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Condensed Board of Directors' Report
For Financial Statements as of June 30, 2008

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 18, 2008, it was resolved to approve and publish the consolidated Board of Directors' Report and the financial statements of Mizrahi Tefahot Bank Ltd. and its investees as at June 30, 2008.
The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

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

Developments in Israel's economy in the first half of 2008

Real Developments
Different indicators reflect a slow down in GDP growth in the second quarter of 2008. This compares to growth in Q1, which according to preliminary estimates by the Central Bureau of Statistics, was at an annual rate of 5.4%, following 5.8% growth in the final quarter of 2007.

In Q1, imports of goods and services, excluding defense imports, ships, airplanes and diamonds, grew at an annualized 20%, following 14.3% growth in the final quarter of 2007. On the usage side, private consumption in Q1 grew by 14.1% (annualized), following a mere 3.0% growth in the final quarter of 2007. This growth was reflected in stronger consumption of durables, primarily automobiles, which was impacted by the weak dollar. Investment in fixed assets grew at an annualized rate of 9.6%, following an 11.8% decline in the final quarter of 2007 (a decline primarily due to an extraordinary investment in ships and airplanes in the third quarter of 2007). The increased investment was focused on vehicles, whereas investment in machinery and equipment declined. Exports of goods and services in Q1 grew by an annualized 12.6%, following a 14.7% growth in the final quarter of 2007, and expenditure for public consumption, excluding defense imports, declined by 2.9%, following a 1.1% growth in the final quarter of 2007.

In Q2, the combined index declined by a cumulative 0.1%, compared to a 2.4% increase in Q1 of this year. The Industrial Output Index rose in March-May at an annualized 6.8%, following an 11.9% increase over the previous three months. Trend data for goods export indicate slower growth, to an annualized 14.0% in Q2, compared to 21.0% in Q1. The Bank of Israel Service Export Index dropped sharply in the second quarter, by 11.8%, following a 12.0% increase in the first quarter. The Trade and Services Turnover Index grew by 2.1% in March-May 2008, following a 1.1% increase in the previous three months. Trend data for total sales of retail chains indicate a 1.9% increase in Q2, following a 0.8% increase in Q1, whereas food sales indicate a 2.4% decrease, following a 4.0% decrease in Q1.

The unemployment rate declined in Q1 to 6.3%, along with an increase in labor force participation rate – reflecting the strong growth in this period. According to trend data, this rate continued to decline in Q2, standing at 6.1% in May 2008, compared to 7.4% in the same month last year.

Inflation and exchange rates

In the first half of 2008, the Consumer Price Index rose by 2.3%, compared to a 1.0% increase in the same period last year. In Q2 the CPI rose by 2.2%. The major changes year to date were rising prices of food, fruits and vegetables, offset by declining prices of housing, clothing and shoes.

In the first half of 2008, the NIS / USD exchange rate was revalued by 12.8%, with the NIS revalued by 6.6% vs. the Euro. On June 30, 2008, the exchange rate reached NIS 3.352 to the dollar, compared with NIS 3.846 to the dollar on December 31, 2007. The NIS/USD exchange rate was revalued up to 3.233 at the end of May, despite USD purchases by the Bank of Israel starting in March. In June, the NIS was devalued by 3.7%.

The NIS/EUR exchange rate on June 30, 2008 was NIS 5.2849 per Euro, compared with NIS 5.569 per Euro at the end of 2007.

Monetary and fiscal policy

Against the backdrop of concerns re the slow-down in growth of the economy and of revaluation of the NIS vs. the USD, Bank of Israel lowered its interest rates twice in the first four months of 2008, from 4.25% in January to 3.25% in April. In response to stronger inflationary pressures, interest rates were raised three times in June, July and August – with Bank of Israel interest rate being 3.50% in June, 3.75% in July and 4.00% in August.

In the first half of 2008, the government budget recorded a NIS 2.7 billion surplus, compared to a NIS 5.6 bilion surplus in the same period last year. Government expenses in this period were higher than budgeted, as were its tax revenues. Revenue breakdown indicates a downward trend in direct tax revenues over recent months, as well as an upward trend in indirect tax revenues.

Residential construction and the mortgage market

Sales of privately constructed new apartments declined in the first half of 2008 by 8% compared to the corresponding period last year. This decline is evident in almost all regions (except for the Central region), and more prominently in the South and North regions, with declines in excess of 20%. Sales of publicly constructed new apartments also declined somewhat, with sales decreasing by 1% in the first half of this year compared to the corresponding period last year. Despite the decrease in new apartment sales, the total number of residential apartment transactions (new and existing) in the first trimester of 2008 was higher than in the corresponding period last year.

According to preliminary estimates by the Central Bureau of Statistics, construction investment rose by 5.1% in the first quarter of 2008 over the previous quarter, following a 2.9% growth in 2007. On the other hand, the annual rate of new residential housing starts, based on the first trimester of 2008, was 26,000 units – lower than the annual rate of 30,000 units recorded in recent years. This decline, primarily in private construction, caused the inventory of new apartments for sale from private construction at the end of May to be 34% lower than at the same time last year - only 8,360 apartments.

