C o n t e n t s

Summarized Report of the Board of Directors
on the Financial Statements as of March 31, 2007

At the meeting of the Board of Directors of Bank Mizrahi Tefahot Ltd. held on May 31, 2007 (14 Sivan 5767), 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 March 31, 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 key economic indicators for the months January-March 2007 point to a continuation of the expansion in economic activity, especially in domestic demand, with some slowing in the growth rate of the industrial sectors.

The combined index on the state of the economy rose in March by 0.6%, continuing increases of 0.6% and 0.7% in the previous months. In the first quarter of the year, the index rose by a cumulative 7.5%, in annual terms, a rate that indicates continuation of the rapid growth in business product.

Data on the industrial production trend for the months December 2006 – February 2007 indicate a slowing in the production growth rate to 2.7%, in annual terms, following an increase of 8.5% (in annual terms) in the prior three months. The moderation was due to the decline in January 2007, whereas in February, the volume of production resumed its increase. Most of the decline in the growth rate was due to the slowing in the expansion of hi-tech production in January. The number of salaried positions rose during this period by 2.3%, and there was an increase of 5.0% in the number of hours worked.

According to the trend data, the revenues of the trade and services sector rose in December 2006 – February 2007 by 11.3% (in annual terms), following an increase of 10.6% in the preceding three months. The increase occurred in all sectors, except for education.

According to the data, sales of retail chains rose by 11.0% during the first quarter of 2007, following an increase of 9.7% in the previous quarter.

According to data on inbound tourism to Israel, a rapid recovery is evident in the last few months, to a level that is only 5% below the level posted before the war in the North in the summer of 2006. In the number of nights spent in hotels by tourists during January-March 2007, growth averaged 6.6% per month, continuing monthly growth of 5.4% in the last quarter of 2006.

According to the trend data, in the first months of 2007, the unemployment rate in the economy stabilized at 7.6%, compared with 7.8% in the previous quarter and 9.0% in the last quarter last year. The continuation in the decline in unemployment was due to factors including the ongoing growth in demand for workers, against the backdrop of the continued acceleration in economic activity and the replacement of foreign workers with Israelis.

In the first quarter of the year, the Government budget had a domestic surplus of NIS 8.3 billion, compared with a domestic surplus of NIS 9.2 billion in the same period last year. The surplus was due to the rapid growth in revenues, beyond the estimate on which the budget proposal was based, whereas expenditures did correspond with the budgeted amounts. The deficit target for 2007 is 2.9% of GDP, a target that according to the present outline for budget performance will be achievable.

Monetary developments

During the first quarter of 2007, the Consumer Price Index (CPI) fell by a cumulative rate of 0.2%, compared with an increase of 0.6% in the same period last year. The noteworthy changes in the CPI in the first quarter of the year were the declines in prices of clothing and footwear, vegetables, fruits and housing, counter to the increase in the prices of fuels and food (excluding fruits and vegetables).

During the first quarter of the year, the Bank of Israel reduced interest in two stages, by a cumulative rate of 0.5%, so that the interest rate for April 2007 was 4.0% per annum (effective interest rate of 4.1%), compared with 4.5% (effective interest rate of 4.6%) at the end of December 2006, and compared with 5.0% (effective interest rate of 5.1%) at the end of March 2006. At the end of April 2007, the Bank of Israel cut the interest rate by another 0.25%, to a level of 3.75%.

Concurrent with the Bank of Israel's interest rate changes, the banks changed the prime rate, so that at the end of April 2007, the prime rate was 5.5%, compared with 6.0% at the end of December 2006 and with 6.5% at the end of March 2006. At the end of April, the prime rate fell to 5.25%.

The real monetary interest rate (net of inflationary expectations as reflected in the capital market) stood during the first quarter of 2007 at 3.0%, compared with 4.0% in the last quarter of 2006, and compared with 2.5% in the same period last year. The decrease in real interest derives from the decline in monetary interest that outpaced the decrease in inflationary expectations.

During the first quarter of the year, the shekel exchange rate appreciated by 1.4% and 1.7% against the currency basket and the dollar, respectively, so that at the end of the March 2007, the currency basket rate stood at NIS 4.759 and the dollar exchange rate stood at NIS 4.155. During April, the shekel appreciated sharply, by 3.2% against the dollar, reaching NIS 4.024 to the dollar.

Developments in the Capital Market

The Israeli stock market – The first quarter of 2007, was characterized by rising prices in the major stock indices, a direct continuation of the trend that has characterized this market in recent years. In summarizing the first quarter, the TA 25 and the TA 100 indices rose by 7.7% and 7.9%, respectively. Prominent with its climb was the Real Estate 15 Index, which rose by 12.3% in the first quarter of the year. In contrast, the Finance 15 index rose by only 0.1%. The shares of insurance companies rose, but these increases were offset, almost entirely, by declines in the bank stocks.

The gains in the stock market were against the backdrop of publication of positive macroeconomic data, including GDP growth, an increase in private consumption and a decline in the unemployment rate. The increase in the major indices stood out mainly against the freeze in the stock indices in the American market and against the declines in the stock markets in emerging markets.

In the international stock markets – The leading stock indices in the U.S. opened 2007 with rising prices, although in the second half of the quarter, these indices turned lower, as part of a global trend that began with declines in the Chinese market and spread to other markets, both developed and emerging. The declines in the Chinese markets contributed to concerns about regulatory changes related to foreign investment. The publication of so-so economic indicators for the American economy, including in the mortgages industry, and concerns over an American recession toward the end of 2007, were important factors in creating the negative trend in developed markets. However, the declining trend in these markets reversed during the first quarter. Summarizing the first quarter of the year, the Dow Jones Index shed 0.9%, whereas the S&P 500 and Nasdaq indices gained 0.3% and 0.1%, respectively. During the first quarter of the year, the monetary interest rate in the U.S. remained unchanged, whereas the yields on 10-year government bonds fell slightly, from 4.71% at the end of 2006 to 4.65% at the end of the first quarter of 2007.

The leading European markets rose during the first quarter of the year, against the backdrop of the economic improvement in the European block countries, and the continued mergers and acquisitions trend. During the first quarter of the year, the Central Bank in Europe raised the interest rate by 0.25% to 3.75%. Summarizing the first quarter of the year, the German DAX index gained 4.6%, the French CAC 40 rose by 1.6% and the British FTSE 100 index climbed 1.7%.

The Government bond market – in unlinked and CPI-linked shekels– closed the first quarter of 2007 with rising prices, mainly against the backdrop of a strengthening shekel, falling monetary interest and a contraction in the volume of offerings of government bonds. The importing of foreign capital into the economy by foreign residents continued in the first quarter of 2007, albeit at a smaller volume that in the same quarter last year, also expressed in the decline posted by foreign investors' trading on the TASE. This decline was apparently due both to the reduced supply and the relatively high price levels posted during the period. In the first quarter of 2007, government bond purchases by foreign residents totaled $84 million, of which $62 million was during March 2007. This contrasts with the $2.2 billion in bonds purchased by foreign residents during 2006, and the $512 million purchased during 2005.

The average daily trading volume of unlinked and CPI-linked shekel government bonds totaled NIS 1,431 million and NIS 546 million, respectively in the first quarter of 2007, compared with NIS 836 million and NIS 299 million in the same period last year. In the year 2006, the average daily trading volumes totaled NIS 1,045 million in unlinked shekel bonds and NIS 291 million in CPI-linked bonds.

