C o n t e n t s

Summarized Report of the Board of Directors
on the Financial Statements as of September 30, 2007

At the meeting of the Board of Directors of Bank Mizrahi Tefahot Ltd. held on November 19, 2007 (9 Kislev 5768), it was resolved to approve and publish the report of the Board of Directors and the consolidated financial statements of Bank Mizrahi Tefahot Ltd. and its investees as of September 30, 2007.
The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

The General Environment and the Effect of Outside Factors on the Activities of the Bank

Real Developments

The first nine months of 2007 were characterized by ongoing economic growth, continuing three years of uninterrupted growth.

According to preliminary estimates of the Central Bureau of Statistics for the year 2007, gross domestic product is expected to grow this year by 5.2%, following a similar increase in 2006. Per capita GDP is expected to increase by 3.4%. Business product is expected to grow by 6.0%, following growth of 6.5% in 2006. The growth in GDP reflects continued economic expansion, mainly in the trade and services sectors, and in the financial and business services sectors, with more modest growth in the industrial sector and a continued slump in the construction industry this year as well.
Imports of goods and services are expected to increase by 9.4%, following an increase of 3.3% in 2006.

On the uses side, there was an increase in private consumption, which according to estimates by the Central Bureau of Statistics is expected to grow by 6.0% in 2007, continuing the growth of 4.5% in 2006. This means that per capita private consumption will increase this year by 4.3%, continuing the 2.8% increase in 2006. Capital investment is expected to grow by 10.4%, continuing the growth of 10.1% in 2006. Public consumption is expected to rise by 2.0%, following an increase of 2.3% in 2006. Exports of goods and services are expected to increase this year by 8.1%, following growth of 5.9% in 2006.

Foreign trade data (in terms of current dollars, excluding diamonds, ships, aircraft and fuels) for the first nine months of the year indicate a sharp increase in the trade deficit compared with the same period last year, following a sharp decrease in 2006 (compared with 2005). Exports increased by 13.5% and imports posted growth of 16.5%.

Employment data published by the Central Bureau of Statistics for the third quarter of 2007 indicate a continuation of the stability in the unemployment rate in the economy, following a decrease in the rate in the years 2004-2006. According to the trend data, the unemployment rate in the third quarter reached 7.8%, compared with 7.7% in the second quarter and 8.4% in the same period last year.

Despite the continued rapid economic growth and the increase in the number of employed persons, the rate of the decrease in the unemployment rate is slow, and is due mainly to the increase in the rate of participation in the work force.

In the Government's domestic account, in current prices, a surplus was created in the third quarter of the year of NIS 3.7 billion, compared with a deficit of NIS 0.2 billion in the same period last year. In the first nine months of the year, a cumulative domestic surplus was posted of NIS 13.8 billion, compared with a surplus of NIS 6.8 billion in the same period last year. The considerable increase in the surplus is driven mainly by the increase in revenues exceeding the collections forecast on which the budget is based (collections surplus of NIS 15 billion), while maintaining a reasonable level of expenses since the beginning of the year.

The budget target for 2007 stands at 2.9% of GDP, although the actual deficit is expected to be significantly lower.

Monetary developments

During the third quarter of 2007, the Consumer Price Index (CPI) rose by 1.3% (compared with a decrease of 0.8% in the same period last year), mainly as a result of the devaluation in the exchange rate of the shekel against the dollar and the increase in fuel prices. During the first nine months of the year, the CPI rose by 2.3% (compared with an increase of 0.8% in the same period last year).

In the third quarter of the year, the exchange rate of the shekel appreciated against the dollar and the euro by 5.6% and 0.4%, respectively. During the first nine months of the year, the shekel exchange rate appreciated against the dollar by 5.0%, whereas against the euro, the shekel was devalued during the same period by 2.3%.

Since the beginning of the year, the dollar has been devalued by 7.8% against the euro, of which 5.2% was in the third quarter. The appreciation of the shekel against the dollar in the third quarter since early August, with the partial waning of concerns over the global liquidity credit crisis, which began in the crisis in the sub-prime credit market in the United States, and the global markets resumed the trend of increases. The interest rat cuts in Israel against the interest rate hikes in Israel, also added to the attractiveness of the shekel. The return of foreign investors to active trading in the economy – in financial investments and in real investments – also supported the Israeli currency.

The exchange rate of the shekel against the dollar as of September 30, 2007 stood at NIS 4.013 to the dollar, compared with NIS 4.225 against the dollar as of December 31, 2006. During October the shekel appreciated against the dollar by another 1.2%, so that the exchange rate on October 31, 2007 stood at NIS 3.966 to the dollar.

The exchange rate of the shekel against the euro as of September 30, 2007 stood at NIS 5.69 to the euro, compared with NIS 5.56 shekels to the euro as of December 31, 2006. During October, the shekel was devalued against the euro by 0.7%, so that its rate as of October 31, 2007 stood at NIS 5.73 to the euro.

During the third quarter of the year, the Bank of Israel raised the interest rate on its sources in two stages of 0.25% each, to a level of 4.0%, compared with 3.5% at the end of June 2007. During the first nine months of the year, the Bank of Israel reduced interest rates four times, by the rate of 0.25% each time (in the first half of the year), and two interest rate hikes (in the third quarter), so that cumulatively, the interest rate fell by 0.5% in the first nine months of the year. The interest rate at the end of September 2007 (interest for October) was 4.0% per annum (effective rate of 4.1%), compared with 4.5% (effective rate of 4.6%) at the end of December 2006 (the interest rate for January 2007). In accordance with its announcement at the end of October, the Bank of Israel kept the interest rate for November unchanged, at 4.0%.

During the third quarter of the year, the real monetary interest rate (Bank of Israel interest net of inflationary expectations as reflected in the capital market) stood at 2.0% - 2.5%, compared with 3.0% in the previous quarter and 3.5% in the same period last year.

Concurrent with the interest changes by the Bank of Israel, the banks changed the prime interest rate, so that at the end of September 2007, the prime rate stood at 5.5% (effective rate of 5.7%), compared with 6.0% (effective rate of 6.2%) at the end of 2006.

Developments in the Capital Market

The Israeli stock market – The first nine months of 2007 were characterized by rising prices in the major stock indices, a continuation of the trend that has characterized this market in recent years. Early in the third quarter of the year, the major stock indices declined, affected by the declines in the global stock markets. In this period, liquidity and credit crisis erupted in the world, against the backdrop of the collapse of the sub-prime mortgages market in the United States. However, toward the end of the third quarter, the major stock indices resumed their climb, against the backdrop of the recovery of the global markets.

The TA 25 and the TA 100 indices, which rose in the first quarter of the year by 7.7% and 7.9%, respectively, and by 11.6% and 10.8%, respectively, in the second quarter, gained only 2.3% and 0.7%, respectively, in the third quarter. In total, in the first nine months of the year, these indices gained 23.7% and 20.5%, respectively. The chemicals companies stood out, soaring by 39.8% in this period. In the third quarter of the year, the Real Estate 15 Index fell sharply, by 9.6%, after gaining 12.3% in the first quarter and 6.4% in the second quarter.

Since the beginning of the year, the markets have enjoyed a supportive economic environment, except during the months of crisis (mid-July to mid-September). During this period, business product increased rapidly while interest and the cost of capital fell. An increase in productivity and strong demand from abroad helped exporters overcome the appreciation in the shekel exchange rate. The stock market in Israel continues to benefit from the rising overseas markets and the entry of foreign capital into the economy. With the conclusion of the crisis – toward the end of the third quarter, foreign investors resumed their purchase of shares and showed faith in the economy.

The local bond market – In the first nine months of 2007, bonds in Israel posted an increase of 3.1%, but contrary to the increases of 1.8% in the first quarter and 2.2% in the second quarter, a decrease of 1.4% was posted in the third quarter. The gains posted by Government bonds in the first nine months of the year exceeded those of corporate bonds (3.6% compared with 2.9%). The change in the yield margins was evident in the third quarter, when government bonds posted a slight decrease of only 0.2%, compared with a decline of 2.0% in corporate bonds, driven by the sharp increase in the risk premium of corporate bonds. In the first nine months of the year, CPI-linked government bonds posted an increase of 4.2%, compared with unlinked government bonds that gained 3.2%. During the third quarter of the year, CPI-linked government bonds fell by 1.0%, against an increase of 0.5% in unlinked bonds. The difference was due mainly to the appreciation of the shekel against the dollar, with the end of the financial crisis, which led to a decrease in inflationary expectations. The Makam Index posted an increase of 1.0% in the third quarter, and in the first nine months of the year, an increase of 3.4%. CPI-linked corporate bonds shed 2.2% in this period, against a decrease of 1.0% in CPI-linked government bonds.

In the secondary market, the credit crisis that occurred in the third quarter of the year caused a significant decrease in capital-raising activities in the local market.

In the international stock markets – In summarizing the first nine months of the year, the world's stock markets traded higher – despite the considerable declines in the major indices during most of the third quarter, resulting from the liquidity crisis in the global markets and the concerns over credit suffocation. This crisis, which originated in the collapse of the sub-prime mortgages market in the U.S., spread to the other markets, when against the backdrop was the bankruptcy of financial institutions and hedge funds. The effect of the liquidity crisis ended in September, owing to measures taken by the leading central banks, led by the Federal Reserve, which cut interest rates in the U.S. by 0.5% and thereby abated concerns about a worsening of the crisis. See the analysis of profit from financing operations and shareholders' equity for information on the effect of the credit crisis on the Bank's businesses.

In the U.S., the major indices have risen – since the beginning of the year and in summarizing the third quarter. In the first nine months of the year, the Dow Jones Index gained 11.5%. The Nasdaq Index and the S&P 500 Index posted gains of 11.8% and 7.6%, respectively. In the third quarter of the year, the Dow Jones Index rose by 3.6%, compared with an increase of 8.5% in the second quarter and a decrease of 0.9% in the first quarter. The Nasdaq Index gained 3.8% in the third quarter, compared with an increase of 7.5% in the second quarter and 0.3% in the first quarter. The S&P 500 Index increased by 1.6% in the third quarter, compared with an increase of 5.8% in the second quarter and stability in the first quarter.

In the Euro markets the first nine months of the year ended with gains in the leading indices, although the financial crisis is evident in these markets, and it was proven in the volatility of the stock markets. During the first half of the year, the European Central Bank raised the interest rate by a cumulative 0.5% (to 4%). The interest rate remained unchanged in the third quarter of the year. During the first nine months of the year, the DJ EuroSTOXX Index climbed 6.4%, whereas in the third quarter, this Index lost 2.4%. The French CAC Index and the German DAX Index rose by 3.1% and 19.2%, respectively. In the third quarter, these indices shed 5.6% and 1.8%, respectively. The FTSE 100 gained 4.0% in the first nine months of the year, whereas in the third quarter, the index lost 2.1%.

In Japan, the Nikkei index declined, in the first nine months of the year and in the third quarter, totaling 2.6% and 7.5%, respectively.

The residential construction industry

The contraction in volume of activity in the residential construction industry, against the backdrop of modest demand levels, also continued in the first nine months of 2007. Despite the decrease in sales of homes in the summer of 2006, due to the war in the North, there was only a slight increase of 1.3% in the sale of homes built by the private sector in the first nine months of 2007 compared with the same period last year. An analysis of the distribution into regions shows that there were slight increases in all the regions, compared with the same period last year, except for the Tel Aviv area, in which sales decreased by 16%.

The slump in sales of homes built by the public sector was halted in the first eight months of 2007, stabilizing at the low level prevailing in year 2006.

On the supply side, according to estimates by the Central Bureau of Statistics, there was stability in the volume of investment in residential construction this year, following a slight increase of 6.0% in 2006, as a result of the repairs to war damage, and following several years of decreased investment. The inventory of unsold new homes built at private initiative decreased further – by 17%, compared with September 2006, continuing the decrease that has been uninterrupted since 2003.

In the first seven months of 2007, the contraction in the number of building starts continued, falling by 2.2%, below the level of 30 thousand starts (in annual terms). The contraction was due to the 15% decrease in building starts by the public sector, whereas privately initiated construction was stable. This followed the 5.0% decrease in building starts in year 2006, to the level of 2004. In contrast, privately initiated construction only dipped slightly whereas privately initiated building starts fell sharply, by 23.0%.

In early August 2007, a motion was filed in Court to freeze the proceedings related to the "Heftziba" construction group. Following the hearing, the court appointed investigators on its behalf to clarify facts related to the financial position of the group companies, and ordered a continuation of the freeze in proceedings for a specified time period. On November 5, 2007, the Court extended the freeze until a ruling issued on preliminary hearings regarding the report filed by the investigators. According to the investigators' report, they are still in the throes of the investigation. The proceedings described above could have consequences for the home purchasers, industry suppliers and the banking system.

Mortgages industry

In the first nine months of 2007, there was a modest increase in the issuance of mortgages (excluding recycled loans) – in the number of loans and in amounts. This compares with the same period last year, in which there was a decrease in the granting of mortgages. The average amount of the loan increased in the first months of 2007, rising by 12%, mainly as a result of the change in the mix of demand: a proportionately high rate of home purchases in choice areas and in luxury apartments, concurrent with the continuing contraction in sales in the periphery of inexpensive apartments.

In the first quarter of 2007, the volume of recycled loans remained small, at a similar level to that of the year 2006 (following a decrease in 2006 compared with 2005), although in May-August 2007, the increase in recycled loans resumed, against the backdrop of the low interest rates prevailing. In September, there was again a decrease in the volume of recycled loans, as a result of the rising interest rates.

In the first nine months of 2007, the level of loans in arrears remained stable relative to the balance of residential housing loans. The stability was achieved in the years 2005-2006, after several years in which the payment record of borrowers worsened, during which time the banks took measures to halt the increase in loans in arrears.

Description of Significant Changes in the Business of the Bank Group

Sale of the Bank Group's provident fund operations – On March 5, 2007, the sale of the Group's provident fund operations (except for operations through Netivot – Management Company Ltd., in which the Bank holds 60% of the shares) was closed. On June 28, 2007, the sale of the provident fund management operations of Netivot was closed. See Note 6 to the financial statements for information.

Receipt of a pension consultancy license – Further to the sale of the assets of the mutual funds and provident funds that had been managed by the Bank or companies it controls, on August 7, 2007, Mizrahi-Tefahot received a pension consultancy license from the Supervisor of the Capital Market in the Ministry of Finance. Receipt of the license enables the Bank to enter a new area of activity and to become the first bank in Israel to provide pension consultancy services to salaried and self-employed customers.

The condition under which the pension license was issued is that by December 31, 2007, the Bank will sign distribution agreements with all the provident fund and pension fund management companies ("management companies") that will be so interested. To date, distribution agreements have been signed with more than 25 management companies, which constitute 83% of the share of the relevant market share, and the Bank is working to sign distribution agreements with additional management companies.

Closing of Bank's acquisition of Bank Adanim shares – On February 9, 2007, following approval of an arrangement by the Court, the Bank acquired all of the shares of Bank Adanim held by other parties**.** Following the acquisition, Bank Adanim was converted from a public company to a private company wholly-owned by the Bank. See Note 8 to the financial statements.

Acquisition of control in Bank Yahav – On March 27, 2007, the Bank signed a memorandum of principles, whereby it will acquire 50% of the issued capital of Bank Yahav for State Employees Ltd. ("Yahav") and its related rights. On September 9, 2007, a detailed agreement was signed for the acquisition of the shares and rights, based on the principles stipulated in the memorandum of principles. On November 13, 2007, an addendum to the agreement was signed, which determined the consideration that the Bank will pay at NIS 371 million, subject to the adjustments that could derive from a dividend distribution and from the sale of the provident funds owned or controlled by Yahav ("the funds"). Additionally, the closing date for the transaction was set as March 27, 2008, but if by such date the sale of the funds is not yet closed, the date will be postponed to June 27, 2008. The closing of the transaction is contingent on several suspending conditions as provided in the agreement. See Note 9 to the financial statements for additional information.

Agreement with Isracard – On November 13, 2007, the Bank signed a memorandum of principles with Isracard Ltd. and Europay (Eurocard) Israel Ltd. ("Isracard" and "Europay", respectively), whereby the parties will conduct accelerated negotiations to replace the existing undertaking between them with a new agreement, within the framework of which it will be stipulated, inter alia, that "Mizrahi-Tefahot" brand credit cards will be issued and that the Bank will be entitled to a 3.6% allotment of ordinary shares in Isracard and Europay, all as provided in the memorandum of principles and as will be stipulated in the new agreement. See Note 10 to the financial statements for information.

Registration for trading of complex capital notes – On May 21, 2007, a prospectus was published, whereby registered for trading in early June 2007 were the complex notes totaling NIS 451 million issued by the Bank in November 2006, which constitute "Upper Tier II capital" for maintaining the minimum capital ratio. During June, additional capital notes of the same series were issued, totaling NIS 500 million. See Note 13 to the financial statements for information.

Permits and arrangements related to control in the Bank

To the best of the Bank's knowledge, according to letters received in the Bank on May 29, 2006 and March 20, 2007 from representatives of Ofer Brothers Properties (1957) Ltd. ("Ofer Properties"), within the framework of hearings conducted with the Bank of Israel, Ofer Properties took upon itself to fulfill various conditions imposed by the Supervisor of Banks related to the control permit in the Bank, and fulfilled these conditions, except for the requirement related to required capital ratios, for which the date of compliance was postponed by the Bank of Israel to June 30, 2007.

As the Bank was informed, the letter of the Supervisor of Banks to the representative of Ofer Properties, dated July 4, 2007, stated as follows:

"Further to our position as expressed to you, we recorded your consent to injecting NIS 90 million to Ofer Brothers Properties (1957) Ltd. ("Ofer Properties"), of which NIS 58.5 million will be injected immediately through a subordinated note, and the balance will be injected simultaneously by each of you, according to his pro rata share in the capital of Ofer Properties, within two weeks of the date of this letter.

I wish to inform you that upon completion of the injection of the capital and in view of the changes required in Ofer Properties, and further to the announcement of the Yuli Group that it is considering a restructuring of Ofer Properties, we intend to open orderly discussions with you, to arrange the manner in which the means of control in the Bank will be strengthen to our satisfaction, by December 31, 2007.

Likewise, if Ofer Properties continues to show a trend of improvement in its financial strength, and in accordance with the progress made in finding a permanent solution to the strengthening of the means of control, we will consider the possibility of extending the discussion channel for another half year.

We recorded your announcement to us, and we agree that if the discussions do not end by the said date, or a later date as we determine, each party reserves its arguments in connection with the interpretation of the license or on any other matter.

During this period, you are required to refrain from distributing earnings in Ofer Properties, and to continue to work at all times to improve the Company's capital ratio".

