Contents

Summary Board of Directors' Report
For Financial Statements as of March 31, 2008

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on May 26, 2008, 21 Iyar 5768, it was resolved to approve and publish the consolidated Board of Directors' report and the financial statements of Mizrahi Tefahot Bank Ltd. and its investees as at March 31, 2008.
The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

General environment and impact of external factors on Bank operations

Developments in Israel's economy in Q1 of 2008

Real Developments

Economic indicators in Q1 of 2008 indicate continued expansion of the economy, although at lower rates than in recent years.
In Q1 of 2008, the Combined Economy Index rose at an annual rate of 4.9%, compared to 8.5% in the previous quarter and to 8.2% in all of 2007. The trend line for revenues of trade and services in the period from December 2007 to February 2008 show a 2.8% annualized growth, following a 2.5% growth in the previous three months. These rates are relatively low, compared to the 6% growth in 2007. The trend line for export of goods indicates an annual growth rate of 15.8% in Q1, following 26.3% in the previous quarter.
Growth of exports of high-tech and mixed high-tech industry appears to have slowed. These account for 70% of all industrial exports. The trend line for industrial output in the period from December 2007 to February 2008 indicate a more moderate growth rate at a 3.7% annualized rate, following a 6.9% growth in the previous three months.

According to trend line data, the unemployment rate in the first two months of 2008 continued to decline, reaching 6.5% - compared to 6.7% in the final quarter of 2007 and 7.8% in Q1 of 2007.

Inflation and exchange rates

In Q1 of 2008, the Consumer Price Index rose by 0.1%, compared to a 0.2% decline in the same period last year. The major changes were rising prices of food, including fruits and vegetables, offset by declining prices of housing, clothing and shoes.

Subsequent to the balance sheet date, the Consumer Price Index for April 2008 increased by 1.5%.

In Q1 of 2008, the NIS / USD exchange rate was revalued by 7.6%, with the NIS being revalued by 0.7% vs. the Euro. The exchange rate as of March 31, 2008 was NIS 3.553 per USD, compared to NIS 3.846 per USD on December 31, 2007. During March 2008, the NIS/USD exchange rate declined to 3.377, the lowest rate of the past decade, but following the Bank of Israel's announcement of its plan to acquire foreign currency equivalent to up to NIS 10 billion within 2 years, the trend changed with the NIS being devalued through the end of the month. This trend was later on reversed, and the NIS/USD exchange rate in early May was at NIS 3.424 per USD.

The NIS/EUR exchange rate on March 31, 2008 was NIS 5.617 per Euro, compared with NIS 5.659 per Euro at the end of 2007. In early May, the Euro exchange rate was at NIS 5.315.

Monetary and fiscal policy

In view of fears of a slower growth rate of the economy, and the revalued NIS vs. the USD, the Bank of Israel reduced interest rates for its sources in Q1 of 2008, on two occasions, by a total of 1 percentage point, with interest for April being 3.25% per annum, compared to 4.25% in January 2008. In Q1 of 2008, domestic government budget recorded a NIS 6.5 billion surplus, compared to a NIS 7.5 surplus in the same period last year. The surplus is due to low seasonal expenditure on the budget expense side, while revenues matched the planned budget.

Residential construction and the mortgage market

Based on trend line data published by the Central Bureau of Statistics, Q1 of 2008 showed a decline in sales of new apartments by private developers (which account for 25% of total transactions), in comparison to both the same quarter last year and to the final quarter of 2007. The unsold inventory of apartments from private developers is declining, and in March 2008 was 33% lower than in the same period last year. According to estimates by the Central Bureau of Statistics, investment in residential construction rose slightly in 2007 over 2006.

The volume of mortgages granted in Q1 of 2008, excluding refinancing, was slightly lower than in Q4 of 2007, but significantly higher than in the same period last year. In Q1 of 2008, the extent of arrears and share of arrears out of the balance of outstanding residential loans declined somewhat.

Capital market

Q1 of 2008 showed global uncertainty and signs of sharper economic slow-down around the world.

Equity market – the major equity indices in the domestic market ended the quarter in negative territory, similar to global trends, against the backdrop of continued fighting in the South of Israel – which contributed to the negative sentiment. The Tel Aviv 25 Index and the Tel Aviv 100 Index declined in the first quarter by 18.1% and 19.6%, respectively. The Real Estate 15 and Tel-Tech 15 indices recorded even sharper declines, ending the quarter lower by 33.4% and 30.5%, respectively. The average daily trading volume in equity and convertible securities amounted in Q1 to NIS 2.2 billion – a 6% growth over the average daily volume in 2007. Against the back-drop of the market crisis, public offerings declined in Q1, with a total of NIS 8.6 billion raised in this quarter. This compares with NIS 13.9 billion raised in the same period last year, and NIS 13.2 billion raised in Q4 of 2007.

The bond market saw the general bond index, the linked bond index and the non-linked bond index rise by 1.53%, 2.10% and 2.23%, respectively. In total, the business sector raised from the public and from institutional investors in Q1 a total of NIS 12.1 billion using debentures. The average daily trading volume in bonds amounted to NIS 4.1 billion – a 25% growth over the average daily volume in 2007.

Global economy

In Q1 of 2008, the slow-down in the US market worsened, following the credit crisis which started in the second half of 2007. By initial estimates, the GDP growth rate in the USA in this quarter amounted to an annualized 0.6%, following a similar rate in Q4 of 2007 and compared to 2.2% for all of 2007. The unemployment rate in the USA in March reached 5.1% (4.6% in 2007). In the UK, growth rate in Q1 amounted to an annualized

1.7% - the lowest rate since Q1 of 2005. The International Monetary Fund lowered in April its forecast for global growth in 2008 to 3.7% (vs. 4.8% in the previous forecast). The growth forecast for the USA was lowered to 0.5% (1.9% in the previous forecast), and in the Euro Zone – to 1.4% (2.1% in the previous forecast).

The major global economies (USA, Euro Zone and Japan) saw increased inflationary pressure, primarily due to rising commodity prices, mainly prices of food and energy. Oil prices reached $120 a barrel. The rate of inflation for the trailing 12 months reached, in March 2008, 4.0% in the USA and 3.6% in the Euro Zone.

In view of the slow-down, and despite inflationary pressures in the USA, the US Federal Reserve Bank lowered interest rates in Q1 of 2008 by a total of 2 percentage points. In April the interest was lowered by a further 0.25%, with the interest rate for May being 2.00% per annum.

As the extent of the sub-prime crisis became clearer, with slower growth in the USA, rising prices of oil and commodities and the fear of the impact these would have on the global economy, following the instability in financial and capital markets around the world in the second half of 2007 – Q1 of 2008 saw declines in the leading equity indices around the world. The Dow Jones Industrials, NASDAQ and S&P 500 indices declined in this quarter by 7.6%, 14.1% and 9.9%, respectively; the DJ EuroSTOXX, CAC, DAX and FTSE 100 indices declined in this quarter by 17.5%, 16.2%, 19.0% and 11.7%, respectively. The Nikkei index declined by 20% in the same period.

In the period from the end of Q1 of 2008 through the publication date of these financial statements, leading indices recorded gains which offset some of the declines – but the volatility in the markets continued.

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 in Israel and abroad, 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.

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 10%, the Bank would distribute annually dividends equal to 40% of net operating income and 80% of net income from extraordinary items.

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). We emphasize that these rates include the cost associated with acquisition of control of Bank Yahav and establishing the Group from a multi-brand viewpoint.

The Bank has based the 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.

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.

Significant events in the Bank Group's 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, the parties signed an addendum to the agreement, which stipulates that the Bank is to pay NIS 371 million, plus NIS 48 million for the increase in Bank Yahav equity following sale of the provident funds, and subject to possible adjustments due to dividend distribution. Furthermore, the transaction closing date was set at June 27, 2008. Closing of this transaction is contingent on several suspensive conditions set forth in the agreement.

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

See Note 8 to the financial statements for additional information.

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 ("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 9 to the financial statements for additional 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.

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 above under 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. See Note 10 to the financial statements for additional information.

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. See Note 7 to the financial statements for details.

Transactions in Bank shares

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.

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.

Arrest 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 contrast to Bank procedures and to his obligations to the Bank.

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

Letter from the Restrictive Trade Practices Authority

On March 19, 2008, a letter was received from the Restrictive Trade Practices Authority 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, no later than June 5, 2008.

The Bank will review the material relevant to the hearing and would present its arguments to the Supervisor. The Bank is unable, at this stage, to estimate the impact of the Supervisor exercising her statutory authority, should she decide to do so.

Dividends

Below are details of dividends distributed and declared 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 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 (1)	33.78	75 (declared)

(1) On May 19, 2008, the Bank Board of Directors decided to pay a dividend amounting to NIS 75 million, or 337.8% of the issued capital, i.e. NIS 0.3378 per each share of NIS 0.1 par value. The effective date for dividend payment is May 26, 2008; the ex-dividend date is May 27, 2008 and the payment date is June 11, 2008.

Profit and Profitability

Net income for the Group in Q1 of 2008 amounted to NIS 180 million, compared to NIS 370 million in the same period last year.

Operating net income in Q1 of 2008 amounted to NIS 180 million, compared to NIS 163 million in the same period last year – a 10.4% growth. This income reflects an annualized 13.5% return on equity, compared to 13.3% in the same period last year and to 12.9% in all of 2007.

The following major factors contributed to growth in Group operating income in Q1 of 2008 over the same period last year:

- Income from financing operations before provision for doubtful debt, excluding provision for impairment of a non-temporary nature of NIS 19 million, for Bank investments in leveraged funds, grew by NIS 101 million.

The following key factors moderated growth in Group income from current operations:

- Increase of NIS 10 million in provision for doubtful debt and other credit instruments. This increase is primarily due to a NIS 19 million provision for impairment of Bank investments in leveraged funds. As of March 31, 2008, the Bank has made provisions for impairment for investments in instruments directly or indirectly exposed to the US mortgage market, or in leveraged funds equal to the entire amount of these investments (out of an original investment amounting to NIS 157 million, or US $35 million).
- Decrease of NIS 45 million in operating and other revenues, due to a dividend amounting to NIS 36 million received for shares in Q1 of last year and not received this quarter, as well as loss of management fee revenues from provident funds amounting to NIS 22 million, due to sale of provident fund operations. Excluding these items, operating revenues in Q1 of 2008 grew by NIS 13 million over the same period last year.

- Increase of NIS 19 million in salary and benefits. The expense doe salaries has been increased in support of the growth in the Bank's business operations, primarily its expansion in the retail area. For details, see below under analysis of salary and benefits.
- Increase of NIS 19 million in salary and benefit expenses, primarily due to continued growth in business operations, specifically in the retail banking segment, while expanding the customer base. In order to support these developments, the Bank has conducted a close review of both branch layout and alignment of headcount with the growth rate of operations over time. As a result of the standardization process, the Bank recruited through the end of Q1 270 new employees, who were mostly assigned to branches, for staffing points of sale and new branches, and to continue improvement of quality of service and marketing capacity at existing branches. Some of the new employees were assigned to the call center – which is a major factor in new customer recruitment operations and in ongoing service to existing and new customers. This process has been completed.
- Increase of NIS 15 million in operating expenses other than salary and benefits. Note that operating and other expenses in Q1 of 2007 were low relative to the annual average, hence these expenses did not effectively grow in Q1 of 2008.

Q1 of last year included income from extraordinary items of NIS 207 million, primarily for sale of the Bank's provident fund operations.

Development of revenues and expenses

Group income from financing operations before provision for doubtful debt in Q1 of 2008 amounted to NIS 549 million, compared with NIS 467 million in the same period last year - an increase of 17.6%.

Below is an analysis of development of major items for income from financing operations in Q1 of 2008 (NIS in millions):

	First Quarter		
	2008	2007	Rate of change
Current operations	**520**	**476**	**9.2%**
Income from interest on problem loans	40	40	-
Income (loss) from realization and impairment of debentures held for sale and debentures held for trading, net (1)	(5)	2	-
Effect of accounting treatment of derivatives at fair value and others (2)	(6)	(51)	-
Total	**549**	**467**	**17.6%**

(1) Includes a provision for impairment of a non-temporary nature amounting to NIS 19 million, for Bank investments in leveraged funds.

(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 income by major operating segments of the Group (NIS in millions)(1):

	First Quarter		
Operating segment	2008	[(2)] 2007	Rate of change
Household			
Mortgages	98	91	7.7%
Other	140	131	6.9%
Private banking	10	7	42.9%
Small business	76	65	16.9%
Commercial banking	39	26	50.0%
Business banking	126	107	17.8%
International operations	[(3)] (14)	26	-
Financial management	74	14	-
Total	549	467	17.6%

(1) For definition of operating segments, see below the chapter on "Bank Group Operating Segments".

(2) Reclassified.

(3) Includes a provision amounting to NIS 19 million for impairment of a non-temporary nature of Bank investment in leveraged funds, as well as expenses amounting to NIS 31 million for investment in credit derivatives, the change in whose market value is recognized in profit & loss.

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

	First 3 months		Rate of change
Linkage segments	2008	2007	
Israeli currency - non-linked	70,356	[(1)] 55,129	27.6%
Israeli currency - linked to the CPI	39,988	38,199	4.7%
Foreign currency (including Israeli currency linked to foreign currency) (2)	60,922	59,621	2.2%
Total	171,266	152,949	12.0%

(1) Reclassified.

(2) Local operations and overseas affiliates.