Summarizing the first quarter of 2007, the index of unlinked government bonds rose by 1.6%, compared with an increase of 0.2% in the same quarter last year, and the index of CPI-linked government bonds climbed by 2.0%, compared with an increase of 1.0% in the same quarter last year.

There was active trading in the Makam market, and the average daily trading volume in the first quarter of 2007 was NIS 820 million, compared with the daily average of NIS 690 million in the same quarter last year and NIS 800 million per day in the full-year 2006. Summarizing the first quarter of 2007, Makam rates climbed by 1.3%, similar to the increase of 1.1% in the same quarter last year.

Dollar-linked government and corporate bonds rose by 1.0% in the first quarter of 2007. During the quarter, the dollar weakened against the euro by 1%.

In the corporate bond market, the volume raised in the first quarter of 2007 totaled NIS 26 billion, compared with NIS 6 billion in the same quarter last year and with NIS 47 billion in the full-year 2005. The sharp increase was due to factors including the shortage created as a result of the significant contraction in the volume of government bond offerings.

The residential construction industry

In the first quarter of 2007, there was a slight dip in sales of new homes built at private initiative compared with the same period last year. An analysis of the geographic breakdown shows that in contrast with 2006, in which sales increased in the Tel-Aviv area and central region, with considerable declines in other areas, most of the decrease in the first quarter of 2007 derives from the Tel-Aviv area and the central region, whereas in the remaining areas, sales rose slightly. The level of sales in the periphery remains low.

On the supply side, according to estimates by the Central Bureau of Statistics, there was a slight increase of 1.7% in the volume of investment in residential construction in 2006, following many years of a slump. The inventory of unsold new homes built at private initiative fell by 2% in the first quarter of 2007, continuing a decrease of 7% in 2006.

In the first months of 2007, there was a slight increase in the number of building starts of housing units, reaching a level similar to that in 2005, when the construction of 31 thousand units was begun. The slight increase occurred in private construction and publicly initiated construction.

Mortgages industry

In the first quarter of 2007, there was some increase in the issuance of mortgages (excluding recycled loans), compared with 2006, in which there was a decrease in the granting of mortgages. The average amount of the loan continued to increase in the first quarter of 2007, 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 2006, the volume of recycled loans contracted substantially, against the backdrop of rising interest rates and partial exhaustion of the recycling of the existing portfolio. This follows 2005, when there was a sharp increase in the trend of recycling existing mortgages, as a result of falling interest rates. In the first quarter of 2007, the volume of recycled loans remained limited, at a level similar to that in 2006.

After several years in which there was a worsening in the payment record of borrowers, during which the banks invested resources in halting the increase in arrears, the level of arrears stabilized in 2005, with the percentage of loans in arrears in the housing portfolio of the banks remaining almost unchanged. In the year 2006 and the first quarter of 2007, the stability in the level of arrears continued in relation to the residential credit portfolio.

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 March 28, 2007, an agreement was signed for the sale of the provident fund management operations of Netivot. See Note 5 to the financial statements for information.

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 6 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. and its related rights. On May 27, 2007, an addendum to the memorandum of understanding was signed, which extends the period of the undertaking between the parties in a detailed agreement, to 90 days. See Note 7 to the financial statements.

Registration for trading of complex capital notes – On May 21, 2007, a prospectus was published, whereby registered for trading were the complex notes issued by the Bank in November 2006, which constitute "Upper Tier II capital" for maintaining the minimum capital ratio. See Note 11 to the financial statements for information.

Negotiations to acquire holdings in Isracard – On March 27, 2007, the Bank announced that it was conducting negotiations to acquire 10% of the share capital of Isracard Ltd. and Europay (Eurocard) Israel Ltd. See Note 9 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, with respect to which negotiations are underway with the Bank of Israel, which, is scheduled for May 29, 2007. In the wake of the request submitted to the Bank of Israel by the controlling shareholders in Ofer Properties, this date was postponed by the Bank of Israel to June 30, 2007.

As the Bank was informed, the controlling shareholders in Ofer Properties recently submitted to the Supervisor of Banks a request providing the method and calculations through which it believes the capital ratio in Ofer Properties should be calculated. According to the position of the controlling shareholders, Ofer Properties meets the required capital ratios. The Bank of Israel is currently examining the request and reasons it raises. The response of the Bnak of Israel has not yet been received on this matter. If despite the position of the controlling shareholders, the Bank of Israel is of the opinion that Ofer Properties did not meet the capital ratios required by the permit, the Bank of Israel will require the controlling shareholders to supplement with additional capital.

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, that 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 Bank intends to raise an NIS 500 million in additional Upper Tier II capital.

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
May 14, 2007 (1)	200	-

(1) On May 14, 2007, the Bank's Board of Directors resolved to pay a dividend of NIS 200 million, representing 905% of the issued capital of the Bank, i.e. NIS 0.90 for every NIS 0.1 par value share. The record date for the dividend payment is May 28, 2007, the ex-date is May 29, 2007 the payment date is June 13, 2007.

Business Results - Profit and Profitability

Net profit of the Group reached NIS 370 million in the first quarter of 2007, compared with NIS 53 million in the same period last year. Net profit reflects net return on equity of 32.1%, in annual terms, compared with 4.6% in the same period last year and 13.0% in the full year 2006.

The Group's net operating profit in the first quarter of 2007 amounted to NIS 163 million, compared with NIS 53 million in the same period last year. This profit reflects return on equity of 13.3%, compared with 4.6% in the same period last year. Regarding the change in the way of calculating return on equity, in accordance with the directives of the supervisor of banks, see below in the description of return on equity.

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

a. Growth in profit from financing operations before provision for doubtful debts of NIS 63 million, 15.6%, deriving from the 12% growth in income from current activities and a NIS 22 million increase in revenues from interest collection on doubtful debts.

b. A decrease of NIS 69 million, 58.0%, in the provision for doubtful debts. The decrease is due to 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). Additionally, the provision for doubtful debts decreased due to the reduction of the provision on loans according to length of arrears.

c. Profits from the investment in shares, net, of NIS 38 million, due to a dividend received for the shares.

d. A NIS 44 million decrease in salaries and related expenses deriving from the recording of a provision for pension and severance pay of NIS 40 million in the same period last year, for the voluntary retirement plan adopted within the framework of the labor agreement signed with the employees' representatives in April 2006.

e. After-tax profit from extraordinary items of NIS 207 million, net, including a NIS 199 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.

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

a. A decrease of NIS 10 million in other income, deriving mainly from the decrease in management fees from mutual funds, due to the sale of the mutual fund activities.

b. An increase of NIS 8 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.

The Group's operating profit before the provision for taxes amounted to NIS 278 million in the first quarter of the year, compared with NIS 78 million in the same period last year.

Provision for taxes on operating profit totaled NIS 115 million in the first quarter of the year, compared with NIS 25 million in the same period last year.

The provision for taxes includes the effect of an expected 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, 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.