The Board of Directors resolution regarding capital adequacy ratio – On May 14, 2007, the Board of Directors adopted a resolution, effective as from May 17, 2007, to instruct the Bank's management to take action, so that commencing from the financial statements for the second quarter of 2007, capital adequacy (including Upper Tier II capital) will not fall below 11.2%. This resolution is a continuation of the resolution of the Bank's Board of Directors from April 2006, whereby the capital adequacy ratio, excluding Upper Tier II capital, will not fall below 10%. The resolution was adopted against the backdrop of the accepted practice in banks in the world to maintain a capital adequacy ratio that exceeds the regulators' minimum requirements, in order to express to depositors and investors the conservative approach and international standards that the Bank wants to adopt for itself, and in view of the intention of the Supervisor of Banks to adopt the provisions of Basel II and also allocate capital for operational risks. The ratio of capital to elements of risk as of September 30, 2007 reached 11.48%. The ratio of capital to elements of risk excluding Upper Tier II capital as of September 30, 2007 reached 10.25%.

Signing a collective agreement with managers' representatives

On March 22, 2007, the Association of Managers and the Bank signed a salary agreement for the years 2005-2007, in which the parties agreed on the manner in which managers' salaries are to be raised annually, the payment of a seniority supplement, the level of management fees and the giving of a one-time grant to every manager. It was also stipulated that the Managers' Labor Constitution would be in effect until September 19, 2011, and that as long as the Managers' Labor Constitution will be in effect, not one of the Bank's tenured managers (as defined in the Managers' Labor Constitution) will be dismissed in economic layoffs, except in the event of individual dismissals (for reasons of disciplinary violations and/or unsuitability), but not more than 8 managers for this reason, or dismissals that will derive from regulatory changes that were not known to the parties upon the signing of the agreement. At the end of the effective period of the Labor Constitution, the "no economic layoffs" commitment will lapse.

Moreover, it was decided that the Bank will institute a voluntary retirement plan for managers. In each of the years of the agreement, management will announce the period in which it will allow voluntary retirement, in accordance with the overall framework prescribed in the employee retirement plan.

Dividend distribution

Below are details on the dividends that were declared and distributed by the Bank as from the year 2005 until the publication date of these financial statements (in NIS millions, in reported amounts):

Date	Dividend declared	Dividend paid
Year 2005	-	-
September 13, 2006	-	125
November 22, 2006 (1)	-	200
June 13, 2007	-	200
September 19, 2007	-	125
November 19, 2007	75	-

(1) On November 19, 2007, the Bank's Board of Directors resolved to pay a dividend of NIS 75 million, constituting 338% of issued capital, i.e. NIS 0.34 per share, NIS 0.1 par value. The record date for the dividend payment is December 3, 2007, the ex-date is December 4, 2007 and the payment date is December 19, 2007.

Limitations and Control over Bank Group's Activity

Banking Law (Service to Customers)(Amendment No. 12), 2007

On June 26, 2007, the Banking Law (Service to Customers)(Amendment No. 12), 2007 was enacted. The Amendment to the Law is intended to increase the level of competition between banks, and to this end, provides arrangements related to the supervision of commission prices and increasing the transparency of prices of banking services, so that customers will be able, practically, to compare the prices of banking services. See Note 7 to the financial Statements for additional information on the Amendment to the Law and its influence on the Bank.

Profit and Profitability

Net profit of the Group reached NIS 761 million in the first nine months of 2007, compared with NIS 502 million in the same period last year, growth of 51.6%. Net profit reflects net return on equity of 19.7%, in annual terms, compared with 13.9% in the same period last year and 13.0% in the full year 2006. The net profit of the Group excluding the effects of non-recurring items, as provided below, reached NIS 528 million in the first nine months of 2007, compared with NIS 453 million in the same period last year, an increase of 16.6%. This profit reflects return on equity of 13.6%, compared with 12.5% in the same period last year.

In the third quarter of 2007, net profit totaled NIS 184 million, compared with NIS 162 million in the same period last year, an increase of 13.6%. The net profit excluding the effects of non-recurring items, as provided below, reached NIS 181 million in the third quarter of 2007, compared with NIS 162 million in the same period last year, an increase of 11.7%.

Presented below is an analysis of the non-recurring effects on net profit (in NIS millions):

	First nine months		Third quarter	
	2007	2006	2007	2006
Reported net profit	-	502	184	162
Provision for pension and severance pay from early retirement plan	-	208	-	-
Implementation of Bank of Israel guidelines on calculation of provision for doubtful debts on mortgages	-	54	-	-
Tax effect	-	(99)	-	-
After-tax capital gains, from sale of provident fund activities (2007) and sale of mutual funds activities and sale of holdings in shares of Excellence (2006)	(217)	(212)	-	-
After-tax gains from sale of real estate and other investments	(16)	-	(3)	-
Net profit excluding non-recurring items	528	453	181	162
Return on equity excluding non-recurring items	13.6%	12.5%	14.5%	13.5%

The main factors contributing to an increase in the Group's profits in the first nine months of 2007, compared with the same period last year:

a. Growth in profit from financing operations before provision for doubtful debts of NIS 84 million, 5.9%, deriving mainly from the 8.3% growth in income from current activities, an increase of NIS 50 million in revenues from interest collection on doubtful debts offset in part by the effect of the accounting for derivatives at fair value.

b. A decrease of NIS 63 million, 26.1%, in the provision for doubtful debts. The decrease is due to factors including an exceptional provision of NIS 54 million in the first quarter of 2006, due to application of the guidelines in the Bank of Israel circular regarding the way in which the provision for doubtful debts is to be calculated for credit on housing loans (mortgages).

c. An increase of NIS 32 million, 4.3% in operational commissions, mainly derived from the rise in the amount of commissions from customer trading in the capital market and from credit card activities.

d. An increase of NIS 13 million, 40.6%, in the income from investment in shares, net, deriving mainly from the increase in dividends received for shares.

e. Non-recurring provision for pension and severance pay in the same period last year, deriving mainly from the recording of a NIS 208 million provision for a retirement plan, that was included in the labor agreement signed with representatives of employees in April 2006.

f. After-tax profit from extraordinary items of NIS 233 million, net, in the first nine months of 2007, including a NIS 217 million gain from the sale of the Group's provident fund activities and a gain of NIS 8 million from the sale of the Bank's holdings in Mofet Israel Technology Fund Ltd. and capital gains from the sale of assets. This compares with after-tax profit from extraordinary items of NIS 213 million in the same period last year, from the sale of the Group's provident fund activities and the Group's holdings in the shares of Excellence.

The main factors that slowed the increase in the Group’s profits:

a. A decrease of NIS 57 million in other income, deriving mainly from the decrease in management fees from mutual and provident funds, due to the sale of the mutual fund and provident fund activities.

b. An increase of NIS 25 million in operating expenses aside from salaries and related expenses, deriving mostly from the increase in depreciation expenses due to the increase in the volume of investments in computerization and software.

Income and Expenses

The Group's operating profit before the provision for doubtful debts totaled NIS 1,519 million in the first nine months of 2007, compared with NIS 1,435 million in the same period last year, growth of 5.9%.

Presented below are details on the developments of the main elements of profit from financing operations in the first nine months of the year (in NIS millions):

	First nine months		
	2007	2006	% change
Current operations	1,469	1,357	8.3%
Income from collection of interest on problem debts	123	73	68.5%
Gains from sale of bonds available for sale, net (1)	3	4	(25.0%)
Effect of accounting for derivatives at fair value	(45)	2	-
Other (2)	(31)	(1)	-
Total	1,519	1,435	5.9%

Presented below is the development in the main elements of profit from financing operations in the third quarter of the year (in NIS millions):

	Third quarter		
	2007	2006	% change
Current operations	501	470	6.6%
Income from collection of interest on problem debts	48	24	100.0%
Gains from sale of bonds available for sale, net (1)	(19)	(2)	-
Effect of accounting for derivatives at fair value	(6)	16	-
Other (2)	(1)	(9)	-
Total	523	499	4.8%

(1) Includes an impairment provision of NIS 24 million ($6 million, before tax) in the third quarter of year 2007. See the analysis in the Securities Section for details.

(2) Includes the effect of application of the Proper Conduct of Banking Businesses Regulation 325, which totaled NIS 12 million in the first nine months of 2007 (in the third quarter of the year – income of NIS 2 million).

In the third quarter of the year, the profit from financing operations before provision for doubtful debts totaled NIS 523 million, compared with NIS 499 million in the same quarter last year, growth of 4.8%.

Provision for doubtful debts of the Group totaled NIS 178 million in the first nine months of 2007, compared with NIS 241 million in the same period last year. The decrease of 26.1% was due mainly to the exceptional provision of NIS 54 million in the first quarter of 2006, resulting from implementation of the guidelines prescribed in the circular of the Bank of Israel regarding the manner in which the provision for doubtful debts is to be computed for housing loans (mortgages). Excluding the exceptional provision in the first quarter of 2006, the provision for doubtful debts in the first nine months of 2007 decreased relative to the same period last year, by 4.8%.

The balance sheet balance of the general and supplementary provision for doubtful debts of the Group totaled NIS 182 million on September 30, 2007, compared with NIS 192 million on December 31, 2006, a decrease of 5.2%.

Presented below are details on the provision for doubtful debts:

	First nine months		Third quarter	
	2007	2006	2007	2006
	(NIS millions)		(NIS millions)	
Specific provision:				
By length of arrears	22	130	17	22
Other	166	125	52	51
Total specific provision	188	255	69	73
General and supplementary provision	(10)	(14)	(4)	(12)
Total	178	241	65	61
Provision for doubtful debts as percentage of total loans to public (in annual terms)	0.32%	0.46% (1)	0.35%	0.35%

(1) The percentage of the provision for doubtful debts in the first nine months of 2006, excluding the effect of implementation of the Bank of Israel circular of NIS 54 million reached 0.36% of the credit portfolio to the public.

Income from operating commissions of the Group was NIS 769 million in the first nine months of 2007, compared with NIS 737 million in the same period last year, an increase of 4.3%.

Income from operating commissions in the third quarter of the year totaled NIS 260 million, compared with NIS 240 million in the same quarter last year, an increase of 8.3%. The increase was due mainly to the increase in total commissions on customer trading in the capital market and on credit card activity.

Profits from investments in shares, net, amounted to NIS 45 million in the first nine months of 2007, compared with NIS 32 million in the same period last year, an increase of 40.6%. Most of the increase in the first nine months of 2007, as well as in the same period last year, is due to dividends on shares that were received in the first half of each year. In the third quarter of the year, the Bank posted a loss from investments in shares, net, of NIS 1 million, compared with income in the same quarter last year.

Other income of the Group totaled NIS 73 million in the first nine months of 2007, compared with NIS 130 million in the same period last year, a decrease of 43.8%. In the third quarter of the year, other income totaled NIS 14 million, compared with NIS 37 million in the same quarter last year, a decrease of 62.2%. The decrease was due mainly to the decrease in management fees received from mutual funds and provident funds, due to the sale of this activity.

Operating and other expenses of the Group totaled NIS 1,427 million in the first nine months of 2007, compared with NIS 1,609 million in the same period last year, a decrease of 11.3% due mainly to the decrease in salary expenses, as provided below.

In the third quarter of the year, operating and other expenses totaled NIS 478 million, compared with NIS 440 million in the same period last year. The increase of 8.6% is due mainly to the increase in salary and depreciation expenses, as provided below.

Salary expenses of the Group totaled NIS 878 million in the first nine months of the year, compared with NIS 1,085 million in the same period last year, a decrease of 19.1%. The decrease is due mainly to the recording of the provision for pension and severance pay of NIS 208 million in the first half last year, from the retirement plan that was included under the terms of the labor agreement signed with the employee representatives. Excluding this provision, salary expenses totaled NIS 877 million in the first nine months of 2006. In the third quarter of the year, salary expenses totaled NIS 291 million, compared with NIS 270 million in the same quarter last year, an increase of 7.8%, due mainly to the adjustment of the provisions for the payment of social benefits, in this quarter and in the same quarter last year.

The other operating expenses of the Group, excluding salaries, totaled NIS 549 million in the first nine months of 2007, compared with NIS 524 million in the same period last year, an increase of 4.8%. The increase was due mainly to the increase in depreciation expenses, due to the increased investment in prior years, mainly in computerization and software.

In the third quarter of the year, other operating expenses, excluding salaries, totaled NIS 187 million, compared with NIS 170 million in the same quarter last year, an increase of 10.0%.

Operating profit before provision for taxes of the Group amounted to NIS 801 million in the first nine months of the year, compared with NIS 484 million in the same period last year.

In the third quarter of the year, operating profit before provision for taxes amounted to NIS 253 million, compared with NIS 276 million in the same period last year.

Provision for taxes on operating profit totaled NIS 273 million in the first nine months of the year, compared with NIS 191 million in the same period last year.

The provision for taxes includes the effect of an arrangement with the tax authorities regarding the application of the Adjustments Law in 2003, in which negative inflation occurred. For the adjustment of the provision in the Bank's books to the terms of the arrangement, in the first quarter of 2007, the Bank recorded income of NIS 8 million, of which NIS 5 million was in the provision for taxes item and NIS 3 million was in profit from financing operations.

In the third quarter of the year, the provision for taxes on operating profit totaled NIS 72 million, compared with NIS 113 million in the same quarter last year.

The Group's operating profit after the provision for taxes reached NIS 528 million in the first nine months of the year, compared with NIS 289 million in the same period last year.

In the third quarter of the year, operating profit after the provision for taxes totaled NIS 181 million, compared with NIS 161 million in the same quarter last year.

Return on equity

In May 2007, the Supervisor of Banks published an amendment to the public reporting directives, which modifies the manner in which return on equity is calculated. According to the directive, the return on equity will be calculated as the ratio between net profit (net of dividends on preferred shares) and between average shareholders' equity. Average shareholders' equity will include "total of all capital resources" as presented in the reporting of income and expense rates, net of the average balance of minority shareholders' rights and minus/plus the average balance of the unrealized losses/gains from the adjustments to fair value of debentures held for trading and losses/gains on debentures available for sale, which are included in shareholders' equity in total other profit. "Total capital resources" is calculated according to the difference between the average balance of asset and the average balance of liabilities.

Yield[1] of the Group's profits and their developments as a percentage of equity (in percentages):

	First nine months		Year
	2007	2006	2006
According to reporting provisions, as from 2007 and thereafter(2)			
From operating profit	13.6	7.9	8.6
Net profit	19.7	13.9	13.0
According to reporting provisions before the update			
From operating profit	14.1	8.3	9.1
Net profit	20.5	14.6	13.8

(1) Annualized yield.

(2) The return on average equity, net, which includes "all capital resources" as presented in the report on income and expense rates, net of the average balance of the rights of minority shareholders, minus/plus the average balance of unrealized losses/gains from adjustments to fair value of debentures held for trading and debentures available for sale.

Profit per share[1] (NIS 0.1 par value of ordinary share capital) (in NIS):

	First nine months		Year
	2007	2006	2006
Basic profit per share:			
Net operating profit	2.39	1.32	1.95
Net profit	3.45	2.30	2.94
Fully-diluted profit per share:			
Net operating profit	2.35	1.30	1.91
Net profit	3.38	2.26	2.88

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

- **Operational coverage ratio –** total operating and other income to total operating and other expenses in the Group reached 62.2% in the first nine months of 2007, compared with 55.9% in the same period last year and 57.4% in the full year 2006.
- **Cost-Income ratio** - total operating and other expenses to total operating and financing income before provision for doubtful debts in the Group reached 59.3% in the first nine months of 2007, compared with 68.9% in the same period last year and 66.1% in the full year of 2006.

Balance Sheet Items and Shareholders' Equity

Developments in the main balance sheet items and in shareholders' equity: (in million NIS):

	September 30		December 31	Rate of change compared with	
				September 30,	December 31,
	2007	2006	2006	2006	2006
Total assets	96,880	91,326	90,711	6.1%	6.8%
Securities	6,763	5,759	5,979	17.4%	13.1%
Loans to the public	73,688	69,428	70,109	6.1%	5.1%
Deposits from the public	76,074	72,988	73,234	4.2%	3.9%
Shareholders' equity	5,434	5,069	5,061	7.2%	7.4%

Securities – The balance of the investment in securities increased in the first nine months of the year by 13.1%, within the framework of the management of the Bank's surplus liquidity.

The Bank's total investment in instruments exposed directly or indirectly to the U.S. mortgages market or to leveraged funds of any kind reached $35 million. Of this sum, approximately $12 million constitutes an investment exposed to the overall mortgage market in the United States. The remaining investments have exposure to companies that is widely dispersed in other business sectors, most of them are rated AAA and AA.

The market value of these investments, as of September 30, 2007, was $21 million. $6 million of the adjustment to market value (NIS 24 million, before tax), was recorded as an expense in the statement of profit and loss, and the balance, $8 million (NIS 32 million, before tax), was recorded directly to shareholders' equity. See the section on shareholders' equity regarding the capital reserve for adjustment of available for sale securities to their fair value.

In the fourth quarter of 2005, the Bank realized debentures held to maturity of NIS 137 million. The debentures were realized in the portfolio held by the London Branch of the Bank, as part of a reevaluation of the propriety of the classification of the inter-portfolio securities of the Branch. On the realization, the Bank recorded capital gains of NIS 0.7 million (after-tax of NIS 0.4 million). According to the directives of the Supervisor of Banks, in the event of a sale of debentures held to redemption that is a material contradiction of the Bank's declaration that it intends to hold those debentures to redemption, the debentures should be reclassified from the portfolio of debentures held to redemption to the portfolio of debentures available for sale. In the opinion of the Bank's management, the sale of the debentures by the London Branch does not contradict the Bank's declaration regarding its intention to hold those debentures to redemption. However, to remove doubt, the debentures held to maturity were reclassified to the portfolio of debentures available for sale. The policy of reclassifying the securities to the various portfolios was updated, and as of the date of these financial statements, the classification of the securities is determined solely by the Bank's Head Office in Israel, with stringent judgment and documentation. In the opinion of management, these measures constitute changes appropriate under the circumstances, which will enable dealing with its intentions with respect to the classification of securities with a high degree of trust.

Loans to the public in the consolidated balance sheet as of September 30, 2007 accounted for 76% of total assets, compared with 77% at the end of 2006.

