurance	38	42
Life insurance	79	72
Total revenues from sale of insurance	117	114

The aforementioned Bank estimate regarding impact of the above on Bank income from sale of life and property insurance to borrowers is forward-looking information. This estimate is based on a customer-made model which accounts for various assumptions on net premium paid to insurers, size of insured credit portfolio, share of insurance purchase by the Bank Group out of total new mortgages issued etc. The Bank estimate may eventually differ from actual decline in income, should the assumptions underlying the model fail to materialize or should they partially materialize.

See Note 19.D.12 to the financial statements for class actions against the Bank related to the Group's insurance activities.

Capital market

This product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes distribution and operation services for mutual funds and provident funds, as well as management services prior to their sale.

Credit cards

Credit cards are one of the key means of payment in the economy. As part of the activities with customers in the household segment, the customers a range of credit cards are offered. In this area, the segment works opposite credit card companies. The Bank offers its customers credit cards that are issued by these companies when opening a private account in the Bank, according to the customer's request. Credit card companies, on their part, use the Bank as a conduit for distributing their cards to the Bank's customers. The Bank offers its customers almost all kinds of credit cards existing in the Israeli economy. The bank also has several products in the credit card sector:

"**Tefahot Credit Card**" - the product is aimed at assisting mortgage sales as well as opening of current accounts. The product enables the allocation of a credit facility, based on the customer's repayment ability and the asset already pledged to the Bank, through which the customer can finance additional expenses involved in purchasing a home (furniture, renovations, etc.), or for any other reason. To this end, the customer will be issued a unique credit card. The credit card charges will accumulate in the current account and be transferred periodically to the mortgage account.

"Free Student credit card" - this card provides students with general-purpose credit. Credit using this card may be used over 3 years and bears a special, attractive interest rate for the actual credit utilized. Credit payments are flexible, with initial repayment of principal and interest starting on the third anniversary of the card issue date (a 1-year extension may be applied for). Customers may repay early, in full or partial payment, with no fees or charges.

Branded credit card - as of the date of these financial statements, the Bank is in process of establishing a custom branded card for the Bank, and is reviewing options for launching and promotion of the branded card. For details of the agreement with CAL group, inter alia, with regard to issuance of the branded credit card, see Note 19.D.15) to the financial statements.

Unique Bank services

Under the household segment, the Bank offers its customers services which express the advantages of the combination of products described above. Within this structure, the Bank offers various benefits in current accounts and credit of customers who take out mortgages, in order to encourage the mortgage customers to maintain their current account in the Bank. The Bank also offers mortgage-related benefits to customers with current accounts in the Bank, in order to encourage these customers to take out mortgages through the Bank. The applicable benefits have also been applied to Adanim and Yahav customers, based on their activity and attributes.

The unique services that the Bank offers its customers in the household segment include retail banking products and mortgage products, as provided below:

Executive Account - the unique brand, "Executive Account", launched in 2007 allows a preferred segment of individuals to make the most of managing their current account with Mizrahi-Tefahot. The brand emphasizes service, account management, bank value propositions, financial benefits and non-banking services provided to Executive Account customers. Customers may use professional advisors for financial, pension and mortgage advisory services.

"Interest-free Overdraft" - Set-off of debit and credit balances of a customer during the month.

Benefits to mortgage holders - unique benefits offered to specific groups of customers who have a mortgage account with the Bank. The benefits included an interest-free facility in the current account, as well as interest on the credit balance up to the level of the monthly mortgage payment. The benefit is given every month, subject to the customer's meeting other prescribed conditions during that month.

Pension advisory service - the Bank has started providing a pension advisory service to its own customers and those of other banks, both salaried employees and the self-employed. This is based on the computer-supported advisory model created by the Bank. This advisory service is provided by qualified pension advisers, providing an objective advisory service.

See the description of competition in the segment below for alternatives to these products.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations. Some of these recently published legislative arrangements have clear impact on the activities of the Households Segment, is provided below:

Credit facilities - On February 8, 2005, the Supervisor of Banks published Proper Conduct of Banking Business Regulations No. 325 ("Management of Credit Facility in Current Account"), whereby an overall credit limit must be determined in the current account of each customer, as will be approved by the Bank, and the Bank will not approve a deviation from this limit, subject to the conditions prescribed in the directive The Bank acts in compliance with this regulation.

Provision for doubtful debts (mortgages) - On January 1, 2006, the Bank of Israel published a circular on the manner in which the provision for doubtful debts is to be computed for housing loans (mortgages). For details of rules for reduction in provision for doubtful debts by depth of arrears, as published in the circular by the Supervisor of Banks, see Note 1.P.3) to the financial statements.

Uniform commission lists and supervision of commissions - on January 8, 2008 the Banking Regulations (Customer Service) (Commissions), 2008 were issued, including publication of a comprehensive list and summary lists of bank commissions. The objective of these lists is to reduce the number of commissions charged by banks and to achieve uniformity of commission names so as to allow customers to review commissions charged and to compare commissions charged by different banks. The Bank applies these regulations since they became effective in mid 2008.

Realization of collateral - on November 4, 2008, the Court Order Execution Act (Amendment no. 29), 2008 was enacted. The amendment stipulates, inter alia, restrictions on liquidation of real estate serving, in whole or in part, as the residence of a debtor, and on evacuation of the debtor and their family members who share said residence. Furthermore, the act revokes, under certain conditions, the option to set conditions on the alternative housing protection. The amendment to the law becomes effective on May 6, 2009.

Bank management estimates that the amendment to the law may cause the Bank to incur additional expenses in cases where residential apartments must be liquidated in order to collect on borrower debts. However, at this stage it is not possible to estimate the impact of the amendment to the law on the Bank's business results. For further details, see chapter on Legislation and Supervision of Bank Group Operations.

Technological changes

See the chapter on Marketing and Distribution below for technological changes that occurred in the marketing and distribution areas.

Critical success factors in the Household Segment

As a result of the merger between Mizrahi Bank and Tefahot, the Bank was exposed to hundreds of thousands of mortgage-holding customers and customers in the deposit sector (customers of the former Bank Tefahot), which constitute a natural target population for marketing of additional Bank products. Expansion of the customer base and broadening the array of services to customers in the Households Segment, while exploiting the reservoir of the customers of the former Bank Tefahot represents a critical factor for the success of this segment.

Furthermore, upon acquisition of 50% of Bank Yahav's issued capital by the Bank, and upon merger of Bank Adanim into the Bank, customers of Yahav and Adanim may strengthen operations of the retail segment when exposed to potential additional activity within the Group; for example, in the mortgage sector for Yahav customers and in checking and investments - for Adanim customers.

Customers

The activities of the households segment are characterized by broad diversification of loans and deposits in the retail banking sector and of the loans portfolio among the hundreds of thousands of households that took out mortgages from the Bank over the years. Therefore, the loss of one customer or another does not have a material effect on the overall activity of the segment.

However, it should be noted that a considerable part of the active mortgage loans were given to Ministry of Construction and Housing eligible borrowers, half of which are young couples, and the rest, in similar proportions, to new immigrants and other eligible borrowers. In recent years, as a result of the ongoing reduction of assistance on the part of the State, the population of Housing Ministry eligible borrowers has decreased, so that in 2008 more than 84% of the loans were given to customers who are not Ministry of Housing eligible borrowers, compared with 80% in 2007 and with 75% in 2006.

Marketing and distribution

Generally, marketing and distribution of the products and services of this segment are carried out through the network of Bank branches and through the direct banking system (Internet and call center).

Bank branches - the Group operates 165 business centers, branches and affiliates including 10 branches of Bank Adanim and 33 branches of Bank Yahav. The Bank continues to improve branch deployment and to expand its points of sale, through measures including the addition of commercial activity to the mortgage branches and mortgage activity in the commercial branches. For details, see chapter on Branches.

Direct banking - the direct banking network includes call centers, the Bank's website, deployment of self-service terminals and provision of information via cellular phones.

- **Call Centers** - in the second half of 2007, the Bank began to divert telephone calls from the branches to the “Mizrahi Tefahot Call Center”. This is due to BAnk policy to increase the sales capacity of the branches, expand business hours and improve the quality and speed of service through the Call Center. The Bank operates call centers at two sites, in Tel Aviv and in Jerusalem.

- **Website** - in 2008 the Bank expanded the range of services available to customers in order to continued its policy of reducing customer dependence on the actual branch. In addition to the email service, a new service - "Notification Box" - was launched, which allows for receipt of Bank notifications via the website as an alternative to receiving them by post. In 2008, requirements were specified for an improved operational infrastructure for the marketing part of the website, in order to continue improving the user interface of the system and to enhance customer use of the website.
- **The Bank's automatic teller machines** constitute an additional marketing and service arm.

See the chapter on Marketing Operations below for additional information.

The Bank has no dependence on outside marketing and distribution parties in this segment.

Competition

Banking and Finance, credit cards and the capital market

With respect to this array of products, the number of competitors in the households segment is the number of banks operating in the economy, with the focus on the five commercial bank groups. In recent years, the retail banking market sees strong competition among banks. Generally, one can state that the retail banking products offered by the different banks are similar, and therefore, competition focuses on the quality of service, the rates of the margins and commissions paid by the customers.

In addition to the inter-bank competition, intensified efforts are discerned by non-banking entities (mainly insurance companies, credit card companies) that also approach this population segment with offers to provide credit. The credit card companies, together with retail chains and other entities, are also taking measures to issue credit cards directly to customers, not through a bank. See below regarding entry and exit barriers.

In the capital market sector, the competitors also include private investment houses, in addition to insurance companies.

The Bank deals with the existing competition by aspiring to provide quality service and launching unique products. As aforesaid, the Bank believes that the Tefahot and Adanim mergers and the Yahav acquisition hold potential for expanding activities in the household segment, based on on-going activities vis-a-vis customers.

Mortgages

Most of the mortgage activity in Israel is conducted through 10 banks operating in this field. For dozens of years, the Bank has been the leader in the mortgages sector, in terms of the volume of loans issued and the balance of the loans portfolio. Based on Bank of Israel data, the Group's share of provision of housing credit, out of Bank funds and out of State funds in the mortgage sector, reached 34.2% in 2008, compared to 30% in 2007. The Group's cumulative shares (credit portfolio balance) reached 34% of the entire banking system, similar to its share in 2007. The Bank's major competitors are Leumi Mortgage Bank, Bank Hapoalim and Discount Mortgage Bank. Note that insurance companies also compete in the mortgage sector. See below with respect to entry and exit barriers.

The Bank has adopted different means to deal with the competitive environment in which the mortgages sector operates, including extensive advertising, use of marketers in the field, development and institution of new products, maintaining a presence in the new-homes market, by financing residential construction projects, etc. Another facet of the Bank's dealing with the competition in the mortgages sector is investing resources in constant improvement of its professional standard and the service it provides to customers.

The main entry barriers in this segment are:

- Customer habits.
- Regulatory limitations.
- Minimum capital requirements.
- Training professional personnel.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).

Cooperation agreements

- Several years ago, the Bank entered into an agreement with EMI - Ezer Mortgage Insurance Company Ltd. (“EMI”) a company holding a license for mortgage credit risk insurance. Credit risk of some Bank customers, who obtain new loans in which the loan to value ratio is high, is insured by EMI. This insurance is intended to cover damage that the Bank could sustain in the event of a credit failure, if the proceeds from foreclosing the collateral are insufficient to cover the balance of the borrower's debt. The insurance is for the upper layer of the loan, so that EMI is meant to cover the first loss and then reduce (or absolutely prevent) a loss to the Bank in the event of realization at a loss.
- The Bank entered into a series of agreements with several companies that issue credit cards, principally Isracard Ltd. (since 1979) and Israel Credit Cards Ltd. (since 1995), that arrange the relations between the parties. Pursuant to the agreements, the Bank will take action to distribute the credit cards issued by the said companies to their customers. The agreements prescribe mechanisms for calculating the amounts to which the Bank is entitled for the activities of its customers in the cards issued, including based on the volume of usage by the Bank's customers of the credit cards of these companies. The agreements specify the manner in which the credit cards are to be used, the division of liability between the credit card companies and the Bank. Pursuant to the agreements, the Bank is entitled to appoint an overseer on its behalf, who will participate in meetings of the board of directors (including meetings of the board of directors' subcommittees, except for the audit committee) of Isracard.

For details of the agreement signed with CAL Group towards finalizing a new arrangement whereby Bank-branded credit cards will be issued - see Note 19.D.15) to the financial statements.

Business goals and strategy

The Bank sees importance in continuing to develop the households segment as part of the Bank's future activities. The key goals in the households segment and the resultant business strategy are presented below:

- Increasing market share by broadening the customer base, mainly among the customers of the former Bank Tefahot, of Adanim and of Bank Yahav, as a platform for achieving growth in market share and income.

- Expanding activity in the branch network and converting all the branches into sales units in the households segment, for traditional banking activity and mortgage activity, and for cross-selling to customers.
- Retaining Bank share of the mortgages market and expanding it, while focusing on areas with high profitability, by providing valuable proposals to customers, based on the synergy between the mortgage, commercial and financial activities.
- The CRM system (Customer Relations Management), aimed at presenting all relevant information to the banker in order to offer appropriate products to the customer and improve customer relations.
- The Bank is deploying its new IT system in support of the process of mortgage origination and management. The new system enables, inter alia, use of online transaction processing and daily balance updates. The system would also enable flexible specification and day-to-day operation of the different mortgage products, would facilitate development of new, flexible products and would improve the Bank's competitiveness and capacity to quickly react to changes in the business environment. All Bank branches involved in mortgage processing have started using the new system. The Bank intends to operate the system in branches of the former Bank Adanim, merged into Mizrahi-Tefahot in early 2009.
- Over the past two years the Bank has been upgrading its branch computer system, starting to use ".NET" technology. Deployment of the new system is expected in 2009. This system positions the bank in the top tier in terms of operations and service to customers and employees.
- Continued development of products aimed at focused population groups, in order to increase volumes of activity.
- Making available different relationships with the customer and nurturing cultivating the customer as an objective of the households segment.
- Leveraging the ties between the business banking segment in the construction and real estate industry and between the mortgages segment. In this area, emphasis is placed on maximizing the marketing of mortgages to the buyers of homes in projects built by the real estate segment's customers.

The results of the segment are exposed to a threat, due to reasons including the strong competition deriving from its attractiveness, since it is a segment in which the risk is low (due to the relatively high dispersal of customers). Additionally, the segment's results are affected by the entry of credit card companies into retail financing (see the chapter on competition above for information).

As set forth above, the merger of Bank Tefahot, the merger of Adanim and the acquisition of Bank Yahav holdings constitute an opportunity to broaden the Bank's customer base and expand its operations in the household segment.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as describe d below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic development in Israel and internationally, especially the state of the economy, demand for housing and mortgages, legislation, directives of regulatory entities, the behavior of competitors (including non-banking entities), aspects related to the Bank's image, technological development, developments in availability and price of properties and staffing issues.

Results of Households Segment

	For the year ended December 31, 2008				
	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions				
Profit from financing operations before provision for doubtful debts					
From outside operating segments	(410)	15	13	2,995	2,613
Inter-segment	1,164	(11)	-	(2,573)	(1,420)
Profit from financing operations before provision for doubtful debts	754	4	13	422	1,193
Operating and other revenues	206	99	106	259	670
Total profit	960	103	119	681	1,863
Provision for doubtful debts	45	-	-	42	87
Operating and other expenses					
From outside operating segments	944	53	45	217	1,259
Inter-segment	(98)	(8)	-	-	(106)
Total operating and other expenses	846	45	45	217	1,153
Pre-tax operating profit	69	58	74	422	623
Provision for taxes on operating profit	26	22	28	157	233
After-tax operating profit	43	36	46	265	390
Share of external shareholders in net operating profit after taxes of subsidiaries	(12)	-	-	-	(12)
Net operating profit	31	36	46	265	378
Profit from extraordinary items after tax	-	-	-	-	-
Net profit	**31**	**36**	**46**	**265**	**378**
Return on equity					**13.9%**
Average balance of assets	8,844	1,340	-	39,350	49,534
Average balance of liabilities	37,962	7	-	3,873	41,842
Average balance of risk assets	10,865	-	-	30,836	41,701
Average balance of securities	-	-	18,665	-	18,665
Credit to the public (end balance)	11,319	1,588	-	41,593	54,500
Deposits from the public (end balance)	46,170	-	-	1,427	47,597
Average balance of assets under management	3,788	-	-	16,561	20,349
Components of profit from financing operations before provision for doubtful debts:					
Margin from credit granting operations	234	4	-	386	624
Margin from receiving deposits	481	-	-	-	481
Other	39	-	13	36	88
Total	754	4	13	422	1,193

Results of Households Segment (continued)

	For the year ended December 31, 2007				
	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions				
Profit from financing operations before provision for doubtful debts					
From outside operating segments	(412)	13	21	2,200	1,822
Inter-segment	964	(10)	-	(1,860)	(906)
Profit from financing operations before provision for doubtful debts	552	3	21	340	916
Operating and other revenues	158	72	97	262	589
Total profit	710	75	118	602	1,505
Provision for doubtful debts	26	-	-	41	67
Operating and other expenses					
From outside operating segments	724	41	40	207	1,012
Inter-segment	(59)	(3)	-	-	(62)
Total operating and other expenses	665	38	40	207	950
Pre-tax operating profit	19	37	78	354	488
Provision for taxes on operating profit	6	13	28	124	171
After-tax operating profit	13	24	50	230	317
Share of external shareholders in net operating profit after taxes of subsidiaries	-	-	-	-	-
Net operating profit	13	24	50	230	317
Profit from extraordinary items after tax	-	-	121	-	121
Net profit	**13**	**24**	**171**	**230**	**438**
Return on equity					**19.2%**
Average balance of assets	6,647	848	-	34,935	42,430
Average balance of liabilities	33,219	-	-	-	33,219
Average balance of risk assets	7,056	-	-	26,943	33,999
Average balance of securities	-	-	17,238	-	17,238
Credit to the public (end balance)	6,477	1,331	-	35,795	43,603
Deposits from the public (end balance)	30,731	-	-	-	30,731
Average balance of assets under management	176	-	-	16,934	17,110
Components of profit from financing operations before provision for doubtful debts:					
Margin from credit granting operations	148	3	-	340	491
Margin from receiving deposits	360	-	-	-	360
Other	44	-	21	-	65
Total	552	3	21	340	916

Contribution of the household segment to Group operating profit in 2008 increased by 19.2%, compared to its contribution in the corresponding period last year. Excluding the Bank's share of Bank Yahav profits, initially consolidated in the 3rd quarter of 2008, net operating profit grew by 15.5%. Profit from extraordinary items, amounting to NIS 121 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

Profit from financing operations grew by 30.2%, and excluding the impact of initial consolidation of Bank Yahav - by 14.8%, primarily due to mortgage operations. The increase in profit from mortgage financing operations was also impacted by linkage differentials on credit balance for which a provision for doubtful debts has been made, countered by a similar impact in provision for doubtful debts, as set forth below. Operating and other revenues rose by 13.8%, and excluding the impact of Bank Yahav's initial consolidation - by 3.7%.

On the other hand, provision for doubtful debts grew by NIS 20 million, primarily due to an increase in provision in respect of individual borrowers. The 21.4% increase in operating expenses, 27.5% in banking and finance, was primarily due to initial consolidation of Bank Yahav. Excluding this impact, operating expenses grew by 4.9%, 3.8% in banking and finance.

Furthermore, segment contribution to profit was impacted by an increase in provision for taxes due to rescinding of the Inflationary Adjustment Act.

Private Banking Segment

General information on the operating segment

Private banking is the concept of unique banking services geared to customers with high financial wealth, with a considerable part of their activity executed in the management of financial assets. Private banking customers at the bank are individual customers with liquid assets and security investments over NIS 2.5 million, and corporations with liquid assets in excess of NIS 8 million.

Financial consulting, which constitutes a significant part of the service offered to this operating segment, is provided to the customers of the segments who have signed consulting agreements. A response is also provided for other financial needs of these customers, while providing high-quality personal service and offering a range of advanced products.

The banks in Israel have invested substantial resources in recent years in the development and upgrading of the private banking services and in increasing their market share in this segment. This is due to the following factors:

- The potential in expanding business relationships with customers of a high socio-economic position assigned to this segment.
- Growing demand by customers of this segment for a high standard of professional and personal service, as prevails worldwide.
- Accelerated development of advanced investment products, such as: structured products, hedge funds, ETFs and others, as alternatives to traditional products (savings accounts, securities etc.)

Starting in early 2009, the responsibility for serving the private banking segment was transitioned from the Retail Division to the Financial Division. This is in line with management perception of the key components of servicing this segment.

Products

The products and services offered to customers of this segment are as follows:

- **Banking and finance** - A wide range of banking and finance products are offered to this segment's customers, while formulating an investment strategy suitable for each customer, tailored for his characterization and special needs, as well as an array of advanced investment products including deposits and structured products.
- **Credit cards** - The Bank offers the customers of the segment an array of credit cards issued by credit cards issued in Israel.
- **Capital market** - This product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes distribution and operation services for mutual funds and provident funds, as well as management services prior to their sale.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

In January 2007, the Israeli Securities Authority issued guidelines with regard to clarification of (individual) customer needs. According to the guideline, the Bank is required, within the scope of the consulting services it provides to customers, to question the customer on the basis of a list of questions that constitutes part of the guideline. This is done, in order to learn the preferences and needs of the customer. The Bank is prepared to meet the requirements of the guidelines through the broadening and preparation of documents and forms suitable for clarifying the required details. Regarding new customers, the guidelines will apply as from January 2008, and as to customers who have signed consulting agreements prior to the said date, the new guidelines will take effect as from July 2009. The Bank acts in compliance with these guidelines.

Technological changes

See the chapter on IT Systems and Computers for the technological changes, including with respect to operation of provident funds and pension advisory service.

Critical success factors

The critical success factors in the Private Banking Segment include development of marketing and business activities that rest on the understanding of the customers' needs and on providing professional, fast and effective service that offers a comprehensive solution to the customer's needs in all banking areas.

Customers

This segment serves customers with high financial wealth, mainly individual customers with liquid deposits and security investments exceeding NIS 2.5 million and business customers with such liquid balances in excess of NIS 8 million.
The customer group served by this segment is heterogeneous, there are no material dependencies or relations between customers, hence the private banking segment is not dependent on any specific group of customers whose loss may materially impact its operations.

Marketing and distribution

In addition to the marketing and distribution activities through the Bank's private banking department and through the direct banking system, conferences are conducted for customers in this segment, according to select population segments and inquiries through direct mail in a special format.

Competition

The concept of the unique services defined by the Bank as "private banking" prevails throughout the global and international banking system, and also in Israel. However, it should be noted that the criteria that determine whether one belongs to this segment, the service approach and its specific nature change, and do not rest on identical principles in all the banks. Also, accordingly, the volume of the Bank's activities in this segment relative to its competitors is not known, and public information is not available about the proportionate share in the private banking system of the different banks.
In addition to local banks, there is competition in this segment from foreign banks and non-banking entities, such as investment houses, types of funds (from Israel and overseas) and insurance companies.
In order to deal with current competition in this segment, the Bank invests substantial resources in the professional training of its employees, in providing high quality service and in maintaining strong ties with the customer, in the organization of professional conferences for the segment's select customers, in the intensive introduction of specialized and unique products to the segment's customers, and in efforts to identify and attract new customers on a regular basis.

The segment's main entry barriers are:

- Regulatory limitations.
- Minimum capital requirements.
- Training professional personnel.
- Building and maintaining physical and technological infrastructure (IT systems, with emphasis on consulting systems and CRM).
- A supply of unique financial products.

Business goals and strategy

The Bank plans to continue to develop its global private banking network, based on centralized management, centers of professional support and cooperation between Bank affiliates and units in Israel and throughout the world.

The financial crisis in Israel and world-wide is a major threat for business results and development of this segment. However, continued provision of professional, reliable service and maintaining close relations with customers would allow the Bank to expand its activities with segment customers as the financial markets and the real economy recover.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, economic policy, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, customers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Results of Private Banking Segment

	For the year ended December 31, 2008			For the year ended December 31, 2007		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(155)	1	(154)	(101)	1	(100)
Inter-segment	235	-	235	148	1	149
Profit from financing operations before provision for doubtful debts	80	1	81	47	2	49
Operating and other revenues	51	17	68	3	18	21
Total profit	131	18	149	50	20	70
Provision for doubtful debts	1	-	1	-	-	-
Operating and other expenses						
From outside operating segments	56	1	57	11	-	11
Inter-segment	1	-	1	1	-	1
Total operating and other expenses	57	1	58	12	-	12
Pre-tax operating profit	73	17	90	38	20	58
Provision for taxes on operating profit	27	6	33	13	7	20
Net operating profit	46	11	57	25	13	38
Net after-tax profit from extraordinary items	-	-	-	-	52	52
Net profit	46	11	57	25	65	90
Return on equity			101.0%			-
Average balance of assets	1,440	-	1,440	-	-	-
Average balance of liabilities	6,367	-	6,367	2,210	-	2,210
Average balance of risk assets	843	-	843	-	-	-
Average balance of securities	-	5,481	5,481	-	4,582	4,582
Credit to the public (end balance)	1,350	-	1,350	-	-	-
Deposits from the public (end balance)	6,809	-	6,809	2,204	-	2,204
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	24	-	24	-	-	-
Margin from receiving deposits	61	-	61	47	-	47
Other	(5)	1	(4)	-	2	2
Total	80	1	81	47	2	49

Contribution of the private banking segment to Group operating profit in 2008 increased by 50.0%, compared to its contribution in the corresponding period last year. Profit from extraordinary items, amounting to NIS 52 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007. Segment profit in 2008 includes operating results of private banking under international operations, which were presented as a separate segment in 2007. Excluding this effect, segment contribution in 2008 grew by 2.6% over the corresponding period last year.

Small Businesses Segment

General information on the operating segment

The small business segment operates within the retail division, and mainly serves family-owned businesses and small business customers with relatively low turnover and total indebtedness of up to NIS 6 million. This segment is characterized by large customer diversification. In view of the fact that the availability of data and their reliability regarding the customers of this segment is relatively low, there is a need for professional service and appropriate means of control, in order to assess the quality of the customer for the purpose of issuing credit. Additionally, this segment is characterized by a high required-collateral percentage from the customers to ensure credit repayment.

Products

Banking and finance

Within the scope of this product, the Bank provides the following services:

- Loans for various purposes - loans against the discounting of checking/credit cards, business loans, etc.
- Import/export activities - foreign currency operations, adaptation of credit facilities to the nature of the customer's activities using technological means, such as: EDI on the Internet.
- Investments - an array of investment activities, such as: Various deposits for different terms.
- Management of checking account facilities - The facilities are determined according to the customer's needs, turnover and judgment of the Bank. According to the directives of the Supervisor of Banks, there will be no exceeding the approved facilities. For further details, see the legislation section under description of the Household segment.
- **Credit cards** - The Bank offers the customers of the segment an array of credit cards issued by credit cards issued in Israel.
- **Capital market** - This product includes customer activities in the capital market, including buying, selling and custody of various securities and services provided for such securities (receiving interest, dividends, bonuses etc.) This also includes distribution and operation services for mutual funds and provident funds, as well as management services prior to their sale.

See below for information on alternatives to these products.

Legislation

A description of the normative framework applicable to the Bank is provided under the chapter Legislation and Regulation of Bank Group Operations. For legislative arrangements and regulations intended to govern Bank-customer relations, including, inter alia, commission price lists and credit facilities, see also the legislation section under description of the Household segment.

Technological changes

See the chapter on IT Systems above for the technological changes, including with respect to provident funds and pension consultancy.

Critical success factors

The critical success factors in this operating segment are personal service and providing banking solutions for the range of the customer's financial needs.

Customers

In the small businesses segment there is no dependence on a specific customer or a limited number of customers.

Marketing and distribution

The main marketing and distribution factors in the segment are the Bank's branches and its direct banking tools. There is no dependence on outside marketing channels . For details of these marketing and distribution factors, see description of the household segment.

Competition

The existing competition in this operating segment is mainly within the banking system. Furthermore, activities of non-banking credit providers (insurance companies, non-bank credit cards and various financing companies) are available. The Bank's principal methods for dealing with the competition are active marketing, personal ties with the customer, providing personal service and comprehensive professional solutions for the full range of customer financial needs.

The main entry barriers in this segment are:

- Regulatory limitations.
- Minimum capital requirements.
- Training professional personnel.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Customer habits - with emphasis on maintaining current relationships and reputation of banking institutions.

Business goals and strategy

The Bank's business strategy consists of expansion of its operations in the small business segment, while constantly evaluating risk at the individual customer level and for the entire sector and industry.

Below are the key goals in the small business segment and the business strategy deriving from these goals:

- Increasing marketing activity opposite customers, while segmenting the customers by occupation, size of operation and individual needs.
- Maximize potential profitability for each customer by adopting a comprehensive view of customer activity, creating a comprehensive relationship based on credit products and marketing of other products - depending on customer attributes.
- Expand geographic deployment of services provided to segment customers.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including GDP growth and impact of macroeconomic and geopolitical conditions, borrowers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, technological developments and issues of human resources.

Results of the Small Business Segment

	For the year ended December 31, 2008				For the year ended December 31, 2007			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Profit from financing operations before provision for doubtful debt:								
From outside operating segments	59	3	7	69	(314)	3	2	(309)
Inter-segment	262	(2)	-	260	588	(2)	-	586
Profit from financing operations before provision for doubtful debts	321	1	7	329	274	1	2	277
Operating and other revenues	155	11	15	181	147	9	17	173
Total profit	476	12	22	510	421	10	19	450
Provision for doubtful debts	89	-	-	89	74	-	-	74
Operating and other expenses								
From outside operating segments	374	2	4	380	353	2	6	361
Inter-segment	(41)	-	-	(41)	(26)	-	-	(26)
Total operating and other expenses	333	2	4	339	327	2	6	335
Pre-tax operating profit	54	10	18	82	20	8	13	41
Provision for taxes on	20	4	7	31	7	3	5	15
From current operations								
Net operating profit	34	6	11	51	13	5	8	26
Net after-tax profit from extraordinary items	-	-	-	-	-	-	39	39
Net profit	**34**	**6**	**11**	**51**	**13**	**5**	**47**	**65**
Return on equity				**12.3%**				**21.6%**
Average balance of assets	5,435	35	-	5,470	4,938	-	-	4,938
Average balance of liabilities	6,317	-	-	6,317	9,796	-	-	9,796
Average balance of risk assets	6,188	-	-	6,188	4,561	-	-	4,561
Average balance of securities	-	-	11,928	11,928	-	-	14,964	14,964
Credit to the public (end balance)	4,917	38	-	4,955	4,806	-	-	4,806
Deposits from the public (end balance)	6,591	-	-	6,591	6,497	-	-	6,497
Average balance of other assets managed	153	-	-	153	158	-	-	158
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	203	-	-	203	168	-	-	168
Margin from receiving deposits	76	-	-	76	86	-	-	86
Other	42	1	7	50	20	1	2	23
Total	321	1	7	329	274	1	2	277

(1) Reclassified.

Contribution of the Small Business segment to Group operating profit in 2008 increased by NIS 25 million compared to its contribution in the corresponding period last year. Profit from extraordinary items, amounting to NIS 39 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

In 2008 the segment saw an increase in credit spread. As a result, profit from financing operations in 2008 grew by 18.8% compared to the same period last year.

Operating expenses in 2008 grew by a moderate 1.2% over the corresponding period last year.

Commercial Banking Segment

General information on the operating segment

The commercial banking segment includes primarily activity vis-à-vis medium-sized private and public companies (Middle Market) with medium turnover of NIS 30-120 million and total indebtedness from NIS 6-25 million. This includes extensive distribution over different economic sectors. Segment customers are served under the Bank's business division.

The customers of this segment are characterized by the range of banking services they consume and the collateral percentage, which is generally higher than for customers of the business banking segment.

Products

Customers of the segment are offered services, mainly in the area of banking and finance. Within this framework, the Bank issues different kinds of credit, including for working capital purposes: foreign trade services - importing, exporting, documentary credit; short and intermediate-term loans, bank guarantees, etc.; transactions in foreign currency, including trading in derivatives, as well as investment in deposits and in securities.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations.

Technological changes

See the chapter below on IT systems and computerization below for technological changes and projects being conducted in the computerization area.

Critical success factors

The critical success factors in the Commercial Banking Segment include development of marketing and business activity resting on understanding the needs of customers, and providing fast and effective professional services that offers a comprehensive solution adapted for all of the customer's banking needs. This is done while offering diverse and innovative products while controlling the risk deriving from the segment's activities.

Customers

Segment customers are mainly medium-sized private and public companies (Middle Market) with medium turnover of NIS 30-120 million and total indebtedness from NIS 6-25 million. In this segment, there is no dependence on a major individual customer.

Marketing and distribution

The main marketing and distribution parties in this segment are the six business centers that fall under the responsibility of the Business Division, including the business center specializing in rural areas and business centers and branches located throughout Israel. There is no dependence on outside marketing channels .

Competition

The existing competition in this operating segment is mainly within the banking system. Activities of non-banking financing entities is small, and is mainly evident in factoring activities.

The Bank's main methods for dealing with the competition are to provide comprehensive professional solutions for the customer's needs, to maintain personal ties with the customer, and tailor a professional solution for the customer's needs quickly and effectively.
The major barriers facing a customer in moving to and from the Bank, derive mainly from the fact that there is some difficulty in transferring security from one bank to another; a factor that is significant in this sector, which is characterized by a relatively large volume of security. In order to increase the market share in the segment, while dealing with the difficulties created by the barriers the segment on taking in new customers, the Bank is working toward formulating solutions based mainly on improving the standard of service, professionalism and rapid response to needs.

The main entry barriers in this segment are:

- Regulatory limitations on banking corporations - including per-borrower and per-group of borrower limitations, These limitations are effective mainly regarding the small banks in the Israeli banking system.
- Minimum capital requirements - requirements due to total segment volume of activity.
- Training and retaining professional manpower - the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical customers and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).
- Customer habits - based on maintaining current relationships and reputation of banking institutions.

Business goals and strategy

The Bank's business strategy emphasizes the expansion of the customer base and growth in the activities of the commercial banking segment.

The Bank intends to continue expanding operations in this segment, primarily by recruiting new customers and expanding banking services to current and secondary customers. This is based on the range of products offered to segment customers, as described above.

The Bank would continue to operate, under the business banking division, dedicated departments for customers of the different segments, aided by business centers throughout the country.

Note that the crisis in global financial market sand the economic slow-down around the world pose significant challenges for credit management, including in the commercial banking segment. In recent months, the Bank stepped up account review and control, including comprehensive review of all accounts and customers aimed at achieving tighter control of the credit portfolio.

For details regarding risk management, see chapter on Risk Management.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, borrowers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Commercial Banking Segment

	For the year ended December 31, 2008				For the year ended December 31, 2007			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Profit from financing operations before provision for doubtful debt:								
From outside operating segments	266	-	1	267	183	-	2	185
Inter-segment	(119)	-	-	(119)	(70)	-	-	(70)
Profit from financing operations before provision for doubtful debts	147	-	1	148	113	-	2	115
Operating and other revenues	38	3	7	48	34	2	6	42
Total profit	185	3	8	196	147	2	8	157
Provision for doubtful debts	25	-	-	25	7	-	-	7
Operating and other expenses								
From outside operating segments	54	-	-	54	121	-	3	124
Inter-segment	55	-	-	55	(9)	-	-	(9)
Total operating and other expenses	109	-	-	109	112	-	3	115
Pre-tax operating profit	51	3	8	62	28	2	5	35
Provision for taxes on From current operations	19	1	3	23	9	1	2	12
Net operating profit	32	2	5	39	19	1	3	23
Net after-tax profit from extraordinary items	-	-	-	-	1	-	-	1
Net profit	**32**	**2**	**5**	**39**	**20**	**1**	**3**	**24**
Return on equity				**14.3%**				**9.2%**
Average balance of assets	4,829	2	-	4,831	4,349	-	-	4,349
Average balance of liabilities	2,103	-	-	2,103	2,167	-	-	2,167
Average balance of risk assets	4,077	-	-	4,077	3,801	-	-	3,801
Average balance of securities	-	-	1,599	1,599	-	-	1,941	1,941
Credit to the public (end balance)	4,542	3	-	4,545	4,087	-	-	4,087
Deposits from the public (end balance)	2,510	-	-	2,510	2,432	-	-	2,432
Average balance of other assets managed	36	-	-	36	50	-	-	50
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	101	-	-	101	80	-	-	80
Margin from receiving deposits	17	-	-	17	18	-	-	18
Other	29	-	1	30	15	-	2	17
Total	147	-	1	148	113	-	2	115

Contribution of the commercial banking segment to Group operating profit in 2008 increased by NIS 16 million compared to its contribution in the corresponding period last year. In 2008, the segment recorded growth in operations: Credit balance for the segment as of December 31, 2008 grew by NIS 0.5 billion over the end of the previous year. As a result, and due to improved credit spreads in this segment, profit from financing operations in 2008 grew by NIS 33 million (28.7%) compared to the same period last year.

Operating income in 2008 grew by 14.3% over the corresponding period last year. The major factor which offset the growth in segment profitability in 2008 was provision for doubtful debts, which increased by NIS 18 million over the corresponding period last year.

Business Banking Segment

General information on the operating segment

The segment specializes in providing complete banking and financing services to the largest companies, in a range of sectors, with total indebtedness exceeding NIS 25 million per customer and turnover in excess of NIS 120 million. This segment also includes the banking services group for companies in the construction and real estate sector. This is in accordance with the approach of the Bank's Executive Management regarding the segment allocation of the real estate activities and corresponds with the manner in which these customers are serviced and the organizational structure of the Bank. The Bank’s business division is in charge of serving customers of this segment.

In its activities in this segment, the Bank emphasizes improved profitability through expansion of activity in innovative financing areas with very high profitability relative to capital, mainly trading in derivative instruments.

Products

Banking and finance

Segment customers are offered a range of banking and finance products, including: Different types of credit - on call, short-term, intermediate-term and long-term loans, different types of guarantees; foreign trade activity - importing, exporting, documentary credit; financing of infrastructure products, mergers and acquisitions; and trading in derivatives.

Real estate

In this sector, the Bank offers credit to finance the purchase and construction of real estate, mainly residential construction products in areas of high demand, while insisting on the applications of tests prescribed in order to maintain the quality of the loan portfolio, and these include ties with customers having financial strength and stability, transactions characterized by favorable safety cushions for the Bank, and management using methods that reduce the risk.

The main services provided to customers of the real estate sector are:

Construction credit - In this area, the Bank provides different kinds of credit, particularly short and intermediate-term loans, intended to finance the purchase of land and the investment in construction, as well as different kinds of bank guarantees

Construction project financing - The financing of construction projects is a unique service, provided by the Bank to a group of customers in this industry alone. Within this framework, the customer is allocated a package of financial and banking services, suited to the specific needs of each project and based on its characteristics. This includes credit facilities to purchase land, construction loans, monetary guarantees, performance guarantees, and guarantees to the buyers of units in a project. The Bank issues construction financing mainly by the financial support method, in which the Bank channels the financing sources, including the buyers' monies deposited with it, in a manner that advances completion of the project.

Legislation

A description of the normative framework applicable to the Bank is provided below under the chapter Restrictions on and Regulation of Bank Group Operations. A description of some of these legislative arrangements, which were recently published and which have clear impact on the activities of the Business Banking Segment, is provided below:

Transactions with related persons - In accordance with Proper Banking Conduct Regulation No. 312 ("Transactions of Banking Corporation with Related Persons"), a limitation has been imposed on the Bank, whereby the Bank is permitted to grant credit to the category of "related persons" of the Bank, as defined in regulation, not to exceed 10% of the Bank's capital. Due to this limitation, the Bank stipulated in some of the agreements with customers who are part of this group, the credit may be utilized, in full or part, only if it does not cause deviation in the said limitation.

Financing an acquisition of means of control - The provisions of Proper Banking Conduct Regulation No. 323 ("Financing an Acquisition of Means of Control in Corporations") limit the balance of loans given to acquire the means of control in corporations, where the percentage of the financing for this acquisition exceeds 50% of the acquisition cost, at a percentage not to exceed 70% of the Bank's capital. Additionally, the regulation limits the balance of credit given by a banking corporation for an acquisition of the means of control of another banking corporation or a banking holding company, when the percentage of the financing of such an acquisition exceeds 30% of their acquisition cost, to the lower of 5% of the lending bank's capital or 5% of the capital of the acquired bank, or another rate that the Supervisor prescribes for a bank corporation with capital below NIS 500 million. This limitation is not effective with respect to the Bank's activity as of the date of the financial statements.

Industry limitation - The provisions of Proper Banking Conduct Regulation No. 315 ("Supplementary Provision for Doubtful debts") stipulate that when all the debt ("debt" -as defined in the regulation, after all the deductions permitted by the regulation are deducted from it) of a certain industry to the bank corporation (on an unconsolidated basis) exceeds 20% of the total debt of the public to the bank corporation, this excess will be considered as debt in deviation, for which the bank must make a supplementary provision for doubtful debts. This limit is evaluated on an unconsolidated basis. This limitation is not effective with respect to the Bank's activity as of the date of the financial statements.

Limitations on debt of a borrower and a group of borrowers - In accordance with Proper Banking Conduct Regulation No. 313 ("Limitations on Debt of a Borrower and a Group of Borrowers"), a limitation has been imposed on the Bank, whereby the Bank is permitted to grant credit to a "borrower" or a "group of borrowers", as defined in regulation, after certain amounts provided in the regulation were deducted from the debt, not to exceed 15% or 30% of the Bank's capital, respectively. The Regulation also prescribes that total indebtedness of the six largest borrowers and borrower groups in any bank will not exceed 135% of its capital. Due to this limitation, the Bank stipulated in some of the agreements with these persons that the credit may be utilized, in full or part, only if it does not cause deviation in the limitations per-borrower or per-borrower groups.

Securing home buyers - the Sale Law (Apartments) (Securing the Investments of Home Buyers), 1974 (hereinafter: ("the Sale Act" or "the Act") prohibits the apartment seller ("seller" and "apartment" as defined in the Act) to receive proceeds exceeding 7% of the price, unless the buyer is secured through one of the alternatives provided in the Act. One of the alternatives provided in the Act to secure apartment buyers is the furnishing of a bank guarantee under the Sale Act. The use of this alternative is very prevalent and accepted by companies engaged in the construction industry and contributes to the growth in the Bank's off-balance sheet credit risk. For details of amendments to the Sale Act, see the chapter on Legislation and Supervision of Bank Group Operations.

On April 2, 2008, the Supervisor of Banks published Proper Conduct of Banking Business Regulations No. 456 with regard to wording of the guarantee pursuant to the Sale Act. The regulation stipulates that, starting on June 1, 2008, all Sale Act guarantees issued by a banking corporation would carry the wording set forth in the regulation.

The Bank has updated the wording of Sale Act guarantees issued by the Bank pursuant to the regulation.

Financial assistance - On February 4, 2008, the Supervisor of Banks published Proper Conduct of Banking Business Regulations No. 326 ("Financial Assistance") This regulation is aimed at securing monies of apartment buyers on projects financed using financial assistance, and ensuring that sources designated for project construction, in particular proceeds from sale of apartments, are concentrated in the designated project account. This is achieved by implementing payment vouchers. The regulation stipulates that a banking corporation may only provide financial assistance to a construction project if a booklet of payment vouchers is produced and handed to the developer for each apartment to be sold in the project. These payment vouchers will be used for all payments to be made by the apartment buyer to the developer for the cost of the apartment. The regulation specifies the details to be included on each payment voucher. The regulation required the banking corporation to issue a guarantee to the apartment buyer for any amount paid by a payment voucher, or to ensure provision of other collateral pursuant to the Apartment Sale Act within 14 days from the payment date. Furthermore, the regulation sets forth arrangements for providing information to buyers with regard to matching of the project account to a specific project, and determines the details to be included in the assistance agreement with the developer in order to allow for implementation of the voucher system.

This regulation applies to financial assistance agreements signed on June 1, 2008 or later. The bank complies with this regulation.

Basel II - In conjunction with preparations for application of the Basel II principles by banking corporations in Israel, the Supervisor of Banks announced his intention to apply the Basel II regulations starting in 2009. The Business Division, which is responsible for the business banking segment, is preparing to implement these provisions within the scope of the Bank's general preparations on this issue. The Business Division deals mainly with the credit aspects deriving from the provisions of Basel II and the related provisions. For details of the Bank's preparations to apply these regulations, see below under "Legislation and Regulation of Bank Group Operations".

Technological changes

See the Chapter on IT systems and computerization for information on technological changes and the computerization projects being carried out in the Bank.

Critical success factors

Critical factors for success in the Business Banking segment include a strong ability to analyze the customer's needs and their financial condition, including the identification of risk deriving from activity opposite customers, including as a result of expected changes in the economy and the industry in which he is engaged, and on providing professional, fast and effective service that offers a comprehensive and appropriate solution to the customer's needs in all banking areas. This is done while offering diverse and innovative products while controlling risk due to any activity.

Customers

Segment customers include large business customers with sales in excess of NIS 120 million or total indebtedness in excess of NIS 25 million. Furthermore, in accordance with the approach of the Bank's Executive Management regarding the segment allocation of the real estate activities, and in accordance with the manner in which these customers are serviced and the Bank's organizational structure, the Business Banking segment includes the customers who receive banking services in the construction and real estate segments, even if the volume of their debt is mid-sized. In this segment, there is no dependence on a major individual customer.

Marketing and distribution

The main marketing and distribution parties in this segment are the managers and liaisons in the Business Banking Division, concurrent with the Bank's branches and business centers. The Bank has no dependence on outside marketing channels .

In order to provide an optimal response to segment customer needs, the servicing of the business banking customers in this segment was placed under the Corporate Sector in the Bank's head office, divided into departments and teams having specific industry specialization. The teams consult with the Bank's specialists in the fields of foreign trade, capital market, trading in derivatives, etc., with the goal of providing a comprehensive solution for the customer's needs. Real estate customers are serviced by the construction and real estate sector, which also constitutes part of the Business Division and operates, inter alia, through three regional business departments located in the main activity centers and 12 branches that specialize in financial support.

Competition

Most of the competition in the Business Banking Segment is opposite the large and mid-sized banks in Israel, and for some services - the entire capital market. The entry of foreign banks and non-banking entities, mainly insurance companies, is concentrated in long-term credit. Note that along with growth of total outstanding credit balances of the entire business sector in Israel in the five years prior to 2008, the share of banks in financing this sector has significantly declined. As a result of the financial crisis in Israel and world-wide, this trend has been reversed, and in 2008 the balance of outstanding credit to the business sector (out of total borrowers) decreased, and the share of the banking system in these balances has increased (compared to 2007). This is based on data published by the Bank of Israel.

Alternatives for the products and services offered by the Bank to customers of the Buainess Banking segment include raising capital and debt through public and private offerings, and through the services provided by insurance companies. The capacity to raise such financing has dwindled considerably due to the financial crisis.

The Bank's key asset for dealing with the competition is the existing human infrastructure and the experience gained in providing professional service and adapting banking solutions to the customer's needs.

The Bank's main methods for dealing with the competition are to provide professional service that is fast and effective, while offering optimal solutions for the customer's needs in a diverse array of its financial activities. As part of its operations in this segment, the Bank places emphasis on the best possible personal service to the business customer and adapting it to the customer's needs according to his unique characteristics, while focusing on industry expertise and providing specific professional advice in specialty areas.

Similar to the competition within the banking and financial products, most of the competition in providing unique services to real estate and construction comes from the banking system. In recent years, non-banking entities entered into activities with the goal of financing projects in the industry. However, these entities are limited by the scope of activity and the services they are capable and permitted to provide. Thus for example, insurance companies often participate in project financing by issuing insurance policies to buyers in lieu of guarantees under the Sale Law, but they do so in cooperation with the banking system, usually by joint transactions with banks which are not among the five major banking groups. The independent activity of the small banks in the real estate industry is limited, mainly due to the limitations on borrowings of an individual borrower or group of borrowers.

The Bank’s primary methods for dealing with the competition in the area of construction and real estate services are based on providing comprehensive professional solutions for the customers’ needs, readily available and fast service, and maintaining close and personal ties with customers. This is achieved mainly via dedicated business departments specializing in the construction and real estate sector.

The main entry barriers in this segment are:

- Regulatory limitations on banking corporations - including per-borrower and per-group of borrower limitations, as a result of the high volume of credit required as part of the activities of the segment.
- Other regulatory limitations - These limitations are related, inter alia, to certain activities. For example: non-banking entities are limited in their entry to independent activity in the real estate industry, as a result of the Sale Law, which requires, under certain conditions, the issuance of bank guarantees to the buyers of units in construction projects. Insurance companies are permitted to issue insurance policies to buyers, but they are not permitted to provide other services required for customers in this industry.
- Minimum capital requirements - requirements due to business activity volume.
- Training and retaining professional manpower - the activity in the Commercial Banking segment requires professional knowledge, experience and familiarity with the different industry and with the typical customers and their needs. The service provider must provide high quality, rapid service, while providing optimal solutions. These factors form a significant barrier to entry for financing providers wishing to launch operations in this segment.
- Construction and maintenance of physical infrastructures (such as branches) and technological infrastructures (IT systems).

Business goals and strategy

The Bank's business strategy in the Business Banking segment is directed toward maximizing the economic potential of the capital, based on the existing customers, by focusing on activities having high profitability relative to the capital needed for them, through, inter alia, the following activities:

- Implement an approach based on total outlook on the business customer, leveraging credit products and offering other products to establish a comprehensive customer relationship.
- Segment business customers by size, sector of operation and other attributes in order to optimally specify their business needs and to provide an appropriate, professional solution.
- Putting emphasis on profitability and yield of the uses, and a gradual shift to the measurement of return and risk by the principles included in the Basel II recommendations for the management of credit risk and operational risk.
- The sale of loans or long-term securitization of credit that does not maximize the profitability potential relative to the Bank capital made available for it and in order to enable greater flexibility in managing the credit of these customers with respect to regulatory limitations (mainly as relates to per-borrower limits).

The risk in realizing the strategy set forth above is mainly a reduction in the volume of activity with certain customers, from which the Bank's profit is relatively low, or a relatively high risk associated with doing business with these customers. In contrast, the overall profitability of the Bank could rise, as it focuses on profitable customers and expansion of activity opposite them, while utilizing the Bank's capital resources.

Note that the crisis in global financial market sand the economic slow-down around the world pose significant challenges for credit management, at the Bank in general an at the business banking segment in particular, since some segment customers are exposed, directly or indirectly, to extensive financial and economic operations in Israel and worldwide, and to the capacity to raise capital in financial markets. In recent months, the Bank stepped up account review and control, including comprehensive review of all accounts and customers aimed at achieving tighter control of the credit portfolio. Credit applications are reviewed most diligently, including analysis of exposure under different scenarios. For details regarding risk management, see chapter on Risk Management.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the capacity to raise funds in the capital market and demand for real estate, economic policy, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, customers' financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Results of the Business Banking Segment

	For the year ended December 31, 2008				For the year ended December 31, 2007			
	Banking and finance(1)	Capital market	Real estate and construction	Total	Banking and finance(1)	Capital market	Real estate and construction	Total
	NIS in millions							
Profit from financing operations before provision for doubtful debts								
From outside operating segments	328	18	407	753	238	31	388	657
Inter-segment	9	-	(221)	(212)	15	-	(210)	(195)
Profit from financing operations before provision for doubtful debts	337	18	186	541	253	31	178	462
Operating and other revenues	107	30	9	146	132	23	8	163
Total profit	444	48	195	687	385	54	186	625
Provision for doubtful debts	144	-	36	180	24	-	53	77
Operating and other expense s								
From outside operating segments	156	1	33	190	99	1	33	133
Inter-segment	57	-	10	67	57	-	11	68
Total operating and other expenses	213	1	43	257	156	1	44	201
Pre-tax operating profit	87	47	116	250	205	53	89	347
Provision for taxes on operating profit	27	18	43	88	72	18	31	121
Net operating profit	60	29	73	162	133	35	58	226
Net after-tax profit from extraordinary items	-	-	-	-	-	5	-	5
Net profit	**60**	**29**	**73**	**162**	**133**	**40**	**58**	**231**
Return on equity				**8.9%**				**13.0%**
Average balance of assets	16,999	-	6,359	23,358	12,217	-	5,282	17,499
Average balance of liabilities	12,700	-	1,101	13,801	11,379	-	861	12,240
Average balance of risk assets	16,692	-	10,554	27,246	13,830	-	12,468	26,298
Average balance of securities	-	36,310	-	36,310	-	36,582	-	36,582
Credit to the public (end balance)	15,540	-	7,159	22,699	11,201	-	6,211	17,412
Deposits from the public (end balance)	12,543	-	1,112	13,655	9,800	-	953	10,753
Average balance of other assets managed	10	-	109	119	20	-	93	113
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	175	-	169	344	134	-	178	312
Margin from receiving deposits	64	-	-	64	72	-	-	72
Other	98	18	17	133	47	31	-	78
Total	337	18	186	541	253	31	178	462

(1) Includes operating results for credit cards and the capital market, in immaterial amounts.

Contribution of the business banking segment to Group operating profit in 2008 increased by NIS 64 million (28.3%) compared to its contribution in the corresponding period last year. Profit from extraordinary items, amounting to NIS 5 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

The decrease in contribution of this segment was primarily the result of an increase in provision for doubtful debts amounting to NIS 103 million, due inter alia to implications of the financial crisis on the business sector, mostly on several major borrowers. Furthermore, operating expenses increased by 27.9%, primarily due to international operations, which in 2007 was presented as a separate segment. Operating income in 2008 included only NIS 26 million from dividends from equity investments, compared to NIS 50 million in the corresponding period last year.

The decrease in segment contribution was offset by a 17.1% increase in profit from financing operations (a 10.6% increase excluding contribution of business banking under international operations, which in 2007 was presented as a separate segment.)

Financial Management Segment

Operations in the Financial Management segment cover several key areas: Management of Bank assets and liabilities, management of the nostro portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets. Additionally, the segment includes equity investments in non-banking corporations. This is in line with management view of how these operations should be managed.

Operations of this segment are managed by the Financial Division, except for investments in non-banking corporations which, due to its nature, is managed by the Business Banking Division.

The sources of the activity in the nostro portfolio are the surplus Israeli currency and foreign currency liquidity. The surplus liquidity is surplus of the sources beyond the holding of liquid means against financing needs, as required in the liquidity model prescribed Proper Banking Conduct Regulation No. 342, the management of liquidity risks (see the chapter on Risk Management for details on the liquidity model and limitations of management and the board of directors). Segment operations are intended to maximize the return on investment of this surplus, subject to compliance with restrictions imposed by the Board of Directors and by Management as to extent of activities and exposure level to market risk. Threshold criteria were also prescribed for nostro activity, based on the credit risk inherent in the portfolio's activity, to diversify investments and to increase the liquidity there of. The activity in the nostro account is subject to meeting the credit limits prescribed in the Bank for countries, banks and companies. The Financial Management segment is acting to expand nostro investments in Israel and overseas.

In management of exposure to market risk, the Bank adopts an active policy of opening and closing positions, with the objective of creating profits, within a specified risk level. The volume of activity and risk must meet the market risk exposure limits prescribed by the board of directors and management. For details of the model for management of the held-for-sale portfolio and of risk limitation and management of exposure to market risk, as well as implementation of a new, advanced system for risk management and current management of exposure, see below the Risk Management chapter.

The Bank's activities in the financial management segment require that the Bank allot capital. The capital requirement is computed according to provisions of Proper Banking Conduct Regulation No. 341 ("Allotment of Capital due to Exposure to Market Risk"). The Bank regulates the capital needs required for this activity by computing the exposure to market risk inherent in the trading portfolio of the Bank, as defined in the provisions of Regulation No. 341.

The financial management segment functions as an activity that "clears" all of the Bank's trading activity, and leaves for those executing transactions a fixed margin, known in advance, that is computed assuming full coverage of the transaction. The exposure to market risk remains in financial management. The prices at which the segment "buys" and "sells" sources and uses opposite the Bank's other units, for the purpose of their carrying out regular business activities, are the transfer prices ("shadow prices") of the Bank that are determined regularly by the financial management segment.

One of the tools used by the segment in managing liquidity and exposure to market risk is the issuance of subordinated notes, inter alia, through the subsidiary, Mizrahi-Tefahot Issuance Company Ltd., as provided below in the chapter on Sources and Financing.

The segment includes the Bank's trading room operations in financial and capital markets. These operations include market making in all standard derivative instruments trading over-the-counter in Israel and back-to-back trading in complex derivative instruments. The trading room also serves major customers trading in securities in Israel and overseas.

In December 2005, the Bank was appointed chief market maker for "SHACHAR" and "MIMSHAK" (government, NIS-denominated debentures) by the Ministry of Finance, in accordance with the Government Loans Law, 1979. The Bank started making a market pursuant to this appointment on September 4, 2006.

Business goals and strategy

The segment includes management of the nostro portfolio, management of exposure to market risk and liquidity management. Segment objectives in these areas include active management of exposure and nostro portfolio in order to maximize gains while maintaining controlled exposure to market risk and appropriate liquidity, pursuant to limitations specified in Board and management directives.

The segment also acts to raise financial sources as needed for Bank operations, while complying with liquidity limitations and minimum capital ratio objectives, as per decision of the Board of Directors. This would be achieved by raising deposits in different linkage segments and for different terms, and by issuing various obligatory notes.

This segment also includes the Bank's trading room operations in financial and capital markets. The Bank intends to expand its operations in this area by expanding the customer base and intensifying business activity and customer relationships, inter alia, by improving cooperation between Bank departments operating within the trading room, development of new transaction types and investing in acquiring professional knowledge.

A critical success factor in this operating segment is the Bank's ability to understand the macro and micro factors affecting the market trends and conditions, for correctly identifying the market conditions and the ability to act quickly in opening and closing positions. Also, professional staff engaged in this area and technological systems to support the different activities.

The financial crisis in Israel and oversea, which has deteriorated in 2008 and is continuing as of the publication of these financial statements, poses significant challenges to management of the financial segment including its various components, and requires a high degree of professional skills supported by appropriate IT systems and advanced models for management of transactions and risk. These are all guided by the policy which includes clear restrictions and rules, and are controlled using advanced means of control. In particular, with regard to Bank exposure to other financial institutions in Israel and overseas, in exposure to various financial products and in exposure to customers whose financial robustness may be particularly sensitive to the financial crisis and to the global economic slow-down. For details of Bank exposure to foreign financial institutions, see chapter on Risk Management.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's management, as described below. The information may not be realized, if Bank management finds that it is not expedient to carry out the plan, or due to changes that could occur in various influencing factors that are not under the sole control of the Bank. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions impacting, inter alia, GDP growth, the capacity to raise funds in the capital market and demand for real estate, economic policy, the currency market and capital market in Israel and world-wide, other factors that impact the exposure to financial risk, customers’ financial robustness, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, including non-banking entities, aspects related to the Bank's image, technological developments and manpower matters.

Financial Management Segment results

	For the year ended December 31, 2008			For the year ended December 31, 2007		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Profit from financing operations before provision for doubtful debts						
From outside operating segments	(1,264)	5	(1,259)	(131)	7	(124)
Inter-segment	1,256	-	1,256	341	(1)	340
Profit (loss) from financing operations before provision for doubtful debts	(8)	5	(3)	210	6	216
Operating and other revenues	98	18	116	114	32	146
Total profit	90	23	113	324	38	362
Provision for doubtful debts	13	-	13	-	-	-
Operating and other expenses						
From outside operating segments	204	9	213	153	14	167
Inter-segment	24	-	24	28	-	28
Total operating and other expenses	228	9	237	181	14	195
Operating profit (loss) before taxes	(151)	14	(137)	143	24	167
Provision for taxes on operating profit	(57)	5	(52)	50	9	59
After-tax operating profit (loss)	(94)	9	(85)	93	15	108
Share in net, after-tax operating loss of affiliates	(1)	-	(1)	(1)	-	(1)
Net operating profit (loss)	(95)	9	(86)	92	15	107
Net after-tax profit from extraordinary items	1	-	1	9	-	9
Net profit (loss)	**(94)**	**9**	**(85)**	**101**	**15**	**116**
Return on equity			**(17.9%)**			**26.3%**
Average balance of assets	17,213	-	17,213	18,955	-	18,955
Average balance of liabilities	25,400	-	25,400	23,082	-	23,082
Average balance of risk assets	8,569	-	8,569	8,681	-	8,681
Average balance of provident and mutual fund assets	51,087	-	51,087	45,472	-	45,472
Average balance of securities	-	22,416	22,416	-	16,716	16,716
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	14,617	-	14,617	(1)17,192	-	(1)17,192
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	(8)	5	(3)	210	6	216
Total	(8)	5	(3)	210	6	216

(1) Reclassified.

Contribution of the Financial Management segment to Group operating profit in 2008 was negative, amounting to a NIS 86 million loss, compared to an operating profit of NIS 107 million in the corresponding period last year. Profit from extraordinary items last year, amounting to NIS 9 million, primarily relates to the segment's share of capital gain from sale of the Bank group's provident fund operations.

The loss from financing operations in 2008 amounted to NIS 3 million, compared to a NIS 216 million profit last year; this was primarily due to a NIS 215 provision for impairment of Bank investments in securities primarily exposed to repercussions of the financial crisis (a NIS 114 million provision in the corresponding period last year, was separately classified under results of international operations, which since 2008 have been attributed to the corresponding segments, and which was presented as a separate segment in 2007).

Operating and other revenues decreased by NIS 30 million, or 20.5%, primarily due to loss of provident fund management fees which were included in revenues last year.

In 2008, the financial management segment recorded a provision for doubtful debts amounting to NIS 13 million due, inter alia, to implications of the financial crisis on this segment.

Human Resources

Staff - general information

Provided below is information on the number of employees, in terms of full-time positions (including impact of overtime) in the Bank and in subsidiaries. The number Bank workers provided below also includes employees who are not employed by the Bank but by companies related to the Bank, including employees of Mehish Computer Services Ltd. and Mizrahi Security Services Ltd. - service companies that provide computerization, security and protection services to the Bank:

	2008					
	At the Bank	Overseas branches	Bank Total	Israeli subsidiary	Overseas subsidiaries	Group Total
Number of full-time employees at December 31, 2008	3,977	62	4,039	(1)927	25	(1)4,991
Number of full-time employees based on monthly average	3,999	63	4,062	(2)539	26	(2)4,627

	2007					
	At the Bank	Overseas branches	Bank Total	Israeli subsidiary	Overseas subsidiaries	Group Total
Number of full-time employees as of December 31, 2007	3,956	64	4,023	177	27	4,227
Number of full-time employees based on monthly average	3,777	64	3,841	173	23	4,037

(1) Including 710 employees of Bank Yahav.
(2) Including 339 employees of Bank Yahav.

Below is a breakdown of the number of positions in the Group by operating segments(1):

	As of December 31	
Operating segment	2008	2007
Household(2)	2,987	2,298
Private banking	126	33
Small business	784	791
Commercial banking	270	250
Business banking	491	405
Financial management	333	299
International operations(3)	-	151
Total	4,991	4,227

(1) Includes Head Office employees that are allocated ratably over the various segments.
(2) In 2008, includes 710 employees of Bank Yahav.
(3) In 2008, international operations are presented under the different segments. The household, private banking, business banking and financial management segments include 12, 62, 50 and 4 positions, respectively, involved in international operations.

Human resource management

Bank management regards all Bank staff and managers as a primary foundation to achieving growth targets in operations and profitability. Human resources at the Bank are managed on two levels: One is services to individual employees, from recruiting through ongoing services and up to retirement. The second level is in the Human Resource Development and Training department, in conjunction with development of the Bank's human resources in all aspects.

Human resource development and training - the Bank invests in development of its human resources and in constant improvement of professional and personal skills of its staff and managers, by establishing promotion tracks and a range of enhancement programs offered by the Bank's training center.
The training center is in charge of establishing efficient and effective processes for employees, old and new, entering a new position, of professional and managerial training in accordance with needs of the various positions and of knowledge refreshing via workshops. Based on the training needs resulting from the gaps between knowledge necessary for an employee to perform his functions and the actual knowledge, the training center prepares a curriculum that covers the gaps in knowledge in the different banking subjects, managerial skills and in familiarity with Bank systems. Significant emphasis is placed on managerial training as part of the personal development of managers. To this end, an integrative managerial development model was developed in 2008, and its application started in 2009. In addition, the Bank encourages achievement and expansion of academic education of its employees, as well as broadening their horizons via external workshops.
Training expenses in 2008 amounted to NIS 8.1 million, compared to NIS 9.2 million in 2007. During this year, 2,800 Bank employees participated in 11,400 training days (in 2007 - 3,400 employees participated in 14,500 training days). In order to improve learning processes and the efficiency there of, use of remote learning technologies was expanded in 2008, reducing the number of training days; five banking courses were developed and improved by using a mix of methods (remote learning). This is in addition to development of eLearning kits distributed to all Bank employees on different topics (proper disclosure, LIVE, online banking, information security and money laundering).

Collective labor relations

The labor relations in the Bank are collective (except for a limited group of senior employees, as set forth below), which are expressed in two employee organizations:

A. **The Employees' Association of United Mizrahi Bank Ltd.** is a longstanding organization, which by virtue of the inter-organization agreement with the Histadrut Poalei Hamizrahi is empowered, by the said Histadrut, to act as the representative organ of the Bank's employees for the purpose of entering into collective agreements and representing the Bank's employees ("Employees' Association").

B. **The Council of Managers and Authorized Signatories of United Mizrahi Bank Ltd.** was established by the managers in 2005 ("Manager Council"). This organization has been recognized by the Bank and by the Employee's Association as a "bargaining unit" for negotiation and signing agreements.

C**. Mehish' Employees' Committee** - The representative organization authorized to sign on behalf of Mehish employees on collective agreements applying to the Company's employees (except for Mehish employees employed under personal agreements).

D. **Bank Yahav Employees' Committee** - The representative organization authorized by Yahav employees to sign collective agreements applicable to Yahav employees (except for Yahav employees employed under personal employment contracts).

Employment terms of employees represented by the Bank's Employee Association

General

The employment terms are anchored in a series of collective agreements, together called "labor constitution".
The labor constitution presents the general framework of the undertaking between the employees and the Bank, and arranges the basic employment terms. In addition, wage agreements are signed from time to time, within the framework of the constitution.

Salary agreements

In December 2003, a wage agreement was signed for the years 2002-2004, which was in effect until December 31, 2004. This agreement applied to all of the Bank's employees except for those among them that on December 31, 2004 were former Bank Tefahot employees, which was merged with and into the Bank on January 1, 2005.
On January 18, 2006, a salary agreement was signed for the period from April 1, 2004 through March 31, 2005, for those who were employees of Bank Tefahot on December 31, 2004 and became employees of the Bank.
On December 31, 2005 and January 23, 2006, agreements were signed regarding the conversion of the salaries of those who had been employees of Tefahot to the salary method at Mizrahi, and imposition of the labor constitution on those employees ("salary conversion agreements").
For the years 2008-2006, a wage agreement has not yet been signed (except with those who were employees of Bank Tefahot, and for which a wage agreement was signed for the period through March 31, 2005). The Bank makes appropriate provisions in respect of the aforementioned salary agreements, as needed.

Salary update method

The salaries of most of the Bank's employees (except for a limited number of employees employed under personal contracts that were signed between them and the Bank, see the chapter on personal employment agreements below) are updated, in addition to the cost of living updates in the economy, based on three main elements of the update:

A. Elements which are updated regularly at rates and in the manner prescribed from time to time, in negotiations of labor agreements The main element of these is base salary, as well as other increments deriving from the base salary, namely seniority increment, which is updated at the start of every year at a rate that grows as the seniority of the employee gets higher, reaching up to 4% (of base salary) for every year of an employee with seniority in the Bank over 26 years of service.
B. Elements updated in accordance with changes in the Consumer Price Index.
C. Elements that are linked to changes in non-bank tariffs.

All of the elements listed above apply uniformly to all the employees, the employment terms of whom are subject to the labor constitution and to the labor agreements signed between the Bank and the Employees' Association. The updating of part of the salary based on criteria that are not linked to the CPI, as well as granting automatic seniority increments, as above, create a situation in which the increase in the real salary in the Bank is higher as the inflation rate falls. In a reality of low single-digit, or even negative inflation, these factors lead to an increase in real salaries, despite the absence of an update to the wage agreement.

Special payments

In addition to the regular salary elements, the Bank pays to its employees, as stipulated in the labor constitution, a one-time grant upon reaching seniority of thirteen years and eighteen years. The Bank's financial statements include a provision for these obligations, according to an actuarial computation that is based on past experience and the probability that on the date of record, the employee will still be employed by the Bank.

The Bank also provides individual compensation tools, through which the personal compensation of each and every employee is carried out. These compensation tools are selective and are based on specific assessments of the direct managers of the Bank's employees in the different segments regarding the performance of every employee. Personal advancement is generally based on rank promotion, with respect to which the Bank's Executive Management makes decisions annually, as well as a bonus element. Decisions relating to the extent of the personal advancement and bonus or grant are not derived from provisions of labor agreements, but are influenced by the individual assessment of the employee's performance and the condition of the Bank and its profitability in the relevant period.

Pension and benefit arrangements

A. Those who were employees of Mizrahi Bank on the eve of the merger are covered by the Bank's obligation to pay pension and severance pay through regular deposits in the employees' names to pension, benefit and severance pay funds. These deposits, as well as future amounts and a one-time amount deposited in the past, release the Bank from its obligation under the law to pay severance pay to those employees. See Note 16 to the financial statements for additional information.

B. Pursuant to the labor agreement signed between the Bank and its employees on December 30, 1993, the Bank made available long-term loans to its employees, to finance the retroactive purchase of pension rights from certain pension funds with which the Bank had undertakings in this connection. The loan agreements stipulated that the loan amounts are linked to the CPI plus real interest at the rate stipulated. It was also stipulated that if it became clear, on the repayment date of all of these loans, that the linkage and interest differences on the loans during the loan period exceeds the yield in a certain provident fund agreed upon - the employee will not be charged an amount exceeding the loan amount revalued according to this yield. If necessary, the Bank makes suitable provisions for these differences between the interest on the said loan and the yield of the provident fund, and for the tax implications, if any, on the reduction in the loans. The balance of the loans given to employees in this framework as of December 31, 2008 amounted to NIS 36 million.

C. Those who were employees of Bank Tefahot on the eve of the merger are covered by the Bank's obligations to pay pension and severance pay by regular deposits in the employees' names to pension, benefit and severance pay funds as well as one-time deposits. These deposits release the Bank from the obligation make severance and pension payments for the period commencing February 1, 2006, for those employees who were included in the salary conversion agreement. In respect of its liability through February 1, 2006, the bank paid all the amounts required to cover the liability, by a deposit in pension and provident funds See Note 16.B-H to the financial statements for information on the special liability for retirement of employees in the Bank or the former Bank Tefahot.

Special collective bargaining agreement

On April 11, 2006, the Employee Association and the Bank signed an agreement to end the labor dispute, declared with regard to the merger with Bank Tefahot ("Special collective bargaining agreement"). Provisions of the special collective bargaining agreement shall be in effect until December 31, 2010 ("term of the special collective bargaining agreement"). It stipulates, inter alia, that during the term of the special collective bargaining agreement, all of the disputes will be resolved by the mechanisms prescribed, the objective of which is to prevent the striking of the Banks' activities and applying to the relevant bodies, in order to reduce the deviations prescribed in the agreement (such as in the event of a strike of the entire economy). Therefore, throughout the term of the special collective bargaining agreement, labor unrest will be avoided, whereby the Association has undertaken that it will not go on strike. Due to the signing of the agreement, the parties to the agreement withdrew the legal proceedings between them that were outstanding and pending.

The special collective agreement prescribed a mechanism for integrating the Bank's employees in their new positions within the scope of the merger, and the Bank has undertaken that throughout the special collective loan period it will not take any dismissal measures against permanent employees of the Bank because of financial needs. However, the Bank may terminate permanent employees due to regulatory needs or disciplinary problems ("individual termination"). The parties also agreed that during the term of the special collective bargaining agreement, the Bank could terminate up to 50 permanent employees due to incompatibility, in accordance with the special collective bargaining agreement. Moreover, the parties agreed on a voluntary retirement plan for up to 200 employees during the term of the collective bargaining agreement, all as provided in the special collective bargaining agreement.