The increase in the average balance of financial assets in the unlinked shekel sector is explained mainly by the significant growth in the volume of activity in derivative instruments.

Interest differentials in the various linkage segments (in %) (including impact of derivatives) are as follows:

Linkage segments	First 3 months	
	2008	2007
Israeli currency - non-linked	1.58%	1.88%
Israeli currency - linked to the CPI	0.50%	0.40%
Foreign currency (including Israeli currency linked to foreign currency) (1)	0.68%	0.03%
Total including impact of derivatives	0.98%	0.84%
Total excluding impact of derivatives	2.34%	1.06%

(1) Local operations and overseas affiliates.

Data with regard to revenue and expense rates of bank operations as well as the financial margin represented by the interest differentials are presented under Management Discussion.

Group provision for doubtful debt in Q1 of 2008 amounted to NIS 41 million, compared to NIS 50 million in the same period last year – an 18.0% decrease, due to a decrease in specific provisions for problem borrowers.

Total provisions for doubtful debt and other credit instruments increased by NIS 10 million, due to a NIS 19 million provision for impairment of Bank investments in leveraged funds in the USA.

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

	First Quarter	
	2008	2007
Specific provision:		
By extent of arrears	2	(1)1
Other	31	(1)53
Total specific provision	33	54
General and additional provision	8	(4)
Total	41	50
Rate of provision for doubtful debt to total credit to the public	0.22%	0.28%

(1) Reclassified.

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

	First Quarter		
Operating segment	2008	(1)2007	Rate of chang
Household			
Mortgages	2	4	(50.0%)
Other	10	12	(16.7%)
Small business	15	17	(11.8%)
Business banking	15	17	(11.8%)
International operations	(1)	-	-
Total	41	50	(18.0%)

(1) Re-classified.

The balance of the general and supplementary provision for doubtful debt on the Group's balance sheet amounted to NIS 180 million as of March 31, 2008, compared with NIS 172 million as of December 31, 2007.

Group income from financing operations after provision for doubtful debt in Q1 of 2008 amounted to NIS 508 million, compared with NIS 417 million in the same period last year a 21.8% growth.

Total operating and other income for the Group in Q1 of 2008 amounted to NIS 283 million, compared to NIS 328 million in the same period last year - a 13.7% decline.

Income from operating commissions for the Group was NIS 256 million in Q1 of 2008, compared with NIS 253 million in the same period last year - a 1.2% growth.

Net income from equity investments in Q1 of 2008 amounted to NIS 8 million, compared to NIS 38 million in the same period last year. Most of the income last year is due to a dividend received from an equity investment.

Other revenues for the Group amounted to NIS 19 million in Q1 of 2008, compared with NIS 37 million in the same period last year - a 48.6% decline. This decline is due to loss of management fee revenues amounting to NIS 22 million from provident funds due to sold operations.

Operating and other expenses for the Group amounted to NIS 501 million in Q1 of 2008, compared with NIS 467 million in the same period last year - a 7.3% growth.

Salary and benefits for the Group amounted to NIS 312 million in Q1 of 2008, compared with NIS 293 million in the same period last year - a 6.5% growth.
The Bank continued to expand its business operations, and specifically the retail banking segment, while increasing the number of Bank customer.
In order to support these development, the Bank has reviewed both its branch layout and its headcount in view of actual growth rates over time. As a direct outcome of this process, the Bank recruited 270 new employees by the end of Q1 of 2008, mostly for branches – staffing new points of sale and branches, and improving service and marketing capacity at existing branches. Some of the new employees were assigned to the call center, which plays a major role in customer recruitment operations as well as in providing on-going service to existing and new customers. This process has been completed.
Excluding the impact of cost of expanded operations and a temporary NIS 2 million increase in provision for paid leave, the increase in salaries and benefits only amounted to 2.4%.

Maintenance and depreciation expenses for buildings and equipment amounted in Q1 of 2008 to NIS 104 million, compared to NIS 100 million in the same period last year

– a 4.0% growth, primarily due to increase in depreciation expenses for buildings and equipment.

Other operating expenses for the Group in Q1 of 2008 amounted to NIS 85 million, compared to NIS 74 million in the same period last year. Note that operating and other expenses in Q1 of 2007 were low relative to the annual average, so that in face there was no increase in these expenses in Q1 of 2008.

As a result of developments in income and expenses, there were changes in the financial ratios, as follows:

	First Quarter		
	2008	2007	All of 2007
Operational Coverage Ratio (1)	56.5%	70.2%	61.4%
Cost-Income Ratio(2)	60.2%	58.7%	60.3%
Excluding extraordinary changes in income and expenses(3):			
Operational Coverage Ratio (1)	54.1%	63.0%	57.6%
Cost-Income Ratio(2)	59.7%	61.4%	59.5%

(1) Total operating and other income to total operating and other expenses.

(2) Total operating and other expenses to total operating and financing income before provision for doubtful debt.

(3) Management / operation fees from provident funds, provision for impairment of investment in securities and distribution commissions for mutual funds.

Pre-tax operating income for the Group amounted to NIS 290 million in Q1 of 2008, compared with NIS 278 million in the same period last year - a 4.3% growth.

Provision for taxes on operating income amounted to NIS 110 million in Q1 of 2008, compared with NIS 115 million in the same period last year, a decrease of 4.3%. The decrease is primarily due to impact of the Adjustment Act because of the negative change in CPI in Q1 of 2007.

For details of rescinding of the Adjustment Act, see below under "Restrictions on and Regulation of Bank Group Operations".

Operating net income in Q1 of 2008 amounted to NIS 180 million, compared to NIS 163 million in the same period last year – a 10.4% growth.

After-tax income from extraordinary items for the Group in Q1 of last year amounted to NIS 207 million, 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 %):

	First Quarter		All of
	2008	2007	2007
From current operations	13.5	13.3	12.9
Net income	13.5	32.1	17.2

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in reporting of income 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.

Earnings per share

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

	First Quarter		All of
	2008	2007	2007
Basic earnings per share:			
From current operations	0.81	0.74	3.08
From net profit	0.81	1.69	4.11
Diluted earnings per share:			
From current operations	0.80	0.73	3.03
From net profit	0.80	1.65	4.04

Development of balance sheet items

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

	March 31		December 31	Change compared to	
				March 31	December 31,
	2008	2007	2007	2007	2007
Balance sheet total	94,690	95,747	95,317	(1.1%)	(0.7%)
Credit to the public	75,117	71,452	74,320	5.1%	1.1%
Deposits from the public	73,237	75,250	75,290	(2.7%)	(2.7%)
Securities	4,096	6,894	6,145	(40.6%)	(33.3%)
Shareholders' equity	5,621	5,427	5,557	3.6%	1.2%

Loans to the public - Loans to the public in the consolidated balance sheet as of March 31, 2008 accounted for 79% of total assets, compared with 78% at the end of 2007. The Group's loans to the public increased in the first three months of 2008 by NIS 797 million, a 1.1% increase. Excluding impact of the NIS revaluation, credit volume increased by 2.1% in the first 3 months of 2008.

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

Linkage segment	Balance as of		
	March 31, 2008	December 31, 2007	Change in %
Israeli currency			
Non-linked	29,745	27,911	6.6%
CPI- linked	33,422	33,586	(0.5%)
Foreign currency and foreign currency linked	11,950	12,823	(1) (6.8%)
Total	75,117	74,320	1.1%

(1) Excluding impact of NIS revaluation, only a 0.7% decrease.

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

	Balance as of 31 March		As of December 31	Change compared to	
				March 31	December 31
Operating segment	2008	2007	2007	2007	2007
Household					
Mortgage	37,140	33,469	35,795	11.0%	3.8%
Other	7,779	7,497	7,808	3.8%	(0.4%)
Small Business	4,746	4,960	4,806	(4.3%)	(1.2%)
Commercial banking	4,139	3,742	4,087	10.6%	1.3%
Business banking	17,124	18,345	17,412	(6.7%)	(1.7%)
International operations	4,189	3,439	4,412	21.8%	(5.1%)
Total	75,117	71,452	74,320	5.1%	1.1%

Total Group credit risk for problem loans (NIS in million):

		March 31	December 31
	2008	2007	2007
Non-accrual debt	920	908	934
Rescheduled debt	215	301	185
Debt designated for rescheduling	14	35	2
Debt in temporary arrears	962	1,129	1,027
Includes: for housing loans	582	633	615
Debt under special supervision	1,607	(1) 1,868	(1) 1,582
Includes: Debt for which there is a specific provision	102	129	120
Includes: Housing loans for which there is a provision based on length of arrears	655	(1) 702	(1) 670
Total balance sheet credit to problem borrowers	3,718	4,241	3,730
Off-balance sheet credit to problem borrowers	597	531	616
Total credit risk for problem borrowers	4,315	4,772	4,346

(1) Reclassified.

Securities – the balance of investment in securities decreased in Q1 of 2008 by 33.3%, due to liquidation of investments in securities in conjunction with management of assets and liabilities.

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

	Balance as of 31 March		As of December 31	Change compared to	
				March 31	December 31
Linkage segment	2008	2007	2007	2007	2007
Israeli currency					
CPI- linked	247	1,543	1,207	(84.0%)	(79.5%)
Non-linked	513	1,496	1,742	(65.7%)	(70.6%)
Foreign currency denominated (Includes linked to foreign currency)	2,931	3,461	2,797	(15.3%)	4.8%
Non-monetary items	405	394	399	2.8%	1.5%
Total	4,096	6,894	6,145	(40.6%)	(33.3%)

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

	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities held for sale:				
Debentures of the Government of Israel	2,206	20	20	2,206
Foreign government debentures	40	-	-	40
Bank debentures	1,066	-	43	1,023
Corporate debentures	217	1	2	216
Asset-backed debentures	155	-	44	111
Other stocks	336	69	-	405
Total securities held for sale	4,020	90	109	4,001
Securities held for trading:				
Government of Israel debentures	94	-	-	94
of others	1	-	-	1
Total securities	4,115	90	109	4,096

Deposits from the public - these account for -77.3% of total consolidated balance sheet as of March 31, 2008, compared with 79.0% at the end of 2007.

In the first three months of 2008, deposits from the public with the Bank Group declined by NIS 2.1 billion – a 2.7% decline. Excluding impact of NIS revaluation, the decrease in deposits from the public was 1.1%.

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

	Balance as of 31 March		As of December 31	Change compared to	
				March 31	December 31
Linkage segment	2008	2007	2007	2007	2007
Israeli currency					
Non-linked	34,666	35,843	36,125	3.3%	(4.0%)
CPI- linked	19,907	20,067	20,020	(0.8%)	(0.6%)
Foreign currency and foreign currency linked	18,664	19,340	19,145	(3.5%)	(1) (2.5%)
Total	73,237	75,250	75,290	(2.7%)	(2.7%)

(1) Excluding impact of NIS revaluation, only a 3.8% increase.

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

	Balance as of 31 March		As of December 31	Change compared to	
				March 31	December 31
Operating segment	2008	2007	2007	2007	2007
Household	31,660	31,123	30,731	1.7%	3.0%
Private banking	2,495	1,882	2,204	32.6%	13.2%
Small business	10,994	9,256	11,106	18.8%	(1.0%)
Commercial banking	1,992	1,869	2,432	6.6%	(18.1%)
Business banking	10,656	11,559	10,753	(7.8%)	(0.9%)
International operations	5,391	5,644	(1) 5,481	(4.5%)	(1.6%)
Financial management	10,049	13,917	(1) 12,583	(27.8%)	(20.1%)
Total	73,237	75,250	75,290	(2.7%)	(2.7%)

(1) Reclassified.

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. Changes to capital reserve in the first 3 months of 2008, less applicable taxes, decreased by NIS 38 million. Shareholders' equity as of March 31, 2008 includes a negative capital reserve of NIS 11 million, due to adjustment of securities held for sale to fair value, after applicable taxes.

The ratio of shareholders' equity to balance sheet total for the Group as of March 31, 2008 amounted to 5.94%, compared to 5.83% 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:

	March 31, 2008	December 31, 2007
Ratio of Tier I capital to risk elements	6.66%	6.69%
Ratio of total capital to risk elements	11.28%	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 March 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 March 31, 2008, is 0.42%.

The balance of complex capital notes and subordinated notes for Group capital adequacy, as of March 31, 2008, amounts to NIS 3,765 million, compared to NIS 3,710 million at the end of 2007. These amounts include complex capital notes listed for trading, amounting to NIS 966 million.

Main Investees

The contribution of investees to net operating profit amounted to NIS 22 million in Q1 of 2008, compared with NIS 17 million in the same period last year.

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

Bank Adanim is a private company, wholly-owned by the Bank. **Bank Adanim's contribution to Group net income** in Q1 of 2008 amounted to NIS 7 million, compared to NIS 6 million in the same period last year. Net income return on equity (average equity, as defined in the Supervisor of Banks' Public Reporting Regulations) amounted in Q1 of 2008 to 9.4%, compared to a 9.7% return in the same period last year. Bank Adanim's balance sheet total as of March 31, 2008 amounted to NIS 4,140 million, compared to NIS 4,038 million as of December 31, 2007. The balance of credit to the public as of March 31, 2008 amounted to NIS 4,049 million, compared to NIS 3,933 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.

Tefahot Insurance’s contribution to group net income in Q1 of 2008 amounted to NIS 11 million, compared to NIS 9 million in the same period last year - a 22% growth.
The net income return on equity in Q1 of 2008 amounted to 14.3%, compared to 14.6% in the same period last year.

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.