Total Group credit risk for problem debts of the Group- (in million NIS, in reported amounts):

	September 30		December 31
	2007	2006	2006
Non-accrual debts	1,036	848	1,003
Rescheduled debts	187	120	172
Debts designated for rescheduling	2	3	15
Debts in temporary arrears	1,178	1,344	1,475
Includes: for housing loans	624	666	644
Debts under special supervision	1,054	1,231	835
Includes: Debts for which there is a specific provision	120	289	146
Housing loans for which there is a provision based on length of arrears	689	735	744
Total balance sheet credit to problem borrowers	4,146	4,281	4,244
Off-balance sheet credit to problem borrowers	719 (1)	481	494
Total credit risk for problem borrowers	4,865	4,762	4,738

(1) The increase in the off-balance sheet credit risk in the first nine months of 2007 is due mainly to the Sale Law guarantees that were furnished to home buyers by customers whose debts were classified as problem debts.

Deposits from the public represent 79% of total consolidated assets on September 30, 2007, compared with 81% at the end of 2006.

Shareholders' equity – According to the measurement principles prescribed by the Supervisor of Banks for securities available for sale, the adjustment of these securities to their fair value is charged directly to shareholders' equity. The change in the capital reserve in the first nine months of 2007, net of the related tax, amounted to a decrease of NIS 85 million. A significant part of the adjustment of available for sale securities to fair value derives from the adjustment of bonds of the Israeli government. See the analysis of profit from financing operations, above, for information on the effect of the credit crisis in U.S. mortgage banks. The balance of shareholders' equity as of September 30, 2007 includes a capital write-down of NIS 20 million, deriving from the capital reserve for the adjustment of securities available for sale to their fair value, after the related tax. Presented below is information on the capital reserve amounts (on September 30, 2007, in NIS millions):

Debentures of the Israeli government	(64)
Shares securing customer debt (1)	86
Debt instruments exposed to the mortgages market and leveraged funds in the United States	(32)
Other debentures and debt instruments	(21)
Tax effect	11
Total	(20)

(1) In accordance with the directives of the Supervisor of Banks.

The Group ratio of shareholders' equity to total assets as of September 30, 2007 reached 5.61%, compared with 5.58% at the end of 2006.

Below is the ratio of capital to elements of risk in the Group:

	September 30, 2007	December 31, 2006
Tier I capital to elements of risk	6.73%	6.67%
Total capital to elements of risk	11.48%	10.75%
Minimum capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The ratio of capital to elements of credit risk as of September 30, 2007 also takes into account the capital adequacy requirements of market risks, in accordance with Directive 341 – Adequacy of Capital in Respect of Market Risks, the effect of which on the capital ratio is 0.28% as of September 30, 2007. Issued during the first nine months of the year were subordinated notes were totaling NIS 450 million and complex capital notes of NIS 500 million, compared with NIS 20 million raised in the same period last year.

The balance of complex capital notes and subordinated notes for the purpose of the Group's capital ratio as of September 30, 2007 amounts to NIS 3,810 million, compared with NIS 2,936 million at the end of 2006. These amounts include complex capital notes totaling NIS 951 million that are listed for trading. See Notes 13 and 14 to the financial statements for information.

Financial Information on Operating Segments

Appendix 4 to the financial statements presents reporting of the Bank Group's business results by operating segments. In 2007, a new system was operated for measuring profitability and pricing, which is intended to enable, inter alia, segmentation of the Bank's operating results according to operating segments.

During the year, the segment reporting will be gradually shifted to being based on this system. At the same time, and within the scope of determining the criteria by which the profitability and pricing system will be operated, from early 2007 and henceforth, several changes have been made in the characterization of operating segments, the effect of which is not material.

The main change relates to international activity, which, in the past, was included in all the segments, according to the customers' characteristics, was transferred entirely to the financial management segment, in accordance with management's view of the management of this activity.

Presented below are the Bank Group's operating results according to operating segment Results of Households Segment

	For the nine months ended September 30, 2007					For the nine months ended September 30, 2006(1)				
	Banking and finance	Credit cards	Capital market	Mort-gages	Total	Banking and finance	Credit cards	Capital market	Mort-gages	Total
	In NIS millions					In NIS millions				
Profit from financing operations before provision for doubtful debts										
From outside operating segments	(21)	-	-	938	917	(96)	-	-	742	646
Inter-segment	280	-	-	(529)	(249)	330	-	-	(328)	2
Financing profit	259	-	-	409	668	234	-	-	414	648
Operating income	140	43	13	213	409	124	37	62	224	447
Total income	399	43	13	622	1,077	358	37	62	638	1,095
Provision for doubtful debts	20	-	-	21	41	28	-	-	133	161
Net profit (loss)	**(11)**	**17**	**117**	**276**	**399**	**(82)**	**11**	**77**	**198**	**204**
Net operating profit (loss) after neutralizing non-recurring effects	**(11)**	**17**	**(4)**	**276**	**278**	**(11)**	**11**	**8**	**230**	**238**

	For the three months ended September 30, 2007					For the three months ended September 30, 2006(1)				
	Banking and finance	Credit cards	Capital market	Mort-gages	Total	Banking and finance	Credit cards	Capital market	Mort-gages	Total
	In NIS millions					In NIS millions				
Profit from financing operations before provision for doubtful debts										
From outside operating segments	(6)	-	-	333	327	(34)	-	-	269	235
Inter-segment	94	-	-	(194)	(100)	117	-	-	(125)	(8)
Financing profit	88	-	-	139	227	83	-	-	144	227
Operating income	48	15	-	67	130	38	11	16	71	136
Total income	136	15	-	206	357	121	11	16	215	363
Provision for doubtful debts	7	-	-	15	22	4	-	-	22	26
Net profit (loss)	**(6)**	**8**	**-**	**91**	**93**	**14**	**2**	**3**	**72**	**91**
Net operating profit (loss) after neutralizing non-recurring effects	**(6)**	**8**	**-**	**91**	**93**	**14**	**2**	**2**	**72**	**90**

(1) Reclassified.

The significant growth in the contribution of the households segment to the Groups profits in the first nine months of 2007, compared with the contribution in the same period last year is due, on one hand, to the 39% increase in the contribution of the mortgages segment, mainly as a result of the non-recurring expenses in the same period last year: the exceptional provision for doubtful debts of NIS 54 million in the wake of application of the Supervisor of Bank's circular on the provision based on length of arrears in housing loans, and the segment's share of the provision for pension and severance pay from the voluntary retirement plan, which were included in the results of the first nine months of 2006. Excluding these effects, the contribution of the mortgages segment increased by 20%, mainly as a result of the considerable decrease in the provision for doubtful debts according to length of arrears.

The contraction of the negative results of the banking and finance sector is due to the sector's share of the provision for pension and severance pay from the voluntary retirement plan, which was included in the results of the first nine months of 2006.

The decrease in operating income from the capital market sector was due to the sale of the Group's mutual fund activities in 2006 and the sale of provident funds in 2007. The results of the segment from extraordinary items in the first nine months of 2007 include after-tax profit from extraordinary items of NIS121 million, from the sale of the Group's provident fund activities.

The volume of mortgages issued in the segment is presented below:

	Volume issued (in NIS millions)		
	First half		
	2007	2006	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	5,524	4,136	33.5%
From the Treasury's funds:			
Directed loans	582	567	2.6%
Standing loans and grants	98	170	(42.2%)
Management for others	54	78	(30.8%)
Total new loans	6,258	4,951	26.4%
Recycled loans	929	535	73.6%
Total loans issued	7,187	5,486	31.0%
Number of borrowers (includes recycled loans)	26,970	20,927	28.9%

See Note 18 to the financial statements for details on agreements between the mortgage banks and the State to issue loans to eligible borrowers, which are expected to cause a gradual reduction in the Bank's income from this activity in the coming years.

Results of the Private Banking segment:

	For the nine months ended September 30, 2007				For the nine months ended September 30, 2006(1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
				In NIS millions				In NIS millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	(406)	-	-	(406)	(412)	-	-	(412)
Inter-segment	528	-	-	528	550	-	-	550
Financing profit	122	-	-	122	138	-	-	138
Operating income	79	6	6	91	66	6	29	101
Total income	201	6	6	213	204	6	29	239
Net profit	**22**	**-**	**51**	**73**	**18**	-	**41**	**59**
Net operating profit (loss) after neutralizing non-recurring effects	**22**	**-**	**(1)**	**21**	**31**	**-**	**7**	**38**

	For the three months ended September 30, 2007				For the three months ended September 30, 2006(1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
				In NIS millions				In NIS millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	(136)	-	-	(136)	(147)	-	-	(147)
Inter-segment	175	-	-	175	195	-	-	195
Financing profit	39	-	-	39	48	-	-	48
Operating income	30	1	-	31	20	3	6	29
Total income	69	1	-	70	68	3	6	77
Net profit (loss)	**9**	**(1)**	**-**	**8**	**9**	**1**	**-**	**10**
Net operating profit (loss) after neutralizing non-recurring effects	**9**	**(1)**	**-**	**8**	**9**	**1**	**-**	**10**

(1) Reclassified.

The contribution of the private banking segment to the Group's profits increased in the first nine months of 2007 by 24%, compared with the contribution in the same period last year. The significant increase is due mainly to the segment's share in the after-tax gains from the sale of the Group's provident fund activities of NIS 52 million. The decrease in the banking and finance results, excluding non-recurring items, is explained mainly by the change in the allocation of the results of overseas activity, which was included in the past in all the segments, according to the customers' characteristics (including private banking customers), and were transferred in full to the financial management segment. The decrease in the capital market contribution, excluding the profit from extraordinary items, is explained by the decrease in operating income due to the sale of the Group's mutual fund activity in 2006 and the provident fund activity in 2007.

Results of the Small Businesses segment

	For the nine months ended September 30, 2007				For the nine months ended September 30, 2006(1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
				In NIS millions				In NIS millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	288	-	-	288	343	-	-	343
Inter-segment	43	-	-	43	(16)	-	-	(16)
Financing profit	331	-	-	331	327	-	-	327
Operating income	206	15	7	228	193	13	32	238
Total income	537	15	7	559	520	13	32	565
Provision for doubtful debts	54	-	-	54	43	-	-	43
Net profit	**68**	**5**	**35**	**108**	**41**	**1**	**26**	**68**
Net operating profit (loss) after neutralizing non-recurring effects	**68**	**5**	**(4)**	**69**	**77**	**1**	**4**	**82**

	For the three months ended September 30, 2007				For the three months ended September 30, 2006(1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
				In NIS millions				In NIS millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	87	-	-	87	111	-	-	111
Inter-segment	31	-	-	31	-	-	-	-
Financing profit	118	-	-	118	111	-	-	111
Operating income	69	5	-	74	58	5	9	72
Total income	187	5	-	192	169	5	9	183
Provision for doubtful debts	11		-	11	12	-	-	12
Net profit	**34**	**2**	**-**	**36**	**25**	**-**	**1**	**26**
Net operating profit after neutralizing non-recurring effects	**34**	**2**	**-**	**36**	**25**	**-**	**1**	**26**

(1) Reclassified.

The contribution of the small businesses segment to the Group's profits increased in the first nine months of 2007 by 59%, compared with the contribution in the same period last year. The increase derived from the segment's share in the after-tax gains from the sale of the Group's provident fund activities of NIS 39 million. Excluding the extraordinary profit, this segment's contribution fell by 16%, mainly as a result of the increase in the current provision for doubtful debts and in operating expenses.

Results of the Commercial Banking segment

	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006
	Banking and finance	Banking and finance
	In NIS millions	In NIS millions
Profit from financing operations before provision for doubtful debts		
From outside operating segments	162	153
Inter-segment	(110)	(99)
Financing profit	52	54
Operating income	20	16
Total income	72	70
Provision for doubtful debts	6	4
Net profit	**9**	**4**
Net operating profit after neutralizing non-recurring effects	**8**	**6**

	For the three months ended September 30, 2007	For the three months ended September 30, 2006
	Banking and finance	Banking and finance
	In NIS millions	In NIS millions
Profit from financing operations before provision for doubtful debts		
From outside operating segments	55	51
Inter-segment	(36)	(32)
Financing profit	19	19
Operating income	6	6
Total income	25	25
Provision for doubtful debts	2	1
Net profit	**4**	**3**
Net operating profit after neutralizing non-recurring effects	**4**	**3**

The contribution of the commercial banking segment to the Group's profits in the first nine months of 2007 increased by NIS 5 million, compared with the contribution in the same period last year, due mainly to non-recurring expenses in the first nine months of 2006, for the retirement plan in the framework of labor agreements. Excluding this effect, there was an increase of NIS 2 million in the segment's profits, due to the increase in income from the current activities of the segment's customers.

Results of the Business Banking segment

	For the nine months ended September 30, 2007			For the nine months ended September 30, 2006(2)		
	Banking and finance (1)	Construction and real estate	Total	Banking and finance (1)	Construction and real estate	Total
	In NIS millions			In NIS millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	318	369	687	285	366	651
Inter-segment	(84)	(204)	(288)	(94)	(200)	(294)
Financing profit	234	165	399	191	166	357
Operating income	83	16	99	58	21	79
Total income	317	181	498	249	187	436
Provision for doubtful debts	8	69	77	4	29	33
Net profit	**142**	**44**	**186**	**81**	**68**	**149**
Net operating profit after neutralizing non-recurring effects	**137**	**44**	**181**	**87**	**70**	**154**

	For the three months ended September 30, 2007			For the three months ended September 30, 2006(2)		
	Banking and finance (1)	Construction and real estate	Total	Banking and finance (1)	Construction and real estate	Total
	In NIS millions			In NIS millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	78	124	202	99	121	220
Inter-segment	-	(63)	(63)	(34)	(67)	(101)
Financing profit	78	61	139	65	54	119
Operating income	14	6	20	23	8	31
Total income	92	67	159	88	62	150
Provision for doubtful debts	-	30	30	3	19	22
Net profit	**42**	**15**	**57**	**30**	**19**	**49**
Net operating profit after neutralizing non-recurring effects	**42**	**15**	**57**	**30**	**19**	**49**

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

(2) Reclassified.

The contribution of the business banking segment to the Group's profits in the first nine months of 2007 increased by 25%, compared with the contribution in the same period last year. The increase is due mainly to the increase of 75% in the contribution of banking and finance, for reasons including the reallocation of customers serviced by this segment, as a result of the reorganization of the system for servicing the Bank's business customers in the second quarter of 2006 and from the change in the allocation of the results of international activities, which in the past were included in all the segments according to the characterization of the customers (including business banking customers), and were transferred in full to the financial management segment. Moreover, the banking and finance profits increased, mainly from the profit from financing operations and from operating income, and due to the restraint in operating expenses.. The increase in financing profit in this segment was due to the growth in the volume of activity, in the margins and operating commissions. The growth in operating income was due mainly to the income from the investment in shares, from the dividend received.

Additionally, the banking and finance results were affected by the change in the allocation of the results of international activity, which in the past were included in all the segments, based on the customers' characteristics (including business banking customers), and were transferred in their entirety to the financial management segment.

The contribution of the construction and real estate sector decreased in the first nine months of 2007 by 35%, due mainly to the increase in the provision for doubtful debts, due to factors including a provision for a customer in the real estate sector.

Liquidity Status

The Group’s deposits from the public in the CPI-linked sector decreased in the first nine months of 2007 by 3.6%. The Group’s deposits from the public in the foreign currency and foreign-currency-linked sector increased by 2.6%, whereas the Group’s deposits in the unlinked shekel sector increased by 9.1%.

Developments in Assets and Interest Margins in the Group's Different Linkage Sectors (in million NIS)

The average balances of financial assets in the different linkage sectors (including effect of derivatives)

Linkage sectors - assets	First nine months		Rate of
	2007	2006	change
Unlinked Israeli currency	59,914	44,479	34.7%
CPI-linked Israeli currency	39,380	36,127	9.0%
Foreign currency –(includes Israeli currency linked to foreign currency)	60,788	53,215	14.2%
Total	160,082	133,821	19.6%

The increase in the average balance of the financial assets in the unlinked sector is due to the significant growth in activity in derivative instruments and to the increase in the volume of credit given to the public with the scope of the Bank's day-to-day activities. The increase in the average balance of financial assets in the CPI-linked and foreign currency sector is explained for the most part by the volume of trading in derivative financial instruments.

Interest margins in the various linkage sectors (in percentages) (including the effect of derivatives)[(1)]:

Linkage sector	First nine months	
	2007	2006
Unlinked Israeli currency	1.63	1.69
CPI-linked Israeli currency	0.37	0.53
Foreign currency – (includes Israeli currency linked to foreign currency)	(0.10)	0.81
Total including effect of derivatives	0.71	1.09
Total excluding effect of derivatives	1.41	0.90

[(1)] Weighted on an annual basis.

Management's review provides information on the income and expense rates in the Bank's operations, and for the financial margin represented by the interest margins.

The interest margin in the unlinked shekel segment, including the effect of derivatives, fell from 1.69% in the first nine months of 2006 to 1.62% in the first nine months of 2007.

An analysis of the income and expense rates includes several influences that push down the calculated margin rates.

The income and expense rates that include the effect of derivatives are calculated based on the balance sheet balances of the assets and liabilities and of the underlying assets of the derivatives, which are included together in the denominator. Actually, it is not possible to connect between balance sheet balances and underlying asset balances, because the true profit margin should be measured by the restricted capital, which constitutes approximately only 10% of the balances of underlying assets of derivatives (in accordance with the Proper Conduct of Banking Businesses Regulation 311 – Risk assets from derivatives constitute 10% of the balance of the underlying asset plus the fair value).

Additionally, the income and expense rates for derivatives also include the effect of the fair value, which contains the total effect of changes in the interest curve on future profits from derivatives.

The interest margin excluding the effect of the derivatives in the unlinked sector fell from 2.71% in the first nine months of 2006 to 2.57% in the first nine months of 2007, due to reasons including the increase in uses generating a relatively low yield, such as deposits with the Bank of Israel.

In the CPI-linked sector, the interest margin including the effect of derivatives fell from 0.53% in the first nine months of 2006 to 0.37% in the first nine months of 2007, due mainly to the gains recorded in the same period last year resulting from the effect of the decrease in the CPI on loans and deposits with a CPI floor, and against them, losses in the first nine months of 2007, and due to the fair value effects on trading in CPI-linked derivatives. Excluding the effect of the derivatives, as described previously, the interest margin fell from 0.36% in the first nine months of 2006 to 0.30% in the first nine months of 2007.

In the foreign currency sector, the interest margin including the effect of derivatives fell from 0.81% in the first nine months of 2006 to (0.10%) in the first nine months of 2007. Excluding the effect of the derivatives, the interest margin fell from 1.37% in the first nine months of 2006 to 1.13% in the first nine months of 2007. In this sector, aside from the effects described previously, there is also distortion deriving from the different influences on the various exchange rate differences on the assets and liabilities, which also affects the yield rates in the balance sheet activity, as well as distortion caused by the fact that the trading in options, which has significant impact on the foreign currency sector, is not included in this segment, because it does not constitute ALM activity. An indication that neutralizes part of these influences, assuming that the changes in all the currencies were identical to the changes in the dollar, is obtained from the report that is stated in dollars, in which one sees a decrease in the interest margin (excluding the effect of derivatives) from 1.73% in the nine months of 2006 to 1.53% in the first nine months of 2007.