In 2006 the Bank made a provision of NIS 208 million, based on management estimates of the cost of the voluntary retirement program.

As of December 31, 2008, 235 employees who had signed personal retirement agreements under the terms of the voluntary retirement plan and terminated their employment. Additional employees who signed retirement agreements are expected to terminate their employment during 2009 and thereafter.

The agreement further stipulates that unlike prior to the agreement, Bank employees may choose whether or not to be members of the Employee Association (note that collective agreements signed by the Bank and the Employee Association also apply to any employees who are not members of the Association). The collective agreement also increased the quota of employees that may be employed under personal agreements.

Furthermore, under the terms of the special collective bargaining agreement, the parties agreed to establish a collective bargaining unit for managers, as defined therein, alongside the collective barginging unit for all Bank employees (regarding the agreement between the Manager Council and the Bank, see below).

Employment terms for employees represented by the Council of Managers and Authorized Signatories

Overview - Wage Agreements

A. On April 10, 2006, the Manager Council and the Bank signed a special collective bargaining agreement in which the Bank and the Manager Council ratified the pact (hereinafter, together with previous agreements between the parties: "manager constitution"), in which the Bank recognized the Manager Council as a collective bargaining unit, within the scope of which principles were prescribed according to which the Bank would act to promote Bank managers' ranks. The manager constitution prescribed, inter alia, mechanisms for resolving disputes through arbitration, limitations on the number of managers to be employed under individual contracts and financing of the Manager Council (the Bank has undertaken to transfer an annual sum of NIS 250 thousand or 30% of the amount to be paid to the Employee Association, whichever is higher). The Bank has undertaken that the salary agreements and employment terms of members of the Manager Council will be determined in negotiations with the organization (although the organization has the right reserved to it, as long as a salary is not signed between it and the Bank, to adopt a salary agreement entered into with the Employee Association, instead of negotiating with the Bank or continue it).

   The parties also stipulated that the manager constitution will be in effect until September 19, 2008. If the organization does not cancel it until one month of days previously, the effective period of the constitution will be extended until September 19, 2011, and thereafter, for a two-year period each time, unless one of the parties gives written notice of its cancellation, all in accordance with the mechanism prescribed in the manager constitution. For details of extension of validity of the manager constitution through December 31, 2015, see section E. below.

B. By virtue of the pact and the collective agreement to ratify the pact signed between the Bank and the Managers Council (see below), the collective agreements signed between the Bank and the Employees Council signed until September 19, 2005 apply to the managers, as well as all the agreements that were and will be signed between the Bank and the Managers Council from September 19, 2005 and thereafter.

C. In December 2005, an agreement was signed between the Bank and the Managers Council regarding the conversion of the salary of those who had been managers in Bank Tefahot and had become managers in the Bank, to the salary method practiced in the Bank, while retaining the value of their terms.

D. On March 22, 2007, the Manager Council and the Bank signed a salary agreement for 2005-2007, wherein the parties agreed on the annual salary raise for managers, payment of seniority bonus, management fee and a non-recurring bonus granted to all managers. The agreement further stipulates that the Manager Constitution shall be effective through September 19, 2011, and while it is in effect, no parmanent manager with the Bank shall be terminated for economic reasons (as defined in the Manager Constitution), except for individual termination (for cause and/or incompatibility) not to exceed 8 managers for incompatibility, or termination due to regulatory changes unknown to the parties as of the date of signing the agreement. Upon expiration of the labor constitution, the commitment for non-termination for economic reasons shall expire, as set forth above.

   Furthermore, the agreement stipulates that the Bank shall establish a voluntary retirement program for managers. In each year during the term of the agreement, management would declare a period in which voluntary retirement would be possible, based on the overall framework set forth in the employee retirement program.

E. On August 19, 2008, a special collective bargaining agreement was signed with the Manager Council whereby managers may choose to receive a seniority bonus under the new format, which is updated based on success benchmarks and on the Bank's return on equity. Furthermore, this agreement contains an extension of validity of the Manager Employment Constitution through December 31, 2015, as well as a commitment by the Council not to engage in labor unrest through this date, except in case of Bank operations being merged with another bank during the term of this agreement.

F. On March 5, 2009, a wage agreement was concluded with the Manager Council for the period 2008-2010. This agreement primarily consists of gradual expansion through July 2014 of the base used for making deposits to study funds, as well as payment of certain annual amounts by monthly installments.

Pension and benefit arrangements

A. Managers who were employees of Mizrahi Bank on the eve of the merger are covered by the Bank's obligations for the payment of pension and severance pay, by regular deposits in the employees' names in pension, benefit and provident funds, and all the aforesaid in the previous paragraph regarding the Employees Council applies to them.

B. Managers who were employees of Bank Tefahot on the eve of the Tefahot merger are covered by the Bank's obligation for the payment of pension and severance pay, by regular deposits on behalf of employees to pension funds, provident funds and severance pay funds, and non-recurring deposits. These deposits release the Bank from its obligations for the payment of severance and pension for the period as from January 1, 2006, for whoever was a manager on that date. With respect to its obligation until January 1, 2006, the Bank paid all the amounts necessary to cover these debt through deposits with pension and provident funds.

Employment terms for Mehish employees

The employment terms for employees of Mehish are arranged in the labor constitution that was signed in 1989 and in a series of agreements signed between the Employees Council of Mehish and the Company over the years, the key points of which are provided below:

A. Salary updates for Mehish employees are determined according to a linkage model for salary increments and for changes in the provisions given to employees of the Bank (the parent company). If in a certain year, a salary agreement is not signed by the Bank by the end of March in the subsequent year, Mehish employees would be entitled to an advance that will be calculated according to the agreed mechanism, which would be reviewed by independent experts. The balance of the salary increase would also be calculated by an agreed mechanism soon after signing the Bank's salary agreement. It was also stipulated that if the terms of the salary agreement include a new salary increment and/or salary element that was not included in the linkage model, negotiations will be conducted with representatives of the employees regarding the increments to be given to Mehish employees.

B. The labor constitution prescribes the maximum quota for contracted employees, pursuant to the undertaking between Mehish and outside vendors, which make workers available to Mehish, and under the professional management of Mehish. In this connection, it should be noted that disputes have arisen in the past between the Company's management and the Employees Council regarding the quota of contracted employees and the outsourcing of projects. On December 29, 2003, a labor dispute was announced in the company. On March 31, 2004, the parties signed an agreement to end the labor dispute, in which certain conditions were stipulated with regard to the company's undertakings with outside vendors and in outsourcing contracts. However, the parties agreed that the said agreement does not exhaust the dispute regarding outsourcing and that each party reserves for itself all the rights and claims in this matter.

C. Similar to employees of the Bank, the obligations of Mehish to pay pension and severance payments to its employees, except for a limited group of employees for which a provision was made, are covered by regular deposits in the name of the employees to pension, provident and severance pay funds, in accordance to the provisions of the collective agreement applicable to these employees.

D. On January 11, 2007, a collective agreement was signed between the management of Mehish and the Employees Council which contains a voluntary retirement plan. The plan provides for retirement in an early retirement track, for employees, who on their retirement date will be at least 55 years old and are insured in managers' insurance or an aggregating pension fund, or an increased severance pay track for other employees. The final decision on acceptance or rejection of the request for early retirement rests with the general manager of Mehish.

   In 2006 the Bank made a provision of NIS 25 million, based on management estimates of the cost of the voluntary retirement program.

   As of December 31, 2008, 19 employees have signed retirement agreements, of which 18 have terminated their employment by December 31, 2008.

E. On March 8, 2007, the Employee Association, Manager Council, Mehish Workers Council and the Bank signed a special collective bargaining agreement which sets terms for integrating the computer employees of Tefahot (except for a small group of employees) into Mehish. The agreement prescribes the format in which the terms of the computer employees of the former Tefahot will be converted and adapted to the terms prevailing in Mehish. Pursuant to this agreement, the collective bargaining agreements applicable to Mehish employees, including the infrastructure agreement in Mehish from 1989, as well as any new collective bargaining agreement to be signed, will apply to the Tefahot employees who have been integrated.

Stock Options

On February 27, 2005, the Bank's board of directors resolved to adopt an option plan for employees and officers of the Bank and its subsidiaries, pursuant to which will be allotted 12,000,0000 options, exercisable for 12,000,000 ordinary shares, NIS 0.1 par value each, of the Bank. The options were allocated on a differential basis, in accordance to a "quality ranking", by which each manager was evaluated. On March 2, 2009, the option exercise period was extended by a further two years. See Note 16.A.2 to the financial statements for details.

On May 19, 2008, the Bank Board of Directors resolved, after obtaining approval of the Bank Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries. On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank Audit Committee, to extend the exercise periods of all option warrants allotted in accordance with the plan and the framework, and which would be allotted thereby in the future, by 24 months.

The reasons indicated by the Bank's President for approval of this plan, as adopted by the Compensation and Management Committees, the Audit Committee and the Board of Directors, included, inter alia, that the option plan is a major component in providing an incentive to employees to achieve the Bank's objective under the strategic 5-year plan for 2008-2012 (for details, see chapter on Business Strategy). It was also noted that the eligibility formula for exercise, as set forth in the option plan, provides an appropriate incentive to employees to continue their service to the Bank in coming years, and creates a direct connection between the Bank's annual rates of return in 2008-2012 and benefits for which the offerees would be eligible pursuant to terms of the option plan.

On June 8, 2008, an outline report was published to employees, and on July 8, 2008, 28.6 million option warrants were allotted pursuant to the stock option plan. In view of the update to the strategic plan, as set forth above, and in view of management estimate whereby the rate of eligibility of each offeree to exercise the option warrants granted to them under the stock option plan, would be lower than estimated by Bank management upon approval of the stock option plan, the Board of Directors decided that the exercise period of option warrants should be modified, by extending it in line with expected changes in the Bank's course of business. This would reduce, inter alia, the expected impact of circumstances leading to the update of the strategic plan, all in order to maintain the incentive to employees, including officers of the Bank, inherent in the stock option plan upon approval there of. On November 24, 2008, the option exercise period was extended by a further two years.

For further details of the theoretical benefit value of the option warrants, see Note 16.A.2.

Individual employment contracts

The labor agreements signed in the Bank in the years 1995, 1998, 2003 and 2006, stipulated that the Bank will be permitted to enter into personal employment contracts with senior employees, as defined in the agreements, and several personal employment contracts with certain officials. Some of the senior employees employed under individual employment contracts are eligible, in the event of termination by the Bank, to severance bonuses based on their period of service with the Bank, in addition to other amounts and benefits accrued to their credit in various funds. The financial statements include full provisions for the severance bonuses accrued through the balance sheet date. See Note 16.E-G to the financial statements.
For further information about employment terms of the Bank President - see Note 16.D. to the financial statements.

Employees of Bank Adanim

In 2008, labor relations at Bank Adanim continued based on the set of procedures which summarize the rights and obligations of Adanim employees, as ratified by the Adanim Board of Directors, with the payroll and compensation system based on employee position, performance and contribution to Adanim's operations. Individual employment contracts have been signed with employees who started work as of 2007 and later.
Consequently to approval by the Mizrahi-Tefahot Board of Directors and the Bank Adanim Board of Directors of the merger of Adanim with Mizrahi-Tefahot, Bank Adanim has discontinued employment of its staff such that their employer-employee relations ceased to exist at the end of 2008. Starting on January 1, 2009, most of Adanim employees started being employed by Mizrahi-Tefahot, and have signed employment contracts with the Bank where in the Bank assumed Adanim's commitments with regard to employment terms. This was not applied to several employees who were terminated. From the aforementioned date, and through the merger date, the former Adanim employees were on loan to Bank Adanim in exchange for the cost of their employment. As set forth above, on February 23, 2009 the suspensive conditions of this merger were met, and as of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into the Bank.
As of the date of publication of these financial statements, the former Adanim employees hold identical or similar positions to their positions prior to the merger decision. Most of Adanim's branch employees are expected to continue and hold identical positions at Mizrahi-Tefahot, and the majority of Adanim head office staff now hold similar positions with the Bank. Employees of the former Bank Adanim who would not be offered employment by the Bank or who would choose not to continue working for the Bank in 2009, would be eligible for improved retirement terms, identical to those enjoyed by Bank Tefahot employees who retired following the merger with Bank Mizrahi - even though Bank Adanim employees are not party to a collective bargaining agreement. For further details, see Note 6.E.1)d) to the financial statements.

Employees of Bank Yahav

Overview - Labor Agreements

The employment terms and conditions of Yahav employees are set forth in collective bargaining agreements. A special collective bargaining agreement was signed in March 2004.

In December 2007, Bank Yahav management and employee union signed an agreement aimed at specifying the compensation system at the bank for the period 2008-2012. Pursuant to this agreement, the employees are eligible to receive an annual bonus and ranking at variable rates based on the ratio of net profit return on bank capital. This agreement places stronger emphasis on the variable component of compensation, depending on bank performance, which reflects the importance associated by bank management and employees with a stronger link between employee performance and compensation.

On July 14, 2008, an agreement was signed by Yahav management and employee union, concerning safeguarding of the bank's independence. This agreement is for a 5-year term, and it stipulates that the collective bargaining agreements currently in place at Yahav would also be extended by an additional 5 years.

Severance pay and pensions

Yahav's obligation to pay severance or retirement pay is primarily covered by current deposits based on the salary for pension purposes to official provident funds in the name of the employees. The bank customarily makes up the difference, for employees eligible to receive severance pay, between the employee's most recent salary multiplied by their number of years in service and the amount accrued in their name in the aforementioned provident funds.

As for senior executives, the bank has committed to release to them the severance pay component accrued in the pension fund, in addition to their final salary multiplied by their number of years in service. In addition, Yahav has committed to pay senior executives' salary during an adjustment period, should their employment be terminated by the bank. An appropriate provision was made in Bank books.

Cashing of unused sick days

Retiring employees are entitled, under the labor agreement, to partial cashing of unused sick days. Bank Yahav has included a proper provision in its accounts, based on an actuarial assessment.

Jubilee bonus

Yahav employees are eligible to receive a Jubilee bonus upon completion of 25 years of service, and bank retirees are eligible to receive holiday gifts. Bank Yahav has made a provision for the Jubilee bonus and for holiday gifts to retirees based on an actuarial assessment.

Bank organizational structure

The Bank organizational structure is intended to support achievement of Bank objectives and realization of its business plan. The organizational structure is based on divisions, sectors and other units that report to the President, as follows:

Retail Division - This division consolidates most of the banking activity of private customers and small business customers. Division operations include: The retail sector, primarily responsible for operations of the Household segment and of the Small Business segment; the mortgage sector, responsible for mortgage operations; ;and the online banking sector, responsible for the different distribution cannels for online banking. Furthermore, Division operations include the private banking segment for select customers, which in early 2009 was transitioned to the Financial Division. Bank branches and business centers operate under this division in six geographic regions, as well as an online banking sector, which includes, inter alia, the call centers, and the LIVE sector, which is operates by personal bankers via a range of communication channels (internet, telephone, SMS, fax and video chat).

Business Banking Division - this division consolidates most of the banking activity of the large corporations and of business customers. This division includes the corporate sector, in charge of operations of the business banking segment, and the business sector, in charge of operations of the commercial banking segment, operating 6 geographically-distributed business centers. In addition, a business center for customers in rural areas was established in 2008. The division also includes other units providing specialized services for customers in specific sectors: the construction and real estate sector, the international finance and trade sector and the diamonds business center. The division also operates the special customer sector, in charge of collection of problem debt.

Financial Division - The division includes the financial management sector - which is responsible for management of the Bank's financial assets and liabilities - and the capital market trading sector, which operates an integrated trading room active in all financial markets, in trading currencies, interest rates and Israeli and overseas securities, and the Information & Customer Service Sector which supports all financial market operations, providing back-room services. The Division is also responsible for Group international operations, and since early 2009 - also for the private banking segment. This is achieved via the private banking and international operations sector, which is responsible for these operations via the private banking units in Israel and via affiliates and subsidiaries overseas.

Customer Asset Management & Technology Division - the division includes the provident fund sector and the departments in charge of the pension advisory service and financial advisory service offered to customers. The division is also responsible for the subsidiaries operating in the capital market: Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd. and Mizrahi-Tefahot Trust Company Ltd. The division is also in charge of information technology, including pursant to requirements of Proper Banking Conduct Regulation 357, via Mehish Computer Services Ltd., a wholly-owned subsidiary of the Bank.

Comptrollership, Planning & Operations Division - this division includes: control of all different risk elements of the Bank; the Process Engineering division, in charge, inter alia, of back-office banking operations and the Planning & Economics Division,, in charge of supervision and control of subsidiaries. This division is also responsible for: Bank insurance (including: banking insurance as well as officer and director insurance), insurance incidental to mortgages, clearinghouse and information security at the Bank, as required under Proper Banking Conduct Regulation 357.

Human Resources and Administration Division - this includes management of human resources, training, logistics, administration and improved efficiency (including properties and construction) as well as security.

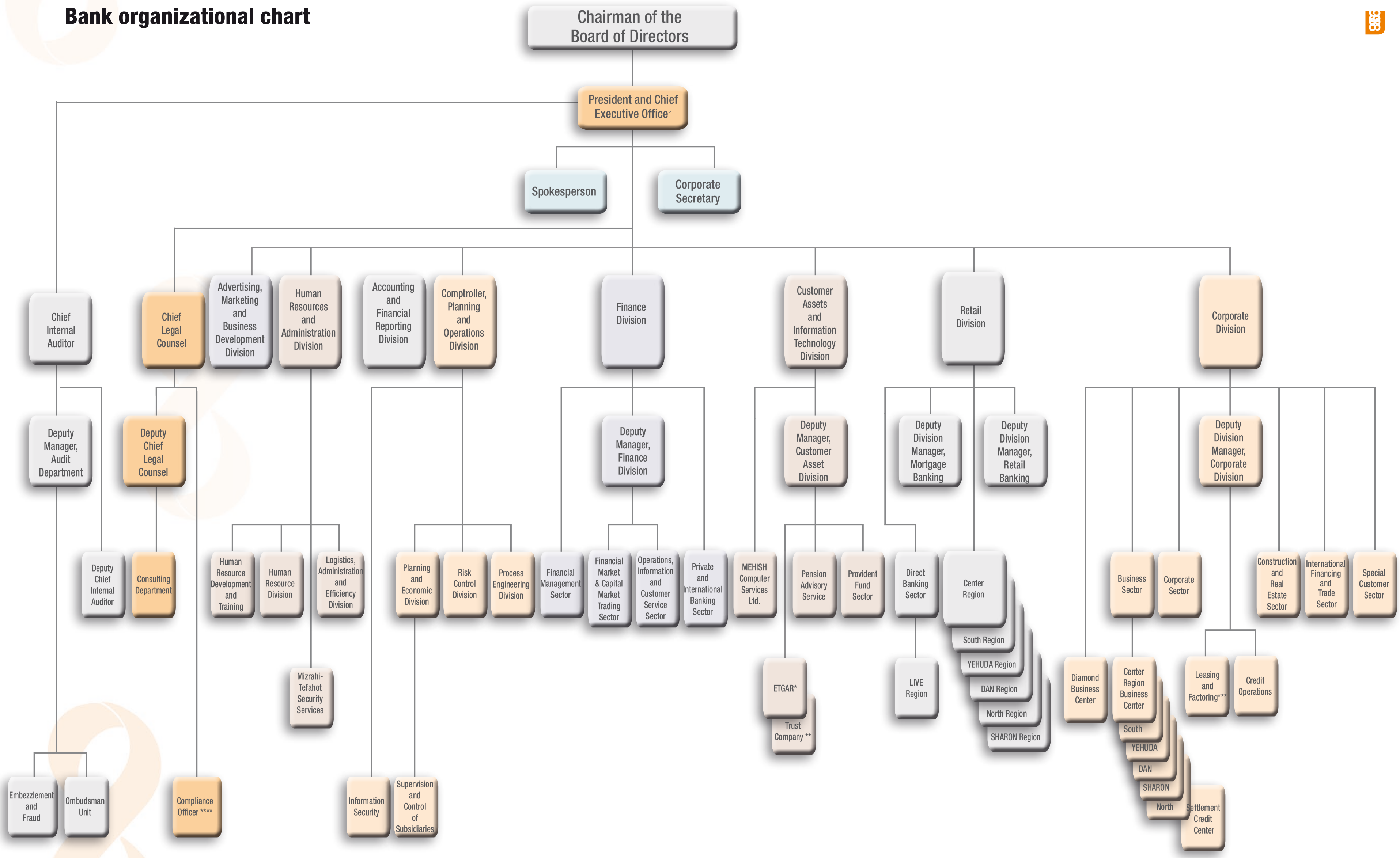
Marketing, Advertising and Business Development Sector - This sector consolidates activities relating to advertising, marketing, and development of financial products and other services which the Bank markets to customers.

Accounting & Financial Reporting Sector - in charge of compiling the Bank's public financial statements, reporting to statutory authorities and to management, taxation, implementation of Sarbanes-Oxley at the Bank, main ledger, accounting and treasury.

Legal Department - the Legal Department is responsible for providing legal services for all of the Bank's units, for creating the legal infrastructure for the Bank's activities, for management of exposure to legal risk (including the compliance officer who was also appointed for the money laundering prohibition) and to handle claims against the Bank.

Internal Audit Department - the department is responsible for conducting internal audits of Bank business and operating units. The department is also responsible for handling the public inquiries and complaints against the Bank.

Bank organizational chart



* ETGAR Investment Portfolio Management, a Mizrahi-Tefahot Group Company, Ltd.

** Mizrahi-Tefahot TrustCompany Ltd.

*** Mizrahi-Tefahot Leasing and Financing Ltd.

**** Supervisor of Money Laundering Prohibition

Tax Laws Applicable to the Bank Group

The Bank is classified as a "financial institution" under the VAT Act, 1975 and is therefore liable for payment of taxes on salary and profit, as well as for corporate tax as per the Income Tax Ordinance (New Version), 1961. For details of the amendment to the Inflationary Adjustment Act, see below in this chapter.

Corporate tax and profit tax

The overall tax rate for corporate tax and profit tax applicable to the Bank's income is expected to decrease in the coming years, as follows:

Year	Total tax (corporate tax and profit tax in %)
2008	36.80%
2009	35.93%
2010 and later	35.06%

Profit tax accounts for 15.5% of salary expenses paid by the Bank, including the amounts that represent social provisions. The payroll tax constitutes an expense for the purpose of calculating corporate tax, but was not recognized, until 2007, as an expense in calculating profit tax.

Tax assessments

The Bank has finalized tax assessments through 2003. The Bank has consented to a six-month extension granted to tax authorities to discuss the Bank's 2004 tax assessment. The former Bank Tefahot has finalized, or deemed final, tax assessments through 2004. Bank Adanim has finalized tax assessments through 2006.

Arrangements and approvals from tax authorities

The Bank has made arrangements and obtained approvals from tax authorities for the following merger transactions executed by the Group:

- In conjunction with the merger of the Mizrahi Bank Investment Company Ltd. into the Bank, the former's assets and liabilities were transferred to the Bank. Accumulated tax losses and accounting losses generated as of the merger date may be offset by the Bank in accordance with a formula set forth in the tax authority approval over a 10 year term, starting in 2004.
- In conjunction with the merger of Bank Adanim, Bank Adanim disclosed to tax authorities the proceeds from sale of its operations to Bank Mizrahi-Tefahot. In a letter dated February 1, 2009, the tax authorities informed the bank that in their reviews through said date they have found no cause to intervene in the bank's disclosure. Note that the merger of Bank Adanim and Bank Mizrahi-Tefahot is not subject to approval by the tax authorities.

See Note 28 to the financial statements for additional information.

The Bank has arrangements with the tax authorities, as follows:

- Overseas Affiliates Arrangement - According to this arrangement, certain wholly-owned subsidiaries of the Bank that operate overseas pay taxes in Israel on their income, based on the financial statements of these companies. Taxes paid overseas may be set off from the tax liability in Israel, and a dividend distribution to the Bank is exempt from tax in Israel.
- Arrangement for implementing the recommendations of the Givoli Committee regarding the reversal of provisions for doubtful debts - According to this arrangement, when the Bank reverses provisions for doubtful debts that it had recorded in its books during the five years preceding the reversal, the Bank is taxed as though the provisions had never been made, plus 50% of the interest stipulated in the Income Tax Ordinance, from the date the provision was made until the date of reversal.

Overseas operations

The Bank has branches in Los Angeles, London and the Cayman Islands. Profit or loss of these branches is included in the profit or loss reported by the Bank to the tax authorities in Israel.

The State of Israel has signed treaties for avoidance of double taxation with the U.S. and England. Pursuant to the provisions of the treaty with these countries, taxes paid in these countries for the activities of the branches there may be offset against the Bank's tax liability in Israel. The limit for offsetting foreign taxes in Israel is the amount of the tax liability in Israel deriving from the profits of these branches.

The branch in the Cayman Islands is not subject to tax in its country of incorporation.

The Bank has a subsidiary in Holland operating as a holding company, which owns a Swiss company that operates a bank in Switzerland. These companies are covered by the Overseas Affiliates Arrangement as explained below.

Amendments to the Income Tax Act (Adjustments for Inflation) and to the Value Added Tax Act

On February 28, 2008, the Tax Act (Adjustments for Inflation) (Amendment no. 20) (Restriction of Applicable Period), 2008 was enacted ("the amendment"), whereby the Inflationary Adjustment Act would be rescinded in the 2007 tax year, and starting in the 2008 tax year, provisions of the Act shall no longer apply, other than interim provisions aimed at avoiding distortions in tax calculations. The amendment also made changes to the VAT Act which impact calculation of the profit tax and payroll tax paid by financial institutions.

The impact of the rescinding of the Inflationary Adjustment Act, in 2008, amounted to a NIS 67 million increase in the Bank's provision for taxes.

Amendments to the VAT Act, based on payroll expenses in 2008, are expected to increase the Bank's net profit by NIS 6 million in 2009 and later.

For details, see Note 28.D. to the financial statements.

Legislation and Regulation of Bank Group Operations

Prohibition on Money Laundering Law, 2000 ("Prohibition on Money Laundering Law")

The Prohibition on Money Laundering Law prohibits, inter alia, certain actions defined in the law, in assets that originate, directly or indirectly, in a crime, in property used to perpetrate a crime or property that enabled the perpetration of a crime.

In February 2002, the Money Laundering Prohibition Ordinance (Obligations Concerning Identification, Reporting and Record Keeping by Banking Corporations), 2001 ("the ordinance") became effective. The Ordinance was issued by the Bank of Israel Supervisor, with approval of the Knesset's Constitution, Statute and Justice Committee, by his authority as set forth in the Money Laundering Prohibition Ordinance. The ordinance stipulates, inter alia, identification, verification, reporting and record-keeping requirements imposed on banking corporations and auxiliary corporations, as defined by law. Concurrent with the issuance of the Ordinance, limiting Ordinances were issued that imposed similar requirements on providers of financial services other than banks. The provisions of the Law and the said Ordinance, supplement the amendment to the provisions of Proper Conduct of Banking Business Regulations No. 411 on preventing money laundering and the financing of terror, on the identification of customers and record-keeping. This ordinance contains complementary instructions and further obligations for preventing money laundering and terrorism, primarily concerning "know the customer", account monitoring, definition of high-risk customers, correspondent banking etc.

On December 12, 2006, the Ordinance was materially amended, partially effective upon publication and partially to become effective gradually by February 12, 2008. These amendments set forth, inter alia, easements for identification and authentication of Israeli couriers and incidental customers, the added obligation to check customers and parties to transactions against lists of terror organizations and activists, and extended obligation to report activities in accounts on that list. The Supervisor of Banks was also authorized to specify special means of authentication, minor amendments were added concerning beneficiary declarations and opening correspondent accounts, and a section was added on obligation to identify by credit card companies. Furthermore, the reporting threshold for transactions vis-à-vis countries and territories included on the high-risk country list was lowered to NIS 5,000.

During 2007, the Supervisor of Banks issued further clarifications with regard to implementation of the Ordinance. The Bank is prepared and applies the amended provisions of the Ordinance, inter alia based on clarifications of the Supervisor of Banks.

On January 15, 2008, amendments were published to Proper Banking Conduct Regulation No. 411, so as to allow the Supervisor of Banks to impose financial sanctions on a banking corporation for being in breach of said regulation.

See the Chapter on Risk Management for information on the official responsible for fulfilling the Bank's obligations in accordance with the Prohibition on Money Laundering Law and the provisions of Proper Conduct of Banking Business Regulations No. 411, and the Bank's actions to apply the regulations.

Prohibition on Financing Terrorism Law, 2005 ("Terrorism Financing Prohibition Law")

In January 2005, the Prohibition on Financing Terrorism Law, 2005, was published, stipulating the offenses related to the financing of terrorist acts and organizations. The Terrorism Financing Prohibition Law prohibits, inter alia, executing transactions in property with the objective of promoting, enabling, or financing terror activities. Within the framework of this law, amendments were also made to the Prohibition on Money Laundering Law, which were intended to make the struggle against money laundering and against the financing of terrorism more effective.

In February 2005, the Proper Conduct of Banking Business Regulations No. 411 was amended, which to that date included provisions associated with the Money Laundering Prohibition Law, so as to impose various duties on banking corporations in conjunction with the Terrorism Financing Prohibition Law. Furthermore, the Supervisor of Banks issued several circulars concerning reporting of activity in accounts of customer suspected of terrorism, proclamation of terror organizations and illegal associations etc. Legislation of the law and amendment of the regulation place fighting against money laundering and against terrorism financing on equal footing.

Holocaust Victim Assets Law (Restitution to Heirs and Dedication to Assistance and Commemoration), 2006

On January 3, 2006, the Holocaust Victim Assets Law (Restitution to Heirs and Dedication to Assistance and Commemoration), 2006, was published. The objective of the Law is to increase activity for identification of assets located in Israel, for which there is a basis to assume their owners perished in the Holocaust. Within the scope of this law, a government company was established, to work toward identification of such assets, will become its property and will be transferred to those holding rights therein, if located. In accordance with the Law's provisions, any person holding or managing the asset of a Holocaust victim must file a report with the government company within 30 days of the date the company publishes an announcement thereon, or from the date he became aware that the asset is in his possession.

For details on the company's appeal to the Bank, see under Legal Proceedings chapter.

Banking Act (Customer Service) (Amendment 12), 2007

On June 26, 2007, the amendment to the Banking Act (Customer Service) (Amendment 12), 2007 was enacted. The amendment is aimed at increasing competition among banks, and sets forth arrangements concerning supervision of commission prices and increased transparency of banking service prices, such that customers may practically compare prices of banking services.

For details of the amendment, regulations based on the statute, their application by the bank and their impact on the Bank's operating results - see Note 19.D.14) to the financial statements.

Arrangements in the State Economy (Amended Legislation to Achieve Budgetary Targets and Economic Policies in Fiscal Year 2008), 2008

The Arrangements Act, published on January 1, 2008, includes, inter alia, an amendment to the Financial Services Supervision Law (Engagement in Pension Consulting and Marketing), 2005 (hereinafter: "the Supervision Law"). The Supervision Law, enacted on July 25, 2005, stipulates, inter alia, that only properly licensed individuals may engage in pension consulting. The statute further set forth the conditions and restrictions for obtaining a pension consultant license, as well as the list of pension products which the consultant may advise on. The amendment stipulates that banking corporations whose shareholders' equity does not exceed NIS 10 billion, would be permitted, starting January 1, 2009, and subject to obtaining an appropriate license from the Supervisor of Capital Market, Insurance and Savings in the Ministry of Finance, to consult, in conjunction with pension consulting services they provide, also on pension products with an insurance component, including: Pension insurance, life insurance with a savings component and disability insurance - provided it is part of a pension insurance or life insurance policy. Banking corporations whose shareholders' equity is higher than NIS 10 billion would be allowed to provide pension consulting, including on insurance-related pension products, at later dates.

The Bank acts in the field of pension consultancy in accordance with a license from the Supervisor of Capital Market, Insurance and Savings. Providing insurance consulting, as set forth above, would allow for expansion of the Bank's pension consulting operations in exchange for distribution commissions from insurance companies, similar to current arrangements for the other pension products.

Payment System Act, 2008

Following recommendations of the International Monetary Fund and the World Bank, which set international standards for payment systems, the Bank of Israel Governor decided, in December 2002, on a reform of the payment system in Israel so as to have domestic payment systems comply with said standards. In conjunction with this reform, a new system was mandated for payment and clearing of Israeli currency, with banks as participants, to large payments in real time (Real Time Gross Settlement - RTGS). In August 2007 the Bank of Israel launched the RTGS system. This system allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks. Settlement is immediate and final.

On February 3, 2008, the Payment System Act, 2008 was ratified. The Act is aimed at setting regulations required to minimize risk involved with transfer of such real time payments, and to confer legal certainty in order to ensure the payment systems' stability. The Act applies to payment system operators' obligations aimed at ensuring the stability and proper functioning of such systems in order to reduce the system risk which may arise from their improper operation. In view of the importance of the payment systems, they were placed under Bank of Israel control, and the Bank of Israel Governor would be appropriately authorized, inter alia, to instruct the system operator and to obtain information. Furthermore, the Bank of Israel would be authorized to provide, against collateral, intra-day credit to participants in said system, in order to secure efficient functioning of the system.

Tax Act (Adjustments for Inflation) (Amendment no. 20) (Restriction of Applicable Period), 2008

On February 28, 2008, the Tax Act (Adjustments for Inflation) (Amendment no. 20) (Restriction of Applicable Period), 2008 was enacted ("the amendment"), whereby the Inflationary Adjustment Act would be rescinded in the 2007 tax year, and starting in the 2008 tax year, provisions of the Act shall no longer apply, other than interim provisions aimed at avoiding distortions in tax calculations. The amendment also made changes to the VAT Act which impact calculation of the profit tax and payroll tax paid by financial institutions.

For details of the amendment and Bank estimates with regard to its impact on Bank profit, see Note 28.D to the financial statements.

Amendments to the Sale (Apartments) (Securing Funds of Apartment Buyers) Law, 1974

On March 31, 2008, amendments 4 and 5 to the Sale (Apartments) (Securing Funds of Apartment Buyers) Law, 1974 were enacted. These legislation amendments were spurred by the collapse of Heftziba Corp., and were designed to provide better protection for apartment buyers against cases where the apartment seller is unable to fulfill his obligations as per the sale agreement. The amendments to the law expand the seller's liability, and in the case of a corporation - officers of the corporation were also made liable. The amendments stipulate that as soon as payment equal to 7% of the apartment price is received (compared to 15% prior to the amendment), the seller must secure the buyer's money. The price of the apartment, payments for which are to be secured, shall include all amounts payable by the buyer to the seller in conjunction with purchase of the apartment. The seller must inform the buyer of their statutory rights to secure monies paid to the seller. The seller must also inform the buyer, prior to signing the sale contract, if the former has failed to contract a financial assistance agreement with a banking corporation. Furthermore, the reasons for realization of a bank guarantee issued to secure buyer's monies ("Sale Law guarantee") and for demand of payment pursuant to an insurance policy issued by law. It was further stipulated that the Minister of Housing, with consent of the Supervisor of Banks, may set forth the wording of this guarantee on this issue, and the Minister of Finance may set forth the wording of the insurance policy. The law also imposes liability on a banking corporation which provides assistance to a construction project. The banking corporation is required, inter alia, to implement as part of the financial assistance a payment method using vouchers to be issued to buyers. The banking corporation is required to issue a Sale Law guarantee for payment by voucher within 14 business days from the payment date, or to ensure that another collateral is provided to the buyer, as required by law. The law requires a banking corporation which provides a loan to the buyer, to inform the latter in writing of the provisions of the law and their rights to secure monies paid to the seller for the apartment. Such a banking corporation would only transfer funds to the seller after verifying that a collateral has been received as set forth in the statute, or upon receiving a written commitment by the seller to issue such collateral. The law stipulates that a supervisor on behalf of the Ministry of Construction and Housing would supervise execution of the law. The supervisor is authorized, inter alia, to impose financial sanctions on a seller who is in breach of certain provisions of the statute, and the Supervisor of Banks may impose financial sanctions on any banking corporation in breach of such provisions.

The Act became effective as of October 6, 2008. The Bank is prepared and operates in accordance with provisions of the law.

Bounced Check Law (Amendment no. 7), 2008

The revision to the law, passed on June 10, 2008, authorizes the Supervisor of Banks to instruct banks not to restrict bank accounts and customers for rejected checks in any period in which an official resolution declaring a special situation, mass disaster event, or reserve army call-up under emergency circumstances or during a special situation, for a maximum period of 90 days.

The law further authorizes the Minister of Justice to set regulations by abbreviated procedure, including provisions which would restrict the effectiveness of the Bounced Check Act, 1981 in times of emergency.

The law further stipulates that any customer whose account has been restricted due to rejected checks due to impact to his person or property in an act of war, or due to a significant deterioration in his revenues due to an emergency period, may apply to the Court requesting that the check not be counted as a rejected check.

Amendment to the Banking Ordinance (No. 25), 2008

The Banking Ordinance, 1941 requires banking corporations to report to the internal auditor and to the Supervisor of Banks any case where a reasonable concern exists that one of its employees or officers was involved in embezzlement whose amount is higher than the amount set by the Supervisor. The Supervisor has determined that all events must be reported where a reasonable concern exists that the amount shall exceed NIS 15,000 per event in Israel and $15,000 per event overseas. The Ordinance stipulates that the Supervisor of Banks shall report annually to the Knesset Finance Committee with regard to embezzlements at banks. The amendment to the Ordinance, passed on July 21, 2008, stipulates that the Supervisor shall make his embezzlement report available to the public in a manner to be determined, including by means of publishing on the Bank of Israel website.

Debit Card Law (Amendment No. 4), 2008

The amendment to the law, passed on July 29, 2008, sets forth provisions with regard to relations between credit card issuers (the credit card company) and customers with regard to liability for abuse of the credit card and termination of charges for a transaction. Inter alia, the revision sets forth conditions which, when met, the issuer must stop, at the customer's request, charging the customer for a credit card transaction.

The amendment further stipulates that should an issuer become aware of a transaction made between a supplier and a customer using a credit card, and a motion for an order of receivership, dissolution or bankruptcy against the supplier has been filed with the Court, and a copy of the motion has been provided to the issuer, the issuer shall discontinue crediting the supplier for said transaction, starting on the date of the issuer becoming aware of the motion being filed and until the date of a decision being handed down with regard to the motion.

The Court Order Execution Law (Amendment no. 29), 2008

The law, enacted on November 4, 2008, includes amendments to the Court Order Execution Act, 1967 aimed at improving efficiency of collection proceedings using the Court Order Execution Service, while setting restrictions on liquidation of certain assets so as not to over duly encumber debtsors, especially those without the means to pay their debts as ordered.

The amendment extends the authorities of the Court Order Execution Service registrar to demand and obtain, under certain conditions, information with regard to assets, revenues, expenditures, travel into and out of Israel of debtsors, even without a waiver of confidentiality. The registrar was authorized to impose various restrictions on debtsors. The amendment creates an collection fast track for a 2-year period for collection of debts up to NIS 10,000 - which may be used at the discretion of the party being awarded the judgment. This track would be operated by the Court Order Execution Service with minimum involvement of the awarded party, and without requiring processing by an attorney. Along with the aforementioned directives, conditions were set for imposing of a prison sentence which would limit the option of imprisonment of debtsors. The law stipulates inter alia, that the debtsor shall appear in person before the Court Order Execution Service registrar, and that the registrar must be convinced that the debtsor is capable of debts repayment and has no reasonable explanation for its non-repayment, the debts must be over NIS 2,000 and the registrar must be convinced that there is no other means of lesser impact to the debtsor which would lead to collection of the debts. The law further includes a temporary regulation for a 2-year term, starting 2 years after the law becomes effective, which completely eliminates the use of imprisonment.

The amendment also forbids to foreclose on certain items, the expected proceeds from the sale of which are small and do not justify the severe impact to the debtsor and his family due to their foreclosure, such as: It was further stipulated that the registrar may not order the sale of real estate used, in whole or in part, as a residential apartment of the debtsor, nor evacuation of the debtsor and their family members who occupy the real estate with them, unless that parties have been summoned to appear before the registrar, and the registrar was satisfied that the debtsor and family members there of would have a reasonable place of dwelling, or that they have the financial wherewithal to finance a reasonable place of dwelling, or that an alternative arrangement has been provided for them. The registrar is also required to inform the debtsor as to the options available to them for obtaining legal counsel.

Provisions of this amendment also apply to mortgages and liens. The law eliminates the option for conditions to be set in order to protect alternative housing while allowing the mortgage agreement to include terms (including in the pledge agreement) that a restricted protection shall be in force for a period of up to 18 months, with the registrar being authorized to exceed this period under special circumstances. The provision shall apply to mortgage agreements signed after the law becomes effective, but if it be proven to the registrar that the debtsor was not clearly informed that he had waived the right to alternative housing in the mortgage agreement, the implications of such waiver on his rights - the agreement shall be deemed not to have stipulated that the debtsor shall not be protected by the section in the law prior to the amendment.

The amendment to the act shall become effective on May 6, 2009.

Bank management estimates that the amendment to the law may cause the Bank to incur additional expenses in cases where residential apartments must be liquidated in order to collect on borrower debts. However, at this stage it is not possible to estimate the impact of the amendment to the law on the Bank's business results.

Amendment to Securities Regulations (Periodic and Immediate Reports), 1970 - Immediate report with regard to transactions with controlling shareholders

On August 6, 2008, the amendment to Securities Regulations (Periodic and Immediate Reports), 1970 became effective ("the Amendment"), whereby, inter alia, a reporting corporation is required to issue an immediate report with regard to "details of a transaction with a controlling shareholder, or which the controlling shareholder has a personal interest in its confirmation, including highlights of the transaction or contract, details of the organ which confirmed the transaction and its summary reasons for said confirmation; in this paragraph, "transaction" excludes a transaction which the most recent financial statements classify transactions of its type as immaterial."

Subsequent to publication of the Amendment, the Securities Authority informed the Bank Association in a letter dated August 6, 2008 that it would not intervene in cases where disclosure is not made in the immediate report with regard to banking transactions which do not constitute an extraordinary transaction as defined in Section 1 of the Corporate Act, provided that all of the following are met:

- The corporation's Audit Committee would set criteria for an extraordinary transaction and for an immaterial transaction;
- Such financial statements would provide a general description of the transactions, their attributes and criteria determined for classifying the transactions as immaterial or as non-extraordinary, including details of facts, reasons and explanations for such determinations;

- The description of contracting with the controlling shareholder with regard to terms of employment and service, would provide a general description of financing transactions contracted between them and the bank (if any), along with their attributes.

Pursuant to the above and to that end, on August 11, 2008 the Bank Board of Directors' Audit Committee set forth the following criteria for an extraordinary transaction and for an immaterial transaction.

For this purpose it was determined that any banking transaction is, per se, in the normal course of Bank business., such as: a credit transaction of any type, guarantees, transactions in futures contracts and in derivatives, purchase and sale of securities and currencies, commissions for account management and transaction fees, deposits and interest on deposits etc.

It was further determined that an extraordinary banking transaction is one that meets at least one of the following conditions:

- A transaction which is not under market conditions, based on comparison to other, similar transactions (which are not with related parties).
- A transaction in excess of 0.5% of consolidated balance sheet total.
- A transaction where the bank profit there from is in excess of 0.25% of the Bank's shareholder equity.

It was further determined that an immaterial banking transaction is a banking transaction which is not extraordinary which also meets the following conditions:

With regard to a transaction with a corporation -

- A transaction not in excess of 0.05% of consolidated balance sheet total.
- A transaction where the bank profit there from is not in excess of 0.01% of the Bank's shareholder equity.

With regard to a transaction with an individual -

- A transaction not in excess of 0.005% of consolidated balance sheet total.
- A transaction where the bank profit there from is not in excess of 0.0025% of the Bank's shareholder equity.

The Bank contracts, in the normal course of business, banking transactions which are not extraordinary with controlling shareholders of the Bank or with entities in which the controlling shareholders have a personal interest, such as credit transactions of various types, guarantees, transactions in futures contracts and derivatives, purchase and sale of securities and currencies, account management and transaction fees, deposits and interest on deposits etc.

Further to the foregoing, on March 23, 2009 the Audit Committee set criteria for an immaterial transaction, other than a banking transaction, conducted by the Bank in the normal course of its business, as an auxiliary action to operations permitted for the Bank, as set forth below:

1. Purchase of retail goods in a transaction with an interested party or in which an interested party has a personal interest - contracting, in the normal course of Bank business and at market terms, of transactions to purchase retail goods at no more than NIS 1.5 million per transaction, and up to NIS 8 million per year;
2. Purchase of goods (other than those in sub-section 1. above) and services, including in TV advertising, in a transaction with an interested party or in which an interested party has a personal interest - contracting, in the normal course of business and at market terms, of transactions to purchase goods and services, as set forth above, provided that transaction total shall not exceed NIS 15 million per year;

3. Leasing of space in a transaction with an interested party or in which an interested party has a personal interest - contracting, in the normal course of business and at market terms, of transactions to lease space, provided that the expense in respect of annual rent of any property shall not exceed 3% of the annual rent expense on the consolidated balance sheet, and total amounts paid in such transactions for leasing of space shall not exceed 8% of rent expenses on the consolidated balance sheet.

The Bank contracts, in the normal course of business and under market terms, non-banking transactions which are immaterial, as set forth above. The review of market terms for an immaterial non-banking transaction shall be conducted in comparison with terms of such transactions, as the case may be, contracted by the Bank with third parties or with transactions of the same type conducted in the market. The review of market terms with regard to leasing of space, as set forth above, shall be conducted in comparison with prices in leasing transactions contracted in the same property or in an adjacent property or in a property in the same area or in a similar property - as the case may be.

For the sake of completeness, note that in a letter dated February 22, 2009, the Manager of the Corporate Department at the Israeli Securities Authority instructed the Association of Banks with regard to required disclosure of transactions with interested parties on financial statements of banking corporations. Following discussions held at the Israeli Securities Authority on this matter, the Association of Banks announced that application of the disclosure as set forth above shall be delayed until publication of the financial statements for the first quarter of 2009.

Measuring and disclosure of impaired debts, credit risk and provision for credit loss

On December 31, 2007, the Supervisor of Banks published his directive in a circular concerning: “Measuring and disclosure of impaired debts, credit risk and provision for credit loss” “the regulation”). For details of the regulation and the Bank's preparations for its implementation, see Note 1.X to the financial statements.

Sarbanes Oxley Act 404

In a circular dated December 5, 2005, the Supervisor of Banks instructed that banking corporations will implement the requirements of Section 404 of the Sarbanes Oxley Act (hereinafter: "SOX Act"), as well as the SEC regulation promulgated there under. These guidelines prescribe, inter alia, that the corporation's management will declare its responsibility for setting up and maintaining a system of proper internal controls on financial reporting, and will give an assessment, as of the end of the corporation's last fiscal year, of the effectiveness of the corporation's internal control system and procedures for financial reporting. This directive follows Public Reporting Regulation 645 issued in November 2004 (amended in May 2007) which is based on Section 302 of the Sarbanes Oxley Act, whereby, starting with financial statements as of June 30, 2005, the President and the Chief Accountant of the Bank make personal certifications attached to the financial statements with regard to the effectiveness of "Disclosure Controls and Procedures".

Implementation of the Supervisor's demands requires a thorough examination of the infrastructure systems for internal controls in banking corporations, and the upgrade and/or building of such a system in accordance with the findings of the examination. The Supervisor's instructions prescribe that management's certification of its responsibility for control and its assessment of the control system will be provided initially for the financial statements as of December 31, 2008.

Upon publication of this directive, the Bank started preparations for its application, with assistance from an external consultant and under supervision of a steering committee headed by the Bank's Chief Accountant. In conjunction with Bank preparations for application of this directive, it has documented work processes; mapped risk factors, controls and control gaps; carried out effectiveness testing of controls; and resolved the control shortcomings that had been identified. The Bank also acquired in 2007 a specialized computer system for management of controls.

On September 28, 2008, the Supervisor of Banks published the Proper Conduct of Banking Business Regulation No. 309 with regard to controls and procedures with regard to disclosure and internal control of financial reporting. The regulation includes requirements of a banking corporation's management with regard to controls and procedures concerning disclosure and internal control of financial reporting. The regulation is based on regulations by the US Securities Exchange Commission, published pursuant to sections 302 and 404 of the Sarbanes-Oxley Act, and it includes provisions mostly issued by the Supervisor of Banks in previous circulars published by him. Pursuant to the circular enclosed with the regulation, it is to be applied in accordance with regulations, directives and clarifications in effect in the USA.

The regulation stipulates that banking corporations must maintain controls and procedures with regard to disclosure and internal control of financial reporting. The banking corporation's management must evaluate the effectiveness of the banking corporation's controls and procedures with regard to disclosure as of the end of each quarter, and estimate the effectiveness of internal control of financial reporting as of the end of each year. Furthermore, management must assess any change in the banking corporation's internal control of financial reporting occurring in each quarter, which has material impact or which is expected to have material impact on the banking corporation's internal control of financial reporting. The regulation sets forth the required definitions, inter alia, for controls and procedures with regard to disclosure and internal control of financial reporting.

The regulation shall apply starting with annual financial statements of banking corporations and credit card companies as of December 31, 2008. As of the date of these financial statements, the Bank is in compliance with the directives. Appropriate certifications are included, for the first time, with these financial statements.

Other regulations

In addition, banking corporations are required to file immediate reports with the Supervisor of Banks (inter alia, with regard to embezzlement, fraud and acquisition of means of control), as well as monthly reports (inter alia, reporting of financial data, of the banking corporation's board of directors, senior staff and accountant, ratio of capital to elements of risk, etc.).

Further information concerning other legislation, including directives by the Supervisor of Banks, which primarily impact operations of a specific operating segment, are included under the Legislation section for the specific operating segment, under the chapter "Description of Bank Group Business by Operating Segment".

Recommendations of Basel Committee on Banking Supervision ("Basel Committee")

General

The Basel Committee is an international body established in 1974 by the central banks of different countries. The Committee's decisions and recommendations, although they have no binding legal validity, prescribe the supervisory regulations acceptable to the supervisory bodies of the banking systems in a majority of countries throughout the world. On June 26, 2004, the Basel Committee published new recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries ("Basel II"). A final, updated version of these regulations was published in June 2006. Basel II recommendations supersede the previous regulation dated 1988, known as Basel I, which included capital requirements due to credit risk, and was expanded in 1996 to include capital requirements for market risk as well.

Application of Basel II regulations is intended to improve measuring and management of different risk factors facing the financial institution, and to ensure better alignment of capital requirements to the risk level to which the financial institution is exposed.

Key recommendations of the Basel Committee

Whereas the Basel I regulation was mainly aimed at capital allocation for credit risk and market risk to which the financial institution is involved, Basel II expanded these regulations to afford better stability to financial institutions, by also implementing a culture concerning risk management and control. Therefore, Basel II regulations include, in addition to a material change in how capital is calculated (the first layer of the regulations), also two other layers, as set forth below.

The first layer of Basel II includes minimum capital allocation due to market risk and credit risk, as well as due to operating risk (capital allocation not required by Basel I). The new guidelines improve capital allocation for credit risk by enabling calculation of the minimum capital using a standard model, essentially similar to that of Basel I, but relying on external debts rating by rating agencies recognized by the regulatory authority (in Israel: the Supervisor of Banks) , uses a larger number of exposure groups while adapting risk coefficients to the various groups, and recognizes other financial collateral which may be offset against the exposure. The regulations also allow Banks to calculate the minimum capital requirement using internal models. These models are based on bank assessment of its borrowers' quality, the probability of borrowers entering a state of credit default, and the expected loss to the bank in case of credit default. Use of internal models requires approval by the regulatory authority, which may only be granted after extensive validation of the model. Furthermore, the first layer recognizes more extensive credit reduction methods (CRM) compared to those supported by Basel I.

In order to use the advanced models, banks are required to build a two-dimensional credit rating system (probability of default - PD and percentage of loss given default - LGD), based on processes of quantification and validity of the calculations. Additionally, the bank is required to build a control and management mechanism for the process of issuing credit and managing risk. This mechanism must meet the standards of independence, transparency, responsibility and professionalism by those engaged in the rating, the control and audit and responsibility of management and the board of directors.

In the area of operational risk, the guidelines propose three alternative approaches for computing the required capital: The basic indicator approach, according to which the bank will allocate capital for operational risk as a fixed percentage of the average annual gross profit; the standard approach, in which the capital requirements are calculated by multiplying gross revenues from each line of business by a specific coefficient specific to that line of business; the advanced measurement approach, whereby the bank will allocate capital based on an internal model to be developed within the organization.

Basel II recommendations specify multiple principles for operating risk management, relating to aspects such as: degree of supervision by bank management and Board of Directors, existence of suitable organizational structure and culture, including a system of internal reporting and an efficient and effective flow of information, and the existence of appropriate support systems. The department charged with handling operating risk is required to act in order to map and identify operating risk, collect actual failure data and take action to reduce potential damage arising from an operating failure at the bank. Basel II principles further stipulate the responsibility of the Internal Auditor as an additional layer in handling operating risk.

The second layer of Basel II involves the Supervisory Review Process (SREP) and the Internal Capital Adequacy Assessment Process (ICAAP) aimed at ensuring that bank capital is in line with its risk profile. This is over and above the minimum capital the bank is required to maintain pursuant to the first layer. This includes, inter alia, a review of the required capital due to other risk not included in the minimum capital requirement of the first layer, such as: Interest risk in the bank portfolio, concentration risk, liquidity risk, reputation risk etc. Furthermore, the regulations for this layer review the bank's risk management processes, risk control processes, level of the bank's corporate governance, existence of supporting procedures, reporting and process management closely linked to risk management and the corporation's profit, such as credit pricing processes, rating processes, internal capital allocation, specification of authority etc.

In addition, the second layer mandates checking if the bank has enough capital to meet its strategic plan, and if it has enough capital to protect against down-turns and economic crises which may occur over time. Therefore, stress tests are an important tool in estimating the capital required of banks, and these feature prominently in the second layer of the regulation.

The third layer of Basel II regulation involves reporting and disclosure to the regulating authority and to the public. This requires the financial institution to disclose its risk level and its risk management processes. This requires more extensive, detailed and intensive disclosure, compared to previous regulations.

Application of the Basel Committee recommendations by the Israeli banking system

In early July 2007, the Bank of Israel published a translated draft of the Basel II Committee recommendations. Furthermore, the Bank of Israel established teams to formulate requirements vis-à-vis banking corporations. Work of these teams was accompanied by publication of a range of guiding documents which specify, in detail, the desired manner of implementation of the Basel Committee recommendations by Israeli banking corporations. The Bank of Israel instructed the banking groups to act to apply the Basel Committee recommendations, including layers 2 and 3, subject to a comprehensive multi-annual work plan which would refer to all aspects impacted by application of the recommendations, based on results of meticulous and detailed results of gap analysis reviews.

In December 2008, the Supervisor of Banks issued the final Framework for Measurement and Capital Adequacy (Interim Directive) as well as his directives for quarterly reporting with regard to capital adequacy (COREP). Pursuant to these directives, banking corporations in Israel will be required to also report the capital ration in accordance with Basel II guidelines to the Supervisor of Banks starting in March 2009 (for financial statements as of December 31, 2008).

Furthermore, in December 2008 a proposed template was published for reporting of the Internal Capital Adequacy Assessment Process (ICAAP), which guides banking corporations on submission of the Bank's ICAAP document by June 30, 2009.

Bank preparation for applying the recommendations

Bank Mizrahi-Tefahot started preparations for application of the Basel II instructions prior to publication of the Bank of Israel instructions on this matter. The Bank sees application of the regulation as a challenge, due to the importance it attached to risk management processes, risk control and corporate governance in the Bank Group. Furthermore, the Basel II regulation recognizes the fact that retail and mortgage business, which are primary lines of business in Bank operations, are exposed to relatively low risk, hence capital requirements for these operations are lower compared to capital requirements under Basel I.

The Bank launched its Basel II project in 2006, established a steering committee headed by a Bank executive, established the required teams and started mapping gaps and technology required for application of this regulation. The project is conducted at Group level, based on a detailed work plan which includes all regulation components.

The Bank Board of Directors has approved the multi-annual work plan prepared for compliance in full with the Basel Committee regulations. Based on this plan, a large-scale project is under way at the Bank, with participants from all divisions and departments and with assistance from external consultants in order to apply the standard approach and to put in place the advanced models. The work plan also includes a dedicated chapter on operating risk management, as per Basel II requirements, and as is customary for leading banks around the world.

As of December 31, 2008, the Bank Group, including Adanim and Yahav, is in advanced stages of implementing the directive and receiving data required for capital calculation in accordance with Basel II requirements into a system from Algorithmics. The system was selected to be the Bank's integrative risk management system for management of market risk, assets and liabilities, credit risk, liquidity management and capital calculations in accordance with Basel II.

The Bank has started preparing for application of layers 2 and 3 of the regulation, as per instructions on this matter from the Bank of Israel. As of December 31, 2008, the Bank has completed the gap reviews associated with level 2 of the directive, including: liquidity risk, credit risk and interest risk in the banking portfolio. The Bank is in advanced stages of processing gaps arising from the completed reviews.

In the final quarter of 2008, the Bank kicked off its ICAAP process in conjunction with handling of level 2 of the Basel requirements. The Bank has established a steering committee headed by the president, has prepared a work plan for implementation of the directives, has specified Risk Owners for each risk type, and has established dedicated work teams for handling level 2 requirements.

In addition, the Bank has completed the gap review concerning operating risk, and has started processing the gaps in accordance with a detailed work plan approved by its Board of Directors. The Bank has established a supporting organizational structure for treating operating risk, and has completed upgrading Bank policy for treating operating risk. The Bank has completed operating risk reviews throughout the Group, as part of the methodology to identify operating risk, as is customary for leading banks around the world.

For further information on Bank preparations for application of Basel II regulations, see the Risk Management chapter.

Proposed legislation

From time to time, proposals for legislative amendments are brought before the Knesset on various matters, some of which could have an impact on the businesses of banking corporations, including the Bank. As of the date of the financial statements, there are several bills in various stages of legislation, including bills regarding interest on credit balances in current accounts and regarding commissions collected by the banks. These bills were intended to increase the supervision and arrangement of bank-customer relations, especially customers from the household segment, principally limiting the ability to increase commissions, limiting the total commissions income, prohibition on collecting commissions on certain services, etc. However, as of the date of the financial statements, these bills are in different stages of legislation, they may be modified and there is no certainty as to when they will be completed or if they will eventually become provisions of binding legislation.

Significant Agreements

A. Deed of trust dated November 16, 2006 in connection with the complex capital notes that were issued. Pursuant to the deed of trust, the Bank may, without requiring consent of the trustee and/or capital note holders, issue additional capital notes in the same series up to NIS 2 billion par value, subject to Bank of Israel approval. The Bank may also issue other series of subordinated notes and/or debentures and/or subordinated capital notes and/or other obligatory notes to be ranked higher or lower or equal to the subordinated capital notes. For details, see chapter on Sources and Financing.

B. Employment agreements signed with the Employee Council, the Manager and Authorized Signatory Association, the Yahav Employee Committee and the Mehish Employee Committee. For details, see the Human Resources chapter.

C. Letters of indemnification. See Note 19.D.5) through 19.D.10) to the financial statements for details.

D. Agreement with Israel Credit Cards Ltd. (hereinafter: "CAL"), Diners Club Israel Ltd. - a company controlled by CAL - with regard to joint issuance of Visa, MasterCard and Diners Club charge cards, including cards branded with the Bank brand, to be distributed by the Bank to its customers. The agreement, in addition to operational arrangements, also grants the Bank an option to acquire from CAL, by way of allotment, CAL ordinary shares - all subject to terms and conditions set forth in the agreement. See Note 19.D.15) to the financial statements for further information.

Legal Proceedings

See Notes 19.D.11) and 19.D.12) to the financial statements for material legal proceedings to which the Bank is party.

Parliamentary investigative Committee on the Location and Restitution of Assets of Holocaust Victims ("the Investigative Committee")

In April 2001, a document of principles was signed between the Bank and other banks and between the Investigative Committee regarding an arrangement for an independent investigation of the accounts of Holocaust victims in banks in Israel. In its wake, independent investigators were appointed to assist the Parliamentary Investigative Committee in locating the bank accounts of Holocaust victims.

In January 2005, a report was published by the Investigative Committee summarizing the investigation of banks in Israel of the assets of Holocaust victims ("the Committee's Report"). According to the Committee's Report, the Bank's alleged obligations range between NIS 1.8 million and NIS 12.9 million at various interest and linkage terms.

The Bank disputes the findings in the Committee's Report, and, in its opinion, based on documents it received from the Investigative Committee that served as the basis for the report, and supported by a legal opinion based on these documents, it has significant defense arguments, both factual and legal, in its defense against the findings of the Investigative Committee and its conclusions. In the estimation of the Bank's management, based on the opinion of its legal counsel, the level of legal exposure to the Bank as a result of the findings and conclusions of the Investigative Committee is low.

On May 3, 2007, the Corporation for Location and Restitution of Holocaust Victim Assets Ltd., established pursuant to the law (hereinafter in this sub-section: "the company") contacted the Bank, demanding that the Bank conduct a review for assets belonging to Holocaust victims (including assets which the Bank disputes the fact that they belong to Holocaust victims. After conducting said review, the Bank was required to transfer such funds, plus interest and linkage differences, to the company. On May 8, 2007, the Bank responded to the company, reiterating its position that it holds no assets of Holocaust victims, as reflected in the investigative committee's report.

On June 4, 2007, the Bank agreed for the Knesset to submit to the Corporation for Location and Restitution of Holocaust Victim Assets Ltd. all information and findings available to it with regard to assets of Holocaust victims which were collected during work of the investigative committee, and the Bank consented to cooperate with the company in this matter. Following said date, additional letters were exchanged by the company and/or its representatives and the Bank and/or its representatives, following which the Bank provided further documents to the company.

On July 15, 2008, the company wrote to the Bank, demanding payment of NIS 18 million. n August 14, 2008, the Bank rejected the demand. On March 2, 2009, the Bank received an amended demand from the company, whereby the latter rejects the Bank's position and modifies the amount to NIS 19 million as of December 31, 2008. Even though the Bank has rejected the company's claims in the past - it is studying and reviewing the details of the amended demand, and as of the publication date of these financial statement the Bank has yet to formulate its position on this matter.

Also see the highlights of the Holocaust Victim Assets Law (Restitution to Heirs and Dedication to Assistance and Commemoration), 2006, in the chapter on Legislation and Regulation of Bank Group Operations above.

Arrest and plea bargain of bank employee in the USA

On December 19, 2007, a Bank employee, since then retired, was arrested in the USA on claims that he assisted a Yeshiva, resident in the USA, to defraud the US tax and securities authorities; this employee and others were indicted before the Los Angeles Court of Law.

The Bank's Los Angeles branch was subpoenaed to produce documents. Since this is a criminal investigation still under way by US law enforcement agencies ("law enforcement agencies"), the subpoena includes prohibition of disclosing information to others; however the Bank informed the law enforcement agencies that proper disclosure of this matter would be made in its financial statements.

The Bank has expressed its consent to cooperate with law enforcement agencies, subject to legal provisions and to the US-Israel Treaty. The law enforcement agencies consented to the Bank responding to the subpoena by a document discovery process to last several weeks. The Bank has provided the aforementioned documents.

Further note that the law enforcement agencies reported that the Bank is a target of this investigation, but the agencies are still considering their position with regard to the Bank. Based on review conducted by the Bank, it has not committed any offence in Israel nor in the USA, and if any offences have been committed by the Bank employee as the indictment alleges, he did so in violation of Bank procedures and his obligations to the Bank.

On June 27, 2008, in conjunction with a plea bargain, the (retired) bank employee admitted to assisting only one bank customer to avoid tax payments. All other charges against the bank employee, including money laundering offenses, will be erased. In the plea agreement, the bank employee does not implicate the bank or any of its employees in his actions. The plea agreement was filed with the Los Angeles Court. In early March 2009, the (former) Bank employee was sentenced to a jail term concurrent with the actual period since his arrest, and he was released.

The Bank has informed the Supervisor of Banks of the aforementioned events and developments.

Update to Compliance Program at Los Angeles branch

On November 19, 2007, the FDIC conducted an audit at the Los Angeles branch concerned, inter alia, with implementation of the compliance program with banking confidentiality laws and prohibition of money laundering. On August 28, 2008, a cease and desist order, signed by the branch and by US regulators subsequent to the audit findings, became effective.

The order includes the following basic requirements:

- The branch shall rectify as required (as detailed below) without admission or denial of any breach of any applicable laws or regulations.
- The order applies to new "back-to-back" transactions or to renewal of such transactions in Los Angeles, and allows these to be put in place subject to full disclosure of information with regard to collateral in Israel, for the duration of the order. Note that the order does not affect the status of transactions valid and effective upon issuance of the order.
- The branch shall review its written program with regard to prohibition of money laundering, so as to include the recommendations included in the report;
- The branch shall review once more the plans and procedures for due diligence with regard to its customers, so as to include therein the recommendations included in the report;
- The branch shall develop an additional program to review accounts of foreign residents.
- The branch shall review once more its procedures with regard to customers who are non-banking financial institutions, including currency service providers.

Other than the foregoing, no sanctions were imposed on the Los Angeles branch.

Implementation of the cease and desist order does not involve a material expenditure.

An institution subject to a cease and desist order is usually reviewed by regulators during at least two cycles (assuming compliance) before such order is lifted.

Dealings with the Restrictive Trade Practices Authority

On March 19, 2008, a letter was received from the Restrictive Trade Practices Au thority indicating that in view of findings of Authority investigations in November 2004, the Supervisor of Restrictive Trade Practices is considering exercising her statutory authority to determine that restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing. Prior to the Supervisor making her decision as to exercising her statutory authority, the Bank was given the opportunity to provide its arguments in writing to the Supervisor.

In a letter dated July 16, 2008, the Restrictive Trade Practices Authority announced that representatives of one of the banks contacted the Authority in July 2008, drawing its attention to a new ruling, whereby in hearing proceedings, in addition to the relevant statute sections and to the factual material being submitted, the major facts due to which the enforcement proceedings are being considered must also be indicated. According to the Authority's letter, the fact highlights would be submitted to the banks, including to the bank, by early August, and therefore the deadline for submitting positions in conjunction with the hearing would be delayed until September 15, 2008. The letter of position for the hearing was filed on September 15, 2008.

Events outside the Normal Course of Bank Group Business

Acquisition of a controlling stake in Bank Yahav

On March 27, 2007, the Bank signed a memorandum of understandings, whereby the Bank would acquire 50% of issued capital of Bank Yahav for Government Employees Ltd. ("Yahav"), including associated rights. On September 9, 2007, a detailed agreement was signed with regard to acquisition of said shares and rights based on principles set forth in the memorandum of understandings. On November 13, 2007, an addendum to the agreement was signed - setting forth the calculation method for the consideration to be paid by the bank. On July 10, 2008, the transaction closed in exchange for NIS 371 million, in addition to NIS 48 million for 50% of the excess Yahav shareholders' equity generated due to sale of its provident funds.

Acquisition of holdings in Bank Yahav is aligned with Bank business strategy which emphasizes, inter alia, development of Group retail operations.

Starting in the 3rd quarter of 2008, Bank Yahav's financial statements are consolidated with those of the Group. See Note 6.E.4) to the financial statements for additional details.

Merger of Bank Adanim

On November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. - a wholly owned and controlled subsidiary of the Bank - to approve the merger of Bank Adanim with and into the Bank. On February 23, 2009 the merger was recorded by the Registrar of Companies. For further details, see Note 6.E.1) to the financial statements.

Agreement with Isracard

On November 13, 2007, the Bank signed a memorandum of understandings with Isracard Ltd. and Europay (Eurocard) Israel Ltd. "Isracard" and "Europay", respectively), whereby the parties would negotiate to replace their current agreed arrangements with a new agreement (for a 10-year term) aimed at issuing Mizrahi-Tefahot branded credit cards and agreeing on arrangements for operation and servicing by Isracard and/or Europay of debit cards to be issued by them and to be distributed by the Bank to its customers (hereinafter: ("the new agreement"), in exchange for allotment of 3.6% of shares of Isracard and Europay to the Bank.

On April 10, 2008, the Bank announced that negotiations regarding the new agreement have not materialized in a binding agreement. As a result of the parties not reaching a new agreement, and in accordance with the MOU to which the parties are committed, the existing contractual agreements between the parties would remain in effect for a 10-year term starting on November 13, 2007, and the bank retained 1.8% of Isracard and Europay ordinary shares allotted to it on December 19, 2007. Furthermore, the Bank may distribute its branded card through any party of its choice.

See Note 19.D.16) to the financial statements for further information.

Agreement with CAL

On November 18, 2008, the bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand, to be distributed by the Bank to its customers (hereinafter, respectively: "the agreement" and "the cards"). The agreement set forth, inter alia, operating arrangements and service provisions by CAL Group for the cards. The agreement supersedes current agreements between the Bank and CAL Group.

In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment and in exchange for payment of an exercise price according to a formula set forth in the agreement, up to 121,978 ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted (hereinafter: "the option"), all subject to terms and conditions set forth in the agreement.

The agreement is effective for a 5-year term from its date of signing. Should the option be exercised or cashed as set forth in the agreement, the agreement term shall be extended to 10 years from its signing date, and may be further extended. The agreement is subject to all regulatory requirements required by statute, if any.

The agreement and option have no material impact on Group financial statements.

See Note 19.D.15) to the financial statements for further information.

Stock option plan for managers

On May 19, 2008, the Bank Board of Directors resolved, after obtaining approval of the Bank Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries. For details, see the chapter on Human Resources above.

Board of Directors' decision with regard to capital adequacy ratio

On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including complex capital notes) be no less than 12.0% by end of 2009, without change to the Bank's dividend distribution policy. For details, see Notes 13 and 14 to the financial statements.

Update to the Strategic Plan - On November 24, 2008, the Bank Board of Directors approved an update to the Bank's five-year Strategic Plan, as set forth in the chapter on Business Strategy below.

Issuance of complex capital notes - In 2008, the Bank raised by private placement to institutional investors NIS 162 million by issuing complex capital notes, deemed to be Upper Tier II capital. In February 2009, the Bank raised a further NIS 400 million by means of complex capital notes. For details, see chapter on Sources and Financing.

Publication of shelf prospectus - on February 25, 2009, Mizrahi-Tefahot Issuance Company Ltd., a wholly-owned subsidiary of the Bank, published a shelf prospectus for issuance of series of different obligatory notes under different terms and conditions. The obligatory notes in each series separately would be offered by way of public offering via shelf prospectus reports, which would contain all details specific for that offering, as required by statue, regulations and directives of the stock exchange in effect at that time. For details, see chapter on Sources and Financing.

Business Strategy

On December 24, 2007 the Bank's Board of Directors approved a new strategic plan for 2008-2012, based on the following principles:

- The objective is to achieve in 2012 return on equity from current operations of 18% on average.
- During the strategic plan, the Bank would maintain a capital adequacy ratio including complex capital notes at no less than 11.2% and a capital adequacy ratio excluding complex capital notes at no less than 10%, as per the previous Board of Directors decision dated May 2007. This is in view of the custom among banks globally to maintain capital adequacy rates higher than the minimum requirements imposed by regulators, in order to reflect to investors and depositors the conservative approach and international standards which the Bank wishes to adopt, as well as in view of the intent of the Supervisor of Banks to adopt Basel II regulations and to have capital allocated for operating risk as well. On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including subordinated notes) be no less than 12% by end of 2009.
- During this strategic plan, the dividend distribution policy adopted by the Bank would be maintained, whereby, subject to the Bank's ratio of capita to risk components being no less than the threshold set by the Board of Directors, the Bank would distribute annually dividends equal to 40% of net operating income and 80% of net income from extraordinary items.