Net profit of Mizrahi Bank Switzerland in Q1 of 2008 amounted to CHF 0.9 million, compared to CHF 0.8 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of March 31, 2008 amounted to CHF 132 million, compared to CHF 141 million at the end of 2007.

Total credit to the public as of March 31, 2008 amounted to CHF 75 million, compared to CHF 86 million at end of 2007; total deposits at banks as of March 31, 2008 amounted to CHF 37 million, compared to CHF 35 million at end of 2007. Total deposits from the public as of March 31, 2008 amounted to CHF 46 million, compared to CHF 35 million at end of 2007; total deposits from banks as of March 31, 2008 amounted to CHF 39 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 Mizrahi Bank Switzerland, to Group net profit Group in Q1 of 2008, was NIS 3.5 million, compared with a loss of NIS 0.8 million in the same period last year.

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 95% 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 March 31, 2008 amounted to NIS 329 million, compared to NIS 410 million at end of 2007.
These investments include NIS 308 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 297 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.

Bank net revenues from dividends and capital gains from non-banking corporations in Q1 of 2008 amounted to NIS 7 million, compared to NIS 38 million in the same period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

The Bank manages its operations in seven 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 seven 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, which provides segment household customers with appropriate banking services and financial products, including mortgages.

Small business segment - under responsibility of the Retail Division, which provides segment customers - small businesses - with banking services and financial products, including commercial banking services appropriate for their needs.

Private banking - under responsibility of the Retail Division. This segment includes customers with 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 – under responsibility of the Business Banking Division, including the business sector, the construction and real estate sector and the corporate sector, which divide among themselves the servicing of business customers, depending on the amount of their debt, turnover and nature of their activities; The commercial banking segment includes mainly operations vis-à-vis medium-sized private and public companies (middle market), which are characterized by medium-sized indebtedness, highly scattered among different economic sectors.

Business banking - with this segment, the Business Division provides a range of banking and financial services to the largest corporations, in a range of sectors, having relatively high indebtedness. This segment also includes the banking services group for major customers in the construction and real estate sector.

International operations – operations in this segment include international operations in the Bank's overseas branches as well as operations vis-à-vis foreign resident customers at tourist banking centers in Jerusalem and Tel Aviv. International operations are currently presented separately; when international operations is included in the measuring system, during 2008, its results would be attributed to the different segments.

Financial management - operations in this segment include, *inter alia*, 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. 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 a checking account, a current loan account, different kinds of credit and guarantees, 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 (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.

For further details, *inter alia*, with regard to division into operating segments and the principles used for attributing balances, revenues and expenses to customers in the system – see Note 30 to the financial statements as of December 31, 2007.

Note that 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 included under the financial management segment.

Appendix 5 to the financial statements includes a reporting of Bank Group business results by operating segment.

Summary of financial results of operating sectors, as defined by the Bank, (reported amounts, NIS in millions) are as follows:

Profitability

	Net operating profit in Q1		Net profit in Q1		Return on equity (in %) in Q1	
	2008	2007(1)	2008	2007(1)	2008	2007
Household						
Mortgages	69	62	69	62	14.9	15.5
Other	21	12	21	124	18.4	164.2
Private banking	5	5	5	52	-	-
Small business	6	4	6	39	8.8	61.4
Commercial banking	15	7	15	7	22.9	11.8
Business banking	54	60	54	65	12.8	16.1
International operations	(14)	7	(14)	7	(20.8)	14.5
Financial management	24	6	24	14	16.2	10.8
Total	180	163	180	370	13.5	32.1

(1) Re-classified.

Below are Bank Group operating results by operating segment

Results of Households Segment

	For the Quarter ended March 31, 2008					For the Quarter ended March 31, 2007[1]				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mort-gages	Total
	NIS in millions					NIS in millions				
Profit (loss) from financing operations before provision for doubtful debts										
From outside operating segments	(136)	4	4	419	291	(56)	3	6	303	256
Inter-segment	271	(3)	-	(321)	(53)	181	(3)	-	(212)	(34)
Income from financing operations before provision for doubtful debt	135	1	4	98	238	125	-	6	91	222
Operating and other revenues	51	18	22	65	156	44	16	22	65	147
Total income	186	19	26	163	394	169	16	28	156	369
Provision for doubtful debt	10	-	-	2	12	12	-	-	4	16
Operating and other expenses										
From outside operating segments	186	14	11	49	260	189	5	11	47	252
Inter-segment	(23)	(2)	-	-	(25)	(25)	(1)	-	-	(26)
Total operating and other expenses	163	12	11	49	235	164	4	11	47	226
Operating profit (loss) before taxes	13	7	15	112	147	(7)	12	17	105	127
Provision for taxes on operating income	5	3	6	43	57	(2)	5	7	43	53
After-tax operating income (loss)	8	4	9	69	90	(5)	7	10	62	74
Net after-tax income from extraordinary items	-	-	-	-	-	-	-	112	-	112
Net income (loss)	8	4	9	69	90	(5)	7	122	62	186
Return on equity					**15.6%**					**39.8%**
Average balance of assets	6,625	1,220	-	36,937	44,782	6,217	1,058	-	34,292	41,567
Average balance of liabilities	31,337	-	-	3,613	34,950	28,948	-	-	3,438	32,386
Average balance of risk assets	7,257	-	-	29,120	36,377	6,751	-	-	25,047	31,798
Average balance of provident and mutual fund assets	-	-	-	-	-	-	-	-	-	-
Average balance of securities	-	-	12,917	-	12,917	-	-	20,064	-	20,064
Credit to the public (end balance)	6,403	1,376	-	37,140	44,919	6,265	1,232	-	33,469	40,966
Deposits from the public (end balance)	31,660	-	-	-	31,660	31,123	-	-	-	31,123
Average balance of other assets managed	158	-	-	16,794	16,952	177	-	-	16,913	17,090
Components of income from financing operations before provision for doubtful debt:										
Margin from credit granting operations	55	1	-	87	143	49	-	-	76	125
Margin from receiving deposits	78	-	-	-	78	71	-	-	-	71
Other	2	-	4	11	17	5	-	6	15	26
Total income from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**135**	**1**	**4**	**98**	**238**	**125**	**-**	**6**	**91**	**222**

(1) Re-classified.

Contribution of the household segment to Group operating profit in Q1 of 2008 grew by 21.6%, compared to its contribution in the same period last year. Profit from extraordinary items, amounting to NIS 112 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations.

Te increase in operating profit is due to an increase of NIS 7 million (11.3%), in current contribution of mortgage operations, and to an increase of NIS 9 million (75.0%) in contribution of other bank operations in households, including banking and finance, credit cards and capital market operations. The increase is primarily due to increased profit from financing operations and from commission revenues, and to a decrease in provision for doubtful debt, partially offset by an increase in operational expenses attributed to credit card operations.

In total, the household segment shows a 7.2% increase in profit from financing operations (8.0% in banking and finance, 7.7% in mortgages), a 25.0% decrease in provision for doubtful debt, and a 6.8% increase in operational revenues. Operational expenses for the segment increased by 4.0%, primarily for recruiting employees in support of the growth in the segment's business operations and expansion in the retail market.

Volume of mortgages granted by the segment are as follows:

	Loans issued (in NIS millions)		
	Q1 of		
	2008	2007	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	2,225	1,681	32.4%
From the Treasury's funds			
Directed loans	191	191	-
Standing loans and grants	63	49	28.6%
Management for others	-	9	(100.0%)
Total new loans	2,479	1,930	28.4%
Recycled loans	201	196	2.6%
Total loans issued	2,680	2,126	26.1%
Number of borrowers (includes recycled loans)	9,386	8,085	16.1%

For details of agreements between the Bank and the State of Israel with regard to providing loans to eligible borrowers, see Note 6 to the financial statements.

Results of Private Banking Segment

	For the Quarter ended March 31, 2008			For the Quarter ended March 31, 2007[(1)]		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Income from financing operations before provision for doubtful debt						
From outside operating segments	(64)	-	(64)	(18)	-	(18)
Inter-segment	74	-	74	25	-	25
Income from financing operations before provision for doubtful debt	10	-	10	7	-	7
Operating and other revenues	1	4	5	1	3	4
Total income	11	4	15	8	3	11
Operating and other expenses						
From outside operating segments	6	-	6	5	-	5
Inter-segment	-	-	-	(3)	-	(3)
Total operating and other expenses	6	-	6	2	-	2
Pre-tax operating income	5	4	9	6	3	9
Provision for taxes on operating income	2	2	4	2	2	4
After-tax operating income	3	2	5	4	1	5
Net after-tax income from extraordinary items	-	-	-	-	47	47
Net income	3	2	5	**4**	**48**	**52**
Return on equity			-			-
Average balance of assets	-	-	-	-	-	-
Average balance of liabilities	2,555	-	2,555	1,877	-	1,877
Average balance of risk assets	-	-	-	-	-	-
Average balance of provident and mutual fund assets	-	-	-	-	-	-
Average balance of securities	-	6,033	6,033	-	9,370	9,370
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	2,495	-	2,495	1,882	-	1,882
Average balance of other assets managed	-	-	-	-	-	-
Components of income from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	9	-	9	7	-	7
Other	1	-	1	-	-	-
Total income from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**10**	**-**	**10**	**7**	**-**	**7**

(1) Re-classified.

Contribution of the private banking segment to Group operating profit in Q1 of 2008 remained unchanged compared to its contribution in the same period last year. Profit from extraordinary items, amounting to NIS 47 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations.

In Q1 of 2008, the segment showed increased operations: The balance of deposits for the segment as of March 31, 2008 amounted to NIS 2.5 billion, compared to NIS 1.9 billion as of March 31, 2007. Therefore, profit from financing operations and operational revenues increased, accompanied by an increase in operational expenses.

Results of the Small Business Segment

	For the Quarter ended March 31, 2008				For the Quarter ended March 31, 2007[1]			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Income from financing operations before provision for doubtful debt:								
From outside operating segments	(24)	1	2	(21)	3	1	-	4
Inter-segment	98	(1)	-	97	62	(1)	-	61
Income from financing operations before provision for doubtful debt	74	-	2	76	65	-	-	65
Operating and other revenues	37	2	4	43	37	2	5	44
Total income	111	2	6	119	102	2	5	109
Provision for doubtful debt	15	-	-	15	17	-	-	17
Operating and other expenses								
From outside operating segments	102	-	1	103	94	-	1	95
Inter-segment	(10)	-	-	(10)	(11)	-	-	(11)
Total operating and other expenses	92	-	1	93	83	-	1	84
Operating profit (loss) before taxes	4	2	5	11	2	2	4	8
Provision for taxes on operating profit (loss)	2	1	2	5	1	1	2	4
After-tax operating income	2	1	3	6	1	1	2	4
Net after-tax income from extraordinary items	-	-	-	-	-	-	35	35
Net profit (loss)	**2**	**1**	**3**	**6**	**1**	**1**	**37**	**39**
Return on equity				**8.8%**				**61.4%**
Average balance of assets	4,804	35	-	4,839	4,970	31	-	5,001
Average balance of liabilities	11,095	-	-	11,095	8,728	-	-	8,728
Average balance of risk assets	4,204	-	-	4,204	4,582	-	-	4,582
Average balance of provident and mutual fund assets	-	-	-	-	-	-	-	-
Average balance of securities	-	-	11,213	11,213	-	-	17,417	17,417
Credit to the public (end balance)	4,710	36	-	4,746	4,926	34	-	4,960
Deposits from the public (end balance)	10,994	-	-	10,994	9,256	-	-	9,256
Average balance of other assets managed	162	-	-	162	186	-	-	186
Components of income from financing operations before provision for doubtful debt:								
Margin from credit granting operations	51	-	-	51	40	-	-	40
Margin from receiving deposits	19	-	-	19	19	-	-	19
Other	4	-	2	6	6	-	-	6
Total income from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**74**	**-**	**2**	**76**	**65**	**-**	**-**	**65**

(1) e-classified.

Contribution of the small business segment to Group operating profit in Q1 of 2008 grew by 50.0%, compared to its contribution in the same period last year. Profit from extraordinary items, amounting to NIS 35 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations.

In Q1 of 2008, the segment showed a decrease of 4.3% (NIS 0.2 billion) in credit operations, and a 18.8% increase in deposit operations (NIS 1.7 billion), compared to the same period last year. As a result, profit from financing operations in Q1 of 2008 grew by 16.9% compared to the same period last year. The provision for bad debt in the segment decreased in Q1 of 2008 by NIS 2 million compared to the same period last year. The main factor which moderated growth of segment contribution are the operational expenses attributed to the segment, which grew by 10.7% compared to the same period last year.