Risk Management

The Group's day-to-day activities in a variety of balance sheet and off-balance-sheet instruments expose the Group to financial and other risks, mainly – market and liquidity risks, credit risks, and operational risks. The risk management policies in the various areas are intended to support the achievement of the Group’s business goals while limiting the associated risks. The Group manages its risks on a day-to-day basis, in accordance with Regulation 339 of Proper Conduct of Banking Business – “Risk Management”.

The Group’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 risks involved in granting loans to borrowers, at both the level of the individual borrower and the level of economic branches and business sectors.

The market risks to which the Bank is exposed in connection with the various financial instruments are derived from their sensitivities to unexpected changes in interest, inflation and exchange rates. The management of risks is based on real-time data on CPI’s, interest rates and the state of the capital market, and on forecasts of their future development. Decision-making takes into account the historical behavior of these factors.

The management of market risks is done in accordance with the limitations and quantitative frameworks prescribed by the Board of Directors, in VAR terms and distress tests, within the frameworks of and subject to which, from time to time, management determines actual exposure, according to the market conditions at any given time. The Bank regularly monitors and controls exposure to the subsidiaries’ exposure to the different market risks.

The VAR model is a statistical model that estimates the loss that could be sustained by the Bank as a result of positions in a certain investment sector and at a pre-determined statistical level of assurance. The Bank measures the VAR values using several methods (analytical, historical and Monte Carlo), and the calculation is based on balance sheet and off-balance sheet assets and liabilities. In addition to the VAR model, the

Bank also uses stress tests (extreme tests), which estimate the loss that could be sustained as a result of sharp fluctuations in the prices of risk factors in the market.

The Board of Directors prescribe VAR limitations for all of the Bank's activities, for an investment period of one month, at the highest of the computation methods, that will not exceed 6% of capital, and that the maximum loss in extreme tests at the highest of the computation methods, will not exceed 15% of capital.

During the first nine months of the year, no deviations from these limitations were recorded.

The internal estimate of the VAR of the Bank Group shows the risk of the loss that the Bank would sustain in a period of one month, for which the probability of occurrence not exceeding 1%. Presented below is the maximum VAR (according to the historic method) of the Bank Group (in NIS millions):

	First nine months of 2007		Year 2006	
As of the end of period	158		128	
Maximum value during period	168	(in August)	168	(in November)
Minimum value during period	104	(in January)	110	(in February)

Presented below is an analysis of the Bank Group's sensitivity to changes in the major exchange rates and in the CPI, as of September 30, 2007:

Profit (loss) in NIS millions

	Scenarios				Historical extreme scenario (1)	
	Increase of 10%	Increase of 5%	Decrease of 5%	Decrease of 10%	Maximum increase	Maximum decrease
CPI	145	72	(72)	(145)	43	(13)
Dollar	43	17	1	5	7	4
Pound sterling	(1)	-	-	(1)	(1)	-
Yen	2	-	1	5	4	1
Euro	9	3	3	6	5	4
Swiss franc	4	1	-	-	4	-

(1) The extreme scenario was calculated based on changes in exchanges rates and monthly changes in the CPI since 1996.

Liquidity risks are managed through an internal model developed by the Bank to estimate the liquidity needs and the liquid resources, as required by Proper Conduct of Bank Businesses Regulation No. 342 “Management of Liquidity Risk". The Bank’s internal model is based on statistical findings on the public’s behavior. The Bank’s Board of Directors set policy that includes a ranking of authorities, procedures and an emergency plan for dealing with a liquidity crisis. A minimum ratio of 1 was prescribed between liquid resources and financing needs, during the ordinary life and in various scenarios.

During the first nine months of the year, there were no exceptions from the Board of Directors' limitations.

The Bank uses the "Algorithmix" system for managing its assets and liabilities, market and liquidity risks, which is planned to go into production during the fourth quarter of 2007. Begun at the same time was the process of implementation and integration of the provisions of Basel II, according to the standard approach.

Main Investees

Bank Adanim Mortgages and Loans Ltd. (“Bank Adanim”)

The contribution of Bank Adanim to the Group’s net profit in the first nine months of 2007 amounted to NIS 24.1 million, compared with NIS 18.5 million in the same period last year. The increase in profit is due to the profit from the sale of fixed assets.

The return on equity (average capital, as defined in the public reporting directives of the Supervisor of Banks) reached 11.8% in the first nine months of 2007, compared with 11.7% in the same period last year. It should be noted that in the second quarter of 2006, Bank Adanim issued share capital to the Bank in the amount of NIS 72 million.

See Note 8 to the financial statements for details on the acquisition by the Bank of shares of Bank Adanim that had been held by others, and regarding the resultant conversion of Bank Adanim to a private company, wholly-owned by the Bank, and regarding the allotment of shares of Bank Adanim to the Bank.

"Tefahot" Insurance Agency (1989) Ltd. (formerly “Tebit” Insurance Agency (1989) Ltd.) ("Tefahot Insurance")

Tefahot Insurance is an insurance agency wholly-owned by the Bank, which engages in the management of life insurance and property insurance policies for the Bank’s mortgage customers.

Tefahot Insurance's contribution to the Group's net profit in the first nine months of 2007 was NIS 31.2 million, compared with NIS 21.8 million in the same period last year. The increase of 43.1% in profit is due mainly to the one-time provision for prior years that was recorded in the first quarter of 2006.

The return on equity reached 15.6% in the first nine months of 2007, compared with 12.2% in the same period last year.

See Note 16.A.3) to the financial statements for details on the institution of a new arrangement for marketing insurance within the framework of mortgages.

International Activities Overseas

The Bank Group is engaged in international private banking, providing financial services to Israeli customers who have activities outside of Israel, foreign trade finance, domestic credit and syndicated loans. Presented below is a description of the main international dispersal of the Bank's types of affiliates:

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

The Los Angeles Branch: The branch is engaged mainly in commercial banking, private banking and foreign trade. The deposits on deposit in the branch are secured by the Federal Deposit Insurance Corporation (FDIC). Most of the branch's customers are U.S. residents.

The London Branch: The branch is engaged mainly in business banking, including participation in loan syndicates, foreign trade, credit, receiving deposits, foreign currency trade and providing private banking services. The branch's customers are local, Israeli and international customers.

The Cayman Islands Branch: The branch provides private banking services. The Cayman Islands branch is operated through the representation of the Bank by a local bank in the Cayman Islands, pursuant to the existing management agreement between it and the Bank.

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

Representative offices: The Bank has a license to operate representative offices in Mexico, Uruguay and Germany. Within this framework, the Bank operates representative offices in Mexico City, Montevideo and Frankfurt.

In February 2007, the Bank established a subsidiary in the state of Delaware, in the U.S., named UMTB Asset Management Inc., which will engage in management of the Bank's nostro portfolio in the U.S. The company is expected to commence operations in 2007.

On April 4, 2007, the subsidiary, UMTB Securities Inc., received a license to trade securities trading in the U.S. capital markets and was admitted to the National Association of Securities Dealers (NASD). The subsidiary is engaged in providing broker dealer services.

United Mizrahi Bank (Switzerland) Ltd. ("Mizrahi Bank Switzerland")

The net profit in the first nine months of 2007 totaled 2,075 thousand Swiss Francs, compared with 1,808 thousand Swiss Francs in the same period last year, an increase of 15%.

The contribution of Mizrahi Bank Switzerland to the Group's business results, which is affected by the changes in exchange rates between the Swiss Franc and the shekel, amounted to profit of NIS 5.6 million in the first nine months of 2007, compared with profit of NIS 3.9 million in the same period last year.

The total assets of Mizrahi Bank Switzerland as of September 30, 2007 amounted to 147.4 million Swiss Francs, compared with 155.2 million Swiss Francs at the end of 2006. These figures do not include off-balance-sheet items, such as fiduciary deposits and customers' securities portfolios which represent the main activities of the Swiss bank.

Other matters

The independent auditor draws attention in the Review Report to the following:

See Notes 16.A-B to the financial statements regarding claims filed against the Bank, including claims for which motions were filed to recognize them as class actions, including with respect to insurance activities.

Internal Auditor

Information on the Group's internal audit program, including the professional standards by which the Internal Auditor operates, the annual and multi-year work plan and considerations in determining it, are included in the Report of the Board of Directors attached to the financial statements for the year 2006. In the report period, there were no material changes in this information.

The internal audit report for the first half of year 2007 was submitted on July 5, 2007 and was discussed by the Audit Committee on July 11, 2007.

Board of Directors

During the first nine months of 2007, the Bank's Board of Directors held 21 meetings in plenary session and 41 meetings of its various committees.

On January 29, 2007, Mr. Dov Mishor was appointed a director in the Bank.

On May 15, 2007, Mr. Yakov Steinmetz resigned from the Board of Directors, due to concerns over conflicts of interest between his role as outside director and his membership in the accounting firm that provides the Bank with an insignificant scope of services.

On May 21, 2007, Mr. Zvi Efrat resigned from the Audit Committee, after considering his continued membership on the committee, and believing that at this time, considering the professional services provided by the law firm in which he is a partner, to remove doubt and for appearances (and not for any other reason), it is preferable for him to discontinue his membership on the Audit Committee.

The Board of Directors thanks the retiring member of the Board of Directors for his significant contribution during their tenure and wishes success to the new member of the Board of Directors in performing his duties.

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 an Attestation 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, it was prescribed, 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 is not meant to cover the broad aspects of "the Effectiveness of the Internal Controls on the Financial Reporting", as noted.

The Bank's management, together with the President and Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures as of the end of the period covered by this Report, Based on this evaluation, the President and Chief Accountant of the Bank concluded that as of 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.

During the quarter ended September 30, 2007, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal control over financial reporting.

Jacob Perry	**Eliezer Yones**
Chairman of the Board of Directors	President and Chief Executive Officer

Ramat Gan, November 19, 2007

9 Kislev 5768

Income and Expense Rates - Consolidated (1)

Reported amounts (in NIS millions)

	For the three months ended September 30, 2007				For the three months ended September 30, 2006			
			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-unlinked								
Assets (3)	29,649	410	5.65		23,390	411	7.22	
Effect of embedded and ALM derivatives (4)	36,191	408			23,431	301		
Total assets	65,840	818		5.06	46,821	712		6.22
Liabilities (3)	39,464	(303)	(3.11)		32,435	(352)	(4.41)	
Effect of embedded and ALM derivatives (4)	24,680	(276)			11,197	(122)		
Total liabilities	64,144	(579)		(3.66)	43,632	(474)		(4.42)
Interest margin			2.54	1.40			2.81	1.80
Israeli currency linked to the CPI								
Assets (3)	35,469	1,298	15.46		35,431	528	6.10	
Effect of embedded and ALM derivatives (4)	4,981	96			2,088	30		
Total assets	40,450	1,394		14.51	37,519	558		6.08
Liabilities (3)	28,228	(1,023)	(15.30)		29,342	(415)	(5.78)	
Effect of embedded and ALM derivatives (4)	10,647	(273)			6,943	(88)		
Total liabilities	38,875	(1,296)		(14.02)	36,285	(503)		(5.66)
Interest margin			0.16	0.49			0.32	0.42
Foreign currency (5)								
Assets (3)	27,618	(816)	(11.30)		27,620	(446)	(6.30)	
Effect of derivatives (4)								
Hedging derivatives	608	(5)			512	3		
Embedded and ALM derivatives	34,416	(1,537)			28,079	(322)		
Total assets	62,642	(2,358)		(14.23)	56,211	(765)		(5.33)
Liabilities (3)	20,406	702	13.07		19,490	399	7.94	
Effect of derivatives (4)								
Hedging derivatives	591	11			508	(18)		
Embedded and ALM derivatives	40,229	1,663			35,467	503		
Total liabilities	61,226	2,376		14.64	55,465	884		6.22
Interest margin			1.77	0.41			1.64	0.89

(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 debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives (excluding options), embedded derivatives that were separated and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(5) Includes linked to foreign currency.

Income and Expense Rates - Consolidated (1)

Reported amounts (in NIS millions)

	For the three months ended September 30, 2007				For the three months ended September 30, 2006			
			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)	92,736	892	3.90		86,441	493	2.30	
Effect of derivatives (4)								
Hedging derivatives	608	(5)			512	3		
Embedded and ALM derivatives	75,588	(1,033)			53,598	9		
Total assets	168,932	(146)		(0.34)	140,551	505		1.44
Monetary liabilities generating financing expenses (3)	88,098	(624)	(2.86)		81,267	(368)	(1.82)	
Effect of derivatives (4)								
Hedging derivatives	591	11			508	(18)		
Embedded and ALM derivatives	75,556	1,114			53,607	293		
Total liabilities	164,245	501		1.21	135,382	(93)		(0.27)
Interest margin			1.04	0.87			0.48	1.17
On options		86				14		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were separated (4))		10				17		
Commissions from financing transactions and other financing income (5)		81				58		
Other financing expenses		(9)				(2)		
Profit from financing operations before provision for doubtful debts		523				499		
Provision for doubtful debts (includes general and supplementary provision)		(65)				(61)		
Profit from financing operations after provision for doubtful debts		458				438		
Total								
Monetary assets generating financing income (3)	92,736				86,441			
Assets deriving from derivatives (6)	1,900				1,098			
Other monetary assets(3)	489				492			
General and supplementary provision for doubtful debts	(182)				(212)			
Total monetary assets	94,943				87,819			
Total								
Monetary liabilities generating financing expenses (3)	88,098				81,267			
Liabilities deriving from derivatives (6)	1,342				1,063			
Other monetary liabilities(3)	1,576				1,547			
Total monetary liabilities	91,016				83,877			
Total surplus monetary assets over monetary liabilities	3,927				3,942			
Non-monetary assets	1,501				1,333			
Non-monetary liabilities	146				225			
Total capital resources	5,282				5,050			

(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 debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives (excluding options), embedded derivatives that were separated and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(5) Includes profits from the sale of investments in bonds and from the adjustment to fair value of bonds held for trading.
(6) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Income and Expense Rates - Consolidated (1)

Nominal - In US$ Millions

	For the three months ended September 30, 2007				For the three months ended September 30, 2006			
			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								
that generated financing income (3)	6,591	93	5.76		5,597	81	5.92	
Effect of derivatives (4)								
Hedging derivatives	145	(1)			118	1		
Embedded and ALM derivatives	8,212	93			6,371	75		
Total assets	14,948	185		5.04	12,086	157		5.30
Monetary liabilities in foreign currency								
that generated financing expenses (3)	4,874	(52)	(4.34)		4,385	(40)	(3.70)	
Effect of derivatives (4)								
Hedging derivatives	139	2			116	(4)		
Embedded and ALM derivatives	9,608	(116)			8,119	(90)		
Total liabilities	14,621	(168)		(4.62)	12,620	(134)		(4.32)
Interest margin			1.42	0.42			2.22	0.98

(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 debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, embedded derivatives that were separated and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(5) Includes Israeli currency linked to foreign currency.

Income and Expense Rates - Consolidated (1)

Reported amounts (in NIS millions)

	For the nine months ended September 30, 2007				For the nine months ended September 30, 2006			
			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-unlinked								
Assets (3)	27,713	1,199	5.81		23,042	1,169	6.82	
Effect of embedded and ALM derivatives (4)	32,201	1,277			21,437	785		
Total assets	59,914	2,476		5.55	44,479	1,954		5.90
Liabilities (3)	37,132	(900)	(3.24)		31,923	(979)	(4.11)	
Effect of embedded and ALM derivatives (4)	20,798	(797)			9,477	(322)		
Total liabilities	57,930	(1,697)		(3.92)	41,400	(1,301)		(4.21)
Interest margin			2.57	1.63			2.71	1.69
Israeli currency linked to the CPI								
Assets (3)	35,059	2,287	8.79		34,924	1,849	7.12	
Effect of embedded and ALM derivatives (4)	4,321	166			1,203	51		
Total assets	39,380	2,453		8.39	36,127	1,900		7.07
Liabilities (3)	27,796	(1,751)	(8.49)		29,237	(1,471)	(6.76)	
Effect of ALM derivatives (4)	9,935	(497)			5,749	(232)		
Total liabilities	37,731	(2,248)		(8.02)	34,986	(1,703)		(6.54)
Interest margin			0.30	0.37			0.36	0.53
Foreign currency (5)								
Assets (3)	26,100	242	1.24		26,522	(274)	(1.38)	
Effect of derivatives(4)								
Hedging derivatives	704	11			670	39		
Embedded and ALM derivatives	33,984	(1,112)			26,023	11		
Total assets	60,788	(859)		(1.88)	53,215	(224)		(0.56)
Liabilities (3)	19,752	(17)	(0.11)		18,871	390	2.75	
Effect of derivatives(4)								
Hedging derivatives	689	26			670	(28)		
Embedded and ALM derivatives	39,731	795			33,427	182		
Total liabilities	60,172	804		1.78	52,968	544		1.37
Interest margin			1.13	(0.10)			1.37	0.81

(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 debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives (excluding options), embedded derivatives that were separated and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Includes Israeli currency linked to foreign currency.

Income and Expense Rates - Consolidated (1)

Reported amounts (in NIS millions)

	For the nine months ended September 30, 2007				For the nine months ended September 30, 2006			
			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)	88,872	3,728	5.63		84,488	2,744	4.35	
Effect of derivatives (4)								
Hedging derivatives	704	11			670	39		
Embedded and ALM derivatives	70,506	331			48,663	847		
Total assets	160,082	4,070		3.39	133,821	3,630		3.63
Monetary liabilities generating financing expenses (3)	84,680	(2,668)	(4.22)		80,031	(2,060)	(3.45)	
Effect of derivatives (4)								
Hedging derivatives	689	26			670	(28)		
Embedded and ALM derivatives	70,464	(499)			48,653	(372)		
Total liabilities	155,833	(3,141)		(2.68)	129,354	(2,460)		(2.54)
Interest margin			1.41	0.71			0.90	1.09
On options		278				(6)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were separated (4))		34				57		
Commissions from financing transactions and other financing income (5)		298				216		
Other financing expenses		(20)				(2)		
Profit from financing operations before provision for doubtful debts		1,519				1,435		
Provision for doubtful debts (includes general and supplementary provision)		(178)				(241)		
Profit from financing operations after provision for doubtful debts		1,341				1,194		
Total								
Monetary assets generating financing income (3)	88,872				84,488			
Assets deriving from derivatives (6)	1,782				1,132			
Other monetary assets(3)	621				618			
General and supplementary provision for doubtful debts	(188)				(212)			
Total monetary assets	91,087				86,026			
Total								
Monetary liabilities generating financing expenses (3)	84,680				80,031			
Liabilities deriving from derivatives (6)	1,056				991			
Other monetary liabilities(3)	1,530				1,379			
Total monetary liabilities	87,266				82,401			
Total surplus monetary assets over monetary liabilities	3,821				3,625			
Non-monetary assets	1,615				1,501			
Non-monetary liabilities	156				215			
Total capital resources	5,280				4,911			

(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 debts.