The Group's operating profit after the provision for taxes reached NIS 163 million in the first quarter of the year, compared with NIS 53 million in the same period 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 of the Group's profits[1] and their developments as a percentage of equity (in percentages):

	First quarter		Year
	2007	2006	2006
In accordance with the reporting regulations as of 2007:			
From operating profit [2]	13.3	4.6	8.6
Net profit [2]	32.1	4.6	13.0
In accordance with the reporting regulations before the update			
From operating profit [2]	13.5	4.6	9.1
Net profit	32.6	4.6	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 quarter		Year
	2007	2006	2005
Basic profit per share:			
Net operating profit	0.74	0.24	1.95
Net profit	1.69	0.24	2.94
Fully-diluted profit per share:			
Net operating profit	0.73	0.24	1.91
Net profit	1.65	0.24	2.88

Income and Expenses

Group profit from financing operations before provision for doubtful debts amounted to NIS 467 million in the first quarter of 2007, compared with NIS 404 million in the same period last year, an increase of 15.6%, deriving mainly from 12% growth in income from current activities and the NIS 22 million increase in income from interest collected on doubtful debts.

Provision for doubtful debts of the Group totaled NIS 50 million in the first quarter of 2007, compared with NIS 119 million in the same period last year. The decrease of 58.0% 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).

Moreover, the provision for doubtful debts decreased in the first quarter of 2007, due to a reduction in the provision for loans based on the length of arrears. Excluding the exceptional provision in the first quarter of 2006, the provision for doubtful debts in the first quarter of 2007 relative to the same period last year, by 23.1%.

The Group's provision for doubtful debts in the first quarter of the year as a percentage of the loan portfolio was 0.28% (in annual terms), compared with 0.72% in the same period last year.

The provision for doubtful debts in the first quarter of 2006, excluding the application of the Bank of Israel circular of NIS 54 million as of the beginning of the year, reached 0.39% of the total loan portfolio.

The balance sheet balance of the general, supplementary and special provisions for doubtful debts totaled NIS 188 million on March 31, 2007, compared with NIS 192 million on December 31, 2005, a decrease of 2.1%.

Income from operating commissions of the Group was NIS 253 million in the first quarter of 2007, compared with NIS 247 million in the same period last year, an increase of 2.4%.

Profits from investments in shares, net, amounted to NIS 38 million in the first quarter of 2007, compared with NIS 2 million in the same period last year. The profits in the first quarter of 2007 are due mainly to dividends on shares.

Other income of the Group totaled NIS 37 million in the first quarter of 2007, compared with NIS 47 million in the same period last year, a decrease of 21.3%, due mainly to the management fees received from mutual funds in 2006, until the date the Group's mutual fund activities were sold.

Operating and other expenses of the Group totaled NIS 467 million in the first quarter of 2007, compared with NIS 503 million in the same period last year, a decrease of 7.2%, due mainly to the decrease in salary expenses, as provided below.

Salary expenses of the Group totaled NIS 293 million in the first quarter of 2007, compared with NIS 337 million in the same period last year, a decrease of 13.1%. The decrease is due mainly to the recording of the provision for pension and severance pay of NIS 40 million in the first quarter last year, from the retirement plan that was included under the terms of the labor agreement signed with the employee representatives.

The other operating expenses of the Group, excluding salaries, totaled NIS 174 million in the first quarter of 2007, compared with NIS 166 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.

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 70.2% in the first quarter of 2007, compared with 58.8% 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 58.7% in the first quarter of 2007, compared with 71.9% in the same period last year and 65.9% in the full year of 2006.

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 shift 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.

Results of Households Segment

	For the quarter ended March 31, 2007					For the quarter ended March 31, 2006				
	Banking and finance	Credit cards	Capital market	Mort-gages	Total	Banking and finance (1)	Credit cards	Capital market	Mort-gages (1)	Total
	In NIS millions					In NIS millions				
Profit (loss) from financing operations before provision for doubtful debts										
From outside operating segments	(23)	-	-	312	289	(30)	-	-	229	199
Inter-segment	106	-	-	(163)	(57)	104	-	-	(95)	9
Financing profit	83	-	-	149	232	74	-	-	134	208
Operating income	46	14	11	74	145	45	12	22	74	153
Total income	129	14	11	223	377	119	12	22	208	361
Provision for doubtful debts	7	-	-	4	11	19	-	-	77	96
Net operating profit (loss) (1)	(4)	6	1	97	100	(13)	5	4	31	27
Net profit (loss)	**(4)**	**6**	**113**	**97**	**212**	**(13)**	**5**	**4**	**31**	**27**

(1) Reclassified.

The significant growth in the contribution of the households segment to the Groups profits in the first quarter of 2007, compared with the contribution in the same period last year is due, on one hand, to the 213% increase in the contribution of the mortgages segment, mainly as a result of 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 quarter of 2006. On the other hand, the segment's results in the first quarter of 2007 include a substantial part of the after-tax gain on the sale of the Group's provident fund activities, amounting to NIS 112 million.

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

	Volume issued (in NIS millions)		
	First quarter		
	2007	2006	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	1,681	1,321	27.3%
From the Treasury's funds			
Directed loans	191	183	4.37%
Standing loans and grants	49	73	(32.9%)
Management for others	9	17	(47.1%)
Total new loans	1,930	1,594	21.1%
Recycled loans	196	223	(12.1%)
Total loans issued	2,126	1,817	17.0%
Number of borrowers (includes recycled loans)	8,085	6,759	19.6%

See Note 16 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 quarter ended March 31, 2007				For the quarter ended March 31, 2006			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance (1)	Credit cards	Capital market	Total
	In NIS millions				In NIS millions			
Profit (loss) from financing operations before provision for doubtful debts								
From outside operating segments	(139)	-	-	(139)	(123)	-	-	(123)
Inter-segment	181	-	-	181	169	-	-	169
Financing profit	42	-	-	42	46	-	-	46
Operating income	23	2	5	30	22	1	11	34
Total income	65	2	5	72	68	1	11	80
Net operating profit	6	-	1	7	10	**(1)**	4	13
Net profit (loss)	**6**	**-**	**48**	**54**	**10**	**(1)**	**4**	**13**

Reclassified.

The contribution of the private banking segment to the Group's profits increased in the first quarter of 2007 by 315%, 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 47 million. The decrease in banking and finance 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.

Results of the Small Businesses segment

	For the quarter ended March 31, 2007				For the quarter ended March 31, 2006			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance (1)	Credit cards	Capital market	Total
				In NIS millions				In NIS millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	100	-	-	100	117	-	-	117
Inter-segment	11	-	-	11	(10)	-	-	(10)
Financing profit	111	-	-	111	107	-	-	107
Operating income	65	5	6	76	60	4	13	77
Total income	176	5	6	187	167	4	13	184
Provision for doubtful debts	21	-	-	21	16	-	-	16
Net operating profit	16	1	1	18	16	1	2	19
Net profit	**16**	**1**	**36**	**53**	**16**	**1**	**2**	**19**

(1) Reclassified.

The contribution of the small businesses segment to the Group's profits increased in the first quarter of 2007 by 179%, 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 35 million.

Results of the Commercial Banking segment

	For the quarter ended March 31, 2007	For the quarter ended March 31, 2006
	Banking and finance (1)	Banking and finance (1)(2)
	In NIS millions	In NIS millions
Profit from financing operations before provision for doubtful debts		
From outside operating segments	54	49
Inter-segment	(36)	(32)
Financing profit	18	17
Operating income	8	4
Total income	26	21
Provision for doubtful debts	1	1
Net operating profit	5	**3**
Net profit	**5**	**3**

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

(1) Reclassified.