Results of the Commercial Banking Segment

	For the Quarter ended March 31, 2008				For the Quarter ended March 31, 2007[1]			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Income from financing operations before provision for doubtful debt								
From outside operating segments	60	-	-	60	39	-	-	39
Inter-segment	(21)	-	-	(21)	(13)	-	-	(13)
Income from financing operations before provision for doubtful debt	39	-	-	39	26	-	-	26
Operating and other revenues	10	1	2	13	10	1	1	12
Total income	49	1	2	52	36	1	1	38
Operating and other expenses								
From outside operating segments	16	-	-	16	17	-	1	18
Inter-segment	13	-	-	13	10	-	-	10
Total operating and other expenses	29	-	-	29	27	-	1	28
Pre-tax operating income	20	1	2	23	9	1	-	10
Provision for taxes on operating income	7	-	1	8	3	-	-	3
Operating profit after taxes	13	1	1	15	6	1	-	7
Net after-tax income from extraordinary items	-	-	-	-	-	-	-	-
Net income	**13**	**1**	**1**	**15**	**6**	**1**	**-**	**7**
Return on equity				**22.9%**				**11.8%**
Average balance of assets	4,191	-	-	4,191	3,665	-	-	3,665
Average balance of liabilities	2,068	-	-	2,068	1,983	-	-	1,983
Average balance of risk assets	4,239	-	-	4,239	3,689	-	-	3,689
Average balance of securities	-	-	2,024	2,024	-	-	1,971	1,971
Credit to the public (end balance)	4,139	-	-	4,139	3,742	-	-	3,742
Deposits from the public (end balance)	1,992	-	-	1,992	1,869	-	-	1,869
Average balance of other assets managed	20	-	-	20	49	-	-	49
Components of income from financing operations before provision for doubtful debt:								
Margin from credit granting operations	31	-	-	31	18	-	-	18
Margin from receiving deposits	5	-	-	5	4	-	-	4
Other	3	-	-	3	4	-	-	4
Total income from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**39**	**-**	**-**	**39**	**26**	**-**	**-**	**26**

(1) Re-classified.

Contribution of the commercial banking segment to Group profit in Q1 of 2008 increased by NIS 8 million, more than double the contribution in the same period last year. In Q1 of 2008, the segment showed increased operations:

The credit balance for the segment as of March 31, 2008 amounted to NIS 4.1 billion, compared to NIS 3.7 billion as of March 31, 2007, and the balance of deposits as of March 31, 2008 amounted to NIS 2.0 billion, compared to NIS 1.9 billion as of March 31, 2007. As a result, profit from financing operations in Q1 of 2008 grew by NIS 13 million (50%) compared to the same period last year. Other revenues and expenses showed no significant change in Q1 of 2008.

Results of the Business Banking Segment

	For the Quarter ended March 31, 2008				For the Quarter ended March 31, 2007(2)			
	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				NIS in millions			
Income from financing operations before provision for doubtful debt								
From outside operating segments	93	7	94	194	94	7	92	193
Inter-segment	(19)	-	(49)	(68)	(38)	-	(48)	(86)
Income from financing operations before provision for doubtful debt	74	7	45	126	56	7	44	107
Operating and other revenues	18	8	2	28	52	1	3	56
Total income	92	15	47	154	108	8	47	163
Provision for doubtful debt	3	-	12	15	5	-	12	17
Operating and other expenses								
From outside operating segments	27	-	8	35	24	-	9	33
Inter-segment	13	-	2	15	10	-	3	13
Total operating and other expenses	40	-	10	50	34	-	12	46
Pre-tax operating income	49	15	25	89	69	8	23	100
Provision for taxes on operating income	19	6	10	35	28	3	9	40
After-tax operating income	30	9	15	54	41	5	14	60
Net after-tax income from extraordinary items	-	-	-	-	-	5	-	5
Net income	**30**	**9**	**15**	**54**	**41**	**10**	**14**	**65**
Return on equity				**12.8%**				**16.1%**
Average balance of assets	12,427	-	6,308	18,735	11,162	-	5,960	17,122
Average balance of liabilities	11,052	-	1,128	12,180	9,214	-	941	10,155
Average balance of risk assets	15,035	-	11,369	26,404	13,714	-	11,823	25,537
Average balance of provident and mutual fund assets	-	-	-	-	-	-	-	-
Average balance of securities	-	36,579	-	36,579	-	32,130	-	32,130
Credit to the public (end balance)	11,467	-	5,657	17,124	13,226	-	5,119	18,345
Deposits from the public (end balance)	9,552	-	1,104	10,656	10,613	-	946	11,559
Average balance of other assets managed	8	-	164	172	5	-	78	83
Components of income from financing operations before provision for doubtful debt:								
Margin from credit granting operations	43	-	45	88	26	-	44	70
Margin from receiving deposits	15	-	-	15	15	-	-	15
Other	16	7	-	23	15	7	-	22
Total income from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**74**	**7**	**45**	**126**	**56**	**7**	**44**	**107**

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

(2) Re-classified.

Contribution of the banking segment to Group operating profit in Q1 of 2008 declined by NIS 6 million (10.0%), compared to its contribution in the same period last year. Excluding the effect of revenues amounting to NIS 36 million from dividends from equity investments received in the same period last year, contribution of the segment to operating profit this quarter grew by NIS 16 million (42.1%).

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.

The contribution of the construction and real estate segment in Q1 of 2008 grew by 7.1% over the same period last year, primarily due to a 2.3% increase in profit from financing operations and a 16.7% decrease in operational expenses, while maintaining the level of provision for doubtful debt.

Contribution from the banking and finance operations in the quarter declined by NIS 11 million (53.1%) over the same period last year. Excluding dividend revenues amounting to NIS 36 million in Q1 of 2007, the contribution of banking and finance grew by NIS 11 million (57.9%). Profit from financing operations grew by 32.1% over the same period last year, operating revenues (excluding dividend revenues last year) grew by 12.5%, and the provision for doubtful debt declined by NIS 2 million. On the other hand, operating expenses grew by 17.6%.

Results of International Operations

	For the Quarter ended March 31, 2008	For the Quarter ended March 31, 2007[(2)]
	Banking and finance	Banking and finance
	NIS in millions	NIS in millions
Profit (loss) from financing operations before provision for doubtful debt		
From outside operating segments	(32)	10
Inter-segment	18	16
Profit (loss) from financing operations before provision for doubtful debt	[(1)] (14)	26
Operating and other revenues	18	13
Total income	4	39
Provision for doubtful debt	(1)	-
Operating and other expenses		
From outside operating segments	29	25
Inter-segment	-	1
Total operating and other expenses	29	26
Operating profit (loss) before taxes	(24)	13
Provision for taxes on operating income	(10)	6
Net profit (loss)	**(14)**	**7**
Return on equity	**(20.8%)**	**14.5%**
Average balance of assets	6,461	4,616
Average balance of liabilities	5,910	5,229
Average balance of risk assets	3,686	3,042
Average balance of provident and mutual fund assets	-	-
Average balance of securities	716	677
Credit to the public (end balance)	4,189	3,439
Deposits from the public (end balance)	5,391	5,644
Average balance of other assets managed	-	-
Components of income from financing operations before provision for doubtful debt:		
Margin from credit granting operations	2	13
Margin from receiving deposits	2	13
Other	(18)	-
Total income from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**(14)**	**26**

(1) Includes a provision amounting to NIS 19 million for impairment of investment in asset-backed securities, as well as expenses amounting to NIS 31 million from a decrease in the fail value of investment in credit derivatives, recognized in profit & loss.

(2) Re-classified.

The contribution of international operations to Group profit in Q1 of 2008 amounted to a loss of NIS 14 million, compared to a profit of NIS 7 million in the same period last year. Results of international operations in Q1 of 2008 included expenses amounting to NIS 31 million from a decrease in the fair value of investments in various credit derivatives, which was recognized in profit & loss, as well as a provision for impairment of a non-temporary nature of investment in leveraged funds in the USA, amounting to NIS 19 million. Excluding the aforementioned items, the contribution to Group profit in Q1 of 2008 amounted to NIS 18 million, compared to NIS 7 million in the same period last year.

Growth in the contribution of international operations is composed of a NIS 10 million increase in current profit from financing operations, and from a NIS 5 million increase in operating revenues.

Financial Management Segment results

	For the Quarter ended March 31, 2008			For the Quarter ended March 31, 2007 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Income (loss) from financing operations before provision for doubtful debt						
From outside operating segments	119	2	121	(17)	-	(17)
Inter-segment	(47)	-	(47)	31	-	31
Income from financing operations before provision for doubtful debt	72	2	74	14	-	14
Operating and other revenues	17	3	20	38	14	52
Total income	89	5	94	52	14	66
Operating and other expenses						
From outside operating segments	49	3	52	36	3	39
Inter-segment	7	-	7	16	-	16
Total operating and other expenses	56	3	59	52	3	55
Pre-tax operating income	33	2	35	-	11	11
Provision for taxes on operating income	11	-	11	-	5	5
After-tax operating income	22	2	24	-	6	6
Net after-tax income from extraordinary items	-	-	-	8	-	8
Net income	**22**	**2**	**24**	**8**	**6**	**14**
Return on equity			**16.2%**			**10.8%**
Average balance of assets	16,141	-	16,141	17,350	-	17,350
Average balance of liabilities	20,740	-	20,740	23,883	-	23,833
Average balance of risk assets	8,859	-	8,859	8,025	-	8,025
Average balance of provident and mutual fund assets	45,485	-	45,485	42,298	-	42,298
Average balance of securities	-	24,192	24,192	-	674	674
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	10,049	-	10,049	13,917	-	13,917
Average balance of other assets managed	-	-	-	-	-	-
Components of income from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	72	2	74	14	-	14
Total income from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**72**	**2**	**74**	**14**	**-**	**14**

(1) Re-classified.

Contribution of the financial management segment to Group operating profit in Q1 of 2008 grew by NIS 18 million, three times the contribution in the same period last year. Profit from extraordinary items, amounting to NIS 8 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations.

The main contribution to segment profit was due to profit from financing operations, which in Q1 of 2008 amounted to NIS 74 million, compared to NIS 14 million in the same period last year. Several elements in Q1 of 2008, compared to the same period last year, caused the change in profit from financing operations: Q1 of 2008 includes profit amounting to NIS 14 million from realized investments in debentures held for sale, compared to NIS 2 million in the same period last year. Furthermore, profit from financing operations in Q1 of 2008 includes a negative impact from recording derivatives at fair value and other elements, amounting to NIS 6 million, compared to a negative impact of NIS 51 million in the same period last year, as well as loss amounting to NIS 5 million from a decrease in the fair value of investment in credit derivatives, recognized in profit and loss. Excluding the aforementioned factors, profit from financing operations in Q1 of 2008 amounted to NIS 71 million, compared to NIS 63 million in the same period last year – a 12.7% growth. The growth is primarily due to increase in operating profit and profit from derivatives operations, due to favorable market conditions in Q1 of 2008.

The growth in segment profitability was offset by a NIS 32 million decrease in operating revenues, due to loss of management fee revenues from provident funds amounting to NIS 22 million in the same period last year, and to a decline in commission revenue from foreign currency operations, primarily due to revaluation of the NIS.

Liquidity and financing source raising policy

Group financing sources include deposits, obligatory notes and debentures of various types, as well as 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.

Total deposits from the public for the Group as of March 31, 2008 amounted to NIS 73.2 billion, compared to NIS 75.3 billion at end of 2007. Deposits from the public in the CPI-linked segment decreased in the first 3 months of 2008 by 0.6%; deposits from the public in the foreign currency and foreign-currency-linked segment decreased in the first 3 months of 2008 by 2.5%; and deposits from the public in the NIS-denominated, non-CPI-linked segment decreased by 4.0%. For details, see the chapter on development of balance sheet items above.

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 through March 31, 2008 obligatory notes amounting to NIS 750 million, of which NIS 450 millions in subordinated notes.

As of the date of these financial statements, Tefahot Issue issued to the public obligatory notes (Series 25-30) with total par value of NIS 1,974 million. The revaluated balance as of March 31, 2008 of these obligatory notes in circulation amounted to NIS 2,038 million.

In the period 2006-2007, the Bank raised NIS 941 million (NIS 960 million par value) by issuing complex capital notes that will be deemed Upper Tier II capital for maintaining a minimum capital ratio. The capital notes are listed for trading and their balance for calculation of capital ratio as of March 31, 2008 amounted to NIS 966 million.

Risk Management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to financial and other risk, mainly – market and liquidity risk, credit risk, and operational 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. The Bank began implementation of an advanced module of the system, enabling it to manage and control exposure of its customers in the capital market, using the infrastructure it uses to manage market, liquidity and credit risk. 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 would be expanded in 2008, aiming to include customers operating in other trading arenas. Furthermore, at the end of 2007, 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. In Q1 of 2008, the Bank completed a gap review with regard to Basel II requirements for credit risk management, and is in the process of studying these gaps in order to have them eliminated.

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. In addition, the Bank operates a Credit Control Unit under the Risk Management Division which reports its findings directly to the President.

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. 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.

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 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 (according to the historic method) of the Bank Group (in NIS millions):

	Q1 of 2008	2007
At end of period	90	126
Maximum value during period	124 (in Jan.)	169 (Aug.)
Minimum value during period	90 (March)	104 (in Jan.)

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.

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 March 31, 2008:

Income (loss), NIS in millions

				Scenarios	Extreme historical scenario (1)	
	increase	increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	(89.7)	(44.9)	44.9	89.7	(26.9)	8.1
Dollar	53.8	20.0	(8.4)	(8.0)	21.1	(6.3)
Pound Sterling	(3.0)	(0.8)	2.6	4.2	(2.0)	2.1
Yen	8.8	3.6	0.6	2.8	13.0	1.1
Euro	11.6	3.1	1.8	17.8	5.6	3.0
Swiss Franc	0.6	0.3	(0.1)	(00.1)	0.6	(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.

Below is a description of the sensitivity of the Bank's position as of March 31, 2008 to a corresponding change of 1% in the interest curves (NIS in millions):

	1% corresponding shift in curve	
	upwards	downwards
NIS, CPI-linked	(31.6)	20.8
NIS, non-linked	12.1	(13.2)
Foreign currency denominated	(3.7)	4.6
All sectors	(23.2)	12.2

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 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.

No exceptions to the Board of Directors' limitations were recorded in Q1 of 2008.