(3) Excludes financial derivatives.

(4) Hedging financial derivatives (excluding options), embedded derivatives that were separated and derivatives (ALM) which comprise part of the Banks asset and liability management system.

(5) Includes profits from the sale of investments in bonds and from the adjustment to fair value of bonds held for trading and available for sale.

(6) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Income and Expense Rates - Consolidated (1)

Nominal - In US$ Millions

	For the nine months ended September 30, 2007				For the nine months ended September 30, 2006			
			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								
that generated financing income (3)	6,401	264	5.54		5,815	221	5.10	
Effect of derivatives (4)								
Hedging derivatives	169	3			148	8		
Embedded and ALM derivatives	8,160	256			5,754	176		
Total assets	14,730	523		4.76	11,717	405		4.64
Monetary liabilities in foreign currency					4,177	(105)	(3.37)	
that generated financing expenses (3)	4,840	(145)	(4.01)					
Effect of derivatives (4)								
Hedging derivatives	165	6			148	(5)		
Embedded and ALM derivatives	9,540	(308)			7,413	(228)		
Total liabilities	14,545	(447)		(4.12)	11,738	(338)		(3.86)
Interest margin			1.53	0.64			1.73	0.78

(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 debts.
(3) Excludes financial derivatives.
(4) Hedging financial derivatives, excluding options, embedded derivatives that were separated and derivatives (ALM) which comprise part of the Bank's asset and liability management system.
(5) Includes Israeli currency linked to foreign currency.

Certification

I, Eliezer Yones declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. for the quarter ended September 30, 2007 (“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 condition, results of operations, and changes in shareholders’ equity of the Bank at 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, at 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.

November 19, 2007 **E. Yones**

9 Kislev 5768 President and Chief Executive Office

Certification

I, Menachem Aviv, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. for the quarter ended September 30, 2007 ("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 condition, results of operations, 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.

November 19, 2007
9 Kislev 5768

M. Aviv
Chief Accountant and
Executive Vice-President

To the Board of Directors of Mizrahi Tefahot Bank Ltd.

Gentlemen:

Re: Review of the Condensed Unaudited Consolidated Interim Financial Statements for the Periods of Three Months and Nine Months Ended September 30, 2007

At your request, we have reviewed the condensed consolidated balance sheet of Mizrahi Tefahot Bank Ltd. ("the Bank") as of September 30, 2007, and the condensed consolidated statements of profit and loss and changes in shareholders' equity for the periods of three months and nine months then ended.

Our review was conducted in accordance with the procedures prescribed by the Institute of Certified Public Accountants in Israel. These procedures include, among other things: the reading of the aforementioned interim financial statements, reading the minutes of the shareholders' meetings and of the board of directors and its committees, and making inquiries with persons responsible for the financial and accounting matters.

We were provided with the reports of other auditors regarding the review of the interim financial statements of subsidiaries and affiliates. The assets of the subsidiaries, consolidated as aforesaid, constitute approximately 4.14% of total assets included in the interim consolidated balance sheet as of September 30, 2007, and their profits from financing operations, before provision for doubtful debts, constitute approximately 3.36% of the total profit from financing operations before provision for doubtful debts included in the interim consolidated statement of profit and loss for the nine months then ended. Likewise, we did not review the financial statements of an affiliate, in which the investment amount totals NIS11 million as of September 30, 2007.

Since our review was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the condensed interim consolidated financial statements referred to above.

In performing our review, including reading of the reports of other auditors, nothing came to our attention which indicates that any material modifications should be made in the aforementioned financial statements, so that they would conform with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.

We draw your attention to the contents of Note 16.A-B regarding claims filed against the Bank, including claims for which motions were filed to recognize them as a class action, including with respect to insurance activities.

Brightman Almagor
Certified Public Accountants (Israel)

Tel-Aviv, November 19, 2007
9 Kislev 5768

Condensed Consolidated Balance Sheet - at September 30, 2007

Reported amounts (In NIS millions)

	30.9.2007	30.9.2006	31.12.2006
	(Unaudited)	(Unaudited)	(Audited)
Assets			
Cash and deposits with banks	12,463	12,706	10,797
Securities	6,763	5,759	5,979
Securities borrowed or purchased in repurchase agreements (1)	13	-	-
Loans to the public	73,688	69,428 (2)	70,109
Loans to the Government	3	5	4
Investments in investees	18	42	42
Buildings and equipment	1,205	1,252	1,293
Other assets	2,727	2,134	2,487
Total assets	96,880	91,326	90,711
Liabilities and Shareholders' Equity			
Deposits from the public	76,074	72,988	73,234
Deposits from banks	4,357	4,485	3,073
Deposits from the Government	522	586	560
Debentures and subordinated notes	6,357	4,846	5,067
Other liabilities	4,124	3,346 (2)	3,710
Total liabilities	91,434	86,251	85,644
Minority interest	12	6	6
Shareholders' equity	5,434	5,069	5,061
Total liabilities and shareholders' equity	96,880	91,326	90,711

(1) See Note 2.
(2) Reclassified.

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

J. Perry **Chairman of the Board of Directors**	**E. Yones** **President and** **Chief Executive Officer**	**M. Aviv** **Executive** **Vice-President,** **Chief Accountant**

Ramat Gan, November 19, 2007
9 Kislev 5768

Condensed Consolidated Statement of Profit and Loss

Reported amounts (In NIS millions)

	For the three months ended September 30		For the nine months ended September 30		For the year ended December 31
	2007	2006	2007	2006	2006
		(Unaudited)		(Unaudited)	(Audited)
Profit from financing operations before provision for doubtful debts	523	499	1,519	1,435	1,987
Provision for doubtful debts	65	61	178	241	305
Profit from financing operations after provision for doubtful debts	458	438	1,341	1,194	1,682
Operating and other income					
Operating commissions	260	240 (1)	769	737 (1)	991
Profits (losses) from investments in shares, net	(1)	1	45	32	50
Other income	14	37 (1)	73	130 (1)	174
Total operating and other income	273	278	887	899	1,215
Operating and other expenses					
Salaries and related expenses	291	270	878	1,085	1,395
Maintenance and depreciation of buildings and equipment	105	98	311	279	385
Other expenses	82	72	238	245	337
Total operating and other expenses	478	440	1,427	1,609	2,117
Operating profit before taxes	253	276	801	484	780
Provision for taxes on operating profit	72	113	273	191	349
Operating profit after taxes	181	163	528	293	431
Share in after-tax net operating losses of affiliates	-	(2)	-	(4)	(4)
Net operating profit	181	161	528	289	427
After-tax profit from extraordinary items	3	1	233	213	216
Net profit	184	162	761	502	643
Profit per share (2)					
Basic profit per share (in NIS)					
Operating profit per share	0.82	0.74	2.39	1.32	1.95
Profit from extraordinary items	0.01	-	1.06	0.98	0.99
Total	0.83	0.74	3.45	2.30	2.94
Fully-diluted profit per share (in NIS)					
Operating profit per share	0.81	0.73	2.35	1.30	1.91
Profit from extraordinary items	0.01	-	1.03	0.96	0.97
Total	0.82	0.73	3.38	2.26	2.88

(1) Reclassified.
(2) Share of NIS 0.1 par value each.

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

Statement of Changes in Shareholders' Equity

Reported amounts (In NIS millions)

	For the three months ended September 30, 2007				For the three months ended September 30, 2006			
	Share capital and capital reserves	Dividend declared subsequent to balance sheet date	Retained earnings (1)	Total shareholders' equity	Share capital and capital reserves	Dividend declared subsequent to balance sheet date	Retained earnings (1)	Total shareholders' equity
				(Unaudited)				(Unaudited)
Balance as of beginning of period	1,966	125	3,343	5,434	1,928	125	2,943	4,996
Dividend paid	-	(125)	-	(125)	-	(125)	-	(125)
Net profit for the period	-	-	184	184	-	-	162	162
Capital reserve for benefit from allotment of options to employees (2)	3	-	-	3	7	-	-	7
Capital reserve for tax benefit	(4)	-	-	(4)	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	(112)	(112)	-	-	49	49
Related tax effect	-	-	41	41	-	-	(20)	(20)
Dividend declared subsequent to the balance sheet date	-	75	(75)	-	-	200	(200)	-
Profits on cash flow hedges, net	-	-	20	20	-	-	-	-
Related tax effect	-	-	(7)	(7)	-	-	-	-
Balance as of end of period	1,965	75	3,394	5,434	1,935	200	2,934	5,069

	For the nine months ended September 30, 2007				For the nine months ended September 30, 2006			
	Share capital and capital reserves	Dividend declared subsequent to balance sheet date	Retained earnings (1)	Total shareholders' equity	Share capital and capital reserves	Dividend declared subsequent to balance sheet date	Retained earnings (1)	Total shareholders' equity
				(Unaudited)				(Unaudited)
Balance as of beginning of period	1,953	-	3,108	5,061	1,915	-	2,761	4,676
Dividend paid	-	-	(325)	(325)	-	-	(125)	(125)
Net profit for the period	-	-	761	761	-	-	502	502
Capital reserve for benefit from allotment of options to employees (2)	14	-	-	14	19	-	-	19
Capital reserve for tax benefit	(2)	-	-	(2)	1	-	-	1
Adjustments for presentation of securities available for sale at fair value	-	-	(137)	(137)	-	-	(7)	(7)
Related tax effect	-	-	52	52	-	-	3	3
Dividend declared subsequent to the balance sheet date	-	75	(75)	-	-	200	(200)	-
Profits on cash flow hedges, net	-	-	17	17	-	-	-	-
Related tax effect	-	-	(7)	(7)	-	-	-	-
Balance as of end of period	1,965	75	3,394	5,434	1,935	200	2,934	5,069

(1) The retained earnings balance as of September 30, 2007 includes:
A. Negative differences from the foreign currency translation of units that had been autonomous overseas units totaling NIS 51 million (as of September 30, 2006 and December 31, 2006 - same).
B. Adjustments, net, for presentation of securities available for sale at fair value, totaling NIS 20 million debit (as of September 30, 2006 - NIS 32 million, as of December 31, 2006 - NIS 65 million).
C. Net gains on cash flow hedges of NIS 10 million.

(2) In the first nine months of 2007, 617,175 ordinary shares, NIS 0.1 par value each, were issued against the current exercise of options, within the framework of employee of employee options plan. In the second quarter of 2007, 1,938,771 ordinary shares, NIS 0.1 par value, were issued to the President, upon the exercise of options.

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

Statement of Changes in Shareholders' Equity

Reported amounts (In NIS millions)

	For the year ended December 31, 2006		
	Share capital and capital reserves	Retained earnings (1)	Total shareholders' equity
			(Audited)
Balance as of January 1, 2006	1,915	2,761	4,676
Dividend paid	-	(325)	(325)
Net profit for the year	-	643	643
Capital reserve for benefit from allotment of options to employees	26	-	26
Capital reserve for tax benefit	12	-	12
Adjustments for presentation of securities available for sale at fair value	-	49	49
Related tax effect	-	(20)	(20)
Balance as of December 31, 2006	1,953	3,108	5,061

(1) The retained earnings balance as of September 30, 2007 includes:
A. Negative differences from the foreign currency translation of units that had been autonomous overseas units totaling NIS 51 million (as of September 30, 2006 and December 31, 2006 - same).
B. Adjustments, net, for presentation of securities available for sale at fair value, totaling NIS 20 million debit (as of September 30, 2006 - NIS 32 million, as of December 31, 2006 - NIS 65 million).
C. Net gains on cash flow hedges of NIS 10 million.

(2) In the first nine months of 2007, 617,175 ordinary shares, NIS 0.1 par value each, were issued against the current exercise of options, within the framework of employee of employee options plan. In the second quarter of 2007, 1,938,771 ordinary shares, NIS 0.1 par value, were issued to the President, upon the exercise of options.

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

Notes

1. The financial statements as of September 30, 2007 have been prepared in accordance with the directives and guidelines of the Supervisor of Banks, and in conformity with the accounting principles related to preparation of interim financial statements, as prescribed in Standard No. 14 of the Israel Accounting Standards Board. The financial statements were prepared in conformity with the same accounting principles used in the preparation of the audited financial statements as of December 31, 2006, except as discussed in Note 2.

   These financial statements should be read in conjunction with the Group's annual financial statements and accompanying notes as of December 31, 2006.

2. Commencing January 1, 2007, a new public reporting directive took effect – "Transfers and Service of Financial Assets and Discharge of Liabilities". This directive adopts the measurement and disclosure principles prescribed in American Standard No. 140 relating to all transfer and service transactions of financial assets and the discharge of liabilities, including: repurchase and lending of securities; sale of loan portfolios, securitization of financial assets; associations and partnerships in credit; bank acceptances and participation in their risk; discount agreements.

   The provisions adopt the principles prescribed in American Standard 140 for distinguishing between transfers of financial assets that will be recorded as a sale and between other transfers. The principle was adopted, whereby a transferred financial asset will be stated in the balance sheet of the party that controls it, whether it is the transferor or recipient of the asset. The provisions prescribe control tests relating to repurchases, lending of securities, securitization of loans, sale and participation in loans. The provisions also adopt the measurement and disclosure principles prescribed in Standard 140 relating to the measurement of financial assets, which according to their contractual terms, may be discharged in early repayment, in a manner whereby the holder does not cover his investment.

   The new directive applies to the lending of securities, repurchase of securities, securitization of financial assets, other transfers of financial assets, providing of services to financial assets and discharge of liabilities effected commencing January 1, 2007.

According to the directive, recorded in “securities” in the Bank’s balance sheet will be securities that the Bank borrowed, which meet the conditions provided in the directive for transfer of control, including debentures that were borrowed from the borrowing reserve of the Ministry of Finance. Securities held by the Bank which were loaned to others while fulfilling the conditions for transfer of control, will not be recorded in the balance sheet. The gain or loss from their sale will be recognized in the statement of profit and loss, and new assets or liabilities representing the rights or obligations that the Bank retained in the borrowed securities will be recorded in the balance sheet.

The securities that were loaned or borrowed, or securities that were sold or purchased in Repo agreements, and in any case, with receipt/payment of the full consideration for them, and which do not meet the conditions for transfer of control, will be presented separately in the Bank’s balance sheet, as part of the item "securities", and the consideration for them will be recorded in the balance sheet as “secured debt”: the consideration received for securities loaned or sold in Repo's are recorded as “securities loaned or sold in Repo agreements”, on the liabilities side, and the consideration paid for the securities borrowed are recorded as “securities borrowed or purchased in Repo agreements” on the assets side. Within the scope of the application, borrowings of securities effected by the Bank from the Treasury's borrowings reserve of NIS 13 million were recorded as of September 30, 2007 in the item "securities borrowed or purchased within the framework of Repo agreements" in assets.

Application of the directives does not have a material effect on the operating results of the Bank.

3. At the end of March 2007, the Israel Accounting Standards Board published Accounting Standard No. 30 "Intangible Assets" ("the Standard"), which prescribes the accounting treatment for intangible assets that are not dealt with in another Standard, and also prescribes the requirements for financial statement disclosure for intangible assets.

   An intangible asset is an identifiable non-monetary asset, lacking physical substance. This identification requirement is intended to distinguish it from goodwill. The criterion of ability to identify an intangible asset exists when that asset:

- May be separated, i.e. may be separated or split from the entity and sold, transferred, a license for its usage can be issued, it may be leased or exchanged, separately or together in a related contracted, a related asset or liability; or
- Derives from contractual rights or other legal rights, without considering whether these rights may be transferred or separated from the entity or from rights or from other obligations.

According to the Standard, an entity will recognize an entity if, and only if, it is probable that the projected future economic benefits that may be allocated to the asset will flow to the entity, and if the cost of the asset may be reliably measured.

An intangible asset that qualifies for recognition as an asset will initially be measured at cost. After the initial recognition, the Standard permits to elect measurement as follows:

- According to the cost model: an intangible asset will be stated at its cost net of accumulated amortization and net of accrued impairment losses; or
- For intangible assets that have an active market, stated at a revalued amount based on their fair value on the valuation date net of accumulated amortization thereafter and net of impairment losses that accrued thereafter. The revaluation increment is charged directly to shareholders' equity, in the line item "revaluation reserve".

The entity must assess whether or not the useful life of the intangible asset may be defined. An intangible asset having a defined useful life will be amortized over its estimated useful life, subject to a test for impairment. An intangible asset having an undefined useful life is not amortized. Instead, an assessment is to be made of a decline in its value once a year, or more frequently if there are signs indicating that the asset could have sustained a decline in value.

The Supervisor of Banks adopted the provisions of Standard 30, but instructed the banks to apply it only in accordance with the cost model. Application of the Standard as adopted by the Supervisor of Banks will not, according to the assessment of the Bank's management, have a material effect on the Group's financial statements.

4. On October 14, 2007, the Supervisor of Banks published a draft of a directive for the measurement and disclosure of defective debts, credit risk and provision for credit losses. The directive adopts the measurement and disclosure principles of problem debts and provisions for credit losses as prescribed in the United States in Accounting Standards No. 5, 15, 114 and 118, and the requirements for the process of determining the provision for credit losses and for the required documentation for the provision determined, as prescribed in SAB102.

   The directive prescribes definitions and rules for classifying defective and other debts, credit risk, measurement of the provision for credit losses, accounting write-off of debts and recognition of income from debts.

   The directive includes explicit requirements for carrying out a methodical process for determining the provisions for credit losses that are to be applied consistently, and to save the documentation that will support the process and provisions. According to the directive, the amount of the provision for credit losses will be determined according to objective logical and mathematical models. For large debts that will be classified as "defective debts", the impairment will be measured based on the discounted cash flows expected from them in the future, at the original effective interest of the debt. The difference between the recorded balance of the debt and the discounted amount will be charged to the provision for credit losses. Regarding debts, the collection of which is conditional on collateral, the provision for credit losses will be calculated according to the fair value of the collateral. The remaining debts will be divided into homogenous categories, for which a group provision will be prepared according to statistical models. Within the scope of the directive, an elaboration is required of the disclosure given in the financial statements regarding the methods and assumptions used by the Bank when measuring the provisions for credit losses and their various elements.