Along with the high overall number of apartment purchase transactions, and in view of lower interest rates on mortgages, the number of mortgages granted (excluding re-financing) grew in the first 5 months of the year, with continued increase in the average loan size. During this period, the extent and weight of arrears out of the residential loan portfolio recorded declines.

Capital market

The first half of 2008 saw weakness in the global capital markets, which faced uncertainty, fear of a global economic slow-down and higher inflation (see below - the chapter "Global Economy").

In Israel, markets have reacted to global events, as well as to the revaluation of the NIS, changes in Bank of Israel interest rates, increase in the inflation rate in the second quarter and the state of combat in the south of the country. At the end of the first half of the year, markets showed concerns about inflation, accompanied by initial signs of weakness in the economy.

Equity market – the Tel Aviv 25 and Tel Aviv 100 indices declines in the first half of this year by 16% and 20%, respectively. Even sharper declines were recorded in the Tel-Tech 15 and Real Estate 15 indices, which dropped by 44% and 41%, respectively. The average daily trading volume in equities and convertible securities amounted in the first half of 2008 to NIS 2.2 billion – a 4% growth over the average daily volume in 2007. In view of the market crisis, the first half of 2008 saw a decrease in issuance volume, with NIS 3.6 billion raised, compared to NIS 15.6 billion raised in the same period last year.

During the period from mid-2008 through the publication date of these financial statements, most of the stock indices continued to decline. The Real Estate Index stood out with its decline. The Tel-Tech index rose moderately.

The bond market saw the general bond index, the linked bond index and the non-linked bond index rise by 2.9%, 5.4% and 2.7%, respectively. In total, the business sector raised from the public and from institutional investors in the first half of 2008 a total of NIS 18.3 billion using debentures. The average daily trading volume in bonds amounted to NIS 3.9 billion – an 18% growth over the average daily volume in 2007.

Global economy

In the first half of 2008, the slow-down in the US market continued, following the credit crisis which started in the second half of 2007. However, the GDP growth rate in Q2 was higher than in the two preceding quarters, apparently due to tax rebates paid to US citizens and to the weak dollar, which contributed to a rise in exports and a decline in imports. The growth rate in Q2 of 2008 was an annualized 1.9%, compared to 0.9% growth in Q1, and to 0.2% decline in the final quarter of 2007.

In Q2 of 2008, the US consumer confidence indices continued to decline, in view of increased unemployment, which in June reached 5.5% (4.6% in 2007).

In the Euro Zone and Japan, growth in Q1 of 2008 did not slow down, with GDP growth in Euro Zone standing at 2.9%, compared to 1.3% in the final quarter of 2007; GDP growth rate in Japan stood at 4.0%, on the heels of 2.9% growth in the final quarter of 2007.

The International Monetary Fund recently raised its global growth forecast for 2008 to 4.1% (3.7% in the previous forecast dated April 2008). The growth forecast for the USA was raised to 1.3% (0.5% in the previous forecast), and in the Euro Zone – to 1.7% (1.4% in the previous forecast). Rising prices of energy and food caused inflationary pressures in most global markets: In the USA, the Consumer Price Index for the 12 months ended June 30, 2008 rose by 5.0%, while in the Euro Zone the CPI rose by 4.0% in the same period. In response, the European Bank raised interest rates for July by 0.25% to 4.25%, after many months in which it had stood at 4.00%. Interest rates were raised, in order to fight inflation, in several emerging markets as well - such as India, Brazil, Turkey and Mexico. Having lowered interest rates by 2.25% over the first four months of the year, the US Federal Reserve Bank stopped the interest lowering process, with interest rates remaining unchanged over the following three months - at 2.00% per annum.

Against the backdrop of the sub-prime crisis, fear of further credit-related losses, slower growth in the USA, rising price indices and interest rates in most economies, as well as the fear of the impact of all the above on the global economy – the first half of 2008 saw declines in leading stock indices around the world.

Th Dow Jones, NASDAQ and S&P 500 indices declined in the first half by 13%-14%. The FTSE 100 and Nikkei indices declined in the same period by 12%-13%. Sharper declines were recorded by the French CAC 40 index and the German DAX index, which declined in the first half by 20%-21%, while the DJ EuroSTOXX index dropped by 24%.

Interest hikes by central banks in major economies also led to declines in bond prices.

Forward-looking information

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

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

Business Strategy

On December 24, 2007 the Bank's Board of Directors approved a new strategic 5-year plan for the Bank Group for 2008-2012, based on the following principles:

- The objective is to achieve in 2012 return on equity from current operations of 18% on average.
- During the 5-year strategic plan, the Bank would maintain a capital adequacy ratio (including complex capital notes) at no less than 11.2% and a capital adequacy ratio (excluding complex capital notes) at no less than 10%, as per the previous Board of Directors decision dated May 2007. This is in view of the custom among banks globally to maintain capital adequacy rates higher than the minimum requirements

imposed by regulators, in order to reflect to investors and depositors the conservative approach and international standards which the Bank wishes to adopt, as well as in view of the intent of the Supervisor of Banks to adopt Basel II regulations and to have capital allocated for operating risk as well.