The Bank has significant surplus liquid means over financing requirements for 1-month term in both NIS and foreign currency. The surplus liquidity in NIS is invested mainly in Bank of Israel deposits of up to 1-week term and in government bonds. The surplus foreign currency liquidity is invested in short-term deposits in overseas banks, in local banks and in the Bank of Israel, and in debentures that are realizable quickly.

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 transactions, transactions related to asset and liability management (ALM) and other transactions. For details, see financial statements as of December 31, 2007.

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 March 31, 2008 amounted to NIS 729 million.

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 is in the process of expanding use of this module to its entire derivative operations.

Operational 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.

In Q1 of 2007, the Bank continued proceedings started in late 2007 to upgrade Bank policy on operational risk and its business continuation policy, as well as adaptation of current policy to requirements of Basel II and the Bank of Israel.

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.

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.

Restrictions on and Regulation of Bank Group Operations

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 and their impact on the Bank's operating results – see Note 4 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 ("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.

Financial Services Supervision Law (Provident Funds) (Amendment 3), 2008

The amendment enacted on January 23, 2008 includes amendments to the Financial Services Supervision Law (Provident Funds) and complementary amendments to the Financial Services Supervision Law (Insurance) and to the Financial Services Supervision Law (Engagement in Pension Consulting and Marketing).

The amendment objective is to divert pension savings to a minimum pension track and to postpone the decision on how funds are withdrawn (as lump sum or pension) to retirement age.

Therefore, a minimum amount was specified, out of funds accumulated by the member, which may only be withdrawn as monthly pension payments upon retirement. Over and above said amount, the member may choose to withdraw the balance as a lump sum or to increase the monthly pension payment over the set minimum.

All provident fund licenses granted to date by the Supervisor of Capital Market, Insurance and Savings in the Ministry of Finance to capital-based provident fund shall remain valid, and there would be no changes to rules applicable to amounts deposited through 2007. However, starting on January 1, 2008 funds would be deposited to a “non pension paying provident fund”, and may only be withdrawn upon retirement by transfer to a “pension paying provident fund” in order to receive monthly payments of no less than the minimum pension set by law. These restrictions shall not apply to severance pay.

The amendment to the law eliminates central severance pay provident funds registered on behalf of the employer. However, active funds which received employer deposits in December 2007 would be allowed to continue receiving deposits through 2010, but only for employees for whom deposits were made in December 2007.

The amendment also increases the deductible rate for purchase of disability insurance coverage and sets the same tax benefits for comprehensive-pension plans and non-comprehensive-pension plans.

Payment System Act, 2008

On February 3, 2008, the Payment System Act, 2008 was ratified. 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.

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 income, see Note 5 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 will become effective as of October 6, 2008. The Bank is preparing for implementation of provisions of the law.

Extension Ordinance for Comprehensive Pension Insurance

On December 30, 2007, the Expansion Ordinance for Comprehensive Pension Insurance was published, effective starting on January 01, 2008. The Ordinance stipulates that employers are required to provide appropriate amounts for pension insurance for employees with 9 months of service or more, subject to terms set forth in the Ordinance. Provisions of the ordinance stipulate that pension provisions replace severance pay in accordance with provision rates. Provisions would be at 2.5% of salary in the first year, of which 1.667% by the employer and 0.833% by the employee, and would be updated as per provisions of the Ordinance. The Bank is in compliance with provisions of the Ordinance.

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

On December 31, 2007, the Supervisor of Banks published his circular regarding “Measuring and disclosure of impaired debt, credit risk and provision for credit loss” “the regulation”). For details of the regulation and the Bank's preparations for its implementation, see Note 3 to the financial statements.

Proper Conduct of Banking Business Regulations No. 326 (“Financial Assistance”)

On February 04, 2008, the Supervisor of Banks published the 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 would apply to financial assistance agreements signed June 1, 2008 onwards. The Bank is preparing to implement these regulations.

Proper Conduct of Banking Business Regulation No. 456 ("Sale Law guarantee").
On April 2, 2008, the Supervisor of Banks issued the Proper Conduct of Banking Business Regulation no. 456 with regard to wording of the guarantee pursuant to the Sale (Apartments) (Assurance of Investment of Persons Acquiring Apartments) Law, 1974. The regulation stipulates that, starting on June 1, 2008, all Sale Law guarantees issued by a banking corporation would carry the wording set forth in the regulation.

The Bank is preparing to update the wording of Sale Law guarantees issued by the Bank pursuant to the regulation. Bank management estimates that updating the wording of the guarantee is not expected to materially impact Bank Group business.

Other Matters

The independent auditors has drawn, in their review, the attention to Note 12(A-D) to the financial statements with regard to claims filed against the Bank, including claims accompanies by applications for class action status, including on insurance matters.

Internal Auditor

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2007 financial statements. No material changes occurred in these details during the reported period.

The annual summary report of Internal Audit in 2007 was discussed at the Audit Committee meeting held on February 18, 2008.

Certification process of the financial statements

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, 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.

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. The issues presented to the Disclosure Committee also include the professional opinion of the external auditors. These matters of principal include issues with material impact on the financial statements, of interest to the public, issues 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 external auditors differ.

The Disclosure Committee recommends to the Board's Balance Sheet Committee how to implement the disclosure policy. The Board's Balance Sheet Committee discusses the issues requiring disclosure and issues raised by the Disclosure Committee, and specifies the required disclosure in public statements on issues requiring disclosure.

Pursuant to directives of the Supervisor of Banks on implementation of provisions of Section 302 of the US Sarbanes-Oxley Act, the Balance Sheet Committee receives a report on any significant fault discovered in the disclosure process in the financial statements. All said issues are also presented to the Board's Audit Committee, and reports on significant faults are also presented to the Board of Directors.

Following discussion by the Board's Balance Sheet Committee and based on its recommendations, the financial statements are approved by the Bank's Board of Directors.

Board of Directors

During Q1 of 2008, the Bank Board of Directors held 6 plenary meetings and 23 Board committee meetings.

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.

During the reported period there were no changes to composition of the Board of Directors.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on Section 302 of the American 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 part of an overall policy regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, *inter alia*, certification by the President and Chief Accountant on "the effectiveness of internal controls on the financial reporting", which will be attached to the financial statements as of December 31, 2008.

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 Disclosure Certification is not meant to cover the broad aspects of "the Effectiveness of the Internal Controls on the Financial Reporting", as noted.

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 quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

Following the transition to the new measuring system for operating segment, in Q4 of 2007, internal control at the Bank of financial reporting by operating segment has improved since then. During 2008, as the new measuring system is stabilize, the aforementioned improvement is expected to improve further.

Jacob Perry	**Eliezer Yones**
Chairman of the Board of Directors	President

Ramat Gan, March 26, 2008

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2008				For the 3 months ended March 31, 2007			
			Income (expense) rate				Income (expense) rate	
	Average balance (2)	Financing income (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets (3)	32,208	456	5.78		(4) 27,017	391	5.92	
Effect of embedded and ALM derivatives (5)	38,148	490			28,112	415		
Total assets	70,356	946		5.49	(4) 55,129	806		5.98
Liabilities (3)	36,775	(278)	(3.06)		(4) 35,397	(308)	(3.53)	
Effect of embedded and ALM derivatives (5)	32,130	(385)			16,971	(220)		
Total liabilities	68,905	(663)		(3.91)	(4) 52,368	(528)		(4.09)
Interest margin			2.72	1.58			2.39	1.88
Israeli currency - linked to the CPI								
Assets (3)	34,993	571	6.69		34,627	334	3.91	
Effect of embedded and ALM derivatives (5)	4,995	37			3,572	22		
Total assets	39,988	608		6.22	38,199	356		3.78
Liabilities (3)	28,168	(436)	(6.34)		27,579	(237)	(3.48)	
Effect of embedded and ALM derivatives (5)	10,383	(104)			9,214	(70)		
Total liabilities	38,551	(540)		(5.72)	36,793	(307)		(3.38)
Interest margin			0.35	0.50			0.43	0.40
Foreign currency (6)								
Assets (3)	22,330	(1,189)	(19.66)		24,101	(74)	(1.22)	
Effect of derivatives (5)								
Hedging derivatives	529	(24)			692	10		
Embedded and ALM derivatives	38,063	(2,272)			34,828	(296)		
Total assets	60,922	(3,485)		(20.99)	59,621	(360)		(2.39)
Liabilities (3)	19,994	1,371	24.73		18,763	137	2.89	
Effect of derivatives (5)								
Hedging derivatives	541	3			683	(1)		
Embedded and ALM derivatives	38,675	2,133			40,325	229		
Total liabilities	59,210	3,507		21.67	59,771	365		2.42
Interest margin			5.07	0.68			1.67	0.03

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debt.
(3) Excludes financial derivatives.
(4) Reclassified.
(5) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(6) Including Israeli currency linked to foreign currency.

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2008				For the 3 months ended March 31, 2007			
			Income (expense) rate				Income (expense) rate	
	Average balance (2)	Financing income (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing income [3]	89,531	(162)	(0.71)		[4] 85,745	651	3.07	
Effect of derivatives [5]								
Hedging derivatives	529	(24)			692	10		
Embedded and ALM derivatives	81,206	(1,745)			66,512	141		
Total assets	171,266	(1,931)		(4.43)	[4] 152,949	802		2.11
Monetary liabilities generating financing expenses [3]	84,937	657	3.05		[4] 81,739	(408)	(2.01)	
Effect of derivatives [5]								
Hedging derivatives	541	3			683	(1)		
Embedded and ALM derivatives	81,188	1,644			66,510	(61)		
Total liabilities	166,666	2,304		5.41	[4] 148,932	(470)		(1.27)
Interest margin			2.34	0.98			1.06	0.84
On options		94				24		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [5]		(11)				13		
Commissions from financing transactions and other financing income [6]		100				103		
Other financing expenses		(7)				(5)		
Income from financing operations before provision for doubtful debt		549				467		
Provision for doubtful debt (includes general and supplementary provision)		(41)				(50)		
Profit from financing operations after provision for doubtful debt		508				417		
Total								
Monetary assets generating financing income [3]	89,531				85,745			
Assets deriving from derivatives [7]	2,803				1,462			
Other monetary assets [3]	1,277				815			
General and supplementary provision for doubtful debt	(176)				(190)			
Total monetary assets	93,435				87,832			
Total								
Monetary liabilities generating financing expenses [3]	84,937				81,739			
Liabilities deriving from derivatives [7]	2,127				787			
Other monetary liabilities [3]	2,268				1,501			
Total monetary liabilities	89,332				84,027			
Total surplus monetary assets over monetary liabilities	4,103				3,805			
Non-monetary assets	1,714				1,489			
Non-monetary liabilities	166				164			
Total capital resources	5,651				5,130			

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debt.
(3) Excludes financial derivatives.
(4) Reclassified.
(5) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(6) Includes profits from the sale of investments in bonds and from the adjustment to fair value of bonds held for trading.
(7) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Revenue and Expense Rates – Consolidated (1)

Nominal – in USD (UDS in millions)

	For the 3 months ended March 31 2008				For the 3 months ended March 31 2007			
			Income (expense) rate				Income (expense) rate	
	Average balance (2)	Financing income (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Monetary assets in foreign currency generating financing income (3)	6,102	78	5.21		6,122	82	5.47	
Effect of derivatives (4)								
Hedging derivatives	146	(4)			164	3		
Embedded and ALM derivatives	10,498	110			8,262	75		
Total assets	16,746	184		4.47	14,548	160		4.47
Monetary liabilities in foreign currency generating financing expenses (3)	5,504	(47)	(3.46)		4,886	(47)	(3.90)	
Effect of derivatives (4)								
Hedging derivatives	149	(1)			162	(1)		
Embedded and ALM derivatives	10,667	(121)			9,566	(89)		
Total liabilities	16,320	(169)		(4.21)	14,614	(137)		(3.80)
Interest margin			1.75	0.26			1.57	0.67

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Net of the average balance of the specific provision for doubtful debt.
(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) Including Israeli currency linked to foreign currency.

Certification

I, Eliezer Yones declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended March 31, 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 quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial standing, operating results and changes in shareholders' equity of the Bank as of and for the periods presented in this Report.

4. I and others in the Bank who are declaring this certification, are responsible for determining and maintaining disclosure controls and procedures required for the Bank's Report, and:

   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 evaluated the effectiveness of the Bank's disclosure controls and procedures and presented 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

   C. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this 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.

May 26, 2008

E. Yones
President

Certification

I, Menachem Aviv, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended March 31, 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 quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial standing, operating results and changes in shareholders' equity of the Bank as of and for the periods presented in this Report.

4. I and others in the Bank who are declaring this certification, are responsible for determining and maintaining disclosure controls and procedures required for the Bank's Report, and:

   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 evaluated the effectiveness of the Bank's disclosure controls and procedures and presented 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

   C. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this 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.

May 26, 2008

M. Aviv
Vice-President
Chief Accountant

To:

The Mizrahi-Tefahot Bank Ltd. Board of Directors

Dear Sir/Madam,

Re: Review of summary interim consolidated un-audited financial statements For the Period Ended March 31, 2008

At your request, we have reviewed the summary consolidated balance sheet of Bank Mizrahi Tefahot Ltd. ("the Bank") as of March 31, 2008, the summary consolidated statement of profit and loss and the summary statement of changes in equity for the 3-month period then ended.