The contribution of the commercial banking segment to the Group's profits increased in the first quarter of 2007 by 66%, compared with the contribution in the same period last year, due mainly to the increase in operating income allocated to this segment.

Results of the Business Banking segment

	For the quarter ended March 31, 2007			For the quarter ended March 31, 2006		
	Banking and finance (1)	Construction and real estate	Total	Banking and finance (1)(2)	Construction and real estate	Total
	In NIS millions			In NIS millions		
Profit from financing operations before provision for doubtful debts						
From outside operating segments	118	125	243	90	119	209
Inter-segment	(46)	(70)	(116)	(31)	(65)	(96)
Financing profit	72	55	127	59	54	113
Operating income	50	6	56	14	6	20
Total income	122	61	183	73	60	133
Provision for doubtful debts	5	12	17	(5)	11	6
Net operating profit (loss)	49	19	68	26	21	47
Net profit (loss)	**54**	**19**	**73**	**26**	**21**	**47**

(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 quarter of 2007 increased by 55%, compared with the contribution in the same period last year. The increase is due mainly to the profits from the investment in shares from the dividends received, to the restraint in operating expenses, and to 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.

Balance Sheet Items and Shareholders' Equity

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

	March 31		December 31	Rate of change compared with	
				March 31,	December 31,
	2007	2006	2006	2006	2006
Total assets	95,747	87,935	90,711	8.9%	5.6%
Securities	6,894	5,622	5,979	22.6%	15.3%
Loans to the public	71,452	66,406	70,109	7.6%	1.9%
Deposits from the public	75,250	71,501	73,234	5.2%	2.8%
Shareholders' equity	5,427	4,736	5,061	14.6%	7.2%

Securities – The balance of the investment in securities increased in the first quarter of the year by 15.3%, within the framework of the management of the Bank's surplus liquidity.

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,that 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 March 31, 2007 accounted for 75% 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):

	March 31		December 31
	2007	2006	2006
Non-accrual debts	908	908	1,003
Rescheduled debts	301	128	172
Debts designated for rescheduling	35	-	15
Debts in temporary arrears	1,129	1,404	1,475
Includes: for housing loans	633	780	644
Debts under special supervision	1,166	932	835
Includes: Debts for which there is a specific provision	129	205	146
Housing loans for which there is a provision based on length of arrears	713	761	745
Total balance sheet credit to problem borrowers	4,252	4,133	4,244
Off-balance sheet credit to problem borrowers	531	437	494
Total credit risk for problem borrowers	4,783	4,570	4,738

Deposits from the public represent 79% of total consolidated assets on March 31, 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 balance of shareholders' equity as of March 31, 2007 includes a capital reserve for the adjustment of securities available for sale to their fair value, after the related tax, of NIS 55 million. The change in the capital reserve in the first quarter of 2007, net of related tax, was a decrease of NIS 10 million.

The Group ratio of shareholders' equity to total assets as of March 31, 2007 reached 5.67%, compared with 5.58% at the end of 2006.

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

	March 31, 2007	December 31, 2006
Tier I capital to elements of risk	6.97%	6.67%
Total capital to elements of risk	10.90%	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 March 31, 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 0.14% as of March 31, 2007. During the first quarter of the year, no subordinated notes were issued, compared with NIS 225 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 March 31, 2007 amounts to NIS 2,910 million, compared with NIS 2,936 million at the end of 2006. These amounts include complex capital notes totaling NIS 451 million that were issued in November 2006 and were listed for trading on the Tel Aviv Stock Exchange in May 2007. See Note 11 to the financial statements for details.

Liquidity Status

The Group's deposits from the public in the CPI-linked sector decreased in the first quarter of 2007 by 4.4%. The Group's deposits from the public in the foreign currency and foreign-currency-linked sector increased by 7.1%, whereas the Group's deposits in the unlinked shekel sector increased by 4.8%.

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 quarter		Rate of
	2007	2006	change
Unlinked Israeli currency	54,226	41,478	30.7%
CPI-linked Israeli currency	38,199	34,939	9.3%
Foreign currency –(includes Israeli currency linked to foreign currency)	59,621	48,065	24.0%
Total	152,046	124,482	22.1%

The increase in the average balance of the financial assets in the foreign currency sector is due to the significant growth in the volume of trading in derivative financial instruments and from the increase in the volume of credit given to the public within 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 entirely by the volume of trading in derivative financial instruments.

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

Linkage sector	First quarter	
	2007	2006
Unlinked Israeli currency	1.91%	0.58%
CPI-linked Israeli currency	0.40%	0.68%
Foreign currency – (includes Israeli currency linked to foreign currency)	0.03%	1.44%
Total	0.85%	0.82%
Total excluding derivatives	1.07%	2.05%

(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, rose from 0.58% in the first quarter of 2006 to 1.91% in the first quarter 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 is 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 2.64% in the first quarter of 2006 to 2.5% in the first quarter 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 0.68% in the first quarter of 2006 to 0.40% in the first quarter of 2007. Excluding the effect of the derivatives, as described previously, the interest margin rose from 0.35% in the first quarter of 2006 to 0.43% in the first quarter of 2007.

In the foreign currency sector, the interest margin including the effect of derivatives fell from 1.44% in the first quarter of 2006 to 0.03% in the first quarter of 2007. Excluding the effect of the derivatives, the interest margin fell from 1.81% in the first quarter of 2006 to 1.67% in the first quarter 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. 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 2.03% in the first quarter of 2006 to 1.57% in the first quarter 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 managed 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 quarter 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 quarter of 2007		Year 2006	
As of the end of period	134		128	
Maximum value during period	143	(in February)	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 March 31, 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	231	116	(116)	(231)	69	(21)
Dollar	70	28	(4)	(4)	20	(3)
Pound sterling	(2)	(1)	1	2	(2)	1
Yen	4	-	1	7	9	2
Euro	37	10	7	24	20	9
Swiss franc	3	1	-	-	2	-

(1) The extreme scenario was calculated based on changes in exchanges rates and monthly changes in the CPI, in the last 10 years.

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 quarter 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 June 2007.

Within the scope of the Bank's preparations for implementing the provisions of "Basel II", the Bank instituted an initiated project, appointed a steering committee headed by the Manager of the Controllership, Planning and Operations Division, appointed a project manager, and established the teams necessary to implement the provision.

During the first quarter of 2007, the Bank completed preparation of the work plan, within which were specified, inter alia, timetables for implementing the capital calculations in all the capital calculation methods arising from the provisions. The Bank is working in compliance with the timetables in order to complete its preparations for implementing the provisions by 2009, as prescribed by the Supervisor of Banks.

Additionally, the Bank is working to build a system for managing operational risks, as part of the building of the Bank's overall risks management system, and in accordance with the directives of the Bank of Israel and the guidelines of Basel II. To this end, the Bank has worked to formulate methodology for mapping, identifying and assessing the risks and prescribed a policy for emergency preparations and the management of operational risks.

See the Chapter on Risk Management in the Report of the Board of Directors attached to the financial statements as of December 31, 2006 for additional details on the management of risks by the Bank.

Main Investees

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

The contribution of Bank Adanim to the Group's net profit in the first quarter of 2007 amounted to NIS 6.3 million, compared with NIS 5.7 million in the same period last year, an increase of 10.5%.