Due to the global financial crisis and its implications on world economies, including Israel's, which entails a slow-down in economic activity and a lower growth rate, the Bank Board of Directors resolved on November 24, 2008 to update the strategic plan and to extend it by an additional year; thereby the objective of achieving return on equity from current operations of 18% on average is targeted for 2013, rather than for 2012 as per the original plan. In accordance with this decision, other than extending the strategic plan over one additional year due to macro-economic changes, no other changes will be made to the Bank's growth and expansion plans in coming years.

The Board of Directors resolved to once again review the update to the strategic plan in view of economic developments in Israel and overseas, and to update the strategic plan if required.

For details of the business strategy for each individual operating segment, see above the chapter "Description of Bank Group Business by Operating Segment".

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's Board of Directors, as described below. This information may not materialize due to changes which may occur in various factors outside of the Bank's control. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Forecasts and Assessments with Regard to Bank Group Business

The Bank bases its future growth plan on several major efforts in the following areas:

- Continued growth of Bank market share of the household segment;
- Maintaining Bank position as a leader in the mortgage market;
- Upgrading trading and execution infrastructure (trading rooms) and continued leadership position in this area;
- Expansion of international operations, with emphasis on private banking and trading infrastructure;
- Expansion of the business customer base and establishing unique value propositions, mainly for small-to-medium businesses.

The growth engines are aimed to grow Bank revenues at an average annual rate of over 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 4% (also not in linear fashion). Note that these rates include the cost associated with acquisition of a controlling stake in Bank Yahav and the initial investment required for realizing the potential in combination of Yahav with the Bank Group.

The Bank has based the new strategic, multi-annual plan, inter alia, on implementation of acquisition of the controlling stake in Bank Yahav; on potential benefits to the Bank from implementation of Basel II recommendations; pension consultancy and insurance; continued organic growth; expense containment and continued improvement in efficiency with introduction of ever growing variable, performance-based compensation; and continued expansion of the back-office operation division while transferring logistics operations from branches to this division - a process launched by the Bank in early 2007. Furthermore, realization of the benefits of the Adanim merger allows for exposure of all banking services offered by the Group to Adanim customers, along with operating cost savings.

This information is a kind of forward-looking information, which is based on various assumptions and forecasts presented to the Bank's Board of Directors, as described below. This information may not materialize due to changes which may occur in various factors outside of the Bank's control. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

Anticipated developments

Branded credit card

As of the date of these financial statements, the Bank is in process of establishing a custom branded card for the Bank, and is reviewing options for launching and promotion of the branded card. The Bank intends to launch a branded credit card club in 2090, as part of the strategy for expansion of the Bank's market share - in particular in the household segment.

Integration of Bank Yahav into the Bank Group

Subsequent to acquisition of 50% of Yahav's share capital, the Bank is acting to integrate Yahav into Group operations. Inter alia, in 2008 the Bank opened 2 mortgage counters in Yahav branches, and in 2009 it expects to open another 9 such counters. Realization of Yahav's synergetic potential as part of the Mizrahi-Tefahot Group is one of the growth engines included in the Bank's business plan. For further details see above the chapter on major investees.

Adanim merger

The Bank intends to realize the potential of the Adanim merger, such that all banking services would be offered to Adanim customers via the Bank's branches. To this end, benefits are offered to Adanim customers who use additional banking services, other than mortgages, at the Bank. For further details, see description of the household segment above.

Insurance consulting

Pursuant to legislation changes included in the Arrangements in the State Economy Law, enacted in conjunction with approval of the 2008 budget, the Bank, starting in January 2009, in conjunction with pension consultancy it provides, may also provide consulting for pension insurance products, life insurance including savings and disability insurance, provided it is part of a pension insurance or life insurance policy. For details of the aforementioned amended legislation, see the chapter on Legislation and Supervision of Bank Group Operations.

The Bank would be entitled to receive a distribution commission from insurance companies, similar to agreements concerning other pension products, i.e. pension and provident funds, except for insurance policies with guaranteed returns (all those policies created prior to January 1991), for which it would not be eligible to a distribution commission.

As of the date of these financial statements, payment of a distribution commission has yet to be approved by the Finance Committee, and the Bank has signed no distribution agreements with insurance companies.
In conjunction with its preparation for providing insurance consulting, the Bank would update the consulting model to include insurance products, in addition to pension and provident funds already in place.

For details of raising capital sources planned in 2009, see above the chapter on raising capital sources.

For details of funds for provision of loans to businesses, established by the Bank together with others, which could amount to over NIS 500 million, see chapter "Developments in Israel's Economy in 2008".

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Marketing Operations

The Bank's marketing activities and its marketing strategy are derived from the Bank's strategic plan. The Bank's marketing channels, which form the basis of the strategic plan, include branches throughout Israel, business centers, professional departments at Bank headquarters as well as direct banking channels.

Marketing strategy

The marketing strategy derives from growth and profitability targets that were prescribed within the scope of the Bank's business plan, which is based on achieving the goals provided below:

- Increase the Bank's retail market share by expansion of its customer base while focusing on profitable target audiences.
- Expansion of customer activities with the Bank, along with increase in average revenue per customer, focusing on mortgage customers, household customers, customers of significant financial means and customers with potential future profitability, such as military staff and students.
- Maintain Group market share in mortgages, and maintain the Group's positioning as leader in this area.

In order to achieve these objectives of the marketing plan, the Bank operates based on the following principles and means:

- Intensive customer awareness and communicating the existing benefit in the combination of retail banking and mortgage banking to customers, employees and the general public. This combination enables the Bank to offer customers a broader range of solutions under one roof, and to provide better service to customers.
- Total financial viewpoint, placing the customer and his current account in the center, with the Bank offering other value propositions, which provide real added value to the customer in various areas, including: Investment management, retail credit products, credit cards, mortgage and pension advisory service.
- Offer innovative products and services based on customer needs, by applying professional analysis of needs and price-performance considerations with regard to the customer. The Bank considers the creation of unique value propositions to be a key tool in responding to needs of its current customers, and a most important means of recruiting new customers. Application of this policy was reflected, inter alia, in the launch of Mizrahi-Tefahot LIVE in late 2008.

  In this scope, the Bank intends to launch in 2009 a branded credit card club.
- Recruit and preserve customers of significant financial wealth. To this end, the Bank launched in 2008 the Investment Center, a service which allows the customer to handle all their activity under one roof, while providing an added value in professional service.
- Merger of Bank Adanim's mortgage operations with the Bank's and maximizing the synergy potential and economies of scale offered by this merger.
- Use of the platform arising from acquisition of 50% of Bank Yahav shares, to expand Group operations in the mortgage sector. To date, the Bank has opened two mortgage representations at Yahav branches, and more are scheduled to be opened in 2009.
- Nurture and preserve current customers in the strategic target audience, and intensify activities with them.
- Expand service availability for customers, by opening new branches, by adapting and adding activity areas to existing customers. The Bank also expands its direct distribution channels, aimed at enabling the customer to choose the contact time and channel convenient for the customer, combining a physical branch location and direct channels. The LIVE branches combine all of these principles under one roof.
- Development of appropriate infrastructure, in order to enable the required marketing activity, centered on approaching each customer with the suitable value proposition, at the right time, using the right channel and message for the customer.
- To strengthen and differentiate the Group brand (Mizrahi-Tefahot), and to establish an outstanding competitive position that stands apart, intended to give the Bank a leading position in the existing and future competitive environment.
- Establish a marketing strategy for major Group brands, aligned with customer profiles. For example: "Mizrahi-Tefahot" and "Tefahot", LIVE, Executive Account and Investment Center.

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Branch deployment

Group branches are primarily aimed at providing professional, high-quality service to customers of all banking segments, close to the location where the service is required (residence, place of business). To this end, branches manage day-to-day customer activities and offer to customers and the public at large advanced financial products and services, including advisory services for capital market activity and pension advisory service.

Group branches are deployed throughout Israel. The merger of Bank Mizrahi and Bank Tefahot in early 2005 and acquisition of Bank Yahav created a combined nation-wide branch network which includes, as of the date of these financial statements, 165 business centers, branches and affiliates, including 10 Bank Adanim branches and 33 Yahav branches.

In December 2008, the Bank launched a new, unique service - the LIVE branches - which are branches providing full personalized service during extended business hours using a range of communication channels between customers and bankers (via telephone, fax, internet, email, SMS, video conferencing).

In 2008, efforts continued to make optimal use of the merged branch network, adapting the branches, their nature and location to the Bank's busines plan, based on a comprehensive review of branch deployment conducted by the Bank - following which it set forth a nation-wide framework for launching new points of sale, relocation, merging and closing branches. This plan is updated in accordance with market conditions and needs in the different regions. In 2009, the Bank plans to open 5 new commercial locations, as well as 12 mortgage sales locations, including establishing mortgage sales locations as Bank representation in Bank Yahav branches.

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Direct banking

In 2008, there was continued transition of some customer banking activities to direct banking channels (telephone, Internet and cell phones). The enlistment and usage rates of the direct banking systems continue to grow. The banking system as a whole has gradually adopted a multi-channel strategy, at the center of which stands the branch, and direct banking services constitute an integral part thereof.

The service provided through the Internet, as well as the Call Center, constitute the leading channels in the process of improving and strengthening customer access to the Bank's services and to improved service in general, while diverting activity from the branch. Additionally, these services enable the Bank's employees to specialize in service and sales.

The Bank's operating policies in the direct banking sector are:

- To expand and upgrade the services provided through the main direct channels (telephone, Internet, cellular phones).
- To expand customers' usage of the direct banking systems, in order to improve service.
- To develop the call center ("Mizrahi Direct") as the major channel for diverting day-to-day activities in the branches.
- To use the direct banking system as a tool for building an advantage for the Bank and for attracting new preferred customers.

The direct banking services offered to the Bank's customers are:

- **Telephone service** - the Bank's call center. This may be used to transact most banking business. Mizrahi Direct makes it possible for its subscribers to also receive telephone services by voice mail, either by computer or a banker at the center;
- **Tefahot Direct** - a center which allows customers to transact a range of mortgage-related transactions. These include: application for a housing loan, obtaining information on existing loans and making payments.
- **Online service** - receive banking information and execute transactions in your account for a range of banking products available to Bank customers at a reduced cost. This service is available 24 hours a day.
- **Cellular Mizrahi -** a system to distribute banking and financial information through cellular telephones, e-mail, fax and the Internet;
- **Mizrahi PC** - a system parallel to "Mizrahi on the Internet", enabling direct connection to the Bank's computer, not through the Internet, and consequently - faster execution of transactions;
- **E-mail services** - a system to distribute details on transactions executed in an account through e-mail, direct to the customer's e-mail address;
- **Notification Box service** - a system for receiving Bank notifications of account activity in a personal notification box via the Bank's online service.
- **Self-service stations** - allow customers to receive information in the commercial and mortgage sectors, and to execute a limited number of transactions in their account; in some branches the self-service machines may also be used to deposit checks or to issue checks; in 2008 the Bank incorporated 35 additional components for check deposits in self-service stations, so that this service is currently provided at 60 self-service stations.

- **ATMs** - the Bank has 104 ATMs for cash withdrawals (most of which also enable the withdrawal of foreign currency (dollar, euro). Some 20 ATMs include a check deposit option.
- **Fax service** - makes it possible to receive current banking information on a variety of subjects, at the frequency specified by the customer.

Sources and financing

Group financing sources include: deposits, including by means of credit obtained from the Bank of Israel; obligatory notes; various debentures; and shareholders' equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity and capital adequacy - subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Deposits

The Bank distinguishes between different source types by type of customers and degree of volatility. The Bank examines the degree of concentration of the depositors, and within this framework, management has specified guidelines with regard to holding of liquid resources against large depositors. Furthermore, guidelines have been specified with regard to the ratio of volatile deposits to other deposits. These guidelines are part of the liquidity risk management system.
Total deposits from the public for the Group as of December 31, 2008 amounted to NIS 91.8 billion (of which NIS 11.0 billion at Bank Yahav, initially consolidated in the 3rd quarter of 2008), compared to NIS 75.3 billion at the end of 2007. Deposits from the public in the NIS-denominated, non-CPI linked segment increased in 2008 by 36.4%; deposits in the CPI-linked segment increased by 14.9%; and deposits denominated in or linked to foreign currency rose by 1.9%. For details, see the chapter on development of balance sheet items above.

Bank of Israel

The Bank of Israel serves as a key party for the short-term financing and absorbing money for the entire banking system, and for Mizrahi Bank in particular. Banks may borrow or lend money with the Bank of Israel at a price range of 1% over or above the Bank of Israel interest rate. It should be noted that a bank that borrows money from the Bank of Israel must provide collateral, and the Bank takes this parameter into account in its day-to-day management of liquidity. Another source for raising short-term funds is the inter-bank money market.

Among the factors influencing the scope and types of deposits in the banking system is the monetary policy of the Bank of Israel. Below is a survey of the monetary tools used by the Bank of Israel for the purpose of implementing its monetary policy:

Bank of Israel interest

The Bank of Israel publishes monthly the interest rate for the following month. This interest constitutes the base interest rate for tenders on loans and deposits made available to the banking system, as will be provided below.

Liquidity requirement

The directives of the Bank of Israel require banks to hold liquid balances for deposits from the public, at varying percentages, according to the period of the deposit. The required liquidity percentages are presently 6% on demand deposits and 3% on time deposits of one week to one year. Deposits for a term of 1 year or longer have no liquidity requirement. See the chapter on risk management for information on the management of liquidity risk by the Bank.

Deposits in the Bank of Israel to absorb surplus liquidity

When there is surplus liquidity in the system, the Bank of Israel absorbs it through tenders on deposits that it makes available to the banking system. The deposit tenders are for a short period of 1 or 7 days, and the maximum interest in these tenders is the Bank of Israel interest it declares. Moreover, there is a window for depositing daily deposits in the Bank of Israel, unlimited in amount, at interest that is 0.5% lower than the Bank of Israel interest rate.

Short-term loans (MAKAM)

Another financial instrument used to absorb surplus shekel liquidity is the short-term loan (MAKAM), through regular issuances to the public and the activity of the Bank of Israel in the secondary market.

Tools for injecting liquidity into the system:

Loan auctions

For the purpose of injecting liquidity into the banking system, the Bank of Israel makes available short-term credit tenders for 1-7 days, in which the minimum interest is the Bank of Israel interest. Moreover, the Bank of Israel provides a daily credit window at interest that is 0.5% higher than the Bank of Israel interest. Receipt of credit from the Bank of Israel, whether through the credit tender or the credit window, is limited to the collateral amount that each bank has in the Bank of Israel.

REPO auctions

Starting in the fourth quarter of 2006, the Bank of Israel operates REPO auctions for re-purchase of bonds and MAKAM loans from banks and institutional investors for 1-week and 1-month terms (in accordance with Bank of Israel plans). This tool is also intended to inject liquidity into the banking system.

Liquidity enhancement program

In late December 2008, the Bank of Israel launched a "monetary program to enhance liquidity in the financial system and to support growth", in which it announced a range of steps:

1. Reduced absorption of excess liquidity by means of MAKAM issuance.
2. Monetary loans currently offered by means of auctions for the banking system for 1-day and 1-week terms would be extended by loans for longer terms.
3. The margin around the Bank of Israel interest rate ("the corridor") in both the credit window and the deposit window for commercial banks was lowered from ±1% to ±0.5%.
4. REPO auctions for commercial banks and institutional investors would be offered for terms longer than 1 week (as is customary today).

RTGS real-time settlement systems

In August 2007, the Bank of Israel launched the RTGS - Real Time Gross Settlement - system. This system allows customers to transfer in real time NIS-denominated amounts from an account at one bank to an account at another bank. Settlement is immediate and final.

Obligatory notes and debentures issued to the public

Obligatory notes

The Bank is acting to raise long-term sources via issuances, inter alia via Mizrahi Tefahot Issue Company Ltd. ("Tefahot Issue"), a wholly-owned subsidiary of the Bank. Over the years, Tefahot Issue Company issued to the public subordinated notes under issued prospectuses.

Under the terms of a shelf registration published by Tefahot Issue for the public on November 28, 2006, effective for 2 years, it may issue to the public additional bonds having par value of NIS 5 billion. Within this framework, the company issued in 2008 subordinated obligatory notes of NIS 222 million par value, in exchange for NIS 216 million. Through December 31, 2008, the company issued obligatory notes of NIS 972 million par value (as of December 31, 2007 - NIS 750 million), of which NIS 672 million in subordinated notes (as of December 31, 2007 - NIS 450 million). The subordinated obligatory notes constitute Tier II capital, subject to restrictions set forth in Bank of Israel directives. For details see Note 14.

As of the date of these financial statements, Tefahot Issuance has issued to the public obligatory notes (Series 25-30) with total par value of NIS 2,122 million (as of December 31, 2007 - NIS 1,974 million), of which NIS 872 million in subordinated obligatory notes. The revaluated balance as of December 31, 2008 of these obligatory notes outstanding amounted to NIS 2,370 million (as of December 31, 2007 - NIS 2,093 million), of which NIS 946 million in subordinated obligatory notes.

In February and March of 2009, Tefahot Issuance issued NIS 325 million par value additional subordinated obligatory notes in exchange for NIS 337 million.

On February 25, 2009, Tefahot Issuance published a shelf prospectus for issuance of up to 12 series of obligatory notes with par value of up to NIS 2 billion in each series, as well as 3 series of subordinated capital notes with par value of up to NIS 3 billion in each series, as well as expansion of a negotiable debenture series and of a negotiable series of subordinated obligatory notes with par value of NIS 500 million for each series (hereinafter jointly: "the obligatory notes"). The obligatory notes in each series separately would be offered by way of public offering via shelf prospectus reports, which would contain all details specific for that offering, as required by statue, regulations and directives of the stock exchange in effect at that time.

Complex capital notes

In November 2006, the Bank raised, in a private placement to institutional investors, the sum of NIS 451 million (NIS 460 million par value) via issuance of subordinated capital notes (Series A), that will be deemed Upper Tier II capital for maintaining a minimum capital ratio. On May 21, 2007 the Bank published a prospectus under which the complex capital notes were listed for trading in early June 2007. In June 2007, the Bank raised a further NIS 490 million (NIS 500 million par value) by private placement with institutional investors, by expansion of capital notes (Series A). These notes were listed for trading upon issuance.

On June 30, 2008 the Bank allotted subordinated capital notes (Series A) with par value of NIS 120 million, in accordance with a private placement offer published on June 26, 2008. On September 9, 2008 the Bank allotted additional subordinated capital notes of the same series with par value of NIS 42 million, in accordance with a private placement offer published on September 4, 2008. In total, NIS 162 million was raised in 2008 against allocation of capital notes. The subordinated capital notes and shares resulting from their forced conversion have been approved by the stock exchange to be listed for trading. The aforementioned allotted capital notes are added to capital notes from the same series allotted in 2006-2007, such that all capital notes in this series, with total par value of NIS 1.12 billion, constitute upper Tier II capital, as per approval of the Supervisor of Banks, amounting to NIS 1.17 billion.

The revaluated balance of the complex capital notes as of December 31, 2008 was NIS 1.19 billion, compared to NIS 0.97 billion at the end of 2007. See Note 14 to the financial statements for details.
On February 11, 2009 the Bank allotted additional subordinated capital notes (Series A) with par value of NIS 434 million in exchange for NIS 400 million, in accordance with a private placement offer published on February 8, 2009.

Rating of Bank obligations

In accordance with rating provided by Maalot Standard & Poor's (hereinafter: "Maalot"), the rating of Bank obligations, including deposits deposited with the Bank, is AA+, unchanged since the Bank was first rated in 2003. Further to the announcement by Maalot dated June 11, 2008, with regard to a credit watch of the rating methodology of subordinated notes issued by the banking system and rated by Maalot, and its alignment with S&P's international rating methodology, Maalot's Rating Committee determined on June 26, 2008 that subordinated notes would be rated one notch below the issuer's rating. Therefore, in line with the aforementioned announcement, and in accordance with confirmation received by the Bank from Maalot on September 22, 2008, Maalot has rated the subordinated notes issued by Tefahot Issuance "AA". The bank's rating outlook remained unchanged.
The complex capital notes, which constitute upper Tier II capital, are rated AA-.

Adjustable rate credit

A significant part of the credit loans issued by the Bank are at adjustable interest rates. In the non-linked shekel sector, the variable-interest loans are issued based on the changes in the prime interest rate. The prime interest rate is based on the Bank of Israel interest plus 1.5%, and if this ratio changes, the Bank is permitted to change the method for determining the variable interest accordingly. The prime interest rate could change every month, according to a decision by the Bank of Israel Governor on a change in the monetary interest.
In the CPI-linked sector, most variable-interest loans are mortgages. The rate adjustment mechanism is based on the average cost of raising sources for the mortgage banking system. The frequency of the change in interest rate on CPI-linked mortgage loans is diverse, depending on loan type:1 year, 2.5 years, 5 years, 7 years and 10 years. In view of the decline in recent years of funds raised directly by mortgage banks (mostly due to merger of the large mortgage banks with their parent companies), the Bank reviews, in cooperation with the Bank of Israel, replacement of the “Source Anchor” with an alternative base, while maintaining the same margin.
In the foreign currency segment, most of the loans are at adjustable rates, varying with changes in the LIBOR interest rates. The commonly used periods are 1-month LIBOR and 3-month LIBOR.

Risk Management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly - market and liquidity risk, credit risk, and operating risk. The risk management policies in the various areas are intended to support the achievement of the Group's business goals while limiting the associated risk.

The Group manages its risk on a day-to-day basis, in accordance with the Bank of Israel's Proper Conduct of Banking Business Directive no. 339. Within this framework, the Group has appointed risk managers, and the Bank has established a Risk Management Department. Bank management regards the Bank's risk control and management system as one of its core competencies, hence it is Bank policy to constantly strive to improve the risk control and management system, Specifically, the Bank is in advanced stages of applying the Basel II guidelines.

Bank management believes that risk control and management must be an integrative process. As part of this approach, the Bank purchased a risk management system (the Algorithmics system) that enables management and control under a single platform of the market risk and liquidity risk of the Bank, and in the future, also the various credit risk components, including implementation of Basel II regulations for calculating regulatory and economic capital. During 2007 the Bank completed a move to enable use of advanced models for management of customer exposure to the foreign currency segment of the capital market. This effort was expanded in 2008, aiming to include customers operating in other trading arenas. Furthermore, the system started receiving input files for calculation of required regulatory capital in accordance with Basel II guidelines (layer 1 - standard method).

Credit risk

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. As mentioned earlier, the Bank is in advanced stages of applying the Basel II guidelines. Quantitative aspects of the regulation, and not less important - its qualitative components, have a strong impact on how credit risk is managed by the Bank. During 2008, the Bank completed the gap survey with regard to requirements of level 2 of Basel II with regard to credit risk management, a work plan was prepared to eliminate these gaps and teams were established in order to eliminate them.

The Division Manager, Business Banking is in charge of credit risk management at the Bank. Each unit which provides credit monitors on a regular basis credit repayment in accordance with terms agreed as well as the financial status of the customer, based on their level of indebtedness. Any findings requiring action are reported to the entity in charge of the relevant credit.

The Bank has a Tracking and Control Department, which used computer systems to discover and alert to unusual accounts and customers, including based on information external to the Bank. This department usually tracks credit authorized by Regional Managers or higher. Credit Controllers operate in the regions to control credit authorized by lower-level managers. Furthermore, the Risk Control Division in the Comptrollership, Planning and Operations Division includes a Credit Risk Control Department. This department operates in accordance with the Bank of Israel's Proper Conduct of Banking Business Directive no. 319, and rates borrower quality and the quality of the Bank's credit portfolio, in accordance with annual and multi-annual work plans approved by the Board of Directors' Credit Committee.

Procedures for granting credit and for processing credit and collateral, as well as the relevant IT systems there for, are regularly reviewed and updated to adapt them to the changing business environment, while learning lessons from different events. A constant effort is also made to improve professional skills and expertise of employees involved with credit, by means of training and professional workshops at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

Risk distribution - The Bank's credit policies are based on the dispersal of risk and their controlled management. Risk dispersal is characterized by several aspects:

- Dispersal of the loan portfolio among the different economic sectors, including limiting exposure in certain sectors.
- Dispersal over sized groups of customers.
- Dispersal over linkage segments.
- Geographic dispersal where relevant (construction industry, mortgages).

Industrial sectors: The Bank's Executive Management and Board of Directors hold discussions on the issue of credit to certain industrial sectors, as is necessary, mainly as it relates to industries that are sensitive to fluctuations in business cycles. Credit policy for the sensitive industries is set on the basis of an economic analysis of the developments forecast for these industries. The Bank maintains distribution of indebtsedness among different sectors, so as not to create extraordinary indebtsedness according to provisions of Proper Banking Conduct Regulation 357.

Loans to certain sectors, such as diamonds, agriculture, construction, local authorities, leasing credit and start-up companies - are handled by professional units or by personnel specializing in these industries. Specific rules and procedures have been prescribed for these specific sectors, beyond those relating to the issue of credit, in order to deal with their special credit risk.

Large customers: The Bank provides credit to large customers through the Corporate sector, which operates teams with sector expertise. Occasionally the Bank limits its share of credit to a major customer relative to total extent of credit to that customer in the banking system, and in some cases, in order to participate in financing of certain transactions, the Bank requires a financing package to be put in place with participation of other banks (under consortium agreements).

The Bank maintains compliance with limitations on indebtsedness of borrowers and borrower groups, as well as total indebtsedness of the six largest borrowers, according to provisions of Proper Banking Conduct Regulation 313. For further details with regard to customers served by the Corporate segment, see chapter describing the Bank's operating segments - Business Banking segment.

Linkage segments: This distribution is also reflected in providing credit in various linkage segments, such that part of the credit is more susceptible to fluctuations in the Consumer Price Index (CPI-linked credit), some is more susceptible to changes in the prime lending rate (non-linked NIS-denominated credit), and some - to foreign currency exchange rate fluctuations (foreign-currency denominated credit or linked to foreign-currency exchange rate).

Geographic dispersal: In providing credit to the construction industry, and in some cases in mortgages, the Bank insists on geographic distribution, in order to reduce the excessive geographic concentration in the providing credit.

Credit insurance - The Bank used credit insurance for housing loans (mortgages), such that mortgages with high loan-to-value ratios are secured, for the part exceeding the loan-to-value ration determined by the Bank, by EMI insurance company. Thus the Bank reduces risk associated with the loan to a limited share of total collateral.
For further details, see the chapter describing the household segment.

Considerations in extending credit - The considerations involved in granting credit are based mainly on the quality of the customer, his reliability, financial strength, liquidity, repayment ability, seniority in the industry, length of time with the Bank, behavior in the account, etc. and on the quality of the collateral, as described below. Likewise, the Bank works to match credit type and terms to customer needs. In cases in which loans are issued based solely on the quality of the borrower, without a collateral requirement, certain contingencies are set at times, including compliance with financial covenants.

Authority to issue credit - In order to streamline the decision-making process as it relates to granting credit while minimizing risk, a ranking of authority was determined for officers and credit committees at different levels, up to the level of the Board of Directors and its Credit Committee.
Credit-granting decisions, beginning from the district level, are made by credit committees in order to minimize the risk in relying on the judgment of a single individual.
The credit authorizations include limitations on credit limit as well a on the percentage of unsecured credit that each authorized official is permitted to approve, and other guidelines were prescribed relating to the prerogative to exercise authority in certain situations.
Collateral - Bank procedures specify the asset types which may be recognized as collateral for providing credit. The commonly used collateral types at the Bank are: Liens on real estate, vehicles, deposits, securities, credit vouchers, checks, bank guarantees and institutional, corporate or individual guarantees. As part of the collateral policy, rules and principles were prescribed as to the level of reliance on each type of collateral, with regard to its character, marketability, promptness of realization and legal status, in addition to assessing the repayment ability of a customer as a criterion for issuing the loans.
The collateral is matched, as far as possible, to the type of credit that it secures, while taking into account the period of time, types of linkage, character of loans and their purpose, as well as how quickly it can be realized. The value of the collateral, with the use of safety factors, is, as far as possible, calculated automatically by the IT systems. The safety factors for different types of collateral are examined at least once a year and are approved by the Board of Directors' Credit Committee. The Bank also approves, on a limited, case-by-case basis, the granting of credit solely on the basis of the borrower's obligation.
Bank procedures specify rules for ongoing collateral management, including updates to the value of collateral: Deposits and bank guarantees are regularly updated based on the terms and conditions thereof; collateral consisting of negotiable securities is regularly updated based on the market value thereof; with regard to collateral consisting of real estate, the procedure determines the date for valuation by a licensed assessor in accordance with the type of credit secured by the property. Valuation is also carried out in case of concern regarding material impairment of the collateral, which may cause the Bank to face shortage of collateral.

Currency exposure in credit - Borrowers with currency exposure are offered means of safety and protection (hedging transactions) in order to reduce their exposure, in addition to other measures that the Bank adopts to minimize the risk of the Bank's exposure from the activities of these customers. Guidelines were prescribed to intensify the monitoring, control, and supervision of the activities of borrowers whose debts to the Bank are sensitive to exchange rate fluctuations, including the creation of simulations and future scenarios of changes in exchange rates. Special controls are also used for customers, when securities form a significant element of their collateral.

Credit in the construction and real estate industry - In financing the construction and real estate industry, specific analysis and monitoring tools are used to assist the Bank in reaching decisions on the granting of financial support to the various projects. Construction financing in this industry is focused mainly on residential construction in areas with strong demand and mid-level prices. In addition, the financing is allocated between geographic regions in which the construction is being carried out, and based on relevant demand.

In providing credit for construction, the Bank focuses on the financial support method (closed assistance). The application of this method is designed to reduce the exposure to risk in the granting of the loans, because it incorporates current and close monitoring of the progress of the financed project, both before the loans are provided, and as the project receives the financial support, while maintaining a distinction between the financed projects and the business risk inherent in the other activities of the developer-borrower. The Bank is assisted by outside construction supervisors, and also relies on liens on the land in the project, to secure the loans. Loans are issued for financed projects only by branches with professional knowledge of the subject, and under the supervision of the regional affiliates of the construction and real estate sector.

Monitoring and controls - The Bank's IT systems provide control tools for personnel, including the specific unit assigned with identifying and controlling credit risk, to identify loans that exceed credit limits or are under-collateralized, as well as tools for identifying credit-risk developments resulting from the existence of various parameters in customer-account development and management.

Borrowers' rating - The Bank has developed a system for rating business borrowers, based on a computerized testing model that combines quantitative and qualitative assessments of borrower, which has been adapted for a range of business borrowers according to various economic sectors. The Bank regularly maintains the different models and acts to adapt, update and improve them in line with changes in the business environment.

This system is used for most of the Bank's business loans. The goal of this system is to improve the management of credit risk and the decision-making process. The system determines the rating of a borrower as a function of the quality of the customer, the collateral furnished and the amount of credit received. The credit rating also constitutes a basis for pricing the relevant credit.

Credit exposure in customer trading in financial derivatives - Rules and procedures were prescribed for determining the amount of collateral required for the Bank's customer trades in financial derivatives, as well as rules for closing the exposure created due to these trades. Furthermore, the Risk Control Division includes a dedicated department, specialized in control of exposure arising from capital market operations, which daily reviews customers active in this field. The means of monitoring and controlling the activity and exposure in derivatives are constantly being improved.

Handling of problem loans and collection oat approved or processed the credit extended and collateral received. Therefore, the handling of these customers is concentrated in a separate sector in the business banking division.

Provision for doubtful debts - The Bank uses a system of computer reports for identifying accounts, customers and transactions with higher than usual credit risk. Decisions on making provisions for doubtful debts are based on scanning the entire credit portfolio, assisted by the aforementioned reports, using a structured procedure which determines, inter alia, the authority to review and decide on such provisions. In making the decision, considerations are made with regard to the nature of the transaction, the financial status of borrower and guarantors, and the size and quality of collateral provided to the Bank. In addition, a valuation of the impact of changes in the business environment on the borrower and their business is carried out.
In accordance with directives of the Bank of Israel with regard to measurement and disclosure of impaired debts, the Bank is preparing for implementation of this directive and its operation starting in 2010. For details of the regulation and the Bank's preparations for its implementation, see Note 1.X to the financial statements.

In view of the crisis in global financial markets, the Bank tightened in recent months its means of control and reporting of exposures, including a comprehensive sweep of all accounts and customers, in order to better supervise and control the credit portfolio. Specifically, Bank exposure to entities directly and indirectly exposed to the global financial crisis have been mapped and evaluated, and monitoring of this exposure is carried out stringently and on a regular basis. Furthermore, the Bank regularly monitors its exposure to foreign financial institutions, in accordance with directives of the Supervisor of Banks.

Below is information on the Bank's exposure to foreign financial institutions(1)(2) as of December 31, 2008 (NIS in millions):

External credit rating	Balance sheet credit risk(3)	Off-balance sheet credit risk(4)	Current credit exposure
AAA to AA-	2,485	408	2,893
A+ to A-	1,639	19	1,658
BBB+ to BBB-	131	15	146
BB+ to B-	75	30	105
Lower than B-	155	-	155
Unrated	46	-	46
Total credit exposure to foreign financial institutions	4,531	472	5,003

(1) Foreign financial institutions include: Banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Spain and Canada. Exposure is primarily in respect of institutions incorporated in OECD countries.
(2) Net of deduction of specific provisions for doubtful debts.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with re-sale agreements and other assets in respect of derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount - in accordance with Proper Conduct of Banking Business Directive no. 313.

Credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For details of investments in asset-backed securities, see Note 3 to the financial statements. For further information with regard to credit exposure composition in respect of derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 19.E. to the financial statements. to the financial statements.

Part of the exposures listed in the above table are included under Management Review - Addendum E - Credit Risk by Economic Sector, enclosed with these financial statements under the Financial Services sector. This Management Review also includes credit to the public, public investment in debentures and other assets in respect of public derivative instruments. This Management Review excludes deposits with banks, which are included in the above table. Future transactions, weighted at 10% of their balance, are included under Management Review as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank Board of Directors sets, inter alia, the maximum exposure limit to states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure.

The Bank determines the exposure limit to each financial institution based on the most recent rating available for said institution, and only ratings provided by one of the leading international rating agencies are used - based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with said financial institution is also taken into consideration. The policy also sets forth a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to said institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes into consideration the maturity dates of its credit exposure in conjunction with the Bank's liquidity requirements. Deposits are normally deposited for short terms, whereas exposure in respect of derivatives and investments in securities are for longer terms.

Market risk

Market risk to which the Bank is exposed in different financial instruments arises from their susceptibility to unexpected changes in interest rates, inflation rates and exchange rates, such that changes in market conditions may lead to changes in the fair value of the different financial instruments. The principal market risk to which the Bank is exposed are interest risk, basis risk and liquidity risk.

Market risk management is intended to maximize Bank profit at the prescribed risk level. Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank's Executive Management acts, according to the market conditions at any given time.

The procedure for market risk exposure, approved by the Bank's Board of Directors in 2005, prescribes, inter alia, the ranking of authorities and frequency of discussions and reporting of exposure status at different levels. According to this procedure, the President is authorized to make risk-management decisions, subject to the frameworks prescribed by the Board of Directors. The Bank's risk management policies are discussed, formulated, and monitored by the Management Committee for the Management of Assets and Liabilities chaired by the Bank's President. This committee generally meets once a month, or more frequently, when special developments in the various markets occur or are forecast. According to this procedure, the Bank President is required to immediately report to the Board of Directors any deviation from the Board restrictions, and any occurrence of extraordinary events, whether internal or external.

The Finance Division Manager, who also functions as Risk Manager, heads a Monetary Committee that meets weekly to deal with practical aspects of the management of assets and liabilities. The Risk Manager is empowered to reach decisions on issues relating to the management of exposure in all the linkage segments, in order to implement the policies prescribed by the President, subject to the limitations prescribed by the Board of Directors. The Financial Division Manager must immediately report to the Bank President any deviation from management restrictions, in excess of the deviation permitted by the Bank's Risk Manager. Any exercise of authority by the Risk Manager to authorize deviation is to be reported at the following meeting of the Management Committee on Asset and Liability Management.

When exceptional events occur in the money and capital markets, such as: an unexpected change in interest rates, shake-ups in the foreign currency markets, changes in fiscal and/or monetary policy, the aforementioned committees convene for a special discussion in order to reach the decisions required by these changes.

The Bank regularly operates a “risk monitoring forum" which convenes monthly, with the objective of setting the Bank's extreme scenarios, discuss and prescribe the methodology for managing and controlling risk. The Forum is headed by the Manager of the Controllership, Planning and Operations Division. Also members are representatives of the Finance Division and of the Controllership, Planning and Operations Division.

The Bank also has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs different Bank units with the liquidity "providers" and liquidity managers.

The regular activities of the abovementioned forums enables the existence of day-to-day communications regarding the management of different risk among all the divisions in the Bank that are take part in the process of managing and controlling risk.

Examination and control of the various market risk is carried out on a day-to-day basis by the Financial Management Sector in the Finance Division. Market risk controls are carried out by the Risk Control Department in the Controllership, Planning and Operations Division. The mechanisms for quantifying the exposures and controlling the compliance within the approved activity frameworks are anchored in internal work procedures.

The Bank's Board of Directors receives an update once every six weeks on the status of the management of assets and liabilities in the various linkage segments. The Board of Directors also holds a quarterly discussion on the “Exposure Report”, as defined in Proper Conduct of Banking Businesses Regulation No. 339.

The VAR model and stress tests (see the explanation of these models below) became the principal management tools for managing market risk. Since 2005, the Bank operates within the Board of Directors' restrictions for market risk in terms of VAR and stress tests. For application of these models, the Bank's available capital is defined as a non-linked NIS-denominated source. The Board of Directors' limitations prescribe that the VAR for all of the Bank's activities in one-month investments, in the highest of several calculation methods, will not exceed 6% of shareholders' equity, and that the maximum loss in stress tests, in the highest of several calculation methods, will not exceed 15% of equity. The Risk Control Division conducts back testing to ascertain adequacy of the VAR model on a monthly basis, using advanced models in this field. The Bank regularly monitors and controls exposure to the subsidiaries' exposure to the different market risk.

In order to improve response time to capital market volatility, the bank started calculating VAR using a new method in May 2008; this method combines multiple calculation methods, while adjusting the number of historic observations used for calculation.

The internal estimate of VAR of the Bank Group presents the risk of a loss during a month, with the probability of it occurrence not exceeding 1%. Below is the maximum VAR for the Bank Group (NIS in millions):

	(1)2008	2007
At end of period	112	126
Maximum value during period	153 (Oct.)	169 (Aug.)
Minimum value during period	80 (Feb.)	104 (Jan.)

(1) VAR values have been recalculated since the start of this year, due to the change in calculation method.

Following consulting provided by international experts, the Bank is conducting back testing of the adequacy of the new VAR model developed by the Bank. Review of the back testing of the VAR model for a 1-day investment horizon indicates that in 2008, despite the high volatility prevailing in financial markets, the model was in compliance with criteria set forth by the Basel guidelines.

In order to compute capital adequacy for the purposes of market risk, in accordance with the directives of the Bank of Israel, the Bank prescribed policies and procedures for defining the Bank's marketable portfolio. The Bank calculates its required capital adequacy according to the standard model on a consolidated basis, as mandated by the Bank of Israel's Proper Conduct of Banking Business Directive no. 341.

As part of its preparations for application of the Basel II regulations, the Bank reviews guidelines on capital requirements for market risk, including re-characterization of the negotiable portfolio.

The management of risk from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible dispersal of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements.

In 2007, the Bank created a model to calculate the efficient front of the portfolio of securities held for sale. In the second half of 2007, the model started to be used as a tool in management of the Bank's held-for-sale portfolio. The portfolio management methodology, under the efficient front model, is based on managing the expected return relative to the risk level desired by the Bank.

Basis risk

Linkage-basis risk relates to the risk of erosion in capital due to changes in the value of the linkage basis - changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Below is an analysis of the sensitivity of the Group's pre-tax profit to changes in the main exchange rates and in the CPI as of December 31, 2008:

Profit (loss), NIS in millions

	Scenarios				Extreme historical scenario[1]	
	increase	increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	218.3	109.3	(109.3)	(218.3)	65.6	(19.6)
Dollar	26.2	12.1	(9.0)	(15.4)	12.6	(6.5)
Pound Sterling	0.3	0.1	(0.2)	(0.4)	0.2	(0.1)
Yen	(1.5)	(0.5)	2.3	9.1	(2.8)	3.2
Euro	6.4	1.9	0.9	3.6	3.4	1.2
Swiss Franc	0.2	0.1	(0.1)	(0.2)	0.2	(0.1)

(1) Extreme scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

Interest risk

Interest risk is the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities.

hypothetical changes

Impact of hypothetical changes in interest rates on fair value of financial instruments of the Bank and its subsidiaries (NIS in millions):

Fair value of financial instruments before impact of hypothetical changes in interest rates:

	31-Dec-08					
	Israeli currency		Foreign currency[2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
Financial assets[1]	47,911	38,885	14,318	4,415	3,384	108,913
Fair value of financial derivatives	2,180	99	905	80	121	3,385
Financial liabilities[1]	(51,446)	(32,667)	(13,840)	(3,857)	(2,648)	(104,458)
Fair value of financial derivatives	(1,927)	(80)	(1,048)	(121)	(123)	(3,299)
Total	(3,282)	6,237	335	517	734	4,541

Net fair value of financial instruments, after impact of changes in interest rates:(3)

	31-Dec-08							
	Israeli currency		Foreign currency(2)				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
Change in interest rates:								
Concurrent immediate increase of 1%	(3,257)	6,277	321	516	731	4,588	47	1.0%
Concurrent immediate increase of 0.1%	(3,280)	6,242	334	517	734	4,547	6	0.1%
Concurrent immediate decrease of 1%	(3,309)	6,174	350	518	737	4,470	(71)	(1.6%)

(1) Includes complex financial instruments. Excludes balance sheet balances of derivatives and fair value of off-balance sheet financial instruments.

(2) Includes Israeli currency linked to foreign currency.

(3) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

For further details of assumptions used in calculation of the fair value of financial instruments, see Note 2.20 to the financial statements.

The impact of hypothetical changes, as shown above, was calculated using the Bank's risk management systems, which employ advanced risk management models and allow for sensitivity analysis of Bank positions by total expected cash flows in respect of the Bank's different financial instruments.

The following are the differences between calculation of fair value in the risk management systems and the calculation used in Note 20 to the financial statements:

1. The fair value in Note 20 is calculated using specific discount rates in line with borrower risk level, whereas in the market risk management system the discount rate used is uniform, since the objective of this system is to test changes and sensitivity to changes in interest rates.
2. The fair value of problem debts is calculated, for Note 20, using discount rates which include a spread appropriate for the risk level of problem customers. The risk management system does not use a similar spread, since its objective is to measure change rather than fair value amounts.
3. The discount rate for deposits is calculated, for Note 20, using a mechanism which extracts the customer spread fro recent actual transactions, whereas in the risk management systems, the fair value is calculated using a uniform curve.

Interest risk in the Bank’s banking portfolio is monitored on a weekly basis, both in managing interest risk for the overall portfolio in VAR terms, and individually in EVE (Economic Value of Equity) terms - a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve, including corresponding 2% shifts upwards/downwards of the interest rate curve. Interest risk measurement using this model started in the fourth quarter of 2007.

In compiling the mortgage repayment forecast for the Bank, assumptions with regard to pre-payment are taken into account. The pre-payment rates are determined by linkage type and interest type, and based on statistical analysis of past pre-payment events.

The VAR model (Value At Risk)

As required according to the directives of the Bank of Israel, the Bank computes the VAR values and the stress-test values on a monthly basis. The VAR is calculated by each of the three calculation methods commonly used: the analytic method (parameters), the Monte Carlo simulation method, and the historical simulation method. Furthermore, in order to improve the responsiveness of the VAR to the degree of volatility in financial markets, the Bank has developed a new VAR calculation method which implements a combination of multiple, generally accepted calculation methods.
A summary of the models used by the Bank in computing value at risk is presented below:

The VAR model is a statistical model that estimates the loss expected for the Bank in a certain investment period and at a pre-determined statistical level of assurance.
The VAR value constitutes an estimate of the level of market risk in financial terms. The VAR value can increase as a result of an increase in volatility in those risk factors, or as a result of an increase in the risk level inherent in different positions in a bank's portfolio. The VAR estimate is to be seen as a "risk thermometer", because an analysis of the VAR results on a day-to-day basis enables management to obtain value information on the risk level inherent in the Bank's various activities, to ascertain the Bank's risk profile, and to take the measures necessary to hedge certain risk in Bank operations.
The VAR model is suitable for ordinary market conditions and does not estimate possible losses beyond the absolute level that was determined in the calculation. Therefore, the Bank strengthens the methodology with stress tests.
Stress tests - This model estimates the Bank's expected loss as a result of sharp fluctuations in the prices of risk factors in the market. Essentially, this model, by its various methods, estimates the potential loss in the "left tail" of the dispersion, i.e., beyond the significance level determined in calculating the VAR. The Bank's stress test methods are two-fold: subjective methods, relying on a decision by the Stress Test Committee established in the Bank; and objective methods, relying on factors including extreme events and scenarios that occurred in the past.
The Bank has set up a managerial and technical infrastructure to compute the VAR model and the stress tests under different alternatives. The results of the models, including an analysis of the results, are reported on an ongoing basis to the Bank's Market Risk Manager and to the President, and quarterly to the Board of Directors.
Some of the VAR calculations are based on historical data. Accordingly, the Bank examines the quality of the market data that it uses in the VAR calculations, including through back testing, in order to improve the forecasting ability of the models that it uses.
The Bank works constantly to improve the models that it uses, from all of the necessary standpoints, viewing these innovative models as important management tools. It also works to expand the use of these models as tools for monitoring and controlling the risk level inherent in its activities, in different areas. Over the past year, the Bank has continued to expand use of these models, inter alia, in order to review some of its investment decisions. This was achieved by reviewing the potential gain from the investment alternative and reviewing its inherent risk, expressed by the change in VAR from execution of the new transaction (incremental VAR).
The Bank has acquired a new risk management system, whose different modules are gradually deployed at the Bank. As of the end of 2007, the Bank is in final stages of moving the system to production in all matters related to VAR Calculations, stress tests, liquidity risk management and other calculations, as required by Asset and Liability Management.

Financial capital and linkage position

Financial capital - As of December 31, 2008, the Bank's capital exceeded its non-monetary items by NIS 4,148 million. The Group's free capital, which includes financial capital, plus loans that were classified as an investment in shares, in accordance with the guidelines of the Supervisor of Banks, and plus the general and supplementary provision for doubtful debts, financed in 2008 primarily used in the non-linked NIS-denominated segment and in the CPI-linked segment, based on the current asset and liability management policy at all times.

Liquidity risk

Liquidity risk result from uncertainty as to the availability of sources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed subject to the limitations of the Board of Directors and Executive Management, as described below, in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Conduct of Bank Businesses Regulation No. 342 "Management of Liquidity Risk".

The Bank's internal model is based on statistical findings on the public's behavior. An information system was built for daily measurement, control and reporting of the liquidity status.

The Bank's Board of Directors approved, in late 2004, a policy document containing a ranking of authority levels, procedures, limitations and emergency plan in the event of a liquidity crisis. The Board of Directors prescribed a minimum ratio of 1 between the liquid resources and the financing needs, during the ordinary life and in various scenarios. Moreover, the Bank's Executive Management set limitations on the following matters:

- A ratio of liquid resources to financing requirements higher than 1, to be used as a "safety cushion".
- The optimal composition of liquid resources to cover the "safety cushion" and the financing needs.
- Allocating liquid resources against the balances of large depositors.

In March 2008, the Board of Directors approved an update an expansion of the policy document, prepared in view of new Basel II guidelines. The major changes are as follows:

- Expansion of reporting to management and to the Board of Directors - the range of liquidity reports regularly distributed to Bank management and Board of Directors has been expanded.
- Key risk indicators (both internal and external) have been specified, which alert of potential liquidity issues for the Bank and/or for the banking system.
- Resource monitoring - rules have been specified for monitoring source composition, especially for volatile sources. For the purpose of liquidity risk management, sources are distinguished by customer types and by their degree of volatility. Guidelines have been specified with regard to the ratio of volatile deposits to other deposits.
- Survival outlook - an additional tool was added to the internal model which measures the number of days which the Bank can survive based on its own sources, without raising any external sources. The survival outlook is reviewed in the normal course of business and under four major extreme scenarios.
- Detailed emergency plan - the chapter on liquidity risk management outside the normal course of business has been expanded. The composition of various emergency forums and list of required actions under different states of alert have been updated. This plan is part of the emergency financial procedure approved by the Board of Directors.

In 2008 there were no recorded deviations from the Board of Directors' limitations.

Liquidity risk at the Bank, in view of the global credit and liquidity crisis, is currently managed with extreme conservatism, while maintaining high liquid reserves and constantly reviewing the Bank's position under liquidity scenarios of various severity levels and types. Regular monitoring of internal and external risk generators has also been elevated, so as to indicate change in liquidity levels within the banking system as a whole and at the Bank in particular. Note that the Bank manages liquidity risk in the manner set forth above, despite the fact that the global credit crisis has not impacted the Bank's liquidity.

Surplus liquid means over financing requirements in NIS is invested mainly in deposits with the Bank of Israel and with Israeli commercial banks for terms of up to 1-week as well as in government bonds. Surplus liquid means over financing requirements in foreign currency liquidity are invested with banks and with the Bank of Israel, with the Federal Reserve Bank and in debentures which may be quickly realized. The credit exposure management policy reflected in management of excess liquidity in foreign currency has been revised in line with the global economic reality. The Bank frequently reviews credit facilities to various financial entities and operates vis-à-vis banks with the highest level of financial robustness, for the shortest duration possible, while maintaining diversification among different entities.

Quantitative analysis of market risk

Presented below are major data reflecting market risk, as reflected in the financial statements, while relating to the difference between the accounting presentation and measurement of economic exposure:

Linkage status - Details on the assets and liabilities in the various linkage segments at December 31, 2008 and 2007 are presented in Note 17 to the financial statements. However, the extent of the Bank’s economic exposure is not fully reflected in the positions included in this note because of differences in the treatment of capital items, in certain problem loans, in investments in investees and the remaining non-monetary items, between the accounting approach and the economic approach (as explained below).

In order to reflect the Bank’s economic exposures, the Bank classifies certain problem debts as loans in the non-linked NIS sector, instead of the original loan sectors. A customer’s loan that is classified as securities, in accordance with the directives of the Supervisor of Banks, is classified for asset and liability management purposes as non-linked NIS loans, as is the practice for all problem debts.

Surplus CPI-linked assets of the Group, which include balance sheet and off-balance-sheet items as of December 31, 2008 as presented in Note 17 to the financial statements, amounting to NIS 1.3 billion. After allocation of the general and supplementary provision for doubtful debts to free capital and the classification of certain problem loans to the non-linked NIS sector, the position in the CPI-linked sector as of December 31, 2008 is surplus uses of NIS 1.2 billion. As of December 31, 2007, the surplus uses amounted to NIS 1.7 billion.

Surplus foreign currency liabilities of the Group, which include balance sheet and off-balance-sheet assets and liabilities as of December 31, 2008, as presented in Note 17 to the financial statements, amount to NIS 62 billion. Foreign currency liabilities include foreign currency deposits of NIS 278 million used to finance investments in overseas subsidiaries, of which NIS 266 million are stated in the balance sheet as non-monetary items. The allocation of foreign currency deposits to finance the overseas investments correspondingly reduces the liabilities in the foreign currency sector. After the allocation of the general and supplementary provision for doubtful debts to free capital, and the reclassification of certain problem loans to the non-linked NIS-denominated sector, the Bank has surplus foreign currency sources as of December 31, 2008 of NIS 169 million, compared with surplus sources of NIS 296 million as of December 31, 2007.

The position in the non-linked NIS sector, after allocation of the free capital and reclassification of certain problem loans, balances the open economic positions in the CPI-linked and foreign currency sectors.

In Addendum D to Management Review, the Group's exposure to interest on a consolidated basis is presented in terms of average effective duration. The cash flows for computing the exposure are based on assumptions on the percentage of withdrawals at exit points in deposits of the Group and of the percentage of early discharge of mortgages. The percentage of withdrawals is based on empirical data.

In the unlinked shekel sector, the duration gap of liabilities to assets is just 0.13 of a year, due to the fact that most of the activity in the unlinked shekel sector is at variable interest, linked to the prime rate, and the resultant interest risk is minimal. The duration gap does not reflect the degree of risk in exposure to fixed interest, which, as noted, is measured in the VAR model and stress tests.

The difference in internal rate of return (IRR) is 0.33%, compared to 2.14% in 2007. The asset side includes investments in securities presented on the balance sheet at fair value, with counter liabilities presented on the balance sheet on accrual basis. This difference in presentation affects the internal rate of return, calculated based on the amount on the balance sheet. Excluding impact of presentation of investments in securities at fair value, the difference in internal rate of return would have been 1.55% in 2008, compared to 1.91% in 2007.

The duration to maturity of liabilities in the CPI-linked sector is 0.94 of a year, compared with 0.43 of a year in 2007. The computation of duration to maturity is based on assumptions of the prepayment of savings and loans. Without these assumptions, the duration to maturity of assets exceeds that of liabilities by 1.37 years. Without the assumption of prepayment, the difference in the IRR decreases from 0.25% to 0.06%.

In the foreign currency sector, the duration to maturity of assets exceeds that of liabilities by 0.24 of a year. In this sector, most of the activity is in variable interest, linked to the Libor rate, and, therefore the duration to maturity in this sector is low. The effect of the assumption of prepayment of savings and loans on differences in the duration to maturity and IRR is negligible.

The difference in internal rate of return (IRR) is 3.50%, compared to 0.44% in 2007. Excluding impact of presentation of investments in securities at fair value, the difference in internal rate of return would have been 2.39% in 2008, compared to -0.72% in 2007.

Term to maturity - The Bank’s cash flows by term to maturity, as detailed in Note 18 to the financial statements, differ in character between different linkage segments, according to the type of activity in each sector.

In the non-linked NIS-denominated sector, most of the activity, on both the sources side and the uses side, is concentrated in terms of up to one year. As of December 31, 2008, 89% of total liabilities are for this term (compared to 97% as of December 31, 2007), and 73% are for terms of up to 1 month (compared to 81% as of December 31, 2007).

In the CPI-linked sector, the main activity on the sources side was soliciting deposits. Most of the deposits are for ten-year periods, with the possibility of withdrawal at the end of two years. The Bank anticipates that these deposits will be withdrawn before the end of the period, although, according to the accounting guidelines, these balances are presented in the note based on the maximum period. The percentage of liabilities for terms above two years out of total liabilities rose from 69% at the end of 2007 to 70% at the end of 2008. The Bank fully recycled in 2008 all withdrawals from CPI-linked deposits into new deposits in a range of deposit available at the Bank, compared with 85% recycled in 2007.

In foreign currency, there are surplus long-term uses financed from short-term sources of up to one year. Past experience has shown that the short-term deposits are recycled regularly, constituting a basis for long-term uses in foreign currency.
Soliciting sources and Bank liquidity status - During 2008, there was an increase in the Bank's balance of deposits from the public. The balance of deposits from the public rose from NIS 75.3 billion on December 31, 2007 to NIS 91.8 billion on December 31, 2008, an increase of 21.9% (excluding initial consolidation of Bank Yahav - 7.3%) .
Excluding initial consolidation of Bank Yahav, the increase was in the non-linked NIS-denominated sector. The volume of public deposits in these sectors reached NIS 49 billion in the non-linked NIS sector and NIS 23 billion in the CPI-linked sector and NIS 20 million in the foreign currency sector, increases of 36%, 15% and 2%, respectively, compared with 2007. In 2008, there were no restrictions on the possibility of soliciting different types of deposits in the Bank.

Financial derivatives

The trading in financial derivatives is part of the Bank's management of assets and liabilities, and is subject to limitations prescribed by the Board of Directors. The Bank trades in these financial derivatives, both for its customers and for its own account, as part of the management of basis and interest exposure in the various linkage segments.
The Bank trades in financial derivatives in the foreign currency, non-linked Israeli currency and CPI-linked Israeli currency sectors.
The trading in financial derivatives is mainly conducted in the Bank's dealing room and is classified into three categories: hedging trades, trades for the purpose of asset and liability management (ALM) and other trades, as detailed in Note 1.N to the accompanying financial statements.
The Bank operates in credit derivatives in its nostro portfolio. In these operations, the Bank guarantees eligibility for payment in case of change in credit rating, failure to meet obligations or any other credit event related to counter-parties which are states or overseas banks. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee. The par value of these credit derivatives as of December 31, 2008 amounted to NIS 964 million, compared to NIS 692 million at the end of 2007.
The policy for managing the options portfolio is based on the "delta-neutral" strategy. The activities in options are subject to the quantitative limits prescribed by management, which include delta exposure (sensitivity of option price to change in price of the underlying asset), maximum VAR value for an investment of one day at an absolute level of 99% calculated by the Monte Carlo method and maximum losses under different scenarios. The VAR limitation for the Bank's option portfolio is calculated intraday every hour.
In 2007, the Bank launched as part of its risk management system an advanced module for review of VAR, sensitivity of option prices to changes in various parameters which determine its price (such as: price of underlying asset, standard deviation and interest rate), and the value of stress tests on the Bank's option portfolio. System VAR calculations are made hourly, intra-day. The Bank has started the process of expanding use of this module to its entire derivative operations.
The volume of transactions in financial derivatives according to the different categories is detailed in Note 19.E to the accompanying financial statements.

Operating risk

Basel I guidelines referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II guidelines explicitly define operating risk, and indicate the major factors which create operating risk (internal processes, people, systems and external events). Furthermore, the Basel II first layer includes capital requirements for operating risk. For details of the Basel guidelines, see the chapter on Legislation and Supervision of Bank Group Operations.

Operating failure events which occurred at financial institutions over the past 15 years, have increased legislator awareness and that of financial institutions to operating failure events and their main attributes, including:

A. Operating events may occur throughout the organization and are inherent to financial institution operations.

B. These events may result from an operating failure or may also be combined with other risk types, such as market risk or credit risk.

C. A significant share of operating failures has very low probability but relatively large damage potential.

The operating risk manager for the bank is the head of its Comptrollership, Planning & Operations Division.

In 2008, Bank policy with regard to operating risk and to business continuity of the Bank has been upgraded and adapted to requirements of Basel II and the Bank of Israel. The policy has been approved by the Bank Board of Directors.

As part of preparations for handling operating risk and for implementation of the Basel guidelines on this matter, the Bank has created a department which would collate and identify operating risks and loss / near-loss events from all Bank departments. In 2008, this department operated a portal for management of the Bank's operating risk, which serves as a major tool for analysis and reporting of the operating risk level at Bank business units. The department launched self-assessment processes at various Bank departments in 2008.

Another layer in the area of operating risk is that of internal audit, which acts independently. The Bank approach is that responsibility for operating risk management lies primarily with managers and staff of the different lines of business.

In 2007, the Bank completed operating reviews which mapped these risk elements for most Bank departments. These reviews are one of the major tools used in identifying operating risk in order to reduce it. In 2009, the process of introduction of survey results into the liquidity risk management portal will be completed.

Findings of these operating risk reviews, as well as reports of relevant events, are discussed by the Steering Committee on Operating Risk and Information Security, headed by a member of the Executive Management. The Bank is taking action to eliminate gaps as they are identified, and to improve control in order to ensure minimized operating risk. This is based on priorities derived from the risk severity and probability, and based on decisions by the Steering Committee. The Operating Risk Department closely monitors progress made on required improvements and reports to the Steering Committee.

Bank policy on operating risk stipulates that this is an organizational and cultural process. Hence, in 2008 the Bank conducted reviews in several Bank departments in order to set clear standards for, inter alia, collection of failure events, reporting by contact persons for operating risk, operation of computer systems for locating and identifying operating risk. Conducting these pilot studies would assist the Bank in increasing awareness of the need to handle operating risk and in establishing a cultural organization to support the required process as a result there of.

Data security

In accordance with Proper Conduct of Banking Businesses Regulation 357, the Bank appointed a Data Security Director, who reports to the Director of the Controllership, Planning and Operations Division. The data security unit, headed by the Data Security Director, is responsible for prescribing the Bank's data security policy, for developing data security software, and to follow-up its implementation in the Bank, examining the effectiveness of the data security system and dealing with exceptional data security events. Information security policy at the Bank is implemented, inter alia, by the Information Security Department of Mehish Computer Services Ltd., a wholly-owned subsidiary of the Bank. See also under chapter on IT above.

Legal risk

Proper Conduct of Banking Businesses Regulation 339 prescribes, inter alia, that banking corporations must take action to reduce the legal risk resulting from their various operations. According to the regulation, the legal risk is "the risk of a loss resulting from not having the possibility of legally enforcing an agreement".

Within the scope of the Bank's preparations to manage legal risk and comply with the regulation, a Legal Risk Manager was appointed, with the function of managing this risk and taking action to reduce them. As part of the risk management plan, the Bank analyzed the elements of the legal risk in its operations (such as: absence/existence of an agreement and possibility of its enforcement), the ranges of risk (type of agreement, identification of the other party, creation of security, etc.) and the specific risk characteristics of the different risk ranges, while examining the level of risk and exposure.

The Bank prescribed procedures that facilitate the minimizing of legal risk in operations and in the different units of the Bank. The procedures prescribe, inter alia, the interfaces between the legal counsel system of the Bank and its various units; specify the kinds of agreements that the Bank is permitted to sign and the procedures for their drafting; determining the manner in which the other side to an agreement is evaluated, including his authority to act on behalf whoever is acting on behalf of others; and define the manner in which the collateral is to be obtained and recorded. Also specified was the share of the legal system in preparation of the Bank's internal procedures and in preparing the resultant documents and forms.

The legal system of the Bank regularly monitors developments in legislation, regulation and rulings, which could have implications for the day-to-day activities of the Bank's units. The Bank acts to minimize the risk based on these developments and according to their implications. Likewise, the legal system prepares, as needed, the updates needed in uniform agreements used by the Bank, for all the framework agreements to which the Bank is a party and in legal opinions that constitute a basis for the undertakings.

The Bank's IT systems support the management of legal risk, inter alia, through the production of computerized standard legal documents and following-up on the receipt of collateral. Likewise, the Bank uses specialized IT systems to monitor the statutory registration of certain collateral.

The principles of procedures binding on Bank departments in Israel with regard to legal engagements, are also binding on Bank branches overseas, with these branches making use of services of local external attorneys vetted by the Legal department in Israel. In addition, the Bank set specific guidelines for each branch which are in line with the unique terms and risk facing that branch.

Compliance

The complexity and development of banking activity requires the Bank to adhere strictly to fulfilling the range of obligations imposed on it in its business ties with its customers, by virtue of the regulations applicable to a banking corporation.
Proper Conduct of Banking Business Regulations No. 308, published on January 17, 2002, requires banking corporations to appoint a Compliance Officer as part of actions taken by them to comply with consumer directives which apply to bank relationships with its customers and to compliance with provisions of the Money Laundering Prohibition Act, and as part of risk management by the Bank. This is done in order to reduce the probability of violation of laws and regulations and lead to early discovery of such violations, and to reduce the Bank's exposure to claims, damage to its reputation and damages that it could sustain as a result of these.
Within the scope of the Group's preparations for compliance with the Proper Conduct of Banking Businesses Regulation 308, a Compliance Unit commenced operation in 2002, led by a Compliance Officer who is also responsible for implementing the Prohibition on Money Laundering Law 2000 and the Prohibition on Financing Terrorism Law, 2005, as discussed below. Additionally, a committee was appointed to assist the Compliance Unit in fulfilling its obligations.
The Compliance Unit updates, as needed, the requirements for eliminating gaps, if any, in accordance with current law and monitors processing of these requirements, including procedure adaptation and training delivered to integrate the instructions and changes in the IT systems. The objective being to ensure Bank compliance with current provisions.
Within this framework, the Bank launched in December 2007 new courseware, "The Bank and the Consumer - Consumer Regulations", with the objective of increasing employee awareness and expanding their knowledge in this area. All branch and business-center employees at the Bank are required to undergo a test as part of this courseware.
In 2008, execution of an infrastructure survey (this is the second survey conducted in accordance with Proper Conduct of Banking Business Directive no. 308), which would map retail provisions, review procedures, IT systems and appropriate controls in the Bank's different work processes, identify risk of deviation from instructions, and specify the controls and requirements necessary to complete processing of the gaps identified. Furthermore, the Bank closely monitors new legislation, including Bank of Israel directives and court verdicts published from time to time, to review Bank compliance with applicable provisions.
Bank procedures stipulate that upon initiating or updating any product, service or banking activity, the initiator should refer to applicable laws and consumer regulations, and should ensure that consumer regulations are incorporated as work orders in the procedures resulting from this initiative.

Prohibition on money laundering and financing of terrorism

The Prohibition on Money Laundering Law 2000 and the Prohibition on Financing Terrorism Law, 2005, and the laws promulgated there under impose obligations on banks to identify customers, record their particulars and report on certain activities carried out through the banking corporation. For further details, see chapter on Legislation and Supervision of Bank Group Operations.
As part of the Bank's preparations to implement the provisions of Proper Conduct of Banking Business Regulation 411 - Preventing Money Laundering, Financing of Terrorism and Identification of Customers, the Bank's Executive Management and Board of Directors approved the Bank's policy regarding customers at risk. Within this framework, the basic list included in the regulation was expanded, and additional tests were added for accounts at risk, which will be subject to special oversight.

During 2008, the Bank continued the activities required to apply the legislative provisions regarding the prohibition on money laundering, including: the update and integration of procedures in the different units and preparation of improvements in the IT systems. As part of these activities, the special computer system launched in 2007 was implemented and improved. The system aids in collecting subjective reports required pursuant to the Money Laundering Prohibition Ordinance, in assembling data required in that regard, and in monitoring and control of the processing of such reports.
Moreover, employees were given training and the educational material related to the prohibition on money laundering and the related tests. The action taken conveyed led to increased awareness of the subject and consequently - to an increase in the number of reports sent to those responsible for implementing the Law in the Bank.

Control of Risk

Until 2006, the control of risk was carried out by several units. During 2006, the Bank established a Risk Control Unit, which constitutes part of the Controllership, Planning and Operations Division. The Unit consolidates all of the units responsible for controls in the different areas of activity in the Bank will be consolidated in the Department, with clear segregation between the units engaged in the business activities.
Credit risk is controlled via ongoing evaluation of the risk level of Bank customers (loan review) in order to estimate credit quality and in accordance with Proper Banking Conduct Regulation No. 319. Control also takes place for credit at overseas branches. Control activities are gradually being adapted to Basel II requirements.
Market risk and liquidity risk are controlled inter alia, through the examination and evaluation of the models used to measure the risk, the data base used in these models and the extent to which the actual activities conform to the exposure principles and limitations approved by the Board of Directors and Executive Management. The Risk Monitoring Forum, headed by the Director of the Comptrollership, Planning & Operations Division, meets monthly to discuss issues related to the control of risk and the methodologies for measuring risk. Control includes back testing of models used to calculate exposure.
Operating risk management and control is taking action to implement Bank policy concerning operating risk, in accordance with guidelines of Basel II and Bank of Israel.
Day-to-day control is used for exposure from customer trading in the capital markets, on the customers' compliance with the facilities and limitations prescribed for their activities in the Bank.
The dealing room operations are also controlled, including testing of compliance with various limitations prescribed by the Board of Directors and Executive Management and testing of exceptional trades.

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. A mapping of the risk factors and their impact on the Bank Group are presented below:

Risk factor	Impact of the risk factor
Overall effect of credit risk	Intermediate
Risk from quality of borrowers and collateral	Intermediate
Risk from industry concentration	Intermediate
Risk from concentration of borrowers/ borrower groups	Intermediate
Overall effect of market risk	Low
Interest risk	Low
Inflation risk	Low
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Low
Operating risk	Low
Legal risk	Low
Reputation Risk(1)	Low

(1) The risk of impairment of the Bank's results due to negative reports about the Bank.

Description of methodology used by the Bank to estimate impact of different risk:

Market risk

The effect of the risk was measured using VAR values for each risk, with respect to the VAR value limit determined by the Board of Directors.

The Bank's Board of Directors prescribed the VAR limit in order to prevent the creation of high market risk. Therefore, it was prescribed that risk with VAR value equal to or higher than the Board of Directors' limitation has strong effect. Risk with VAR value equal to or higher than 70% of the Board of Directors' limitation has intermediate effect and the risk with VAR value below this is considered having a low effect.

Other risk

The degree of influence of credit risk, liquidity risk, operational risk, legal risk and goodwill risk - were determined based on management's assessments, as performed from time to time.

Management's assessments were made, inter alia, based on the assumption that credit risk and operational risk are always considered more significant than market risk, from a statistical standpoint.

Social involvement and charitable donation

As a business organization whose activities and achievements depend on the community in which it operates, the Bank sees itself as obligated to show involvement and to support all facets of the community's needs. The Bank's Executive Management believes that giving of itself in this manner, not only contributes to the community, but expresses the spirit and character of the Bank, contributes to creating an atmosphere of commitment, "pride in the unit" and identification among the workers and managers, and eventually also makes its mark on the business accomplishments.

The Bank emphasizes a focused social area **"Advancing and Nurturing Disadvantaged Children and Youth in Crisis"** and channeled to it most of the charitable donations and volunteer activities of the Bank and its employees.

The Bank is working to realize social policy in a manner that expresses its strength, involves the Bank's employees in active volunteerism and leverages its physical, financial and human abilities and resources by means of **"Mizrahi-Tefahot in the Community".**

This social brand is intended to differentiate the social activities of the Bank and to create identification among the Bank's employees and managers. The focused communal activities are carried out with the maximum collaboration of its employees and managers, geographic diffusion and dispersal of activities, while utilizing the Bank's dispersal, the existence of extensive partnerships with communal organizations throughout the country, and intensified intra-organizational and extra-organizational community involvement.

The Bank has significantly increased budgeted funds for community activities, and in addition to focusing on a specific social issue, has launched a continuous, structured process of including all Bank employees in community activity initiated by the Bank and in community projects supported by the Bank. Consequently, contributions to the community became a central and important goal on the agenda of the Bank's employees, while management is providing incentives and encouragement to employees to take part in these activities. Results are truly evident in the field, as evidenced by the warm response both from community elements at which these activities are directed and from the employees.

Within the scope of the Bank's community program, activities are conducted at every location where the Bank has a business presence, while maintaining a broad partnership with local social and communal organizations.

More than 100 of the Bank's branches have forged ties with different social organizations and institutions working on behalf of disadvantaged children and youth at risk, in communities in which branches are located. “Adoption” of these organizations is reflected by volunteer work by branch and headquarters staff, assistance and mentoring while providing assistance to the populations they treat, and providing financial assistance - Bank donations for purchase of products to benefit the children and youth.

The range of "Mizrahi Tefahot in the Community" activities includes projects on Jewish holidays and assistance provided to underprivileged populations routinely, as well as in times of crisis.

Additionally, during 2007-2008, unique ventures - various lateral projects were carried out related to conveying life-skills to children and youth, in order to assist them in making a future for themselves and establishing a better life, and in assisting the population of special-needs children. For example: A joint venture with Heart Wish - a project in which we have realizes dreams of chronically-ill children; a project with ELEM, which supports at-risk youth in order to improve effective communications skills etc.

Within the scope of the Bank's activities, an educational package "Financial" was prepared, to train youth in financial areas and is moderated by employees of the Bank who volunteer in schools and social organizations. Currently the Bank is in the process of a unique endeavor to "translate" this package into Sign Language in order to make it accessible by the deaf and hard-of-hearing community in Israel. Furthermore, an extensive support plan was formulated for the Sderot community of Ethiopian immigrants, which is implemented in cooperation with local community bodies. Recently a new, updated version of the unique information guide, "Added Value", listing community and environmentally-friendly products produced in community organizations by people with special needs, and by organizations which promote and distribute green products in support of the environment. This is aimed at assisting these organizations in gaining exposure for their products and in selling them. The bank is promoting an organizational culture which encourages purchasing of gift items from the “Added Value” catalog for various Bank-managed events.

In order to expand the range of partners in these activities as much as possible, the Bank initiates projects to add additional stakeholders - employees and their families - via projects like “Children for Children” and “Tour de TROM”; customers - continuation of a project to include Bank customers in the designation of charitable donations to social organizations focused on helping children and youth, to whom the Bank provides support for social ventures.