Our review was conducted in accordance with procedures set forth by the Institute of Certified Public Accountants in Israel. These procedures include, *inter alia*: Reading of said interim reports, reading minutes of shareholder meetings, Board meetings and Board committee meetings and holding discussions with those responsible for financial and accounting matters.

Other CPAs have reviewed the financial statements of an affiliate, the investment in which as of March 31, 2008 amounted to NIS 12 million. This review, in as much as it refers to the aforementioned affiliate, is based on the other CPAs' review of the financial statements of the aforementioned affiliate.

Since the review was limited in scope and does not constitute a review in accordance with common audit standards, we do not provide an opinion on the aforementioned interim summary consolidated financial statements.

In the course of our review, including review of reports by other accountants we have not become aware of any issue indicating that material changes would be required to the aforementioned statements in order for them to be deemed as proper statements compiled under generally accepted accounting principles and in accordance with the directives and guidelines of the Supervisor of Banks.

We draw your attention to Note 12(A-D) with regard to claims filed against the Bank, including claims accompanies by applications for class action status, including on insurance matters.

Sincerely yours,

Breitman Almagor & Co.
Certified Public Accountants (Israel)

Tel Aviv
May 26, 2008

Summary Consolidated Balance Sheet as of March 31, 2008

Reported amounts (NIS in millions)

	March 31, 2008	March 31, 2007	December 31, 2007
	(un-audited)	(un-audited)	(audited)
Assets			
Cash and deposits with banks	9,895	13,595	10,701
Securities	4,096	6,894	6,145
securities loaned or sold in repurchase agreements	110	157	5
Credit to the public	75,117	71,452	74,320
Loans to the Government	3	4	3
Investments in investees	18	26	17
Buildings and equipment	1,239	1,296	1,246
Other assets	4,212	2,323	2,880
Total assets	94,690	95,747	95,317
Liabilities and Shareholders' Equity			
Deposits from the public	73,237	75,250	75,290
Deposits from banks	3,273	5,821	3,752
Deposits from the Government	267	549	282
Debentures and subordinated notes	6,338	5,263	6,189
Other liabilities	5,954	3,437	4,247
Total liabilities	89,069	90,320	89,760
Shareholders' equity	5,621	5,427	5,557
Total liabilities and shareholders' equity	94,690	95,747	95,317

The accompanying notes are an integral part of the summary financial statements.

Y. Perry	**E. Yones**	**M. Aviv**
Chairman of the Board of Directors	President	Vice-president, Chief Accountant

May 26, 2008

Summary consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the 3 months ended March 31		For the Year Ended December 31
	2008	2007	2007
	(un-audited)	(un-audited)	(audited)
Profit from financing operations before provision for doubtful debt	549	467	2,026
Provision for doubtful debt	41	50	228
Profit from financing operations after provision for doubtful debt	508	417	1,798
Operating and other revenues			
Operating commissions	256	253	1,034
Profits from investments in shares, net	8	38	65
Other income	19	37	91
Total operating and other income	283	328	1,190
Operating and other expenses			
Salaries and related expenses	312	293	1,169
Maintenance and depreciation of buildings and equipment	104	100	421
Other expenses	85	74	348
Total operating and other expenses	501	467	1,938
Pre-tax operating income	290	278	1,050
Provision for taxes on operating income	110	115	368
After-tax operating income	180	163	682
Share in net after-tax operating losses of affiliates	-	-	1
Net operating income	180	163	681
Net after-tax income from extraordinary items	-	207	227
Net income	180	370	908
Earnings per share (1)			
Basic earnings per share (in NIS)			
Income from ordinary operations	0.81	0.74	3.08
Income from extraordinary items	-	0.95	1.03
Total	0.81	1.69	4.11
Diluted earnings per share (in NIS)			
Income from ordinary operations	0.80	0.73	3.03
Income from extraordinary items	-	0.92	1.01
Total	0.80	1.65	4.04

(1) Share of NIS 0.1 par value each.

The accompanying notes are an integral part of the summary financial statements.

Summary Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the 3 months ended March 31, 2008			
	Equity and capital reserves (2)	Retained earnings (1)	Dividend declared after balance sheet date	Total shareholders' equity
		(un-audited)		
Balance at January 1, 2008	1,979	3,503	75	5,557
Net income for the period	-	180	-	180
Dividend paid	-	-	(75)	(75)
Dividend declared after balance sheet date	-	(75)	75	-
Benefit from share-based payment transactions	2	-	-	2
Related tax effect	(7)	-	-	(7)
Adjustments for presentation of securities available for sale at fair value	-	(64)	-	(64)
Related tax effect	-	26	-	26
Net income from cash flow hedges	-	2	-	2
Balance at March 31, 2008	1,974	3,572	75	5,621

	For the 3 months ended March 31, 2007			
	Equity and capital reserves (2)	Retained earnings (1)	Dividend declared after balance sheet date	Total shareholders' equity
		(un-audited)		
Balance at January 1, 2007	1,953	3,108	-	5,061
Net income for the period	-	370	-	370
Dividend declared after balance sheet date	-	(200)	200	-
Benefit from share-based payment transactions	5	-	-	5
Related tax effect	1	-	-	1
Adjustments for presentation of securities available for sale at fair value	-	(19)	-	(19)
Related tax effect	-	9	-	9
Balance at March 31, 2007	1,959	3,268	200	5,427

	For the Year Ended December 31, 2007			
	Equity and capital reserves (2)	Retained earnings (1)	Dividend declared after balance sheet date	Total shareholders' equity
		(audited)		
Balance at January 1, 2007	1,953	3,108	-	5,061
Net income	-	908	-	908
Dividend paid	-	(400)	-	(400)
Dividend declared after balance sheet date	-	(75)	75	-
Benefit from share-based payment transactions	18	-	-	18
Related tax effect	8	-	-	8
Adjustments for presentation of securities available for sale at fair value	-	(57)	-	(57)
Related tax effect	-	19	-	19
Balance at December 31, 2007	1,979	3,503	75	5,557

(1) Retained earnings as of March 31, 2008 includes:
  A. Negative differences from translation of previously autonomous overseas units amounting to NIS 51 million (as of March 31, 2007 and as of December 31, 2007 – the same).
  B. Net adjustments for presentation of securities held for sale at fair value, amounting to NIS 11 million debit (as of 11 – NIS 55 million credit; as of December 31, 2007 – NIS 27 million credit).
  C. Net income from cash flow hedges of NIS 3 million.

(2) In Q1 of 2008, 164,278 ordinary shares, NIS 0.1 par value each have been issued against current option exercise in conjunction with the employee stock option plan.

The accompanying notes are an integral part of the summary financial statements.

Notes

1. The financial statements as of March 31, 2008 have been compiled in accordance with guidelines and directives of the Supervisor of Banks, and in accordance with accounting principles for compilation of interim financial statements, as set forth in Standard 14 of the Israeli Accounting Standards Board. The statements have been compiled in accordance with the same accounting principles used in compiling the audited financial statements as of December 31, 2007.
   These financial statements should be perused in conjunction with the Group's annual financial statements as of December 31, 2007 and the Notes there of.

2. 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 this regulations of 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.

3. On December 31, 2007, the Supervisor of Banks published his directive in a circular concerning: "Measuring and disclosure of impaired debt, 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 debt and measuring of provisions for credit losses in conjunction with such debt.

   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". "Individual provision for credit losses" would be applied for any debt 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 debt, 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 debt or, if the debt 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 debt (whose balance is below NIS 1 million) (such as: credit card debt, housing loans and consumer debt repaid by installments) as well as for large, non-impaired debt. The specific provision for credit losses from debt 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 debt 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 income from impaired debt as well as rules for accounting write-off of problem debt. The circular stipulates, inter alia, that debt 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 debt, as well as in terms of accounting treatment and impact on its financial statements. As of the date of publication of these financial statements, the Bank has completed the specification of processes and computer systems required for implementation of the directive, and has almost completed the detailed design of the new system specifications for its development. Concurrently, a software vendor has been selected for implementation of required development and changes to systems. The bank intends to update work processes in 2008-2009, including recompilation of procedures and delivery of training for professional staff in preparation for applying this directive.
At this stage in preparation for application of the directives, 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 debt to be treated via group provision. Completion of the methodology and initial estimated of impact of said application are anticipated in mid-2008.

4. 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.

   The Act specifies causes which, upon occurrence, the Supervisor is authorized 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.
As of the date of publication of these financial statements, the Governor has declared several banking services to be 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. Bank management estimates that application of these rules is expected to impact the Bank’s revenue mix, however at this stage it is impossible to estimate the impact on total Bank revenues.

5. On February 26, 2008 the Knesset passed the Income 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 discontinuation of the Inflationary Adjustments Act, as of March 31, 2008, is estimated at lowering Bank net profit by NIS 15 million for each 1% in annual rise of the CPI.

Amendments to the VAT Act, based on salary expenses in 2007, are expected to increase the Bank’s net profit by NIS 5 million in 2008, and by NIS 10 million in 2009 and later.

6. Beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the commission rate determined by the tender held by the Finance Ministry, with the participation of the mortgage banks will apply to loans issued beginning July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. According to a letter from the Ministry of Finance, the agreement was extended until June 30, 2008.

   In February 2008, the Ministry of Finance issued a tender for providing loans 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 would be granted out of Bank funds. The interest would be determined based on the interest rate for assistance out of Ministry of Finance funds, or the average interest rate for mortgages, as published by the Bank of Israel - whichever is lower. 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 total loans to eligible borrowers in Q1 of 2008 amounted to NIS 24 million, compared to NIS 25 million in the same period last year, and to NIS 98 million in all of 2007.

7. 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%. The bank intends to raise, by end of 2009, additional upper tier II capital amounting up to NIS 1 billion.
   There is no change to the bank's dividend policy.

8. 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 agreed that Bank Yahav would continue to obtain computer services from Bank Hapoalim, under terms currently in place between Bank Hapoalim and Bank Yahav, for a 3-year period from the transaction completion date. On September 9, 2007, a detailed agreement was signed for sale of the acquired shares based on principles set forth in the memorandum of understandings 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 changed 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 the additional equity in Bank Yahav, due to sale of the provident funds.

Closing of the transaction is contingent on multiple suspensive conditions, including transfer of Bank Yahav's foundation share (which is part of the shares being acquired), as set forth in the "Share capital" chapter of Bank Yahav's Articles of Incorporation.

9. 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 allocation, at 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 allocation of 1.8% of Isracard and Europay ordinary shares in exchange for continuing the current agreements in place for 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 allocated to the Bank in exchange for the aforementioned agreements, would be 3.6% of Isracard and Europay shares. The shares would be allocated 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).

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 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.

10. 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 preliminary framework submitted by the Bank to the Israeli Securities Authority on May 20, 2008 ("the framework"). 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.

    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.

Furthermore, in conjunction with the approval by the Board of Directors, the Board resolved to allot, at this stage, up to 21,284,000 option warrants, in accordance with the plan, at no cost to 309 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 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 ration of net income return from normal operations to 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 option warrant allotted pursuant to the plan, would be determined based on the closing price of the Bank's ordinary shares on the stock exchange on the last trading day preceding the allotment date of the option warrant to the offeree, plus linkage differentials to the Consumer Price Index, and adjusted for dividends to be distributed by the Bank.

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.

The aforementioned estimate by Bank management constitutes forward-looking information, and is base on facts, data, assumptions and forecasts with regard to realization of the Bank's strategic plan, and as such it may fail to materialize due to changes which may occur in various influencing factors which are not entirely under 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.

The option warrants pursuant to the plan would be allotted in accordance with terms of the labor income track, via a trustee, pursuant to provisions of Section 102 of the Income Tax Ordinance (New Version), 1961 including all regulations, rules, circulars and guidelines issued based there upon.

On May 20, 2008, the Bank submitted to the Israel Securities Authority a preliminary framework in conjunction with the grant of option warrants to offerees in accordance with the plan; subsequently, the Bank intends to submit a framework of securities grant to employees.

As of the date of plan approval by the Board of Directors, the total theoretical benefit value approved at this stage, as set forth above, calculated based on rules for accounting treatment in Accounting Standard 24, is estimated at NIS 98 million (NIS 114 million inclusive of wages tax). Calculation of total theoretical benefit value of the approved 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, and for assumptions by Bank management with regard to the average churn rate of plan offerees, meaning that some of the option warrants to be granted would expire due to retirement of offerees.

The benefit value would be calculated on the date of actual option grant, based on data and assumptions current as of that date, and would be accounted for in Bank accounts over a 5-year term starting on the grant date.
Management estimates with regard to the range of annual rates of return and churn rates would be reviewed and updated on an on-going basis, and the extent of total expenditure recorded in the financial statements would be 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 standard deviation, in annual terms, for the 5 lots ranges from 24.5% to 25.7%. The life of each option in the model ranges from 3.1 to 5.1 years, based on the average duration between the vesting period and the option expiration period (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. Interest rates per lot range between 2.1% and 2.7%.

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 101 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.

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 million. 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.

The Court has not yet issued its ruling on recognition of the claim as a class action.

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.

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 11(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 49.5 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 the estimation of the Bank’s Management, based on the opinions of an economic expert expressed at the request of the Bank and based on the opinion of its legal counsel, and in view of the plaintiff's allegations, such as that the value of Bank Tefahot is NIS 17.7 billion, an unreasonable amount, lacking all proportion to the value of banks in Israel, the prospects that the claim will be accepted are remote, hence no provision was made in the financial statements.

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 1998, 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 the estimation of the Bank's management, based on the opinion of its legal counsel which it obtained, the outcome of the action and whether the action will be recognized as a class action is within the realm of "possible". In the opinion of Bank 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.