   According to the clarifications given orally, the Supervisor of Banks will take action to arrange the matter in connection with the tax authorities.

   It is planned for the directive to take effect for the financial statements that will be published for periods commencing January 1, 2009.

   The Bank is in the throes of a comprehensive process for implementing the directive, which includes the business aspects required to update and change them, and the accounting aspects for recording and disclosure in the financial statements required by the directive, and the changes in notes and ancillary information to the financial statements. During 2008, a computer system will be set up to deal with the classification of debts and provisions for credit losses according to the directive. The updated accounting policy deriving from implementation of the directive is in the stages of evaluation and formulation, concurrent with the specifications and setting up of the systems, as described above.

As of the date of these financial statements, the Bank's management is unable to assess the degree of effect of the implementation of the directive on the financial position and on the operating results of the Bank Group, since the models have not yet been formulated and the systems for identifying and classifying defective debts and calculating the credit losses have not yet been structured. However, the rules prescribed in the new directive on which the provision for credit differences will be based on discounted future cash flows, differing from the non-discounted calculation presently made as of the reporting date, are expected to contribute to increasing the provision for credit losses.

5. Since July 2006, the Bank has been implementing Proper Conduct of Banking Business Regulation No. 325 "Management of Credit Facilities in Current Accounts", regarding credit facilities in NIS. Since January 2007, this Regulation is also implemented with respect to the management of a credit facility in foreign currency.

   The Regulation deals with the prohibition on exceeding approved credit facilities in current accounts (except in exceptional cases, as provided in the Regulation) and with anchoring the credit facilities in the current account in an agreement between the bank and the customer. According to the Regulation, the Bank does not record to the statement of profit and loss any interest income on deviations arising in accounts that were classified as problem accounts, until the balance returns to the limits of the overall credit facility. When there is a deviation in the current account, the Bank considers the required classification of the debt, in accordance with the directives of the Supervisor of Banks.

   The total interest not charged to the statement of profit and loss in the first nine months of 2007 as a result of implementation of the Regulation, amounted to NIS 12 million. In the third quarter of the year, income of NIS 2 million was recorded due to the return of customers to facility limits.

6. On November 13, 2005, after receiving approval from the audit committee, the Bank's board of directors approved the sale of the provident funds managed by the Bank, as follows:

- The sale of assets or operations of all the provident funds managed by the Bank as a single unit, for proceeds of NIS 405 million, as of September 30, 2005, subject to adjustments.
- The sale of all of the Bank's holdings (60%) in the shares of Netivot – Management Company Ltd. ("Netivot") for proceeds of NIS 37 million. Netivot manages 4 provident funds with total assets of NIS 1.9 billion.

On October 30, 2006, the Bank's board of directors approved the signing of an agreement for the sale of the provident fund management activities of the Bank.

As of October 31, 2006, the sales agreement was signed, subject to various contingent conditions.

On March 5, 2007, after receipt of all the requisite regulatory approvals, the transaction was closed in consideration for NIS 343 million, after adjustments that were agreed by the parties to the transaction. The consideration was calculated at the rate of 3.63% of the volume of provident fund assets managed by the Bank as of February 28, 2007, totaling NIS 9.4 billion, after a net reduction of assets, without consideration, compared with the volume of assets managed on September 30, 2005.

As part of the transaction, in addition to the sales agreement, an operating agreement, distribution agreement and special services agreement were signed between the parties,

Under the terms of the transaction, the Bank remains a guarantor for 5 years from March 5, 2007 – 3 years without consideration, for the nominal value of the deposits of members that were members of several of the provident funds included in the transaction, according to the provisions of their bylaws. The guaranteed amount is NIS 143 million, calculated as risk assets according to the directives of the Bank of Israel against actual assets of NIS 3.1 billion.

On this transaction, the Bank recorded net profit from extraordinary items of NIS 199 million in its statement of profit and loss in its financial statements for the first quarter of 2007.

Further to the Bank's announcement of February 25, 2007, that it, together with the other shareholders in Netivot, are conducting negotiations for the sale of all of Netivot's provident fund activities, the audit committee and board of directors of Netivot resolved on March 25, 2007 to sell all of the provident fund management activities of Netivot. On March 26, 2007, the audit committee and board of directors of the Bank gave the Bank's consent to the transaction. On March 28, 2007, the sales agreement was signed.

The transaction for the sale of the provident fund activities of Netivot closed on June 28, 2007, in consideration for NIS 51.8 million, representing 2.7% of the average volume of assets that will be managed by Netivot in the last 3 complete months before the closing of the transaction. The transaction closed after all the requisite regulatory approvals were received.

The gain to Netivot on the closing of the sale was NIS 32 million, after tax. On the sale, the Bank posted net profit from extraordinary items of NIS 19 million in its statement of profit and loss for the second quarter of 2007 (60% - the percentage of its holdings in Netivot).

As part of the transaction and in addition to the sale agreement, additional agreements were signed between the parties, including an agreement for the Bank to operate the provident funds and an agreement for the Bank to provide services to the provident fund members in 2007.

7. On June 26, 2007, the Banking Law (Service to Customers) (Amendment No. 12), 2007 was enacted. The Amendment to the Law is intended to increase the level of competition between banks, and to this end, provides arrangements related to the supervision of commission prices and increasing the transparency of prices of banking services, so that customers will be able, as a practical matter, to compare the prices of banking services.

   According to the Law, the Bank of Israel Governor, after consulting with the advisory committee, is authorized in accordance with the provisions of the Bank of Israel Law, 1954, to prescribe a list of commissions that a bank corporation will be permitted to collect for banking services, and the manner in which these commissions are to be calculated ("full pricelist"). The purpose of this Regulation is to reduce the number of commissions and create uniformity in the names of the commissions between all the banks. Likewise, the Bank of Israel Governor will be authorized to prescribe a limited list that will derive from the full pricelist, according to type of banking services or type of customer ("limited pricelist"). The bank corporation will be required to determine the price that it collects for every service included in the full pricelist and to inform its customers about the pricelist and the commission amounts it collects. It will be prohibited to collect a commission not included in the pricelists. The Governor will be authorized to exempt bank corporations from the obligation to collect commissions according to the full pricelist.

The Law provides a cause of action, which if it occurs, will authorize the Governor to declare the banking service as a regulated service. If a service is declared a regulated service, the Governor will be authorized to set the price for commissions for such a service, or to determine, in appropriate cases, the maximum price and prohibit the collection of a certain commission. Likewise, the Supervisor of Banks will be authorized to hear and decide a request by a bank corporation to raise the commission on a regulated service. The Law also includes an absolute prohibition on collecting a commission on a regulated service in violation of the provisions of the Governor and the Supervisor. If a certain service is declared a regulated services, and the Governor did not set a price for it or prohibit the collection of a commission, and the bank corporation will be interested in raising its price above the price charged before the declaration, it will have to file a request. The Law also provides an obligation to give prior notice to the Governor of an increase in the commission for a service that is not regulated.

The Law adds that the Supervisor will be authorized to impose monetary sanctions on a bank corporation that violates the provisions of the Law.

On November 14, 2007, the Supervisor of Banks published a draft of the new pricelist. The Bank is examining the draft and its significance. In view of the uncertainty with respect to the manner in which they the nature of the activities of the banking system will be influenced as a result of the new pricelist, it is not possible at this stage to estimate the extent of the effect of the Amendment on the Bank's operating results.

8. On February 4, 2007, Tel-Aviv District Court ruled to approve the arrangement under Section 350 of the Companies Law, whereby the Bank will acquire from all the other shareholders in Bank Adanim Mortgages Ltd. ("Bank Adanim") holding ordinary shares, NIS 1 par value, all the shares that they owned. In the wake of this ruling, on February 9, 2007, the Bank acquired from the said shareholders, all of the shares they owned, conferring 3.5% of capital and 1.8% of voting rights. Following the acquisition, Bank

Adanim was converted from a public company to a wholly-owned private company of the Bank.

On February 18, 2007, Bank Adanim allotted to the Bank 6,212 ordinary shares, NIS 1 par value each, for NIS 72 million that were paid to Bank Adanim in May 2006, under the terms of an undertaking between the Bank and Bank Adanim that was intended to provide Adanim with the equity required for its day-to-day operations.

9. On March 27, 2007, the Bank signed a memorandum of understanding, whereby the Bank will acquire 50% of the issued capital of Bank Yahav for State Employees ("Yahav"), and the related rights ("the acquired shares"). In consideration for the acquired shares, the Bank will pay consideration to be based on the shareholders' equity required by Yahav to maintain minimum capital of 10% ("required equity").

It was agreed that Yahav will continue to receive computer services from Bank Hapoalim, in accordance with the terms now prevailing between Bank Hapoalim and Yahav, for a period of three years from the closing date of the transaction.

On September 9, 2007, a detailed agreement was signed for the sale of the shares acquired on the basis of principles stipulated in the memorandum of principles dated March 27, 2007.

On November 13, 2007, an addendum was signed to the agreement between the parties, which included the setting of the closing date of the transaction as March 27, 2008, or if until such date, the sale of the provident funds owned or controlled by Yahav ("the funds") are not sold, the closing date will be postponed to June 27, 2008. Likewise, subject to the provisions of all laws, arrangements were prescribed relating to Yahav's preparations to compete in the segment in which it operates. Moreover, the parties determined between them the final proceeds that the Bank will pay for the Yahav shares owned by Bank Hapoalim, in accordance with the calculation principles stipulated in the agreement, at NIS 371 million. Hence, the proceeds will not be further adjusted based on changes in the capital or results of Yahav until the closing date (except for an adjustment that could derive from a dividend distribution). Furthermore, Bank Hapoalim will be entitled to receive 50% of the surplus equity expected in Bank Yahav as a result of the sale of the funds.

The transaction's closing is contingent on several suspending conditions, including receipt of the consent of the Anti-Trust Commissioner; receipt of a permit from the Bank of Israel Governor to acquire and hold the sold shares and control of Bank

Yahav by the Bank; the closing of the sale of the provident funds owned or controlled by Yahav; the transfer of the founders' shares in Bank Yahav (which constitutes part of the acquired shares) in accordance with the chapter "Share Capital" in the memorandum of association of Bank Yahav.

10. On November 31, 2007, the Banks signed a memorandum of principles with Isracard Ltd. and Europay (Eurocard) Israel Ltd. ("Isracard" and "Europay", respectively), the key points of which are provided below:

Isracard, Europay and the Bank will conduct accelerated negotiations among themselves (in an effort to complete them before February 29, 2008), to replace the arrangements in existing undertakings with a new agreement (for a 10-year period), the objective of which is the issuance of "Mizrahi-Tefahot" brand credit cards, and determining the modes of operations and services to be provided by Isracard and/or Europay for the debit cards they issue, which will be distributed by the Bank to its customers ("the new agreement"). The new agreement will be signed not later than February 29, 2008, and in consideration, the Bank will be entitled to the allotment, for no additional consideration, of 3.6% of the ordinary shares of Isracard and Europay, for, as noted, the new agreement and the arrangements within its framework.

If the new agreement is not signed by February 29, 2008, the Bank will be entitled to an allotment of 1.8% of the ordinary shares of Isracard and Europay, and in consideration, the existing agreements will continue for a 10-year period from the signing date of the memorandum of principles. These shares will be allotted to the Bank by the end of 2007, but in such a case, the Bank will be allowed to distribute the branded card through any other party it chooses.

It should be clarified that the maximum number of shares that will be allotted to the Bank in consideration for the new agreement, as noted, will be 3.6% of the shares of Isracard and Europay. The shares will be allotted subject to the granting of a "right of first refusal" that is acceptable to Bank Hapoalim Ltd. in the transfer of shares by Mizrahi Tefahot to a third party and subject to a trade-restriction period, pursuant to which Mizrahi Tefahot will not be allowed to transfer the shares to any third party (except for Bank Hapoalim) for a period of one year (said right of first refusal and restricted-trading period will remain in effect as long as the shares of Isracard and/or Europay have not been listed for trading on the stock exchange).

The memorandum of understanding is subject to all regulatory requirements of all laws, if any.

11. On January 28, 2007, the Bank signed an agreement for the sale of 7.95% of the rights in capital and voting in Mofet Israel Technology Fund Ltd. ("Mofet"), which is held by the Bank, in consideration for NIS 8.3 million, subject to adjustments.

    Under the terms of the agreement, the Bank granted the buyer a call option, which is exercisable for 12 months, commencing from the closing date of the sale ("the call period"), to purchase the balance of the Bank's holdings in Mofet, representing 11.9% of the rights in capital and voting ("option shares").

    Likewise, the buyer granted the Bank a put option, exercisable for one month from the end of the call period, for the sale of the option shares at an amount equal to the option proceeds.

    On January 30, 2007, all the contingent conditions for executing the transaction were fulfilled. On May 1, 2007, the option was exercised, and the Bank sold the balance of its holdings in the shares of Mofet for a total of NIS 14.5 million. The closing of the transaction, including exercise of the option, after the adjustment for effects of changes in deferred taxes, contributed NIS 8 million to the Bank's net profit from extraordinary items.

12. On October 6, 2006, the Bank signed agreements for the sale of five real properties in Tel Aviv from a Bank and a wholly-controlled subsidiary of the Bank ("the sellers"), in consideration for NIS 109 million. Under the terms of the sale, the Bank will lease two of the properties that were sold for three years from the date conveyed to the buyers. The Bank also gave its agreement in principle to provide the buyers with loans for partial financing (not to exceed 50%) of the consideration for the bought properties at loan terms to be agreed separately between the parties, in accordance with the Bank's procedures and against collateral to be agreed by the parties.

    In June 2007, all of the suspending conditions were fulfilled, and the sale was closed. The gain (after-tax) on the sale, based on the independent assessment of the Bank relating to a betterment tax liability, reaches NIS 10 million. According to the betterment tax assessment received from the tax authorities (on which the Bank has filed an objection) for the transaction, the Bank has an additional tax liability of NIS 8 million, for reasons including technical reasons that will be settled by the Bank. If the

Bank's objection is not accepted with respect to the betterment tax assessment, the net profit from extraordinary items to be posted by the Bank for the transaction will total NIS 2 million. Net profit from extraordinary items was recorded in the statement of profit and loss for the second quarter of the year, which in the opinion of the Bank's management, will not be less than the net profit expected after exhaustion of the assessment process.

13. On October 30, 2006, the Bank's board of directors approved the issuance of subordinated notes of the Bank which will be deemed complex capital instruments ("Tier II capital"), as the term is defined in Regulation 311 of Proper Conduct of Banking Business Regulations, and in accordance with the approval received from the Supervisor of Banks on November 12, 2006, in an amount up to NIS 500 million. The subordinated notes are certificates of liability which, upon the occurrence of certain events specified in advance, will be converted by means of a forced conversion, according to a formula specified in advance, into shares of the Bank.

    On November 15, 2006, Ma'alot Israel Rating Company Ltd. issued a rating of (AA-) to the subordinated notes that were issued. The rating of the subordinated notes in this offering is based on the rating of the Bank's debentures, including subordinated notes, which are rated AA+, with the changes required by the terms of the subordinated notes. It should be noted that if the Bank will issue complex Tier I capital in the future, the Bank will maintain an original Tier I capital ratio (excluding complex Tier I capital) of at least 6%. On May 16, 2007, the same rating was approved for the capital notes that were allotted, within the framework of the prospectus published for the purpose of listing them for trading.

    In November 2006, subordinated notes were issued to institutional investors totaling NIS 451 million par value, to be repaid on January 1, 2106. The capital notes may be repaid early by the Bank, commencing December 31, 2021, once every 5 years.

    On May 20, 2007, the Bank's Board of Directors approved the prospectus, pursuant to which the complex capital notes issued were listed for trading, and will enable an expansion of the series and an additional issuance of complex capital notes (Series A), up to the cumulative sum of NIS 2 billion. On May 21, 2007, permission was received from the Israeli Securities Authority for publication of the prospectus. The issued capital notes that were issued were registered for trading in early June 2007. In June 2007, additional subordinated notes totaling NIS 500 thousand par value were issued.

14. On May 14, 2007, the board of directors adopted a resolution, effective as from May 17, 2007, to instruct the Bank's Executive Management to take action so that commencing from the financial statements for the second quarter of 2007, the capital adequacy (including upper Tier II capital) will not be less than 11.2%. This resolution is a continuation of the resolution of the Bank's board of directors from April 2006, that the capital adequacy ratio, excluding Tier II capital, will not be less than 10%. As aforesaid in Note 13, the Bank issued additional upper Tier II capital in the amount of NIS 500 million.

15. Various claims are pending against the Bank and its subsidiaries, primarily, claims of customers, as well as motions for recognition of various claims as class actions. In the estimation of the management of the Bank, based on the opinion of its 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 the actions, in which the claim amount exceeds 1% of the Bank's equity (as of September 30, 2007: NIS 54 million):

    a. In March 1999, a claim was filed 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 its 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. In September 1999, the plaintiffs filed a response to the defense motion, which contained the plaintiffs’ version of some of the claims raised in the Bank’s defense motion, in which they claim, inter alia, that on the date the company’s account was frozen, the Bank had sufficient collateral in excess of the debit balance and of the credit facility.

       In June 2000, the Court, at the Bank’s request, ordered the company’s shareholders to be removed from the complaint because they had been added unlawfully. In September 2005, the Court ordered a stay of proceedings at the conditions stipulated in the ruling, which actually means the dismissal of the claim. In November 2005, the plaintiff filed a motion to resume the claim from the stage at which it was stayed. In December 2005, the Court ruled that resumption of the claim should be allowed. The Bank filed a motion for leave of appeal of this ruling with the Supreme Court. The Supreme Court dismissed the motion for leave of appeal filed by the Bank, and the evidentiary phase of the case has begun.

In the estimation of the Bank’s management, based, inter alia, on the information it has and on a legal opinion received for this purpose, which assumes that the Bank's version tears down the basis of the plaintiffs' claims, and due to the fact that the impression from the questioning of witnesses and the findings revealed to date in these interrogations, there is a very reasonable chance that the plaintiffs' claims with respect to the Banks liability will be dismissed. The probability that the exposure to risk in the claim will be realized is remote. Therefore, no provision was included in the financial statements.

b. In June 2001, a claim was lodged in Tel Aviv District Court in the amount of NIS 40 million. The plaintiff alleges that the Bank unlawfully instituted liquidation proceedings against it, which resulted in its collapse.

The Bank has filed a statement of defense, which rejects the plaintiff's allegations and argues that the plaintiff's claim should be dismissed outright as the statue of limitations has expired. The Court rejected the Bank's statute-of-limitations argument.