The activities of **"Mizrahi-Tefahot in the Community"** are succeeding in significantly advancing many social segments and areas, while enabling the Bank's employees a broad cushion for self expression and emotional empowerment.

The Bank intends to significantly expand during 2009 its activity in the field via branches and Head Office units that have not yet forged ties with suitable organizations in the community, and to intensify activities with organizations already adopted by the Bank.

Several new ventures will be carried out in cooperation with different social organizations, such as: The Israel Cancer Society, the Adopt-a-Class project, ETGARIM and continuation of the "I Can Too" project in cooperation with the Ministry of Education, in which students assist in providing technological solutions for various disabilities.

In 2008, the Bank Group allocated NIS 3.2 million to social involvement and charitable donation, compared to NIS 3.1 million in 2007. In addition, Bank employees and managers invested in 2008 over 25,000 hours (in 2007 - 24,000 hours) in community work on different projects.

Disclosure concerning the Internal Auditor

Details of the Internal Auditor

Below is information on the Chief Internal Auditor of the Mizrahi Bank Group:

Name	Haim Git
Start of term in office	February 1999
Education	Certified Public Accountant; BA in Accounting (Tel-Aviv University), Accountancy Certificate (Hebrew University)
Experience	Chief Internal Auditor - responsible for auditing with the Supervisor of Banks at the Bank of Israel. Deputy Chief Internal Auditor in Mizrahi Bank.

Pursuant to provisions of Section 146(B) of the Corporations Act, 1999 - the Internal Auditor is not an interested party of the corporation, an officer or relative there of.

Pursuant to provisions of Section 8 of the Internal Audit Act, 1992, the Internal Auditor holds no other position in addition to his position as Chief Internal Auditor, other than as Ombudsman and as Internal Auditor of Bank Yahav (starting in August 2008) and of Bank Adanim (starting in July 2008). Furthermore, the Bank's Internal Auditor holds no position outside of the Bank which creates or may create conflict of interest with his position as Internal Auditor.

Pursuant to Section 8 of Banking Regulations (Internal Audit), 1992 audit staff is only appointed with consent of the Internal Auditor. Audit staff act on behalf of the Internal Auditor for the purpose of internal audit, and are only instructed on audit-related matters by the Internal Auditor. Internal audit staff do not hold other positions with the banking corporation in addition to internal audit, other than as Ombudsman. Internal audit staff may only sign on behalf of the banking corporation documents related to audit work. Internal audit employees are terminated with due process and consent of the Internal Auditor.

The Internal Auditor holds 26,000 options to purchase 26,000 ordinary Bank shares of NIS 0.1 par value, allotted to the Internal Auditor on July 19, 2005 in conjunction with an employee stock option plan approved by the Bank Board of Directors on February 27, 2005. See Note 16.A.2)a) to the financial statements for further details. Furthermore, on July 8, 2008, 256,000 option warrants were allotted to a trustee, on behalf of the Internal Auditor, in conjunction with the stock option plan approved by the Bank Board of Directors on May 19, 2008. See Note 16.A.2)b) to the financial statements for further details.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of his work.

The Internal Auditor is a full-time employee of the Bank.

Appointment

In February 1999, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditors experience and educational qualifications.

Identity of the Internal Auditor's Supervisor

The official in the organization responsible for the Internal Auditor is the Chairman of the Board of Directors.

Internal Audit work plan

Internal Audit work is based on a multi-annual audit plan focused on risk for a 4-year period from which an annual work plan is derived.

Considerations in determining the multi-annual audit plan

- Mapping of activities carried out by different Bank departments according to organizational structure, assignment of potential risk to each activity and setting audit frequency in line with the risk (relating separately to audit frequency at branches, headquarter departments and subsidiaries).
- Surveys of risk centers for embezzlement and fraud carried out in the Bank.
- Survey of risk of the IT system performed by the auditing group.
- Findings of the last survey of controls in the supplementary detailed report of the independent auditor.
- Regulatory requirements arising from directives of the Supervisor of Banks.
- Current audit reports of the Bank of Israel.
- Findings in audit reports of the auditing group.
- Decisions of the audit committee and requests of the Bank's President.

The multi-annual work plan is compiled by the Internal Auditor and brought up for discussion by the Board of Directors' Audit Committee. Concurrently, the plan is submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Chairman of the Board of Directors.

Considerations in determining the annual audit plan

In addition to the aforementioned considerations, used as basis for determining the multi-annual audit plan from which the annual audit plan is derived, the annual work plan includes additional special tests required of Internal Audit by request of the Audit Committee and the President.

Changes to the work plan are made by the Internal Auditor as needed, in coordination with the Chairman of the Audit Committee and/or the Board of Directors' Audit Committee.

Similar to the multi-annual audit plan, the annual audit plan is also compiled by the Internal Auditor and brought for discussion by the Board's Audit Committee. Concurrently, the plan is submitted to the President. After the Board's Audit Committee recommends approval of the plan, the plan is submitted for approval by the Chairman of the Board of Directors.

As for review of material transactions during the reported period by the Internal Auditor, note that the Internal Auditor has not reviewed the transaction to acquire Bank Yahav and the transaction to merge Bank Adanim.

Overseas audits or audits of held corporations

The Bank's Internal Auditor includes in the annual and multi-annual audit program the active corporations held by the Bank, during his tenure as their internal auditor, except for Bank Mizrahi Switzerland, which had its own internal auditor during the reported period. With respect to this company, the Internal Auditor verifies on a regular basis that there is proper internal auditing as required by the banking regulations.

Scope of employment of the Internal Auditor and their staff

The Internal Auditor is a full-time employee of the Bank.

The average number of positions for employees reporting to the Internal Auditor in 2008, including internal auditors of subsidiaries and overseas branches is as follows:

In Israel		Outside of Israel
Employees engaged in Internal Audit	Employees engaged in Ombud sman activities	Employees engaged in Internal Audit
(1)41.8	6	(2)1.5

(1) Includes 2 internal audit employees as well as assistance of external resource, at 0.8 of a full time position at Bank Adanim. In addition, Internal Audit at Bank Mizrahi-Tefahot used outsourced services equivalent to 2.5 full time positions.

(2) Includes use of external resources at Mizrahi Switzerland and at the Los Angeles branch.

In August 2008, the Chief Internal Auditor was appointed as Internal Auditor of Bank Yahav, as well. To this end, 3 additional positions were authorized for Internal Audit - for the purpose of conducting audits at Bank Yahav. Internal Audit is acting to complete recruitment of the aforementioned employees.

Conducting audits

The Internal Auditor performs the audit based on the generally accepted professional standards.

- Various legal requirements, including provisions of the Internal Audit Act, 1992, Banking Regulations (Internal Audit), 1992 and regulatory authorities' instructions relevant to the audited area, including guidelines and directives of the Supervisor of Banks.
- Standards for Professional Engagement in Internal Audit of the Institute of Internal Auditors in Israel.

  The Board of Directors and the Audit Committee believe that audit is conducted in accordance with the aforementioned professional standards so as to achieve the objectives of the internal audit.

Access to information

The Internal Auditor received complete access to all the information he needed, as stated in Section 9 of the Internal Audit Law, 1992, including constant and direct access to the Bank's IT systems, including financial data.

Note that in conducting audits of subsidiaries and overseas operations, auditors are also given full access as stated above.

Submitting report on Auditor's findings

The Auditor regularly sends every audit report to the Chairman of the Board of Directors, the chairman of the audit committee, the President and head of the internal audit unit. Audit reports are submitted in writing. Once a quarter, the Auditor files a summary of all the reports distributed during the quarter as part of the reporting to the audit committee members.

All of the reports are discussed in a forum including the division manager and/or official in-charge of the audited unit or activity. The significant reports, at the request of the President or the Chief Internal Auditor, are discussed in a forum headed by the President or the Bank's Executive Management.

The chairman of the audit committee sits, in consultation with the Internal Auditor, and after the Chairman of the Board is informed, determines which internal audit reports are significant, to be brought for discussion before the audit committee.

In accordance with Section 6(B)(2) of the Banking Rules (Internal Audit), 1992, a semi-annual list was distributed on July 24, 2008, within the framework of the report on performance of the work plan for the audit for the first half of 2008. The report was presented at the meeting of the audit committee held on July 31, 2008. The annual summary report of the internal audit work for 2008 was submitted to members of the Audit Committee on February 11, 2009. The report was discussed at the meeting of the audit committee held on March 2, 2009. The other major reports were discussed during the year, at the monthly meetings of the audit committee.

Assessment of Internal Auditor's activities

The Board of Directors and the Audit Committee believe that the scope, nature, continuity of the activity and the work plan of the Internal Auditor are meant to realize the objectives of internal auditing.

Compensation of the Internal Auditor

For details of compensation and payments to the Internal Auditor, see under the chapter on Remuneration of Senior Officers.

The Board of Directors believes that the size of compensation provided to the Internal Auditor should not influence his judgment with respect to his work.

Accounting Policy on Critical Matters

The consolidated financial statements of the Group are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of the financial statements of a banking entity. The significant accounting policies are detailed in Note 1 to the financial statements.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

Provided below are accounting policies on critical matters:

Specific provision for doubtful debts, except on housing loans, is based on a specific evaluation of the quality of the loans, while relating to a range of factors having influence, and also through an automatic mechanism that scans the Bank's credit portfolio and indicates problem loans according to set parameters, for the purpose of a specific examination. The problem loans were classified and the provisions determined according to a ranking of authorities of various managers in the Group, based on the following criteria: the risk related to the loan portfolio, the scope and quality of information on the borrower held by management, his business activities, how he has fulfilled his obligations and the value of the collateral that he furnished. The actual losses could turn out to be different than the specific provisions made.
On December 31, 2007, the Supervisor of Banks issued a circular on "Measuring and Disclosure of Impaired Debts, Credit Risk and Provision for Credit Loss". According to this circular, the Bank will implement, as of January 1, 2010, new directives with regard to impaired debts. Implementation of this directive would cause a change in estimate and recording of specific provision for doubtful debts. For further information on the new directives, see Note 1.X. to the financial statements.

Provision for doubtful debts according to length of arrears, which is calculated for housing loans in accordance with the guidelines of the Supervisor of Banks, whereby provision coefficients are determined based on the length of arrears in the repayment of the loan. The length of the arrears in repayment of a loan is an objective element of data, although the provision coefficients are prescribed by the Supervisor of Banks. A change in the coefficients or allocating them to other lengths of arrears, could cause a change in the amount of the provision for doubtful accounts. Likewise, the actual losses could turn out to be different from the provision made based on the length of arrears.

Supplementary provision for doubtful debts is computed in accordance with a formula prescribed by the Supervisor of Banks, and according to the classifications of problem loans that were determined at the discretion of the various managers, based on procedures prescribed on the matter, and additional principles that were prescribed in the Proper Banking Conduct Regulations. A change in the method of classifying debts and modifying the coefficients could cause a change in the level of the required provision. It should be noted that the supplementary provision is not recognized for tax purposes, so that its effect on net profit is the full amount of the provision.
For details of balance and movement of provision for doubtful debts in 2008, see Note 4.C. to the financial statements.

Financial derivatives are treated and presented in accordance with the public reporting guidelines of the Supervisor of Bank, which are based on the American Standards FAS 133, FAS 149 and FAS 155. According to the guidelines, all derivatives are stated in the balance sheet at fair value. The fair value of the derivatives is determined according to quoted market prices in active markets, or according to acceptable economic models, which include assumptions and variables that are evaluated regularly to adapt them to current market conditions. In accordance with directives of the Supervisor of Banks, the Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms. A change in the economic assumptions and variables will lead to a change in the fair value of the derivatives.

Securities in the portfolio held for trading and in the portfolio of available for sale securities are stated at fair value, in accordance with the public reporting guidelines of the Supervisor of Banks. The fair value of the securities is determined based on quoted market prices in active markets for the securities or for securities with similar terms, i.e. stock market price, quotes from recognized data services, such as Bloomberg, or quotes from banks acceptable to the Bank. As set forth above, in accordance with directives of the Supervisor of Banks, the Bank uses internal models for reviewing the fair value of financial instruments for which there is no quote on a stock exchange, and does not rely entirely on prices obtained from counter-parties or from quoting firms. The fair value calculation was validated by the Risk Control Division at the Bank, which does not participate in the fair value calculation process, assisted by an external professional consultant specialized in models for calculating fair value of financial instruments. Validation is conducted by reviewing the model assumptions and parameters; reviewing the model methodology and the application thereof; and independently reviewing the model in comparison with other models, in as much as possible.

Below is the fair value of financial assets and liabilities reported in the financial statements at fair value, with a distinction between assets and liabilities whose fair value is determined by a price quote on an active market, and those whose fair value is determined using other methods:

	Fair value determined by price quote on active market	Other
Securities:		
Debentures held for sale	7,598	841
Stocks held for sale	281	99
Debentures held for trading	440	-
Derivatives:		
Derivatives with positive fair value balance (assets)	3,270	115
Derivatives with negative fair value balance (liabilities)	3,187	112
Total	14,776	1,167

Liabilities for employee rights are computed according to actuarial models, based on the discount rates prescribed by the Supervisor of Banks. The actuarial models include assumptions related to the mortality tables, disability rates, departure rates and wage hike rates. A change in any of the parameters could lead to a change in the amount of the Bank's liabilities for employee rights. Pursuant to the Supervisor of Banks' directive, the discount rate used in actuarial calculation for retired employees choosing a pension is 4%. For each 0.25% increase / decrease in the discount rate, the actuarial liability would decrease / increase by NIS 5 million.

The financial statements include the benefit value of the stock option plan for Bank managers, estimated using the Black & Scholes model based on various assumptions, mainly with regard to expected exercise date of the options and standard deviation of Bank share price. Changes in the price of the Bank's share, the standard deviation for the Bank's share and other factors which could affect the economic value of the benefit.

The benefit value in Bank accounts is allocated over the term in which Bank management assumed the options would be granted. For further details, see Note 1.M to the financial statements.

Provisions for legal claims are determined according to management's assessments, based on the opinions of legal counsel. Among the legal claims are also motions for class actions. The provision was made for claims from which, in the opinion of management, a loss is expected, and is based on estimates of the loss, using information in the hands of management of the companies in the Group. No provision is recorded in the financial statements for claims as to which sustaining a loss is unlikely, or the prospects of a loss are remote.
Actual outcomes of these lawsuits may differ from the aforementioned management estimates, used for making provision for loss and their impact on financial statements may be material.
Provision for impairment of non-financial assets is made in accordance with Accounting Standard No. 15 "Impairment of Assets". Provision for impairment, if needed, is based on assessor valuations updated by the assessor as required.
The Bank balance sheet as of December 31, 2008 includes a provision for impairment amounting to NIS 13 million.

Provision for impairment of non-financial assets is made in accordance with Accounting Standard no. 15 "Asset Impairment". The impairment provision, if required, is based on valuations prepared and updated by an assessor as required.
The Bank balance sheet as of December 31, 2008 includes a provision for impairment amounting to NIS 13 million.

Deferred taxes are calculated for temporary differences between revenues and expenses included on the financial statements and amounts accounted for tax purposes. In cases where the revenue or expense recognition date for tax purposes is later than the date of recording the revenue or expense in Bank accounts, the deferred tax balances are calculated using the expected tax rates upon recognition of the expense or revenue for tax purposes, as known soon prior to the approval date of the financial statements.
Deferred tax benefits are recorded for temporary differences expected to generate a tax benefit on the date of reversal.
As set forth in Note 28 to the financial statements, the Bank's balance sheet as of December 31, 2008 includes net deferred taxes amounting to NIS 224 million. An increase of 1% in tax rates would cause a decrease of NIS 6 million in the provision for taxes.

Critical estimates

The financial statements as of December 31, 2008 include critical estimates with regard to impairment of a non-temporary nature of several investments in securities, with a total original investment cost of 105$ million (NIS 399 million). For the purpose of estimating the aforementioned impairment, the fair value of these investments was calculated using an internal model based on a methodology for assessment of the quality of collateralized debts, as well as on objective data, if available. In accordance with directives of the Supervisor of Banks, the fair value calculation is validated by an independent professional appointed for this purpose by the Bank. It is assumed that impairment compared to deviation of the original investment is not of a temporary nature, primarily in view of the significant decrease, the duration in which the quoted value has not increased, and the erosion of investments' safety cushions. The value of these investments in financial statements for December 31, 2008 is 18$ million (NIS 69 million).

The actual value of these investments may turn out in the future to be materially different from the aforementioned estimate. The extent of impact on future financial statements may range from recording of a further expense amounting to 18$ million (NIS 69 million), should it emerge that the investment value continued to decline, to recording a further revenue amounting to 87$ million (NIS 330 million) should it turn out that the full impairment was temporary.

Certification process of the financial statements

The organ in charge of audit supervision at the bank is its Board of Directors. Board members' names, accounting and financial skills and professional qualifications are set forth in the Board of Directors' report below. The processes of compiling, auditing and approving the financial statements involve additional organs and officers as set forth below.

Bank financial statements are compiled by a professional department, headed by the Chief Accountant, pursuant to the disclosure policy set by the Bank's Board of Directors.

Concurrently with compiling the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation of lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal audit of financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of bank executives, see the chapter on Bank Management below. The bank operates a Doubtful Debts Committee, headed by the manager of the Business Division, and attended by professional credit officers, as well as a doubtful debts committee headed by the President and attended by the manager of the Business Division, manager of the Retail Division, manager of the Financial Division, the Chief Accountant and the Chief Legal Counsel. In conjunction with preparation of the financial statements, the committee reviews the state of problem loans of the bank, their classification and provisions required there for. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required in respect of claims filed against the bank.

Matters of principal with regard to disclosure in the financial statements are discussed by the Financial Statements Disclosure Committee ("the Disclosure Committee") headed by the President and including the Chief Accountant, Chief Legal Counsel and other members of the Executive Management. These discussions include issues with material impact on the financial statements, issues of interest to the public, developments requiring disclosure to the public, material changes to application of accounting policy, requests or demands by regulatory authorities and issues on which Bank management and the auditing CPA differ. As part of presentation of these issues to the Disclosure Committee, the independent CPA's professional comments are also presented.

In order to improve efficiency of supervision and control of disclosure in financial statements, the bank's Board of Directors has established the Board Balance Sheet Committee, a restricted committee with 5 Board members, which is tasked with discussion and deliberation of proper disclosure in financial statements and with review of the financial statements in their entirety before they are submitted for discussion and approval by the Board of Directors plenum. For details of the committee members and their accounting and financial skills, see the Board of Directors' report below. Meetings of the balance sheet committee are also attended by the Chief Accountant and the by the independent CPA.

The Balance Sheet Committee reviews recommendations of the Disclosure Committee with regard to application of the disclosure policy, determines the required disclosure in public reports, and discusses recommendations of the Doubtful Debts Committee with regard to classification of problem loans, provisions there for and recommended provisions for claims. The Balance Sheet Committee also focuses on any material issue and any disclosure in the financial statements whose presentation allows for exercise of judgment, estimates or assessments.

Pursuant to directives of the Supervisor of Banks on implementation of provisions of Sections 302 and 404 of the US Sarbanes-Oxley Act, the Balance Sheet Committee receives a report on any significant fault discovered in the disclosure processes or in internal control of financial statements. Any such faults as well as any findings by the independent CPA are also presented to the Board Audit Committee. These discussions are also attended by the Internal Auditor and the independent CPAs. Any report of significant faults is also presented to the Board of Directors.

After discussions are held and recommendations are reached by the Board Balance Sheet Committee, the financial statements are submitted for discussion and approval by the Board of Directors plenum. In conjunction with discussion at the Board of Directors, the Chief Accountant presents the financial results and analysis thereof, and recommendations of the Balance Sheet Committee as for approval of the financial statements are presented. The independent CPAs participate in the discussion and present their comments.

Independent Auditor’s report

The Independent Auditor drew attention in the Auditors' Opinion to the following:

See Note 19.D)12)a-f to the financial statements regarding claims filed against the Bank and motions for their recognition as class actions including in the matter of insurance.

With regard to re-statement of date for the household and financial management operating segments for the year ended December 31, 2006 as set forth in Note 31 to the financial statements.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on the US Sarbanes-Oxley Act, the President and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification"). This directive of the Supervisor of Banks is applied starting with financial statements as of June 30, 2005.

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the public reporting directives of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The certification also refers to setting of internal control of financial reporting intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are compiled in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.

At the end of the period covered by this Report, the Bank's management, together with the Presidents and Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the President and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the annual report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

During the quarter ended December 31, 2008, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

In accordance with the directive by the Supervisor of Banks with regard to adoption of provisions of Section 404 of the Sarbanes-Oxley Act, starting with financial statements as of December 31, 2008, this report includes a declaration concerning the responsibility of management and the Board of Directors for setting and maintaining proper internal control of financial reporting and management's assessment of the effectiveness of internal control of financial reporting as of the date of the financial statements. Concurrently, the opinion of the Bank's independent auditors with regard to appropriateness of the Bank's internal control of financial reporting in accordance with the applicable standards of the Public Company Accounting Oversight Board (PCAOB) is also provided.

The Code of Ethics

On November 24, 2008 the Bank Board of Directors approved the values of the Code of Ethics which is binding on the organization as a whole and on each employee and manger individually.

Quote from the Code of Ethics:

"We at Mizrahi-Tefahot commit to maintain all of our relationships: With customers, co-workers and the organization itself, on the basis of moral and humanitarian values accepted in proper society. Reliability, loyalty and safeguarding of human dignity shall endow all our contacts with our environment, based on a world perception which determines that personal and professional relationships would only be sustainable if it is based on a moral foundation of the highest degree. We shall execute the tasks assigned to us out of commitment to our customers and their business along with commitment to the Bank and its objectives, and shall constantly strive for excellence. We shall conduct all our activities with professional integrity, fairness and transparency."

The Bank established an Ethics Committee, consisting of representatives from headquarter units and branches. The committee shall accompany the deployment process of the Code of Ethics, which commenced in the first quarter and is to be completed by the end of 2009.

Executive Management

Bank's Executive Management team:		
Eliezer Yones	President	
Menahem Aviv	Vice-President	Manager, Accounting & Financial Reporting Sector and Chief Accountant
Israel Engel	Vice-President	Manager, Retail Division
Ofer Argov(1)	Vice-President	Controllership, Planning and Operations Division Manager and Operational Risks Manager
Shimon Gal	Vice-President	Manager, Corporate Banking Division and Credit Risk Manager
Na'ama Gat	Vice-President	Manager, Marketing, Promotion and Business Development
Eldad Fresher	Vice-President	Manager, Finance Division - CFO and Market Risk Manager
Sammy Keinan	Vice-President	Manager, Customer Assets and Consultancy Division and Manager, Information Technology
Rita Rubinstein	Vice-President	Manager, Human Resources and Administration Division
Haim Git		Chief Internal Auditor
Dr. Shimon Weiss		Chief Legal Advisor and Legal Risk Manager
Maya Feller		Corporate Secretary
Benny Shoukroun		Bank Spokesman

(1) On July 21, 2008, the bank Board of Directors confirmed appointment of Mr. Ofer Argov as Manager, Comptrollership, Planning and Operations Division starting on November 1, 2008.

Senior Officers

Below are details of senior officers who are not members of the Bank's Board of Directors:

Eliezer Yones	
Start of term in office	April 1, 2004
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	President
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Economics and Sociology - Hebrew University, Jerusalem; MA in Business Administration - Hebrew University, Jerusalem
Business experience (in past 5 years)	Consultant, CEO of Bank Hapoalim

Menahem Aviv	
Start of term in office	April 13, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Accounting & Financial Reporting Sector and Chief Accountant
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics - Tel Aviv University; MBA - Tel Aviv University; CPA
Business experience (in past 5 years)	Manager, Accounting and Financial Reporting Division - Bank Mizrahi-Tefahot Ltd.

Israel Engel	
Start of term in office	January 1, 2005
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Retail Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting and Economics - Bar Ilan University; MBA (Finance) - Bar Ilan University; CPA
Business experience (in past 5 years)	Vice-president and Manager, Financial Division, Bank Tefahot CEO of Bank Tefahot and Manager, Financial Division and Manager, Retail Division at Bank Mizrahi-Tefahot

Senior Officers (continued)

Ofer Argov	
Start of term in office	November 1, 2008
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Controllership, Planning and Operations Division Manager and Operational Risks Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	Undergraduate degree in Economics and Political Science, Tel Aviv University; Graduate degree in Business Administration, Tel Aviv University
Business experience (in past 5 years)	CFO at Hogla-Kimberley, Co-President of Orbotech Europe.

Haim Git	
Start of term in office	February 1, 1999
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Internal Auditor Manager, Internal Audit Department
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Accounting - Tel Aviv University; Accounting Diploma - Hebrew University, Jerusalem; CPA
Business experience (in past 5 years)	Chief Internal Auditor, Bank Mizrahi-Tefahot Ltd.

Shimon Gal	
Start of term in office	May 2, 2004
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Corporate Banking Division and Credit Risk Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Economics and Statistics - Hebrew University, Jerusalem
Business experience (in past 5 years)	Manager, Comptrollership, Planning and Operations Division at Bank Mizrahi-Tefahot

Na'ama Gat	
Start of term in office	October 10, 2004
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Marketing, Promotion and Business Development
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Psychology and English Literature - Haifa University; MA in Advertising and Marketing - Marquette University, Milwaukee, USA
Business experience (in past 5 years)	Manager, Business Unit, Strauss-Elite

Senior Officers (continued)

Shimon Weiss	
Start of term in office	October 2, 1999
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Chief Legal Counsel Legal risk manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	LL.B. - Hebrew University, Jerusalem; LL.M. - Hebrew University, Jerusalem; Dr.Jur. - Hebrew University, Jerusalem; MBA - Tel Aviv University
Business experience (in past 5 years)	Chief Legal Counsel, Bank Mizrahi-Tefahot Ltd.

Dov Fogel	
Start of term in office	May 18, 1997
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Logistics, Administration and Efficiency Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Business Administration - New England College; MBA, specialization in Strategic Management - Hebrew University, Jerusalem
Business experience (in past 5 years)	Manager, Logistics, Administration and Efficiency Division with the Bank

Maya Feller	
Start of term in office	April 20, 1997
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Corporate Secretary
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Humanities - Tel Aviv University
Business experience (in past 5 years)	Corporate Secretary

Eldad Fresher	
Start of term in office	November 3, 2004
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Finance Division - CFO and Market Risk Manager
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Business Administration - Hebrew University, Jerusalem; MBA - Hebrew University, Jerusalem
Business experience (in past 5 years)	Deputy Comptroller-General with the Ministry of Finance; Senior Deputy Comptroller-General with the Ministry of Finance

Senior Officers (continued)

Sammy Keinan	
Start of term in office	November 1, 2007
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Customer Assets and Consultancy Division and Manager, Information Technology
Family member of another senior officer or of an interested party in the banking corporation	No
Education	B.Sc. In Industrial Engineering and Management - Technion; Partial studies for BA in Computer Science - Bar Ilan University
Business experience (in past 5 years)	CEO, Mehish Computer Services Ltd.; Manager, Information Technology - Partner

Rita Rubinstein	
Start of term in office	January 1, 2007
Title	Vice-President
Position held in banking corporation, subsidiary, affiliate or interested party in the corporation	Manager, Human Resources and Administration Division
Family member of another senior officer or of an interested party in the banking corporation	No
Education	BA in Humanities and Social Sciences - Hebrew University, Jerusalem; MA in Humanities and Social Sciences, Bar Ilan University
Business experience (in past 5 years)	Senior VP, Human Resources at Paradigm

Details of remuneration[1] of senior officers

(NIS in thousands)

All of 2008	Remuneration of Senior Officers											
Benefit recipient details				Compensation for services rendered[2]			Other compensation	Total	Loans provided at beneficial terms[3]			
Name	Position	Extent of employment	Holding stake in Bank capital	Wage[4]	Bonus[14]	Share-based payment[5]	Interest[6]		Balance as of December 31, 2008	Average duration	Loans at regular terms
Jacob Perry[7]	Chairman of the Board of Directors	60%	-	1,364	-	-	1	1,365	-	-	-
Eliezer Yones[8]	President	100%	1.09%	3,759	-	*6,019	-	9,778	-	-	68
Israel Engel[9]	Vice-President Manager, Retail Division	100%	-	1,296	316	296	3	1,911	149	1.2	41
Eldad Presher[10]	Vice-President Manager, Financial Division	100%	-	1,219	316	296	-	1,831	-	-	22
Shimon Gal[11]	Vice-President Manager, Corporate Banking Division	100%	-	1,201	316	296	1	1,814	137	1.5	17
Yekutiel Mansdorf[12]	General Manager of subsidiary - United Mizrahi Bank (Switzerland) Ltd.	100%	-	1,952	374	141	1	2,468	57	4.0	-
Haim Git[13]	Chief Internal Auditor	100%	-	1,184	191	159	6	1,540	193	1.6	34

(*) This accounting record calculated, based on the B&S model, includes NIS 1,219 thousand in respect of the President's new employment contract, which follows the first employment contract, which is due to expire on April 1, 2009 but should be attributed now in accordance with accounting rules. Note that these options are "out of the money".

Details of remuneration[1] of senior officers (continued)

(NIS in thousands)

All of 2007	Remuneration of Senior Officers											
Benefit recipient details				Compensation for services rendered[2]			Other compensation	Total	Loans provided at beneficial terms[3]		
Name	Position	Extent of employment	Holding stake in Bank capital	Wage[4]	Bonus[14]	Share-based payment[5]	Interest[6]		Balance as of December 31, 2008	Average duration	Loans at regular terms
Jacob Perry	Chairman of the Board of Directors	60%	-	1,422	1,040	-	5	2,467	27	-	193
Eliezer Yones	President	100%	0.87%	3,510	1,923	4,800	-	10,233	-	-	34
Rita Rubinstein	Vice-President Manager, Human Resources and Administration Division	100%	-	1,515	450	369	2	2,336	67	1.0	7
Israel Engel	Vice-President Manager, Retail Division	100%	-	1,208	450	122	5	1,785	177	1.7	42
Shimon Gal	Vice-President Manager, Comptrollership, Planning & Operations Division	100%	-	1,168	450	122	1	1,741	18	-	8
Shaul Gelbard	Vice-President Manager, Corporate Banking Division	100%	-	3,910	450	122	4	4,486	488	2.2	31
Yosef Nitzani	Vice-President Manager, Customer Assets and Consultancy Division	100%	-	2,800	-	122	2	2,924	797	6.3	-
Haim Git	Chief Internal Auditor	100%	-	1,225	300	97	2	1,624	142	2.1	17

Notes:

(1) Remuneration is in terms of cost to the Bank and excludes payroll tax.

(2) The amounts are included under "salaries and related expenses" in the statement of profit and loss.

(3) The benefit is under the same terms and conditions granted to all Bank employees.

(4) Includes wages, severance pay, pension, study fund, acclimation bonus, paid leave and social security.

(5) For details of share-based payment to the President and to officers, see Note 16.A to the financial statements.

(6) Interest relates to loans granted at beneficial terms compared to market terms. There is no interest benefit in respect of deposits. In other banking transactions, the benefits apply to all Bank employees and the amount there of is immaterial.

(7) Mr. Jacob Perry - Chairman of the Bank Board of Directors - is employed by the Bank under an individual employment contract at 60% of a full-time job, effective since February 24, 2003 for an undetermined term. Mr. Perry's monthly salary is linked to the Consumer Price Index. Upon termination of his employment by the Bank as Chairman of the Bank Board of Directors, including by resignation, Mr. Perry shall be entitled to have the Bank release to him all amounts accumulated on his behalf in the executive pension insurance policy, except in case of termination of his employment under circumstances where, by law, severance pay may be denied to Mr. Perry, in whole or in part, in which case Mr. Perry would only be entitled to amounts accumulated in said pension insurance from his own contributions. Each of the parties to the employment contract may terminate the contract with 6 months' prior notice and subject to terms and conditions set forth in the employment agreement.

With regard to the bonus for 2008, Mr. Perry asked the Bank Board of Directors to exclude him from the Group of bonus recipients at the Bank for this year; in accordance with his request, no bonus was set for Mr. Perry for this year.

As for the bonus for 2007, see section (14) below.

(8) For further information about employment terms of Mr. Eliezer Yones - see Note 16.D. to the financial statements. In accordance with his employment contract, Mr. Yones is entitled to a bonus of $200 thousand for 2008. Mr. Yones announced that he was waiving the bonus for 2008, to which he is eligible pursuant to his employment contract, as set forth above. As for the bonus for 2007, see section (14) below.

(9) Mr. Israel Engel - employed by the Bank under an individual employment contract effective since June 15, 1999 for an unspecified term. Mr. Engel's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Engel is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Engel is entitled to a retirement bonus equal to one salary for every two years of service to the Bank, up to six salaries in total, with no additional benefits whatsoever. Furthermore, Mr. Engel is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Engel shall not be eligible for a retirement bonus, acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with three months' prior notice and subject to terms and conditions set forth in the employment agreement. With regard to bonuses for 2007 and 2008, see details in section (14) below.

(10) Mr. Eldad Presher - employed by the Bank under an individual employment contract effective since November 3, 2004 for an unspecified term. Mr. Presher's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Presher is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Presher is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Presher shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with 6 months' prior notice and subject to terms and conditions set forth in the employment agreement. With regard to bonuses for 2007 and 2008, see details in section (14) below.

(11) Mr. Shimon Gal - employed by the Bank under an individual employment contract effective since May 2, 2004 for an unspecified term. Mr. Gal's monthly salary is linked to the Consumer Price Index. Upon termination of his employment at the Bank, Mr. Gal is eligible to receive an acclimation bonus equal to 6 monthly salaries, with no additional benefits whatsoever. Furthermore, Mr. Gal is eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Gal shall not be eligible for an acclimation bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with 6 months' prior notice and subject to terms and conditions set forth in the employment agreement. With regard to bonuses for 2007 and 2008, see details in section (14) below.

(12) Mr. Yekutiel Mansdorf - employed by the Bank since July 1, 1974. Terms of his employment were set in an individual employment contract dated January 1, 1999 for an unspecified term. Starting on October 22, 2006, Mr. Mansdorf serves as the General Manager of the subsidiary, UMB Switzerland Ltd., in Switzerland and is on unpaid leave from the Bank. Should the Bank decide to terminate his employment, Mr. Mansdorf would be eligible for a retirement bonus equal to 15 monthly salaries with no additional benefits whatsoever. Furthermore, Mr. Mansdorf would be eligible to have the Bank, upon termination of his employment, release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Mansdorf shall not be eligible for a retirement bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Mr. Mansdorf's pay as General Manager of the subsidiary is determined by the Swiss subsidiary, and is denominated in Swiss Franks. In addition, Mr. Mansdorf is eligible to receive rent reimbursement for his residence in Switzerland.

With regard to bonuses for 2007 and 2008, see details in section (14) below.

(13) Mr. Haim Git - employment terms of the Chief Internal Auditor are presented as required by the public reporting regulations. Mr. Git is employed by the Bank since August 2, 1992 and terms of his employment were set in an individual employment contract dated February 1, 1999 and approved by the Audit Committee of the Board of Directors for an unspecified term. Mr. Git's monthly salary is linked to the Consumer Price Index. Should the Bank decide to terminate his employment, Mr. Git would be eligible for a retirement bonus equal to 15 monthly salaries with no additional benefits whatsoever. Upon termination of his employment, Mr. Git is entitled to have the Bank release to him all amounts accumulated on his behalf in the various funds. Notwithstanding the above, Mr. Git shall not be eligible for a retirement bonus and release of amounts accumulated on his behalf in the various funds in case of termination of his employment under extraordinary circumstances, as set forth in the agreement. Each of the parties to the employment contract may terminate the contract with six months' prior notice and subject to terms and conditions set forth in the employment agreement. With regard to bonuses for 2007 and 2008, see details in section (14) below.

(14) Bonuses

1. Bonuses for 2008

1.1 Bonus for Chairman of the Board of Directors

As set forth in section (7) above, Mr. Jacob Perry has requested to be excluded from the list of bonus recipients at the Bank for 2008.

1.2 Bonus for the President

As set forth in section (8) above, Mr. Eliezer Yones announced that he is waiving his bonus for 2008.

1.3 Bonus for officers of the Bank

On May 19, 2008, the Bank Board of Directors, after receiving approval of the Audit Committee, resolved to approve a framework program for bonus payment to officers of the Bank, except for Board members including the Chairman of the Board and the Bank President, for each of the years 2008-2012 (inclusive).

On March 2, 2009, the Bank Board of Directors, after receiving approval of the Audit Committee, resolved to amend the aforementioned bonus program.

For details, see Note 16.N to the financial statements.

The Audit Committee and the Board of Directors discussed, on March 23, 2009 and on March 29, 2009 respectively, the recommendations of the President with regard to bonus payment to each of the Bank's officers.

At the aforementioned meeting, the Audit Committee resolved, based on data from the Bank's draft 2008 financial statements, that the expected net operating profit return on average shareholders' equity for the Bank in 2008 is lower than 12%. After discussing the recommendations by the Bank President, and subject to due certification of the Bank's 2008 financial statements including the aforementioned data, the Audit Committee decided to approve payment of bonuses for 2008 to officers in the amounts indicated in the table above and on dates set forth below, subject to approval of the Bank Board of Directors. The Audit Committee further decided that, subject to approval of the Bank Board of Directors, the immediately payable bonus amount shall be paid to each Bank officer as set forth in the above table soon after due certification of the Bank's 2008 financial statements. The Audit Committee also decided that in 2009, the President may decide to pay a contingent bonus (amounting to NIS 49 thousand to Mr. Engel, Mr. Presher and Mr. Gal, and to NIS 29 thousand to Mr. Git) - provided that at the President's discretion, the Bank's expected business results for 2009, as of the date of his decision, should warrant such payment.

The Audit Committee received information concerning wages, benefits and stock options for 2005, 2006, 2007 and 2008 as well as bonuses for 2005, 2006 and 2007 for Bank officers.

Furthermore, the Audit Committee received the outline of stock option grants to employees dated June 28, 2005 - June 26, 2006 and June 8, 2008. The Audit Committee also received the framework program for bonus payment to officers in accordance with the outline published by the Bank on June 8, 2008 as well as the amendment there of in the immediate report issued by the Bank on March 2, 2009. The Audit Committee also received information with regard to wages, bonuses and capital remuneration at Israeli banks, as well as information with regard to wages and bonuses paid by insurance companies in Israel as well as by other companies traded on the stock exchange (on this matter, note that due to lack of public information with regard to many of the other banks and companies, with regard both to wages and bonuses paid to some senior executives and to the ratio of wages and bonus amounts, there is a challenge in making relevant comparisons with regard to bonus payments to Bank officers). Furthermore, the Audit Committee received estimates and initial assessments of results of other banks in Israel, which indicate expected loss in the final quarter of 2008, resulting in significant deterioration in profitability of said other banks for all of 2008.

Reasons given by the Audit Committee with regard to the bonus amount and determination there of, including adoption of recommendations by the President, indicate inter alia that the framework bonus program, as approved by the Board of Directors on May 19, 2008, stipulates that should the Bank's annual rate of return for 2008 be 12%, the Bank would be required to transfer to the pool designated for bonus payment to Bank officers, for 2008, four (4) salaries for each Bank officer. It further stipulates that should the annual rate of return for 2008 be lower than 12%, the Board of Directors shall discuss the President's recommendation with regard to the bonus amount to be paid to Bank officers for 2008, and shall decide on this matter, at its own discretion, and subject to approval of the Audit Committee.

In view of the foregoing, and since the Bank's annual rate of return for 2008 is lower than 12%, as set forth above, the Audit Committee decided, based on the President's recommendation, that Bank officers should be paid a bonus amounting close to 4 salaries, but less than 4 salaries, as set forth above. This accounts for the fact that the bonus is a major managerial tool used by the President.

The aforementioned decision of the Audit Committee was made in view of the Bank's business results and achievements in 2008, as reflected by anticipated 2008 data in the Bank's draft annual report as presented to the Audit Committee, and subject to the aforementioned data being included in the Bank's 2008 annual report, as duly certified. This is in particular against the backdrop of the global economic and financial crisis in general, and the state of the banking system as a whole in particular.

After reviewing the anticipated data with regard to business results of the five major banks (including the Bank) for the fourth quarter of 2008, as reflected in data reported to the public by the other four major banks and from the financial statements for the first 9 months of 2008, it appears that the net operating profit rate of return at the Bank is the highest among the five major banks. Furthermore, data for the first nine months of 2008 indicates that the Bank is the most efficient of the five major banks (i.e. the ratio of operating expenses to total income from financing operations and operating commissions, before provision for doubtful debts, is lowest for the Bank compared to the other four major banks).

Making payment of part of the bonus contingent, as set forth above, is intended as continues incentive to Bank officers with regard to achieving the Bank's overall objectives and total organizational profitability over a longer period. This contingency is in line with the Bank's general remuneration policy, as well as with the trend to share the Bank's long term success and achievements with Bank officers over time.

The Audit Committee reviewed data presented to it based on public information regarding wages and bonuses as well as stock option plans for senior executives at banks and insurance companies in Israel, as well as at other companies traded on the stock exchange. On this matter, note that due to lack of public information, at this time, regarding executive pay and bonuses for 2008 at the four major banks and at other companies, and due to lack of public information for 2007 for many of the companies with regard both to wages and bonuses paid to some executives and to the ratio of wage vs. bonus amounts paid to executives, there is a challenge in making relevant comparisons for bonus payment.

After reviewing the aforementioned information (and considering the aforementioned challenges), the members of the Audit Committee believe that the bonus amounts for Bank officers for 2008, as approved by their decision, are reasonable and appropriate under the circumstances.

The Board of Directors at its meeting on March 29, 2009 was presented with all of the data, information and documents presented to the Audit Committee, as well as with the Bank's 2008 draft financial statements.

The Board meeting at its aforementioned meeting decided to adopt the reasoning provided by the Audit Committee as set forth above, and after reviewing the data, the Board members consider that the bonus amounts for Bank officers for 2008, as approved by the Audit Committee, are reasonable and appropriate under the circumstances.

1.4 Bonus to General Manager of subsidiary

On February 25, 2009, the Board of Directors of the subsidiary discussed the recommendation by the Chairman of the Board of the subsidiary to grant a bonus to the General Manager of the subsidiary, with attention paid to the subsidiary's profitability and contribution to Group business, and considering his pay terms, including bonuses and option warrants granted to him in previous years.

In view of the increase in operations and profitability of the subsidiary, and in particular against the backdrop of results in the private banking sector in Switzerland, as well as in view of the global financial and economic crisis, the Board of Directors of the subsidiary decided to set the bonus to the General Manager at CHF 105 thousand, 25% less than for the previous year.

2. Bonuses for 2007 (paid in 2008)

2.1 Bonus for Chairman of the Board of Directors

The Executive Committee, the Audit Committee and the Board of Directors discussed (on March 3, 2008, March 10, 2008 and March 24, 2008) the bonus for the Chairman of the Board of Directors. Mr. Jacob Perry, and decided to approve it subject to approval by the Bank General Meeting - which approved the bonus on August 4, 2008.

The Executive Committee, Audit Commtitee and Board of Directors were presented with the following data when discussing payment of the bonus:

Highlights of employment terms of the Chairman of the Board as well as bonuses paid to him by the Bank for 2004, 2005 and 2006; data with regard to Bank results and profitability, including rate of return on capital in previous years and in 2007; data with regard to wages and bonuses paid to chairpersons of other banks in Israel for 2005 and 2006.

Reasons given by the Audit Committee and by the Board of Directors for the bonus amount and the manner in which it was set indicated, inter alia, that the decision to approve the bonus to be paid to the Chairman of the Board of Directors was made in view of the Chairman's contribution to the Bank's achievements in 2007 (based on Bank results and profitability for the nine month period ended September 30, 2007 and the anticipated results for the entire year).

It was further noted that the bonus to be paid to the Chairman of the Board of Directors for 2007 is 5% higher than the bonus amount paid to the Chairman for 2006, and is in line with the increase in overall bonus amounts to be paid to all Bank employees for 2007. It was further noted that in view of the wage and bonus amounts paid to chairpersons of other banks in Israel, the Board of Directors considers that the bonus to be paid to the Chairman of the Board for 2007 is reasonable and appropriate under the circumstances.

2.2 Bonus for the President

Under terms of his employment contract, Mr. Yones is eligible to receive an annual bonus whose amount varies with the rate of net profit return on equity. Accordingly, the bonus amounted to $500 thousand. For details, see Note 16.F.

2.3 Bonus for Bank officers

The Audit Committee and the Board of Directors discussed (on March 10, 2008 and March 24, 2008, respectively) the recommendations by the President with regard to bonus payment to each officer of the Bank, with due attention to the contribution of each officer to Bank operations and profitability in general and to the officer's domain of responsibility and the manner in which they carried out their assigned tasks, with due consideration to pay terms of each officer, including bonuses and option warrants granted to them in 2005 and 2006.

The recommendations with regard to the bonus amounts were determined in view of the Bank's results and profitability. This was based on the Bank's results for the nine month period ended September 30, 2007 and the anticipated results for all of 2007. The Audit Committee and the Board of Directors were presented with information regarding wages, bonuses and benefits paid for 2006 to senior executives at banks in Israel as well as information regarding wages and bonuses paid by insurance companies in Israel as well as other companies traded on the stock exchange.

The Audit Committee and the Board of Directors, in their reasons for the bonus amount and the manner in which it was determined, including adoption of the recommendations by the President, indicated inter alia that they had reviewed wage, bonus and benefit data for 2006 for senior executives at banks in Israel as well as data with regard to wages and bonuses paid by insurance companies in Israel as well as other companies traded on the stock exchange, and that after reviewing the data with regard to wages and bonuses paid to officers at other banks, the Audit Committee and the Board of Directors were of the opinion that the bonuses paid to each of the officers was reasonable and appropriate under the circumstances.

2.4 Bonus to General Manager of subsidiary

On February 28, 2008, the Board of Directors of the subsidiary discussed the recommendation by the Chairman of the Board to grant a bonus to the General Manager of the subsidiary, noting the subsidiary's profitability and its contribution to Group business, as well as the re-structuring which took place at the subsidiary and the re-orientation of the subsidiary's business strategy.

In view of the increase in operations and profitability of the subsidiary, the Board of Directors of the subsidiary decided to set the bonus for the General Manager at CHF 140 thousand.

Auditors' Fees(1)(2)(3)

(NIS in thousands)

	Consolidated		The Bank	
	2008	2007	2008	2007
For audit activities:(4)				
Independent auditors(5)	4,272	4,177	4,086	4,121
Other independent auditors(9)	1,376	1,222	-	-
Total	5,648	5,399	4,086	4,121
For other services:				
Services related to the audit(6):				
Independent auditors (5)	160	43	160	42
Other auditors	-	-	-	-
For tax services:(7)				
Independent auditors(5)	146	213	146	212
Other independent auditors(9)	78	37	-	-
For other services:				
Independent auditors(5)(8)	281	1,477	281	1,466
Other independent auditors(9)	535	126	-	-
Total	1,200	1,896	587	1,720
Total fees to auditors	6,848	7,295	4,673	5,841

(1) Board of Directors' report to the annual general meeting on auditors' fees for audit activities and for other services in addition to the audit, in accordance with Sections 165 and 167 of the Companies Law, 1999.

(2) Independent auditors' fees include payments to partnerships and corporations under their control, as well as payments under the VAT Law.

(3) Includes fees paid and accrued.

(4) Audit of annual financial statements and review of interim financial statements.

(5) Includes other independent auditors in overseas branches.

(6) Includes mainly: prospectuses, special certifications, comfort letters and forms or reports to authorities requiring auditors' signature, as well as special projects not part of regular audit services.

(7) Includes payments for preparation of reports adjusted for income tax purposes and reports to tax authorities.

(8) Includes mainly payments for consulting and various services.

(9) Data for 2008 includes fees paid to Bank Yahav's independent auditors in the second half of 2008. These fees include NIS 241 thousand, NIS 22 thousand and NIS 391 thousand, respectively for audit activities, tax services and other services.

Board of Directors

The Bank's members of the board of directors, their principal occupation, and other directorships are presented below:

Jacob Perry	
Membership of Board of Directors' committees	Management, Credit, Remuneration
Independent Board member	No
Has accounting and financial expertise	No
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	Chairman, Board of Directors of Bank Mizrahi-Tefahot
Start date in office as member of the Bank's Board of Directors	February 24, 2003
Education	BA in Oriental Studies and Jewish History - Tel Aviv University; Advanced Course in Budget Management, Marketing and Economy - Harvard Business School
Current occupation	Chairman, MAGAL Ltd.; Board member, YAFTAL Holdings Ltd. (private company); Chairman, Pinpoint Advance Corp.; Chairman, MID Ltd.; Board member, Tamarind-Eloul Ltd.; Board member, New Kopel Holdings Ltd.; Board member, Leadcom; Member of Advisory Board, Markstone Foundation.
Previous occupation (in past 5 years)	Chairman, Lipman Electronic Engineering Ltd.; Chairman, Allo Telecom; Chairman, Pinpoint Advance Corp.; Chairman, AMAD Ltd.; Chairman, B-Contact Ltd.
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

Board of Directors (continued)

Zvi Ephrat	
Membership of Board of Directors' committees	Credit. Remuneration
Independent Board member	No
Has accounting and financial expertise	No
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	January 24, 1995
Education	LL.B. - Hebrew University, Jerusalem; Attorney
Current occupation and in the past 5 years	Senior Partner, J. Gurnitzki & Co. law firm Board member, Ephrat Smith Trust Company
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

Joseph Bahat	
Membership of Board of Directors' committees	Audit, Credit, Balance Sheet, Management, Remuneration
Independent Board member	Yes
Has accounting and financial expertise	No
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	B.Sc. in Economics - Hebrew University, Jerusalem
Current occupation and in the past 5 years	Chairman, Smart Energy Solutions Inc.
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

Board of Directors (continued)

Ron Gazit	
Membership of Board of Directors' committees	Credit
Independent Board member	No
Has accounting and financial expertise	No
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	December 14, 2003
Education	LL.B. - Tel Aviv University; Attorney
Current occupation and in the past 5 years	Ron, Gazit, Ruthenberg & Co. - law firm; Board member, Gazit Ruthenberg Trust Company; Board member, Gover Radio Ltd.; Board member, R. Gazit Attorney (2002)
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

Board of Directors (continued)

Moshe (Mosie) Wertheim	
Membership of Board of Directors' committees	Management, Remuneration
Independent Board member	No
Has accounting and financial expertise	Yes
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	Board member, MWZ (Holding) Ltd.; Managing Partner, F&W (Registered Partnership); Chairman, Central Bottling Company Ltd. (Coca Cola)
Start date in office as member of the Bank's Board of Directors	January 24, 1995
Education	LL.M; Attorney; Certificate in Business Administration - Hebrew University, Jerusalem
Current occupation and in the past 5 years	Chairman, Central Bottling Company Ltd. (Coca Cola), Keshet Broadcasting Ltd., Keshet Communication Services Group Ltd. Board member, Alony Hetz Ltd. (public), M. Wertheim (Holdings) Ltd., Ilanim Development and Investments Ltd., MWZ Holding Ltd., Info-Prod (Middle Eastern Research) Ltd., F&W (Registered Partnership), T.T. Transport and Marketing Services (1987) Ltd., Mada'im Shimushim (2000) Ltd., IMPG Management Ltd., TSRON Management Ltd., W.H.M. Properties Ltd., Alcorp Ltd., Ramcon Ltd.
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	Yes

Board of Directors (continued)

Avi Ziegelman	
Membership of Board of Directors' committees	Audit, Balance Sheet
Independent Board member	Yes
Has accounting and financial expertise	Yes
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	September 19, 2007
Education	BA in Accounting and Economics - Tel Aviv University; MA in Business Economy (Finance) - Tel Aviv University; CPA
Current occupation	Financial consultant and Board member, Board member, Tafron Ltd.; Gindi Investments 1 Ltd.; Afcon Electro-Mechanics Ltd. (independent Board member); Pangaya Real Estate Ltd.; King Ltd. (independent Board member); Simcha Uriely and Sons Ltd.; Ilex Medical Ltd. (independent Board member); fox Wiesel Ltd., Orev Technologies 1977 Ltd. (independent Board member), PMS Group Ltd., Cialo Technolgoy Israel Ltd. (independent Board member), Clal Biotechnolgy Industries Ltd. (independent Board member). GlobalCom Trade Ltd. (independent Board member) - resigned Board membership of this company on February 27, 2009.
Previous occupation (in past 5 years)	Senior Partner, Head of Professional Practice, KPMG Somech Chaykin; Board member and financial consultant
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	Yes

Board of Directors (continued)

Mordechai Meir[1]	
Membership of Board of Directors' committees	-
Independent Board member	No
Has accounting and financial expertise	Yes
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	Board member, Ofer Brothers Properties (1957) Ltd.
Start date in office as member of the Bank's Board of Directors	December 24, 2008
Education	BA in Accounting and Economics - Tel Aviv University; CPA.
Current occupation (in past 5 years)	CEO, Merav Management Ltd.; Board member, Ofer Brothers Properties (1957) Ltd. and Melisron Ltd. Board membership since January 2009: Ofer Commercial Centers (Maof Management) Ltd.; C.A.B.M. Ltd.; Ofer Bros. Engineering and Development Ltd.; Ofer Bros. (Ashkelon Industries) Ltd.; Ofer Bros. (Haifa 1974) Ltd.; Ofer Bros. (Jerusalem) Ltd.; Ofer Bros. Foreign Investments Ltd.; Electric Wires (Properties) Ltd.; Melissa Ltd.; Mi-Del Properties Ltd.; Mistletoe Holding B.V.; Bney Moshe Karasso Ltd.
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

(1) Appointed as Board member on December 24, 2008.

Board of Directors (continued)

Dov Mishor	
Membership of Board of Directors' committees	Audit, Credit, Balance Sheet
Independent Board member	Yes
Has accounting and financial expertise	Yes
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/affiliate or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	January 29, 2007
Education	BA in Economics and Political Science, MA in Economics - Hebrew University, Jerusalem
Current occupation	Financial consultant, Board member, Guy Development Ltd. Lecturer at Department of Economics, Ben Gurion University; Executive Board member, Shazar Center for Jewish History
Previous occupation (in past 5 years)	Board member, Bank Leumi; Ashot Ashkelon Industries Ltd.; Guy Development; President of Israel-Asia Trade Chamber
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

Board of Directors (continued)

Abraham Natan[1]	
Membership of Board of Directors' committees	Audit, Credit, Balance Sheet, Management, Remuneration
Independent Board member	Yes
Has accounting and financial expertise	Yes
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate, or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	July 31, 2003
Education	BA in Economics, MA in Political Science (Public Administration) - Bar Ilan University
Current occupation	Board member, Kamor Ltd., Executive, Maccabi Israel, Member, Audit Committee, Israel Football Association
Previous occupation (in past 5 years)	Chairman, Ashot Ashkelon, Chairman of the Executive Board of the Israel Broadcast Authority, Independent Board member, TAMAM Amnir, Chairman of the Board of Directors, Government Medals and Coins Company
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	Yes

(1) Announced his retirement from the Board of Directors on January 19, 2009. Shall leave his office as Board member on April 30, 2009.

Board of Directors (continued)

Yehuda (Yuli) Ofer(1)	
Membership of Board of Directors' committees	Management
Independent Board member	No
Has accounting and financial expertise	No
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	Interested party in the corporation
Start date in office as member of the Bank's Board of Directors	September 15, 1997
Education	High school
Current occupation	Business manager and executive
Previous occupation (in past 5 years)	Business manager and executive
Family member of another interested party in the corporation	Father of Ms. Liora Ofer
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

(1) Left his office as Board member on December 24, 2008.

Board of Directors (continued)

Liora Ofer	
Membership of Board of Directors' committees	Credit, Executive[(1)]
Independent Board member	No
Has accounting and financial expertise	No
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate or by an interested party in the corporation	Board member, Ofer Brothers Properties (1957) Ltd.
Start date in office as member of the Bank's Board of Directors	January 23, 2006
Education	High school
Current occupation	Board member: Meliseron Ltd.; Uru Investments Ltd.; Uru Foreign Investments (1999) Ltd.; Halidor Promoters Ltd.; Ofer Bros. Properties (1957) Ltd.
Previous occupation (in past 5 years)	CEO, Almog Beach Company (Eilat) Ltd.
Family member of another interested party in the corporation	Daughter of Mr. Yuli Ofer
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

(1) Starting on February 19, 2009.

Board of Directors (continued)

Joseph Rosen	
Membership of Board of Directors' committees	Management, Remuneration
Independent Board member	No
Has accounting and financial expertise	Yes
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate, or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	June 27, 2005
Education	BA in Economics and Political Science, MBA - Hebrew University, Jerusalem
Current occupation	Chairman, Oil Refineries Ltd., Chairman, Reshet Noga Ltd. (TV Channel 2), Rose Millennium Investment Ltd., CEO, Ofer Holdings Group Ltd. Board member, Israel Chemicals Corp. Ltd.; Zim Integrated Shipping Services Ltd.; Carmel Ulpinim Ltd.; Gadov Petrochemical Industries Ltd.; HABAS Investments Public Corporation (1960) Ltd.
Previous occupation (in past 5 years)	President, the Israel Corporation Ltd., Board member, Dead Sea Magnesium, Tower Semiconductor Ltd., Bromine Compounds Company Ltd., Dead Sea Bromine Ltd., Rotem Amfert Negev Ltd., Dead Sea Works Ltd., Chairman, ICL (through December 31, 2007); ICL Applied Products; Zim Integrated Shipping Services Ltd.; RESHET NOGA Ltd.; Rose Millenium Investments Ltd.
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

Board of Directors (continued)

Abraham (Beigah) Shochat	
Membership of Board of Directors' committees	Audit, Credit, Balance Sheet, Remuneration
Independent Board member	No
Has accounting and financial expertise	Yes
Has professional qualifications	Yes
Employed by the corporation, a subsidiary/ affiliate, or by an interested party in the corporation	No
Start date in office as member of the Bank's Board of Directors	January 23, 2006
Education	B.Sc. in Civil Engineering, Technion, Haifa
Current occupation	Board member, ICL, ICL Fertilizers, ICL Industrial Products, Alon USA energy Inc., Clay Capital Mrakets Ltd., Direct Insurance and Financial Investments Ltd. Chairman, Investment Committee - Israel Infrastructure Fund, IDI Technologies Ltd.
Previous occupation (in past 5 years)	Member of parliament; Consultant to Chairman of BARAN Ltd.; Board member of Desalination Engineering, IDB
Family member of another interested party in the corporation	No
Board member regarded by the corporation as having accounting and financial expertise or meeting the minimum quote specified by the Board	No

During 2008, the Bank Board of Directors held 24 plenary meetings and 82 committee meetings.

The permanent Board committees are: Audit Committee, Financial Statements Committee, Management Committee, Credit Committee and Remuneration Committee.

Presented below are the changes in the Board of Directors during the year 2008 and until the publication date of the financial statements:

- The Board of Directors' meeting on March 24, 2008 resolved to appoint Mr. Avraham (Bayga) Shochat as Chairman, Balance Sheet Committee - replacing Mr. Avraham Natan.
- On December 24, 2008, Mr. Mordechai Meir was appointed Board member with the Bank.
- On December 24, 2008, Mr. Yuli Ofer left his office as Board member with the Bank.
- At the Board meeting on January 19, 2009, Mr. Avraham Natan announced his retirement from the Bank Board of Directors. He would leave his office as Board member on April 30, 2009.
- At the Board meeting held on February 16, 2009, Ms. Leora Ofer was appointed member of the Executive Committee, replacing Mr. Yuli Ofer.

Board members having accounting and financial qualifications

The Bank's Board of Directors prescribed that at least three directors should have accounting and finance skills. In the Board's opinion, this number enables it to meet all of the obligations imposed on it, especially with respect to its responsibility to examine the financial position of the corporation and to prepare and approve financial statements. The Board has also determined that each of the Audit Committee and Balance Sheet Committee would have as members at least 2 Board members having accounting and financial qualifications.

As of the publication date of these financial statements, there are seven members on the Board having accounting and finance skills: Messrs. Moshe (Mosie) Wertheim, Avi Ziegelman, Mordechai Meir, Dov Mishor, Abraham Natan; Yossi Rosen and Avraham (Beigah) Shochat. Each of the Audit Committee and Balance Sheet Committee has as members 4 Board members having accounting and financial qualifications.

Below are the facts related to each of the directors in the Bank named above, and by virtue of which they are to be deemed having accounting and financial skills:

Moshe (Mosie) Wertheim

Attorney, Bachelors of Law degree, certificate of business administration, serves as chairman of the board and CEO of Central Bottling Co. Ltd., director in Alony-Hetz Properties and Investments Ltd., in the Keshet Group companies and in other companies.

Mordechai Meir

Undergraduate degree in Economics and Accounting, Tel Aviv University; CPA. Worked for nine years at Somekh Chaikin as Senior CPA, board member of public companies, consultant to interested parties in public companies. For the past 10 years: CEO of consulting firm, MERAV Management Ltd. - specialized in consulting to and representation of real estate and financials sectors for major corporations and enterprises.

Avi Ziegelman

Holds undergraduate degree in Accounting and Economics and graduate degree in Business Economics (Finance). Licensed as CPA. Provides financial consulting and serves as Board member with different companies. Was Senior Partner, Head of Professional Department with KPMG Somekh Chaykin CPA.

Dov Mishor

Graduate degree in Economics, Lecturer in the Economics Departments of Ben-Gurion University, Director Guy Yizum Ltd., served in the past as a director in Bank Leumi, Ashot Ashkelon and as President of the Israel-Asia Trade Office.

Abraham Natan

Bachelor of Economics and Business Administration, served as chairman of the Government Medals and Coins Company, served in past as chairman of the commission and executive committee of the Broadcast Authority and director of TMM Amnir, as chairman of Ashot Ashkelon Ltd., as State Services Commissioner and a director in Bank Yahav.

Joseph Rosen

Academic education - Economics and Business Administration - President, Israel Corporation Ltd. Former CEO, Israel Corporation Ltd. Serves as chairman and Board member with several companies (see above).

Abraham (Beigah) Shochat

Former Minister of Finance, Member of Knesset, Chairman of the Knesset Economics Committee, Chairman of the Knesset Finance Committee, Minister of National Infrastructures - in these positions he acquired skills and understanding on business and financial statement matters.

The Bank's Board of Directors thanks the President, the management of the Bank and its employees for their efforts to promote the Bank, the result of their diligent efforts to maintain the Bank's services with the appropriate responsibility. The Board of Directors appreciates the constant efforts of the President, the Bank's management and its employees to expand the business activities and customer base.

Jacob Perry	**Eliezer Yones**
Chairman of the Board of Directors	President

Ramat Gan, March 29, 2009
4 Nisan 5769

Management Review of Group Business and Operating Results

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Management Review - Addendum A
Consolidated Balance Sheet

At Year Ends 2004-2008

Reported amounts (NIS in millions)

	2008	2007	2006	2005	2004
Assets					
Cash and deposits with banks	11,038	10,701	10,797	12,252	10,537
Securities	9,259	6,145	5,979	6,570	5,754
securities loaned or sold in repurchase agreements	12	5	-	-	-
Credit to the public	88,049	74,320	70,109	65,608	64,445
Loans to the Government	2	3	4	92	95
Investments in investees	17	17	42	87	120
Buildings and equipment	1,476	1,246	1,293	1,221	1,150
Other assets	4,159	2,880	2,487	1,409	1,881
Total assets	114,012	95,317	90,711	87,239	83,982
Liabilities and Shareholders' Equity					
Deposits from the public	91,779	75,290	73,234	71,346	69,769
Deposits from banks	1,867	3,752	3,073	3,132	2,900
Deposits from the Government	242	282	560	728	998
Securities loaned or sold in conjunction with re-purchase agreements	972				
Debentures and subordinated notes	6,837	6,189	5,067	4,305	3,065
Other liabilities	6,012	4,247	3,710	3,046	3,111
Total liabilities	107,709	89,760	85,644	82,557	79,843
Minority interest	351	-	6	6	6
Shareholders' equity	5,952	5,557	5,061	4,676	4,133
Total liabilities and shareholders' equity	114,012	95,317	90,711	87,239	83,982

Management Review - Addendum B
Consolidated Statement of Profit and Loss – Multi-period information

For the Years Ended December 31, 2004-2008

Reported amounts (NIS in millions)

	2008	2007	2006	2005	2004
Profit from financing operations before provision for doubtful debt	2,289	2,026	1,987	1,904	1,652
Provision for doubtful debts	395	228	305	292	359
Profit from financing operations after provision for doubtful debt	1,894	1,798	1,682	1,612	1,293
Operating and other revenues					
Operating commissions	1,104	1,034	991	924	874
Profits from investments in shares, net	46	65	50	3	3
Other profit	79	91	174	187	159
Total operating and other profit	1,229	1,190	1,215	1,114	1,036
Operating and other expenses					
Salaries and related expenses	1,273	1,169	1,395	1,154	1,089
Maintenance and depreciation of buildings and equipment	473	421	385	349	302
Other expenses	407	348	337	336	288
Total operating and other expenses	2,153	1,938	2,117	1,839	1,679
Pre-tax operating profit	970	1,050	780	887	650
Provision for taxes on operating profit	356	368	349	371	255
After-tax operating profit	614	682	431	516	395
Share in net after-tax operating profits (losses) of investees	(1)	(1)	(4)	(3)	13
Minority interest in net after-tax operating profits of subsidiaries	(12)	-	-	-	(19)
Net operating profit	601	681	427	513	389
After-tax profit (loss) from extraordinary items	1	227	216	(2)	(3)
Cumulative after-tax effect, as at beginning of year, of change in accounting method	-	-	-	(4)	-
Net profit	602	908	643	507	386

Management Review - Addendum B (continued)
Consolidated Statement of Profit and Loss – Multi-period information
For the Years Ended December 31, 2004-2008

Reported amounts (NIS in millions)

	2008	2007	2006	2005	2004
Earnings per share[1]					
Basic earnings per share (in NIS)					
Operating profit per share	2.70	3.08	1.95	2.35	1.78
Profit (loss) from extraordinary items	0.01	1.03	0.99	(0.01)	(0.01)
Cumulative after-tax effect, as of beginning of period, of change in accounting method	-	-	-	(0.02)	-
Total	2.71	4.11	2.94	2.32	1.77
Diluted earnings per share (in NIS)					
Operating profit per share	2.68	3.03	1.91	2.33	1.78
Profit (loss) from extraordinary items	0.01	1.01	0.97	(0.01)	(0.01)
Cumulative after-tax effect, as of beginning of period, of change in accounting method	-	-	-	(0.02)	-
Total	2.69	4.04	2.88	2.30	1.77

(1) Share of NIS 0.1 par value.

Management Review - Addendum C
Income and Expense Rates - of the Bank and its Subsidiaries[1]

For the Year Ended December 31

Reported amounts[2] (NIS in millions)

	2008				2007			
			Income (expense) rate				Income (expense) rate	
	Average balance[3]	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance [3]	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets[4][5]	38,191	2,080	5.45		29,149	1,638	5.62	
Impact of embedded and ALM derivatives[6]	41,337	2,072			32,988	1,624		
Total assets	79,528	4,152		5.22	62,137	3,262		5.25
Liabilities[4][5]	41,911	(1,986)	(2.83)		38,062	(1,210)	(3.18)	
Impact of embedded and ALM derivatives[6]	34,555	(1,765)			22,507	(1,060)		
Total liabilities	76,466	(2,951)		(3.86)	60,569	(2,270)		(3.75)
Interest margin			2.62	1.36			2.44	1.50
Israeli currency - linked to the CPI								
Assets[4]	36,461	3,384	9.28		35,172	2,729	7.76	
Impact of embedded and ALM derivatives[6]	4,390	242			4,778	181		
Total assets	40,851	3,626		8.88	39,950	2,910		7.28
Liabilities[4]	29,650	(2,576)	(8.69)		27,939	(2,070)	(7.41)	
Impact of embedded and ALM derivatives[6]	9,615	(623)			10,333	(511)		
Total liabilities	39,265	(3,199)		(8.15)	38,272	(2,581)		(6.74)
Interest margin			0.59	0.73			0.35	0.54

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) See Note 1.B to the financial statements.
(3) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts.
(4) Excludes financial derivatives.
(5) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(6) Includes linked to foreign currency.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Review - Addendum C (continued)
Income and Expense Rates - of the Bank and its Subsidiaries(1)

For the Year Ended December 31

Reported amounts(2) (NIS in millions)

	2008				2007			
			Income (expense) rate				Income (expense) rate	
	Average balance(3)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance(3)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency(6)								
Assets(4)	21,638	(668)	(3.09)		25,870	(290)	(1.12)	
Effect of derivatives(5)								
Hedging derivatives	662	(67)			637	(12)		
Embedded and ALM derivatives	41,655	1,234			34,389	(1,730)		
Total assets	63,955	499		0.78	60,896	(2,032)		(3.34)
Liabilities(4)	19,273	1,508	7.82		19,882	550	2.77	
Effect of derivatives(5)								
Hedging derivatives	682	(69)			625	45		
Embedded and ALM derivatives	42,850	(1,586)			39,274	1,452		
Total liabilities	62,805	(147)		(0.23)	59,781	2,047		3.42
Interest margin			4.74	0.55			1.65	0.08

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) See Note 1.B to the financial statements.
(3) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts.
(4) Excludes financial derivatives.
(5) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(6) Includes linked to foreign currency.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Review - Addendum C (continued)

Income and Expense Rates - of the Bank and its Subsidiaries(1)

For the Year Ended December 31

Reported amounts(2) (NIS in millions)

	2008				2007			
			Income (expense) rate				Income (expense) rate	
	Average balance(3)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance(3)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing profit(4)	96,290	4,796	4.98		90,191	4,077	4.52	
Effect of derivatives(5)								
Hedging derivatives	662	(67)			637	(12)		
Embedded and ALM derivatives	87,382	3,548			72,155	75		
Total assets	184,334	8,277		4.49	162,983	4,140		2.54
Monetary liabilities generating financing expenses(4)	90,834	(2,254)	(2.48)		85,883	(2,730)	(3.18)	
Effect of derivatives(5)								
Hedging derivatives	682	(69)			625	45		
Embedded and ALM derivatives	87,020	(3,974)			72,114	(119)		
Total liabilities	178,536	(6,297)		(3.53)	158,622	(2,804)		(1.77)
Interest margin			2.50	0.96			1.34	0.77
On options		73				345		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached)(5)		(6)				58		
Commissions from financing transactions and other financing income(6)		268				313		
Other financing expenses		(26)				(26)		
Profit from financing operations before provision for doubtful debts		2,289				2,026		
Provision for doubtful debt (includes general and supplementary provision)		(395)				(228)		
Profit from financing operations after provision for doubtful debts		1,894				1,798		

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) See Note 1.B to the financial statements.
(3) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts.
(4) Excludes financial derivatives.
(5) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).
(6) Includes linked to foreign currency.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Review - Addendum C (continued)

Income and Expense Rates - of the Bank and its Subsidiaries(1)

For the Year Ended December 31

Reported amounts(2) (NIS in millions)

	2008				2007			
			Income (expense) rate				Income (expense) rate	
	Average balance(3)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance(3)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing profit(4)	96,290				90,191			
Assets deriving from derivatives(5)	2,447				1,880			
Other monetary assets(4)	1,627				552			
General and supplementary provision for doubtful debt	(179)				(183)			
Total monetary assets	100,185				92,440			
Total								
Monetary liabilities generating financing expenses(4)	90,834				85,883			
Liabilities deriving from derivatives(5)	2,210				1,135			
Other monetary liabilities(4)	2,603				1,541			
Total monetary liabilities	95,647				88,559			
Total surplus monetary assets over monetary liabilities	4,538				3,881			
Non-monetary assets	1,661				1,604			
Non-monetary liabilities	181				154			
Total capital resources	6,018				5,331			

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) See Note 1.B to the financial statements.
(3) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts.
(4) Excludes financial derivatives.
(5) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Review - Addendum C (continued)
Income and Expense Rates - of the Bank and its Subsidiaries(1)
For the Year Ended December 31

Reported amounts ($ in millions)

	2008				2007			
			Income (expense) rate				Income (expense) rate	
	Average balance(2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance(2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency(5)								
Assets(3)	5,957	306	5.14		6,337	356	5.62	
Effect of derivatives(4)								
Hedging derivatives	185	(19)			155	(2)		
Embedded and ALM derivatives	11,610	589			8,369	422		
Total assets	17,752	876		4.93	14,861	776		5.22
Liabilities(3)	5,206	(152)	(2.92)		4,892	(199)	(4.07)	
Effect of derivatives(4)								
Hedging derivatives	190	(19)			152	10		
Embedded and ALM derivatives	11,943	(594)			9,643	(487)		
Total liabilities	17,339	(765)		(4.41)	14,687	(676)		(4.60)
Interest margin			2.22	0.52			1.55	0.62

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).