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 June 2006, 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 Registar'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. Rulings in this case are yet to be handed down.

In the estimation of Bank management, based on the opinion of its legal counsel, the prospects that the plaintiffs will succeed in their motion to appeal their requests for exemption from the fee, which were dismissed by two Courts before, are remote. Even should the plaintiffs' appeals be accepted, the probability of the actual claims to be accepted are remote, since their claims reveal no cause for the claim, as well as the fact that rulings handed down by the District Court have rejected their claims. Therefore, no provision was recorded in the financial statements for these claims.

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.

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. Recently, the parties have started arbitration proceedings on these issues.

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.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 11 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 103 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.

    B. 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.

Bank management estimates, considering the preliminary stage of the action, it is not yet possible to assess the prospects of the action and motion for recognition as a class action.

C. 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 rate on deposits was 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.

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 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.

13. Matters related to insurance operations of the Bank:

A. The Superintendent of Insurance informed the insurance companies in his letter dated August 20, 2003, that he intends to approve the insurance tariffs for the insurance brokerage activities of mortgage banks, directly or through subsidiaries, for brokerage of housing insurance related to the issuance of mortgages, so that the rate of minimum damages, which was 57% in 2003, will rise gradually, beginning in 2004, up to the rate of 70% in 2008 and thereafter. The minimum damage rate will be computed based on the net premium paid to the sub-insurers.

The rate of the damages, means that part of the premium paid to the sub-insurer, after deducting the commissions paid to the insurance companies and banks (directly or through insurance agencies), so that an increase in the rate of damages reduces the part of the premium that constitutes the commission of the Bank and of the insurance companies for the 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.

The new arrangement increases competition in the marketing of insurance incidental to the purchase of a home, and therefore, could cause a gradual reduction in the Bank's income from insurance. The Bank is prepared to contend with the strong competition in the industry… For example, the shift from uniform tariffs to differential tariffs, which enables the Bank to offer attractive tariffs to all borrowers, and especially young borrowers. In any case, since the arrangement only applies to new loans given as from December 1, 2005, the decrease in income, as of the date of the financial statements, is not significant, and in the Bank's opinion, will not be significant in the upcoming years.

C. The income of the Bank and its subsidiary engaged in insurance totaled as below (NIS millions):

Period	From life insurance	From property insurance
Q1 of 2008	19	10
Q1 of 2007	18	11
2007	72	42

Impact of the aforementioned issues is reflected in Bank Group revenues from insurance operations in 2007 and in Q1 of 2008, as set forth above. In the coming quarters of 2008, in which the minimum damage rate would be at a maximum based on the letter of the Supervisor of Insurance, a further decrease may occur in these revenues, by an amount which is not material.

In view of the changes to minimum damage rate and to rules for insurance marketing, Bank preparations for application of these changes and for adaptation of its business strategy to operating under the new conditions, and reflection of impact of changes on actual Bank revenues from insurance – it is not possible to estimate the degree of impact on future bank revenues.

Appendix 1 - Income from Financing Operations before Provision for Doubtful Debt

Reported amounts (NIS in millions)

	For the 3 months ended March 31	
	2008	2007
	(un-audited)	
A. **From assets** (1)		
From loans to the public	331	671
From loans to the Government	-	3
From deposits with the Bank of Israel and from cash	(21)	(9)
From deposits with banks	(373)	(15)
From debentures	(120)	10
	(183)	660
B. **On liabilities** (1)		
On deposits from the public	670	(349)
On deposits from the government	-	(4)
On deposits from the Bank of Israel and from cash	(2)	(13)
On deposits from banks	92	3
On debentures and subordinated notes	(103)	(45)
	657	(408)
C. **On financial derivatives and hedging activities**		
Ineffective element of fair value hedge	-	1
Net revenues (expenses) from ALM derivatives (2)	(101)	80
Net revenues among other derivatives	83	36
	(18)	117
D. **Other**		
Commissions from financing transactions	24	22
Financing revenues from collection of interest on arrears from individual borrowers	11	9
Interest income on problem loans	30	31
Gain (loss) from sale of debentures held for sale, net	(3) (5)	2
Other financing income	40	39
Other financing expenses	(7)	(5)
	93	98
Total income from financing operations before provision for doubtful debt	549	467
Includes: exchange rate differences, net	(15)	(7)
E. **Details of net effect of hedging financial derivatives on profit from financing operations**		
Financing revenues (expenses) for assets (section A)	(21)	9

(1) Includes the effective element in the hedging ratios.
(2) Financial derivatives constitute part of the Bank's asset and liability management which were not intended for hedging.
(3) Includes provision for impairment amounting to NIS 19 million – see Appendix 3.

Appendix 2 – Provision for Doubtful Debt (un-audited)

Reported amounts (NIS in millions)

Information with regard to provision for doubtful debt

	For the 3 months ended March 31, 2008			
	Specific provision (1)			
	By extent of arrears	Other	Supplementary provision (3)	Total
Balance of provision as of period start	821	1,923	172	2,916
Provisions during reported period	77	41	8	126
Decrease in provisions	(75)	(9)	-	(84)
Recovery of debt written off in previous years	-	(1)	-	(1)
Amount charged to statement of profit and loss	2	31	8	41
Debt write-off	(7)	(51)	-	(58)
Balance of provision as of period end	816	1,903	180	2,899
Includes - Balance of provision that was not deducted from loans to the public	-	110	-	110

	For the 3 months ended March 31, 2007			
	Specific provision (1) (2)			
	By extent of arrears	Other	Supplementary provision (3)	Total
Balance of provision as of period start	798	1,877	192	2,867
Provisions during reported period	66	63	-	129
Decrease in provisions	(65)	(10)	(4)	(79)
Amount charged to statement of profit and loss	1	53	(4)	50
Debt write-off	-	(50)	-	(50)
Balance of provision as of period end	799	1,880	188	2,867
Includes - Balance of provision that was not deducted from loans to the public	-	115	-	115

(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 doubtful debt, after the debt were determined as doubtful.
(2) Reclassified.
(3) Includes general and special provisions for doubtful debts.

Appendix 2 – Provision for Doubtful Debt (un-audited)

Reported amounts (NIS in millions)

Information on housing loans and calculation of the specific provision for doubtful debt (1)

	For the 3 months ended March 31, 2008					
	Balance sheet loan balance(2)	Debt balance (3)	Includes: Amount in arrears (4)	Specific provision: By extent of arrears	Other	Total
Housing loans for which specific provision according to length of arrears must be calculated	36,485	1,102	535	811	-	811
Large loans (5)	2,739	102	26	5	9	14
Other loans	658	60	9	-	25	25
Total	39,882	1,264	570	816	34	850

	For the 3 months ended March 31, 2007					
	Balance sheet loan balance(2)	Debt balance (3)	Includes: Amount in arrears (4)	Specific provision: By extent of arrears	Other	Total
Housing loans for which specific provision according to length of arrears must be calculated	33,698	1,128	500	795	-	795
Large loans (5)	2,057	145	34	4	22	26
Other loans	671	110	11	-	8	8
Total	36,426	1,383	545	799	30	829

(1) For details of calculation of provision for doubtful debt by extent of arrears, see Note 1(o)2-3 to the annual financial statements as of December 31, 2007.
(2) The balance of housing loans, after deducting specific balance for doubtful debt and provision for delinquency interest.
(3) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(4) Includes delinquency interest before deduction of the provisions balance.
(5) Housing loans, the balance of each of which exceeds NIS 809 thousand (on December 31, 2007 – NIS 780 thousand).

Note 3 - Securities

As of March 31, 2008

Reported amounts (NIS in millions)

	As of March 31, 2008				
	Balance sheet amount	Net book value	Total cumulative other profit (4) Income	Total cumulative other profit (4) Loss	Fair value (1)
			un-audited		
Composition					
Securities available for sale					
Debentures and bonds					
Of the Government of Israel	2,206	2,206	20	20	2,206
Of foreign governments and their agencies	40	40	-	-	40
of others	1,350	1,438	1	89	1,350
Total debentures available for sale	3,596	3,684	21	109	3,596
Shares of others (2)	405	336	69	-	(3) 405
Total securities available for sale	4,001	4,020	90	109	4,001

	Balance sheet amount	Net book value	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
Securities held for trading					
- Debentures					
of Government of Israel	94	94	-	-	94
of others	1	1	-	-	1
Total securities held for trading	95	95	-	-	95
Total securities	4,096	4,115	90	109	4,096

(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.

(2) 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 March 31, 2008, included in this item, amounts to NIS 297 million. This amount exceeds the amount of the loans, net of the provision for doubtful debt, by NIS 72 million.

(3) 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 49 million.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

Note 3 - Securities

As of December 31, 2007

Reported amounts (NIS in millions)

	As of December 31, 2007				
	Balance sheet amount	Net book value	Total cumulative other profit (4) Income	Loss	Fair value (1)
			audited		
Composition					
Securities available for sale					
Debentures and bonds					
of Government of Israel	4,010	4,026	5	21	4,010
Of foreign governments and their agencies	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 (2)	399	295	104	-	(3) 399
Total securities available for sale	6,065	6,018	109	62	6,065

	Balance sheet amount	Net book value	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
Securities held for trading					
- Debentures					
of Government of Israel	79	79	-	-	79
of others	1	1	-	-	1
Total securities held for trading	80	80	-	-	80
Total securities	6,145	6,098	109	62	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.

(2) 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 debt, by NIS 98 million.

(3) 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.

(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".

Note 3 - Securities

Further details with regard to asset-backed securities held for sale

Reported amounts (NIS in millions)

	As of March 31, 2008			
	Net book value	Total cumulative other income		Fair value (book value)
		Income	Loss	
	un-audited			
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	54	-	20	34
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	101	-	24	77
(1) SIV	-	-	-	-
Total asset-backed securities available for sale	155	-	44	111

	As of December 31, 2007			
	Net book value	Total cumulative other income		Fair value (book value)
		Income	Loss	
	audited			
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.

In Q1 of 2008, expenses were recorded amounting to NIS 19 million with regard to provision for impairment of a non-temporary nature in asset-backed securities (in 2007 – NIS 114 million).

Note 3 - Securities

Further details with regard to asset-backed securities held for sale

Reported amounts (NIS in millions)

Further details with regard to asset-backed securities held for sale, which include unrealized loss:

	March 31, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	34	20	-	-
CLO	70	20	7	4
Total	104	40	7	4

Asset-backed securities (ABS)

The fair value of Bank investments in asset-backed securities as of March 31, 2008 amounted to NIS 111 million (December 31, 2007 – NIS 159 million). These investments include the following securities - CDO, CLO and SIV as follows:

CDO (Collateralized Debt Obligation) is a security backed by various types of debt instruments, which may include both direct debt and securitized debt. The CDO is set in lyers by priority. Each layer is a separate debt, with specific rating, entitled to principal or interest payment before all debt ranked lower. Total value of debt subordinate to a given debt layer is defined to be the protective layer for said debt.

The fair value of Bank investments in these securities, as of March 31, 2008, amounted to NIS 34 million (as of December 31, 2008 – NIS 47 million). All Bank investments in this asset class are rated as investment grade with protection layers, and are managed by one of the leading investment management firms in the world.

The backing assets are synthetic assets widely distributed across sectors and of different credit ratings, mostly investment grade (BBB- or higher).

The impairment charges to capital reserve as of March 31, 2008 for these investments amounts to NIS 20 million (As of December 31, 2007 - NIS 11 million).

According to information available to the Bank, this impairment is due to the continuing crisis sentiment in global financial markets and to continued overall increase in credit spreads, primarily towards the end of Q1 of 2008, due to the crisis at the Bear Stearns investment bank.

Note 3 - Securities
Further details with regard to asset-backed securities held for sale

The Bank believes there is no risk of default or risk of write-off of the protection layers in these investments. Furthermore, the Bank may hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

Subsequent to the balance sheet date, as of mid May 2008, the value of the aforementioned investments has appreciated by NIS 3.5 million (US $1 million).

B. CDO, mostly mortgage-backed – The Bank has invested in this type of security NIS 42 million ($10 million). The backing assets include 84% mortgages to individuals (RMBS[1]), about half of them – sub-prime. In the second half of 2007, the Bank recorded a loss from impairment of a non-temporary nature, amounting to the full investment amount, due to estimates that probability of future receipts from this transaction is low.

C. CLO (collateralized Loan Obligation) is a specific type of CDO. The debt 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 March 31, 2008 is NIS 77 million. (As of December 31, 2007 – NIS 90 million). 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. The impairment charged to capital reserve as of March 31, 2008 for the aforementioned investments amounted to NIS 24 million (As of December 31, 2007 – NIS 12 million).

[1] **RMBS (Residential Mortgage-Backed Securities)** – securities backed by mortgages to individuals, where principal and interest payments are base d on cash flow from repayment of loans backed by mortgages.

According to information available to the Bank, this impairment is due to the continuing crisis sentiment in global financial markets and to continued overall increase in credit spreads, primarily towards the end of Q1 of 2008, due to the crisis at the Bear Stearns investment bank. The Bank estimates that there is no reason to assume that issuers will default on their obligations. Furthermore, the Bank may hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

D. **SIV (Structured Investment Vehicle)** is a structured investment product (including mainly asset-backed securities: CMBS[2], RMBS, credit card receipts, student loans etc.) with high investment ratings for medium- to long term. A major share of financing for acquisition of asset-backed securities (the senior layer) is obtained by issuing short-term commercial paper and mid-term debentures (MTN). The balance (the junior layer) is financed by issuing capital notes which are inferior to the senior layer.