The return on equity (average capital, as defined in the public reporting directives of the Supervisor of Banks) reached 9.7% in the first quarter of 2007, compared with 14.2% in the same period last year.

The decrease is explained mainly by the issuance of NIS 72 million in share capital in the second quarter of 2006.

See Note 6 to the financial statements for details on the acquisition by the Bank of shares 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.

(1) Average capital, as defined in the Public Reporting Directives of the Supervisor of Banks.

"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 quarter of 2007 was NIS 9.5 million, compared with NIS 4.0 million in the same period last year.

The return on equity reached 14.6% in the first quarter of 2007, compared with 6.8% in the same period last year. The increase in profitability is due mainly to the one-time provision for prior years recorded in the first quarter of 2006.

See Note 14.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 local customers.

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. At the end of 2005, the branch moved to its new location in the City of London.

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 and Germany. Within this framework, the Bank operates a representative office in Mexico City. The representative office in Frankfurt is not active.

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 will provide broker dealer services to the Bank Group in the U.S. and is expected to commence operations in 2007.

On February 2, 2007, the Bank received approval from the Central Bank of Uruguay to open a representative office in that country. The representative office will operate through a wholly-owned ancillary corporation of the bank, UMTB Uruguay SA.

The representative office commenced operations in the second quarter of 2007.

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

The net profit in the first three months of 2007 totaled 655 thousand Swiss Francs, compared with 607 thousand Swiss Francs in the same period last year, an increase of 8%.

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 a loss of NIS 0.2 million in the first three months of 2007, compared with profit of NIS 5.7 million in the same period last year.

The total assets of Mizrahi Bank Switzerland as of March 31, 2007 amounted to 149.0 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.

Auditors’ Review Report

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

See Notes 14.A-E 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.

Board of Directors

During the first quarter of 2007, the Bank’s Board of Directors held 9 meetings in plenary session and 16 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 March 31, 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, May 31, 2007

14 Sivan 5767

Income and Expense Rates - Consolidated (1)

Reported amounts (in NIS millions)

	For the three months ended March 31, 2007				For the three months ended March 31, 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)(4)	26,114	391	6.12		22,740	356	6.41	
Effect of embedded and ALM derivatives (5)	28,112	415			18,738	52		
Total assets	54,226	806		6.08	41,478	408		3.99
Liabilities (3)	34,494	(308)	(3.62)		31,696	(295)	(3.78)	
Effect of embedded and ALM derivatives (5)	16,971	(220)			6,997	(31)		
Total liabilities	51,465	(528)		(4.17)	38,693	(326)		(3.41)
Interest margin			2.50	1.91			2.64	0.58
Israeli currency linked to the CPI								
Assets (3)	34,627	334	3.91		34,498	473	5.60	
Effect of embedded and ALM derivatives (5)	3,572	22			441	5		
Total assets	38,199	356		3.78	34,939	478		5.59
Liabilities (3)	27,579	(237)	(3.48)		29,035	(374)	(5.25)	
Effect of embedded and ALM derivatives (5)	9,214	(70)			4,152	(26)		
Total liabilities	36,793	(307)		(3.38)	33,187	(400)		(4.91)
Interest margin			0.43	0.40			0.35	0.68
Foreign currency (6)								
Assets (3)	24,101	(74)	(1.22)		26,489	773	12.19	
Effect of hedging derivatives (5)	692	10			792	14		
Effect of embedded and ALM derivatives	34,828	(296)			20,784	727		
Total assets	59,621	(360)		(2.39)	48,065	1,514		13.21
Liabilities (3)	18,763	137	2.89		18,315	(458)	(10.38)	
Effect of hedging derivatives (5)	683	(1)			802	(5)		
Effect of embedded and ALM derivatives	40,325	229			28,795	(888)		
Total liabilities	59,771	365		2.42	47,912	(1,351)		(11.77)
Interest margin			1.67	0.03			1.81	1.44

(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) This increment does not include debit balances of the public deriving from open credit card transactions totaling NIS 903 million.
(5) Hedging financial derivatives (excluding options), embedded derivatives that were separated and derivatives (ALM) which comprise part of the Banks asset and liability management system.
(6) Includes linked to foreign currency.

Income and Expense Rates - Consolidated (1)

Reported amounts (in NIS millions)

	For the three months ended March 31, 2007				For the three months ended March 31, 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)	84,842	651	3.10		83,727	1,602	7.88	
Effect of derivatives (4)								
Hedging derivatives	692	10			792	14		
Embedded and ALM derivatives	66,512	141			39,963	784		
Total assets	152,046	802		2.13	124,482	2,400		7.94
Monetary liabilities generating financing expenses (3)	80,836	(408)	(2.03)		79,046	(1,127)	(5.83)	
Effect of derivatives (4)								
Hedging derivatives	683	(1)			802	(5)		
Embedded and ALM derivatives	66,510	(61)			39,944	(945)		
Total liabilities	148,029	(470)		(1.28)	119,792	(2,077)		(7.12)
Interest margin			1.07	0.85			2.05	0.82
On options		24				(2)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were separated (4))		13				20		
Commissions from financing transactions and other financing income (5)		103				65		
Other financing expenses		(5)				(2)		
Profit from financing operations before provision for doubtful debts		467				404		
Provision for doubtful debts (includes general and supplementary provision)		(50)				(119)		
Profit from financing operations after provision for doubtful debts		417				285		
Total								
Monetary assets generating financing income (3)	84,842				83,727			
Assets deriving from derivatives (6)	1,462				1,185			
Other monetary assets(3)	815				177			
General and supplementary provision for doubtful debts	(190)				(212)			
Total monetary assets	86,929				84,877			
Total								
Monetary liabilities generating financing expenses (3)	80,836				79,046			
Liabilities deriving from derivatives (6)	787				930			
Other monetary liabilities(3)	1,501				1,526			
Total monetary liabilities	83,124				81,502			
Total surplus monetary assets over monetary liabilities	3,805				3,375			
Non-monetary assets	1,489				1,550			
Non-monetary liabilities	164				215			
Total capital resources	5,130				4,710			

(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 three months ended March 31, 2007				For the three months ended March 31, 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)	6,122	82	5.47		5,673	67	4.81	
Effect of derivatives (4)								
Hedging derivatives	164	3			169	1		
Embedded and ALM derivatives	8,262	75			4,450	29		
Total assets	14,548	160		4.47	10,292	97		3.82
Monetary liabilities in foreign currency	4,886	(47)	(3.90)		3,923	(27)	(2.78)	
that generated financing expenses (3)								
Effect of derivatives (4)								
Hedging derivatives	162	(1)			171	1		
Embedded and ALM derivatives	9,566	(89)			6,166	(39)		
Total liabilities	14,614	(137)		(3.80)	10,260	(65)		(2.56)
Interest margin			1.57	0.67			2.03	1.26

(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 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 March 31, 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 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 the fourth quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank's independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:
   a. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

The aforesaid does not derogate from my responsibility or the responsibility of any other person according to the law.

May 31, 2007	**E. Yones**
14 Sivan 5767	President and Chief Executive Officer

Certification

I, Menachem Aviv, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. for the quarter ended March 31, 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 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.

May 31, 2007	**M. Aviv**
14 Sivan 5767	Chief Accountant

To the Board of Directors of Mizrahi Tefahot Bank Ltd.