In the estimation of the Bank's management, based on the legal opinion it obtained on this matter, the risk that the Bank will be forced to bear any amounts, above and beyond the amount of the insurance deductible stipulated by the Bank's existing insurance coverage, for which a provision was recorded in the books of account, is remote.

c. In December 2001, a statement of claim was filed in Tel Aviv District Court in the amount of NIS 80 million. The plaintiffs allege that a bank clerk (who was suspended), when he was an employee of the Bank, executed numerous unlawful transactions in their accounts, without their permission and without their knowledge. The plaintiffs allege that as a result of these acts, they experienced a credit crisis, which required them to effect financial transactions that would not have been effected otherwise, as a result of which they allege that they sustained direct and indirect losses, in tens of millions of NIS.

In January 2002, the Bank filed a statement of defense, in which it argued as preliminary arguments, inter alia, that the statue of limitations had expired for all of the plaintiffs allegations relating to transactions executed more than seven years prior to the filing of the claim. It was also argued that the plaintiffs had received statements on what was occurring in their accounts, and that they cannot deny the accuracy of the contents of the Bank's books of account. In the body of the statement of defense, it was argued that the plaintiffs knew and/or should have known what was done in their accounts, and that unfortunately they were very negligent in examining their account statements and allowed the execution of the alleged transactions, which are denied by the Bank, 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.

In January 2006, the plaintiffs filed a motion for a partial ruling. In February 2006, the Bank filed its objection to the plaintiffs' motion. In July 2006, the Court dismissed the plaintiffs' motion for the issuance of a partial ruling.

In the estimation of the Bank's management, based on the legal opinion it obtained, the prospects that the Bank itself will be forced to bear the amount of the claim are remote. Therefore, no provision was recorded in the financial statements.

d. In July 2003, a claim 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 did not detail the calculation method for the claim amount nor did it cite a specific amount being claimed from each of the defendants.

The claim is based on 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 principle balance alone. A motion for an additional hearing on this matter was dismissed by the Supreme Court.

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. It should be noted that for many years, Bank Tefahot has claimed against the Stamps Duty Authorities, also through the Association of Banks, that the requirement for payment of stamp duty on future interest was inappropriate, but the Stamp Duty Authorities rejected these claims.

On the surface, since every amount collected by Bank Tefahot for the stamp duty was collected in accordance with the requirements of the authorities, and the amounts were transferred to the authorities, it appears that if this claim is appropriate it should be only be brought against the Stamp Duty Authorities, which should refund the duty that was unlawfully collected, if it was unlawfully collected. Therefore, in the estimation of the Bank's management, which is based on the opinion of its legal counsel, the chances of the claim against the Bank are remote, and no provision is needed in the financial statements for this claim.

e. In August 2003, an action was filed against five banks, including the Bank, as well as a motion for recognition as a class action ("the Claim"). 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 respondent banks filed their response to the motion for recognition as a class action, and the plaintiffs filed a response to the Banks' response. The Bank argues that it had fulfilled the new rules of proper disclosure, as stated in the aforementioned Amendment No. 2 to Banking Regulations (Service to Customer)(Proper Disclosure and Delivery of Documents), 2003, with respect to the plaintiffs and to all of its customers.

In December 2005, oral arguments of the parties were heard before the Court. After the hearing, the plaintiffs requested that two of the banks be removed from the claim, while keeping the claim against three banks, including the Bank. The Court has not yet issued its ruling on recognition of the claim as a class action.

In the estimation of the Bank's management, based on the opinion of legal counsel it obtained, the prospects for the plaintiffs to succeed in their claim are remote. Therefore, no provision was recorded for this claim in the financial statements.

f. In April 2003, a claim was filed in Tel Aviv District Court against the Bank for the payment of NIS 12 thousand, as well as a motion for recognition as a class action for the payment of a total of NIS 300 million to a group of plaintiffs that the plaintiffs are petitioning to represent. The plaintiffs allege that the Bank must refund to them personally and to the entire Group, charges that were recorded in the 7 years preceding the filing 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 improper disclosure by the Bank of the nature of these charges. The plaintiffs requested for themselves, in addition to the amount of the claim, fees for their work on filing the claim and fees for their representatives.

In April 2005, the Court dismissed the plaintiffs’ motion to recognize their claim as a class action. In June 2005, the plaintiffs filed an appeal of this ruling. On October 10, 2007, the Supreme Court issued a judgment on the appeal, ruling that in view of the Class Action Law, 2006 ("the New Law"), which was enacted after the District Court's ruling on this matter, the appeal was accepted, as provided below. The Supreme Court, in its ruling, returned the proceedings to District Court, so that it will consider whether it is appropriate to make use of a provision that empowers the Court, inter alia, to consider replacing or adding another representative plaintiff. The Supreme Court also ruled that the Bank is allowed to be heard before the District Court in the hearing that will repeat claims for changes that occurred after the ruling of the District Court in April 2005, and ruled that the Bank may retain its claims for appeal if and to the extent necessary.

Under these circumstances, if a substitute plaintiff will be found that meets the requirements of the new law, the motion will be approved and the claim will be filed as a class action, and compensation will be ruled for the plaintiff that is chosen as the representative plaintiff, and fees to his representatives. However, in view of the ruling of the District Court from April 2005, that the relief it would have granted if approved as a class action was relief that orders the Bank to correct its books in a manner that the charges that do not comply with the ruling will be cancelled, and will order the Bank to provide information to the customers whose accounts in the Bank are in legal proceedings, the exposure to the Bank is the costs involved in carrying out the instructions of the Court and not for financial relief beyond the payment of fees to the plaintiff and his representative, as aforesaid. The Bank has fulfilled the instructions of the ruling from April 2007 since the ruling was received and henceforth.

Accordingly, in these circumstances, in the estimation of the Bank based on the opinion of its legal counsel, the chances for additional relief to the plaintiff can be categorized as remote. Therefore, no provision was included in the financial statements.

g. 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"), on behalf of borrowers of Bank Tefahot, estimated at a total 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.

Bank Tefahot filed a motion with the Court to dismiss outright the motion for recognition of the action as a class action. The District Court accepted the Bank's motion and dismissed the claim. In August 2005, the plaintiffs filed an appeal of this ruling to the Supreme Court. On January 14, 2007, the Supreme Court ruled, within the framework of the appeal, to dismiss outright the motion for recognition as a class action, and ordered the parties to submit their positions with respect to the issue of the implications of the Class Action Law, 2006, on the proceedings in this case. The case was heard in the Supreme Court on May 2, 2007, and following the hearing, the Supreme Court ruled on May 9, 2007, that the handling of this appeal will be suspended until the Court rules on a claim having the same cause of action against the Bank, which was filed in Haifa District Court in June 2006 by some of the plaintiffs in the current proceedings, and which are provided in Par. 15)N. below. The ruling further stipulated that if an appeal of the ruling to be received in the same claim being conducted in Haifa District Court, when the said ruling is issued, it will be possible to hear the two appeals together.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the chances of the appeal, the claim and the motions for recognition as a class action fall within the definition of "possible". In management's opinion, the financial statements include a proper provision.

h. 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 tender offer, the Bank offered to purchase from the public holding shares of Bank Tefahot, all of their shares, which numbered 6,909,842, in consideration for NIS 49.5 per share (after amending the tender offer).

As of the date of the tender offer, the balance sheet value of the equity of Bank Tefahot was NIS 2.06 billion, and the value of Bank Tefahot, deduced from the share price at which the tender offer was executed, was NIS 2.4 billion. The value inherent in the tender offer totaled 118% of shareholders' equity (accounting basis) of Bank Tefahot 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 and on the opinion of its legal counsel in this matter, and, also in consideration of the claims of the plaintiff, such as, for example, that the value of Bank Tefahot is NIS 17.7 billion, an unreasonable amount, lacking all proportion to the value of banks in Israel, it may be said, with the requisite caution, that the likelihood that the claim will be sanctioned is remote, and, accordingly, no provision was recorded in the financial statements.

i. In March 2005, an action was lodged 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, which includes damages allegedly sustained as a result of the initial damage ("the Action").

The Action was provided to the Bank at the end of June 2005. 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. 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 estimation of the Bank's management, the financial statements include a proper provision.

j. 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.

The plaintiffs allege that over the years they had deposited large amounts, totaling millions of NIS in the Bank, and executed numerous investment transactions in diverse investment alternatives, mainly through daily telephone contact with an employee of the Bank's branch, who executed their instructions and reported to them on their execution and on the balances in their accounts. The plaintiffs allege that according to the reports of the Bank branch's employee who serviced their account, the balances in their accounts reached NIS 91 million at the end of 2003.

Based on this information, the plaintiffs allege that they entered into an agreement to purchase a home at a cost of more than NIS 10 million. However, the plaintiffs allege, de facto and after entering into the agreement to purchase a home, they revealed that the reports provided to them by the Bank's employee were false and that the investment transactions had not been executed in their accounts, and essentially, a debit balance existed in the accounts. Hence, the plaintiffs allege that they sustained heavy damages, and the amount they claim is comprised of the last balance reported to them as existing in their accounts in the Bank, totaling NIS 91 million and of the damages they sustained for canceling the home purchase agreement and damages for emotional distress.

In July 2006, the Bank filed its Defense, claiming, inter alia, that the plaintiffs are unable to provide details or prove which investment instructions they had issued, and not a single investment transaction was executed in the accounts in a capital market during the alleged period, and in any case, the alleged balances did not aggregate in their accounts. The Bank claimed further that the yields alleged by the plaintiffs – of thousands of percents, at a growth rate of more than NIS 30 million annually – are unreasonable and not logical, even more so for investors without expertise in the field, and when the starting equity of the plaintiffs in the Bank totaled a mere NIS 150 thousand.

Likewise, the Bank claims that the reports provided to the plaintiffs by the Bank's employee regarding the huge amounts that aggregated in their accounts, as these reports were provided, were clearly illogical and unreasonable, and were provided solely with the knowledge of the Bank's employee, while making misrepresentations and performing deceptive and fraudulent acts without the Bank's consent, without its knowledge, and without being able to prevent it through the reasonable means available to it.

In the estimation of the Bank's management, based on a legal opinion it obtained, considering legal precedents ruled by the Supreme Court on a similar matter in the past, according to which false account balance confirmations are not to be deemed a contractual obligation that binds the Bank, and in view of the numerous questions raised by the plaintiffs' version – inter alia regarding the unreasonable yields that the plaintiffs allege had aggregated in their accounts – the prospects that the plaintiffs will succeed in their claim are remote. Accordingly, no provision was recorded in the financial statements for this claim.

k. In April 2006, a claim was lodged with Tel-Aviv District Court in the amount of NIS 50 million against the Bank and several officers in the Bank for damages allegedly sustained by the plaintiff from not being provided with the credit that had allegedly been promised to him, and for not issuing approval to prepare a second mortgage in favor of another bank, as allegedly promised to him – actions that he alleges led to his financial and emotional collapse.

The Bank filed its Writ of Defense in September 2006, in which it argued that the claim should be dismissed outright, because the plaintiff's allegations lack any basis and do not constitute a cause of action, and since of the statute of limitations had expired for the cause of action.

The District Court accepted the Bank's arguments, and on February 6, 2007, dismissed the claim outright, due to expiration of the statute of limitations. The plaintiff filed an appeal with the Supreme Court on February 14, 2007. Within the framework of the appeals process, the plaintiff's motion for an exemption from the fee and from a deposit of a guarantee was dismissed by the Registrar of the Supreme Court. The plaintiff appealed this ruling. No ruling has been issued on the appeal.

In the estimation of the Bank's management, based on the opinion of its legal counsel, in view of the ruling of District Court that the statute of limitations for the cause of action had expired, and view of the fact that the plaintiffs' allegations lack any basis, the prospects for the plaintiff to succeed in his claim are remote. Therefore, no provision was recorded in the financial statements for this claim.

l. In April 2006, a claim was filed in Haifa District Court against the Bank and against Bank Hapoalim Ltd. in the amount of NIS 183 million, as a result of not providing credit that they had allegedly been promised to the plaintiffs, allegedly causing their collapse. The Registrar of District Court dismissed the plaintiffs' motion for exemption from court fees. The plaintiffs filed an appeal of the Registrar's ruling on exemption from court fees.

At the Bank's request, a ruling was 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 the appeal on the fees was filed, then if the appeal of the plaintiffs is accepted, the ruling will be cancelled. On March 28, 2007, the appeal of the plaintiffs was dismissed by District Court, and on May 3, 2007, they filed a motion for leave of appeal to the Supreme Court, within the scope of which they also requested an exemption from the payment of a fee and deposit of a guarantee. No ruling has been issued as yet on the matter.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the plaintiffs will succeed in the appeal of their motion for exemption from fees, which was dismissed previously by two court systems, are remote. Even if the plaintiffs' appeal is accepted, the prospects that the plaintiffs will succeed with their claim, on the basis of the facts of the matter, are remote, since their arguments do not reveal a cause of action, and as noted, a ruling has been issued by District Court dismissing their claim. Therefore, no provision was recorded in the financial statements for this claim.

m. 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 in the Bank, for not providing credit that had allegedly been promised to them, which allegedly caused the collapse of the plaintiffs. District Court dismissed the plaintiffs' motion for exemption from court fees. The plaintiffs filed an appeal of the Court's ruling on exemption from the fee.

At the Bank's request, a ruling was issued dismissing the plaintiffs' claim due to non-payment of the court fee by the plaintiffs. However, the Court ruled that due to the fact that an appeal was filed regarding the fee, if the appeal filed by the plaintiffs is accepted, the ruling will be cancelled.

On May 3, 2007, the plaintiffs filed a motion for leave of appeal to the Supreme Court, within the scope of which they requested an exemption from payment of court fee and deposit of guarantee. A ruling has not yet been issued on the matter.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects that the plaintiffs will succeed in their motion for leave of appeal on their request for exemption from the fee, which was dismissed by two court systems, are remote. Even if the plaintiffs' appeal is accepted, the prospects for the plaintiffs to succeed in their claim, based on the facts of the matter, are remote, since their arguments do not reveal a cause of action, and as noted, a ruling has been issued by District Court dismissing their claim. Therefore, no provision was recorded in the financial statements for this claim.

n. In June 2006, an action and a motion for recognition as a class action in the amount of NIS 57 million were lodged against the Bank for charges to borrowers whose loans (linked to the CPI) are in arrears and bear arrears 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 arrears interest, is allegedly illegal, since a commission for not honoring an automatic debit is essentially arrears interest in all respects.

The Bank filed a motion for outright dismissal of the plaintiffs' motion for recognition as a class action, and the plaintiffs filed their Response to the Bank's motion. On November 12, 2006, the Bank filed its Response to the plaintiffs' Response. Additionally, on November 23, 2006, the plaintiffs filed an "Update Notice" with the Court, in which they alleged, inter alia, that in November 2006, the Bank had raised the commission for not honoring automatic debit charges by tens of percent. At this stage, the Bank's Response to the motion for recognition as a class action has not yet been filed.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the prospects for the claim and motions for class action recognition are within the realm of "possible. In management's opinion, the financial statements include a proper reserve.

o. 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, filed a motion to dismiss outright the motion for class action recognition, and the plaintiffs filed their Response to the motion for outright dismissal. The Bank filed its Response to the plaintiffs' Response on April 1, 2007, and the hearing on the motion was scheduled for June 2007. The Response of the respondents, including the Bank, to the motion for class action recognition on the facts of the case, has not yet been filed, after the Court ruled on November 19, 2006, that the defendants will file their Responses only after issuance of a ruling on the issue of outright dismissal of the motion.

In the estimation of the Bank's management, based on the opinion of its legal counsel, the outcome of the Claim and the motions for class action recognition are within the realm of "possible". In the opinion of management, the financial statements include a proper provision.

p. In July 2006, an action and motion for recognition as a class action were lodged 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.

On January 10, 2007, the Bank filed its Response to the motion for recognition as a class action. In its Response, the Bank claims that not only do the plaintiff's allegations contradict the Bank's price list, but they contradict logic and common sense. The Bank further claims that the respondent has no cause of action, and even more so, apparently has no basis for a personal claim against the Bank. Likewise, the Bank claims that on the surface, the claim is not suitable for hearing as a class action, and that the petitioner did not meet one of the minimum requirements for a class action under the Class Action Law, so that his motion for a class action will be accepted.

In the estimation of the Bank's management, based on the opinion of its legal counsel, and considering the preliminary stage of the action, it is not yet possible to assess the prospects of the action and of the motion for recognition as a class action.

q. For all of the Group's claims, where the amount of each exceeds NIS 2 million, excluding the claims discussed in Note 16 below, there is additional exposure, which is not remote, and for which a provision was not recorded totaling NIS 104 million.

16. Motions for recognition as class actions and claims are pending against the Bank, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, for which, in the opinion of the Bank's management, based on the opinion of their legal counsel, the prospects for which cannot be estimated at this stage. Therefore, no provision was recorded for these actions.

   a. Matters related to the insurance activities of the Group:

      1) 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 the Bank was not stated. In the first motion, the claim is in the Supreme Court after the District Court ruled in the first claim that it could be heard as declaratory relief under Regulation 29 of the Civil Procedures, and not as a class action. In another case, the Supreme Court ruled that Regulation 29 cannot serve as the basis for filing a class action as is it is currently construed.

         On September 1, 2005, the Supreme Court re-approved this law, in the hearing on the other case. It should also be noted that in the proceedings in Supreme Court, other causes by virtue of additional laws were alleged against the Bank.

         The second motion for recognition of a class action is supported by an affidavit by a borrower of another bank, who requested that his name be deleted as a plaintiff or to replace him with another plaintiff representing the class. The Court decided that the plaintiffs must file the claim with the name of another representative of the class. The plaintiffs proposed a substitute, and in the hearing in District Court, it was ruled that the motion to replace the plaintiff would be stayed until the Supreme Court ruled on appeals pending in the same case.

         On January 4, 2004, District Court ruled on the second motion that if within six months no ruling is delivered by the Supreme Court regarding Regulation 29, as aforesaid, the hearing on this case would then be resumed. No hearing has been scheduled as yet.

         As a result of the Supreme Court's decision on the other case, the plaintiffs filed a motion with the Court to resume the deliberations in the case.

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 of the plaintiffs' allegations and claim that they have no substance. The Bank's claim, inter alia, that they acted lawfully with respect to the collection of commissions and with respect to the rates of these commissions.

In the opinion 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.

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

Until the date of these financial statements, the said change did not have a material effect on the Bank's income from the sale of insurance. The Bank's management estimates, based on various assumptions and parameters that could change in the future, and which include the premium collected from customers, the net premium paid to sub-insurers and the size of the insured credit portfolio, the effect of the said change on the amount of the Bank's income until 2008 is not expected to exceed NIS 19 million.