(2) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data net of average balance sheet balance of specific provisions for doubtful debts.

(3) Excludes financial derivatives.

(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Banks asset and liability management system.

(5) Includes linked to foreign currency.

Note: Complete data on income and expense rates for each sector, by balance sheet item, will be provided upon request.

Management Review - Addendum D
Exposure of the Bank and its Subsidiaries
To Changes in Interest rates

as of December 31, 2008

Reported amounts (NIS in millions)

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years
Israeli currency - non-linked					
Total assets	41,894	1,976	2,037	1,835	151
Total liabilities	40,165	3,034	4,561	3,027	865
Difference	1,729	(1,058)	(2,524)	(1,192)	(714)
Effect of forward transactions and special commitments	529	2,473	2,367	774	(359)
Effect of options	(46)	218	690	38	-
Exposure to interest rate fluctuations in the sector	2,212	1,633	533	(380)	(1,073)
Cumulative exposure in sector	2,212	3,845	4,378	3,998	2,925
Israeli currency - linked to the CPI					
Total assets	355	2,094	9,685	12,541	5,947
Total liabilities	1,957	1,459	6,649	7,561	5,278
Difference	(1,602)	635	3,036	4,980	669
Effect of forward transactions and special commitments	(652)	(556)	(2,395)	(1,603)	476
Effect of options	-	-	-	-	-
Exposure to interest rate fluctuations in the sector	(2,254)	79	641	3,377	1,145
Cumulative exposure in sector	(2,254)	(2,175)	(1,534)	1,843	2,988

General note:
Complete data on exposure to interest rate fluctuations in every sector, by balance sheet item, will be provided upon request.
In this table, the data for each period presents the present value of future flows, discounted using the internal rate of return of the balance sheet item.
The discounted future flows include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
The impact of hedging transactions is included in total assets or total liabilities, as the case may be.

(1) The column "without maturity" presents book value.
(2) When deducting the balance of unrealized gains from the balance of debentures held for sale, the resulting IRR for assets is 4.89% (previous year - 5.80%) and the IRR spread is 1.55% (previous year - 1.91%).

					2008		2007	
5-10 years	10-20 years	Over 20 years	Without fixed maturity	Total	Internal rate of return	Average time to maturity	Internal rate of return	Average time to maturity
					in %	Years	in %	Years
92	-	-	610	48,595	3.67%	0.12	6.03%	0.12
337	4	-	-	51,993	3.34%	0.25	3.89%	0.16
(245)	(4)	-	610	(3,398)	0.33%	[5](0.13)	2.14%	(0.04)
(14)	-	-	-	5,770				
-	-	-	-	900				
(259)	(4)	-	610	3,272				
2,666	2,662	2,662	3,272	3,272				
6,593	1,517	2	134	38,868	4.93%	3.08	5.16%	3.44
7,583	1,759	290	30	32,566	4.68%	4.02	4.80%	3.87
(990)	(242)	(288)	104	6,302	0.25%	(0.94)	0.36%	(0.43)
(283)	-	-	-	(5,013)				
-	-	-	-	-				
(1,273)	(242)	(288)	104	1,289				
1,715	1,473	1,185	1,289	1,289				

Management Review - Addendum D (continued)
Exposure of the Bank and its Subsidiaries
To Changes in Interest rates
as of December 31, 2008

Reported amounts (NIS in millions)

	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years
Foreign currency(2)					
Total assets	12,820	5,581	2,133	884	408
Total liabilities	10,835	6,462	3,304	246	98
Difference	1,985	(881)	(1,171)	638	310
Effect of forward transactions and special commitments	822	(366)	(140)	(160)	(164)
Effect of options	108	(288)	(681)	(38)	-
Exposure to interest rate fluctuations in the sector	2,915	(1,535)	(1,992)	440	146
Cumulative exposure in sector	2,915	1,380	(612)	(172)	(26)
Total exposure to interest rate fluctuations					
Total assets(3)	55,069	9,651	13,855	15,260	6,506
Debit balances deriving from credit card transactions(4)	-	-	-	-	-
Total assets in the balance sheet	55,069	9,651	13,855	15,260	6,506
Total liabilities	52,957	10,955	14,514	10,834	6,241
Credits for credit card transactions(4)	-	-	-	-	-
Total liabilities in the balance sheet	52,957	10,955	14,514	10,833	6,241
Difference	2,112	(1,304)	(659)	4,426	265
Effect of forward transactions and special commitments	699	1,551	(168)	(989)	(47)
Effect of options	-	-	-	-	-
Total exposure to interest rate fluctuations	2,811	247	(827)	3,437	218
Total cumulative exposure	2,811	3,058	2,231	5,668	5,886

General note:
Complete data on exposure to interest rate fluctuations in every sector, by balance sheet item, will be provided upon request.
In this table, the data for each period presents the present value of future flows, discounted using the internal rate of return of the balance sheet item.
The discounted future flows include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
The impact of hedging transactions is included in total assets or total liabilities, as the case may be.

(1) The column "without maturity" presents book value.
(2) Activity in Israel, including Israeli currency linked to foreign currency, and overseas affiliates acting integrated units of the Bank.
(3) Includes shares presented in the column "without maturity date".
(4) Assets and liabilities deriving from the use of credit cards, according to which the customers were already charged.
(5) When deducting the balance of unrealized gains from the balance of debentures held for sale, the resulting IRR for assets is 4.89% (previous year - 5.80%) and the IRR spread is 1.55% (previous year - 1.91%).

	5-10 years	10-20 years	Over 20 years	Without fixed maturity	Total	2008 Internal rate of return	2008 Average time to maturity	2007 Internal rate of return	2007 Average time to maturity
						in %	Years	in %	Years
	1,098	52	-	208	23,184	6.79%	0.70	5.18%	0.41
	633	12	-	-	21,590	3.29%	0.46	4.74%	0.30
	465	40	-	208	1,594	[5]3.50%	0.24	0.44%	0.11
	(749)	-	-	-	(757)				
	-	-	-	-	(899)				
	(284)	40	-	208	(62)				
	(310)	(270)	(270)	(62)	(62)				
	7,783	1,569	2	2,943	112,638		1.28		1.48
	-	-	-	-	1,374				
	7,783	1,569	2	2,943	114,012				
	8,553	1,775	290	216	106,335		1.45		1.39
	-	-	-	-	1,374				
	8,553	1,775	290	216	107,709				
	(770)	(206)	(288)	2,727	6,303		-0.17		0.09
	(1,046)	-	-	-	-				
	-	-	-	-	-				
	(1,816)	(206)	(288)	2,727	6,303				
	4,070	3,864	3,576	6,303	6,303				

Management Review - Addendum E
Credit Risk of Loans to the Public Classified by Economic Sector
At December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

	Balance sheet credit risk(1)	Off-balance sheet credit risk(2)	Total credit risk of the public	Annual expense in respect of specific provision for doubtful debt	Balance of problem loans(3)
Agriculture	723	256	979	3	25
Industry	6,826	6,312	13,138	49	506
Construction and real estate	7,411	7,406	14,817	27	2,284
Electricity and water	285	869	1,154	1	33
Commerce	4,842	3,873	8,715	42	253
Hotel and food services	244	273	517	1	29
Transport and storage	711	538	1,249	2	15
Communications and computer services	548	1,220	1,768	-	51
Financial services	7,000	7,858	14,858	123	1,712
Other business services	2,493	1,072	3,565	19	85
Public and community services	783	507	1,290	3	114
Private individuals - housing loans	44,855	3,317	48,172	45	1,172
Private individuals - other	9,035	9,347	18,382	61	570
Total	85,756	42,848	128,604	376	6,849
For borrowers' activities overseas	3,478	645	4,123	3	47
Total	89,234	43,493	132,727	379	6,896
Credit risk included in the various economic sectors:					
Settlement movements(4)	1,449	822	2,271	-	164
Local authorities(5)	177	29	206	-	31

(1) Includes loans to the public and investments in debentures of the public of NIS 232 million and other assets related to derivatives against the public totaling NIS 759 million.

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.

(5) Includes corporations under their control.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debt.

Management Review - Addendum E (continued)

Credit Risk of Loans to the Public Classified by Economic Sector

At December 31, 2007 - Consolidated

Reported amounts (NIS in millions)

	Balance sheet credit risk(1)	Off-balance sheet credit risk(2)	Total credit risk of the public	Annual expense in respect of specific provision for doubtful debt	Balance of problem loans(3)
Agriculture	715	280	995	1	53
Industry	4,645	7,334	11,979	34	206
Construction and real estate	6,609	7,978	14,587	67	1,568
Electricity and water	364	709	1,073	-	-
Commerce	4,437	3,808	8,245	37	204
Hotel and food services	221	61	282	3	32
Transport and storage	583	381	964	2	12
Communications and computer services	490	798	1,288	5	164
Financial services(6)	7,256	10,785	18,041	4	82
Other business services	1,914	1,543	3,457	6	82
Public and community services	753	427	1,180	4	134
Private individuals - housing loans	38,931	2,865	41,796	39	1,309
Private individuals - other(6)	4,734	6,677	11,411	44	500
Total	71,652	43,646	115,298	246	4,346
For borrowers' activities overseas	3,733	904	4,637	2	-
Total	75,385	44,550	119,935	248	4,346
Credit risk included in the various economic sectors:					
Settlement movements(4)	1,306	793	2,099	-	138
Local authorities(5)	185	26	211	-	34

(1) Includes loans to the public and investments in debentures of the public of NIS 127 million and other assets related to derivatives against the public totaling NIS 766 million.

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.

(5) Includes corporations under their control.

(6) Reclassified.

(7) Restated.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debt.

Management Review - Addendum F
Exposure to Foreign Countries

As of December 31, 2008 - Consolidated[1]

Reported amounts (NIS in millions)

Part A - Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower

	Balance sheet exposure								Off-balance sheet exposure[2]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents			Total balance sheet exposure	Balance of problem loans[4]			Cross-border balance sheet exposure	
	To governments[3]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities			total off-balance sheet exposure	Of which: Off-balance sheet problem credit risk	Repayable in under 1 year	Repayable in over 1 year
USA	492	795	1,251	2,248	97	2,151	4,689	21	1,636	2	1,793	745
UK	-	567	111	703	306	397	1,075	27	2,575	-	413	265
Germany	-	590	96	-	-	-	686	-	752	-	387	299
Switzerland	-	358	95	-	-	-	453	3	751	-	307	146
Other	17	1,423	2,449	-	-	-	3,889	58	1,807	2	2,922	967
Total exposure to foreign countries	509	3,733	4,002	2,951	403	2,548	10,792	109	7,521	4	5,822	2,422
Total exposure to LDC countries	2	103	277	-	-	-	382	14	82	-	292	90

(1) Finalized, after effect of guarantees, liquid collateral and credit derivatives

(2) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

(3) Governments, official institutions and central banks.

(4) Balance of problem debt after deduction of debt covered by collateral deductible for per-borrower and borrower group lending limits. Excludes off-balance sheet risk elements.

Part B - Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower

Country	Balance sheet exposure	Off-balance sheet exposure
Holland	640	445

Management Review - Addendum G
Consolidated balance sheets

At end of each quarter in 2008

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	11,038	10,892	10,439	9,895
Securities	9,259	7,449	4,432	4,096
securities loaned or sold in repurchase agreements	12	-	28	110
Credit to the public	88,049	83,880	77,310	75,117
Loans to the Government	2	3	3	3
Investments in investees	17	17	17	18
Buildings and equipment	1,476	1,402	1,258	1,239
Other assets	4,159	3,372	4,012	4,212
Total assets	114,012	107,015	97,499	94,690
Liabilities and Shareholders' Equity				
Deposits from the public	91,779	84,681	72,928	73,237
Deposits from banks	1,867	2,465	5,620	3,273
Deposits from the Government	242	443	256	267
Securities loaned or sold in conjunction with re-purchase agreements	972	600	-	-
Debentures and subordinated notes	6,837	6,870	6,649	6,338
Other liabilities	6,012	5,777	6,325	5,954
Total liabilities	107,709	100,836	91,778	89,069
Minority interest	351	333	-	-
Shareholders' equity	5,952	5,846	5,721	5,621
Total liabilities and shareholders' equity	114,012	107,015	97,499	94,690

Management Review - Addendum G (continued)
Consolidated balance sheets

At end of each quarter in 2007

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Assets				
Cash and deposits with banks	10,701	12,463	13,240	13,595
Securities	6,145	6,763	7,115	6,894
securities loaned or sold in repurchase agreements	5	13	500	157
Credit to the public	74,320	73,688	72,285	71,452
Loans to the Government	3	3	4	4
Investments in investees	17	18	17	26
Buildings and equipment	1,246	1,205	1,219	1,296
Other assets	2,880	2,727	2,268	2,323
Total assets	95,317	96,880	96,648	95,747
Liabilities and Shareholders' Equity				
Deposits from the public	75,290	76,074	76,845	75,250
Deposits from banks	3,752	4,357	4,112	5,821
Deposits from the Government	282	522	539	549
Debentures and subordinated notes	6,189	6,357	6,077	5,263
Other liabilities	4,247	4,124	3,628	3,437
Total liabilities	89,760	91,434	91,201	90,320
Minority interest	-	12	13	-
Shareholders' equity	5,557	5,434	5,434	5,427
Total liabilities and shareholders' equity	95,317	96,880	96,648	95,747

Management Review - Addendum H
Consolidated Statement of Profit and Loss – Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2008

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Profit from financing operations before provision for doubtful debt	588	598	554	549
Provision for doubtful debts	182	117	55	41
Profit from financing operations after provision for doubtful debt	406	481	499	508
Operating and other revenues				
Operating commissions	295	295	258	256
Profits (losses) from investments in shares, net	16	(3)	25	8
Other profit	20	23	17	19
Total operating and other profit	331	315	300	283
Operating and other expenses				
Salaries and related expenses	327	331	303	312
Maintenance and depreciation of buildings and equipment	132	126	111	104
Other expenses	129	107	86	85
Total operating and other expenses	588	564	500	501
Pre-tax operating profit	149	232	299	290
Provision for taxes on operating profit	47	86	113	110
After-tax operating profit	102	146	186	180
Share in net, after-tax operating loss of investees	(1)	-	-	-
Minority interest in net after-tax operating profits of subsidiaries	(5)	(7)	-	-
Net operating profit	96	139	186	180
Net after-tax profit from extraordinary items	-	1	-	-
Net profit	96	140	186	180

Earnings per share(1)				
Basic earnings per share (in NIS)				
Operating profit per share	0.43	0.62	0.84	0.81
Profit from extraordinary items	-	0.01	-	-
Total	0.43	0.63	0.84	0.81

Diluted earnings per share (in NIS)				
Operating profit per share	0.43	0.62	0.83	0.80
Profit from extraordinary items	-	0.01	-	-
Total	0.43	0.63	0.83	0.80

(1) Share of NIS 0.1 par value each.

Management Review - Addendum H (continued)

Consolidated Statement of Profit and Loss – Multi-quarter information

Condensed Consolidated Statement of Profit and Loss by Quarter - for 2007

Reported amounts (NIS in millions)

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Profit from financing operations before provision for doubtful debt	507	523	529	467
Provision for doubtful debts	50	65	63	50
Profit from financing operations after provision for doubtful debt	457	458	466	417
Operating and other revenues				
Operating commissions	265	260	256	253
Profits (losses) from investments in shares, net	20	(1)	8	38
Other profit	18	14	22	37
Total operating and other profit	303	273	286	328
Operating and other expenses				
Salaries and related expenses	291	291	294	293
Maintenance and depreciation of buildings and equipment	110	105	106	100
Other expenses	110	82	82	74
Total operating and other expenses	511	478	482	467
Pre-tax operating profit	249	253	270	278
Provision for taxes on operating profit	95	72	86	115
After-tax operating profit	154	181	184	163
Share in net, after-tax operating loss of investees	(1)	-	-	-
Net operating profit	153	181	184	163
After-tax profit (loss) from extraordinary items	(6)	3	23	207
Net profit	147	184	207	370

Earnings per share[(1)]				
Basic earnings per share (in NIS)				
Operating profit per share	0.69	0.82	0.84	0.74
Profit (loss) from extraordinary items	(0.03)	0.01	0.10	0.95
Total	0.66	0.83	0.94	1.69

Diluted earnings per share (in NIS)				
Operating profit per share	0.68	0.81	0.82	0.73
Profit (loss) from extraordinary items	(0.03)	0.01	0.10	0.92
Total	0.65	0.82	0.92	1.65

(1) Share of NIS 0.1 par value each.

Certification

I, Eliezer Yones, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. (formerly: United Mizrahi Ltd.) ("the Bank") for the year 2008 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal control of financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those subsidiaries, particularly during the period in which the Report is being prepared;
   B. We have set such internal control of financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are compiled in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank's independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

E. Yones — March 29, 2009

President — 4 Nisan 5769

(1) As defined in Public Reporting Regulations with regard to "Report of the Board of Directors".

Certification

I, Menahem Aviv, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. (formerly: United Mizrahi Ltd.) ("the Bank") for the year 2008 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods presented in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure(1) and to the Bank's internal control of financial reporting(1) as well as:
   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those subsidiaries, particularly during the period in which the Report is being prepared;
   B. We have set such internal control of financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are compiled in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks.
   C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and have presented in this report our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank's independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:
   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

M. Aviv
Vice-president, Chief Accountant

March 29, 2009
4 Nisan 5769

(1) As defined in Public Reporting Regulations with regard to "Report of the Board of Directors".

Report of the Board of Directors and Management as to Internal Control over Financial Reporting

The Board of Directors and Management of Mizrahi Tefahot Bank Ltd. (hereinafter: "the Bank") are responsible for establishing and maintaining proper internal control of financial reporting (as defined in Public Reporting Regulations with regard to "Report of the Board of Directors"). The Bank's internal control system has been designed to provide the Bank's Board of Directors and management a reasonable degree of certainty as to proper compilation and presentation of financial statements published in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks. Regardless of the quality of the design there of, all internal control systems have inherent limitations. Therefore, even should it be determined that these systems are effective, they may only provide a reasonable degree of certainty with regard to compilation and presentation of financial statements.

The management, under supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are executed in line with management authorization, that assets are protected, and that accounting records are reliable. Furthermore, management under supervision of the Board of Directors, takes steps to ensure that information and communication channels are effective and monitor execution, including execution of internal control procedures.

The Bank's management, under supervision of the Board of Directors, has evaluated the effectiveness of the Bank's internal control system of financial reporting as of December 31, 2008 based on criteria set forth in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the aforementioned evaluation, management believes that as of December 31, 2008, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as of December 31, 2008 was audited by the Bank's independent auditors, Breitman Almagor Zohar & Co. ,as noted in their report on page 172, which includes their unreserved opinion as to the effectiveness of the Bank's internal control of financial reporting as of December 31, 2008.

Jacob Perry	**Eliezer Yones**	**Menahem Aviv**
Chairman of the Board of Directors	President	Vice-president, Chief Accountant

Ramat Gan, March 29, 2009
4 Nisan 5769

Financial Statements

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Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Ltd. – Internal Control over Financial Reporting

We have audited the internal control over financial reporting at Bank Mizrahi-Tefahot Ltd. (hereinafter: "the Bank") as of December 31, 2008 based on criteria set forth under the integrated framework for internal control of the Committee of Sponsoring Organizations of the Tread way Commission (COSO). The Bank's Board of Directors and management are responsible for maintaining effective internal control of financial reporting, and for evaluating the effectiveness of said internal control over financial reporting which is included in the report of the Board of Directors and management with regard to internal control of financial reporting, enclosed herewith. Our responsiblity is to express an opinion on the Bank's internal controls over financial reporting based on our audit.

We have conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (USA) as adopted by the Supervisor of Banks. In accordance with these standards, we are required to plan and perform the audit so as to achieve a reasonable degree of certainty as to the existence of effective internal control over financial reporting, in all material aspects. Our audit included: understanding of the internal control over financial reporting, evaluation of the risk of existence of any material weakness, testing and evaluation of the effective design and operation of internal control based on the evaluated risk. Our audit also included additional procedures which we believed to be necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide a reasonable degree of certainty as to the reliability of financial reporting and compilation of financial statements for external use in accoedance with Israeli GAAP, directives and guidelines of the Supervisor of Banks. A bank's internal control over financial reporting includes policy and procedures which:
(1) apply to record keeping which, with reasonable detail, accurately and properly reflects transactions and transfers of bank assets; (2) provide a reasonable degree of certainty that transactions are properly recorded so as to allow for compilation of financial statements in accordance with Israeli GAAP and directives and guidelines of the Supervisor of Banks, and that the bank's receipts and expenditures are made exclusively in line with authorizations of the bank's management and Board members; (3) provide a reasonable degree of certainty with regard to avoidance or timely discovery of any unauthorized acquisition, use or transfer of bank assets which may materially impact the financial statements.

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Due to its apparent limitations, internal control of financial reporting may fail to prevent or discover any misrepresentation. Furthermore, the implications of any effectiveness assessment for future periods are subject to the risk of controls being rendered inappropriate due to changes in conditions, or of deterioration in the level of compliance with policy or procedures.

In our opinion, the Bank maintained, in all material aspects, effective internal control of financial reporting as of December 31, 2008 based on criteria set forth under the integrated framework for internal control of the Committee of Sponsoring Organizations of the Tread way Commission (COSO).

We have also conducted an audit, in accordance with generally accepted auditing standards in Israel, including those prescribed in the Auditors' Regulations (Auditors' Mode of Performance), 1973, and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks, of the Bank's enclosed balance sheets as of December 31, 2008 and 2007 and the consolidated balance sheets as of such dates, and the statements of profit and loss, statements of changes to shareholders' equity and statements of cash flow of the Bank and consolidated – for each of the three years in the period ended December 31, 2008, and our report dated March 29, 2009 includes our unqualified opinion of the aforementioned consolidated financial statements.

Brightman, Almagor & Co.
Certified Public Accountants (Israel)

Tel-Aviv, March 29, 2009
4 Nisan 5769

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Independent Auditors' Report to Shareholders of Bank Mizrahi-Tefahot Limited

We have audited the accompanying balance sheets of Mizrahi Tefahot Limited ("the Bank") at December 31, 2008 and 2007, and the consolidated balance sheets at such dates, and the statements of profit and loss, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2008. These financial statements are the responsiblity of the Bank's Board of Directors and management. Our responsiblity is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain consolidated subsidiaries, whose assets included in the consolidated balance sheets constitute 9.52% and 4.18% of total consolidated assets at December 31, 2008 and 2007, respectively, and whose profits from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 6.20% and 3.24% and 5.40% of total consolidated profit from financing operations before provision for doubtful debts included in the consolidated statement of profit and loss for the years ended December 31, 2008, 2007 and 2006, respectively. Furthermore, we have not audited the financial statements of an affiliate, the investment in which amounts to NIS 12 million and NIS 11 million as of December 31, 2008 and 2007, respectively. The financial statements of these companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to amounts included with respect to these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditors' Mode of Performance), 1973 and certain auditing standards, the application of which was mandated by the directives of the Supervisor of Banks. These regulations require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the above financial statements present fairly, in all material respects, the financial position - of the Bank and on a consolidated basis – as of December 31, 2008 and 2007, and the results of operations, changes in shareholders' equity and cash flows – of the Bank and on a consolidated basis – for each of the three years in the period ended December 31, 2008 in accordance with Israeli GAAP. Also, in our opinion, the aforementioned financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks and his guidelines.

Deloitte.
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We have also conducted our audit, in accordance with standards set by the Public Company Accounting Oversight Board (USA) as adopted by the Supervisor of Banks, of the Bank's internal control of financial reporting as of December 31, 2008 – based on criteria specified in the integrated framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 29, 2009 includes our unreserved opinion of the internal control of financial reporting of the aforementioned financial statements.

Without qualifying our opinion, we draw attention to:

1. Note 19.D)12)a)-f) regarding claims filed against the Bank, for which motions were filed for recognition as class actions, including related to insurance.
2. Note 31 with regard to restatement of data in the household and financial management operating segments for the year ended December 31, 2006.

Brightman, Almagor & Co.
Certified Public Accountants (Israel)

Tel-Aviv, March 29, 2009
4 Nisan 5769

Balance sheet - consolidated and the Bank
As of December 31

Reported amounts (NIS in millions)

		Consolidated		The Bank	
	Note	2008	2007	2008	2007
Assets					
Cash and deposits with banks	2	11,038	10,701	10,475	12,659
Securities	3	9,259	6,145	5,742	6,092
Securities loaned or purchased in repurchase agreements		12	5	12	5
Credit to the public	4	88,049	74,320	79,346	70,094
Loans to the Government	5	2	3	2	3
Investments in investees	6	17	17	1,428	1,180
Buildings and equipment	7	1,476	1,246	1,311	1,234
Other assets	8	4,159	2,880	4,065	2,829
Total assets		114,012	95,317	102,381	94,096
Liabilities and Shareholders' Equity					
Deposits from the public	9	91,779	75,290	82,142	76,253
Deposits from banks	10	1,867	3,752	2,792	3,768
Deposits from the Government		242	282	234	275
Securities loaned or sold in conjunction with re-purchase agreements		972	-	972	-
Debentures and subordinated notes	11	6,837	6,189	4,430	4,057
Other liabilities	12	6,012	4,247	5,859	4,186
Total liabilities		107,709	89,760	96,429	88,539
Minority interest		351	-	-	-
Shareholders' equity	13	5,952	5,557	5,952	5,557
Total liabilities and shareholders' equity		114,012	95,317	102,381	94,096

The accompanying notes are an integral part of the financial statements.

Jacob Perry
Chairman of the Board of Directors

Eliezer Yones
President

Menahem Aviv
Vice-president, Chief Accountant

Approval date:
Ramat Gan, March 29, 2009
4 Nisan 5769

Statement of Profit and Loss - Consolidated and the Bank

For the Year Ended December 31

Reported amounts (NIS in millions)

		Consolidated			The Bank		
	Note	2008	2007	2006	2008	2007	2006
Profit from financing operations before provision for doubtful debt	22	2,289	2,026	1,987	2,043	1,944	1,904
Provision for doubtful debts	4C	395	228	305	392	226	312
Profit from financing operations after provision for doubtful debt		1,894	1,798	1,682	1,651	1,718	1,592
Operating and other revenues							
Operating commissions	23	1,104	1,034	991	953	934	899
Profits from investments in shares, net	24	46	65	50	47	65	50
Other profit	25	79	91	174	54	75	113
Total operating and other profit		1,229	1,190	1,215	1,054	1,074	1,062
Operating and other expenses							
Salaries and related expenses	26	1,273	1,169	1,395	1,130	1,108	1,340
Maintenance and depreciation of buildings and equipment		473	421	385	434	412	375
Other expenses	27	407	348	337	339	325	295
Total operating and other expenses		2,153	1,938	2,117	1,903	1,845	2,010
Pre-tax operating profit		970	1,050	780	802	947	644
Provision for taxes on operating profit	28	356	368	349	304	335	293
After-tax operating profit		614	682	431	498	612	351
Share in net after-tax operating profits (losses) of investees	6.B	(1)	(1)	(4)	103	69	76
Minority interest in after-tax operating profit of subsidiaries		(12)	-	-	-	-	-
Net operating profit		601	681	427	601	681	427
Net after-tax profit from extraordinary items	29	1	227	216	1	227	216
Net profit		602	908	643	602	908	643

The accompanying notes are an integral part of the financial statements.

Statement of Profit and Loss - Consolidated and the Bank (continued)

For the Year Ended December 31

Reported amounts

	Note	2008	2007	2006
Earnings per share(1)	1.U., 30			
Basic earnings per share (in NIS)				
Operating profit per share		2.70	3.08	1.95
Profit from extraordinary items		0.01	1.03	0.99
Total		2.71	4.11	2.94
Diluted earnings per share (in NIS)				
Operating profit per share		2.68	3.03	1.91
Profit from extraordinary items		0.01	1.01	0.97
Total		2.69	4.04	2.88

(1) Share of NIS 0.1 par value.

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

				Total cumulative other profit					
	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments[2]	Net profit from cash flow	Retained earnings[3]	Dividend declare after balance sheet date	Total shareholders' equity
Balance at January 1, 2006	1,881	34	1,915	36	(51)	-	2,776	-	4,676
Net profit for the year	-	-	-	-	-	-	643	-	643
Dividend paid	-	-	-	-	-	-	(325)	-	(325)
Benefit from share-based payment transactions	-	26	26	-	-	-	-	-	26
Related tax effect	-	12	12	-	-	-	-	-	12
Adjustments to present securities available for sale at fair value	-	-	-	47	-	-	-	-	47
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	[4]2	-	-	-	-	2
Related tax effect	-	-	-	(20)	-	-	-	-	(20)
Balance at January 1, 2007	1,881	72	1,953	65	(51)	-	3,094	-	5,061
Net profit for the year	-	-	-	-	-	-	908	-	908
Dividend paid	-	-	-	-	-	-	(400)	-	(400)
Benefit from share-based payment transactions	-	18	18	-	-	-	-	-	18
Related tax effect	-	8	8	-	-	-	-	-	8
Realized share-based payment transactions[5]	30	(30)	-	-	-	-	-	-	-
Adjustments to present securities available for sale at fair value	-	-	-	58	-	-	-	-	58
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	[4](115)	-	-	-		(115)
Related tax effect	-	-	-	19	-	-	-	-	19
Dividend declared after balance sheet date	-	-	-	-	-	-	(75)	75	-
Balance at January 1, 2008	1,911	68	1,979	27	(51)	-	3,527	75	5,557

(1) The premium on shares was created before March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 below.
(4) Reclassified.
(5) In 2008, 397,823 ordinary NIS 0.1 par value shares (2007 - 872,824 shares) were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS 0.1 par value shares (2007 - 1,938,771 shares) were issued to the President for exercise of options.

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	Share capital and premium[1]	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Total cumulative other profit: Adjustments for presentation of securities available for sale at fair value	Translation adjustments[2]	Net profit from cash flow hedges	Retained earnings[3]	Dividend declared after balance sheet date	Total shareholders' equity
Balance at January 1, 2008	1,911	68	1,979	27	(51)	-	3,527	75	5,557
Net profit for the year	-	-	-	-	-	-	602	-	602
Dividend paid	-	-	-	-	-	-	(75)	(75)	(150)
Benefit from share-based payment transactions	-	22	22	-	-	-	-	-	22
Related tax effect	-	(10)	(10)	-	-	-	-	-	(10)
Realized share-based payment transactions[4]	9	(9)	-	-	-	-	-	-	-
Adjustments to present securities available for sale at fair value	-	-	-	33	-	-	-	-	33
Adjustments in respect of presentation of securities held for sale re-classified to statement of profit and loss	-	-	-	(218)	-	-	-	-	(218)
Related tax effect	-	-	-	66	-	-	-	-	66
Net profit in respect of cash flow hedges	-	-	-	-	-	78	-	-	78
Related tax effect	-	-	-	-	-	(28)	-	-	(28)
Balance at December 31, 2008	1,920	71	1,991	(92)	(51)	50	4,054	-	5,952

(1) The premium on shares was created before March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 below.
(4) In 2008, 397,823 ordinary NIS 0.1 par value shares (2007 - 872,824 shares) were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS 0.1 par value shares (2007 - 1,938,771 shares) were issued to the President for exercise of options.

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - Consolidated and the Bank

For the Year Ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Cash flows generated by operating activities						
Net profit for the year	602	908	643	602	908	643
Adjustments to reconcile net profit to net cash generated by operating activities:						
Share in undistributed losses (profits) of affiliates, net	1	1	4	(103)	(69)	(76)
Minority interest in net after-tax operating profits of subsidiaries	12	-	-	-	-	-
Depreciation of buildings and equipment and amortization	181	163	137	172	161	135
Amortization of goodwill in investees	1	1	1	1	1	1
Provision for doubtful debts	395	228	305	392	226	312
Profit on sale of securities available for sale	(32)	(35)	(18)	(33)	(35)	(18)
Impairment of securities held for sale	218	115	2	218	115	2
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(3)	2	-	(3)	2	-
Profit in respect of realized investments in investees	-	(3)	(84)	-	(3)	(84)
Loss (profit) on sale of buildings and equipment	(2)	(21)	-	1	(11)	-
Cost reduction of buildings held for sale and unused leased properties	(2)	17	-	(2)	17	-
Deferred taxes, net	54	152	(290)	65	152	(295)
Severance pay - increase in excess of liability over amount funded (increase in excess of amount funded over liability)	(4)	3	197	(18)	3	198
Benefit from share-based payment transactions	22	26	26	22	26	26
Bank's share in net profit from extraordinary items of subsidiaries	-	-	-	(1)	(38)	(130)
Minority interest in net profit from extraordinary items of subsidiaries	1	13	-	-	13	-
Profit from sale of provident fund operations, net	-	(218)	-	-	(199)	-
Deferred income, net	23	8	(49)	24	12	(44)
Net cash inflow generated by operating activities	1,467	1,360	874	1,337	1,281	670

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - Consolidated and the Bank (continued)

For the Year Ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Cash flows generated by activities in assets						
Acquisition of debentures held to maturity	-	-	(173)	-	-	(152)
Proceeds on redemption of debentures held to maturity	-	-	170	-	-	166
Acquisition of securities available for sale	(6,725)	(10,238)	(8,645)	(4,969)	(10,238)	(8,642)
Proceeds on sale and redemption of securities available for sale	6,257	9,993	9,333	5,333	9,982	9,333
Deposits with banks, net	(4,296)	378	34	336	98	(534)
Securities held for trading, net	(339)	(52)	(29)	(354)	(52)	(29)
securities loaned or sold in repurchase agreements, net	(7)	(5)	-	(7)	(5)	-
Loans to the public, net	(10,735)	(4,439)	(4,806)	(9,644)	(4,282)	(4,402)
Loans to the Government, net	1	1	88	1	1	88
Acquisition of newly consolidated subsidiary (Appendix A)	3,330		-	(419)	-	-
Acquisition of shares in investees, including shareholder loans	(2)	(12)	(10)	(11)	(50)	(154)
Proceeds on sale of investment in affiliates	-	23	198	-	23	198
Proceeds from sale of provident fund operations	-	364	-	-	333	-
Acquisition of buildings and equipment	(274)	(206)	(194)	(249)	(203)	(192)
Proceeds on sale of buildings and equipment	15	138	7	6	120	7
Dividend received from investees	-	-	1	205	210	1
Other assets, net	(1,064)	(677)	(881)	(1,077)	(625)	(903)
Net cash outflow generated by activities in assets	(13,839)	(4,732)	(4,907)	(10,849)	(4,688)	(5,215)

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - Consolidated and the Bank (continued)

For the Year Ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Cash flows generated by activities in liabilities and shareholders' equity						
Deposits from the public, net	7,311	2,056	1,888	5,889	2,852	3,616
Deposits from banks, net	(1,904)	679	(59)	(976)	686	(721)
Deposits from the Government, net	(43)	(278)	(168)	(41)	(276)	(163)
Issuance of debentures and subordinated notes	745	1,259	1,063	533	490	461
Redemption of debentures and subordinated notes	(97)	(137)	(301)	(160)	(157)	(269)
Securities loaned or sold in conjunction with re-purchase agreements	972	-	-	972	-	-
Other liabilities, net	1,579	487	514	1,597	484	522
Dividend paid to shareholders	(150)	(400)	(325)	(150)	(400)	(325)
Dividend paid to minority shareholders in subsidiary	-	(12)	-	-	-	-
Net cash inflow generated by activities in liabilities and shareholders' equity	8,413	3,654	2,612	7,664	3,679	3,121
Increase (decrease) in cash	(3,959)	282	(1,421)	(1,848)	272	(1,424)
Balance of cash at beginning of year	8,467	8,185	9,606	8,453	8,181	9,605
Balance of cash at end of year	4,508	8,467	8,185	6,605	8,453	8,181

	Consolidated	The Bank
	2008	2008
Appendix A - Acquisition of newly consolidated subsidiary		
Assets and liabilities of consolidated subsidiary, at acquisition date:		
Assets (excluding cash of NIS 3,749 million)	(6,204)	(419)
Liabilities	9,297	-
Rights of external interested parties	328	-
Goodwill	(91)	-
Cash flows used in acquisition of newly consolidated subsidiary	3,330	(419)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Appendix B - Non-cash Transactions						
Acquisition of buildings and equipment	5	30	22	5	30	22
Equity investment	37	-	-	37	-	-

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements at December 31, 2008

Note 1 - Reporting Principles and Accounting Policies

A. General

1) The financial statements have been prepared in accordance with the directives and guidelines of the Supervisor of Banks.
2) The notes to the financial statements refer to the financial statements of the Bank, as well as to the consolidated financial statements of the Bank and its subsidiaries, unless a note explicitly states that it refers only to the statements of the Bank, or to the consolidated statements.
3) Definitions

"Subsidiaries"	Companies in which the bank holds, directly or indirectly, over 50% of voting rights, or may appoint over half of their board members, or over which the Bank maintains effective control and whose financial statements are consolidated with the bank's.
"Affiliates"	Companies, other than subsidiaries, the investment in which is included in the financial statements using the equity method.
"Investees"	Subsidiaries and affiliates.
"Adjusted amount"	The historical nominal amount that was adjusted to the CPI for December 2003, in conformity with the opinions of the Institute of Certified Public Accountants in Israel.
"Reported amount"	An amount adjusted as of December 31, 2003 (hereinafter: "the transition date"), plus amounts in nominal value that were added after the transition date, minus amounts deducted after the transition date. After the transition date, the amounts are deducted in historical nominal values, in adjusted amounts at the transition date or a combination of historical nominal values and adjusted amounts as at the transition date, as applicable.
"Cost"	Cost in reported amount.
"Related parties"	A defined in Opinion 29 of the Institute of Certified Public Accountants in Israel.
"Interested parties"	As defined in Section 1 of the Securities Law.
"Controlling shareholder"	As defined in the Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder), 1996.

Note 1 - Reporting Principles and Accounting Policies (continued)

B. Financial statements in reported amounts

Reported amounts

1) The Bank prepares its financial statements on the basis of the historical cost convention, adjusted for changes in the Israeli Consumer Price Index through December 31, 2003. Pursuant to Accounting Standard 12 and Accounting Standard 17, as of January 1, 2004 financial statements are no longer adjusted. The aforementioned adjusted amounts, included in the financial statements as of the transition date, serve as basis point for nominal financial reporting. The additions made after the transition date are included in nominal values.
2) Balance sheet
   A) Non-monetary items (mainly - buildings and equipment) are stated at reported amounts.
      Non-monetary items do not necessarily represent realization value or updated economic value.
   B) Monetary items are stated in the balance sheet at their nominal values at the balance sheet date.
3) Statement of profit and loss
   A) Income and expenses that relate to non-monetary items or to balance sheet provisions derive from the change between the reported amount in the opening balance and the reported amount in the closing balance.
   B) The remaining items on the statement of profit and loss are stated at nominal value.
4) Comparative figures in the financial statements are included in reported amounts.

C. Translation of the financial statements of overseas units

In accordance with the directives of the Supervisor of Banks, the Bank's branches overseas are classified as an "integrated unit" of the Bank. Accordingly, their financial statements are translated into Israeli currency as set forth below.

1) Monetary items were translated at the exchange rate prevailing at the balance sheet date.
2) Non-monetary items - up to the transition date, these were translated using historical exchange rates on the acquisition date; after the transition date were adjusted for the changes in the general purchasing power of the Israeli currency until December 31, 2003. Additions and disposals of non-monetary assets after the transition date are stated at reported amounts, according to the exchange rate prevailing on the acquisition date.
3) Differences derived from the translation of the financial statements, as aforesaid, were included in the statement of profit and loss.

   Until 1994, overseas consolidated companies were classified as "autonomous units". Differences between the investment unit, adjusted for the CPI, in overseas consolidated companies, as included on the bank's books, and the bank's equity holding in the company, translated using the exchange rate on the reporting date, were included under "translation adjustment of autonomous overseas operating units" under shareholders' equity.

Note 1 - Reporting Principles and Accounting Policies (continued)

D. Foreign currency and linkage

1) Assets (other than investments in investees, securities, buildings and equipment and liabilities denominated in or linked to foreign currency or linked to the Consumer Price Index) are included in the financial statements as follows:
   A) In foreign currency or linked thereto - at the representative exchange rates published by the Bank of Israel on the balance sheet date or a more appropriate date, in accordance with the terms of the transaction.
   B) Fully linked to the Consumer Price Index - using the index known on the balance sheet date or another appropriate index, as set forth in agreements.
2) Income and expenses in foreign currency were translated for inclusion in the statement of profit and loss at current representative exchange rates. Exchange rate differentials on assets and liabilities are included in the appropriate statement of profit and loss items.
3) Information regarding the CPI and the representative exchange rates and changes there to follows:

	As of December 31			Change in %		
	2008	2007	2006	2008	2007	2006
CPI in December (points)	106.4	102.5	99.1	3.8	3.4	(0.1)
CPI in November (points)	106.5	101.9	99.1	4.5	2.8	(0.3)
Exchange rate of USD (in NIS)	3.802	3.846	4.225	(1.1)	(9.0)	(8.2)
Exchange rate of Euro (in NIS)	5.297	5.659	5.564	(6.4)	1.7	2.2

E. Investments in investees

1) Principles of consolidation
   A) The financial statements of the Bank alone include the financial statements of wholly-owned and controlled companies, consolidated financial statements include the audited financial statements of the Bank and its subsidiaries most of whose properties are used by the Bank, and most of their services are provided to the Bank.
   B) The consolidated financial statements include the audited financial statements of the Company and of its subsidiaries.
   C) The financial statements of the provident funds, severance pay funds and continuing education funds managed by the Bank Group were not consolidated, since the Bank Group had no share in their assets or their profits.
   D) Material inter-company balances and transactions among consolidated Group companies have been eliminated in the consolidated financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

2) Principles of the application of the equity method -

A) In the Bank's financial statements, investments in the shares of investees, and in the consolidated financial statements, investments in the shares of affiliates, are presented using the equity method, on the basis of their audited financial statements.

The share of said companies' financial results is presented under "after-tax operating profit (loss)". After-tax profit (loss) from extraordinary items for investee companies is included under the Bank's "After-tax profit (loss) from extraordinary items".

B) Goodwill arising from the acquisition of investments in investees, including goodwill in respect of acquisition of shares of Bank Tefahot, which has been merged into the Bank, is amortized over a 10-year period and is presented under Other Assets. In the event of an expected loss of economic benefit, the goodwill is written-off in full. Goodwill amortization is recorded under Other Expenses.

C) With respect to Accounting Standard No. 15 - "Impairment of Assets" - see O. below.

F. Securities

1) Investments in securities were classified into three categories, as follows:

A) Debentures held to maturity - debentures that the Bank has the intention and ability to hold until maturity date. These debentures are presented at their nominal value plus accrued interest and linkage or exchange rate differentials, plus or minus the discount or premium component generated upon acquisition and not yet amortized. Income from bonds held to maturity is recorded to the statement of profit and loss on the accrual basis.

B) Securities held for trading - securities that were purchased or are held essentially for the purpose of selling them during the near term. These securities are included in the balance sheet at their fair value on the reporting date. Unrealized profits or losses from the adjustment to fair value are charged to the statement of profit and loss.

C) Securities available for sale - securities not classified under the two preceding categories. Securities available for sale are presented on the balance sheet at fair value. Unrealized profits or losses from adjustment to fair value, net of tax effect, are charged directly to a separate item under shareholders' equity and transferred to the statement of profit and loss upon realization. For securities which include embedded derivatives - see section M.4) below.

D) Investment in stocks is presented in the portfolio available for sale at fair value and as set forth in section c) above. Shares having no available fair value, including shares of credit card company received in conjunction with a long-term contractual agreement, are presented at fair value as of the date they were received - which does not exceed their cost - and net of provision for impairment which is not of a temporary nature, which is charged to the statement of profit and loss. Dividends received from an investment in shares available for sale, originating in the profits of the distributing company prior to the acquisition date, were charged to the statement of profit and loss.

Note 1 - Reporting Principles and Accounting Policies (continued)

E) A decline in value of securities, which, in the opinion of management, is not temporary, is recorded in the statement of profit and loss. For details of determination of fair value and provision for impairment, see section f)2) below.

2) Fair value and provision for impairment of securities.

The fair value of all securities traded on the stock exchange in Israel are based on sale prices determined as of the balance sheet date. Most of the foreign-traded securities are revalued using quoted sale prices from external sources, including quotes from well-known systems, such as Bloomberg.

The fair value of remaining foreign securities, which have no active market, are determined using internal valuation methods based on objective data, in as much as this is available, with regard to said securities and on adjustments required for calculation of the fair value.

The fair value of all Bank investments in securities undergoes validation by a professional entity designated for this purpose at the Bank, which is not party to calculation of the fair value. Validation is made with assistance from an external professional consultant specialized in development and validation of models for calculating fair value of financial instruments. Validation is conducted by reviewing the model assumptions and parameters; reviewing the model methodology and the application thereof; and independently reviewing the model in comparison with other models, in as much as possible.

The nature of impairment in the portfolio is reviewed quarterly. The aforementioned review is conducted for each series of securities separately. Impairment may arise from two types of events:

a) Global events - changes to general market risk factors due to macro-economic change.

b) Specific events - impaired financial standing of the issuer.

The decision as to whether impairment of an investment in securities is of a temporary nature, is also based on one or more of the following parameters:

a) The length of the period in which the security value is lower than its revaluated acquisition cost.

b) Extent of impairment out of total investment.

c) Assessment of the issuer's financial standing and ability to meet their obligations, based, inter alia, on rating of securities by international agencies and on review of safety cushions and securities which back the investment.

d) Assessment of the time at which market prices which impact the investment value are expected to return to their original level.

e) The bank's intention and ability to hold the securities for a sufficient period of time for their value to return to original cost, taking into account, inter alia, considerations of position management and liquidity.

Note 1 - Reporting Principles and Accounting Policies (continued)

G. Transfer and service of financial assets and discharge of liabilities

1) A new public reporting directive, “Transfers and Service of Financial Assets and Discharge of Liabilities”, became effective January 1, 2007. This directive adopts the measurement and disclosure principles prescribed in American Standard No. 140 relating to all transfer and service transactions of financial assets and the discharge of liabilities, including: repurchase and lending of securities; sale of loan portfolios, securitization of financial assets; associations and partnerships in credit; bank acceptances and participation in their risk; discount agreements.

   The provisions adopt the principles prescribed in American Standard 140 for distinguishing between transfers of financial assets that will be recorded as a sale and between other transfers. The principle was adopted, whereby a transferred financial asset will be stated in the balance sheet of the party that controls it, whether it is the transferor or recipient of the asset. The provisions prescribe control tests relating to repurchases, lending of securities, securitization of loans, sale and participation in loans.

   The provisions also adopt the measurement and disclosure principles prescribed in Standard 140 relating to the measurement of financial assets, which according to their contractual terms, may be discharged in early repayment, so that the holder does not cover his investment.

   The new directive applies to the lending of securities, repurchase of securities, securitization of financial assets, other transfers of financial assets, providing of services to financial assets and discharge of liabilities effected commencing January 1, 2007.

   Pursuant to the directive, recorded in “other securities” in the Bank’s balance sheet will be securities that the Bank borrowed, which meet the conditions provided in the directive for transfer of control, including securities that were borrowed from the borrowing reserve of the Ministry of Finance. Securities held by the Bank which were loaned to others while fulfilling the conditions for transfer of control, will not be recorded in the balance sheet. The gain or loss from their sale will be recognized in the statement of profit and loss, and new assets or liabilities representing the rights or obligations that the Bank retained in the borrowed securities will be recorded in the balance sheet.

   The securities that were loaned or borrowed, or securities sold or purchased in conjunction with REPO agreements, in all cases with receipt/payment of the full consideration for them, and which do not meet the conditions for transfer of control, are presented separately in the Bank’s balance sheet, as part of the item "securities", and the consideration for them is recorded in the balance sheet as “secured debts”: the consideration received for securities loaned or sold under REPO is recorded as “securities loaned or sold in repurchase agreements”, on the liabilities side, and the consideration paid for the securities borrowed or purchased under REPO is recorded as “securities borrowed or purchased in repurchase agreements” on the asset side.

2) The borrowing and lending of securities between the Bank's customers, brokered by the Bank, executed as credit transactions with no proceeds received for the securities borrowed, is stated in loans to the public and deposits from the public, or deposits from banks, respectively.

3) Transactions in securities are recorded based on the date they clear.

Note 1 - Reporting Principles and Accounting Policies (continued)

H. Buildings and equipment

1) Buildings and equipment are stated at cost, net of depreciation, computed using the straight-line method over their estimated useful life. Pursuant to provisions of Accounting Standard No. 27 - “Fixed Assets” ("the standard"), each part of any fixed asset item having a cost which is material in comparison to the total item cost, is amortized separately.

   The Standard allows an entity to choose between measurement of the fixed asset at cost, in which the asset is stated in the books at its depreciated cost net of impairment losses that accrued, and the method of revaluation, in which the fixed asset is stated at its revalued fair value, net of depreciation and accrued impairment losses. According to the directives of the Supervisor of Banks, a banking corporation shall only apply the cost method. The Standard provides among its provisions, that a fixed asset item will be measured on the first date of recognition at total cost, which includes, in addition to the purchase cost of the asset, all the costs that can be directly attributed to bringing the item to the required location and condition, so that it can be operated in the manner that management intended. The Standard defines, except in the specified exceptions, the principle of fair value measurement of the purchase cost of a fixed asset in consideration for non-monetary assets.

2) Assets designated for sale were stated at estimated sales price, which does not exceed the estimated sales prices.
3) Certain costs (mainly salaries and related expenses) connected to the independent development of computer software for the Bank's own use, are allocated to the different projects. These costs are capitalized and recorded on the bank's balance sheet, in accordance with accounting treatment set forth in US Publication 98-1 Statement of Position, and are amortized from their date of operation, according to estimated duration of their use.
4) See O. below with respect to Standard No. 15 - “Impairment of Assets”.
   Provision for impairment of a non-temporary nature on investment in buildings and equipment, or reversal of provision for such impairment, is recorded under depreciation expense. The asset for which a provision for impairment has been recorded prior to the Standard's effective date, a provision is recorded as set forth in section “net after-tax loss from extraordinary operations”.
5) Cost of software recognized as an intangible asset is presented on the financial statements under "Buildings and equipment" at cost, net of accumulated depreciation and loss from impairment.

I. Expenses in conjunction with issuance of debentures and subordinated notes

Expenses for issuance of debentures and subordinated notes, as well as premium and discount, are amortized over the term of the debentures or subordinated notes, taking into account the balances in circulation.

Note 1 - Reporting Principles and Accounting Policies (continued)

J. Set-off of financial instruments

Financial assets and liabilities are set off when there is an enforceable legal right of set-off between them and intent to set-off the amounts on the maturity dates. Accordingly, designated deposits for which repayment to the depositor is contingent upon the collection of the loan (when the Bank Group is not at risk of credit loss) were set off against the loans issued out of these deposits. The interest margins from this activity are presented in the statement of profit and loss in the item “operating commissions”.

K. Contingent liabilities

The financial statements include appropriate provisions to cover possible damage, where, in the estimation of the Bank's management, based on the opinion of its legal counsel, a provision is required.

In accordance with the directives of the Supervisor of Banks, claims have been classified according to the range of probability of realization of the risk exposure, as follows:

1) Probable: there is a probability of more than 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Probable, an appropriate provision was made in the financial statements.
2) Reasonably possible: there is a probability of between 20% and 70% that a loss will be sustained from the claim. For claims whose probability of realization has been classified as Reasonably Possible, an appropriate provision was made in the financial statements only for that part of the claim amount for which the probability of realization of damage to the bank is defined as Probable, if any.
3) Remote: there is a probability of less than 20% that a loss will be sustained from the claim. For claims whose probability of realization has been classifi ed as Remote, no provision was made in the financial statements.

   See Note 19 D for disclosure of material claims (over 1% of equity, excluding interest and expenses).

   Likewise, disclosure is given to motions for recognition as class actions, when the amount claimed in them is material, and to appeals to the High Court of Justice when, in the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to estimate their possible outcome, and therefore, no provision was recorded for them.

   In accordance with the directives of the Supervisor of Banks, the Bank is permitted to determine for class actions that it is not possible to estimate the prospects for realization of the exposure to risk in the four financial statements published since the claim was filed. Beyond this, only in rare cases is the Bank permitted to determine that the prospects for realizing the exposure cannot be determined.

L. Employee rights

Pension and severance pay liabilities are covered by deposits to funds and by appropriate provisions. The financial statements included all of the liabilities for employee rights, including an appropriate provision for severance pay, which is recorded in accordance with the law, agreement, custom and management's expectations.

The future contractual liabilities for pension and severance are calculated based on regular actuarial consultation, based on recommendation of the Supervisor of Insurance. Also, see Note 16 below.

Note 1 - Reporting Principles and Accounting Policies (continued)

M. Share-based payment transactions

In accordance with the directives of the Supervisor of Banks, starting on January 1, 2006 the bank applies Accounting Standard no. 24 "Share-Based Payment", published by the Israeli Accounting Board.

The Bank has calculated the fair value of the benefit deriving from the allotment of options to employees based on the Black & Scholes model. Expenses in respect of the value of the benefit and in respect of the additional benefit value arising from extension of the option term, are charged over the vesting period of the option warrants to Payroll Expenses on the statement of profit and loss, against a capital reserve in shareholders' equity in respect of benefit from allotment of options to employees. Simultaneously, the Bank records deferred taxes for the expected tax benefit upon option exercise by employees, based on the naive value of the options as of the reporting date.

Salary expenses include updates to the provision for wage tax payment expected upon option exercise. The provision is updated in accordance with changes in the naive value of the options.

For details of share-based payment transactions, see Note 16.A below.

N. Derivative instruments and hedging activities

1) The Bank trades in financial derivatives, including currency and interest contracts. The currency contracts include forwards, futures, swaps and options. These trades are executed in all the linkage sectors. The trades are executed with the public and with banks in Israel and overseas, as part of the Bank's day-to-day activities as a market maker, and as part of the overall strategy of managing the expedient level of exposure for the various market risk, including basis and interest risk - risk to which the Bank is exposed in its day-to-day activities.
2) The derivatives are recorded in the Bank's balance sheet in other assets or other liabilities, as applicable, at their fair value. Changes in the fair value of derivatives are recorded to the statement of profit and loss.
3) It is possible that the Bank will enter into a contract, which by itself is not a derivative, but contains an embedded derivative. When an embedded derivative has economic characteristics that are not clearly and closely tied to the economic characteristics of the host contract, and a separate instrument with the same conditions as the embedded derivative would qualify as a derivative instrument, then the embedded derivative is detached from the host contract and is treated as a hedge by itself.

   A detached embedded derivative is stated in the balance sheet together with the host contract. When the host contract is measured at fair value and changes in its fair value are reported currently in the statement of profit and loss, or when the Bank is unable to reliably identify and measure the embedded derivative for the purpose of detaching it from the host contract, the entire contract is recorded in the balance sheet at fair value.
4) In certain cases, in which the embedded derivative must be detached from the host contract, the Bank adopts a policy of measuring the entire contract according to its fair value, and records the changes in its fair value in the statement of profit and loss. This policy was adopted for structured securities in the available-for-sale portfolio.

Note 1 - Reporting Principles and Accounting Policies (continued)

5) The Bank designates certain derivates as fair value hedges or as cash flow hedges. The Bank documents in writing all of the hedging relationships between the hedging financial derivatives and the hedged items, as well as the objective and strategy of the management of risk through the creating of a hedge transaction. The documentation includes specific identification of the asset designated as the hedged item and states the manner in which the hedging instrument is expected to hedge the risk related to the hedged item. The Bank estimates the effectiveness of the hedging relationship at the inception of the hedge and continuously, in accordance with its risk management policy. Based on the above, a determination is made as to whether the derivative qualifies as a hedge in accordance with public reporting directives.
6) Changes in the fair value of an item hedged by a fair value hedge using a derivative that meets the above conditions, arising from changes in the specified risk factors, are recorded currently to the statement of profit and loss, concurrent with the changes in the fair value of the hedging derivative.
   Changes in the fair value of a derivative which qualifies as a cash flow hedge, which arise from changes in the risk factor being hedged (which impacts the cash flows resulting from the hedged instrument), are charged to capital reserve from cash flow hedging, under shareholders' equity.
7) The Bank stops hedge accounting henceforth, when:
   A) It is determined that a hedge is no longer effective for offsetting the changes in the fair value or cash flow of the hedged item, as the case may be;
   B) The derivative expires, is sold, cancelled or realized;
   C) Management revokes the designation of the derivative as a hedging instrument.
      When a fair value hedge is discontinued because it is determined that the hedge no longer qualifies as an effective fair value hedge, the derivative will continue to be recorded in the balance sheet at its fair value, but the hedged asset or liability will no longer be adjusted for changes in fair value.
      When a cash flow hedge is discontinued because it is determined that the hedge no longer qualifies as an effective cash flow hedge, changes in the fair value of the derivative since the date of hedging discontinuation are recorded in the statement of profit and loss.

O. Basis of recognition of income and expenses

1) Income and expenses are included on the accrual basis.
2) Income and expenses from securities held for trading and derivative instruments are included at the changes in fair value of the related balance sheet item. See section F.1)d) above regarding the dividend received from an investment in shares available for sale. Dividend income is recognized on the Effective Date.
3) Delinquency interest and amounts of provisions made for housing loans are recorded in the statement of profit and loss upon actual collection. See also section P.3) below.
4) Interest supplement from the Treasury to the State to compensate for the difference in interest on housing loans given to borrowers eligible for benefits is recorded in the statement of profit and loss over the period of the loans, using the uniform return basis.

Note 1 - Reporting Principles and Accounting Policies (continued)

5) Revenues from commissions received due to early loan repayment after deduction of the share related to financial capital, which is immediately recognized as revenue, is charged to the statement of profit and loss. This income is mainly charged on a straight-line basis over three years from the payment date.
6) Interest expenses on deposits, in which the customer is given a graduated interest rate according to the period of the deposit, are recorded to the statement of profit and loss over the deposit term, according to the effective interest rate for the deposit.
7) Pursuant to Proper Conduct of Banking Business Directive no. 325 “Management of Credit Facility in Current Accounts", the Bank does not record to the statement of profit and loss any interest income on deviations arising in accounts classified as problem accounts, until the balance returns to within limits of the overall credit facility. When there is a deviation in the current account, the Bank considers the required classification of the debts, in accordance with the directives of the Supervisor of Banks.

P. Provision for doubtful debts

1) The financial statements include appropriate provisions for debts, the collection of which is in doubt.
   The provisions are made on the basis of estimates by the managements of the Bank and its subsidiaries regarding possible losses in the loan portfolio - including off-balance-sheet debts. Managements' estimates take into account the risk inherent in the loan portfolio, the scope and quality of the information available to management on the debtor, its business activities, how it honors its obligations, and the value of the collateral held.
2) The specific provision for housing loans is calculated, pursuant to directive of the Supervisor of Banks, according to length of arrears, whereby provision amounts increase the longer the arrears. With respect to housing loans above NIS 841 thousand, housing loans that are not repaid in monthly or quarterly payments and housing loans for which the existing specific provision exceeds the amount of the provision based on length of arrears, the provision is made on a specific basis and not based on the length of arrears.
3) A provision for doubtful debts made according to length of arrears is reduced upon receiving proceeds for loan repayment or sale of the pledged asset. Therefore, repayment of a debts in arrears after the balance sheet date, or foreclosure of the pledged asset for which payments were received to repay the debts after the balance sheet date, do not reduce the provision based on length of arrears in the reported period. Furthermore, it is not possible to reduce such provisions for loans in which the bank may, but is not required, to make provisions based on length of arrears by changing the provision policy to a policy of specific provisions.
4) Debts are written off only after all legal and other proceedings for their collection have been exhausted, and it is evident that there is no real prospect to collect them.

Note 1 - Reporting Principles and Accounting Policies (continued)

5) The financial statements include a general provision and a supplementary provision for doubtful debts that relate to the credit portfolio of the Bank Group in Israel. In accordance with the directives of the Supervisor of Banks, the supplementary provision for bad debts is computed based on the quality of the customer loan portfolio, the concentration of debts from an industry, and other risk characteristics. These directives also require banks to maintain a general provision of 1% of total credit to the public as at December 31, 1991. Beginning from January 1, 2005, the adjustment of the general provision to the CPI was discontinued.

Q. Taxes on income

1) The bank and its subsidiaries implement a method of applying taxes for differences in timing of charging certain income and expenses between financial reporting and tax-related reporting. The utilization of deferred tax assets is contingent upon the existence of sufficient taxable income in the future. Management of the Bank and its subsidiaries believes that these taxes may be utilized in the future.

   Deferred taxes were computed using the liability method, at the tax rates expected to be in effect when they are realized, based on the data available upon preparation of the financial statements.

   In accordance with the directives of the Supervisor of Banks, deferred taxes are not recorded in respect of the general, supplementary and special provisions for doubtful debtss.

2) The accumulated retained earnings of certain investees may be subject to additional taxes if distributed by them as a dividend. No provision for tax is recorded for the profits of subsidiaries, when a dividend distribution is not expected in the foreseeable future. A provision for tax is recorded on the profits of affiliates, if additional tax liability could arise.

   The computation of deferred taxes does not include taxes that would be imposed if the investments in investees are realized, if the intention is to hold them and not realize them. Deferred taxes are computed on investments in investees earmarked for sale.

3) The provision for taxes on the income of the Bank and subsidiaries that are financial institutions for V.A.T. purposes includes profit tax levied on earnings under the Value Added Tax Law. The value added tax levied on the salaries of financial institutions is included in “salaries and related expenses”.

4) Tax expenses on profit from extraordinary operations, including on capital gains for tax purposes, are included in the item "profit from extraordinary operations".

R. Impairment of Assets

The Bank applies the provisions of Accounting Standard No. 15, which prescribes the accounting treatment and presentation required in the event of impairment - decline in value - of assets. Pursuant to this standard, if there is a sign pointing to the decline in value of an asset, it is to be examined by comparing the book value of the asset to its recoverable amount.

Note 1 - Reporting Principles and Accounting Policies (continued)

The recoverable amount is the higher of the net sales prices of the asset and its utility value as determined by the present value of the future cash flows projected from use of the asset and its realization at the end of its life. If the carrying value of the asset in the balance sheet exceeds its recoverable amount, the Bank recognizes an impairment loss (and an allocation of deferred taxes), in the amount of the difference between the book value of the asset and its recoverable amount.

An impairment loss that was recognized (except for goodwill) will be reversed only if changes have occurred in the estimates used to determine the recoverable value of the asset, at the time an impairment loss was recognized.

In accordance with the directives of the Supervisor of Banks, Standard no. 15 does not apply to financial assets which require disclosure in a note on the fair value of financial instruments, including securities.

The main assets of the bank to which Standard no. 15 applies are:

Investments in affiliates - the recoverable amount is reviewed for each company separately, based on share prices on the stock exchange for a company whose shares are listed for trading, as well as on review of financial statements and forecasts for coming years for each company.

Buildings and equipment - the recoverable amount is calculated per branch, by discounting cash flows expected from branch income and expenses, with reference, as the case may be, to an independent valuation of the realization value of the asset.

For details of provision for impairment of buildings and equipment, see Note 7.

S. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles occasionally requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of income and expenses in the report periods. Actual results could differ from these estimates.

T. Statement of cash flows

1) The statement of cash flows presents the net cash flows from operations related to both assets and liabilities, except for changes in securities that are not securities held for trading, in non-monetary assets and in subordinated notes.
2) Cash in cludes cash and deposits with banks with an original period to maturity not exceeding three months.

Note 1 - Reporting Principles and Accounting Policies (continued)

U. Earnings per share

Earnings per share is calculated according to provisions of Accounting Standard no. 21 "Earnings per share", published by the Israel Accounting Standards Board. Basic earnings per share is calculated based on profit or loss attributable to holders of ordinary shares of the bank, divided by the weighted average number of ordinary shares outstanding during the reported period. In order to calculate the diluted profit per share, the corporation will adjust the profit or loss attributable to the ordinary shareholders of the reporting entity, and the weighted average number of outstanding ordinary shares, for the effects of all the dilutive potential ordinary shares (primarily convertible securities).

Furthermore, pursuant to the standard, earnings per 1 share is presented.

For details with regard to earnings per share, see Note 30.

V. Transactions with controlling shareholders and with corporations controlled by the bank

In December 2006, the Israel Accounting Standards Board published Accounting Standard No. 23 "Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" ("the Standard"). The Standard supersedes the Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder), 1996 - as adopted by the Supervisor of Banks.

The Standard prescribes that assets and liabilities for which a transaction was executed between the entity and its controlling shareholder, will be measured according to their value on the transaction date, and the difference between the fair value and the consideration prescribed in the transaction will be charged to shareholders' equity. A positive difference will be offset against the retained earnings balance and a negative difference will be presented in a separate shareholders' equity item to be called "capital reserve from transaction between an entity and its controlling shareholder". The difference between the asset's fair value and its carrying amount upon the transfer date will be recognized as profit or loss.

Furthermore, pursuant to Standard 23, a loan granted to a controlling shareholder or obtained from a controlling shareholder shall be presented, upon initial recognition in the entity's financial statements, as an asset or liability, as the case may be, at fair value, with the difference between the amount of the loan received or granted and its fair value upon initial recognition being charged to shareholders' equity. Subsequent to initial recognition, the loan shall be presented in the entity's financial statements at amortized cost, applying the effective interest method, except where presentation at fair value is called for in accordance with generally accepted accounting principles.

Standard 23 applies to transactions between an entity and its controlling shareholder transacted after January 1, 2007, as well as to loans granted to or obtained from the controlling shareholder prior to the effective date of Standard 23, which is effective as of its publication.

As of the publication date of these financial statements, the Supervisor of Banks has yet to issue a final directive as to application of the Standard. Since transactions between the Bank and its controlling shareholder are transacted at market prices, even should the Standard be applied to banking corporations, its impact on the Bank's financial statements should not be material.

Note 1 - Reporting Principles and Accounting Policies (continued)

W. Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)”

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard"). The Standard prescribes that companies subject to the Securities Law, 1968, and required to report in accordance with regulations under this Law, will prepare their financial statements in conformity with the IFRS Standards, as from the reporting period commencing January 1, 2008.

This does not apply to entities which according to the Securities Regulations (Periodic and Immediate Reports of a Foreign Corporation), 2000, prepare their financial statements in accordance with the directives and guidelines of the Supervisor of Banks. The IFRS Standards will be adopted for the first time with the application of the provisions of IFRS 1 “First-time Adoption of IFRS Standards”, for transition purposes.

With respect to the manner in which the Standard will be applied by banking corporations, the Supervisor of Banks informed the banking corporations that:

1) He intends to prescribe, on a current basis, guidelines for applying the Israeli Standards published by the Israel Accounting Standards Board, which are based on IFRS, which do not involve the core banking business;
2) In the second half of 2009, he will publish his decision regarding the date for application of IFRS Standards relating to the core banking business. In doing so, he will take into consideration the results of the process of adopting these standards in Israel, on one hand, and the progress in the convergence process between the international reporting standards and the American standards, on the other hand.
3) Thus, with respect to the core banking business, the financial statements of a banking corporation which are prepared according to the directives and guidelines of the Supervisor of Banks will continue to be prepared in accordance with the American standards that were prescribed in the public reporting regulations.

X. Measuring and disclosure of impaired debts, credit risk and provision for credit losses

On December 31, 2007, the Supervisor of Banks published his directive in a circular concerning: "Measuring and disclosure of impaired debts, credit risk and provision for credit losses" (hereinafter: "the circular" or "the directive"). This circular is based, inter alia, on USA Accounting Standards 5, 114 and 118 as well as on regulatory directives by banking supervision bodies and by the USA Securities and Exchange Commission. The guiding principles on which the directive is based introduce a material change over current directives on classification of problem debts and measuring of provisions for credit losses in conjunction with such debts.

According to the circular, the banking corporation is required to maintain adequate provision for credit losses so as to cover expected credit losses from its credit portfolio. Furthermore, according to the circular, the Bank is required to maintain adequate provision so as to cover expected credit losses associated with off-balance sheet credit instruments, such as contracts for provision of credit and guarantees. The required provision to cover expected credit losses from the credit portfolio would be made under one of the following tracks: "Individual provision" or "group provision".

Note 1 - Reporting Principles and Accounting Policies (continued)

"Individual provision for credit losses" would be applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 1 million or higher. For other debts, the banking corporation may decide whether to make an individual assessment. The individual provision for credit losses will be estimated based on expected future cash flows, discounted using the original discount rate for the debts or, if the debts requires collateral or when the banking corporation determined that seizure of an asset is probable, based on the fair value of the collateral provided to secure said credit.

"Specific provision for credit losses using group estimate" would be applied for large, homogeneous groups of small debts (whose balance is below NIS 1 million) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The specific provision for credit losses from debts based on group estimate, except for loans for which a specific minimum provision based on length of arrears has been calculated as per directives of the Supervisor of Banks, shall be calculated based on rules set forth in USA Accounting Standard FAS 5: "Accounting for Contingencies" ("FAS 5"), using statistical models which take into consideration the extent of past losses for each homogeneous group of debts having similar risk attributes. The required provision with regard to off-balance sheet credit instruments would be assessed as per rules set forth in the USA Accounting Standard FAS 5.

Changes to provision for credit losses would be recorded under "Expenses for tax losses" in the statement of profit and loss. Furthermore, the directive specifies various definitions and classifications of on- and off-balance sheet credit risk, rules for recognizing interest profit from impaired debts as well as rules for accounting write-off of problem debts. The circular stipulates, inter alia, that debts should be subject to accounting write-off. Based on group estimates and classified as impaired based on their length of arrears, taking into consideration the banking corporation's ability to assess that collection is probable, and considering the fact that they are secured by a residence.

This directive will be applied in financial statements of banking corporations starting on January 1, 2010, with no retroactive application to financial statements for previous periods. According to transition directives, the impact of changes due to the new directives shall be charged directly to equity upon initial application.

In conjunction with the Bank's preparations for application of this directive, teams were formed and an external consultant has been hired to review required changes to Bank work processes, both in terms of credit management and processing of impaired debts, as well as in terms of accounting treatment and impact on its financial statements. Teams have completed specification of the processes and computer systems required for implementation of the directive, as well as writing of the detailed design specification of the new system to be developed. Based on the specifications written, work has started on implementation of the new system by means of a software vendor selected for implementation of required system development and modifications. The Bank intends to update work processes through the end of 2009, including recompilation of procedures and delivery of comprehensive training for professional staff in preparation for applying this directive.

Note 1 - Reporting Principles and Accounting Policies (continued)

The following are the major milestones foreseen by the Bank for 2009 through to application of the directive:

Establish models for calculation of provision for credit loss, primarily in respect of small debts to be handled by means of group provision, by end of the third quarter.

Also during the third quarter - review of initial application of the directive to a limited number of typical branches (pilot).

In addition, deployment of work procedures and training at branched and headquarters.

Deployment of the new system to all Bank branches and headquarter units concurrently with the old system and testing of all system components - fourth quarter.

As of the date of preparation of these financial statements, it is not possible to estimate the impact of application of the directives on the Bank's shareholders' equity, since the models for calculating provisions for credit losses have yet to be finalized, especially for small-size debts to be treated via group provision. Completion of the methodology and initial estimated of impact of said application are anticipated in the first half of 20089. Initial review of potential implications of these directives on major borrowers has revealed that implementation of these directives may increase to a certain degree the required provision for credit loss, although at this stage it is not possible to estimate whether this increase would be material.