Gentlemen:

Re: Review of the Condensed Unaudited Consolidated Interim Financial Statements for the Period Ended March 31, 2007

At your request, we have reviewed the condensed consolidated balance sheet of Mizrahi Tefahot Bank Ltd. ("the Bank") as of March 31, 2007, and the condensed consolidated statements of profit and loss and changes in shareholders' equity for the period of three 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% of total assets included in the interim consolidated balance sheet as of March 31, 2007, and their profits from financing operations, before provision for doubtful debts, constitute approximately 5.7% of the total profit from financing operations before provision for doubtful debts included in the interim consolidated statement of profit and loss for the three-month period then ended. Likewise, we did not review the financial statements of affiliates, in which the equity in their capital deficit amounts to NIS 6 million as of March 31, 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 14.A-E 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, May 31, 2007
14 Sivan 5767

Condensed Balance Sheet - at March 31, 2007

Reported amounts (In NIS millions)

	31.3.2007	31.3.2006	31.12.2006
	(Unaudited)	(Unaudited)	(Audited)
Assets			
Cash and deposits with banks	13,595	13,010	10,797
Securities	6,894	5,622	5,979
Securities borrowed or purchased in repurchase agreements (1)	157	-	-
Loans to the public	71,452	66,406 (2)	70,109
Loans to the Government	4	91	4
Investments in investees	26	88	42
Buildings and equipment	1,296	1,223	1,293
Other assets	2,323	1,495	2,487
Total assets	95,747	87,935	90,711
Liabilities and Shareholders' Equity			
Deposits from the public	75,250	71,501	73,234
Deposits from banks	5,821	3,418	3,073
Deposits from the Government	549	611	560
Debentures and subordinated notes	5,263	4,595	5,067
Other liabilities	3,437	3,068 (2)	3,710
Total liabilities	90,320	83,193	85,644
Minority interest	-	6	6
Shareholders' equity	5,427	4,736	5,061
Total liabilities and shareholders' equity	95,747	87,935	90,711

(1) See Note 2.

(2) Reclassified.

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

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

Ramat Gan, May 31, 2006
14 Sivan 5767

Condensed Consolidated Statement of Profit and Loss

Reported amounts (In NIS millions)

	For the three months ended March 31		For the year ended December 31
	2007	2006	2006
	(Unaudited)	(Unaudited)	(Audited)
Profit from financing operations before provision for doubtful debts	467	404	1,987
Provision for doubtful debts	50	119	305
Profit from financing operations after provision for doubtful debts	417	285	1,682
Operating and other income			
Operating commissions	253	247	991
Profits from investments in shares, net	38	2	50
Other income	37	47	174
Total operating and other income	328	296	1,215
Operating and other expenses			
Salaries and related expenses	293	337	1,395
Maintenance and depreciation of buildings and equipment	100	88	385
Other expenses	74	78	337
Total operating and other expenses	467	503	2,117
Operating profit before taxes	278	78	780
Provision for taxes on operating profit	115	25	349
Operating profit after taxes	163	53	431
Share in after-tax net operating losses of affiliates	-	-	(4)
Net operating profit	163	53	427
After-tax profit from extraordinary items	207	-	216
Net profit	370	53	643
Profit per share (1)			
Basic profit per share (in NIS)			
Operating profit per share	0.74	0.24	1.95
Profit from extraordinary items	0.95	-	0.99
Total	1.69	0.24	2.94
Fully-diluted profit per share (in NIS)			
Operating profit per share	0.73	0.24	1.91
Profit from extraordinary items	0.92	-	0.97
Total	1.65	0.24	2.88

(1) 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 March 31, 2007			
	Share capital and capital reserves (1)	Dividend declared subsequent to balance sheet date	Retained earnings (1)	Total shareholders' equity
				(Unaudited)
Balance as of January 1, 2007	1,953	-	3,108	5,061
Net profit for the period	-	-	370	370
Dividend declared subsequent to balance sheet date	-	200	(200)	-
Capital reserve for benefit from allotment of options to employees	5	-	-	5
Capital reserve for tax benefit	1	-	-	1
Adjustments for presentation of securities available for sale at fair value	-	-	(19)	(19)
Related tax effect	-	-	9	9
Balance as of March 31, 2007	1,959	200	3,268	5,427

	For the three months ended March 31, 2006		
	Share capital and capital reserves	Retained earnings (1)	Total shareholders' equity
			(Unaudited)
Balance as of January 1, 2006	1,915	2,761	4,676
Net profit for the period	-	53	53
Capital reserve for benefit from allotment of options to employees	7	-	7
Capital reserve for tax benefit	1	-	1
Adjustments for presentation of securities available for sale at fair value	-	(2)	(2)
Related tax effect	-	1	1
Balance as of March 31, 2006	1,923	2,813	4,736

	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 was after deduction of the following amounts:
A. Negative differences from the foreign currency translation of units that had been autonomous overseas units totaling NIS 51 million (as of March 31, 2006 and December 31, 2006 - same).
B. Adjustments, net, for presentation of securities available for sale at fair value, totaling NIS 55 million (as of March 31, 2006 - NIS 35 million; as of December 31, 2006 - NIS 65 million).

(2) In the first quarter of 2007, 41,397 ordinary shares, NIS 0.1 par value each, were issued against the current exercise of options under the terms of an employee option plan. Subsequent to the balance sheet date, 1,938,771 ordinary shares, NIS 0.1 par value each, were issued to the President, upon the exercise of options.

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

Notes

1. The financial statements as of March 31, 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, so that the holder does not cover his investment.

   The new directive will apply 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 to be effected commencing January 1, 2007.

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

The securities that were loaned or borrowed 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 will be recorded as "securities loaned or sold in repurchase agreements", on the liabilities side, and the consideration paid for the securities borrowed will be recorded as "securities borrowed or purchased in repurchase 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 157 million were recorded in the item "securities borrowed or purchased within the framework of repurchase agreements" in assets.

Application of the directives will 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 indentifiable 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 mode: 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 revalued amount 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.

As of the publication date of these financial statements, the directives of the Supervisor of Banks relating to the adoption of the Standard by banking corporations, if at all, were not yet published. Therefore, it is not possible to estimate the effect of its application on the Bank's financial statements.

4. 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. 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.

Since January 2007, this Regulation is also implemented with respect to the management of a credit facility in foreign currency.

As a result of implementation of the Regulation, the total interest not recorded to the statement of profit and loss in the first quarter of the year amounted to NIS 5 million.

5. 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, 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 based on 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 a net gain of NIS 199 million 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 the closing date, Netivot will receive the NIS equivalent of 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, according to the last 3 monthly reports that will be filed with the Treasury before the transaction closes. The average volume of provident fund assets for the months December 2006 and January and February 2007, according to the reports filed with the Commissioner of the Capital Market, Insurance and Savings in the Ministry of Finance, is NIS 1.9 billion. Therefore, the calculation of the proceeds for these months, had the transaction been closed on the signature date of the sales agreement, is NIS 51.7 million. The Bank's share in the proceeds totals NIS 31 million (60% - Bank's holding percentage in the shares of Netivot). It is possible to estimate that when the transaction is closed, Netivot will have a capital gain of NIS 31 million after tax, whereas the Bank expects to earn a capital gain of NIS 18 million from a dividend distribution (60% of the Bank's holdings in the shares of Netivot).