3) 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. The Bank received an extension to institute the new arrangement until November 30, 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, commencing December 1, 2005, the insurance will be marketed by a wholly-owned insurance agency of the bank. Its activities are separate from the bank’s activities and are limited solely to the brokering of building insurance, including water damage, and life insurance incidental to the loan 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 will only apply to new policies and will 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 home purchases, and therefore, could cause a gradual reduction in the Bank's income from insurance activities. The Banks prepared to deal with the growing competition in the industry – for example, the shift from uniform tariffs to differential tariffs, which enable the Bank to offer attractive tariffs to groups of borrowers, particularly young borrowers. In any case, since the arrangement only applies to new loans issued as from December 1, 2005, the decrease in income as of the date of the financial statements will not be material in the upcoming years.

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

Period	From life insurance	From property insurance
January – September 2007	55	31
January – September 2006	54	34
Year 2006	73	45

b. 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 bases his claim on Section 3 of the Banking (Service to Customer) Law, 1981, whereby a banking corporation is prohibited from misleading a customer on any significant matter related to service to the customer.

On February 21, 2007, the Bank filed its Response to the motion for class action recognition, in which preliminary arguments were raised for outright dismissal, including the absence of a cause for personal action of the petitioner against the Bank, an argument of the expiration of statute of limitations and an argument regarding a fundamental error at the basis of the claim. As to the facts of the case, the Bank argued that the petitioner and the action he wishes to lodge as a class action, do not meet the cumulative preliminary conditions for recognition as a class action stipulated in the law, and as such, should be dismissed.

In the estimation of the Bank's management, based on the opinion of its legal counsel, and 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.

17. In December 2002, the Supervisor of Banks submitted a motion to the Standard Contracts Tribunal against Bank Tefahot, to cancel or modify the wording of the guarantees that Bank Tefahot issues under the Sale (Apartments) (Assurance of Investment of Persons Acquiring Apartments) Law, 1974, claiming that the guarantees contain unduly onerous conditions. The Supervisor also wishes to cancel or modify the provisions of guarantees that were issued prior to the delivery of the Tribunal's ruling, which have not been realized in full.

    The Bank reached an arrangement with the Supervisor of Banks, pursuant to which the wording of the guarantee that the Bank issues under the Sale (Apartments) (Assurance of Investment of Persons Acquiring Apartments) Law, 1974. In October 2007, this arrangement received the validity of a ruling by the Standard Contracts Tribunal.

18. 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.

    In accordance with a letter from the Treasury dated May 13, 2007, the agreement was extended for another year, until June 30, 2008. The continuous decrease in commission rates on new loans will lead to a gradual decrease over the next 15 years in the average rate of collection commissions received by the Bank for the government portfolio. Consequently, the gradual reduction in the Bank's income from this activity will continue.

    The Bank's income from this activity totaled NIS 73 million in the first nine months of 2007, compared with NIS 78 million in the same period last year and compared with NIS 104 million in 2006.

Appendix 1 - Profit from Financing Operations Before Provision for Doubtful Debts (Unaudited)

(NIS millions)

	For the three months ended September 30		For the nine months ended September 30	
	2007	2006	2007	2006
A. From assets (1)				
From loans to the public	1,275	676	3,490	2,760
From loans to the Government	-	6	(1)	15
From deposits with the Bank of Israel and from cash	(29)	(7)	121	(4)
From deposits with banks	(360)	(139)	(58)	(124)
From debentures	10	(24)	211	108
	896	512	3,763	2,755
B. On liabilities (1)				
On deposits from the public	(301)	(282)	(2,010)	(1,596)
On deposits from the Government	(6)	(7)	(17)	(22)
On deposits from the Bank of Israel and from cash	(2)	(3)	(40)	(5)
On deposits from banks	(74)	(40)	(217)	(195)
On debentures and deferred promissory notes	(242)	(70)	(384)	(242)
	(625)	(402)	(2,668)	(2,060)
C. On financial derivatives and hedges				
Lack of effectiveness of fair value hedge	1	-	2	(1)
Income (expenses), net, from ALM derivatives (2)	84	302	(166)	475
Income, net, from other derivatives	95	31	310	52
	180	333	146	526
D. Other				
Commissions from financing transactions	19	21	62	64
Financing income from collection of interest on arrears from individual borrowers	11	16	31	34
Interest income on problem debts	37	15	92	47
Profits (losses) on sale of debentures available for sale, net	(19)	(2)	3	4
Other financing income	33	8	110	67
Other financing expenses	(9)	(2)	(20)	(2)
	72	56	278	214
Total profit from financing operations before provision for doubtful debts	523	499	1,519	1,435
Includes: net exchange rate differences	(8)	(12)	(12)	(14)
E. Details on net effect of hedging derivatives on profit from financing operations				
Financing income (expenses) from assets (Par. A)	4	(16)	35	10

(1) Includes effectiveness element of hedging ratios.

(2) Derivative instruments that comprise part of the Bank's ALM management, which are not intended for hedging ratios.

Appendix 2 - Data on Provision for Doubtful Debts

(Unaudited)

Reported amounts (NIS millions)

	For the three months ended September 30, 2007				For the three months ended September 30, 2006			
	Specific provision (1)(4)				Specific provision (1)			
	Based on length of arrears	Other	Supplementary provision (2)	Total	Based on length of arrears	Other	Supplementary provision (2)	Total
Balance of provision at beginning of period (4)	809	1,911	186	2,906	732	1,847	210	2,789
Provisions in reported period	64	63	-	127	74	70	6	150
Decrease in provisions	(47)	(11)	(4)	(62)	(49)	(22)	(18)	(89)
Amount charged to statement of profit and loss	17	52	(4)	65	25	48	(12)	61
Write-off of debts	-	(40)	-	(40)	-	(28)	-	(28)
Balance of provision at end of period	826	1,923	182	2,931	757	1,867	198	2,822
Includes - balance of provision that was not deducted from loans to the public	-	97	-	97	-	114	-	114

	For the nine months ended September 30, 2007				For the nine months ended September 30, 2006			
	Specific provision (1)(4)				Specific provision (1)			
	Based on length of arrears	Other	Supplementary provision (2)	Total	Based on length of arrears	Other	Supplementary provision (2)	Total
Balance of provision at beginning of period (4)	805	1,870	192	2,867	625	1,820	212	2,657
Effect of new guidelines (3)	-	-	-	-	58	(4)	-	54
Provisions in reported period	198	194	-	392	194	177	7	378
Decrease in provisions	(177)	(27)	(10)	(214)	(120)	(50)	(21)	(191)
Amount charged to statement of profit and loss	21	167	(10)	178	132	123	(14)	241
Write-off of debts	-	(114)	-	(114)	-	(76)	-	(76)
Balance of provision at end of period	826	1,923	182	2,931	757	1,867	198	2,822
Includes - balance of provision that was not deducted from loans to the public	-	97	-	97	-	114	-	114

(1) Provisions on loans made on the basis of the length of arrears do not include a provision for interest on the debt in arrears.
Other loans do not include the provision with respect to interest on doubtful debts after they were determined to be doubtful.
(2) Includes general provision for doubtful debts.
(3) In a circular published by the Bank of Israel on January 1, 2006, rules were prescribed for the manner in which the provision for doubtful debts is to be computed for housing loans. See Note 1.L.3) to the annual financial statements as of December 31, 2006 for details.
(4) Reclassified.

Appendix 2 - Data on Provision for Doubtful Debts

(in NIS millions)

Details on housing loans and the manner in which the specific provision is computed (1)

	For the nine months ended September 30, 2007					
	Balance of balance sheet credit (2)	Debt balance (3)	Of which: Amount in arrears (4)	Specific provision: According to length of arrears	Other	Total
Housing loans for which it is required to compute the provision according to the length of arrears	35,388	1,122	523	821	-	821
Large loans (5)	2,404	125	34	5	14	19
Other loans	684	44	12	-	8	8
Total	38,476	1,291	569	826	22	848

	For the nine months ended September 30, 2006 (6)					
	Balance of balance sheet credit (2)	Debt balance (3)	Of which: Amount in arrears (4)	Specific provision: According to length of arrears	Other	Total
Housing loans for which it is required to compute the provision according to the length of arrears	33,211	1,165	465	753	-	753
Large loans (5)	1,989	227	37	4	17	21
Other loans	620	20	8	-	8	8
Total	35,820	1,412	510	757	25	782

(1) See Note 1.L.14(d) to the annual financial statements as of December 31, 2006 for details on the Bank of Israel circular dated January 1, 2006, regarding the manner in which the provision for doubtful debts is to be computed based on the length of arrears.
(2) Balance of housing loans after deducting the specific provision for doubtful debts and the balance of the provision for interest on arrears.
(3) Balance of problem loans (arrears of more than 3 months) and after deducting the balance of the provisions.
(4) Includes interest on amount in arrears and without deducting the balance of the provisions.
(5) Housing loans, the balance of each of which exceeds NIS 801 thousand (on September 30, 2006 - NIS 795 thousand).
(6) Reclassified.

Appendix 3 - Consolidated Statement of Assets and Liabilities According to Linkage Basis
As of September 30, 2007 (Unaudited)

(in NIS millions)

	Israeli currency		Foreign currency (1)			Non-	Total
	Unlinked	CPI-linked	U.S. dollars	Euro	Other currencies	monetary items	
Assets							
Cash and deposits with banks	2,781	699	6,804	715	1,464	-	12,463
Securities	1,912	1,378	1,167	1,844	73	389 (3)	6,763
Securities borrowed or purchased under repurchase agreements	13	-	-	-	-	-	13
Loans to the public (2)	26,958	33,880	8,103	2,330	2,417	-	73,688
Loans to the Government	-	2	1	-	-	-	3
Investments in affiliates	18	-	-	-	-	-	18
Buildings and equipment	-	-	-	-	-	1,205	1,205
Other assets	2,060	280	228	43	71	45	2,727
Total assets	33,742	36,239	16,303	4,932	4,025	1,639	96,880
Liabilities							
Deposits from the public	37,299	20,241	13,165	3,143	2,226	-	76,074
Deposits from banks	1,536	1,706	878	117	120	-	4,357
Deposits from the Government	225	256	41	-	-	-	522
Debentures and subordinated notes	-	6,357	-	-	-	-	6,357
Other liabilities	3,045	588	111	82	148	150	4,124
Total liabilities	42,105	29,148	14,195	3,342	2,494	150	91,434
Difference	(8,363)	7,091	2,108	1,590	1,531	1,489	5,446
Non-hedging financial derivatives:							
Financial derivatives (excluding options)	9,185	(5,480)	(748)	(1,452)	(1,505)	-	-
Options in the money, net (in terms of underlying asset)	1,150	-	(750)	(324)	(76)	-	-
Options out of the money, net (in terms of underlying asset)	107	-	(279)	183	(11)	-	-
Total	2,079	1,611	331	(3)	(61)	1,489	5,446
Options in the money, net (discounted stated value)	(937)	-	2,267	(1,204)	(126)	-	-
Options out of the money, net (discounted stated value)	(806)	-	(313)	945	174	-	-

(1) Includes amounts linked to foreign currency.

(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.

(3) Includes NIS 308 million for shares received to secure credit.

Appendix 3 - Consolidated Statement of Assets and Liabilities According to Linkage Basis
As of September 30, 2006 (Unaudited)
(in NIS millions)

	Israeli currency		Foreign currency (1)			Non-		Total
	Unlinked	CPI-linked	U.S. dollars	Euro	Other currencies	monetary items		
Assets								
Cash and deposits with banks	1,446	1,490	7,777	1,067	926	-		12,706
Securities	1,713	398	1,404	1,786	78	380	(3)	5,759
Loans to the public (2)(4)	23,060	33,623	8,532	1,752	2,461	-		69,428
Loans to the Government	-	4	1	-	-	-		5
Investments in investees	22	-	-	-	-	20		42
Buildings and equipment	-	-	-	-	-	1,252		1,252
Other assets	1,587	172	234	29	60	52		2,134
Total assets	27,828	35,687	17,948	4,634	3,525	1,704		91,326
Liabilities								
Deposits from the public	32,632	21,945	12,680	3,125	2,606	-		72,988
Deposits from banks	1,737	1,740	838	75	95	-		4,485
Deposits from the Government	218	324	44	-	-	-		586
Debentures and subordinated notes	-	4,846	-	-	-	-		4,846
Other liabilities (4)	2,638	311	124	44	49	180		3,346
Total liabilities	37,225	29,166	13,686	3,244	2,750	180		86,251
Difference	(9,397)	6,521	4,262	1,390	775	1,524		5,075
Non-hedging financial derivatives:								
Financial derivatives (excluding options)	12,335	(5,261)	(4,360)	(2,158)	(556)	-		-
Options in the money, net (in terms of underlying asset)	(1,102)	-	319	888	(105)	-		-
Options out of the money, net (in terms of underlying asset)	337	-	(199)	(107)	(31)	-		-
Total	2,173	1,260	22	13	83	1,524		5,075
Options in the money, net (discounted stated value)	(930)	-	11	888	31	-		-
Options out of the money, net (discounted stated value)	(2,543)	-	615	896	1,032	-		-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 252 million for shares received to secure credit.
(4) Reclassified.

Appendix 3 - Consolidated Statement of Assets and Liabilities According to Linkage Basis
As of December 31, 2006
(in NIS millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	Total
	Unlinked	CPI-linked	U.S. dollars	Euro	Other currencies		
Assets							
Cash and deposits with banks	1,265	1,127	6,484	897	1,024	-	10,797
Securities	1,823	398	1,518	1,758	78	404 (3)	5,979
Loans to the public (2)	24,399	33,044	8,065	2,133	2,468	-	70,109
Loans to the Government	-	3	1	-	-	-	4
Investments in investees	23	-	-	-	-	19	42
Buildings and equipment	-	-	-	-	-	1,293	1,293
Other assets	1,846	142	341	42	70	46	2,487
Total assets	29,356	34,714	16,409	4,830	3,640	1,762	90,711
Liabilities							
Deposits from the public	34,187	20,986	12,528	2,992	2,541	-	73,234
Deposits from banks	143	1,645	1,067	91	127	-	3,073
Deposits from the Government	221	296	43	-	-	-	560
Debentures and subordinated notes	-	5,067	-	-	-	-	5,067
Other liabilities	2,972	289	136	45	102	166	3,710
Total liabilities	37,523	28,283	13,774	3,128	2,770	166	85,644
Difference	(8,167)	6,431	2,635	1,702	870	1,596	5,067
Non-hedging financial derivatives:							
Financial derivatives (excluding options)	10,828	(5,410)	(2,724)	(1,897)	(797)	-	-
Options in the money, net (in terms of underlying assets)	(399)	-	225	243	(69)	-	-
Options out of the money, net (in terms of underlying assets)	11	-	(79)	7	61	-	-
Total	2,273	1,021	57	55	65	1,596	5,067
Options in the money, net (discounted stated value)	(606)	-	340	139	127	-	-
Options out of the money, net (discounted stated value)	(2,015)	-	1,188	551	276	-	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(3) Includes NIS 317 million for shares received to secure credit.

Appendix 4 - Operating Segments (Unaudited)

Reported amounts (in NIS millions)

	Households	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
							For the three months ended September 30, 2007
							(Unaudited)
Profit from financing operations before provision for doubtful debts							
From outside operating segment	327	(136)	87	55	202	(12)	523
Inter-segment	(100)	175	31	(36)	(63)	(7)	-
Total profit from financing operations before provision for doubtful debts	227	39	118	19	139	(19)	523
Operating and other income	130	31	74	6	20	12	273
Total income	357	70	192	25	159	(7)	796
Provision for doubtful debts	22	-	11	2	30	-	65
Net operating profit (loss)	93	8	36	4	57	(17)	181
Net profit (loss)	93	8	36	4	57	(14)	207

	Households (1)	Private banking(1)	Small businesses(1)	Commercial banking	Business banking(1)	Financial management(1)	Total consolidated
							For the three months ended September 30, 2006
							(Unaudited)
Profit from financing operations before provision for doubtful debts							
From outside operating segment	235	(147)	111	51	220	29	499
Inter-segment	(8)	195	-	(32)	(101)	(54)	-
Total profit from financing operations before provision for doubtful debts	227	48	111	19	119	(25)	499
Operating and other income	136	29	72	6	31	4	278
Total income	363	77	183	25	150	(21)	777
Provision for doubtful debts	26	-	12	1	22	-	61
Net operating profit (loss)	90	10	26	3	49	(17)	161
Net profit (loss)	91	10	26	3	49	(17)	162

(1) Reclassified.

Appendix 4 - Operating Segments
(Unaudited)
Reported amounts (in NIS millions)

							For the nine months ended September 30, 2007 (Unaudited)
	Households	Private banking	Small businesses	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts							
From outside operating segment	917	(406)	288	162	687	(129)	1,519
Inter-segment	(249)	528	43	(110)	(288)	76	-
Total profit from financing operations	668	122	331	52	399	(53)	1,519
Operating and other income	409	91	228	20	99	40	887
Total income	1,077	213	559	72	498	(13)	2,406
Provision for doubtful debts	41	-	54	6	77	-	178
Net operating profit (loss)	278	21	69	8	181	(29)	528
Net profit (loss)	399	73	108	9	186	(14)	761

							For the nine months ended September 30, 2006 (Unaudited)
	Households (1)	Private banking(1)	Small businesses(1)	Commercial banking	Business banking(1)	Financial management (1)	Total consolidated
Profit from financing operations before provision for doubtful debts							
From outside operating segment	646	(412)	343	153	651	54	1,435
Inter-segment	2	550	(16)	(99)	(294)	(143)	-
Total profit from financing operations	648	138	327	54	357	(89)	1,435
Operating and other income	447	101	238	16	79	18	899
Total income	1,095	239	565	70	436	(71)	2,334
Provision for doubtful debts	161	-	43	4	33	-	241
Net operating profit (loss)	135	25	46	3	146	(66)	289
Net profit	204	59	68	4	149	18	502

							For the year ended December 31, 2006 (Audited)
	Households (1)	Private banking	Small businesses	Commercial banking	Business banking	Financial management (1)	Total consolidated
Profit from financing operations before provision for doubtful debts:							
From outside operating segment	904	(562)	452	211	883	99	1,987
Inter-segment	(28)	751	(16)	(139)	(393)	(175)	-
Total profit from financing operations	876	189	436	72	490	(76)	1,987
Operating and other income	610	140	329	24	79	33	1,215
Total income	1,486	329	765	96	569	(43)	3,202
Provision for doubtful debts	174	-	65	6	60	- -	305
Net operating profit (loss)	212	32	56	20	156	(49)	427
Net profit	284	65	79	20	159	36	643

(1) Reclassified.