Note 2 - Cash and Deposits with Banks

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
Cash and deposits with central banks	5,997	2,668	5,494	2,666
Deposits with commercial banks	4,358	7,478	1,875	7,531
Deposits with special banking entities	683	555	3,106	2,462
Total cash and deposits with banks	11,038	10,701	10,475	12,659
Includes - cash, deposits with banks and deposits with central banks for an original period of up to three months	4,508	8,467	6,605	8,453

Note 3 - Securities - Consolidated

As of December 31, 2008

Reported amounts (NIS in millions)

	Value On balance sheet	Cost Amortized	Total cumulative other profit[5] Profit	Loss	Fair value[1]
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel[2]	6,184	6,237	57	110	6,184
Of foreign governments and their agencies[2]	515	513	2	-	515
of others	1,740	1,840	5	105	1,740
Total debentures available for sale	8,439	8,590	64	215	8,439
Shares of others	380	332	55	7	[4]380
Total securities available for sale	8,819	8,922	119	222	[4]8,819

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
2) Securities held for trading					
Debentures -					
of Government of Israel	437	437	-	-	437
of others	3	3	-	-	3
Total securities held for trading	440	440	[6]-	[6]-	440
Total securities	9,259	9,362	119	222	[4]9,259

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities. See Note 1.F.

(2) See Note 15.A-E for information on liens on securities held by the Bank.

(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of December 31, 2008, included in this item, amounts to NIS 276 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 51 million.

(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 88 million.

(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(6) Charged to statement of profit and loss.

Note: Details of results of trading in investments in debentures - see Note 22; details on results of trading in shares - see Note 24.

Note 3 - Securities - Consolidated (continued)

As of December 31, 2007

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost	Total cumulative other profit[5]		Fair value[1]
			Profit	Loss	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel[2]	4,010	4,026	5	21	4,010
Of foreign governments and their agencies[2]	69	69	-	-	69
of others	1,587	1,628	-	41	1,587
Total debentures available for sale	5,666	5,723	5	62	5,666
Shares of others[3]	399	295	104	-	[4]399
Total securities available for sale	6,065	6,018	109	62	[4]6,065

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
2) Securities held for trading					
Debentures -					
of Government of Israel	79	79	-	-	79
of others	1	1	-	-	1
Total securities held for trading	80	80	[6]-	[6]-	80
Total securities	6,145	6,098	109	62	[4]6,145

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities. See Note 1.F.

(2) See Note 15.A-E for information on liens on securities held by the Bank.

(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of December 31, 2007, included in this item, amounts to NIS 322 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 98 million.

(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 46 million.

(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(6) Charged to statement of profit and loss.

Note: Details of results of trading in investments in debentures - see Note 22; details on results of trading in shares - see Note 24.

Note 3 - Securities - the Bank (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost	Total cumulative other profit[5]		Fair value[1]
			Profit	Loss	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel[2]	2,837	2,937	4	104	2,837
Of foreign governments and their agencies[2]	515	513	2	-	515
of others	1,574	1,672	-	98	1,574
Total debentures available for sale	4,926	5,122	6	202	4,926
Shares of others[3]	380	332	55	7	[4]380
Total securities available for sale	5,306	5,454	61	209	[4]5,306

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
2) Securities held for trading					
Debentures -					
of Government of Israel	435	435	-	-	435
of others	1	1	-	-	1
Total securities held for trading	436	436	[6]-	[6]-	436
Total securities	5,742	5,890	61	209	5,742

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities. See Note 1.F.

(2) See Note 15.A-E for information on liens on securities held by the Bank.

(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of December 31, 2008, included in this item, amounts to NIS 276 million.

(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 88 million.

(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(6) Charged to statement of profit and loss.

Note: Details of results of trading in investments in debentures - see Note 22; details on results of trading in shares - see Note 24.

Note 3 - Securities - the Bank (continued)

As of December 31, 2007

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost	Total cumulative other profit[5]		Fair value[1]
			Profit	Loss	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel[2]	4,007	4,023	5	21	4,007
Of foreign governments and their agencies[2]	69	69	-	-	69
Of investees	1	1	-	-	1
of others	1,537	1,578	-	41	1,537
Total debentures available for sale	5,614	5,671	5	62	5,614
Shares of others[3]	399	295	104	-	[4]399
Total securities available for sale	6,013	5,966	109	62	[4]6,013

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value[1]
2) Securities held for trading					
Debentures -					
of Government of Israel	79	79	-	-	79
of others	-	-	-	-	-
Total securities held for trading	79	79	[6]-	[6]-	79
Total securities	6,092	6,045	109	62	[4]6,092

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities. See Note 1.F.

(2) See Note 15.A-E for information on liens on securities held by the Bank.

(3) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of December 31, 2007, included in this item, amounts to NIS 322 million. This amount exceeds the amount of the loans, net of the provision for doubtful debts, by NIS 98 million.

(4) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 46 million.

(5) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

(6) Charged to statement of profit and loss.

Note: Details of results of trading in investments in debentures - see Note 22; details on results of trading in shares - see Note 24.

Note 3 - Securities (continued)

Reported amounts (NIS in millions)

3) Further details on consolidated basis with regard to asset-backed securities available for sale:

	As of December 31, 2008			
	Amortized cost	Total cumulative other profit: Profit	Total cumulative other profit: Loss	Fair value (Balance sheet balance)
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	20	-	-	20
CDO, mostly mortgage-backed[1]	-	-	-	-
CLO	90	-	27	63
SIV[1]	-	-	-	-
Total asset-backed securities available for sale	110	-	27	83

	As of December 31, 2007			
	Amortized cost	Total cumulative other profit: Profit	Total cumulative other profit: Loss	Fair value (Balance sheet balance)
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	58	-	11	47
CDO, mostly mortgage-backed[1]	-	-	-	-
CLO	102	-	12	90
SIV	22	-	-	22
Total asset-backed securities available for sale	182	-	23	159

(1) Fully amortized.

Note 3 - Securities (continued)

Reported amounts (NIS in millions)

4) Further details with regard to the time period in which asset-backed securities held for sale, which include unrealized loss:

	As of December 31, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CLO	-	-	59	27
Total	-	-	59	27

As of December 31, 2007 the entire balance of investments in asset-backed securities which included unrealized losses had been in loss positions for less than 12 months.

5) Asset-backed securities (ABS)

In 2008, expenses were recorded amounting to NIS 57 million with regard to provision for impairment of a non-temporary nature of investments in asset-backed securities (of which NIS 35 million in respect of CDO, NIS 3 million in respect of CLO, and NIS 19 million in respect of investment in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds) (NIS 114 million in 2007 in respect of investment in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds).

The fair value of Bank investments in asset-backed securities as of December 31, 2008 amounts to NIS 83 million, compared to NIS 159 million as of December 31, 2007. For details of the calculation of fair value of investments in securities, see Note 1F above. These investments include securities such as: CDO and CLO as follows:

A. CDO (Collateralized Debts Obligation) is a security backed by various types of debts instruments, which may include both direct debts and securitized debts. The CDO is set in lyers by priority. Each layer is a separate debts, with specific rating, entitled to principal or interest payment before all debts ranked lower. Total value of debts subordinate to a given debts layer is defined to be the protective layer for said debts.

The fair value of Bank investments in these securities as of December 31, 2008 amounted to NIS 20 million, compared to NIS 47 million as of December 31, 2007. The underlying assets are synthetic assets with significant sector diversification and of different credit ratings.

As of December 31, 2008, the full impairment of said investments was recognized as impairment of a non-temporary nature, compared to a negative capital reserve amounting to NIS 11 million as of December 31, 2007. The expense recorded in 2008 in respect of impairment of said assets amounted to NIS 35 million (NIS 23 million in the fourth quarter of 2008).

B. CLO (collateralized Loan Obligation) is a specific type of CDO. The debts instruments which back the CLO investment are senior and junior loan portfolios provided to commercial entities. The fair value of Bank investments in these securities as of December 31, 2008 amounted to NIS 63 million, compared to NIS 90 million as of December 31, 2007. All Bank investments in this asset class are in layers with investment-grade rating (BBB- or higher) with a protection layer, managed by some of the largest investment management firms in the world, which are carefully selected. About 85% of loans backing these securities are senior secured loans. The Bank's CLO portfolio has no exposure to mortgages, including sub prime mortgages, or to any leveraged products whose value has declined due to the current crisis.

Note 3 - Securities (continued)

In the fourth quarter of 2008, a provision for impairment of a non-temporary nature of one of these investments was recorded in the amount of NIS 3 million. The impairment charged to capital reserve as of December 31, 2008 for all other such investments amounted to NIS 27 million, compared to NIS 12 million as of December 31, 2007. According to information available to the Bank, this impairment is due to the crisis sentiment in markets and to general increase in credit spreads. The remaining protection layers for these investments, which are as yet unaffected, are significant in size and Bank management estimates that they exceed the expected loss in respect of default events in the loan portfolios which back these investments. Therefore, the Bank estimates that there is no reason to assume that issuers will default on their obligations. Furthermore, the Bank ahs the intention and capacity to hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

Note 4 - Loans to the Public[(1)]

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
A. 1) Composition				
Credit	88,058	74,314	79,346	70,086
Customers' liabilities for acceptances	185	178	185	178
Total loans	88,243	74,492	79,531	70,264
General and supplementary provision for doubtful debts	194	172	185	170
Total loans to the public	88,049	74,320	79,346	70,094

1) The specific provision for doubtful debts was deducted from the relevant loan items.

2) The balance of deposits based on level of collection (mainly from the Government) and loans issued there from that were set off, as of December 31, 2008, totaled NIS 18,175 million in the consolidated balance sheet and NIS 15,239 million on the Bank's balance sheet (December 31, 2007 - consolidated - NIS 16,856 million and the Bank - NIS 15,640 million).

3) Total housing loans on the consolidated balance sheet as of December 31, 2008 include variable interest loans amounting to NIS 24,311 million (December 31, 2007 - NIS 17,468 million).

Note 4 - Loans to the Public

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
B. Loans to the public includes:-				
1) Loans to problem borrowers which are not local authorities and for which no provision for doubtful debts by extent of arrears was recorded				
a) Non-income-bearing loans to problem borrowers -				
In Israeli currency				
Non-linked	940	790	926	774
In Israeli currency, CPI-linked	2	64	2	64
Foreign currency(1)	203	79	203	79
Total	1,145	933	1,131	917
b) Restructured loans without Income waiver				
In Israeli currency				
Non-linked	98	96	84	91
Linked to CPI	59	68	58	68
In foreign currency (1)	37	21	37	21
Total	194	185	179	180
c) Loans for which there is a decision to restructure, not yet implemented	-	2	-	2
d) Loans in temporary arrears(2)	1,034	1,027	990	998
Interest credited to statement of profit and loss	34	48	33	48
e) Loans under special supervision(3)	2,935	879	2,864	869

	Consolidated		The Bank	
	2008	2007	2008	2007
2) Loans to local authorities	175	181	175	181
a) Loans to local authorities include:				
1) Non-income bearing loans	-	1	-	1
2) Loans under special supervision(3)	32	33	32	33
3) Loans to local authorities not included under loans to problem borrowers, as above	143	147	143	147
Interest on these loans included in statement of profit and loss	13	10	13	10

(1) Includes linked to foreign currency.

(2) Loans in temporary arrears - loans in arrears, which the Bank's management views as temporary and as not indicating expected credit losses.

(3) Loans under special supervision - loans for which the Bank's management deems it necessary to intensify monitoring and supervision, while not anticipating loan losses.

Note 4 - Loans to the Public (continued)

b) Loans to local authorities

1) In 1989, an agreement was signed by several banks, including the Bank, and the Government of Israel, to reschedule the debts of certain local authorities to banks and other creditors. The pro rata share of the Bank and its investees in this arrangement, on the date it was signed, was about 12%. 208 local authorities have joined the arrangement with the banking system, including 181 with debts to the Bank.
   The essential elements of the arrangement are as follows:
   a) Short-term loans that the local authorities owed on September 1989, as well as certain loans coming due subsequent to signing the arrangement, are to be rescheduled over a period of 15 years, with linkage to the CPI plus interest, as agreed in the arrangement.
   b) Additional credit is to be made available to the local authorities in the form of 15-year loans, to enable the local authorities to discharge their debts to various creditors. As of December 31, 2008, the Bank has no share in these loans.
   c) Security to the banks includes the assignment by pledge of Ministry of the Interior grants to the local authorities, and the assignment by pledge of 40% of the transfers from the Ministry of Education and Culture and the Ministry of Labor and Welfare to those local authorities.
2) As a follow-up to the above agreement, separate agreements were signed on different dates between the Bank and each local authority, regarding their debts to the Bank for loans at the Bank's risk.
3) In addition to the balance of debts included in the arrangement with the authorities, some of local authorities which are party to the arrangement have, from time to time, received additional credit in the ordinary course of business, the balance of which, as of December 31, 2008, totaled NIS 56 million.
4) The law, "Arrangements in the State Economy (Amended Legislation to Achieve Budgetary Targets and Economic Policies in Fiscal Year 2000), 1999 imposes, inter alia, the "creditors' arrangement" mechanism prescribed in Section 233 of the Companies' Ordinance also on municipalities and local councils, so that at the request of a creditor of a municipality or local authority or at the request of the Minister of the Interior, with the consent of the Minister of Justice, the court will be empowered to rule that the mechanism for the arrangement of debts prescribed in Section 233 of the Companies' Ordinance will be imposed, with the required changes, on the municipality or local authority.
   The significance of the amendment, inter alia, is that creditors holding 75% of the value represented at the vote of a meeting of creditors can force an arrangement on the minority, and the court may ratify an arrangement that will include the restructuring of debts, write-off of debts, or freezing of proceedings.
   Furthermore, an argument could be raised in the future that the amendment gives the court authority to impose on a majority of creditors, against their will, a settlement that reschedules or writes off the debts, if the good of the residents of the local authority requires it.
   In the estimation of the Bank's management, the effect of this Law on the Group is not material.

Note 4 - Loans to the Public (continued)

5) The Budget Foundations Law (Amendment No. 31 and Temporary Order), 2004 applies to various kinds of local authorities, such as: a local authority for which a recovery plan was approved, a local authority in difficulty and a religious council. The purpose of the amendment is that in the recovery period prescribed for each local authority, all the income of the local authority should be earmarked for specific purposes stipulated in the law, and not to repay debts to creditors. Pursuant to the amendment of the law, the local authority must open specific bank accounts, and it will not be possible to attach, pledge or assign the monies deposited in them and are only intended for use for the objectives designated in the statute.

A secured creditor, in whose favor the local authority created a lien, will be unable to begin proceedings to foreclose the liens, during the recovery period prescribed in the law. The prohibition on a lien or attachment also applies to collateral securing credit that was given before the law took effect, thus causing some impairment to the proprietary rights of the banks.

The balance of debts to the Bank of authorities that are covered by the law, as of December 31, 2008, stands at NIS 36 million (as of December 31, 2007 - NIS 39 million). The balance of the authorities' debts to the Bank, to which the law could apply, stands at NIS 35 million as of December 31, 2008 (December 31, 2007 - NIS 42 million). After reviewing the economic standing of these authorities, Bank management estimates that said credit does not indicate anticipated credit loss, hence no provision was made for this liability in the financial statements.

Note 4 - Loans to the Public (continued)

As of December 31

Reported amounts (NIS in millions)

C. Provision for doubtful debts

	2008			
	Specific provision[1]			
	By extent of arrears	Other	Supplementary provision[4]	Total
Consolidated				
Balance of provision as of beginning of year	821	1,923	172	2,916
Subsidiary consolidated for the first time	-	23	6	29
Transfer[3][5]	-	(8)	-	(8)
Effect of new guidelines[2]	-	-	-	-
Provisions in reporting year	307	399	23	729
Decrease in provisions	(273)	(51)	(7)	(331)
Recovery of debt written off in previous years	-	(3)	-	(3)
Amount charged to statement of profit and loss	34	345	16	395
Debt write-off	(21)	(129)	-	(150)
Balance of provision as of end of year	834	2,154	194	3,182
Includes - Balance of provision that was not deducted from loans to the public	-	110	-	110
The Bank				
Balance of provision as of beginning of year	781	1,886	170	2,837
Transfer[3][5]	-	(8)	-	(8)
Effect of new guidelines[2]	-	-	-	-
Provisions in reporting year	299	391	22	712
Decrease in provisions	(266)	(44)	(7)	(317)
Recovery of debt written off in previous years	-	(3)	-	(3)
Amount charged to statement of profit and loss	33	344	15	392
Debt write-off	(20)	(128)	-	(148)
Balance of provision as of end of year	794	2,094	185	3,073
Includes - Balance of provision that was not deducted from loans to the public	-	109	-	109

(1) Loans for which the provision was based on extent of arrears, does not include a provision for interest on debt in arrears. For other loans, does not include provision for interest on doubtful debts, after the debts were determined as doubtful.
(2) In a circular published by the Supervisor of Banks on January 1, 2006, regarding the way to calculate the provision for doubtful debts for housing loans.
(3) Balance of provision for mortgages previously specifically reviewed.
(4) Includes general and special provisions for doubtful debt.
(5) Balance of provision for claims presented in previous periods under provision for doubtful debts.

2007				2006			
Specific provision[1]				Specific provision[1][6]			
By extent of arrears	Other	Supplementary provision[4]	Total	By extent of arrears	Other	Supplementary provision[4]	Total
798	1,877	192	2,867	668	1,777	212	2,657
-	-	-	-	-	-	-	-
8	(8)	-	-	-	-	-	-
-	-	-	-	59	(5)	-	54
248	262	-	510	289	257	7	553
(218)	(42)	(20)	(280)	(217)	(57)	(27)	(301)
-	(2)	-	(2)	-	(1)	-	(1)
30	218	(20)	228	131	194	(20)	305
(15)	(164)	-	(179)	(1)	(94)	-	(95)
821	1,923	172	2,916	798	1,877	192	2,867
-	104	-	104	-	111	-	111
759	1,842	189	2,790	635	1,727	210	2,572
8	(8)	-	-	-	-	-	-
-	-	-	-	54	-	-	54
242	250	-	492	279	253	6	538
(213)	(32)	(19)	(264)	(209)	(43)	(27)	(279)
-	(2)	-	(2)	-	(1)	-	(1)
29	216	(19)	226	124	209	(21)	312
(15)	(164)	-	(179)	-	(94)	-	(94)
781	1,886	170	2,837	759	1,842	189	2,790
-	100	-	100	-	107	-	107

Note 4 - Loans to the Public (continued)

Reported amounts (NIS in millions)

D. Loans for housing in arrears for which a provision for doubtful debts was made by extent of arrears

	December 31, 2008				
	3-6 months	6-15 months	15-33 months	Over 33 months	Total
Consolidated					
Amount in arrears	19	42	65	429	555
Of which: delinquency interest	-	1	3	149	153
Balance of provision for doubtful debts by extent of arrears[1]	-	71	151	612	834
Balance of loans net of provision for delinquency interest and for doubtful debts	453	365	156	94	1,068
The Bank					
Amount in arrears	18	39	62	392	511
Of which: delinquency interest	-	1	3	127	131
Balance of provision for doubtful debt based on extent of arrears	-	67	143	584	794
Balance of loans net of provision for delinquency interest and for doubtful debts	427	342	148	94	1,011

	December 31, 2007				
	3-6 months	6-15 months	15-33 months	Over 33 months	Total
Consolidated					
Amount in arrears	21	45	70	397	533
Of which: delinquency interest	-	1	3	133	137
Balance of provision for doubtful debts by extent of arrears[1]	-	82	170	569	821
Balance of loans net of provision for delinquency interest and for doubtful debts	475	384	164	122	1,145
The Bank					
Amount in arrears	20	42	68	363	493
Of which: delinquency interest	-	1	3	114	118
Balance of provision for doubtful debt based on extent of arrears	-	77	163	541	781
Balance of loans net of provision for delinquency interest and for doubtful debts	449	360	159	106	1,074

(1) Excludes provision for delinquency interest.

Note 4 - Loans to the Public (continued)

Reported amounts (NIS in millions)

E. Information on housing loans and way to compute the specific provision for doubtful debts

	December 31, 2008					
			Of which:	Specific provision		
	Balance sheet loan balance(1)	Debt balance(2)	Amount in arrears(3)	By extent of arrears	Other	Total
Housing loans for which specific provision according to length of arrears must be calculated	40,417	1,055	550	828	-	828
Large loans(4)	4,062	90	26	6	12	18
Other loans	566	27	9	-	23	23
Total	45,045	1,172	585	834	35	869

	December 31, 2007					
			Of which:	Specific provision		
	Balance sheet loan balance(1)	Debt balance(2)	Amount in arrears(3)	By extent of arrears	Other	Total
Housing loans for which specific provision according to length of arrears must be calculated	35,939	1,131	529	816	-	816
Large loans(4)	2,551	123	30	5	27	32
Other loans	625	55	9	-	7	7
Total	39,115	1,309	568	821	34	855

(1) The balance of housing loans, after deducting specific balance for doubtful debts and provision for delinquency interest.
(2) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(3) Includes delinquency interest before deduction of the provisions balance.
(4) Housing loans, the balance of each of which exceeds NIS 841 thousand (on December 31, 2007 - NIS 805 thousand).

For details of rules for reduction in provision for doubtful debts by extent of arrears, see Note 1.P.3.

Note 4 - Loans to the Public (continued)

As of December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to the size of the loans and the credit risk of the borrower:

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers(1)(4)	Credit(2)	Credit Risk(3)
	Up to 10	162,957	236	449
Over 10	Up to 20	85,100	507	994
Over 20	Up to 40	107,370	1,503	1,893
Over 40	Up to 80	124,435	3,770	3,516
Over 80	Up to 150	84,089	6,657	2,612
Over 150	Up to 300	70,452	13,225	1,740
Over 300	Up to 600	44,565	17,357	1,194
Over 600	Up to 1,200	14,699	10,522	1,103
Over 1,200	Up to 2,000	2,959	3,539	922
Over 2,000	Up to 4,000	1,589	3,122	1,237
Over 4,000	Up to 8,000	788	2,915	1,358
Over 8,000	Up to 20,000	568	4,244	2,737
Over 20,000	Up to 40,000	225	3,318	2,849
Over 40,000	Up to 200,000	258	9,766	11,499
Over 200,000	Up to 400,000	33	3,834	5,355
Over 400,000	Up to 871,244	13	3,728	4,035
Total		700,100	88,243	43,493

(1) Number of borrowers is based on total loans and credit risk.
(2) Net of specific provision for doubtful debts.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.
(4) Includes 153,614 customers at Bank Yahav.

Note 4 - Loans to the Public (continued)

As of December 31, 2007 - Consolidated

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to the size of the loans and the credit risk of the borrower (continued)

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers(1)	Credit(2)	Credit Risk(3)
	Up to 10	129,919	195	208
Over 10	Up to 20	53,929	392	663
Over 20	Up to 40	63,723	1,064	868
Over 40	Up to 80	92,952	2,707	2,594
Over 80	Up to 150	69,592	5,407	2,243
Over 150	Up to 300	63,148	12,244	1,288
Over 300	Up to 600	39,527	15,169	1,403
Over 600	Up to 1,200	10,639	7,557	1,042
Over 1,200	Up to 2,000	2,184	2,685	674
Over 2,000	Up to 4,000	1,348	2,706	1,063
Over 4,000	Up to 8,000	755	2,759	1,358
Over 8,000	Up to 20,000	592	4,446	3,247
Over 20,000	Up to 40,000	226	3,302	2,908
Over 40,000	Up to 200,000	246	8,432	11,994
Over 200,000	Up to 400,000	48	4,983	11,099
Over 400,000	Up to 1,151,620	4	444	1,898
Total		528,832	74,492	44,550

(1) Number of borrowers is based on total loans and credit risk.

(2) Net of specific provision for doubtful debts.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

Note 4 - Loans to the Public (continued)

As of December 31, 2008 - the Bank

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to the size of the loans and the credit risk of the borrower (continued)

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers(1)	Credit(2)	Credit Risk(3)
	Up to 10	132,669	195	339
Over 10	Up to 20	52,824	382	601
Over 20	Up to 40	63,557	1,023	1,054
Over 40	Up to 80	92,186	2,645	2,789
Over 80	Up to 150	66,677	5,085	2,254
Over 150	Up to 300	60,530	11,423	1,524
Over 300	Up to 600	40,948	15,949	1,081
Over 600	Up to 1,200	13,073	9,416	848
Over 1,200	Up to 2,000	2,416	3,041	597
Over 2,000	Up to 4,000	1,380	2,801	1,010
Over 4,000	Up to 8,000	739	2,752	1,253
Over 8,000	Up to 20,000	559	4,203	2,678
Over 20,000	Up to 40,000	221	3,299	2,739
Over 40,000	Up to 200,000	257	9,755	11,464
Over 200,000	Up to 400,000	33	3,834	5,355
Over 400,000	Up to 871,244	13	3,728	4,035
		528,082	79,531	39,621

(1) Number of borrowers is based on total loans and credit risk.
(2) Net of specific provision for doubtful debts.
(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

Note 4 - Loans to the Public (continued)

As of December 31, 2007 - the Bank

Reported amounts (NIS in millions)

F. Balances of loans to the public and off-balance sheet credit risk according to the size of the loans and the credit risk of the borrower - (continued)

Loan ceiling and credit risk (in NIS thousands)		Number of Borrowers(1)	Credit(2)	Credit Risk(3)
	Up to 10	128,246	190	208
Over 10	Up to 20	53,047	381	662
Over 20	Up to 40	62,392	1,026	866
Over 40	Up to 80	90,936	2,589	2,589
Over 80	Up to 150	66,355	5,047	2,234
Over 150	Up to 300	58,820	11,329	1,268
Over 300	Up to 600	36,408	13,919	1,010
Over 600	Up to 1,200	9,617	6,759	782
Over 1,200	Up to 2,000	2,006	2,432	590
Over 2,000	Up to 4,000	1,266	2,505	982
Over 4,000	Up to 8,000	722	2,645	1,305
Over 8,000	Up to 20,000	573	4,372	3,037
Over 20,000	Up to 40,000	217	3,255	2,683
Over 40,000	Up to 200,000	239	8,388	11,676
Over 200,000	Up to 400,000	48	4,983	11,099
Over 400,000	Up to 1,151,620	4	444	1,898
		510,896	70,264	42,889

(1) Number of borrowers is based on total loans and credit risk.

(2) Net of specific provision for doubtful debts.

(3) Credit risk of off-balance-sheet financial instruments as calculated for the purpose of determining per-borrower lending limits.

Note 5 - Loans to the Government

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
Loans related to savings plans	1	1	1	1
Loans from debenture issuance proceeds	1	2	1	2
Total loans to the Government	2	3	2	3

Note 6 - Investments in Investees and Details thereof

As of December 31

Reported amounts (NIS in millions)

A. Consolidated

	2008			2007		
	Affiliates	Subsidiaries	Total	Affiliates	Subsidiaries	Total
Investments in shares stated on the equity basis (including goodwill)(1)	(15)	6	(9)	(14)	7	(7)
Other investments -						
Subordinated notes and capital notes	26	-	26	24	-	24
Total investments	11	6	17	10	7	17
Includes:						
Loss accrued since acquisition date	(15)	-	(15)	(14)	-	(14)
Details of Goodwill(1)						
Amortization rate in years	-	10	10	-	10	10
Original amount	-	9	9	-	9	9
Net book value	-	6	6	-	7	7

(1) Goodwill from acquisition of Tefahot Mortgage Bank Ltd. whose amortized balance as of December 31, 2008 amounted to NIS 22 million, and in respect of Bank Yahav for Government Employees Ltd., whose amortized balance as of December 31, 2008 amounted to NIS 87 million, is presented under “Other assets”.

Note 6 - Investments in Investees and Details thereof (continued)

As of December 31

Reported amounts (NIS in millions)

B. The Bank

	2008			2007		
	Affiliates	Subsidiaries	Total	Affiliates	Subsidiaries	Total
Investments in shares stated on the equity basis (including goodwill)(1)	(15)	1,276	1,261	(14)	1,038	1,024
Other investments -						
Subordinated notes and capital notes	26	141	167	24	132	156
Total investments	11	1,417	1,428	10	1,170	1,180
Includes:						
Profits accrued since acquisition date	(15)	347	332	(14)	447	433
Post-acquisition items accrued in shareholders' equity:						
Adjustments on translation of financial statements	-	(51)	(51)	-	(51)	(51)
Details of Goodwill(1)						
Amortization rate in years	-	10	10	-	10	10
Original amount	-	9	9	-	9	9
Net book value	-	6	6	-	7	7

(1) Goodwill from acquisition of Tefahot Mortgage Bank Ltd. whose amortized balance as of December 31, 2008 amounted to NIS 22 million, and in respect of Bank Yahav for Government Employees Ltd., whose amortized balance as of December 31, 2008 amounted to NIS 87 million, is presented under “Other assets”.

Bank's share in profits (losses) of investees:

	Consolidated			The bank		
	2008	2007	2006	2008	2007	2006
Bank's share in after-tax operating profit (loss) of investees(2)	(1)	(1)	(4)	103	69	76

(2) No loss from impairment of investees.

Note 6 - Investment in Investees (continued)

Reported amounts (NIS in millions)

	Company detail	Share in capital conferring rights to profits		Share in voting rights	
		For the year ended December 31			
		2008	2007	2008	2007
C. Details of principal investees[2]					
1) Subsidiaries					
Bank Yahav for Government Employees Ltd.[3]	The Bank	50%	-	50%	-
Bank Adanim Mortgages & Loans Ltd. ("Bank Adanim")[4]	mortgage bank	100%	100%	100%	100%
Tefahot Insurance Agency (1989) Ltd.	insurance agency	100%	100%	100%	100%
Mizrahi International Holding Company Ltd. (B.V. Holland)[5]	international holding company.	100%	100%	100%	100%
Mizrahi Tefahot Leasing and Finance Company Ltd.	equipment leasing and factoring	100%	100%	100%	100%
Mashavim United Mizrahi Bank Issuing Company Ltd.[6]	Issuance and financing company	-	-	-	-
Mizrahi Tefahot Underwriting and Issuance (1980) Ltd.	securities underwriter	100%	100%	100%	100%
Mizrahi-Tefahot Management Ltd.[7]	previously managed provident funds	100%	100%	100%	100%
Etgar Investment Portfolio Management Company of the Mizrahi Tefahot Group Ltd.	portfolio management	100%	100%	100%	100%
Mizrahi Tefahot Financial Holdings Ltd.	previously managed mutual funds	100%	100%	100%	100%
Mizrahi Tefahot Issue Company Ltd.	issuance company	100%	100%	100%	100%
Tefahot Finance Ltd.[7]	previously managed provident funds	100%	100%	100%	100%
UMT Re Ltd. (Guernsey-resident company)	Insurance company	100%	100%	100%	100%
Netivot Finance Ltd.	previously managed provident funds	60%	60%	60%	60%
Mizrahi Tefahot Trust Company Ltd.	Trust company	100%	100%	100%	100%
2) Affiliates					
Psagot Jerusalem Ltd. ("Psagot")	land for construction	20%	20%	20%	20%
Mofet Israel Technology Fund Ltd. ("Mofet")[2]	Investments in high-tech companies	-	-	-	-
3) Primary subsidiary of a consolidated company of Mizrahi International Holding Company Ltd. (B.V. Holland)					
United Mizrahi Bank (Switzerland) Ltd.[8]	commercial bank	100%	100%	100%	100%

(1) Includes capital notes.
(2) The above list does not include wholly owned and controlled subsidiaries constituting property companies that provide services to the Bank, or companies that provide services to the Bank,
and whose assets and liabilities and operating results are included in the Bank's financial statements.
(3) For details of the Yahav acquisition, see section E.4). Goodwill from the Yahav acquisition is presented under Other Assets.
(4) See section E.1) for additional information.
(5) The company is incorporated in Holland; for a subsidiary of the Company, see section C.3).
(6) Includes profit due to devaluation of the shekel, relative to foreign currency exchange rates, totaling NIS 7 million (2007 – a NIS 11 million loss).
(7) See section E.2) for information on the sale of provident fund operations.
(8) United Mizrahi Bank (Switzerland) Ltd. is a commercial bank registered in Switzerland, and is presented at arm's length on Bank financial statements.
(9) Includes profit due to devaluation of the shekel, relative to CHF exchange rates, totaling NIS 7 million (2007 – a NIS 2 million loss).
(10) Includes goodwill balance.
(11) Included under "Investment in equity at equity value".

Equity investment		At market value		Goodwill balance		Other capital investments[1]		Contribution to net operating profit (loss)		Dividend recorded	
For the year ended December 31											
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
[3]437	-	-	-	[3]87	-	-	-	11	-	-	-
125	303	-	-	6	7	129	124	28	22	205	-
356	314	-	-	-	-	-	-	42	42	-	-
265	246	-	-	-	-	-	-	[6]19	[6]2	-	-
57	54	-	-	-	-	-	-	3	1	-	-
-	-	-	-	-	-	-	-	-	-	-	-
32	32	-	-	-	-	-	-	-	1	-	-
27	27	-	-	-	-	-	-	-	-	-	-
11	10	-	-	-	-	-	-	1	2	-	-
7	7	-	-	-	-	-	-	-	3	-	192
33	32	-	-	-	-	-	-	1	(1)	-	-
2	2	-	-	-	-	-	-	-	-	-	-
9	7	-	-	-	-	-	-	2	1	-	-
1	1	-	-	-	-	-	-	-	(1)	-	18
7	5	-	-	-	-	-	-	2	1	-	-
(14)	(13)	-	-	-	-	26	24	(1)	-	-	-
-	-	-	-			-	-	-	-		
171	153	-	-	-	-	-	-	[9]18	[9]7	-	-

Note 6 - Investment in Investees (continued)

D. Balance of goodwill related to subsidiaries – consolidated and the Bank (NIS in millions) (presented under Other Assets)

	Positive goodwill Reported amounts
	December 31, 2008
Cost	91
Accumulated amortization	4
Unamortized balance	87

E. Additional details

1) The Bank's rights in Bank Adanim are as follows:

a) As part of its undertakings toward the Bank of Israel to increase its capital sources, to maintain minimum capital, Bank Adanim issued subordinated notes to the Bank, which are convertible at any time to ordinary shares of Bank Adanim, after meeting several cumulative conditions requiring approval of the Audit Committee, the board of directors and a general meeting of Bank Adanim.

b) Commencing from July 2003, the shares of Bank Adanim were de-listed from trading on the Tel Aviv Stock Exchange.

c) On February 4, 2007, Tel Aviv District Court ruled to adopt the arrangement plan under Section 350 of the Companies Law, whereby the Bank will purchase from all the other shareholders in Bank Adanim that hold ordinary shares, NIS 1 par value, all of the shares they own. Following this ruling, on February 9, 2007, the Bank purchased from all the said shareholders, all of the shares they had owned. As a result of the acquisition, Bank Adanim changed from a public company to a private company wholly-owned by the Bank.

d) On November 24, 2008, the Bank Board of Directors resolved, subsequent to a decision by the Bank Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. – a wholly owned and controlled subsidiary of the Bank – (hereinafter: "Bank Adanim") to approve the merger of Bank Adanim (the target company) into the Bank (the receiving company) in accordance with sections 314-327 of the Corporate Act, 1999 and to authorize Bank management to sign the merger agreement between the companies.

The great majority of Bank Adanim branch staff would continue to hold similar positions with Adanim or Mizrahi-Tefahot; the great majority of headquarter staff at Bank Adanim would be hired in similar positions, and the remaining staff would be offered temporary employment by Mizrahi-Tefahot so as to allow them to safely go through the crisis period and to locate new employment opportunities in a timely manner. Bank Adanim employees who would select another route, outside the Group, would benefit from improved retirement benefits – identical to those offered to Tefahot employees who retired upon the merger with Bank Mizrahi, even though Adanim employees are not party to a collective bargaining agreement.

Note 6 - Investment in Investees (continued)

On February 23, 2009, the Registrar of Corporations' approval of the merger was received, thereby completing all of the suspensive conditions for this merger. As of said date Bank Adanim has ceased to exist as a separate company, and its assets and liabilities were merged into the Bank.

The financial statements include an appropriate provision of a non-material amount for retirement cost of Bank Adanim employees, based on management expectations as of the date of publication of these financial statements.

e) On December 30, 2008, Bank Adanim distributed a dividend amounting to NIS 205 million. In order to support continued business operations of Bank Adanim pending completion of the merger, while maintaining a capital adequacy ratio of 10.5%, as specified by Bank Adanim's Board of Directors, the Bank has provided indemnification amounting to NIS 3.1 billion to Bank Adanim, from the dividend distribution date through to completion of the merger.

2) On March 5, 2007, after obtaining all required regulatory approvals, the transaction to sell all of the provident funds managed by the Bank in a single bundle was concluded in exchange for NIS 343 million, after adjustments that were agreed by the parties to the transaction. The proceeds was calculated at 3.63% of total provident fund assets under Bank management as of February 28, 2007, amounting to NIS 9.4 billion.

As part of the transaction, in addition to the sales agreement, an operating agreement, distribution agreement and special services agreement were signed between the parties,

Pursuant to the agreement, the Bank will remain guarantor for 5 years from March 5, 2007, three of those years without consideration, for the nominal value of the deposits of members that are members of several provident funds included in the transaction, according to their provisions and bylaws. The guaranteed amount is NIS 146 million, which are considered risk assets according to the Bank of Israel directives, against actual assets of NIS 2.6 billion.

From this transaction, the Bank recorded in its financial statements for 2007 net profit from extraordinary operations in the amount of NIS 199 million.

On June 28, 2007, the transaction for sale of provident fund operations managed by Netivot was completed, in exchange for NIS 51.8 million, which is 2.7% of average total assets under management by Netivot in the 3 months preceding completion of this transaction. The transaction was completed after obtaining all required regulatory approvals.

Netivot's profit from completion of this transaction amounted to NIS 32 million after tax. For this transaction, the Bank recorded in its statement of profit and loss for the second quarter of 2007, net profit from extraordinary operations in the amount of NIS 19 million (60% - equal to Bank share in holdings in Netivot).

In conjunction with this transaction, and in addition to the sale agreement, the parties signed other agreements, including an agreement for provident fund operation by the Bank and agreement on provision of services to provident fund members by the Bank in 2007.

Note 6 - Investment in Investees (continued)

3) On January 28, 2007, the Bank signed an agreement for the sale of 7.95% of the rights in capital and voting in Mofet Israel Technology Fund Ltd. ("Mofet"), which are held by the Bank, in consideration for NIS 8.3 million, subject to adjustments.

   Under the terms of the agreement, the Bank granted the buyer a call option, which is exercisable for 12 months, commencing from the closing date of the sale ("the call period"), to purchase the balance of the Bank's holdings in Mofet, representing 11.9% of the rights in capital and voting ("option shares"). Likewise, the buyer granted the Bank a put option, exercisable for one month from the end of the call period, for the sale of the option shares at an amount equal to the option proceeds.

   On January 30, 2007, all the suspending conditions for executing the transaction were fulfilled. On May 1, 2007, the option was exercises and the Bank sold its remaining holding in Mofet shares in exchange for NIS 14.5 million.

   Completion of this transaction, including exercise of the option, after adjustment for impact of changes in deferred taxes, contributed NIS 8 million to the Bank's net profit from extraordinary operations.

4) On March 27, 2007, the Bank signed a memorandum of understandings, whereby the Bank would acquire 50% of the issued capital of Bank Yahav for Government Employees Ltd. ("Bank Yahav") inclusive of all rights associated therewith ("the acquired shares"). In exchange for the acquired shares, the Bank would pay proceeds as follows, based on Bank Yahav's required shareholders' equity for maintaining a minimum capital ratio of 10% "required shareholders' equity"). It was further agreed that Yahav would continue receiving IT services from Bank Hapoalim under current terms and conditions agreed by Bank Hapoalim anf Yahav, for a 3-year term starting on the date of closing of the transaction. On September 09, 2007, a detailed agreement was signed with regard to sale of the acquired shares based on the principles set forth in the MOU dated March 27, 2007.

   On November 13, 2007, an addendum to the agreement was signed by the parties, whereby, inter alia, the transaction closing date was set at June 27, 2008. Furthermore, arrangements were agreed, subject to the statute, with regard to Bank Yahav's preparations in conjunction with competition in the sector in which it operates. The parties also agreed on the final proceeds to be paid by the Bank for Bank Yahav shares owned by Bank Hapoalim, in accordance with principles for such calculation set forth in the agreement, at NIS 371 million, such that the proceeds would no longer be adjusted to changes in Bank Yahav's capital or results through the completion date (other than potential adjustment due to dividend distribution). In addition, Bank Hapoalim would be eligible to receive NIS 48 million for 50% of the additional equity in Bank Yahav, due to sale of the provident funds.

   On July 10, 2008, the transaction was concluded. The total investment cost amounted to NIS 419 million, and the excess acquisition cost over Bank share of Bank Yahav's shareholder equity as of June 30, 2008 amounted to NIS 91 million, representing goodwill.

   Starting in the third quarter of 2008, Bank Yahav's financial statements are consolidated into those of the Bank Group, pursuant to approval of the Supervisor of Banks dated November 2, 2008.

Note 6 - Investment in Investees (continued)

The following are details[1] of Bank Yahav for Government Employees Ltd. – a newly consolidated subsidiary:

	Reported amounts NIS in millions
Balance sheet total	9,953
Cash and deposits with banks	3,749
Securities	2,634
Credit to the public	3,389
Deposits from the public	9,178
Net profit for 2007	72
Net profit for 2008	137
Net profit for the second half of 2008	26
Excess acquisition cost	91

(1) According to financial statements of Bank Yahav for Government Employees Ltd. as of June 30, 2008, except for 2008 net profit which is according to financial statements as of December 31, 2008.

Note 7 - Buildings and Equipment

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	Buildings and land (including installations and leasehold improvements)	Equipment, furniture, and vehicles	Total	Buildings and land (including installations and leasehold improvements)	Equipment, furniture, and vehicles	Total
A. Composition						
Average depreciation rate:	4%	20%		4%	20%	
Cost of the assets -						
December 31, 2007	1,032	1,258	2, 290	1,022	1,240	2,262
Initial consolidation of a subsidiary	166	141	307	-	-	-
Additions in 2008	81	198	279	66	188	254
Disposals in 2008	(26)	(6)	(32)	(15)	(6)	(21)
Cost of assets as of December 31, 2008	1,253	1,591	2,844	1,073	1,422	2,495
Depreciation						
Accrued as of December 31, 2007[2]	355	689	1,044	352	676	1,028
Initial consolidation of a subsidiary	48	116	164	-	-	-
Depreciation	36	145	181	33	139	172
Recognized loss from impairment	-	-	-	-	-	-
Loss from reversed impairment[3]	(1)	-	(1)	(1)	-	(1)
Disposals	(15)	(5)	(20)	(10)	(5)	(15)
Accumulated depreciation as of December 31, 2008	423	945	1,368	374	810	1,184
Net book value						
As of December 31, 2008[1]	830	646	1,476	699	612	1,311
As of December 31, 2007[1]	677	569	1,246	670	564	1,234

(1) Includes amortized capitalized cost of independently developed computer software as of December 31, 2008 amounting to NIS 81 million - consolidated and for the Bank (December 31, 2007 - NIS 71 million consolidated and for the Bank).

(2) Accumulated depreciation includes accumulated loss from impairment.

(3) Loss from impairment of buildings and equipment reversed in the reported period, are included under “Maintenance and amortization of properties and equipment”. Impairment loss for assets where previously a similar loss has been recorded, are recorded under “profit from extraordinary items”.

Note 7 - Buildings and Equipment (continued)

	Consolidated		The Bank	
	December 31,		December 31,	
	2008	2007	2008	2007
B. The above assets include assets not used by the Group:				
Not designated for sale	9	14	9	14
Includes - leased to others	5	5	5	5
Designated for sale	3	3	2	3
C. Leasehold rights (mostly until 2025) in buildings		.		
Capitalized lease	74	77	74	77
Non-capitalized lease	23	22	23	22

D. Management estimates that, on the basis of decisions taken, a loss on realization of the buildings intended for sale is not anticipated beyond the relevant provision recorded.

E. This item includes installations, leasehold rights and payments on account. Some of the buildings and leasehold rights, amounting to NIS 314 million - consolidated and for the Bank (December 31, 2007 - NIS 284 million) consolidated and for the Bank, have not yet been registered in the Land Registry in the name of the Bank or its subsidiaries. Most of these properties are in the process of being registered.

Note 8 - Other Assets

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
Deferred tax asset, net (see Note 28)	263	261	237	246
Related to loans	38	39	38	39
Excess of advance tax payments over current provisions	122	48	114	42
Debit balances for financial derivatives (except for embedded derivatives)	3,385	2,298	3,379	2,298
Goodwill from investment in merged company	22	26	22	26
Goodwill in respect of a subsidiary	87	-	87	-
Income receivable	65	46	39	36
Other receivables and debit balances	177	162	149	142
Total other assets	4,159	2,880	4,065	2,829

Note 9 - Deposits from the Public

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
On-call deposits	10,135	6,948	8,547	6,828
Time and other deposits	77,810	65,160	70,876	66,412
Deposits in savings plans	3,834	3,182	2,719	3,013
Total deposits from the public	91,779	75,290	82,142	76,253

Note 10 - Deposits from Banks

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
Commercial banks:				
On-call deposits	119	35	103	35
Term deposits	1,519	3,154	2,460	3,116
Acceptances	185	178	185	178
Special banking entities:				
On-call deposits	-	385	-	385
Term deposits	44	-	44	54
Total deposits from banks	1,867	3,752	2,792	3,768

Note 11 - Debentures and Subordinated Notes

As of December 31

Reported amounts (NIS in millions)

	Average maturity in years(1)		Internal rate of return(2)					
	Consolidated	The Bank	Consolidated	The Bank	Consolidated		The Bank	
	2008				2008	2007	2008	2007
Debentures and subordinated notes not convertible into shares:								
In Israeli currency, CPI-linked								
Debentures(3)	4.39	-	4.02%	-	1,424	1,364	-	-
Subordinated notes(4)	6.48	6.41	4.77%	4.82%	5,413	4,825	4,430	4,057
Total debentures and subordinated notes	6.10	6.41	4.66%	4.82%	6,837	6,189	4,430	4,057

(1) Average maturity is the average of the repayment periods, weighted by the flows discounted according to the internal rate of return.

(2) Internal rate of return is the interest rate used to discount the projected flow of payments to the carrying value in the financial statements.

(3) The debentures are secured by floating liens (some, also by fixed liens) on all of the assets of the issuing company. For details, see Note 15.F.

(4) Upon dissolution, payable after all other liabilities. This item includes subordinated capital notes issued by the Bank.

A. On October 30, 2006, the Bank's Board of Directors approved the issuance of Bank subordinated notes (Series A) which will be deemed complex capital instruments ("Upper Tier II capital"), as the term is defined in Regulation 311 of Proper Banking Conduct Regulations, and in accordance with the approval received from the Supervisor of Banks on November 12, 2006), amounting up to NIS 500 million. The subordinated notes are bonds that, if certain events specified in advance in their terms, will be converted in a forced conversion, according to a formula prescribed in advance, into shares of the Bank.

On November 15, 2006, Ma'alot Israel Securities Rating Company Ltd. issued a rating of AA- for the subordinated notes issued. The rating of the subordinated notes in its offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated AA+, with the changes required by the terms of the subordinated notes. Note, that should the Bank issue in future complex tier I capital, the Bank would maintain an original tier I capital ratio (excluding the complex tier I capital) of no less than 6%. On May 16, 2007, the same rating was approved for capital notes allocated, pursuant to the published prospectus for listing them for trading.

In November 2006, subordinated notes, as noted above, amounting to NIS 460 million par value were issued to institutional investors in exchange for NIS 451 million; maturity date is January 1, 2106. These capital notes may be called by the Bank starting on December 31, 2021 - once every 5 years.

On May 20, 2007, the Bank's Board of Directors approved the prospectus for listing of the issued complex subordinated notes for trading. Based on this prospectus, the series may be expanded by further issuance of complex subordinated notes (Series A) up to a cumulative total of NIS 2 billion. On May 21, 2007, the Israel Securities Authority approved publication of the prospectus. The issued subordinated notes were listed for trading in early June 2007. Starting in June 2007 and through 2008, the Bank issued and listed for trading additional subordinated notes amounting to NIS 662 million par value in exchange for NIS 653 million in proceeds. Subsequent to the balance sheet date, in February 2009, the Bank issued and listed for trading additional subordinated notes amounting to NIS 434 million par value in exchange for NIS 400 million in proceeds.

Note 11 - Debentures and Subordinated Notes (continued)

B. Mizrahi Tefahot Issue Company ("the Company"), a company wholly-owned and controlled by the Bank, issued debentures and subordinated notes under the terms of a prospectus to the public, with a par value of NIS 2,122 million as of December 31, 2008, and deposited the proceeds in the Bank earmarked for its day-to-day activities.

To secure fulfillment of the Company's obligations deriving from some of the debentures and subordinated notes totaling NIS 725 million, the Company undertook to assign all of its rights in each of the deposits that it had deposited in the Bank from the proceeds of securities offered pursuant to the Prospectus in favor of the Trustee of the issued securities.

Additionally, the Bank holds NIS 55 million par value of debentures that were issued by the Company. The Bank is allowed to sell the debentures, at its discretion, on the TASE or off-exchange, and when sold, their terms will be the same as the debentures in circulation.

In September 2008, the Company issued under a shelf prospectus subordinated notes (Series 30), with principal and interest linked to the CPI amounting to NIS 30 million par value, maturing on May 28, 2017.

In December 2008, the Company issued under a shelf prospectus subordinated notes (Series 30), with principal and interest linked to the CPI amounting to NIS 192 million par value, maturing on May 28, 2017.

Subsequent to the balance sheet date, in February and March of 2009, the Company issued under a shelf prospectus subordinated notes (Series 30), with principal and interest linked to the CPI amounting to NIS 205 million par value and NIS 120 million par value, respectively, maturing on May 28, 2017.

On February 25, 2009, the Company published a shelf prospectus for issuance of up to 12 series of obligatory notes with par value of up to NIS 2 billion in each series, as well as 3 series of subordinated capital notes with par value of up to NIS 3 billion in each series, as well as expansion of a negotiable debenture series and of a negotiable series of subordinated obligatory notes with par value of NIS 500 million for each series (hereinafter jointly: "the obligatory notes"). The obligatory notes in each series separately would be offered by way of public offering via shelf prospectus reports, which would contain all details specific for that offering, as required by statue, regulations and directives of the stock exchange in effect at that time.

Note 12 - Other Liabilities

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
Provision for deferred taxes, net (see Note 28)	39	11	39	11
Excess of current provisions for income taxes over advances paid	21	1	-	-
Excess of provision over funding for severance pay, retirement and pension (see Note 16)	434	438	419	437
Deferred income	202	179	181	157
Credit balances for financial derivatives (except for embedded derivatives)	3,299	1,745	3,295	1,745
Accrued expenses	149	167	119	161
Provision for unutilized vacations and long- service bonus	77	104	69	104
Guarantees payable	30	23	30	23
Provision for doubtful debts for off-balance sheet and other items	105	104	104	100
Payables for credit card operations	1,374	1,154	1,374	1,154
Other payables and credit balances	282	321	229	294
Total other liabilities	6,012	4,247	5,859	4,186

Note 13 - Share Capital and Shareholders' Equity(1)

A. Details on share capital of the Bank (in NIS):

	Authorized		Issued and paid-up	
	December 31,		December 31,	
	2008	2007	2008	2007
Ordinary shares, NIS 0.1(2)	40,000,000	40,000,000	22,286,936	22,181,255

(1) For allocation of stock options - see Note 16.A.

(2) The shares are listed for trading on the Tel Aviv Stock Exchange.

B. On April 3, 2006, the Bank's Board of Directors adopted a resolution on a dividend distribution policy, whereby, provided that the Bank's capital ratio is not less than 10%, a dividend will be distributed every year at the rate of 40% of the net operating profit and 80% of the profit from extraordinary items of that year. The dividend distribution policy is in effect as from the year 2006.

It should be noted that a dividend distribution by the Bank is subject, in addition to the aforesaid, to the provisions of the law and additional limitations.

Note 13 - Share Capital and Shareholders' Equity[1] (continued)

C. Information on dividend distribution limitations is provided below:

- According to the directives of the Supervisor of Banks with respect to a dividend distribution by banking corporations, a bank may not distribute a cash dividend, as long as its non-monetary assets exceed its adjusted shareholders' equity. As of December 31, 2008, the Bank's reported capital exceeds its non-monetary assets by NIS 2,856 million.
- The permit issued to the purchasers of the controlling interest by the Bank of Israel Governor stipulates that a dividend will not be distributed out of profits accruing until September 30, 1994, the amount of which (after capitalization to a capital reserve in 1998) is NIS 100 million.
- See Note 14 for additional limitations.

Note 14 - Capital Adequacy

As of December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

a. Capital adequacy is computed in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "capital allocation in respect of exposure to market risks".

1. Bank capital for calculating minimum capital ratio[1]	
Tier I capital:	
Paid-up share capital and capital reserves	1,991
Retained earnings[2]	4,053
Minority interest in equity of subsidiaries	351
Amortization[3]	(130)
Total tier I capital	6,265
Upper Tier II capital[4]	1,282
Other Tier II capital	3,128
Total capital	10,675

Note 14 - Capital Adequacy (continued)

As of December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

	Weighting of risk assets						
	Balances[5]	0%	20%	50%	100%	At-risk balance	Capital requirement[6]
2. Weighted credit risk balances by risk groups							
Assets							
Cash and deposits with banks	11,038	5,998	5,040	-	-	1,008	91
Securities	9,259	[7]7,138	1,368	-	753	1,027	92
securities loaned or sold in repurchase agreements	12	12	-	-	-	-	-
Loans to the public[4]	88,159	6,084	345	19,579	62,151	72,010	6,481
Loans to the Government	2	2	-	-		-	-
Investment in affiliates	17	[8]6	-	-	11	11	1
Buildings and equipment	1,476	-	-	-	1,476	1,476	133
Positive fair value of derivatives	3,385	-	2,441	-	944	1,432	129
Other assets	774	[9]233	8	-	533	535	48
Total assets	114,122	19,473	9,202	19,579	65,868	77,499	6,975
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,298	629	418	270	8,981	9,200	828
Financial derivatives	12,521	-	9,469	-	3,052	4,946	445
Others	399	-	253	-	146	197	18
Total off-balance sheet instruments	23,218	629	10,140	270	12,179	14,343	1,291
Total credit risk assets and capital requirement	137,340	20,102	19,342	19,849	78,047	91,842	8,266
Market risk	-	-	-	-	-	2,541	229
Total risk assets and capital requirements	137,340	20,102	19,342	19,849	78,047	94,383	8,495

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 110 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Includes NIS 10 million deducted from capital.
(8) Deducted from capital.
(9) Includes NIS 109 million deducted from capital.

Note 14 - Capital Adequacy (continued)

As of December 31, 2008 - Consolidated

Reported amounts (NIS in millions)

3. Details of capital requirement in respect of market risk:	
Interest risk	185
Share price risk	-
Exchange rate and inflation risk	34
Risk associated with options trading	10
Total capital requirement for market risk	229

4. Ratio of capital to risk elements[3]	in %
Ratio of Tier I capital to risk elements	6.64
Ratio of total capital to risk elements	11.31
Total minimum capital ratio required by the Supervisor of Banks	9.00

(3) The ratio of Tier I capital and total capital to risk elements at Bank Yahav is 11.9%.

As of December 31, 2007 - Consolidated

Reported amounts (NIS in millions)

1. Bank capital for calculating minimum capital ratio[1]	
Tier I capital:	
Paid-up share capital and capital reserves	1,979
Retained earnings[2]	3,551
Minority interest in equity of subsidiaries	-
Amortization[3]	(37)
Total tier I capital	5,493
Upper Tier II capital[4]	1,068
Other Tier II capital	2,749
Total capital	9,310

Note 14 - Capital Adequacy (continued)

As of December 31, 2007 - Consolidated

Reported amounts (NIS in millions)

		Weighting of risk assets					
	Balances[5]	0%	20%	50%	100%	At-risk balance	Capital requirement[6]
2. Weighted credit risk balances by risk groups							
Assets							
Cash and deposits with banks	10,701	2,679	8,022	-	-	1,604	144
Securities	6,145	[7]3,964	1,479	-	702	998	90
securities loaned or sold in repurchase agreements	5	5	-	-	-	-	-
Loans to the public[4]	74,427	5,490	72	18,179	50,686	59,790	5,381
Loans to the Government	3	3	-	-	-	-	-
Investment in affiliates	17	[8]6	-	-	11	11	1
Buildings and equipment	1,246	-	-	-	1,246	1,246	112
Positive fair value of derivatives	2,298		1,401	-	897	1,177	106
Other assets	582	[9]74	-	-	508	508	46
Total assets	95,424	12,221	10,974	18,179	54,050	65,334	5,880
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,112	116	499	268	9,229	9,463	852
Financial derivatives	11,876	-	8,187	-	3,689	5,326	479
Others	447	-	296	-	151	210	19
Total off-balance sheet instruments	22,435	116	8,982	268	13,069	14,999	1,350
Total credit risk assets and capital requirement	117,859	12,337	19,956	18,447	67,119	80,333	7,230
Market risk	-	-	-	-	-	1,866	168
Total risk assets and capital requirements	117,859	12,337	19,956	18,447	67,119	82,199	7,398

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debts of NIS 107 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Includes NIS 4 million deducted from capital.
(8) Deducted from capital.
(9) Includes NIS 26 million deducted from capital.

Note 14 - Capital Adequacy (continued)

As of December 31, 2007 - Consolidated

Reported amounts (NIS in millions)

3. Details of capital requirement in respect of market risk:	
Interest risk	134
Share price risk	-
Exchange rate and inflation risk	26
Risk associated with options trading	8
Total capital requirement for market risk	168

4. Ratio of capital to risk elements	in %
Ratio of Tier I capital to risk elements	6.68
Ratio of total capital to risk elements	11.33
Total minimum capital ratio required by the Supervisor of Banks	9.00

B. On May 14, 2007 the Board of Directors passed a resolution, effective as of May 17, 2007, instructing Bank management to act so as to have capital adequacy ratios (including upper tier II capital) of no less than 11.2% starting with financial statements for the second quarter of 2007. On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12% by end of 2009. These resolutions are in conjunction with the resolution by the Bank's Board of Directors from April 2006, stipulating that the capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%.

C. Upper Tier II capital includes complex capital notes amounting to NIS 1,172 million as of December 31, 2008 and to NIS 961 million as of December 31, 2007. The summary of terms and conditions there of are as follows:

- Capital notes bear interest and are linked to the CPI.
- Capital notes are not secured by liens on Bank assets or by any other collateral.
- Under certain circumstances, the Bank may suspend interest payments for the notes.
- The Bank would be required to convert the subordinated capital notes into ordinary Bank shares, using a pre-determined formula, if the Bank's ratio of tier I capital to risk components would decrease significantly, if the Bank's retained earnings balance would turn negative, or if the Bank's auditing CPA should raise significant doubt with regard to continued Bank status as a going concern - all under conditions set forth in the capital note terms.
- The Bank's obligation to make payments for the subordinated capital notes would be subordinate to all other Bank obligations to creditors of all types, including to holders of subordinated capital notes issued or to be issued by the Bank and/or its subsidiaries, and would only outrank the rights of shareholders to a refund of excess Bank assets upon its dissolution.

Note 14 - Capital Adequacy (continued)

D. On February 8, 2009 the Bank issued additional complex capital notes with par value of NIS 434 million, under terms and conditions identical to the existing capital notes. Issuance proceeds amounted to NIS 400 million.

E. On February 25, 2009, Mizrahi-Tefahot Issuance Company Ltd., a wholly-owned and controlled subsidiary of the Bank, published a shelf prospectus offering complex capital notes, deemed to be upper Tier II capital, as well as subordinated obligatory notes, deemed to be Tier II capital.

F. In accordance with a letter received from the Supervisor of Banks on October 29, 2008, starting with financial statements as of December 31, 2008, mortgages with a loan-to-value ratio above 60% insured by EMI insurance should be weighted at 100%.

Note 15 - Liens

A. Stock exchange members are required to deposit a system of collateral that to secure the fulfillment of all the obligations of their customers and the obligations of the other stock exchange members that are not members of the clearinghouse and their customers, toward the stock exchange clearinghouse, with respect to transactions executed through the stock exchange clearinghouse, and to secure their share in the risks fund for this activity as discussed below in Note 19.D.1).

In the framework of system of collateral, the Bank deposits liquid collateral, as provided below:

1) In the account opened by the stock exchange clearinghouse in its name ("collateral account in clearinghouse") government bonds of the Bank were deposited as collateral in favor of the stock exchange clearinghouse, at the full value of the customers' obligations plus the Bank's share in the risk fund. The value of debentures deposited as of December 31, 2008 is NIS 152 million (as of December 31, 2007 - NIS 92 million).

2) Additionally, in the account opened by the stock exchange clearinghouse in its name for the Bank in another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash paid as income on securities that were deposited in the account, the clearinghouse's collateral or cash originating in any other financial right deriving from the said securities, including cash proceeds from their sale. As of December 31, 2008, deposits into this account amounted to NIS 26 million (as of December 31, 2007 no funds were deposited into this account).

3) The accounts discussed in Par. 1 and 2 above will be pledged under a first-level fixed lien in favor of the stock exchange clearinghouse.

B. Stock exchange members are required to deposit a system of collateral that secures the fulfillment of their obligations relating to Maof transactions that are executed by them or their customers or by stock exchange members that are not members of the Maof Clearinghouse, and to secure their share in the risks fund covering this activity, as provided below in Note 19.D.2).

Note 15 - Liens (continued)

Accordingly, the Bank was required to deposit only liquid collateral, for the full exposure of activity in derivatives and for its share in the risks fund, as provided below:

1) In the account opened in the TASE Clearinghouse in the name of the Maof Clearinghouse ("main Maof collateral account"), government bonds of the Bank were deposited as security in favor of the Maof Clearinghouse, at the full value of the requirements for customers' collateral plus the Bank's share in the risks fund. The value of debentures deposited as of December 31, 2008 is NIS 822 million (as of December 31, 2007 - NIS 1,305 million).
2) Additionally, in the account opened by the MAOF clearinghouse in its own name on behalf of the Bank with another bank, cash is deposited that the Bank furnishes as collateral, as well as the cash to be paid as income on securities that will be deposited in a major clearinghouse collateral account or cash originating in any other financial right deriving from the said securities, including cash proceeds from their sale. As of December 31, 2008, deposits into this account amounted to NIS 37 million (as of December 31, 2007 no funds were deposited into this account).
3) The aforementioned accounts in sections 1-2 are pledged under a floating and fixed lien to benefit the MAOF clearinghouse.

C. In August 2007, the Bank of Israel launched the Real Time Gross Settlement framework ("RTGS"). This system allows customers to transfer in real time NIS-denominated amounts between bank accounts in the same bank or between banks.

The Bank of Israel provides daily and intra-day credit for participants in the RTGS system against specific liens on Bank debentures in the Bank of Israel account with the stock exchange clearinghouse. As of December 31, 2008 no debentures were deposited in this account. The value of debentures deposited in this account is NIS 282 million as of December 31, 2007.

D. In accordance with the requirement of the regulatory agencies in the USA the Bank's branch there pledged deposits with banks amounting to USD 21 million, securities amounting, as of the balance sheet date, to USD 6 million (as of December 31, 2007 - $18 million), used to secure deposits of the public or to comply with other government regulations, or to fulfill other governmental directives. Most of the lien, which amounted to $27 million as of December 31, 2008 (as of December 31, 2007 - $15.1 million), relates to a demand by U.S. regulatory agencies to provide security for 10% of the branch's liabilities, as defined by the authorities there.

E. Debentures and subordinated capital notes issued by a subsidiary, whose amortized cost as of December 31, 2008 amounted to NIS 487 million and NIS 238 million, respectively (as of December 31, 2007 - NIS 460 million and NIS 227 million, respectively), are secured by current and fixed liens on deposits where proceeds of the issuances have been deposited.

Note 16 - Employees' Rights

A. The employment terms of the vast majority of the Bank's employees and managers (except for those detailed in paragraphs B - I below) are determined in accordance with the provisions of collective labor agreements. The Bank's liability to these employees is covered by regular deposits to pension, provident and severance-pay funds, which release the Bank from severance-pay liabilities provided for those employees by law. In respect of several previous Tefahot employees, the bank is legally absolved from making compensation payments only for the period commencing on February 1st, 2006 (In respect of previous Tefahot management, the bank is absolved from its obligation commencing January 1st, 2006). In respect of the banks' obligation until the end of 2005 (until January 2006 for previous Tefahot management), the bank has deposited funds in the pension and retirement funds.

B. A small group of employees who retired in the past is entitled to a fixed monthly pension from the Bank. Employees who retired from the Bank prior to June 30, 1997 are entitled to pension payments from the Bank for certain salary components. The Bank's retired employees also receive non-pension benefits. The Bank's liability for these payments is covered by provisions, based on an actuarial calculation.

C. The Bank's Chairman of the Board is eligible, upon his resignation, to amounts that were regularly deposited on his behalf, at customary rates, in various funds.

D. The Bank's President ("the President") entered into an agreement with the Bank ("the previous agreement") whereby he would be employed by the Bank for a 5-year term starting March 29, 2004. Under terms of the agreement, the President will be entitled, inter alia, to receive:

- Upon termination of his employment, severance pay equal to two salaries for each year of employment in the Bank, net of the monies provided to managers' insurance for severance pay, an acclimation grant equal to six months' salary and current amounts at acceptable rates deposited for him in the different funds. The financial statements included provisions for the said liabilities.
- A variable annual bonus, based on the rate of return of net profit to shareholders' equity, beginning at 200 thousand dollars for a rate of return of 8.5% to 11%, and up to 500 thousand dollars, if an annual rate of return of 14% or higher is achieved.
- See Note 16.A.1.A for details of options to acquire Bank shares granted to the President under the previous agreement.

On November 30, 2008, the Bank Board of Directors, following approval by the Bank Audit Committee and recommendation of the Compensation Committee with regard to the major principles of the Bank President's terms of employment, approved for the Bank to enter into a new employment agreement with its President for a term of 5 years and 4 months, from December 1, 2008 through April 1, 2014. Pursuant to the agreement, the President is entitled to receive upon termination of his employment for any reason whatsoever (other than termination under specific circumstances set forth in the employment agreement) severance pay equal to 200% of his most recent monthly salary upon termination of his employment for each year of service to the Bank, a 3-month adjustment period as well as current amounts in respect of pension payments deposited on his behalf at the usual rates. The financial statements included provisions for the said liabilities.

Note 16 - Employees' Rights (continued)

The Bank may terminate the agreement with the President with 4 months' prior notice (instead of 6 months under the previous agreement).

In the new employment agreement, the President waived the annual bonus to which he is entitled under the previous agreement, starting on the termination date of the previous agreement.

See Note 16.A.1.B for details of options to acquire Bank shares allotted to the President under the new agreement.

E. Personal employment contracts have been signed with a group of senior employees, entitling them to a special bonus upon termination, under the circumstances prescribed in the agreements that could, in a few years' time, reach seventeen months' salary for certain employees with high seniority.

The Bank does not intend to dismiss any of these senior employees employed in the Bank, however, after taking into consideration the experience gained from the retirement of senior employees in the past, and taking into account the terms of their retirement, the financial statements include a provision for the full possible liability for these employees as of the date of the financial statements. These employees are also eligible, upon retirement, to other sums and rights, as accrued in their favor in various funds.

Further to that, in line with management expectations based on previous experience with additional payments to senior employees who have retired, a suitable provision has been made in the financial statements.

F. Several senior employees are eligible upon their retirement to an acclimation grant of three to six months' salary, for which a provision was recorded in the financial statements.

G. Three senior employees are eligible upon their retirement to increased severance pay of 150% of their last monthly salary multiplied by the number of their years of employment in the Bank, beyond the amounts deposited in funds, as required by law. Alternatively, these employees are entitled, provided they have passed age 55, to budgetary pension until they reach retirement age. In respect of this allowance, a full provision has been made in the financial statements.

H. Pension agreements were signed with two employees of an overseas affiliate of the Bank, whereby they will be entitled to a monthly pension for 180 months from retirement, after aggregating 20 years' seniority in the Bank, and under certain other circumstances prescribed in the agreements. The actuarial value of the provision recorded in the financial statements for this liability was calculated using a discount rate of 6%, which corresponds with the yield on the monies deposited for payment of these pension rights, and assuming that the annual pay raise will be at a rate of 3.5%.

I. On April 27, 2006, the Bank's Board of Directors approved a special collective agreement (labor agreement) reached with the employee representatives - clerk sector - for a period until December 31, 2010.

Under the agreement, the Bank may terminate up to 50 permanent employees during the term of the agreement for reason of incompatibility, as well as to institute a voluntary retirement plan (with veto rights to management) to terminate up to 200 other employees during the term of the agreement.

Note 16 - Employees' Rights (continued)

As of December 31, 2008, 235 employees who had signed personal retirement agreements under the terms of the voluntary retirement plan had terminated their employment. Additional employees are expected to terminate their employment in 2009.

In respect of the voluntary retirement program, a pre-tax provision in the amount of NIS 208 million (NIS 131 million after tax) was recorded in 2006, which was calculated based also on an actuarial calculation, while using a 4% discount rate. The provision was included in "salaries and related expenses" in the statement of profit and loss.

J. In January 2007, management of Mehish Computer Services Ltd. ("Mehish"), a wholly-owned and wholly-controlled subsidiary of the Bank, whose financial statements are included in the Bank's financial statements, and the and the Employee Council of Mehish signed a collective bargaining agreement that contains a voluntary retirement plan The plan provides for retirement in an early retirement track, for employees, who on their retirement date will be at least 55 years old and are insured in managers' insurance or an aggregating pension fund, or an increased severance pay track for other employees. The final decision on acceptance or rejection of the request for early retirement rests with the general manager of Mehish.

As of December 31, 2008, 18 employees who had signed personal retirement agreements under the terms of the voluntary retirement plan had terminated their employment. Additional employees who signed retirement agreements are expected to terminate their employment during 2009.

The financial statements include an appropriate provision in respect of the cost of the voluntary retirement program.

K. Following the merger of Adanim Mortgage Bank into the Bank, most of Adanim's employees would continue to be employed by the Bank (see Note 6.E.1)d). An appropriate provision for retirement was made in respect of certain employees whose employment by the Bank will be terminated, under terms and conditions identical to those offered to employees retiring from Bank Tefahot upon its merger with the Bank in 2005.

L. Long-service bonuses

Bank employees are entitled to special lump-sum bonuses upon attaining thirteen and eighteen years of service. A provision for these liabilities was recorded in the financial statements according to an actuarial computation based on past experience and the likelihood that the employee will still be employed by the Bank on the vesting date.

M. Reserves for long-service bonuses and the voluntary retirement agreement were based on actuarial calculations using a 4% discount rate taking into account a future real pay increase of 2.5% except for retired employees who are not entitled to a real increase in the pension paid to them.

See Note 1.L regarding implementation of the recommendations of the Superintendent of Insurance on the computation of provisions for annuity-type life insurance.