Concurrent with the signing of the sales agreement, the buyer and the Bank will sign agreements for various services from the Bank. The transaction is subject to the signing of a sale agreement and various contingent conditions, including the approvals required by law.

6. 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.

7 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 the consideration described below, to be based on the shareholders' equity required by Yahav to maintain minimum capital of 10% ("required equity") (which, as of Yahav's financial statements as of December 31, 2006 is NIS 293 million).

   The proceeds for the acquired shares will reflect a ratio of 1.62 to required equity (i.e., as of the signing date, totaled NIS 237 million). The difference between Yahav's equity as of December 31, 2006 and the required equity, as noted, is expected to be distributed by Yahav to its shareholders as a dividend before the closing date of the transaction, and if it is not distributed as a dividend by the closing date, the proceeds will be increased by an amount equal to half of the said difference.

   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.

The transaction's closing is contingent on the approval of the boards of directors of the Bank and of the sellers, and on obtaining the approvals required by law, including the closing of the sale of the provident funds owned or controlled by Yahav.

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

   Under the terms of the agreement, the Bank granted the buyer a call option, which is exercisable for 12 months, commencing from the closing date of the sale ("the call period"), to purchase the balance of the Bank's holdings in Mofet, representing 11.9% of the rights in capital and voting ("option shares"), in consideration for NIS 14.9 million ("option proceeds).

   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.

9. in March 27, 2007, the Bank announced that it was negotiating to acquire 10% of the share capital of the companies – Isracard Ltd. and Europay (Eurocard) Israel Ltd. Also being considered within this framework is the issuance of a credit card with the Bank's brand, within the scope of Isracard.

10. 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.

When the agreement will be closed during 2007, and based on the independent assessment of the Bank relating to a betterment tax liability, the gain (after-tax) that will be recorded in the financial statements will reach NIS 11 million. According to the betterment tax assessment received from the tax authorities (on which the Bank intends to file an objection) for the transaction, the Bank has an additional tax liability of NIS 8 million. If the Bank's objection is not accepted with respect to the betterment tax assessment, the gain to be posted by the Bank for the transaction will total NIS 3 million.

11. 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 registration for trading.

    In November 2006, subordinated notes were issued to institutional investors totaling NIS 450 million par value, to be repaid on January 1, 2016. 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 that were issued will be 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, permission was received from the Israeli Securities Authority for publication of the prospectus. The issued capital notes are expected to be registered for trading in early June 2007.

12. 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%. The Bank intends to issue additional upper Tier II capital in the amount of NIS 500 million.

13. 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 March 31, 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, 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 June 2005, the plaintiffs filed a motion to amend the statement of claim, increasing the amount claimed to NIS 99 million, while adding additional causes of action. The Court has not yet ruled on the amendment motion.

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, which is likely to be based on discounting. 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, 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. The plaintiffs and the Bank filed summaries in the appeal, and the hearing to complete the parties' arguments regarding the implications of the Class Action Law on the process was scheduled for October 2007.

In the circumstances of this matter, in which the District Court dismissed the plaintiffs’ motion for recognition as a class action, in a detailed ruling in accordance with the Law, and taking into account the deliberations that it is likely will be considered by the Supreme Court, the ruling of the District Court should stand the test of appeal.

Accordingly, in these circumstances, in the estimation of the Bank based on the opinion of its legal counsel, the chances that the appeal will be accepted 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. 13)C. 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. On October 21, 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 carrying 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 the3 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, plus damages 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". However, in the estimation of management, a provision for this claim is not necessary in the financial statements.

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 it could have prevented 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. On April 20, 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 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.

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. On April 4, 2006, a claim was filed in Haifa District Court against the Bank and against Bank Hapoalim in the amount of NIS 183 million, as a result of not providing credit that they had allegedly been promised, causing the alleged collapse of the plaintiffs. 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. On June 7, 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.

Later, the plaintiffs' appeals were head by the 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 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. For all of the Group’s claims exceeding NIS 2 million, excluding the claims discussed in Note 14 below, there is additional exposure, which is not remote, totaling NIS 106 million.

14. 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 – March 2007	18	11
January – March 2006	18	11
Year 2006	73	45

B. 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, and taking into consideration that the action is in a very preliminary stage, it is still not possible at this stage to assess the outcome of the action and the motion for its recognition as a class action.

C. 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, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

D. In 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 local and reason. 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.

E. 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.

15. 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.

    Bank Tefahot filed a Response in which it claims that most of the provisions are not to be deemed unduly onerous conditions.

    The Bank reached an arrangement with the Supervisor of Banks in all that relates to the wording of the Sales Law Guarantee pursuant to the Law, and agreed to delete several clauses and to make several changes in other clauses of the guarantee.

    The agreement was filed with the Standard Contracts Tribunal for approval.

16. 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 25 million in the first quarter of the year, compared with NIS 26 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)
(in NIS millions)

	For the three months ended March 31	
	2007	2006
		Unaudited
A. From assets (1)		
From loans to the public	671	1,179
From loans to the Government	3	5
From deposits with the Bank of Israel and from cash	(9)	8
From deposits with banks	(15)	297
From debentures	10	122
	660	1,611
B. On liabilities (1)		
On deposits from the public	(349)	(999)
On deposits from the Government	(4)	(7)
On deposits from the Bank of Israel and from cash	(13)	(2)
On deposits from banks	3	(58)
On debentures and subordinated notes	(45)	(61)
	(408)	(1,127)
C. On financial derivatives and hedges		
Lack of effectiveness of fair value hedge	1	1
Income (expenses), net, from ALM derivatives (2)	80	(161)
Income, net, from other derivatives	36	17
	117	(143)
D. Other		
Commissions from financing transactions	22	22
Financing income from collection of interest on arrears from individual borrowers	9	9
Interest income on problem debts	31	9
Profits on sale of debentures available for sale, net	2	2
Other financing income	39	23
Other financing expenses	(5)	(2)
	98	63
Total profit from financing operations before provision for doubtful debts	467	404
Includes: net exchange rate differences	(7)	2
E. Details on net effect of hedging derivatives on profit from financing operations		
Financing income (expenses) from assets (Par. A)	9	8

(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 - Provision for Doubtful Debts

Reported amounts (in NIS millions)

	For the three months ended March 31, 2007			
	Specific provision (1)			
	Based on length of arrears	Other	Supplementary provision (2)	Total
Balance of provision at beginning of period	792	1,883	192	2,867
Provisions in reported period	68	61	-	129
Decrease in provisions	(65)	(10)	(4)	(79)
Amount charged to statement of profit and loss	3	51	(4)	50
Write-off of debts	-	(50)	-	(50)
Balance of provision as of end of period	795	1,884	188	2,867
Includes - balance of provision that was not deducted from loans to the public	-	115	-	104

	For the three months ended March 31, 2006			
	Specific provision (1)(4)			
	Based on length of arrears	Other	Supplementary provision (2)	Total
Balance of provision at beginning of period	628	1,817	212	2,657
Effect of new guidelines (3)	58	(4)	-	54
Provisions in reported period	74	48	-	122
Decrease in provisions	(43)	(5)	(9)	(57)
Amount charged to statement of profit and loss	89	39	(9)	119
Write-off of debts	-	(22)	-	(22)
Balance of provision as of end of period	717	1,834	203	2,754
Includes - balance of provision that was not deducted from loans to the public	-	104	-	104

(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 for interest on doubtful debts after they were deemed doubtful.