The Bank invests in a structured investment vehicle (SIV), in the Capital Notes layer. The portfolio mainly consists of credit card receipts, insurance, CDO, CMBS, RMBS and corporate debentures. About 93% of the asset portfolio is rated as high investment grade, AA or higher. The Bank's original investment amount in the structured investment vehicle (SIV) amounted to NIS 115 million ($25 million). The liquidity crisis in the credit markets has led to increased credit spreads in all sectors, and hence to decline in the value of structured investment vehicles. Concurrently, the cost for issuing capital notes has risen, so that current financing costs for the transaction have increased. The high leverage in this transaction intensified the impairment due to growing spreads. Therefore, even though the assets hold high ratings and the extent of their quality impairment was relatively low, there is significant impact on the total fair value of the structured investment vehicle (SIV).

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[2] **CMBS (Commercial Mortgage-Backed Securities)** – securities backed by mortgages to commercial entities, where principal and interest payments are base d on cash flow from repayment of loans backed by mortgages.

The financial statements as of March 31, 2008 include a provision for impairment equal to the full amount invested in SIV, compared to a provision amounting to NIS 76 million (80% of the original investment cost) as of December 31, 2007 – in line with the fair value of this investment on this date. During the first three months of 2008, the Bank recorded a further expense amounting to NIS 19 million, thereby making the provision equal to the entire investment cost. The assessment that this impairment is not of temporary nature is primarily due to the current erosion in the value of this investment due to high financing costs and high leverage, as well as to the working assumption that it would take a long time before market financing costs would return to their pre-crisis level. Note that although this investment has been fully depreciated, the Bank continues to receive regular coupon payments. The latest coupon payment was received in mid April, subsequent to the balance sheet date.

Appendix 4 - Consolidated Statement of Assets and Liabilities by Linkage Basis
As of March 31, 2008 (un-audited)

(In NIS millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	2,455	575	3,382	3,176	307	-	9,895
Securities	513	247	1,447	1,433	51	(3) 405	4,096
Securities loaned or sold in repurchase agreements	110	-	-	-	-	-	110
Loans to the public (2)	29,745	33,422	7,375	2,198	2,377	-	75,117
Loans to the Government	-	2	1	-	-	-	3
Investment in affiliates	25	-	-	-	-	(7)	18
Buildings and equipment	-	-	-	-	-	1,239	1,239
Other assets	3,184	356	424	103	87	58	4,212
Total assets	36,032	34,602	12,629	6,910	2,822	1,695	94,690
Liabilities							
Deposits from the public	34,666	19,907	12,909	3,608	2,147	-	73,237
Deposits from banks	482	1,609	954	104	124	-	3,273
Deposits from the Government	-	230	37	-	-	-	267
Debentures and subordinated notes	-	6,338	-	-	-	-	6,338
Other liabilities	4,481	536	464	127	168	178	5,954
Total liabilities	39,629	28,620	14,364	3,839	2,439	178	89,069
Difference	(3,597)	5,982	(1,735)	3,071	383	1,517	5,621
Non-hedging financial derivatives:							
Derivatives (except for options)	5,832	(6,758)	3,125	(1,922)	(277)	-	-
Net in-the-money options (in terms of underlying asset)	2,412	-	(1,183)	(914)	(297)	(18)	-
Net out-of-the-money options (in terms of underlying asset)	(136)	-	196	(139)	63	16	-
Total	4,511	(776)	403	96	(128)	1,515	5,621
Net in-the-money options (capitalized par value)	210	-	2,418	(2,665)	31	6	-
Net out-of-the-money options (capitalized par value)	(1,531)	-	(443)	1,772	176	26	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debt were deducted ratably from the various linkage categories.
(3) Includes NIS 295 million for shares received to secure credit.

Appendix 4 - Consolidated Statement of Assets and Liabilities by Linkage Basis
As of March 31, 2007 (un-audited)

(In NIS millions)

	Israeli currency		Foreign currency (1)			Non-	
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	monetary items	Total
Assets							
Cash and deposits with banks	2,012	1,100	8,541	871	1,071	-	13,595
Securities	1,496	1,543	1,454	1,934	73	(3) 394	6,894
securities loaned or sold in repurchase agreements	157	-	-	-	-	-	157
Loans to the public (2)	25,307	32,852	8,237	2,275	2,781	-	71,452
Loans to the Government	-	3	1	-	-	-	4
Investment in affiliates	24	-	-	-	-	2	26
Buildings and equipment	-	-	-	-	-	1,296	1,296
Other assets	1,710	204	276	33	49	51	2,323
Total assets	30,706	35,702	18,509	5,113	3,974	1,743	95,747
Liabilities							
Deposits from the public	35,843	20,067	13,487	3,070	2,783	-	75,250
Deposits from banks	2,998	1,713	834	161	115	-	5,821
Deposits from the Government	223	283	43	-	-	-	549
Debentures and subordinated notes	-	5,263	-	-	-	-	5,263
Other liabilities	2,556	497	121	40	67	156	3,437
Total liabilities	41,620	27,823	14,485	3,271	2,965	156	90,320
Difference	(10,914)	7,879	4,024	1,842	1,009	1,587	5,427
Non-hedging financial derivatives:							
Derivatives (except for options)	9,658	(4,579)	(2,738)	(1,676)	(665)	-	-
Net in-the-money options (in terms of underlying asset)	1,343	-	(1,193)	(21)	(129)	-	-
Options out of the money, net (in terms of underlying assets)	174	-	109	(69)	(214)	-	-
Total	261	3,300	202	76	1	1,587	5,427
Net in-the-money options (capitalized par value)	50	-	719	(680)	(89)	-	-
Options out of the money, net (discounted par value)	(2,202)	-	744	622	836	-	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debt were deducted ratably from the various linkage categories.
(3) Includes NIS 297 million for shares received to secure credit.

Appendix 4 - Consolidated Statement of Assets and Liabilities by Linkage Basis
As of December 31, 2007 (audited)

(In NIS millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
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	(3) 399	6,145
Securities loaned or sold in 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
Investment in affiliates	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 amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debt were deducted ratably from the various linkage categories.
(3) Includes NIS 322 million for shares received to secure credit.

Appendix 5 - Operating Segments
For the 3 months ended March 31, 2008 (un-audited)

Reported amounts (NIS in millions)

						Financial Division		
	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debt From outside operating segments	291	(64)	(21)	60	194	(32)	121	549
Inter-segment	(53)	74	97	(21)	(68)	18	(47)	-
Profit from financing operations before provision for doubtful debt	238	10	76	39	126	(4) (14)	74	549
Operating and other revenues	156	5	43	13	28	18	20	283
Total income	394	15	119	52	154	4	94	832
Provision for doubtful debt	12	-	15	-	15	(1)	-	41
Operating and other expenses (revenues From outside operating segments	260	6	103	16	35	29	52	501
Inter-segment	(25)	-	(10)	13	15	-	7	-
Other operating expenses - total	235	6	93	29	50	29	59	501
Operating profit (loss) before taxes	147	9	11	23	89	(24)	35	290
Provision for taxes on operating income	57	4	5	8	35	(10)	11	110
Net income (loss)	90	5	6	15	54	(14)	24	180
Return on equity	15,6%	-	8.8%	22.9%	12.8%	(20.8%)	16.2%	13.5%
Average balance of assets	44,782	-	4,839	4,191	18,735	6,461	16,141	95,149
Average balance of liabilities	34,950	2,555	11,095	2,068	12,180	5,910	20,740	89,498
Average balance of risk assets(1)	36,377	-	4,204	4,239	26,404	3,686	8,859	83,769
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,485	45,485
Average balance of securities	12,917	6,033	11,213	2,024	36,579	716	24,192	93,674
Credit to the public (end balance)	44,919	-	4,746	4,139	17,124	4,189	-	75,117
Deposits from the public (end balance)	31,660	2,495	10,994	1,992	10,656	5,391	10,049	73,237
Average balance of other assets managed	16,952	-	162	20	172	-	-	17,306

Appendix 5 - Operating Segments

For the 3 months ended March 31, 2008 (un-audited)

Reported amounts (NIS in millions)

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	136	-	51	31	88	2	-	308
Margin from receiving					15	2		139
deposits	89	9	19	5			-	
Other	13	1	6	3	23	(18)	74	102
Total	238	10	76	39	126	(14)	74	549

D. Information on geographic regions (2)

	Revenues for the period ended March 31, 2008 (3)	Net profit for the period ended March 31, 2008	Average total asset balance As of March 31, 2008
Israel	842	204	89,241
Outside of Israel	(10)	(24)	5,754
Total consolidated	832	180	94,995

(1) Includes off-balance-sheet balances, as computed for capital adequacy.

(2) Income 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 debt and other operating income.

(4) Includes a provision amounting to NIS 19 million for impairment of investment in asset-backed securities, as well as expenses amounting to NIS 31 million for impairment of investment in credit derivatives, recognized in profit & loss.

Appendix 5 - Operating Segments

For the 3 months ended March 31, 2007 (un-audited)

Reported amounts (NIS in millions)

B. Information on operating segments [4]

	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 debt								
From outside operating segments	256	(18)	4	39	193	10	(17)	467
Inter-segment	(34)	25	61	(13)	(86)	16	31	-
Profit from financing operations before provision for doubtful debt	222	7	65	26	107	26	14	467
Operating and other revenues	147	4	44	12	56	13	52	328
Total income	369	11	109	38	163	39	66	795
Provision for doubtful debt	16	-	17	-	17	-	-	50
Operating and other expenses								
From outside operating segments	252	5	95	18	33	25	39	467
Inter-segment	(26)	(3)	(11)	10	13	1	16	-
Other operating expenses - total	226	2	84	28	46	26	55	467
Pre-tax operating income	127	9	8	10	100	13	11	278
Provision for taxes on operating profit (loss)	53	4	4	3	40	6	5	115
After-tax operating income	74	5	4	7	60	7	6	163
Net after-tax profit from extraordinary items	112	47	35	-	5	-	8	207
Net income	186	52	39	7	65	7	14	370
Return on equity	39.8%	-	61.4%	11.8%	16.1%	14.5%	10.8%	32.1%
Average balance of assets	41,567	-	5,001	3,665	17,122	4,616	17,350	89,321
Average balance of liabilities	32,386	1,877	8,728	1,983	10,155	5,229	23,833	84,191
Average balance of risk assets(1)	31,798	-	4,582	3,689	25,537	3,042	8,025	76,673
Average balance of provident and mutual fund assets	-	-	-	-	-	-	42,298	42,298
Average balance of securities	20,064	9,370	17,417	1,971	32,130	677	674	82,303
Credit to the public (end balance)	40,966	-	4,960	3,742	18,345	3,439	-	71,452
Deposits from the public (end balance)	31,123	1,882	9,256	1,869	11,559	5,644	13,917	75,250
Average balance of other assets managed	17,090	-	186	49	83	-	-	17,408

Appendix 5 - Operating Segments
For the 3 months ended March 31, 2007 (un-audited)

Reported amounts (NIS in millions)

C. Information on profit from financing operations before provision for doubtful debt (4)

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	121	-	40	18	70	13	-	262
Margin from receiving deposits	81	7	19	4	15	13	-	139
Other	20	-	6	4	22	-	14	66
Total	222	7	65	26	107	26	14	467

D. Information on geographic regions (2) (4)

	Revenues for the period ended March 31, 2007 (3)	Net profit for the period ended March 31, 2007	Average total asset balance March 31, 2007
Israel	753	368	84,436
Outside of Israel	42	2	3,982
Total consolidated	795	370	88,418

(1) Includes off-balance-sheet balances, as computed for capital adequacy.
(2) Income 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 debt and other operating income.
(4) Re-classified.

Appendix 5 - Operating Segments
For the year ended December 31, 2007 (audited)

Reported amounts (NIS in millions)

B. Information on 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 debt								
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 debt	916	49	277	115	462	(4) (9)	216	2,026
Operating and other revenues	589	21	173	42	163	56	146	1,190
Total income	1,505	70	450	157	625	47	362	3,216
Provision for doubtful debt	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 (loss)	171	20	15	12	121	(30)	59	368
After-tax operating income (loss)	317	38	26	23	226	(56)	108	682
Share in net, after-tax operating loss of affiliates	-	-	-	-	-	-	(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 income (loss)	438	90	65	24	231	(56)	116	908
Return on equity	19.2%	-	21.6%	9.2%	13.0%	(24.0%)	26.3%	-
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 assets(1)	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	19,565	4,731	21,091	2,149	37,711	766	6,790	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	11,106	2,432	10,753	(5)5,481	(5)12,583	75,290
Average balance of other assets managed	17,110	-	158	50	113	-	-	17,431

Appendix 5 - Operating Segments
For the year ended December 31, 2007 h(audited)

Reported amounts (NIS in millions)

C. Information on profit (loss) 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 on geographic regions (2)

	Revenues for the period ended December 31, 2007 (3)	Net profit for the period ended December 31, 2007	Average total asset balance For 2007
Israel	3,214	993	88,844
Outside of Israel	2	(85)	5,200
Total consolidated	3,216	908	94,044

(1) Includes off-balance-sheet balances, as computed for capital adequacy.
(2) Revenues and assets by geographic region were attributed based on location of Group offices.
(3) Includes operating profit from financing operations before provision for doubtful debt and other operating income.
(4) Includes provision for impairment of asset-backed securities, amounting to NIS 114 million.
(5) Reclassified.