Note 16 - Employees' Rights (continued)

N. Bonuses for officers

1. In addition to approval of the stock option plan, on May 19, 2008 - as set forth in Note 16.A.2)b) - the Board of Directors, after receiving approval of the Audit Committee, resolved to approve a bonus framework for Bank officers, other than Board members including the Chairman of the Board of Directors and other than the Bank President (hereinafter in this section "the officers") for each of the years 2008-2012 (inclusive) (each of these years hereinafter in this section "report year") inter alia by way of creating a pool for bonus payments to officers. On March 2 an amendment to the bonus plan was approved, concerning the date on which the Board of Directors would discuss bonus payments pursuant to the aforementioned plan (hereinafter: "the bonus plan").
2. In accordance with the bonus plan, the Board of Directors shall determine during each report year the number of salaries to be transferred, for each Bank officer, to a pool designated for bonus payments to officers for that report year; the number of salaries would be derived from the net operating profit return on average shareholders' equity for the Bank, as defined in the bonus plan (hereinafter: "the annual return ratio"). Accordingly, the Board of Directors shall determine in each report year the number of salaries to be transferred to the pool, if the annual return ratio should range from 12% to the maximum return ratio to be determined by the Board of Directors for that report year (hereinafter in this section: "the maximum return ratio") based on a scale to be determined by the Board of Directors for this purpose.
3. Soon prior to publication of the Bank's annual report for the report year, and based on the expected annual return ration for the report year, pursuant to the Bank's draft annual statements for the report year, subject to approval there of by law, the Board of Directors shall decide, after discussing recommendations of the Bank President and subject to approval by the Audit Committee (in as much as required by law), as set forth below -

   3.1 Should the annual return ratio for the report year range from 12% to the maximum return ration set by the Board of Directors for that report year, the Board of Directors shall determine the bonus amount to be paid out of the bonus payment pool, for the report year, provided that no single officer be paid a bonus higher than 12 salaries for the report year.

   3.2 Should the annual return ratio for the report year be lower than 12%, the Board of Directors shall determine the bonus amount to be paid (if any). Furthermore, should the annual return ratio for the report year be higher than the maximum ration set by the Board of Directors for the report year, then the Board shall determine the bonus amount to be paid for the report year.
4. Furthermore, in accordance with the bonus plan, the Board of Directors may decide, at its discretion, to have bonuses paid to officers in respect of net profit from extraordinary items at the Bank for any report year.
5. Pursuant to provisions of the bonus plan, on May 19, 2008 the Board of Directors, after receiving approval of the Audit Committee, decided that the maximum return rate for 2008 shall be 14.1% and that the Bank shall transfer to the pool for bonus payments to officers for 2008, from 4 salaries for each officer if the annual return ratio will be 12%, and up to 10.4 salaries for each officer if the annual return ratio will be 14.1% - in accordance with a scale determined by the Board of Directors for this purpose.

Note 16 - Employees' Rights (continued)

O. The provisions and deposits for employees' rights to pension, severance pay and acclimation grants are included in "other liabilities", as follows: (reported amounts, NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
Amount of provision(1)	525	460	426	455
Amount funded(2)	91	22	7	18
Excess of provision over funding	434	438	419	437
(1) Included in respect of pension liabilities	300	(3)245	300	(3)245

(2) The Bank and its subsidiaries may not withdraw the funded amounts other than for severance payment.
(3) Reclassified.

P. Provisions for employees' rights to vacation and seniority grants are included in "other liabilities" as follows (reported amounts, NIS in millions):

	Consolidated		The Bank	
	2008	2007	2008	2007
Provision for vacation	64	94	58	94
Provision for seniority bonuses	13	10	11	10

Note 16.A. - Share-based Payment Transactions

1. Stock option plan for the President
   A. Pursuant to the employment agreement of the President ("the President"), the President is entitled to receive options to purchase Bank shares, according to a plan approved by the Audit Committee and board of directors of the Bank on October 25, 2004. Under the terms of the plan, the Bank will grant the President 5,464,442 non-marketable options which may be exercised for 5,464,442 shares of the Bank, subject to adjustments. The options offered to the President comprised, upon signing the agreement, 2.44% (after allocation) of the Bank's issued and paid-up capital.

      The President is entitled to receive the options in five equal annual installments, once every 12 months beginning April 1, 2005, subject to the exceptions stipulated in the agreement. The exercise price of the shares will be based on the stock market value of the Bank's shares on March 4, 2004 - NIS 14.39 - plus linkage to the CPI, and will be subject to adjustments deriving from the distribution of cash dividends and/or bonus shares, as well as issuance of rights of the Bank.

      The President will be eligible to exercise the options, in full or part, not later than two years after the actual termination of his employment, or by April 6, 2009, whichever is later, but not later than April 6, 2011.

Note 16.A. - Share-based Payment Transactions (continued)

In the event of termination of the agreement by the Bank, and under the circumstances provided in the agreement, the President will be entitled to receive from the Bank, despite the termination, all of the salaries and related terms, except for the annual bonus, until the end of the agreement period. Likewise, under the said circumstances, the President will be entitled to receive all of the options under the option plan, and to exercise them for shares, as though he continued to work until the end of his period of employment.

In accordance with the directives of the Supervisor of Banks, for the purpose of the financial statements, the value of the benefit inherent in the options granted to the President was measured, at the time that the agreement with him was signed, at its fair value.

The amount of the theoretical benefit inherent in this plan, according to the Black & Scholes model, amounts to NIS 24 million, is being recorded in the statement of profit and loss over the five-year period commencing in April 2004, unless the special circumstances provided in the agreement apply (see Note 1.K. for a description of the relevant accounting policies). For a description of accounting policy on this issue, see Note 1.M.

In applying this accounting treatment, the Bank was required to make several principal estimates: For the purpose of computing the amount of the benefit, management assumed that the President will exercise his options at the end of 5 years from the commencement date of his employment at the Bank.

The expense charged to the statement of profit and loss in 2008 amounted to NIS 5 million.

The annual standard deviation of share returns was calculated, based on historical share prices for the 5 years prior to the calculation date, at 25.1%. The risk-free interest rate was determined using the yield of "Galil" CPI-linked government bonds bearing fixed interest for a 5-year term, at 3.9%. No assumptions were made as to dividend distribution.

Since the President's eligibility for the options will be in accordance with Section 102 of the Income Tax Ordinance - the capital track, the said expense will not be tax deductible to the Bank.

On November 23, 2004, approval was received from the TASE to register the shares for trading, which will be allotted after the exercise of the options.

On April 19, 2007 the President exercised 3,278,664 options in exchange for 1,938,771 shares. The share price upon the exercise date was NIS 31.10. On June 2, 2008 the President exercised 1,092,888 options in exchange for 658,987 shares. The share price upon the exercise date was NIS 27.70. As of December 31, 2008, the President holds 1,092,980 stock options with a remaining contractual term of 2 years, exercisable into 1,092,980 shares.

B. On November 30, 2008, the Bank Board of Directors, following approval by the Bank Audit Committee at its meeting on November 30, 2008, resolved to approve the new stock option plan for allotment of option warrants by private offer to the Bank President.

Note 16.A. - Share-based Payment Transactions (continued)

In conjunction with the stock option plan, the Bank allotted to a trustee on February 1, 2009, on behalf of the President, at no cost 5,571,381 option warrants, each exercisable into one Bank ordinary share of NIS 0.1 par value, subject to adjustment for distribution of bonus shares, rights issuance, split or reverse split of shares or dividend distribution. Assuming full exercise of all option warrants, and assuming allotment of the maximum possible number of exercised shares, all option warrants allotted under the stock option plan would be equal to 2.44% of the Bank's issued share capital and voting rights (after allotment of the full number of exercised shares), and assuming full dilution - 2.11% of the Bank's issued share capital and voting rights.

Should the President elect to exercise the option warrants, in whole or in part, by way of allotment against the benefit amount, as set forth below, then the assumption with regard to allotment of the maximum number of exercised shares is merely theoretical, since in this way the full amount of resulting exercised shares would not be allotted, but rather only enough shares to reflect the monetary benefit amount inherent in the option warrants, as set forth below.

The trustee would grant the option warrants to the President, subhect to provisions of the stock option plan, in 5 lots (4 equal lots of 1,114,276 option warrants each, and one lot of 1,114,277 option warrants) on April 1 of each year between 2010-2014. Should employment of the President by the Bank be terminated prior to April 1, 2014 (i.e. prior to conclusion of the term of the new employment agreement), not by the President and not under specific circumstances set forth in the employment agreement, the President would be eligible to receive on his final day in office as Bank President the remainder of the option warrants included in the lots not yet granted to him by that date.

The President may exercise the option warrants starting on the grant date and through April 1, 2014 or through 24 months after his final day in office as Bank President, whichever is later, but no later than April 1, 2016.

The exercise price for each option warrant is NIS 21.18, plus linkage differentials to the Consumer Price Index starting on the date on which the Board of Directors approved the stock option plan and up to the CPI known upon the exercise date. The exercise price has been determined based on the closing price of Bank shares on the stock exchange on November 9, 2008 (the trading day preceding the date on which the recommendation by the Compensation Committee was received, as set forth above). Note that the exercise price is higher by 9.5% than the closing price of Bank shares on the stock exchange on November 27, 2008 (NIS 19.35), when the exercise price was discussed by the Audit Committee, which was the trading day preceding the date on which the Board of Directors approved the new employment agreement and the new stock option plan.

The options may be exercised, in whole or in part, in any of the following ways:

1) Each option warrant would be exercised into one Bank share (subject to adjustments), in exchange for payment of the full exercise price.

2) The Bank would allot, at no cost, a number of shares whose market value based on the closing price for Bank shares on the stock exchange on the trading day preceding the exercise date would be equal to the monetary benefit amount inherent in the options upon the exercise date.

Note 16.A. - Share-based Payment Transactions (continued)

The Bank applies Accounting Standard no. 24 "Share-based Payment". In accordance with provisions of this standard, the Bank records in its financial statements an expense equal to the fair value of the option warrants. The expense, for each of the 5 lots, is allocated over the period from the allotment date to the grant date for that lot. The theoretical fair value of the option warrants was calculated using the Black & Scholes model. Calculation of the fair value accounts for terms and conditions of the new stock option plan as well as for the following data and assumptions:

1) Calculation of the fair value does not account for the fact that the option warrants would not be listed for trading on the stock exchange, nor does it account for blocking of the option warrants, as set forth in the stock option plan.
2) The exercise price for each option warrant, for the purpose of this calculation, is NIS 21.18 as set forth above.
3) It was assumed that all option warrants would be exercised on the last day of the exercise period, i.e. expected duration of 7 years and 4 months.
4) The standard deviation used for this calculation was 27.06%, which was calculated by measuring the historic standard deviation of share prices on the stock exchange over a period equal to the expected duration of the option warrants, ending on November 27, 2008.
5) The risk-free interest rate used for the calculation - 3.88% - was calculated based on interest rate quotes for risk-free, CPI-linked NIS-denominated assets traded on the stock exchange as of November 27, 2008 for a term equal to the expected duration for exercise of each option warrant.
6) The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is 0%.

Based on the assumptions set forth above, the fair value of all option warrants to be granted to the President under the new stock option plan is NIS 38.6 million (NIS 44.6 million, including payroll tax).

The options would be allotted under the "wages" track, pursuant to the Section 102 of the Income Tax Ordinance. Therefore, any benefit arising to the President from exercise of these option warrants shall be taxed at the marginal tax rate applicable to the President upon exercise of the option warrants. The Bank would be required to pay the payroll tax in respect of the benefit arising to the President from exercise of the option warrants under the new stock option plan. Furthermore, upon payment of the tax in respect of this benefit by the President, the Bank may make a deduction for tax purposes in respect of the aforementioned option warrants based on the effective tax rate applicable upon the exercise date.

Note 16.A. - Share-based Payment Transactions (continued)

2. Stock option plan for employees

A. On July 19, 2005, after approval by the Bank's Audit Committee and Board of Directors, stockk options were granted to Executive Management, division and sector managers, and department and branch managers of the Bank and its subsidiaries ("the offerees") in conjunction with a compensation planned aimed at encouraging them to contribute to business development of the Bank and its subsidiaries, and to align interests of the offerees with that of the Bank and its subsidiaries. Allotted in accordance with the plan will be up to 12,000,000 options, which may be exercised for shares, NIS 0.1 par value each. As of December 31, 2007, 11,620,973 options were allotted to 296 offerees.

The options will vest in 3 annual installments (25%, 35% and 40%), each at the end of every year from the date the options are granted. For some of the offerees, the number of options that will vest in each installment will be determined subject to meeting certain threshold conditions of "quality level". The offerees will be eligible to exercise the options until the end of four years from the date granted, and to receive for them shares in the Bank at a value totalling the balance of the theoretical profit included in the options on the exercise date. The exercise price of the shares will be based, for each grant, on the stock market value of the Bank's shares on the grant date plus linkage to the CPI, and is subject to adjustments deriving from the distribution of cash dividends and/or bonus shares, as well as issuance of rights of the Bank.

The theoretical value of the benefit for the 12,000,000 options that were approved, in accordance with accounting treatment rules of Accounting Standard 24, is estimated at NIS 53 million. The value of the benefit, which includes salary tax, as will be recorded in the Bank's financial statements, is estimated at June 30, 2005 at NIS 62 million. The value of this benefit will be included in the Bank's books of account, beginning from the third quarter of 2005 and will be spread over 3 years.

The theoretical value of the benefit was determined using the Black and Scholes model. Annualized standard deviation for the 4-year period preceding the original allocation date is 22.5%. The option term in the model was set at 4 years (based on the last exercise date). The risk-free interest rate was based on the gross yield to maturity for "Galil" and "Sagi" government bonds, CPI-linked and bearing fixed interest, as published by the Bank of Israel in June 2005 near the allocation date, and based on the option term, amounting to 2.7%. No assumptions were made as to dividend distribution.

Note 16.A. - Share-based Payment Transactions (continued)

Details of the number of stock options and their exercise price are as follows:

	2008		2007	
	Number of stock options	Weighted average exercise price (in NIS)	Number of stock options	Weighted average exercise price (in NIS)
In circulation at year start	8,042,604	18.84	10,245,751	19.51
Granted during the year(1)	-	-	4 20,205	29.33
Forfeited during the year	218,692	20.53	337,122	17.73
Exercised during the year(2)	1,128,401	17.11	2,286,230	17.51
In circulation at year end(3)	6,695,511	18.70	8,042,604	18.84

(1) In 2008, no additional options were granted. The weighted average fair value of stock options granted during 2007, upon measuring, was NIS 5.23.
(2) The weighted average share price upon exercise of options into shares during 2008 was NIS 26.89 (2007 - NIS 30.19).
(3) Stock options in circulation at year end by exercise price range:

	December 31, 2008		December 31, 2007	
Exercise price (NIS)	17-24	25-31	17-24	25-31
Number of options	6,029,093	666,418	7,331,142	711,462
Weighted average exercise price (in NIS)	17.71	27.65	17.79	27.86
Weighted average remaining contractual term (in years)	2.6	3.8	(4)1.6	(4)2.8
Of which vested:				
Number of options	5,926,432	267,818	2,931,530	68,126
Weighted average exercise price (in NIS)	17.63	26.95	17.79	25.72

(4) Reclassified.

On March 2, 2009, the Bank Board of Directors, having received approval from the Bank Audit Committee dated March 2, 2009, resolved to extend the exercise period of all options granted to employees and officers of the Bank and its subsidiaries in accordance with this stock option plan, not yet exercised into Bank shares, by a further 2 years. The extension of the exercise period for these options is only a benefit to offerees who own the options under the plan.

Pursuant to Accounting Standard no. 24 "Share-based Payment", the Bank is required to recognize the impact of extension of option exercise periods, which increases their fair value, equal to the difference between the option's fair value immediately after extension of the exercise period and their fair value immediately before the decision by the Board of Directors ("the additional fair value").

The additional fair value for the options has been calculated using the Black & Scholes model, based on the following data and assumptions:

The exercise price for the options are as determined upon the original grant date, adjusted for the Consumer Price Index known upon approval of the extension.

Note 16.A. - Share-based Payment Transactions (continued)

- The share price was determined using the closing price for Bank shares on the stock exchange on the trading day preceding the data of approval by the Board of Directors of this extension.
- The expected duration to exercise for the options included in lots fully vested as of the valuation date were assumed to be half of the remaining period from the date of approval of this extension until expiration of the options included in said lot.
- The standard deviation is based on historical volatility of Bank shares, in accordance with the expected terms to option exercise, and has been calculated separately for each lot.
- The interest rate for calculation of the option fair value is based, in accordance with Accounting Standard no. 24, on interest rates for risk-free, CPI-linked NIS-denominated assets as published by the Bank of Israel from time to time, for a term equal to the expected duration until each lot is exercised.
- The exercise price is adjusted for dividends, hence the dividend yield assumed for this calculation is 0%.
- Calculation of the fair value assumes that the option warrants would not be listed for trading on the stock exchange.

Below are data used for this calculation:

	As of March 1, 2009		
	Original exercise period	Modified exercise period	Total change
Annualized standard deviation	41.1%-57.4%	34.6%-44.1%	
Bank share price (in NIS)	17.80	17.80	
Average effective exercise price (in NIS)	19.03	19.03	
Discount rate	1.84%	1.64%	
Average expected duration to exercise (in years)	0.31	1.31	
Average value per 1 option (in NIS)	1.59	3.30	1.71
Number of options (in millions)	6.6	6.6	
Total option value (NIS in millions)	10.5	21.9	11.4

The additional fair value of the options due to extension of the exercise period there of (6,632,256 options allotted under the plan and not yet exercised or expired), amounting to NIS 11.4 million (NIS 13.2 million inclusive of payroll tax), would be recorded as an expense in the Bank's 2009 financial statements.

B. On May 19, 2008, the Bank Board of Directors resolved, after obtaining approval of the Bank Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for Bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries - as set forth in the option plan and in the outline published on June 8, 2008 ("the outline"). No stock options would be granted, pursuant to the plan, to members of the Bank Board of Directors, including the Chairman of the Board, nor to the Bank President.

Note 16.A. - Share-based Payment Transactions (continued)

In addition to approval of the option plan, as set forth above, the Board of Directors resolved, after receiving approval of the Audit Committee and the recommendations of the Compensation and Management Committees, to approve a framework plan for bonus payment to Bank officers, excluding Board members, including the Chairman of the Board, and excluding the Bank President, for each of the years 2008-2012, inter alia by way of creating a pool for bonus payment to officers, as set forth in the framework.

The option plan is for a term of 5 years and 90 days, starting on the date of option allotment in accordance with the plan. In conjunction with approval of the plan, the Board of Directors resolved that the number of option warrants to be used as a pool for allotment of option warrants pursuant to the plan, would include 32,500,000 option warrants, registered in the owner's name, not listed for trading on the Tel Aviv Stock Exchange, which would be granted at no cost to offerees, and which may be exercised for up to 32,500,000 Bank ordinary shares, NIS 0.1 par value each, subject to adjustments as set forth in the plan, and subject to achieving the eligibility conditions set forth there in.

The option warrants allotted to the trustee for each offeree, in accordance with the plan, will be allotted in 5 equal lots. The vesting period for each such lot would be at the end of each of the 1st, 2nd, 3rd, 4th and 5th anniversaries of the allotment date of option warrants pursuant to the plan, respectively. The number of exercised shares, as set forth above, is the maximum number of shares arising from exercise of all option warrants which may be allotted pursuant to the plan. However, the number of option warrants which the offerees may actually exercise, pursuant to terms of the plan, will be based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 18%, based on the exercise eligibility formula, as set forth in the option plan.

The personal eligibility rate for each offeree included in the group of branch-, department- and affiliate managers (as defined in the plan) to exercise the option warrants granted to them in accordance with the plan will be determined, in addition to the aforementioned, also by the quality rating assigned to them, as set forth in the option plan.

Furthermore, allotment of the full number of exercised shares is merely theoretical, since in actual fact the offerees would not be allotted the full number of exercised shares arising from the option warrants which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned option warrants, as set forth in the option plan.

The exercise price for each of the option warrants allotted pursuant to the plan was determined based on the closing price of the Bank's ordinary shares on the stock exchange on July 7, 2008 - the final trading day preceding the allotment date of option warrants to the offeree. The exercise price is NIS 25.15 plus linkage differentials to the Consumer Price Index starting on the allotment date, adjusted for dividends to be distributed by the Bank.

On July 8, 2008, 28,625,300 option warrants were allotted, in accordance with the plan, at no cost to 313 offerees who are Bank officers, branch-, department- and affiliate managers, as well as other employees of the Bank and its subsidiaries, as set forth in the option plan.

The option warrants pursuant to the plan were allotted in accordance with terms of the labor profit track, via a trustee, pursuant to provisions of Section 102 of the Profit Tax Ordinance (New Version), 1961 including all regulations, rules, circulars and guidelines issued based there upon.

Note 16.A. - Share-based Payment Transactions (continued)

On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank Audit Committee dated November 23, 2008, to extend the exercise periods of all option warrants allotted in accordance with the plan and the framework, and which would be allotted thereby in the future, by 24 months.

Accordingly, the exercise period for each lot of the option warrants allotted or to be allotted pursuant to the option plan, including all option warrants allotted on July 08, 2008, would be extended by 24 months, to end after 7 years and 90 days from the date of allotment, rather than after 5 years and 90 days from the date of allotment, as set forth in the original plan.

For recording the expense in the Bank's financial statements, and based on the strategic 5-year plan, as set forth above, management has estimated a range of annual rates of return (though not linear) for each plan year (2008-2012) up to an 18% annual rate of return in 2012. Using this range, the number of option warrants each offeree may exercise out of the total number of option warrants granted to them in accordance with the plan has been estimated, as set forth in the framework.

On November 24, 2008, the Bank Board of Directors approved an updated strategic plan, whereby the Bank's objective is to achieve an annual rate of return of 18% in 2013, rather than in 2012, as set forth in the strategic plan prior to its update. Accordingly, management estimate with regard to the framework of annual rates of return has been updated for the purpose of recording this expense in the Bank's financial statements.

The theoretical benefit value of the option warrants currently allotted, as set forth above, calculated in accordance with accounting principles in Accounting Standard no. 24, including adjustment of option value in respect of the change in option terms and the impact of change in number of options expected to vest, amounts to NIS 93 million (NIS 108 million including payroll tax), compared to NIS 115 million (NIS 133 million including payroll tax) prior to this change.

Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as set forth above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the option warrants to be granted would expire due to the offerees retirement.

Adjustment of the benefit value in respect of the change in option terms is the difference between the fair value of the options, under their original terms, upon the date of change in said terms, and their fair value under the new terms upon the same date. The theoretical benefit value is recorded on Bank accounts starting on the grant date and over a 5-year period. Management estimates with regard to the range of annual rates of return and churn rates are reviewed and updated on an on-going basis, and the extent of total expenditure recorded in the financial statements is updated accordingly.

The theoretical benefit value of the option warrants was determined using the Black and Scholes model. Standard deviation was separately calculated for each lot, based on daily share prices in a period equal to the expected life of each lot. The option term in the model was determined based on the average time between the vesting period and the option expiration date (Simplified Approach). The rate of risk-free interest is determined based on gross yield to maturity for CPI-linked government bonds bearing fixed interest ("Galil"), for a term equal to the expected life to exercise of each lot.

Note 16.A. - Share-based Payment Transactions (continued)

Details of the number of stock options and their exercise price are as follows:

	Number of stock options	Weighted average exercise price
		(in NIS)
In circulation at year start	-	-
Granted during the year[1]	28,625,300	25.15
Forfeited during the year	282,900	25.15
Exercised during the year	-	-
In circulation at year end[2]	28,342,400	25.15

(1) The weighted average fair value of stock options granted during the year, upon measuring, was NIS 6.48.

(2) The weighted average remaining contractual time to maturity is 4.8 years.

Note 16.A. - Share-based Payment Transactions (continued)

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on July 8, 2008, as of the grant date and as of the date of modification of terms:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
As of July 8, 2008 - the grant date					
Annualized standard deviation	26.05%	26.23%	25.44%	24.71%	24.98%
Exercise price (in NIS)	25.15	25.15	25.15	25.15	25.15
Interest	2.03%	2.20%	2.34%	2.47%	2.58%
Term to exercise (in years)	3.10	3.60	4.10	4.60	5.10
Fair value per single option	5.25	5.79	6.13	6.45	6.95

As of November 24, 2008 - for the original exercise period (exercise price unchanged)					
Annualized standard deviation	29.84%	29.22%	28.76%	28.35%	27.43%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.08%	4.11%	4.13%	4.15%	4.16%
Term to exercise (in years)	2.75	3.25	3.75	4.25	4.75
Fair value per single option	1.17	1.43	1.69	1.94	2.12

As of November 24, 2008 - for the modified exercise period (exercise price unchanged)					
Annualized standard deviation	28.76%	28.35%	27.43%	26.77%	27.18%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.13%	4.15%	4.16%	4.18%	4.19%
Term to exercise (in years)	3.75	4.25	4.75	5.25	5.75
Fair value per single option	1.69	1.94	2.12	2.32	2.66
Value of change per single option	0.52	0.51	0.43	0.38	0.54
Cumulative value per single option	5.77	6.30	6.56	6.83	7.49

Note 17 - Assets and Liabilities by Linkage Basis - Consolidated

As of December 31, 2008

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI- linked	US dollars	Euro	Other currencies	Non-monetary items	Total
Assets							
Cash and deposits with banks	4,686	2,483	2,808	858	203	-	11,038
Securities	2,755	1,953	2,724	1,428	19	[3]380	9,259
Securities loaned or sold in conjunction with repurchase agreements	12	-	-	-	-	-	12
Loans to the public[2]	39,913	34,211	8,814	2,140	2,971	-	88,049
Loans to the Government	-	1	1	-	-	-	2
Investments in investees	26	-	-	-	-	(9)	17
Buildings and equipment	-	-	-	-	-	1,476	1,476
Other assets	2,577	220	834	69	315	144	4,159
Total assets	49,969	38,868	15,181	4,495	3,508	1,991	114,012
Liabilities							
Deposits from the public	49,273	22,999	13,166	3,818	2,523	-	91,779
Deposits from banks	155	1,026	594	20	72	-	1,867
Deposits from the Government	4	200	38	-	-	-	242
Securities loaned or sold in conjunction with re-purchase agreements	-	972	-	-	-	-	972
Debentures and subordinated notes	-	6,837		-	-	-	6,837
Other liabilities	3,935	532	1,061	134	164	186	6,012
Total liabilities	53,367	32,566	14,859	3,972	2,759	186	107,709
Difference	(3,398)	6,302	322	523	749	1,805	6,303
Non-hedging financial derivatives:							
Derivatives (except for options)	5,770	(5,013)	(537)	325	(545)	-	-
Net in-the-money options (in terms of underlying asset)	748	-	(96)	(673)	3	18	-
Net out-of-the-money options (in terms of underlying asset)	152	-	113	(164)	(82)	(19)	-
Total	3,272	1,289	(198)	11	125	1,804	6,303
Net in-the-money options (capitalized par value)	(1,751)	-	1,100	366	(62)	347	-
Net out-of-the-money options (capitalized par value)	662	-	(581)	266	(379)	32	-

(1) Includes linked to foreign currency.

(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.

(3) Includes NIS 276 million in respect of shares received to secure credit - see footnote (3) in Note 3 to the financial statements for 2008.

Note 17 - Assets and Liabilities by Linkage Basis - Consolidated (continued)

As of December 31, 2007

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI- linked	US dollars	Euro	Other currencies	Non-monetary items	Total
Assets							
Cash and deposits with banks	2,009	616	5,338	1,527	1,211	-	10,701
Securities	1,742	1,207	1,165	1,581	51	399	6,145
Securities loaned or sold in conjunction with repurchase agreements	5	-	-	-	-	-	5
Loans to the public[2]	27,911	33,586	8,167	2,237	2,419	-	74,320
Loans to the Government	-	2	1	-	-	-	3
Investments in investees	24	-	-	-	-	(7)	17
Buildings and equipment	-	-	-	-	-	1,246	1,246
Other assets	2,184	310	242	66	35	43	2,880
Total assets	33,875	35,721	14,913	5,411	3,716	1,681	95,317
Liabilities							
Deposits from the public	36,125	20,020	13,651	3,256	2,238	-	75,290
Deposits from banks	1,052	1,633	748	106	213	-	3,752
Deposits from the Government	-	243	39	-	-	-	282
Debentures and subordinated notes	-	6,189	-	-	-	-	6,189
Other liabilities	3,249	558	150	82	61	147	4,247
Total liabilities	40,426	28,643	14,588	3,444	2,512	147	89,760
Difference	(6,551)	7,078	325	1,967	1,204	1,534	5,557
Non-hedging financial derivatives:							
Derivatives (except for options)	7,634	(5,220)	421	(1,592)	(1,243)	-	-
Net in-the-money options (in terms of underlying asset)	1,213	-	(837)	(413)	50	(13)	-
Net out-of-the-money options (in terms of underlying asset)	82	-	7	4	(100)	7	-
Total	2,378	1,858	(84)	(34)	(89)	1,528	5,557
Net in-the-money options (capitalized par value)	(1,841)	-	2,536	(660)	(41)	6	-
Net out-of-the-money options (capitalized par value)	84	-	(505)	415	(20)	26	-

(1) Includes linked to foreign currency.

(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.

(3) Includes NIS 322 million in respect of shares received to secure credit - see footnote (3) in Note 3 to the financial statements for 2007.

Note 17 - Assets and Liabilities by Linkage Basis - The Bank (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI- linked	US dollars	Euro	Other currencies	Non-monetary items	Total
Assets							
Cash and deposits with banks	5,068	1,532	2,606	974	295	-	10,475
Securities	381	890	2,669	1,422	-	[4]380	5,742
Securities loaned or sold in conjunction with repurchase agreements	12	-	-	-	-	-	12
Loans to the public[2]	34,633	31,324	8,711	1,894	2,784	-	79,346
Loans to the Government	-	1	1	-	-	-	2
Investments in investees[3]	26	129	12	-	-	1,261	1,428
Buildings and equipment	-	-	-	-	-	1,311	1,311
Other assets	2,491	220	833	69	308	144	4,065
Total assets	42,611	34,096	14,832	4,359	3,387	3,096	102,381
Liabilities							
Deposits from the public	42,040	21,215	12,769	3,639	2,479	-	82,142
Deposits from banks	582	1,219	780	137	74	-	2,792
Deposits from the Government	-	197	37	-	-	-	234
Securities loaned or sold in conjunction with re-purchase agreements	-	972	-	-	-	-	972
Debentures and subordinated notes	-	4,430	-	-	-	-	4,430
Other liabilities	3,836	513	1,053	134	157	166	5,859
Total liabilities	46,458	28,546	14,639	3,910	2,710	166	96,429
Difference	(3,847)	5,550	193	449	677	2,930	5,952
Non-hedging financial derivatives:							
Derivatives (except for options)	5,235	(4,478)	(508)	390	(639)	-	-
Net in-the-money options (in terms of underlying asset)	748	-	(96)	(673)	3	18	-
Net out-of-the-money options (in terms of underlying asset)	152	-	113	(164)	(82)	(19)	-
Total	2,288	1,072	(298)	2	(41)	2,929	5,952
Net in-the-money options (capitalized par value)	(1,751)	-	1,100	366	(62)	347	-
Net out-of-the-money options (capitalized par value)	662	-	(581)	266	(379)	32	-

(1) Includes linked to foreign currency.
(2) The general and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes investments in overseas subsidiaries totaling NIS 278 million.
(4) Includes NIS 276 million in respect of shares received to secure credit - see footnote (3) in Note 3 to the financial statements for 2008.

Note 17 - Assets and Liabilities by Linkage Basis - The Bank (continued)

As of December 31, 2007

Reported amounts (NIS in millions)

	Israeli currency		In foreign currency[1]				
	Non-linked	CPI- linked	US dollars	Euro	Other currencies	Non-monetary items	Total
Assets							
Cash and deposits with banks	2,869	1,441	5,389	1,733	1,227	-	12,659
Securities	1,740	1,207	1,165	1,581	-	[4]399	6,092
Securities loaned or sold in conjunction with repurchase agreements	5	-	-	-	-	-	5
Loans to the public[2]	26,851	30,928	8,012	1,992	2,311	-	70,094
Loans to the Government	-	2	1	-	-	-	3
Investments in investees[3]	24	124	8	-	-	1,024	1,180
Buildings and equipment	-	-	-	-	-	1,234	1,234
Other assets	2,136	309	241	66	34	43	2,829
Total assets	33,625	34,011	14,816	5,372	3,572	2,700	94,096
Liabilities							
Deposits from the public	36,569	20,556	13,673	3,248	2,207	-	76,253
Deposits from banks	1,106	1,599	748	106	209	-	3,768
Deposits from the Government	-	236	39	-	-	-	275
Debentures and subordinated notes	-	4,057	-	-	-	-	4,057
Other liabilities	3,224	555	143	82	56	126	4,186
Total liabilities	40,899	27,003	14,603	3,436	2,472	126	88,539
Difference	(7,274)	7,008	213	1,936	1,100	2,574	5,557
Non-hedging financial derivatives:							
Derivatives (except for options)	7,634	(5,220)	421	(1,592)	(1,243)	-	-
Net in-the-money options (in terms of underlying asset)	1,213	-	(837)	(413)	50	(13)	-
Net out-of-the-money options (in terms of underlying asset)	82	-	7	4	(100)	7	-
Total	1,655	1,788	(196)	(65)	(193)	2,568	5,557
Net in-the-money options (capitalized par value)	(1,841)	-	2,536	(660)	(41)	6	-
Net out-of-the-money options (capitalized par value)	84	-	(505)	415	(20)	26	-

(1) Includes linked to foreign currency.
(2) The general and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes investments in overseas subsidiaries totaling NIS 258 million.
(4) Includes NIS 322 million in respect of shares received to secure credit - see footnote (3) in Note 3 to the financial statements for 2007.

Note 18 - Assets and Liabilities by Linkage Basis and by Term to Maturity[1] - Consolidated

As of December 31, 2008

Reported amounts (NIS in millions)

	Expected contractual future cash flows				
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years
Israeli currency - non-linked					
Assets[3]	22,528	4,214	9,264	5,405	3,074
Liabilities	39,386	3,492	5,349	2,652	801
Difference	(16,858)	722	3,915	2,753	2,273
Derivatives (except for options)	1,360	1,004	1,294	1,110	975
Options (in terms of underlying asset)	(46)	218	690	38	-
Israeli currency - linked to the CPI					
Assets	391	1,985	9,451	6,776	5,918
Liabilities	1,577	783	4,989	4,444	3,990
Difference	(1,186)	1,202	4,462	2,332	1,928
Derivatives (except for options)	(651)	(561)	(2,401)	(625)	(965)
Options (in terms of underlying asset)	-	-	-	-	-
Foreign currency - Israeli operations[4]					
Assets[3]	7,147	2,490	1,965	1,974	797
Liabilities	9,091	6,077	3,407	269	103
Difference	(1,944)	(3,587)	(1,442)	1,705	694
Derivatives (except for options)	(709)	(443)	1,107	(485)	(10)
Options (in terms of underlying asset)	108	(288)	(681)	(38)	-
Foreign currency - overseas operations					
Assets	2,022	643	1,454	528	551
Liabilities	1,320	1,054	543	63	134
Difference	702	(411)	911	465	417
Non-monetary items					
Assets	-	-	-	-	-
Liabilities	3	6	28	38	38
Difference	(3)	(6)	(28)	(38)	(38)
Derivatives (except for options)	-	-	-	-	-
Options (in terms of underlying asset)	(62)	70	(9)	-	-
Total					
Assets	32,088	9,332	22,134	14,683	10,340
Liabilities	51,377	11,412	14,316	7,466	5,066
Difference	(19,289)	(2,080)	7,818	7,217	5,274

(1) Presented in this note are expected contractual future cash flows in respect of assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.
(2) Includes assets totaling NIS 659 million which are past due.
(3) Includes NIS 6,348 million of loans at debitory account terms and NIS 243 million exceeding limits in debitory account facilities.
(4) Includes linked to foreign currency.
(5) As in Note 17 "Assets and Liabilities Classified by Linkage Basis", includes off-balance sheet items related to derivatives.

Expected contractual future cash flows (continued)						Balance sheet balance[5]	
3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without fixed maturity	Total
1,540	908	3,034	714	78	50,759	[2]1,886	49,969
596	491	1,195	5	63	54,030	27	53,367
944	417	1,839	709	15	(3,271)	1,859	(3,398)
(364)	(67)	634	-	-	5,946	-	5,770
-	-	-	-	-	900	-	900
3,440	2,986	7,470	1,827	12	40,256	[2]73	38,868
3,462	3,618	11,461	4,373	905	39,602	30	32,566
(22)	(632)	(3,991)	(2,546)	(893)	654	43	6,302
369	71	(391)	-	-	(5,154)	-	(5,013)
-	-	-	-	-	-	-	-
638	637	1,867	348	52	17,915	[2]85	16,515
111	67	116	32	-	19,273	-	18,028
527	570	1,751	316	52	(1,358)	85	(1,513)
(5)	(4)	(243)	-	-	(792)	-	(757)
-	-	-	-	-	(899)	-	(899)
292	270	1,350	129	10	7,249	-	6,669
107	106	196	77	-	3,600	-	3,562
185	164	1,154	52	10	3,649	-	3,107
-	-	-	-	-	-	1,991	1,991
-	-	-	-	-	113	73	186
-	-	-	-	-	(113)	1,918	1,805
-	-	-	-	-	-	-	-
-	-	-	-	-	(1)	-	(1)
5,910	4,801	13,721	3,018	152	116,179	4,035	114,012
4,276	4,282	12,968	4,487	968	116,618	130	107,709
1,634	519	753	(1,469)	(816)	(439)	3,905	6,303

Note 18 - Assets and Liabilities by Linkage Basis and by Term to Maturity[(1)] - the Bank (continued)

As of December 31, 2008

Reported amounts (NIS in millions)

	Expected contractual future cash flows				
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years
Israeli currency - non-linked					
Assets[(3)]	22,087	3,081	8,202	3,577	2,143
Liabilities	36,654	2,597	4,112	1,642	320
Difference	(14,567)	484	4,090	1,935	1,823
Derivatives (except for options)	1,340	723	1,120	1,042	975
Options (in terms of underlying asset)	(46)	218	690	38	-
Israeli currency - linked to the CPI					
Assets	220	1,647	7,564	5,675	5,564
Liabilities	1,461	667	4,328	3,662	3,780
Difference	(1,241)	980	3,236	2,013	1,784
Derivatives (except for options)	(631)	(280)	(2,227)	(557)	(965)
Options (in terms of underlying asset)	-	-	-	-	-
Foreign currency - Israeli operations[(4)]					
Assets[(3)]	7,145	2,542	1,919	1,937	770
Liabilities	9,044	5,965	3,324	267	103
Difference	(1,899)	(3,423)	(1,405)	1,670	667
Derivatives (except for options)	(709)	(443)	1,107	(485)	(10)
Options (in terms of underlying asset)	108	(288)	(681)	(38)	-
Foreign currency - overseas operations					
Assets	1,569	588	1,599	528	551
Liabilities	1,108	1,014	696	63	134
Difference	461	(426)	903	465	417
Non-monetary items					
Assets	-	-	-	-	-
Liabilities	3	6	28	38	38
Difference	(3)	(6)	(28)	(38)	(38)
Derivatives (except for options)	-	-	-	-	-
Options (in terms of underlying asset)	(62)	70	(9)	-	-
Total					
Assets	31,021	7,858	19,284	11,717	9,028
Liabilities	48,270	10,249	12,488	5,672	4,375
Difference	(17,249)	(2,391)	6,796	6,045	4,653

(1) Presented in this note are expected contractual future cash flows in respect of assets and liabilities, according to linkage basis, according to the remaining contractual period to maturity of each flow. The data is stated net of provisions for doubtful debts.

(2) Includes assets totaling NIS 652 million which are past due.

(3) Includes NIS 6,348 million of loans at debitory account terms and NIS 243 million exceeding limits in debitory account facilities.

(4) Includes linked to foreign currency.

(5) As in Note 17 "Assets and Liabilities Classified by Linkage Basis", includes off-balance sheet items related to derivatives.

Expected contractual future cash flows (continued)						Balance sheet balance[5]	
3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without fixed maturity	Total
1,065	564	1,900	96	-	42,715	[2]1,815	42,611
458	491	443	5	63	46,785	-	46,458
607	73	1,457	91	(63)	(4,070)	1,815	(3,847)
(364)	(67)	634	-	-	5,403	-	5,235
-	-	-	-	-	900	-	900
3,104	2,753	6,974	1,581	1	35,083	[2]70	34,096
3,301	3,411	10,298	3,249	905	35,062	29	28,546
(197)	(658)	(3,324)	(1,668)	(904)	21	41	5,550
369	71	(391)	-	-	(4,611)	-	(4,478)
-	-	-	-	-	-	-	-
613	602	1,765	269	-	17,562	[2]85	16,274
111	67	128	32	-	19,041	-	17,796
502	535	1,637	237	-	(1,479)	85	(1,522)
(5)	(4)	(243)	-	-	(792)	-	(757)
-	-	-	-	-	(899)	-	(899)
292	270	1,350	129	10	6,886	-	6,304
107	106	196	77	-	3,501	-	3,463
185	164	1,154	52	10	3,385	-	2,841
-	-	-	-	-	-	3,096	3,096
-	-	-	-	-	113	53	166
-	-	-	-	-	(113)	3,043	2,930
-	-	-	-	-	-	-	-
-	-	-	-	-	(1)	-	(1)
5,074	4,189	11,989	2,075	11	102,246	5,066	102,381
3,977	4,075	11,065	3,363	968	104,502	82	96,429
1,097	114	924	(1,288)	(957)	(2,256)	4,984	5,952

Note 18 - Assets and Liabilities by Linkage Basis and by Term to Maturity – Consolidated and the Bank (continued)

As of December 31, 2007

Reported amounts (NIS in millions)

	Expected contractual future cash flows				
	On-call to 1 month	1-3 months	3-12 months	1-2 years	2-3 years
Consolidated					
Assets(1)	16,866	8,461	16,595	9,604	8,136
Liabilities	43,721	9,636	11,349	7,019	3,373
Difference	(26,855)	(1,175)	5,246	2,585	4,763
The Bank					
Assets(1)	16,585	8,552	16,352	9,098	7,892
Liabilities	43,774	9,876	11,003	6,593	3,154
Difference	(27,189)	(1,324)	5,349	2,505	4,738

(1) Includes NIS 5,480 million of loans at debitory account terms and NIS 299 million exceeding limits in debitory account facilities.
(2) Includes assets totaling NIS 895 million which are past due.
(3) As included in Note 17 "Assets and liabilities by linkage basis".

	Expected contractual future cash flows (continued)						Balance sheet balance	
	3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total cash flows	Without fixed maturity	Total
	6,451	6,145	21,042	17,298	3,383	113,981	(2)4,856	95,317
	3,499	3,328	10,661	3,308	205	96,099	511	89,760
	2,952	2,817	10,381	13,990	3,178	17,882	4,345	5,557
	6,432	5,946	20,061	16,548	3,296	110,762	(2)5,844	94,096
	3,319	3,152	10,203	3,223	205	94,502	487	88,539
	3,113	2,794	9,858	13,325	3,091	16,260	5,357	5,557

Note 19 - Contingent Liabilities and Special Commitments[1]

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
A. Off-balance sheet financial instruments				
Contract balances or their stated amounts at the end of the year				
Transactions in which the balance represents a credit risk:				
- Documentary credit	531	707	531	707
- Loan guarantees	3,618	2,847	2,654	2,694
- Guarantees to purchasers of homes	5,827	5,613	5,360	4,888
- Other guarantees and liabilities[2]	4,208	4,830	4,183	4,816
- Unutilized revolving credit card facilities	6,401	4,710	5,229	4,710
- Unutilized debitory account and other credit facilities in accounts available on demand	17,945	21,639	17,427	21,639
- Irrevocable commitments for loans approved but not yet granted	3,834	4,391	2,853	3,490
- Commitments to issue credit to savers[3]	1,704	1,686	1,704	1,686
- Commitments to issue guarantees	3,136	4,017	3,088	3,554

(1) Restated.

(2) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 147 million. (December 31, 2007 – NIS 225 million), see Note 19.D.2) and Note 15.B.

(3) See Note 19.D.20.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31

Reported amounts (NIS in millions)

B. Off-balance sheet liability for activities based on extent of collection at year end[(1)]

	Consolidated	
	2008	2007
1. Balance of loans from deposits based on extent of collection[(2)]		
Israeli currency - linked to the CPI	15,849	16,192
Israeli currency - non-linked	2,175	423
Foreign currency denominated	297	241
Total	18,321	16,856

2. Flows in respect of collection commissions on activities based on extent of collection[(3)]

	2008							2007
	Up to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 10 years	Over 10 years to 20 years	Over 20 years	Total	Total
Flows of futures contracts	99	189	176	394	300	10	1,168	1,268
Expected future flows net of management's estimate of early repayments	99	186	169	362	225	4	1,045	1,133
Discounted expected future flows net of management's estimate of early repayments[(4)]	97	171	142	263	129	2	804	857

3. Information on loans made available during the year

	Consolidated	
	2008	2007
Loans out of deposits according to extent of collection	597	773
Standing loans and grants	229	167

(1) Loans and deposits from deposits the repayment of which to the depositor is contingent upon collection of the loans (or deposits), with margin or with collection commission (instead of margin).

(2) Standing loans and Government deposits given in respect thereof totaling NIS 4,660 million (previous year - NIS 5,037 million) are not included in this table.

(3) Includes unlinked shekel sector and foreign currency sector.

(4) Discounted at the rate of 4.4% (2007 - 4.5%).

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31

Reported amounts (NIS in millions)

	Consolidated		The Bank	
	2008	2007	2008	2007
C. Special commitments:				
Liabilities in respect of:				
Long-term rental contracts[1]	392	351	305	308
Computerization and software services contracts	72	100	72	100
Acquisition of buildings and their renovation	15	19	15	19
Receipt of deposits on future dates[2]	5	5	5	5

(1) The Bank and subsidiaries have long-term leases on buildings and equipment for which the rental payments are as follows (subject to linkage conditions):

	Consolidated		The Bank	
	2008	2007	2008	2007
First year	40	31	29	27
Second year	39	31	29	28
Third year	38	28	27	26
Fourth year	33	26	25	24
Fifth year	29	25	23	23
Sixth year and thereafter	213	210	172	180

(2) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set upon the contract date.

D. Contingent liabilities and other special commitments

1) In accordance with a resolution of the Board of Directors of the Tel Aviv Stock Exchange (“TASE”), a risk fund was established, which totaled NIS 1,221 million as of December 31, 2008. The Bank's share in the fund as of December 31, 2008 is estimated at NIS 106 million (as of December 31, 2007 – NIS 71 million). The size of the risk fund is updated semi-annually, in early March and in early September, based on the average daily total clearing volume in the six months ended the December or June prior to the update date, as the case may be – but no less than NIS 150 million. Each member’s share in the risk fund will be determined by a ratio between the member’s clearing volume and the total clearing volume of all members (except for the Bank of Israel) during that period, but no less than NIS 500 thousand.

   In accordance with a decision by the stock exchange clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house would deposit in cash at least 25% of their share in the risk fund.

   See Note 15.A regarding liens that the Bank has undertaken to furnish for this liability.

Note 19 - Contingent Liabilities and Special Commitments (continued)

2) The Bank has undertaken toward the Maof Clearinghouse Ltd., a subsidiary of the TASE ("Maof Clearinghouse"), to pay any monetary charge deriving from transactions in derivatives traded on the TASE, executed through it by its customers, and from such transactions executed by several members of the TASE that are not members of the Maof Clearinghouse, for their customers.
   The amount of the liability for these customers, at the balance sheet date, totals NIS 170 million (December 31, 2007 – NIS 332 million).
   Likewise, the Bank has undertaken to refund its share in the risk fund of the Maof Clearinghouse, which totaled NIS 697 million as of December 31, 2008. The Bank's share in the fund as of December 31, 2008 is estimated at NIS 147 million (as of December 31, 2007 – NIS 225 million).
   In accordance with a decision by the MAOF clearinghouse Board of Directors, starting on December 15, 2008 each member of the clearing house would deposit in cash at least 25% of their share in the risk fund.
   For information regarding charges that the Bank undertook to furnish in respect of these liabilities, see Note 15.B.

3) The Bank has made undertakings to the Tel Aviv Stock Exchange ("TASE") for operations of a company which is a member of the stock exchange but not a member of the clearinghouse. The undertaking is to honor any monetary charge arising from transactions executed by said company.

4) Pursuant to the sale agreement of provident fund operations managed by the Bank (for details see Note 6.E.2)), the Bank guarantees for 5 years starting on March 5, 2007 to members of the provident funds and the severance pay fund, to refund nominal principal amounts deposited by them on time. As of the balance sheet date, the funds' assets are deposited mostly in bonds approved for investment, and they exceed the amount of the banks' guarantees. The total size of the fund as of December 31, 2008 is NIS 2,584 million (as of December 31, 2007 – NIS 3,175 million). The fair value of this guarantee, which constitutes a put option written by the Bank, is not material.

5) In 1992, a General Meeting of the Bank's shareholders ratified a resolution to indemnify officers of the Bank with the following wording:
   - The Bank will indemnify in full each of the officers for financial liabilities and legal expenses incurred for actions, acts, and omissions performed within the framework stipulated in the Companies Ordinance and the Bank's by-laws, and subject to the above provisions.
   - These officers will be indemnified whether the claim is brought against them during their employment period at the Bank, or whether subsequently and refers to an act performed in their capacity as officers.

   There are differing legal opinions regarding a company's authority to approve such broad indemnification, and whether invoking it in a specific case requires additional approval, in a manner stipulated by law. Should the Bank be required to pay any amounts on the basis of the above decision, it will seek advice from its legal counsel regarding its obligation, taking into consideration the specific and special circumstances of each incident, if applicable.

Note 19 - Contingent Liabilities and Special Commitments (continued)

6) In December 2001, a General Meeting of the Bank's shareholders ratified the granting, in advance, of exemption from liability and undertook to indemnify the board of directors and other officers (collectively – "officers") by the Bank. According to the indemnification obligation, the Bank exempts its officers, in advance, from any liability thereto, due to damage to be caused to the Bank as a result of the breach of the duty of care by an officer toward the Bank in his activity as officer, by virtue of his being an officer of the Bank, and all that is stipulated in the indemnity undertaking. The cumulative indemnity amount to be paid by the Bank to all officers will not exceed 25% of the Bank's shareholders' equity as reported in its 2000 financial statements, adjusted for the changes in the CPI, beginning December 2000. The indemnification applies to all activities relating – directly or indirectly – to one or more of the events listed in the addendum to the indemnification undertaking.

   On October 28, 2004, the General Meeting of the Bank resolved to add to the Bank's indemnification undertaking toward the directors and officers in the Bank, which was approved in 2001, a clause prescribing that the indemnification undertaking will also apply in the event of a merger, as defined in the Companies Law, including any resolution, action, agreement or reporting related to the merger. It was resolved that in all that relates to indemnification resulting from a merger event, the maximum amount of the indemnification will be the lesser of: 25% of the Bank's shareholders' equity according to its financial statements as of December 31, 2000, plus linkage differentials beginning from the CPI for December 2000, or 25% of the Bank's shareholders' equity according to the last financial statements published in proximity to the actual payment date in respect of the indemnification.

   On February 16, 2009, the Bank Board of Directors resolved to provide a commitment to indemnify Bank employees who serve from time to time as officers of subsidiaries controlled by the Bank, and who do not serve as Board members or officers of the Bank, and to grant them letters of indemnification identical to those granted to officers and board members of the Bank.

7) In May 1998, General Meetings of the shareholders of the Bank and of Bank Tefahot ratified an undertaking to indemnify officers, which had previously been approved by their Audit Committees and boards of directors as follows:

   The Bank and Bank Tefahot will irrevocably indemnify any of their officers for any action taken in their capacity as officers, in connection with the causes of action listed below, and for any financial obligation to be imposed by a court judgment, including a compromise, or arbitrator's decision that is subsequently approved by a court, and also for any reasonable legal expenses for which they may be indemnified in accordance with the Companies Ordinance.

   The indemnification will be made for all the officers on a cumulative basis, up to a sum not to exceed – for each bank separately - NIS 750 million (linked to the CPI of March 1998), for any financial liability that the officer incurs as a result of an action he took that is directly or indirectly connected to the prospectus published in 1998, or to the draft prospectus that was filed in that year, in connection with the offer of sale of the Bank's securities by the State, including in connection with the reports submitted by the banks subsequent to the date of the prospectus regarding any matter that occurred before the date of the prospectus.

   Furthermore, the total cumulative amount of indemnification to be paid for all officers for any action or matter related to the insurance of borrowers by mortgage banks mentioned in the above prospectus included in the letter of indemnification – by each bank separately - will not exceed NIS 750 million (linked to the CPI of March 1998).

Note 19 - Contingent Liabilities and Special Commitments (continued)

The letters of undertaking for indemnification stipulated further that, notwithstanding the aforesaid, the total cumulative amount of indemnification to be paid for all the officers with regard to all the causes of action included in the letter of indemnification – by each bank separately - will be limited to NIS 1,000 million (linked to the CPI of March 1998).
Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

8) In November 2001, approval was given by General Meetings of the shareholders of Bank Tefahot and of a wholly-owned and controlled subsidiary of Bank Tefahot ("Tefahot Issuance"), in connection with the prospectus for issuance of debentures and subordinated notes of Bank Tefahot from November 2001, that Tefahot Issuance irrevocably undertakes to indemnify all of its officers, for any action taken in connection with matters detailed in the letter of indemnity, by virtue of his being an officer ("indemnification").
The indemnification will be given for any financial debt, if imposed by a judgment, including a judgment issued in a compromise or arbitration that was approved by a court, and in respect of any reasonable legal expenses (including fees to attorneys and other experts), which may be indemnified in accordance with the provisions of the Companies Law, all up to a limit of NIS 1 billion, linked to the CPI.
Bank Tefahot undertook toward the Tefahot Issuance that, if is will be unable to fulfill its obligations to the indemnity recipients, or any one of them, Bank Tefahot will pay to Tefahot Issuance any amount that Tefahot Issuance will be found liable to indemnify, beyond the amounts paid by Tefahot Issuance.
Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

9) In October 2002, the Board of directors of Bank Tefahot, following the approval of the Audit Committee, approved the bestowing of an advance undertaking for indemnification of directors and other officers of Bank Tefahot (together – "the officers"). Accordingly, Bank Tefahot undertakes, subject to the conditions detailed in the letter of undertaking and to the provisions of the Companies Law, to indemnify the officers for any liabilities or expenses imposed on the officer due to his capacity as an officer in Bank Tefahot, provided that these activities are related, directly or indirectly, to one or more of the events listed in the addendum to the letter of undertaking the indemnification.
The cumulative amount of the indemnification to be paid by Bank Tefahot to all the officers will not exceed 25% of the shareholders' equity of Bank Tefahot according to its annual financial statements for 2001, adjusted for the CPI, beginning from December 2001, or 25% of the shareholders' equity of Bank Tefahot according to the latest financial statements published as at the actual payment date of the indemnification, whichever is lower.
In November 2002, a General Meeting of the shareholders of Bank Tefahot ratified this resolution.
Under terms and conditions of the merger of Bank Tefahot into the Bank, the Bank assumed this commitment.

Note 19 - Contingent Liabilities and Special Commitments (continued)

10) On June 30, 1998, an extraordinary general meeting of Bank Adanim, following approval by its board of directors and approval of its audit committee, ratified an undertaking to indemnify ("indemnification letter") the officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 96(24) of the Companies Ordinance, who, on the approval date of the indemnification by the General Meeting ("date of record"), are serving in Bank Adanim or whose tenure ended in a period not earlier than 4 years from the date of record.

Pursuant to the indemnification letter, Bank Adanim will indemnify any officers in Bank Adanim for any financial liabilities imposed on them by a ruling, including legal expenses, for an act or omission done directly or indirectly in the matters itemized in the letter of indemnification, namely the offer of sale to the public of securities of Mizrahi Tefahot by the State, pursuant to a prospectus published in May 1998.

Pursuant to the indemnification letter, the amount of the indemnification to be paid by Bank Adanim (in addition to the amounts to be received according to the officers' insurance policy as detailed below) to all officers, on a cumulative basis will not exceed NIS 70 million, with the amount linked to the last CPI published before the date of record until the CPI published before the date of payment.

Bank Adanim will take action, to the extent possible, so that during the 10-year period beginning on the date of record, an officers' insurance policy will be purchased by or for Bank Adanim, which will cover the matters covered by the indemnification, the amount of which, including restitution/reinstatement will not be lower than the aforementioned amounts.

On December 16, 2002, a General Meeting of Bank Adanim, following approval by the audit committee and ratification by its board of directors, ratified the letter of indemnification undertaking ("indemnification letter") for officers in Bank Adanim. The indemnification letter will apply to officers, as defined in Section 1 of the Companies Law, 1999, who, on the approval date of the indemnification letter by the general meeting ("date of record") serve in Bank Adanim. Pursuant to the indemnification letter, Bank Adanim will indemnify all of the officers in Bank Adanim for all the financial liabilities to be imposed on them by a ruling, including legal expenses, relating to an act or omission done directly or indirectly in matters listed in the indemnification letter, up to the indemnification amounts.

The indemnification amounts to be paid by Bank Adanim for each officer, on a cumulative basis, for one or more of the types of events provided in the addendum to the letter of undertaking, shall not exceed 25% of the shareholders' equity of Bank Adanim according to its financial statements for the year 2001, adjusted from time to time, according to the rate of increase in the CPI compared with the CPI for December 2001 that was published in January 2002 ("total indemnification amount). In the event the officer will receive indemnification from the insurer of the officers' insurance policy for the matter covered by the indemnification, the indemnification will be provided by Bank Adanim in the amount of the difference between the amount of financial liabilities imposed on the officer and/or legal expenses incurred by or charged to the officer, and between the amount received from the insurer on this matter, provided that the amount of indemnification for which Bank Adanim will be charged will not exceed the total indemnification amount.

Beginning December 2002, Bank Adanim is one of the insured parties in the officers' insurance policy purchased by the Bank for itself and its subsidiaries and related companies, which is in effect until April 5, 2007.

In conjunction with the merger of Bank Adanim into the Bank (see Note 6.E.1)d), the Bank will assume this commitment.

Note 19 - Contingent Liabilities and Special Commitments (continued)

11) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include fair provisions, where necessary, to cover possible damages.

Below are details of significant actions in which the amount claimed (excluding interest and fees) exceeds 1% of the Bank's shareholders' equity:

A. In March 1999, a claim was filed in Tel Aviv District Court against the Bank in the amount of NIS 20 million (for fee purposes), for damages of NIS 108 million that the plaintiffs (a company in liquidation and its former shareholders) alleged were caused as a result of the Bank’s refusal to continue to approve an agreed upon credit facility for the plaintiff company to conduct his business activities, freezing the plaintiff company’s account, and not honoring checks that had been deposited for collection. The plaintiffs allege that this led to the collapse of the plaintiff company. In July 1999, a defense motion was filed by the Bank, rejecting the plaintiff’s claims of an alleged violation of the Bank’s obligations as a bank corporation. The Bank claims that all his aforementioned actions were lawful.

Bank management estimates, based inter alia on information available to it and on opinion of legal counsel obtained on this issue, which assumes that the Bank’s version makes plaintiffs' claims unfounded, and due to the fact that questioning of witnesses and findings thus far during said investigations indicate that probability of rejection of plaintiffs' claims with regard to Bank liability to them is very high. The probability of realization of risk exposure in this lawsuit is very low; hence no provision was made in the financial statements.

B. In December 2001, a statement of claim was filed against the Bank in Tel Aviv District Court in the amount of NIS 80 million. The plaintiffs allege that a bank clerk (who was suspended), when he was an employee of the Bank, executed numerous unlawful transactions in their accounts, without their permission and without their knowledge. The plaintiffs allege that as a result of these acts, they experienced a credit crisis, which required them to effect financial transactions that would not have been effected otherwise, as a result of which they allege that they sustained direct and indirect losses, in tens of millions of NIS.

In January 2002, the Bank filed a statement of defense, in which it argued as preliminary arguments, inter alia, that the statue of limitations had expired for all of the plaintiffs’ allegations relating to transactions executed more than seven years prior to the filing of the claim. It was also argued that the plaintiffs had received statements on what was occurring in their accounts, and that they cannot deny the accuracy of the contents of the Bank's books of account. In the body of the statement of defense, it was argued that the plaintiffs knew and/or should have known what was done in their accounts, and that unfortunately they were very negligent in examining their account statements, thus enabling the alleged transactions, which are denied by the Bank, to be executed in their accounts. It was further argued that the improper transactions, to the extent they were executed, were executed by a bank clerk at that time, acting on his own, and exceeding authority, and the Bank could not have prevented them with the reasonable means available to it.

Bank management estimates, based on opinion of legal counsel, that the probability of the Bank being required to pay the claim amount is very low, hence no provision was made in the financial statements.

Note 19 - Contingent Liabilities and Special Commitments (continued)

C. In April 2003, a claim was filed against the Bank in Tel Aviv District Court, for NIS 12 thousand, as well as a motion for recognition as class action for the total payment of approximately NIS 300. The plaintiffs allege that the Bank must refund to them, personally and to the entire group, charges that were recorded in the seven years preceding the filing date of the claim, in accounts classified by the Bank as “legal customers”, for “treasury” and “journal”, which the Bank is not permitted to collect because of the Bank’s improper disclosure of the substance of the charges. The plaintiffs are requesting for themselves, in addition to the claim amount, fees for their filing of the claim and legal costs.
In view of the District Court’s opinion in a verdict dated April 2005, that the remedy it would have approved had the claim been accepted as a class action suit, would be to instruct the Bank to correct its accounts such that charges not in line with the verdict are cancelled, and to instruct the Bank to provide information to customers in legal proceedings of their accounts with the Bank - Bank exposure is to costs associated with compliance with Court instructions, and not to any monetary remedy over and above payment of fees for the plaintiff and his attorneys, as set forth above. The Bank complies with provisions of the verdict dated April 2005 from the date it received the verdict and thereafter. Therefore, under the circumstances, Bank management estimates, based on opinion of legal counsel, that the risk of additional remedies for the plaintiffs is very low, hence no provision was made in the financial statements.

D. In July 2003, an action was filed with Tel Aviv District Court as well as a motion for recognition as a class action (“the claim”) against Bank Tefahot, other banks and the Commissioner of Customs and Stamp Duty. The claim relates to the calculation of the stamp duty.
One of the plaintiffs, who received a loan from Bank Tefahot, is claiming differences on stamp duty of NIS 36. The claim was filed for a total of NIS 300 million. The claim alleges that the Bank failed to comply with a ruling by the Supreme Court, which held that when an agreement includes consideration to be paid in installments, the nominal amount that is to be valued for stamp duty purposes is to be according to the present value of the loan principal only. It was the practice at Bank Tefahot, like at the other banks, to take all the future interest into account for stamp duty purposes, without discounting it, in accordance with the requirements of the Stamp Duty Authorities.
The Court erased the claim in March 2008.

E. In August 2003, an action was filed in Haifa District Court against five banks, including the Bank, as well as a motion for recognition as a class action ("the Action"). The amount of the action was left to the discretion of the Court.
In December 2003, the plaintiffs filed an amended action, in which they allege that the Bank does not comply with Amendment No. 2 to Proper Conduct of Banking Business Regulations (Service to Customer) (Proper Disclosure and Delivery of Documents), 2003, as amended by the Bank of Israel in August 2003. They allege that when they deposited checks in the Bank, they were not informed that a transaction recording fee would be charged in the account.
The Bank argues that it had fulfilled the new rules of proper disclosure, as set forth in the aforementioned Amendment 2 of the Banking Regulations (Customer Service) (Proper Disclosure and Provision of Documents), 2003 with respect to the plaintiffs and to all of its customers.
On March 1, 2009 the Court dismissed the plaintiffs' motion for recognition as class action.

Note 19 - Contingent Liabilities and Special Commitments (continued)

F. In March 2004, an action and a motion for recognition as a class action were filed in Nazareth District Court against Bank Tefahot ("the Action"). The action was filed on behalf of borrowers of Bank Tefahot, in the amount of NIS 69 million.

The action alleges that Bank Tefahot overcharged interest on arrears beyond that permitted by law, and that it charged a commission for non-payment of a standing order for current repayments of a loan drawn by borrowers of Bank Tefahot. The action alleges that this commission should be deemed to be interest on the loan in arrears, such that this commission, together with the interest on arrears that Bank Tefahot charges for the period in arrears, exceeds the ceiling of permitted interest on arrears under the Interest Law, 1957, and the related legislation.

In January 2007, the Supreme Court ruled to dismiss outright the motion for recognition as a class action, and ordered the parties to file their positions on the issue of the implications of the Class Actions Law, 2006, on this case. In May 2007, the Supreme Court ruled that processing of this appeal would be suspended pending a court decision in the action based on the same claim against the Bank, which was filed with the Haifa District Court by some of the plaintiffs in these proceedings, in June 2006 as set forth in section 12(l) below. The ruling further stipulates that should the decision in the identical case under way at the Haifa District Court be appealed, both appeals may be reviewed concurrently when such a decision is handed down.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "reasonably possible". In the opinion of management, the financial statements include an appropriate provision.

G. In October 2004, an action was lodged in Tel Aviv District Court against the Bank and against Bank Tefahot, as well as a motion for recognition as a class action.

According to the Statement of Claim and the motion for recognition as a class action, the plaintiffs allege that their shares were acquired from them in a forced purchase and at a value below their fair value, in the process of a tender offer that the Bank published on June 24, 2004, to acquire the shares of Bank Tefahot, even though one of the plaintiffs accepted the tender offer in part. Therefore, the plaintiffs appealed, inter alia, to receive the remedy of appraisal under Section 338 of the Companies Law, 1999.

In the purchase offer, the Bank offered to purchase from Bank Tefahot shareholders all 6,909,842 of their shares, in exchange for NIS 49.50 per share (after amendment of the purchase offer).

As of the purchase offer date, the book value of Bank Tefahot's shareholders' equity was NIS 2.06 billion, and the value of Bank Tefahot, based on the share price in the purchase offer, was NIS 2.4 billion. The intrinsic value of the purchase offer was 118% of Bank Tefahot's (book value of) shareholders' equity as of March 31, 2004.

The plaintiffs allege that the amount of their personal claim is NIS 171 thousand, and for all of the plaintiffs that they are petitioning to represent, they estimate the amount of the claim at NIS 2,149 million.

In February 2009, the Court dismissed the plaintiffs' motion for recognition as a class action.

Note 19 - Contingent Liabilities and Special Commitments (continued)

H. In March 2005, an action against the Bank was lodged against with Tel Aviv District Court in the amount of NIS 6 million, as well as a motion for recognition as a class action in an amount ranging between NIS 50 million, direct damage from the forced repayment of loans in foreign currency, as provided below, and between NIS 500 million, including addition for alleged damages sustained as a result of the initial damage ("the Action").
The plaintiff alleges that the Bank forced the repayment of foreign currency loans before the end of the loan period, contrary to the customer's instructions, at the peak of the temporary devaluation in the NIS in the fall of 1988, when several months later, the NIS stabilized and returned to the original exchange rates. The plaintiff alleges that as a result of the forced repayment of the loans, a debt balance was created in his account, which prevented the execution of transactions in his account and increased his damages.
In October 2005, the Bank filed its Response to the motion for recognition as a class action and argued that it had acted lawfully. In December 2008, the Court dismissed the plaintiffs' motion for recognition as a class action.
In February 2009, the plaintiff filed a motion for exemption from payment of fees and bond in an appeal they wish to file of the Court's decision to dismiss their motion for recognition as a class action.
In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "reasonably possible". In the opinion of management, the financial statements include an appropriate provision.

I. In April 2006, a claim was lodged with Tel-Aviv District Court in the amount of NIS 100 million for damages allegedly sustained by the plaintiffs as a result of an alleged misrepresentation made to them by an employee of the Bank's Givatayim branch who has since been dismissed from employment with the Bank.
Plaintiffs claim that they have deposited with the Bank over years large amounts totaling NIS millions, and made many investment transactions in various asset classes, mainly by daily telephone contact with an employee at the Bank branch, who carried out their instructions and reported to them on execution of their instructions and the balances in their accounts. The plaintiffs claim that according to reports of the Bank branch employee who handled their accounts, at end of 2003 the balance of their accounts amounted to NIS 91 million.
Based on this information, the plaintiffs claim they entered into a contract to purchase a house at a cost of over NIS 10 million. However, the plaintiffs claim, in retrospect after signing the contract to buy the house, they discovered that reports made by the Bank employee were false, and in actual fact no investment actions were taken in their accounts, which in fact had a debit balance. Therefore, the plaintiffs claim, they have sustained heavy damages, and the amount claimed by them is composed of the last reported balance in their Bank accounts of NIS 91 million, damage sustained by them due to cancellation of the house purchase contract and claimed damages for distress.
In July 2006, the Bank filed a statement of defense arguing, inter alia, that plaintiffs were unable to provide details or proof of the investment instructions they had given, and in fact not a single investment transaction was made in the plaintiffs' accounts in the capital market during the alleged period, and therefore the alleged balances did not accrue in their accounts. The Bank also argued that returns claimed by the plaintiffs – amounting to thousands of percent, at a growth rate of over NIS 30 million per year – are unreasonable, let alone for investors who have no relevant expertise and with the plaintiffs' initial equity at the Bank amounting to only NIS 150 thousand.

Note 19 - Contingent Liabilities and Special Commitments (continued)

The Bank further argues that reports provided to plaintiffs by the Bank employee with regard to enormous amounts accumulated in their accounts, in as much as such reports were provided, are also unreasonable and were provided only at the Bank employee's discretion, using false pretenses and acts of fraud and deception, without the Bank's consent or knowledge, and with the Bank being incapable of preventing it by reasonable means available to it.

According to the assessment of the Bank's management, based on a legal opinion it has obtained, the prospects that the plaintiffs will succeed in their claim are remote. Therefore, no provision was recorded in the financial statements for this claim.

J. In April 2006, a claim in the amount of NIS 183 million was filed with the Haifa District Court, against the Bank and against Bank Hapoalim Ltd., alleging that credit promised to the plaintiffs was not granted, allegedly causing their demise. In June2006, another claim was filed in Haifa District Court by those plaintiffs, as discussed in the previous paragraph, in the amount of NIS 108 million. The claim was filed against the Bank and against an officer of the Bank, alleging that credit promised to the plaintiffs was not granted, allegedly causing their demise. The District Court Registrar dismissed the plaintiffs' motion for exemption from court fees. The plaintiffs appealed to the district court the Court Registrar's ruling on exemption from the fee.

At the Bank's request, rulings were issued dismissing the plaintiffs' motion due to non-payment of court fees by the plaintiffs. However, the Court ruled that due to the fact that appeals were filed regarding the fee, should the appeals filed by the plaintiffs be accepted, the rulings would be cancelled. In March 2007, the plaintiffs' appeals were dismissed by the District Court, and they filed in May 2007, requesting the right to appeal to the Supreme Court, wherein they also requested to be exempted from court fees and deposits.

In June 2008, the Supreme Court erased both claims due to non-payment of fees.

In October 2008,the plaintiff filed an additional claim with the Haifa District Court in the amount of $80 million or more (as set forth in the claim) against the Bank, against an officer of the Bank, and against Bank Leumi, Bank Otzar HaChayal, Bank Hapoalim, Municipality of Haifa and the Supervisor of Banks, due to non-provision of credit allegedly promised to the plaintiff and/or to companies under his control, which has allegedly caused their collapse. In addition to the claim, the plaintiff has filed with the Court a motion for waiving of Court fees, which has yet to be heard.

According to the assessment of the Bank's management, based on a legal opinion it has obtained, the prospects that the plaintiffs will succeed in their claim are remote. Therefore, no provision was recorded in the financial statements for this claim.

Note 19 - Contingent Liabilities and Special Commitments (continued)

K. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 57 million were lodged in Haifa District Court against the Bank for charges to borrowers whose loans (linked to the CPI) are in arrears and bear delinquent interest, the rate of which allegedly exceeds the rate stipulated in the Interest Law, 1957 and the Interest Order enacted accordingly. The plaintiffs allege that the arrears clause in the loan agreement, which stipulates that at the time of arrears, the Bank will provide the borrowers with unlinked loans, is apparently illegal, since it contradicts the Interest Order. The plaintiffs also claim that their being charged commissions for not honoring automatic debits, in addition to the delinquent interest, is allegedly illegal, since a commission for not honoring an automatic debit is essentially arrears interest in all respects.

The Bank files to dismiss out of hand the plaintiffs' motion for class action status, arguing that its actions were and are lawful.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "reasonably possible". In the opinion of management, the financial statements include an appropriate provision.

L. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 233 million were lodged in Tel Aviv District Court against the State of Israel – Execution Department, the entire banking system and insurance companies and provident funds.