(2) Includes general provision for doubtful debts. Comparative figures include a special provision of NIS 17 million. This provision was reversed in accordance with the directives of the Supervisor of Banks in the third quarter of 2006.

(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.N.3) to the annual financial statements as of December 31, 2006 for additional information.

(4) Reclassified.

Appendix 2 - Provision for Doubtful Debts

Reported amounts (in NIS millions)

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

	For the three months ended March 31, 2007					
			Of which:	Specific provision		
	Balance of balance sheet credit (2)	Debt balance (3)	Amount in arrears (4)	According to length of arrears	Other	Total
Housing loans for which it is required to compute the provision according to the length of arrears	33,698	1,128	500	795	-	795
Large loans (5)	2,057	145	34	4	22	26
Other loans	671	110	11	-	8	8
Total	36,426	1,383	545	799	30	829

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

	For the three months ended March 31, 2006(6)					
			Of which:	Specific provision		
	Balance of balance sheet credit (2)	Debt balance (3)	Amount in arrears (4)	According to length of arrears	Other	Total
Housing loans for which it is required to compute the provision according to the length of arrears	32,916	1,229	439	717	-	717
Large loans (5)	1,939	124	29	1	15	16
Other loans	455	93	9	-	9	9
Total	35,310	1,446	477	718	24	742

(1) See Note 1.N(d) to the annual financial statements as of December 31, 2006 regarding details on the circular published by the Bank of Israel on January 1, 2006 on how the provision for doubtful debts according to length of arrears is to be computed.

(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 780 thousand (on March 31, 2006 - NIS 786 thousand).

(6) Reclassified.

Appendix 3 - Consolidated Statement of Assets and Liabilities According to Linkage Basis As of March 31, 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	2,012	1,100	8,541	871	1,071	-		13,595
Securities	1,496	1,543	1,454	1,934	73	394	(3)	6,894
Securities borrowed or purchased in repurchase agreements	157	-	-	-	-			157
Loans to the public (2)	25,307	32,852	8,237	2,275	2,781	-		71,452
Loans to the Government	-	3	1	-	-	-		4
Investments in affiliates	24	-	-	-	-	2		26
Buildings and equipment	-	-	-	-	-	1,296		1,296
Other assets	1,710	204	276	33	49	51		2,323
Total assets	30,706	35,702	18,509	5,113	3,974	1,743		95,747
Liabilities								
Deposits from the public	35,843	20,067	13,487	3,070	2,783	-		75,250
Deposits from banks	2,998	1,713	834	161	115	-		5,821
Deposits from the Government	223	283	43	-	-	-		549
Debentures and subordinated notes	-	5,263	-	-	-	-		5,263
Other liabilities (4)	2,556	497	121	40	67	156		3,437
Total liabilities	41,620	27,823	14,485	3,271	2,965	156		90,320
Difference	(10,914)	7,879	4,024	1,842	1,009	1,587		5,427
Non-hedging financial derivatives:								
Financial derivatives (excluding options)	9,658	(4,579)	(2,738)	(1,676)	(665)	-		-
Options in the money, net (in terms of underlying asset)	1,343	-	(1,193)	(21)	(129)	-		-
Options out of the money, net (in terms of underlying asset)	174	-	109	(69)	(214)	-		-
Total	261	3,300	202	76	1	1,587		5,427
Options in the money, net (discounted stated value)	50	-	719	(680)	(89)	-		-
Options out of the money, net (discounted stated value)	(2,202)	-	744	622	836	-		-

(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 295 million for shares received to secure credit.

Appendix 3 - Consolidated Statement of Assets and Liabilities According to Linkage Basis As of March 31, 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	422	1,913	8,213	1,490	972	-	13,010
Securities	2,149	176	1,311	1,516	86	384 (2)	5,622
Loans to the public (2)(4)	19,986	33,272	9,475	1,529	2,144	-	66,406
Loans to the Government	-	6	85	-	-	-	91
Investments in affiliates	22	-	-	-	-	66	88
Buildings and equipment	-	-	-	-	-	1,223	1,223
Other assets	977	198	165	31	70	54	1,495
Total assets	23,556	35,565	19,249	4,566	3,272	1,727	87,935
Liabilities							
Deposits from the public	31,236	22,597	12,007	3,022	2,639	-	71,501
Deposits from banks	34	2,323	788	123	150	-	3,418
Deposits from the Government	213	350	48	-	-	-	611
Debentures and subordinated notes	-	4,595	-	-	-	-	4,595
Other liabilities	2,149	302	313	60	36	208	3,068
Total liabilities	33,632	30,167	13,156	3,205	2,825	208	83,193
Difference	(10,076)	5,398	6,093	1,361	447	1,519	4,742
Non-hedging financial derivatives:							
Financial derivatives (excluding options)	12,223	(3,936)	(6,606)	(1,205)	(476)	-	-
Options in the money, net (in terms of underlying asset)	230	(9)	(196)	(64)	39	-	-
Options out of the money, net (in terms of underlying asset)	(485)	-	472	(25)	38	-	-
Total	1,892	1,453	(237)	67	48	1,519	4,742
Options in the money, net (discounted stated value)	(47)	(9)	(232)	72	216	-	-
Options out of the money, net (discounted stated value)	5	-	(1,095)	902	188	-	-

(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 280 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-	Total
	Unlinked	CPI-linked	U.S. dollars	Euro	Other currencies	monetary items	
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	1,071	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)

							For the three months ended March 31, 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	289	(139)	100	54	243	(80)	467
Inter-segment	(57)	181	11	(36)	(116)	17	-
Total profit from financing operations before provision for doubtful debts	232	42	111	18	127	(63)	467
Operating and other income	145	30	76	8	56	13	328
Total income	377	72	187	26	183	(50)	795
Provision for doubtful debts	11	-	21	1	17	-	50
Net operating profit (loss)	100	7	18	5	68	(35)	163
Net profit (loss)	212	54	53	5	73	(27)	370

							For the three months ended March 31, 2006 (Unaudited)
	Households (1)	Private banking	Small businesses (1)	Commercial banking (1)	Business banking (1)	Financial management (1)	Total consolidated
Profit from financing operations before provision for doubtful debts:							
From outside operating segment	199	(123)	117	49	209	(47)	404
Inter-segment	9	169	(10)	(32)	(96)	(40)	-
Total profit from financing operations	208	46	107	17	113	(87)	404
Operating and other income	153	34	77	4	20	8	296
Total income	361	80	184	21	133	(79)	700
Provision for doubtful debts	96	-	16	1	6	-	119
Net operating profit (loss)(1)	27	13	19	3	47	(56)	53
Net profit (loss) (1)	27	13	19	3	47	(56)	53

							For the year ended December 31, 2006 (Audited)
	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	904	(562)	452	211	883	99	1,987
Inter-segment	18	751	(16)	(139)	(393)	(221)	-
Total profit from financing operations	922	189	436	72	490	(122)	1,987
Operating and other income	610	140	329	24	79	33	1,215
Total income	1,532	329	765	96	569	(89)	3,202
Provision for doubtful debts	174	-	65	6	60	-	305
Net operating profit (loss)	239	32	56	20	156	(76)	427
Net profit	311	65	79	20	159	9	643

(1) Reclassified.