The plaintiffs allege that since they were awarded judgments, they opened files against various debtors in the Execution Office, within the framework of which, through the Execution Office, they attached various assets held by third parties (banks, insurance companies and provident funds). However, it claims, that they provided them with partial, misleading and incomplete information, as they were apparently unprepared to provide answers through electronic media, even though they collected from the awardees (the plaintiffs) payment for each answer, which they allege is unlawful.

The defendants, including the Bank, have filed a motion to dismiss out of hand the motion for class action status.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the appeal, the claim and the motions for recognition of the action as a class action are "reasonably possible". In the opinion of management, the financial statements include an appropriate provision.

M. In July 2006, an action and motion for recognition as a class action were lodged in Tel Aviv District Court against the Bank in an amount exceeding NIS 2.5 million, for management fees commissions on securities deposits charged to customers, as defined in the Bank's commissions price list, at amounts above those to which the Bank is entitled according to its own price list and allegedly in violation of the law.

Note 19 - Contingent Liabilities and Special Commitments (continued)

In January 2007, the Bank filed its response to the motion for class action status. In its response the Bank claims that plaintiff's claims are not only in contradiction with the Bank price list, but also in contradiction with logic and common sense. The Bank further argues that the plaintiff has no cause and therefore no foundation for a personal claim against the Bank. The Bank also argues that, prima facie, the claim is not appropriate for class action status, and that the plaintiff has failed to meet even a single criterion required by the Class Action Act for his motion for class action status to be accepted.

Bank management estimates, based on opinion of legal counsel, that the probability of the claim and motion for class action status being accepted is remote, hence no provision was made for it in the financial statements.

N. In December 2006, an action and motion for recognition as a class action were lodged in Tel Aviv District Court against the Bank in the amount of NIS 150 million for reducing the interest on deposits, allegedly in violation of the benefit mechanism promised to the plaintiff when the deposit account was opened, without informing him in advance and without enabling him to decide whether he is interested in renewing his deposits at the reduced interest. Alternatively, the plaintiff alleges that even if the said benefit mechanism had expired on the renewal date of the deposit, the Bank should have informed and altered him prior to renewing the deposit. The plaintiff's claim is based on Section 3 of the Banking Act (Customer Service), 1981, whereby a banking corporation is prohibited from misleading customers on any material issue related to providing customer service.

In February 2007, the Bank filed a response to the motion for class action status, arguing preliminary arguments for the motion to be dismissed out of hand, including absence of personal cause for the plaintiff's claim against the Bank, expiration of the statute of limitation and claim of basic error in the claim foundation. On the facts of the matter, the Bank argued that it had acted lawfully, and that the plaintiff and the claim for which he filed a motion for class action status, fail to meet preliminary statutory conditions for grant of class action status – hence they should be dismissed.

In December 2008, the Court dismissed the plaintiffs' motion for recognition as a class action.

O. In December 2007, a claim was filed against the Bank with the Tel Aviv District Court, along with a motion for class action status, amounting to NIS 114 million. The plaintiffs cite two causes. According to the first cause, estimated at NIS 54 million, the Bank charged property insurance premiums to borrowers in addition to property insurance purchased independently by the plaintiffs, allegedly under coercion and unlawfully. According to the second cause, estimated at NIS 60 million, the Bank coerced its customers to pay insurance premiums based on the full property value and not on the loan balance, i.e. at an amount which was higher than the debt amount.

According to the assessment of the Bank's management, based on a legal opinion it has obtained, the prospects that the plaintiffs will succeed in their claim are remote. Therefore, no provision was recorded for the claim in the financial statements.

Note 19 - Contingent Liabilities and Special Commitments (continued)

P. In January 2008, a claim against the Bank was filed with the Central District Court at Petah-Tikva, along with a motion for class action status, amounting to NIS 237 million.

The plaintiff claims that the Bank lowers interest rates paid for renewable short-term deposits based on a non-binding outlook for reduction of the Bank of Israel interest rate. By contrast, when a similar outlook existed for raising the Bank of Israel interest rate, interest rates on deposits were only raised by the Bank after the date on which the Bank of Israel actually raised its interest rate.

The plaintiff further claims that the Bank acted arbitrarily and misled its customers in the pre-contract stage – by not disclosing to customers that it used different criteria for raising the Bank of Israel interest rate compared to those for lowering the Bank of Israel interest rate, as well as during the contract stage - by not informing its customers that it had lowered interest rates for such deposits based on the outlook for a reduction in Bank of Israel interest rates rather than on actual reduction thereof.

The plaintiff claims that the Bank was also in breach of its duty to disclose, imposed by the Banking Act (Customer Service). The plaintiff further claims that should it be determined that under terms of the contract between the Bank and the customer, the Bank may lower interest rates at will, according to the plaintiff, this is a discriminatory condition in a uniform contract.

According to the assessment of the Bank's management, based on a legal opinion it has obtained, the prospects that the plaintiffs will succeed in their claim are remote. Therefore, no provision was recorded for the claim in the financial statements.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 12 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 93 million.

12) Motions for recognition as class actions are pending against the Bank, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated at this stage, hence no provision was made for these.

A. Two motions are pending and open in District Court and the Supreme Court to recognize as class actions two legal actions against the Bank and other mortgage banks totaling more than one and one-half billion NIS. The specific amount demanded from each Bank was not stated.

In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks over-charged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.

The banks deny all plaintiffs' claims and reject them out of hand. The banks claim, inter alia, that their actions were lawful both in charging the commissions and in the rates of these commissions.

In the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to assess whether the claims will be recognized as class actions and what the possible outcome will be.

Note 19 - Contingent Liabilities and Special Commitments (continued)

B. In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as set forth in the claim).
The plaintiffs claim that banks are in breach of Anti-trust statute, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge. The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

C. In August 2008, a claim was filed at the Jerusalem District Court against the Bank and against Mizrahi Provident Fund Management Company Ltd., along with an application for class action status – in the amount of NIS 374 million. The claim was also filed against the Supervisor of Capital Market and Insurance as a formal defendant. The plaintiff, who has held accounts in multiple provident funds managed in his name at the Bank, claims that the Bank unlawfully appropriated proceeds he had received in respect of the transfer of control of provident fund assets, management and trusteeship there for to management and control by management companies, in lieu of transferring them to provident fund account holders, pro rata to their share of fund assets since, according to his claim, these proceeds are the fruit generated by the provident fund assets and arise from rights associated with these assets, therefore, according to the claim, this profit belongs to provident fund account holders rather than to the Bank.
The Supervisor of Capital Market and Insurance was requested to join the claim as plaintiff, alongside the provident fund account holders, claiming that the Supervisor should rightly voice his position on the claim in both material and public aspects.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

D. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 130 million, stating collection of commission for cancellation or failure to honor a standing order, collection of commission for a transaction cancelled by the Bank, collection of commission for provision of information or for cash withdrawal when the account owner has no charge card, collection of securities management fee and failure to charge the as a tax deductible expense, and charging of tax on a foreign currency deposit to a checking account.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

Note 19 - Contingent Liabilities and Special Commitments (continued)

E. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to NIS 68 million, against the Bank, Bank Leumi Le-Israel Ltd., First International Bank of Israel Ltd. and Bank Igud Ltd. for alleged over collection of tax on interest and dividend revenues by way of tax withholding. The plaintiff claims that the banks named in the claim over charge their customers who own bonds or stocks (the source of revenue) by not deducting the commission on said revenue prior to withholding tax.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

F. In January 2009, claim was filed against the Bank with the Tel Aviv District Court, including an application for class action status, amounting to NIS 76 million for over charging of sales commission on MAOF options.
In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

13) Matters related to insurance operations of the Bank:

A. Starting in 2003, the building insurance eates were set for insurance companies by tge Supervisor of Insurance, and starting on said year, these rates have been decreasing through 2008, and are expected to decrease further in 2009 as well. This insurance rate reduction also decreases the share of the premium which constitutes the Bank's insurance agency commission in respect of building insurance.

B. On February 17, 2005, the Superintendent of Insurance and the Supervisor of Banks announced their policy “on the marketing of life insurance and building insurance incidental to a mortgage by a bank”, beginning October 1, 2005. According to the new policy, a bank will be permitted to set up unmanned marketing stations in its branches for the sale of insurance incidental to the mortgage, to a customer who received a mortgage from that bank. The marketing stations will be clearly separate from the bank’s other activities, and will be operated using only technological means.
Accordingly, beginning from December 1, 2005, the Bank's insurance is marketed by a wholly-owned insurance agency of the Bank whose operations are separate from the Bank’s and are limited solely to property insurance, including water damage, and life insurance incidental to the loan given by the Bank. According to the directives of the Superintendent of Insurance, the Bank’s employees may not serve as employees of the insurance agency or act on its behalf. The new arrangement only applies to new policies and does not apply to the run-off portfolio of borrowers insured through the mortgage banks.

Note 19 - Contingent Liabilities and Special Commitments (continued)

The new arrangement, heightens competition in the marketing of insurance incidental to a home purchase. In the life insurance segment, the Bank's insurance agency has prepared to face the growing competition in the sector, and is able to offer attractive insurance rates. Since the arrangement only applies to new loans beginning December 1, 2005, the impact to income, as of the date of the financial statements, is not expected to be significant, and in the estimation of the Bank, will not be significant in the upcoming years.

C. Bank Group income in the insurance segment totaled as below (NIS in millions):

Year	From life insurance	From property insurance
2008	79	38
2007	72	42

Impact of the aforementioned issues, of a non-material amount, is reflected in Bank Group revenues from insurance operations, as presented above.

14) On June 26, 2007, the amendment to the Banking Act (Customer Service) (Amendment 12), 2007 was enacted. The amendment is aimed at increasing competition among banks, and sets forth arrangements concerning supervision of commission prices and increased transparency of banking service prices, such that customers may practically compare prices of banking services.

Pursuant to the Act, the Bank of Israel Governor would be authorized, after consulting with the Governor's Consultative Committee pursuant to provisions of the Bank of Israel Act, 1954, to specify a list of all commissions which a banking corporation may charge for banking services, and how they are to be calculated ("the full pricelist"). This provision is aimed at reducing the number of commissions and generating uniform commission names among all banking corporations. Furthermore, the Governor is authorized to specify limited lists, based on the full pricelist, by type of banking services or by customer type ("limited pricelists").

The banking corporation would be required to set the price charged by it for each service included in the full pricelist, and to inform its customers of the pricelists and commission prices it charges. Charging of any commission not included in the pricelists would be prohibited. These provisions shall apply to individual customers and to corporations which are "small businesses", as specified by the Governor in regulations, considering their business turnover.

Note 19 - Contingent Liabilities and Special Commitments (continued)

The Act specifies causes which, upon occurrence, authorize the Supervisor to declare a banking service to be under supervision. Should a service be placed under supervision, the Governor would be authorized to set prices for commissions for such service or to set, if appropriate, maximum prices and to prohibit charging of a certain commission. Furthermore, the Supervisor of Banks would be authorized to discuss and decide on applications by a banking corporation to raise its commissions for a service under supervision. The Act also explicitly prohibits charging a commission for any service under supervision in contradiction to instructions of the Governor and Supervisor.

Should any service be placed under supervision and the Governor has not set a price for it and has not prohibited charging of commission, and the banking corporation would wish to increase its price compared to the price charged prior to its placement under supervision - the Bank would have to apply for permission. The Act also required prior notification to the Supervisor of any raise in commissions for services not under supervision.

On January 8, 2008 the Banking Regulations (Customer Service) (Commissions), 2008 were enacted pursuant to the Act. These regulations set forth the full pricelists for customers serviced by a banking corporation, as well as limited pricelists for customers of the banking corporation who are provided services of current account management and housing loan, and for customers to whom the banking corporation has issued credit cards. The regulations require the banking corporation to prominently display the pricelists in its branches, and to enable customers to receive them at its branches and via its website, and to also enable customers to receive the limited pricelists via automated machines provided to customers. The banking corporation is required to provide the customer with the applicable limited pricelist upon initial provision of the service.

On May 21, 2008, the Governor has determined that several Bank services constitute services under supervision. The regulations apply as of July 1, 2008 and the Bank is preparing to implement them. In conjunction with said preparations, commissions for the various services provided by the Bank were adapted to rules set forth in the regulations. The impact of application of these new regulations on Group revenues, as reflected in results for the second half of 2008, are not material.

15) On November 18, 2008, the bank entered into an agreement with Israel Credit Cards Ltd. (hereinafter: "CAL") and with Diners Club Israel Ltd., a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") with regard to jointly providing Visa, MasterCard and Diners Club charge cards, including cards under the Bank brand, to be distributed by the Bank to its customers (hereinafter, respectively: "the agreement" and "the cards"). The agreement sets forth the parties' rights as well as operating arrangements and service provision by CAL Group for the cards, as well as all other terms and conditions related there to. The agreement supersedes current agreements between the Bank and CAL Group in effect since July 26, 1995.

In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment, up to 121,978 ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted (hereinafter: "the option"). The number of shares allotted upon exercise of the option may be adjusted for certain changes in CAL's capital, as set forth in the agreement. The number of shares allotted may be larger if, prior to exercise of the option, CAL would allot shares at a price reflecting a price below the market value, in accordance with a formula set forth in the agreement.

Note 19 - Contingent Liabilities and Special Commitments (continued)

Furthermore, the number of shares may change accordingly, should CAL decide on a reverse split of its ordinary shares into shares of higher par value, or on a split of its ordinary shares into shares of lower par value, or on distribution of bonus shares – all from the date of signing the agreement and through a date prior to the option exercise date. The option may be exercised one time, no later than 5 years from the date of signing the agreement (or, under certain circumstances, a slightly longer period), at any time after the average monthly credit utilization volume by Bank customers on their cards has reached a minimum volume set forth in the agreement. The number of ordinary shares to be allotted in conjunction with exercise of the option shall be calculated using a formula set forth in the agreement, in accordance with transactions made by card holders.

In return for exercising the option, the Bank shall pay an exercise price based on a formula set forth in the agreement, based on the current company value. The option may be converted into a cash payment to the Bank should there by any hindrance to exercising the option by way of allotment of CAL shares as set forth above, or should CAL elect to do so.

The agreement is effective for a 5-year term from its date of signing. Should the option be exercised or cashed as set forth above, the agreement term shall be extended to 10 years from its signing date, and may be further extended. The agreement is subject to all regulatory requirements required by statute, if any.

The signed agreement and the option granted to the Bank in conjunction there with have no material impact on Group financial statements.

16) On November 13, 2007, the Bank signed a memorandum of understandings with Isracard Ltd. and Europay (Eurocard) Israel Ltd. ("Isracard" and "Europay", respectively), whose highlights are set forth below. Isracard, Europay and the Bank would enter into accelerated negotiations (aiming to conclude them by April 10, 2008, pursuant to the addendum to the MOU signed on April 3, 2008) to replace their current agreed arrangements with a new agreement (for a 10-year term) aimed at issuing Mizrahi-Tefahot branded credit cards and agreeing on arrangements for operation and servicing by Isracard and/or Europay of debit cards to be issued by them and to be distributed by the Bank to its customers ("the new agreement").

It was agreed that in exchange for the new agreement, the Bank would be eligible to receive an allotment, for no further consideration, of 3.6% of Isracard and Europay ordinary shares in exchange for the new agreement and its provisions.

It was further agreed that, should the new agreement not be signed by April 3, 2008, the Bank would be eligible to receive an allotment of 1.8% of Isracard and Europay ordinary shares in exchange for continuing the current agreements in place of a 10-year term from the date of signing the MOU. In this case the Bank may distribute its branded card through any party of its choice.

Note that the maximum total shares to be allotted to the Bank in exchange for the aforementioned agreements, would be 3.6% of Isracard and Europay shares. The shares would be allotted subject to customary first-right-of-refusal to Bank Hapoalim Ltd. upon transfer of the shares by Mizrahi-Tefahot to any third party, and subject to a blocking period, whereby Mizrahi-Tefahot may not transfer the shares to any third party (other than Bank Hapoalim) during a 1-year period (the aforementioned right-of-first-refusal and blocking period shall be in effect for as long as Isracard and/or Europay shares are not listed for trading on the stock exchange).

Note 19 - Contingent Liabilities and Special Commitments (continued)

On April 10, 2008, the Bank announced that negotiations with respect to signing a new agreement between the Bank and Isracard and Europay have not resulted in a binding agreement. As a result of the parties not reaching a new agreement, the existing contractual agreements between the parties would remain in effect for a 10-year term starting on November 13, 2007, and the Bank retained 1.8% of Isracard and Europay ordinary shares allocated to it on December 19, 2007; these were recorded on Bank accounts in early 2008 at their fair value, estimated at NIS 37 million. Accordingly, the parties remain committed to the agreed provisions of the MOU signed by them on November 13, 2007.

The MOU is subject to all regulatory requirements required by statute, if any.

17) A trust company that is a subsidiary of the Bank executes trust transactions that include primarily trusteeships for trust funds, for debenture holders, for owners of restricted shares and for the maintenance of bank accounts.

18) Pursuant to an agreement signed in 1993 with representatives of the employees, the Bank granted its employees long-term loans at repayment terms provided for in the agreement, with linkage increments and interest at a fixed rate. It was agreed that if, on the maturity date, it becomes clear that the linkage increments and the interest accrued exceed the yield accumulated in an agreed provident fund, they would be reduced accordingly. The tax effects, if any, related to this reduction will devolve on the Bank. A provision has been made for the difference created, as aforesaid. At the balance sheet date, the balances of these loans total NIS 36 million.

19) The Bank has undertaken toward the trustee of the debentures and subordinated notes issued by Tefahot Issue Company from the United Mizrahi Bank Group Ltd., to fulfill the payment terms, as stated in the debentures and subordinated notes. For additional details, see Note 11.

20) The Bank has committed to borrowers in certain savings plans who would borrow from the Bank, to the following fixed terms:

	December 31	
	2008	2007
At ordinary terms on the commitment date for issuing the loan	-	66
90% of the interest rate prevailing at the time the loan was issued(1)	1,275	1,182
0.25% less than the interest prevailing at the time the loan was issued(1)	458	438
	1,733	1,686

(1) The commitment may be utilized only if certain conditions stipulated in the savings plans are met. There is a provision, which in the opinion of the Bank's management covers this commitment at the balance sheet date.

Note 19 - Contingent Liabilities and Special Commitments (continued)

21) Beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. This agreement has been continuously extended each year, through June 30, 2009.

In February 2008, the Ministry of Finance issued a tender for providing loans, out of Bank funds and under the Bank's responsibility, to eligible borrowers having a low point rating, which would be in place concurrently with and in addition to the aforementioned agreement. The new agreement became effective starting in May 2008 for 1 year. After this year, the agreement would be renewed for one more year, up to a cumulative maximum total term of 5 years, unless one of the parties announces its wish to terminate the agreement. In accordance with terms of the new agreement, as set forth in the tender, the loans to eligible borrowers with a low point rating are granted out of Bank funds and under Bank responsibility. The interest on the loan is determined based on the interest rate for assistance out of Ministry of Finance funds, or the known average interest rate for mortgages, as published by the Bank of Israel - whichever is lower. However, in accordance with instructions of the Ministry of Finance and counter to provisions of the tender, starting on March 1, 2009 the loan interest rate would be determined based on the assistance interest rate (even if the known average interest rate should be lower than the assistance interest rate). Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with conditions in place for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For the loans to eligible borrowers having a low point rating, the Ministry of Finance would pay the banks granting assistance out of bank funds, the interest difference between the actual interest charged for the loans, and the average interest as published by the Bank of Israel, plus a margin of 0.0% to 0.4%, depending on the financing rate, area where the property is acquired (as specified by the Ministry of Finance), and on existence of credit insurance, plus an additional margin of 0.24%, as determined for the Bank, being the winner of the bid (the additional margin for other, non-winning banks, is lower). Concurrently, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

Furthermore, it was determined for all eligible borrowers, that those eligible for assistance at "market interest" terms, would receive, starting on May 1, 2008, the assistance loans at an interest rate to be determined in accordance with the average mortgage interest for the loan term (subject to the aforementioned terms), as known upon the execution date.

Bank management estimates that impact of the new tender would moderate, in coming years, the decline in revenues from new loans in the eligible borrowers' credit portfolio, due to previous Ministry of Finance tenders. The share of this credit portfolio for which the Bank is responsible would increase at the same time. Bank revenues from all loans to eligible borrowers in 2008 amounted to NIS 102 million, compared to NIS 104 million in 2007.

Note 19 - Contingent Liabilities and Special Commitments (continued)

22) An outside consultant was asked to perform an economic valuation of Bank Tefahot, and to express an expert's opinion in a class action lodged against the Bank with respect to the tender offer of Tefahot. The total financial liability of the consultant toward the Bank, jointly and severally, from any sources and according to any cause of action, including damages, except for a case of bad faith on the part of the consultant, in all that relates to his obligation in connection with the valuation, will be limited, including expenses of a legal defense, to a sum in shekels equal to 0.5 million dollars. Beyond the aforesaid, the Bank will have no argument and/or claim toward the consultant, including through third party notice, in all that relates to his services on this matter.

Likewise, the Bank has undertaken toward the consultant that if the latter is sued in legal or other proceedings, to pay any amount to a third party in connection with the performance of the said services, the Bank will bear reasonable expenses (taking into account the size of the action and the attorneys the Bank will hire to handle it), that the consultant will incur or be demanded to pay for legal advice and representation, professional consulting, expert opinions, defense against legal proceedings, negotiations, etc. in connection with any claim, demand or other proceedings deriving from or related in any way to the valuation.

Additionally, and without derogating from the generality of the aforesaid, the Bank has undertaken that if the consultant is charged or required to pay any amount whatsoever to a third party in connection with the valuation, in a legal proceeding or another proceeding, the Bank will indemnify the consultant for any amount exceeding $0.5 million (net of any amount to be paid by the consultant, as aforesaid).

The indemnification undertaking will also apply to an arbitration ruling, provided that the Bank gave its prior written consent to the arbitration proceedings, and that all conditions were met on which its consent was contingent (if any), and on any arrangements according to which an amount will be paid that is not within the framework of a legal proceeding, provided that the Bank gave its prior written consent.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31

Reported amounts (NIS in millions)

E. Financial derivatives activity - volume, credit risk and maturity dates

A. Activity on consolidated basis

	2008				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
1. Stated amounts of financial derivatives					
A. Hedging derivatives[1]					
Forward contracts	1,030	-	-	-	-
Swaps	-	1,180	-	-	-
Total	1,030	1,180	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	1,180	-	-	-
B. ALM derivatives[1][2]					
Futures contracts	-	-	176	-	-
Forward contracts	10,418	6,079	41,582	640	146
Option contracts traded on stock exchange:					
Options written	-	-	376	35	-
Options purchased	-	-	633	78	-
Other option contracts:					
Options written	-	-	16,037	615	-
Options purchased	-	-	16,383	515	-
Swaps	17,247	16,570	4,679	-	-
Total	27,665	22,649	79,866	1,883	146
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	8,262	9,679	-	-	-
C. Other derivatives[1]					
Forward contracts	-	-	1,841	-	-
Option contracts traded on stock exchange:					
Options written	-	-	1,648	5,068	6
Options purchased	-	-	1,690	5,068	6
Other option contracts:					
Options written	-	438	2,370	631	12
Options purchased	-	438	2,340	367	12
Total	-	876	9,889	11,134	36

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31

Reported amounts (NIS in millions)

E. Financial derivatives activity - volume, credit risk and maturity dates (continued)

A. Activity on consolidated basis

	2008				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	913
Credit derivatives in which the Bank is beneficiary	-	-	-	-	51
Foreign currency spot swap contracts	-	-	2,326	-	-
Total	-	-	2,326	-	964
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives[1]					
Positive fair value, gross	41	-	-	-	-
Negative fair value, gross	23	117	-	-	-
B. ALM derivatives[1][2]					
Positive fair value, gross	597	212	1,580	219	1
Negative fair value, gross	601	244	1,257	244	1
C. Other derivatives[1]					
Positive fair value, gross	-	-	618	111	8
Negative fair value, gross	-	-	618	112	8
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Negative fair value, gross	-	-	-	-	80

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31

Reported amounts (NIS in millions)

E. Financial derivatives activity - volume, credit risk and maturity dates (continued)

A. Activity on consolidated basis

	2007				
	Interest contracts				Commodities
	NIS - CPI	Other	Currency contracts	Contracts for shares	and other contracts
1. Stated amounts of financial derivatives					
A. Hedging derivatives[(1)]					
Forward contracts	1,331	-	-	-	-
Swaps	-	1,013	-	-	-
Total	1,331	1,013	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	539	-	-	-
B. ALM derivatives[(1)(2)]					
Forward contracts	14,377	3,438	38,421	615	120
Option contracts traded on stock exchange:					
Options written	-	-	1,228	-	-
Options purchased	-	-	456	-	-
Other option contracts:					
Options written	-	-	16,035	739	-
Options purchased	-	-	18,966	785	-
Swaps	10,163	13,718	1,555	-	-
Total	24,540	17,156	76,661	2,139	120
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	5,498	7,275	-	-	-
C. Other derivatives[(1)]					
Forward contracts	-	-	2,210	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,725	14,748	1
Options purchased	-	-	2,712	14,748	1
Other option contracts:					
Options written	-	1,742	3,177	3,002	-
Options purchased	-	1,742	2,220	2,681	-
Swaps	-	32	-	-	-
Total	-	3,516	13,044	35,179	2

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31

Reported amounts (NIS in millions)

E. Financial derivatives activity - volume, credit risk and maturity dates (continued)

A. Activity on consolidated basis

	2007				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	692
Foreign currency spot swap contracts	-	-	2,700	-	-
Total	-	-	2,700	-	692
2. Fair value, gross, of financial derivatives					
A. Hedging derivatives[1]					
Positive fair value, gross	9	10	-	-	-
Negative fair value, gross	8	10	-	-	-
B. Derivatives ALM[1][2]					
Positive fair value, gross	187	133	1,530	67	1
Negative fair value, gross	213	62	1,078	56	1
C. Other derivatives[1]					
Positive fair value, gross	-	74	102	187	-
Negative fair value, gross	-	74	100	217	-
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Positive fair value, gross	-	-	-	-	1
Negative fair value, gross	-	-	-	-	3

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 19 - Contingent Liabilities and Special Commitments (continued)

As of December 31

Reported amounts (NIS in millions)

E. Financial derivatives activity - volume, credit risk and maturity dates (continued)

B. Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	2008					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central Banks	Others	Total
Positive fair value, gross, of financial derivatives(1)	137	2,441	25	-	784	3,387
Off-balance sheet credit risk on financial derivatives(2)	71	9,469	69	-	2,912	12,521
Total credit risk on financial derivatives	208	11,910	94	-	3,696	15,908

	2007					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central Banks	Others	Total
Positive fair value, gross, of financial derivatives(1)	116	1,402	97	-	686	2,301
Off-balance sheet credit risk on financial derivatives(2)	51	8,187	534	-	3,104	11,876
Total credit risk on financial derivatives	167	9,589	631	-	3,790	14,177

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 2 million (in 2007 – NIS 3 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 3,385 million, included under “other assets” (in 2007 - NIS 2,298 million).

(2) Off-balance sheet credit risk for financial derivatives (including those with negative fair value) as computed for the purposes of the per-borrower limitation.

C. Maturity dates - stated amounts: year-end balances - Consolidated

	2008				
	Up to 3 months	Over 3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	3,068	11,844	9,571	4,212	28,695
Other	8,632	12,231	1,379	2,463	24,705
Currency contracts	58,728	29,348	3,301	704	92,081
Contracts for shares	11,215	706	1,096	-	13,017
Commodities and other contracts	182	1	741	222	1,146
Total	81,825	54,130	16,088	7,601	159,644

	2007				
Total	93,638	64,302	15,254	4,899	178,093

Note 19 - Contingent Liabilities and Special Commitments (continued)

E. Financial derivatives activity - volume, credit risk and maturity dates (continued)

d) Description of derivative instruments and the risks inherent in such activity

1. General

The Bank's activities in derivative instruments, such as futures contracts and forward trades, options, financial swaps and credit derivatives, are executed both as broker for its customers and on its own account, as part of the management of its assets and liabilities and in order to minimize as much as possible the Bank's exposure to market risks.

2. Types and description of activity in derivative instruments

The activities in derivative instruments include currency contracts, interest rate contracts and other contracts, and contracts for customers in the Maof market, on different indices and assets, as outlined below:

- Forward transactions and futures contracts:

  A contract between two parties to buy or sell a specified quantity of commodities, currencies, interest or other financial instruments ("underlying asset"), to be executed on a future date and at a price specified in advance. The major difference between the two is that forward transactions are executed over the counter, such that the transaction is executed between the Bank and the customer, whereas futures contracts are traded on the stock exchange, such that the clearinghouse is the counter-party to the Bank in the transaction.
- Swaps:

  Contracts to swap a cash flow of one type (currency, linkage, interest type) with a cash flow of another type, at a known quantity and for a pre-determined duration.
- Options

  Contracts that confer on the option buyer, in return for the payment of a premium, the right to purchase from (call) or sell to (put) the option seller the underlying assets at a pre-determined fixed price, quantity and time.
- Credit derivatives

  Contracts that confer on the buyer, in return for the payment of a one-time or periodic premium, the right to receive payment from the seller (in cash or cash equivalent) in the event of a change in credit rating, the inability to honor obligations or any other credit event, relating to the State or the company, as stipulated in the contract.
- Spot trades (trades for immediate delivery)

  Exchanges of two currencies, based on an exchange rate agreed in advance, to be executed within days (mostly - within two business days).

Note 19 - Contingent Liabilities and Special Commitments (continued)

3. Risks inherent in derivative instrument activities:

The Bank's activities in derivative instruments expose it to credit risks and to market risks that include interest risks, basis risks and liquidity risks, as detailed below:

a) Credit exposure in derivative instruments, which is defined by the Supervisor of Banks as "present credit exposure", quantifies the maximum possible loss that the Bank will sustain if the other party does not fulfill the terms of the transaction, after deducting enforceable set-off agreements, and without taking collateral into account. In the credit derivatives written by the Bank, the credit exposure is expressed in the amount that the Bank will be obliged to pay if the event stipulated in the contract occurs. To manage the credit extent of the exposure inherent in derivative instruments over the life of the transaction, the exposure is estimated at the price of the commitment in the reverse transaction for the remaining life of the transaction. Collateral requirements are determined according to the type of customer, and sometimes, at a fixed percentage of the credit facility determined for a given customer. In other cases, exposure is determined according to scenarios based on the Black and Scholes Model. The collateral required by the Bank usually includes liquid collateral such as securities, deposits, etc., and is valued as collateral in accordance with the various collateral coefficients used by the Bank.

b) The market risks in derivative instruments with which the Bank contends result from their various sensitivities to unexpected fluctuations in interest rates, the inflation rate, exchange rates and other financial indices. The Bank manages the market risks involved in financial derivatives by including these instruments within the management of exposure to market risks of the entire range of the Bank's operations.

c) Liquidity risk from transactions in derivative financial instruments stems from the inability to quickly close the exposure by cash payment or by creating reverse exposure. The derivative instruments and their effect on liquidity needs are an integral part of the management of the Bank's liquidity risk in accordance with Proper Banking Conduct Regulation 342.

d) The operational risk in derivative instruments is due to the risk of erroneous execution of transactions, including pricing thereof, beginning from the date they are entered into until they are settled, due to human error or to mechanical error.

Note 20 - Balances and Estimates of Fair Value of Financial Instruments

1. Fair value of financial instruments

   For most of the Bank's financial instruments, a "market price" cannot be quoted, because there is no active market in which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument. The estimate of fair value using future cash flows and determination of a discount rate are subjective. Therefore, for most financial instruments, the estimation of fair value is not necessarily an indication of the realization value of the financial instrument on the balance sheet date. The fair value valuation uses interest rates prevailing at the balance sheet date, and does not take into account fluctuations in interest rates. The assumption of different interest rates will result in fair values that could be substantially different. Essentially, this relates to financial instruments that bear fixed interest or are interest-free, or to CPI-linked financial instruments with shorter maturities than those in which similar transactions are actually effected. In addition, in determining the fair value, the commissions to be received or paid as a result of the business activity are not taken into account, nor does it include the tax effect. Moreover, the difference between the carrying value and the fair value balances may not be realized, because, in most cases, the Bank will hold the financial instrument to maturity. Consequently, it should be emphasized that the data included in this note do not indicate the value of the Bank as a going concern. In addition, because of the broad range of valuation techniques and the possible estimates to be applied during the valuation of the fair value, one must be cautious when comparing the fair values between different banks.

2. The principal methods and assumptions for estimating fair value of financial instruments:

   a) Fair value was computed by the managements in the Bank Group, taking into account the possibility of early repayment.

   b) Deposits from the public, deposits with banks and loans to the Government, as well as debentures and subordinated notes – the discounting of future cash flows using interest rates at which, in the estimation of the managements in the Bank Group, similar transactions could have been executed on the balance sheet date.

   c) Securities, including asset-backed securities, see Note 1.F.2).

   d) Investments in corporations for which a market value cannot be quoted are not included in this Note at their fair value but rather at cost, (net of impairment provisions) which, in the estimation of management, is not lower than the fair value of the investment.

   e) Loans to the public – The fair value of loans to the public is estimated by the present value of cash flows method, using an appropriate discount rate. The balance of the loans was broken down according to the risk level of the individual borrower at the balance sheet date, and as to mortgages, according to homogeneous categories, for which the flows of future receipts (principal and interest) were computed

      These receipts were discounted at the interest rate at which the Bank estimates it will be possible to execute similar transactions on the balance sheet date, and which reflects the risk level inherent in the loans to a customer at a similar risk level, and as to mortgages, according to homogeneous categories.

Note 20 - Balances and Estimates of Fair Value of Financial Instruments (continued)

In certain loans granted by the Bank and a subsidiary at variable interest that changes at a frequency of up to three months, namely housing loans, the carrying value approximates fair value.

f) The fair value of problem debt is computed using a discount rate that reflects the level of credit risk inherent in them. In no case were these discount rates lower than the highest interest rate used by the members of the Bank Group in providing loans on the balance sheet date. The future cash flows of problematic debt were computed after deducting the specific provisions for doubtful debts.

A decrease of 1% in the discount rate affects the increase in fair value of the problematic debts of the Group by NIS 35 million.

Non-accrual loans in all the linkage segments are discounted in the Bank, at the unlinked shekel interest rate.

The general and supplementary provision for doubtful debts was not deducted from the loan balances for the purpose of computing cash flows and estimating fair value.

g) Off-balance sheet financial instruments in which the balance represents credit risk and contingent liabilities and special commitments – the balance in the financial statements as at the balance sheet date approximates the fair value.

h) Financial derivatives – Financial derivatives that have an active market were valued at market value. Financial derivatives not traded on an active market have been valued using internal models and have been validated by a professional appointed by the Bank to this end.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts (NIS in millions)

3. Information on the fair value of financial instruments is presented below:

	Consolidated							
	December 31, 2008				December 31, 2007			
	Book balance			Fair value	Book balance			Fair value
	(1)	(2)	Total		(1)	(2)	Total	
Financial assets								
Cash and deposits with banks	5,333	5,705	11,038	11,038	2,658	8,043	10,701	10,707
Securities	8,311	948	9,259	9,259	6,145	-	6,145	6,145
Securities loaned or sold in repurchase agreements	12	-	12	12	5	-	5	5
Credit to the public	28,102	59,947	88,049	88,342	20,846	53,474	74,320	(3)75,031
Loans to the Government	-	2	2	2	1	2	3	3
Investments in investees	26	-	26	26	24	-	24	24
Other financial assets	3,999	-	3,999	3,999	2,834	-	2,834	2,834
Total financial assets	45,783	66,602	112,385	112,678	32,513	61,519	94,032	(3)94,749
Financial liabilities								
Deposits from the public	21,763	70,016	91,779	92,640	14,866	60,424	75,290	75,961
Deposits from banks	237	1,630	1,867	1,910	1,929	1,823	3,752	3,812
Deposits from the Government	5	237	242	276	2	280	282	282
Securities loaned or sold in conjunction with re-purchase agreements	972	-	972	972	-	-	-	-
Debentures and subordinated notes	-	6,837	6,837	6,677	-	6,189	6,189	6,324
Other financial liabilities	5,282	-	5,282	5,282	3,704	-	3,704	3,704
Total financial liabilities	28,259	78,720	106,979	107,757	20,501	68,716	89,217	90,083

(1) Financial instruments in which the balance sheet balance constitutes an estimate of fair value. For further details, see (2) above.
(2) Other financial instruments.
(3) Restated.

Note 20 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts (NIS in millions)

3. Information on the fair value of financial instruments is presented below:

	The Bank							
	December 31, 2008				December 31, 2007			
	Book balance			Fair value	Book balance			Fair value
	(1)	(2)	Total		(1)	(2)	Total	
Financial assets								
Cash and deposits with banks	5,842	4,633	10,475	10,494	3,248	9,411	12,659	12,672
Securities	4,810	932	5,742	5,742	6,092	-	6,092	6,092
Securities loaned or sold in repurchase agreements	12	-	12	12	5	-	5	5
Credit to the public	22,603	56,743	79,346	79,592	19,569	50,525	70,094	(3)70,717
Loans to the Government	-	2	2	2	-	3	3	3
Investments in investees	38	129	167	167	32	124	156	156
Other financial assets	3,922	-	3,922	3,922	2,804	-	2,804	2,804
Total financial assets	37,227	62,439	99,666	99,931	31,750	60,063	91,813	(3)92,449
Financial liabilities								
Deposits from the public	17,518	64,624	82,142	82,906	14,959	61,294	76,253	76,819
Deposits from banks	814	1,978	2,792	2,833	1,754	2,014	3,768	3,820
Deposits from the Government	1	233	234	268	1	274	275	275
Securities loaned or sold in conjunction with re-purchase agreements	972	-	972	972	-	-	-	-
Debentures and subordinated notes	-	4,430	4,430	4,271	-	4,057	4,057	4,193
Other financial liabilities	5,179	-	5,179	5,179	3,662	-	3,662	3,662
Total financial liabilities	24,484	71,265	95,749	96,429	20,376	67,639	88,015	88,769

(1) Financial instruments in which the balance sheet balance constitutes an estimate of fair value. For further details, see (2) above.
(2) Other financial instruments.
(3) Restated.

Note 21 - Interested and Related Parties - Consolidated

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2008							
	Interested parties						Related parties held by the Bank	
	Controlling shareholders		Directors and President		Others[4]		Affiliates	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
Assets								
Credit to the public	-	6	5	6	75	100	31	50
Investments in affiliates (including subordinated notes)	-	-	-	-	-	-	11	11
Liabilities								
Deposits from the public	22	22	7	8	5	59	2	3
Shares (included in shareholders' equity)[2]	2,719	2,719	65	65	-	-	-	-
Off-balance-sheet financial instruments[3]	1	1	3	3	107	177	1	1

(1) Based on balances at the end of each month.

(2) The share of interested and related parties in the Bank's capital.

(3) Credit risk in off-balance sheet financial instruments, as computed for the purposes of per-borrower limitations.

(4) A corporation in which the interested party holds 25% or more of its issued share capital or voting rights, or may appoint 25% or more of members of its Board of Directors.

Note 21 - Interested and Related Parties - Consolidated (continued)

Reported amounts (NIS in millions)

A. Balances

	As of December 31, 2007							
	Interested parties						Related parties held by the Bank	
	Controlling shareholders		Directors and President		Others[4]		Affiliates	
	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]	Balance as of balance sheet date	Highest balance during the year[1]
Assets								
Credit to the public	10	10	5	5	429	679	50	60
Investments in affiliates (including subordinated notes)	-	-	-	-	-	-	10	38
Liabilities								
Deposits from the public	9	11	4	10	31	309	2	7
Shares (included in shareholders' equity)[2]	2,548	2,548	48	48	-	-	-	-
Off-balance-sheet financial instruments[3]	-	-	6	6	98	123	1	1

(1) Based on balances at the end of each month.
(2) The share of interested and related parties in the Bank's capital.
(3) Credit risk in off-balance sheet financial instruments, as computed for the purposes of per-borrower limitations.
(4) A corporation in which the interested party holds 25% or more of its issued share capital or voting rights, or may appoint 25% or more of members of its Board of Directors.

Note 21 - Interested and Related Parties - Consolidated (continued)

Reported amounts (NIS in millions)

B. In the Statement of Profit and Loss

The results of financing operations (before provision for doubtful debts) and operating expenses from the transactions of the Bank and its subsidiaries with interested and related parties:

	For the Year Ended December 31								
	2008			2007			2006		
	Interested parties		Related parties held by the Bank	Interested parties		Related parties held by the Bank	Interested parties		Related parties held by the Bank
	Controlling share-holders	Others	Affiliates	Controlling share-holders	Others	Affiliates	Controlling share-holders	Others	Affiliates
Related to assets									
From loans to the public	-	(13)	4	-	9	4	-	10	6
From deposits from the public	1	2	-	-	4	-	1	4	-
Total results from financing operations (before provision for doubtful debts)	(1)	(15)	4	-	5	4	(1)	6	6
Operating and other expenses	-	18	-	-	16	-	-	15	-

C. Benefits to interested parties (of the Bank and of investees):

	For the Year Ended December 31					
	2008		2007		2006	
	Number of beneficiaries	Total benefits	Number of beneficiaries	Total benefits	Number of beneficiaries	Total benefits
Salary of board members and President						
Chairman of the Board of Directors and President	2	11	2	13	2	13
employed by the Bank(1)						
Directors who are employed by the Bank Group	-	-	-	-	-	-
Directors who are not employed by the Bank Group	12	5	12	2	12	2

(1) In accordance with his employment agreement, the President is entitled to options to purchase shares of the Bank, in accordance with plans approved by the Audit Committee and the board of directors of the Bank on October 24, 2004 and on November 30, 2008. See Note 16.A.1 for details.

To the best of the Bank's knowledge, transactions with related parties were executed in the ordinary course of business, at market terms and under terms similar to those of transactions effected with unrelated entities. The income or expenses connected with these transactions are included in the appropriate items in the statement of profit and loss.

Note 22 - Profit from Financing Operations (Before Provision for Doubtful Debts)

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
A. In respect of assets(1)						
From loans to the public	4,953	4,087	3,133	4,478	3,804	2,925
From loans to the Government	1	(1)	20	1	(1)	20
From deposits with the Bank of Israel and from cash	125	84	(4)	124	84	(4)
From deposits with banks	(487)	(239)	(130)	(479)	(163)	(67)
From securities loaned or sold in repurchase agreements	1	5	3	1	5	3
From debentures	67	174	181	(12)	173	181
	4,660	4,110	3,203	4,113	3,902	3,058
B. In respect of liabilities(1)						
On deposits from the public	(2,085)	(2,048)	(1,879)	(1,992)	(2,074)	(1,827)
On deposits from governments	(17)	(22)	(23)	(18)	(22)	(23)
On deposits from the Bank of Israel and from cash	(8)	(40)	(10)	(8)	(40)	(10)
On deposits from banks	467	(160)	(258)	501	(141)	(290)
Securities loaned or sold in conjunction with re-purchase agreements	(7)	-	-	(7)	-	-
On debentures and subordinated notes	(604)	(460)	(220)	(412)	(319)	(170)
	(2,254)	(2,730)	(2,390)	(1,936)	(2,596)	(2,320)
C. In respect of financial derivatives and hedging activities						
Net income (expenses) in respect of ALM derivatives(2)	(426)	(44)	790	(426)	(44)	790
Net income from other derivatives	67	403	84	54	403	84
	(359)	359	874	(372)	359	874

(1) Includes the effective element in the hedging ratios.

(2) Derivatives which constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 22 - Profit from Financing Operations (Before Provision for Doubtful Debts) (continued)

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
D. Other						
Commissions from financing transactions	92	85	84	85	81	80
From loans to individuals	47	45	41	47	45	41
Interest profit on problem loans	108	126	70	106	124	68
Other financing profit	21	57	125	30	54	122
Other financing expenses	(26)	(26)	(20)	(30)	(25)	(19)
	242	287	300	238	279	292
Total profit from financing operations before provision for doubtful debts	2,289	2,026	1,987	2,043	1,944	1,904
Of which: exchange rate differences, net	12	(20)	(7)	5	(8)	3
E. Details of results of investments in debentures						
Financing income on an accrual basis from debentures:						
Held to maturity	-	-	6	-	-	6
Available for sale	64	176	175	(14)	175	175
Held for trading	3	(2)	-	2	(2)	-
Total included in profit from financing operations from assets	67	174	181	(12)	173	181
Gain on sale of debentures held for sale	15	26	5	15	26	5
Provision for impairment of debentures held for sale	(215)	(114)	-	(215)	(114)	-
Realized and unrealized gain (loss) from adjustment to fair value of debentures held for trade, net	3	(2)	-	3	(2)	-
Total included in other financing income	(197)	(90)	5	(197)	(90)	5
Total from investments in debentures	(130)	84	186	(209)	83	186
F. Details of net effect of hedging financial derivatives on profit from financing operations						
Financing revenues (expenses) for assets (section A)	(136)	33	19	(136)	33	19

Note 23 - Operating Commissions

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Account management fees(1)	119	102	99	116	102	99
Payment services(1)	232	219	213	224	219	212
Income from credit cards	114	84	74	95	84	74
Handling of credit and preparation of contracts	121	116	120	112	110	113
Computerized services, information and confirmations	16	13	12	16	13	12
Foreign trade and special services in foreign currency	40	44	41	38	42	40
Income from securities transactions	218	205	178	193	189	167
Collection commission on credit from Ministry of Finance funds	108	112	115	102	105	108
Management fees and commissions on housing insurance	38	42	45	-	-	-
Management fees and commissions on life insurance	79	72	73	48	54	62
Commissions from transfer of rental payments	2	-	4	-	-	3
Other	17	25	17	9	16	9
Total operating commissions	1,104	1,034	991	953	934	899

(1) In Israeli and foreign currency.

Note 24 - Profits from Investments in Shares, Net

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Gain from sale of shares available for sale, Net	17	9	13	18	9	13
Provision for impairment of shares available for sale	(3)	(1)	(2)	(3)	(1)	(2)
Dividends from shares available for sale	32	57	39	32	57	39
Total profits from investments in shares, net	46	65	50	47	65	50

Note 25 - Other Income

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Provident fund management fees	-	28	102	-	21	83
Provident fund operating fees	35	20	-	23	20	-
Mutual fund management fees	-	-	33	-	-	-
Management fees from subsidiaries	-	-	-	1	1	1
Mutual fund distribution fees	23	26	11	21	26	11
Other	21	17	28	9	7	18
Total other income	79	91	174	54	75	113

Note 26 - Salaries and Related Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Salaries (including bonuses)	899	852	832	800	804	789
Expense arising from share-based payment transactions(1)	14	18	26	14	18	26
Severance pay, provident and pension, continuing education fund and vacation	131	101	92	114	94	86
National Insurance and VAT on salaries	207	183	185	190	177	179
Other related expenses	14	13	12	10	13	12
Supplement to provisions for related expenses, due to changes in salaries during the current year	8	2	4	2	2	4
Retirement expenses(2)	-	-	244	-	-	244
Total salaries and related expenses	1,273	1,169	1,395	1,130	1,108	1,340
Of which: salaries and related expenses overseas	34	38	35	34	38	35

(1) See Note 16.A.

(2) Also includes expenses as set forth in Note 16.I and 16.J.

Note 27 - Other Expenses

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Marketing and advertising	57	46	40	45	41	35
Communications	42	37	40	35	36	39
Computer	50	30	33	21	25	29
Office	23	20	14	18	18	13
Insurance	15	16	18	13	15	17
Legal, audit and professional advisory services	78	67	54	69	61	49
Directors' remuneration and fees for participation in meetings	6	3	3	5	2	2
Training and continuing education	7	7	9	6	7	9
Commissions	28	37	26	28	37	24
Cars and travel	36	(1)32	(1)27	35	(1)31	(1)26
Sundry	65	(1)53	(1)73	64	(1)52	(1)52
Total other expenses	407	348	337	339	325	295

(1) Reclassified.

Note 28 - Provision for Taxes on Operating Profit

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
A. Composition						
Current taxes -						
For the current year	359	339	436	303	307	386
For prior years	(10)	-	1	(8)	(1)	1
Total current taxes	349	339	437	295	306	387
Changes in deferred taxes -						
For the current year	7	29	(88)	9	29	(94)
Total provision for taxes on income	356	368	349	304	335	293
Includes provision for taxes overseas (includes deferred taxes)	12	6	9	7	-	4

Note 28 - Provision for Taxes on Operating Profit (continued)

For the year ended December 31

Reported amounts (NIS in millions)

B. Reconciliation between the theoretical tax amount that would be applicable had the operating profits been taxable at the statutory tax rate applicable to banks in Israel, and between the provision for taxes on operating profit as included in the statement of profit and loss:

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Statutory tax rate applicable to a bank in Israel	36.80%	38.53%	40.64%	36.80%	38.53%	40.64%
Tax amount based on statutory tax rate	357	405	317	295	365	262
Tax (tax saving) from:						
Deduction for inflation	-	(39)	7	-	(33)	6
Subsidiaries' income:						
In Israel	(5)	(5)	(4)	-	-	-
Overseas	(5)	(1)	(2)	-	-	-
Special and supplementary provision for doubtful debts	5	(7)	(8)	5	(7)	(8)
Exempt income	(1)	(2)	(5)	(1)	(2)	(5)
Adjustment differences on depreciation, amortization and capital gains	(3)	(4)	(1)	(3)	(4)	(1)
Other non-deductible expenses	14	5	9	13	4	8
Temporary differences and losses for which deferred taxes have not been recorded	10	7	8	10	7	8
Profit tax on payroll tax,net(1)	7	12	13	6	12	13
Taxes for prior years	(10)	-	-	(8)	(1)	-
Change in deferred tax balances due to change in tax rates	-	3	(2)	-	3	(3)
Adjustment differences on monetary assets and other differences, net	(13)	(6)	17	(13)	(9)	13
Total provision for taxes on income	356	368	349	304	335	293

(1) See section D. below.

Note 28 - Provision for Taxes on Operating Profit (continued)

C. On July 25, 2005, the Knesset enacted Amendment No 147 to the Income Tax Ordinance, 2005 (“the Amendment”). Pursuant to the Amendment, the pace of gradual reduction of the corporate tax rate will be accelerated, as provided below: in 2006 - 31% (instead of 32%), in 2007 - 29%; in 2008 - 27%, in 2009 - 26%, in 2010 and thereafter - 25%.

On June 27, 2006, the Minister of Finance signed a Value Added Tax Order (Tax Rate on Not-for-Profit Corporations and Financial Institutions) (Amendment), 2006, which stipulates that the rate of profit tax will be reduced from 17% to 15.5%, in the manner provided in the Order. The overall tax rate that will be imposed on the Bank is 40.6% in 2006, in 2007 - 38.5%, in 2008 - 36.8% and will continue to gradually decline to a rate of 35.1% in 2010 and thereafter.

D. On February 26, 2008 the Knesset passed the Profit Tax Act (Adjustments for Inflation) (Amendment no. 20) (Restriction of Applicable Period), 2008 ("the amendment"), whereby the Inflationary Adjustment Act would be rescinded in the 2007 tax year, and starting in the 2008 tax year, provisions of the Act shall no longer apply, other than interim provisions aimed at avoiding distortions in tax calculations.

Pursuant to the amendment, from the 2008 tax year onwards, revenues will no longer be adjusted, for tax purposes, to a real measuring base. In addition, linkage to the CPI of depreciation amounts for fixed assets and carry-forwards tax losses would be discontinued, such that these amounts would be adjusted to the CPI through the 2007 tax year, and hence forward would no longer be linked to the CPI. The amendment also amends the definitions of “profit” and “salary” in the VAT Act. Pursuant to the amendments, in calculating profit for tax purposes, the salary tax paid by the financial institution would be deducted. Furthermore, payment of the employer’s share of insurance fees paid for his employer under the National Insurance Act (Combined Version), 1995 (hereinafter: “the National Insurance Act”) would be taxable for salary tax purposes.

In 2008, as interim provision, half of the salary tax paid by the financial institution would be deducted in calculating profit for profit tax purposes, and salary tax shall also apply to half of the employer’s share of national insurance fees paid for their employee pursuant to the National Insurance Act.

The impact of the rescinding of the Inflationary Adjustment Act, in 2008, amounted to a NIS 67 million increase in the Bank's provision for taxes. The impact of revisions to the VAT Act, based on payroll expenses in 2008, amounted to a NIS 6 million decrease in the Bank's provision for taxes.

E. The Bank has finalized tax assessments through 2003. The Bank gave its consent to the Tax Authority for a 6-month extension to discuss the Bank's 2004 tax assessment. The former Bank Tefahot has finalized tax assessments, or tax assessments deemed finalized, through 2004. Bank Adanim has finalized tax assessments through 2006.

Note 28 - Provision for Taxes on Operating Profit (continued)

F. Following the merger of the Investment Corporation with the Bank, a tax asset ("deferred tax") of NIS 25 million was included in the year 2004, for carry forward losses in the Investment Corporation that may be set off against the Bank's profits for 10 years. Furthermore, there are additional tax losses in the amount of NIS 51 million that accrued in the Investment Corporation, which will also be allowed to be set off for tax purposes for a period of 10 years, if certain conditions that were prescribed in the approval of the Income Tax Commission are fulfilled. Deferred taxes were not recorded for the additional loss.
On March 6, 2006, certification was received from the income tax authorities on fulfillment of the conditions of the merger with the Investment Corporation of Mizrahi Bank Ltd. It should be noted that, as aforesaid in section E., the Bank has no final tax assessments for the year 2004.

G. Following the merger of "Tefahot" Israel Mortgage Bank Ltd. on January 1, 2005, certification was received from the Income Tax Authority on February 4, 2007, on fulfillment of the conditions of the merger. It should be noted that, as aforesaid in Par. D., the Bank has no final tax assessments for the year 2005.

H. Adjustment amount for non-monetary assets, whose amortization would not be tax deductible in the future, and for which no provision for deferred taxes is to be created:

	Consolidated		The Bank	
	2008	2007	2008	2007
Balance as at beginning of year	54	55	54	55
Amount not deductible in reported year	(1)	(1)	(1)	(1)
Balance as at end of year	53	54	53	54

Note 28 - Provision for Taxes on Operating Profit (continued)

For the year ended December 31

Reported amounts (NIS in millions)

I. Deferred tax assets and provision for deferred taxes

	Consolidated				The Bank			
	December 31				December 31			
	Balances		Average tax rate in %		Balances		Average tax rate in %	
	2008	2007	2008	2007	2008	2007	2008	2007
Deferred taxes for:								
Specific provision for doubtful debts(1)	10	14	35.9	36.0	-	-	-	-
Provision for vacation pay, long-service bonuses and employee rights(1)	30	41	34.6	33.3	23	41	34.6	33.3
Excess provision for employee rights on retirement, net(1)	153	158	35.1	35.6	148	158	35.1	35.6
Other securities(1)(3)	36	24	35.9	36.8	36	24	35.9	36.8
Adjustment of depreciable non-monetary assets(2)	(11)	(11)	25.0	25.0	(11)	(11)	25.0	25.0
Other - from monetary assets(1)(2)(4)	(14)	21	35.9	36.8	(14)	20	35.9	36.8
Other - from non-monetary assets, net(1)	20	3	35.9	36.8	16	3	35.9	36.8
Total deferred taxes	224	250	35.7	36.1	198	235	35.8	36.1
Deferred taxes include:								
(1) Deferred tax assets included in "other assets"	263	261	35.3	35.6	237	246	35.3	35.6
(2) Deferred taxes payable included in "other liabilities"	(39)	(11)	25.0	25.0	(39)	(11)	25.0	25.0
Deferred taxes, net	224	250	35.7	36.1	198	235	35.8	36.1

(3) Changes in this item amounting to NIS 66 million due to adjustment of fair value of securities held for sale (last year - NIS 19 million) were charged to a separate item in shareholders' equity.

(4) Changes in this item amounting to NIS 28 million due to net gain from cash flow hedges were charged to a separate item in shareholders' equity. This item included in 2007 a decrease in deferred tax balance for profit from extraordinary items amounting to NIS 123 million.

Note 29 - After-Tax Profit from Extraordinary Items

For the year ended December 31

Reported amounts (NIS in millions)

	Consolidated			The Bank		
	2008	2007	2006	2008	2007	2006
Profit from sale of provident fund operations[1]	-	385	-	-	333	-
Profit from sale of mutual fund operations	-	-	213	-	-	-
Profit from sale of shares of investees[2]	-	3	148	-	3	148
Capital gain from sale of buildings and equipment	3	21	-	-	11	-
Capital loss from sale of buildings and equipment	(1)	-	-	(1)	-	-
(Provision) cancelled provision for losses anticipated on buildings for sale and leased properties not in use	1	(14)	4	1	(14)	4
Pre-tax profit	3	395	365	-	333	152
Provision for taxes on profit from extraordinary items:						
Current taxes	1	32	163	-	8	80
Deferred taxes	-	123	(14)	-	123	(14)
Total provision for taxes	1	155	149	-	131	66
After-tax profit	2	240	216	-	202	86
Share in net, after-tax profit from extraordinary items of subsidiaries	-	-	-	1	25	130
Minority interest in net, after-tax profit from extraordinary items of subsidiaries	(1)	(13)	-	-	-	-
After-tax profit from extraordinary items	1	227	216	1	227	216

(1) For sale of provident fund operations, see Note 6.E.2).
(2) For sale of shares of Mofet Israel Technology Fund Ltd., see Note 6.E.3).

Note 30 - Earnings per Ordinary Share

For the year ended December 31

	Consolidated		
	Reported amounts (NIS in millions)		
	2008	2007	2006
Basic earnings			
Net operating profit	601	681	427
After-tax profit from extraordinary items	1	227	216
Total net profit attributable to holders of ordinary shares of the banking corporation	602	908	643
Diluted earnings			
Net operating profit	601	681	427
After-tax profit from extraordinary items	1	227	216
Total net profit attributable to holders of ordinary shares of the banking corporation	602	908	643

Weighted average number of shares			
Weighted average number of ordinary shares used to calculate basic earnings	222,440,565	220,692,404	218,631,192
Weighted average number of ordinary shares used to calculate diluted earnings	223,784,023	224,888,741	222,954,178

	Consolidated		
	Reported amounts		
	2008	2007	2006
Earnings per share (in NIS)			
Basic earnings			
Earnings per share from operating profit	2.70	3.08	1.95
Earnings per share from extraordinary items	0.01	1.03	0.99
Total	2.71	4.11	2.94
Diluted earnings			
Earnings per share from operating profit	2.68	3.03	1.91
Earnings per share from extraordinary items	0.01	1.01	0.97
Total	2.69	4.04	2.88

Note 31 - Operating Segments and Geographic Regions

A. General

The Bank manages its operations in six major operating segments, which are distinguished by customer characteristics and type of banking services required, as well as by the organizational unit responsible for servicing each segment. Operating segment definition is based on the Bank's organizational structure, as set forth below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for customers and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes small household customers and mortgage operations. The division provides appropriate banking services and financial products to segment customers, including in the field of mortgages.

Small business segment - under responsibility of the Retail Division, which also serves small business customers, having an indebtedness level of less than NIS -6 million, sales of less than NIS -30 million and liquid asset balance of less than NIS -10 million. Banking services and financial products, including commercial banking services as required, are provided to segment customers.

Private banking - customers of the private banking segment are under responsibility of the private banking sector of the Retail Division (starting in 2009 - the private banking and international operations sector of the Financial Division). Private banking customers are individual customers with liquid assets (primarily short-term deposits and security investments) over NIS 2.5 million, and corporations with liquid assets in excess of NIS 8 million. Customers of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking - customers of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business customers are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 6-25 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business customers. Criteria by which customers are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment customers operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Note 31 - Operating Segments and Geographic Regions (continued)

Financial management - operations in this segment include, inter alia, management of assets and liabilities, management of exposure to market risk, management of the nostro portfolio and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

The main products offered by the Bank's different operating segments are:

- **Banking and finance** - an array of banking services offered to private and corporate customers, including management of checking account, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.
- **Capital market** - security transactions for customers on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank customers.
- **Credit cards** - A set of financial products and banking services given in conjunction with credit cards issued to Bank customers by credit card companies in Israel.
- **Mortgages** - Housing loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.
- **Construction and real estate** - banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

During 2007 the Bank launched a new system for profitability measurement, which measures results of Bank operations and provides a break-down of asset and liability balances from the individual transaction level through the organizational structure hierarchy up to the enterprise-wide level. Bank management uses the new system to analyze operating results by organizational criteria and by product offered by the Bank to customers. Profit is assigned in the system to customers and to products, which are presented in accordance with the Bank's organizational structure.

In order to analyze results of Bank operations by relevant criteria, customers have been assigned in the system to the organizational units in charge of servicing them. Information presented below by operating segment is based on the Bank's organizational structure on customer assignment to various departments and hence to operating segments, and on attribution of results and balances to customers and segments in the new system.

Note 31 - Operating Segments and Geographic Regions (continued)

The principles used in assigning balances, income and expenses to customers in the system are as follows:

- Credit interest income and deposit interest expenses are directly attributed to the customer. For credit, an expense set at cost of capital raised is attributed to customers, against an inter-segment credit to the Financial Management segment. For deposits, a revenue set at cost of capital raised is attributed to customers, against an inter-segment debit to the Financial Management segment. In addition, each segment receives an inter-segment credit in respect of its use of shareholders' equity, excluding the cost of raising funding.
- Income from financing operations from external entities for derivative instruments is calculated base don changes to fair value of such derivatives. For derivative instrument operations with customers, transaction pricing (both for future transactions using discounting, and for options - using the Black and Scholes model) is based on spreads between the interest curve used by the Bank for transactions on which it the seller, and the interest curve used by the Bank for transactions on which it the buyer. This spread is attributed to customers and to the operating segments to which these customers' activity is attributed. Changes to fair value, in excess of profitability due to the financial spread inherent in derivatives, are attributed to the Financial Management segment.
- Profit and loss from Bank investment in securities and from strategic positions are attributed to Financial Management.
- Provision for doubtful debts is directly attributed to customers for whom it is made.
- Commission- and other income is specifically attributed to customers.
- Salary expense is attributed to customers assigned to specific contact persons. In addition, salary expenses of managers and staff of headquarter departments not referring to specific customers, are assigned to customers.
- Maintenance and other expenses are assigned to customers using the appropriate ratios.
- Expenses attributed directly to Bank branches, including salary and benefits, rent and maintenance are attributed to different segments as inter-segment expenses, based on segment affiliation of customers services by the branches.
- Provision for tax on operating profit is attributed to customers, pro-rated in accordance with the effective tax rate and accounting for tax impact referring to specific segments and not to all Bank operations.
- Profit from extraordinary items is specifically attributed to segments, as the case may be.
- Return on equity is calculated as the ratio of net profit to attributed equity. Equity is attributed based on the average risk assets of the customers.
- Balance sheet and assets-under-management balances are specifically attributed to customers.
- Fixed assets are attributed based on appropriate ratios.

International operations were presented in 2007 as a separate segment. In these financial statements, results of international operations for 2008 were assigned to the different segments.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

For the Year Ended December 31, 2008

Reported amounts (NIS in millions)

B. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,613	(154)	69	267	753	(1,259)	2,289
Inter-segment	(1,420)	235	260	(119)	(212)	1,256	-
Profit from financing operations before provision for doubtful debts	1,193	81	329	148	541	(3)	2,289
Operating and other revenues	670	68	181	48	146	116	1,229
Total profit	1,863	149	510	196	687	113	3,518
Provision for doubtful debts	87	1	89	25	180	13	395
Operating and other expenses							
From outside operating segments	1,259	57	380	54	190	213	2,153
Inter-segment	(106)	1	(41)	55	67	24	-
Other operating expenses - total	1,153	58	339	109	257	237	2,153
Operating profit (loss) before taxes	623	90	82	62	250	(137)	970
Provision for taxes on operating profit	233	33	31	23	88	(52)	356
After-tax operating profit (loss)	390	57	51	39	162	(85)	614
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profits of subsidiaries	(12)	-	-	-	-	-	(12)
Net operating profit (loss)	378	57	51	39	162	(86)	601
Net after-tax profit from extraordinary items	-	-	-	-	-	1	1
Net profit (loss)	378	57	51	39	162	(85)	602
Return on equity	13.9%	101.0%	12.3%	14.3%	8.9%	(17.9%)	10.4%
Average balance of assets	49,534	1,440	5,470	4,831	23,358	17,213	101,846
Average balance of liabilities	41,842	6,367	6,317	2,103	13,801	25,400	95,830
Average balance of risk assets(1)	41,701	843	6,188	4,077	27,246	8,569	88,624
Average balance of provident and mutual fund assets	-	-	-	-	-	51,087	51,087
Average balance of securities	18,665	5,481	11,928	1,599	36,310	22,416	96,399
Credit to the public (end balance)	54,500	1,350	4,955	4,545	22,699	-	88,049
Deposits from the public (end balance)	47,597	6,809	6,591	2,510	13,655	14,617	91,779
Average balance of other assets managed	20,349	-	153	36	119	-	20,657

(1) Includes off-balance-sheet balances, as computed for capital adequacy.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

For the Year Ended December 31, 2008

Reported amounts (NIS in millions)

C. Information on profit from financing operations befor provision for doubtful debet

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	624	24	203	101	344	-	1,296
Margin from receiving deposits	481	61	76	17	64	-	699
Other	88	(4)	50	30	133	(3)	294
Total	1,193	81	329	148	541	(3)	2,289

D. Information regarding geographic regions(2)

	Profit for the year ended December 31, 2008(3)	Net profit for the year end December 31, 2008	Average total balance Assets for 2008
Israel	3,516	654	95,939
Outside of Israel	2	(52)	5,907
Total	3,518	602	101,846

(2) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.

(3) Includes operating profit from financing operations before provision for doubtful debts and other operating profit.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

B. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division: International operations	Financial Division: Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts								
From outside operating segments	1,822	(100)	(309)	185	657	(105)	(124)	2,026
Inter-segment	(906)	149	586	(70)	(195)	96	340	-
Profit from financing operations before provision for doubtful debts	916	49	277	115	462	(1)(9)	216	2,026
Operating and other revenues	589	21	173	42	163	56	146	1,190
Total profit	1,505	70	450	157	625	47	362	3,216
Provision for doubtful debts	67	-	74	7	77	3	-	228
Operating and other expenses								
From outside operating segments	1,012	11	361	124	133	130	167	1,938
Inter-segment	(62)	1	(26)	(9)	68	-	28	-
Other operating expenses - total	950	12	335	115	201	130	195	1,938
Operating profit (loss) before taxes	488	58	41	35	347	(86)	167	1,050
Provision for taxes on operating profit	171	20	15	12	121	(30)	59	368
After-tax operating profit (loss)	317	38	26	23	226	(56)	108	682
Share in net, after-tax operating loss of investees	-	-	-	-	-	-	(1)	(1)
Net operating profit (loss)	317	38	26	23	226	(56)	107	681
Net after-tax profit from extraordinary items	121	52	39	1	5	-	9	227
Net profit (loss)	438	90	65	24	231	(56)	116	908
Return on equity	19.2%	-	21.6%	9.2%	13.0%	(24.0%)	26.3%	17.2%

(1) Includes provision for impairment of asset-backed securities, amounting to NIS 114 million.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

B. Information regarding operating segments (continued)

						Financial Division		
	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Average balance of assets	42,430	-	4,938	4,349	17,499	5,873	18,955	94,044
Average balance of liabilities	33,219	2,210	9,796	2,167	12,240	5,999	23,082	88,713
Average balance of risk ssets(2)	33,999	-	4,561	3,801	26,298	3,456	8,681	80,796
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,472	45,472
Average balance of securities(3)	17,238	4,582	14,964	1,941	36,582	780	16,716	92,803
Credit to the public (end balance)	43,603	-	4,806	4,087	17,412	4,412	-	74,320
Deposits from the public (end balance)	30,731	2,204	(3)6,497	2,432	10,753	5,481	(3)17,192	75,290
Average balance of other assets managed	17,110	-	158	50	113	-	-	17,431

(2) Includes off-balance-sheet balances, as computed for capital adequacy.
(3) Reclassified.

C. Information on profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	491	-	168	80	312	88	-	1,139
Margin from receiving deposits	360	47	86	18	72	17	-	600
Other	65	2	23	17	78	(114)	216	287
Total	916	49	277	115	462	(9)	216	2,026

D. Information regarding geographic regions(4)

	Profit for the year ended December 31, 2007(5)	Net profit for the year ended December 31, 2007	Average total balance Assets for 2007
Israel	3,214	993	88,844
Outside of Israel	2	(85)	5,200
Total	3,216	908	94,044

(4) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.
(5) Includes operating profit from financing operations before provision for doubtful debts and other operating profit.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

For the Year Ended December 31, 2006

Reported amounts (NIS in millions)

B. Information regarding operating segments (continued)

	Household[(1)]	Private banking	Small business	Commercial banking	Business banking	Financial management[(1)]	Total
Profit (loss) from financing operations before provision for doubtful debts							
From outside operating segments	814	(562)	452	211	883	189	1,987
Inter-segment	(17)	751	(16)	(139)	(393)	(186)	-
Profit from financing operations before provision for doubtful debts	797	189	436	72	490	3	1,987
Operating and other revenues	610	140	329	24	79	33	1,215
Total profit	1,407	329	765	96	569	36	3,202
Provision for doubtful debts	174	-	65	6	60	-	305
Operating and other expenses							
From outside operating segments	1,849	72	53	3	112	28	2,117
Inter-segment	(922)	206	553	53	110	-	-
Other operating expenses - total	927	278	606	56	222	28	2,117
Operating profit (loss) before taxes	306	51	94	34	287	8	780
Provision for taxes on operating profit	148	19	38	14	131	(1)	349
After-tax operating profit (loss)	158	32	56	20	156	9	431
Share in net, after-tax operating loss of investees	-	-	-	-	-	(4)	(4)
Net operating profit (loss)	158	32	56	20	156	5	427
Net after-tax profit from extraordinary items	72	33	23	-	3	85	216
Net profit	230	65	79	20	159	90	643
Return on equity	11.3%	76.7%	13.3%	11.1%	10.0%	19.7%	-
Average balance of assets	38,437	2,498	7,018	2,916	15,793	21,482	88,144
Average balance of liabilities	31,261	17,115	14,919	914	7,684	11,306	83,199
Average balance of risk assets[(2)]	30,571	1,272	8,880	2,700	23,774	6,828	74,025
Average balance of provident and mutual fund assets	7,439	3,490	2,361	41	341	66	13,738
Average balance of securities	1,956	7,392	43,106	4,797	14,281	-	71,532
Average balance of other assets managed	17,442	12	138	137	216	74	18,019

(1) Re-statement of profit (loss) from financing operations before provision for doubtful debts included in the 2007 financial statements in respect of the year.
(2) Includes off-balance-sheet balances, as computed for capital adequacy.

Note 31 - Operating Segments and Geographic Regions - Consolidated (continued)

For the Year Ended December 31, 2006

Reported amounts (NIS in millions)

B. Information regarding operating segments (continued)

	For the Year Ended December 31, 2006	
	Household	Financial management
In financial statements for the year ended December 31, 2007	832	(32)
Restatement	(35)	35
In these financial statements	797	3

C. Information on profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total
Margin from credit granting operations	590	54	275	61	325	-	1,305
Margin from receiving deposits	181	118	118	5	42	-	464
Other	26	17	43	6	123	3	218
Total	797	189	436	72	490	3	1,987

D. Information regarding geographic regions(3)

	Profit for the year ended December 31, 2006(4)	Net profit for the year ended December 31, 2006	Average total balance Assets for 2006
Israel	3,153	621	83,941
Outside of Israel	49	22	4,203
Total	3,202	643	88,144

(3) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.

(4) Includes operating profit from financing operations before provision for doubtful debts and other operating profit.

Note 32 - Information Based on Nominal Data - the Bank

(NIS in millions)

	As of December 31	
	2008	2007
Total assets	102,144	93,849
Total liabilities	96,432	88,543
Total shareholders' equity	5,712	5,306

	For the year ended December 31		
	2008	2007	2006
Nominal net profit	614	947	654