On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including subordinated notes) be no less than 12% by end of 2009.

- During this strategic plan, the dividend distribution policy adopted by the Bank would be maintained, whereby, subject to the Bank’s ratio of capita to risk components being no less than the threshold set by the Board of Directors, the Bank would distribute annually dividends equal to 40% of net operating profit and 80% of net profit from extraordinary activities.

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

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

The growth engines are aimed to grow Bank revenues at an average annual rate of over 8% (though not in linear fashion), while maintaining expenses at a moderate annual growth rate of 4% (also not in linear fashion). We emphasize that these rates include the cost associated with acquisition of control of Bank Yahav and establishing the Group from a multi-brand viewpoint.

The Bank has based the strategic, multi-annual plan, *inter alia*, on implementation of acquisition of the controlling stake in Bank Yahav; on potential benefits to the Bank from implementation of Basel II recommendations; pension consultancy and insurance; continued organic growth; expense containment and continued improvement in efficiency with introduction of ever growing variable, performance-based compensation; and continued expansion of the back-office operation division while transferring logistics operations from branches to this division – a process launched by the Bank in early 2007.

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

Significant events in the Bank Group's business

Acquisition of a controlling stake in Bank Yahav

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

Acquisition of holdings in Bank Yahav is aligned with Bank business strategy which emphasizes, *inter alia*, development of Group retail operations. See Note 11.B to the financial statements for additional information.

Agreement with Isracard

On November 13, 2007, the Bank signed a memorandum of understandings with Isracard Ltd. and Europay (Eurocard) Israel Ltd. ("Isracard" and "Europay", respectively), whereby the parties would negotiate to replace their current agreed arrangements with a new agreement (for a 10-year term) aimed at issuing Mizrahi-Tefahot branded credit cards and agreeing on arrangements for operation and servicing by Isracard and/or Europay of debit cards to be issued by them and to be distributed by the Bank to its customers ("the new agreement"), in exchange for allotment of 3.6% of shares of Isracard and Europay to the Bank. On April 10, 2008, the Bank announced that negotiations regarding the new agreement have not materialized in a binding agreement. As a result of the parties not reaching a new agreement, and in accordance with the MOU to which the parties are committed, the existing contractual agreements between the parties would remain in effect for a 10-year term starting on November 13, 2007, and the bank retained 1.8% of Isracard and Europay ordinary shares allotted to it on December 19, 2007. Furthermore, the Bank may distribute its branded card through any party of its choice.

For details, see Note 11.D. to the financial statements.

Stock option plan for managers

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

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

June 8, 2008, an outline report was published to employees, and on July 8, 2008, 28.6 million option warrants were allotted pursuant to the stock option plan.

The theoretical benefit value of the option warrants allotted at this stage, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 115 million (NIS 133 million including Payroll Tax).

Calculation of the total theoretical benefit value of this allotment is based, inter alia, on management estimate of the range of annual rates of return in each of the years 2008-2012, up to an annual rate of return of 18% in 2012, based on the Bank's strategic 5-year plan, as set forth above, and on bank management estimate of the average churn rate of plan offerees.

The aforementioned estimate by Bank management constitutes forward-looking information, and is base on facts, data, assumptions and forecasts with regard to realization of the Bank's strategic plan, and as such it may fail to materialize due to changes which may occur in various influencing factors which are not entirely under the Bank's control. The influencing factors include forecasts on various matters related to economic developments in Israel and internationally, especially the state of the economy, including macroeconomic and geopolitical conditions, and the currency market and capital market, other factors that impact the exposure to financial risk, the public's preferences, legislation, directives of regulatory entities, the behavior of competitors, aspects related to the Bank's image, technological developments and manpower matters.

For additional details, see Note 11.E. to the financial statements.

Board of Directors’ decision with regard to capital adequacy ratio

On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including complex capital notes) be no less than 12.0% by end of 2009, without change to the Bank’s dividend distribution policy. For details, see Note 4.B. to the financial statements.

Transactions in Bank shares

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

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

Permits and Arrangements with Regard to Control of the Bank

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

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

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

Arrest and plea bargain of bank employee in the USA

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

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

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

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

On June 27, 2008, in conjunction with a plea bargain, the bank employee (who has since retired) admitted to assisting only one bank customer to avoid tax payments. All other charges against the bank employee, including money laundering offenses, will be erased. In the plea agreement, the bank employee does not implicate the bank or any of its employees in his actions. The plea agreement was filed with the Los Angeles Court, and sentencing is expected in November 2008.

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

Letter from the Restrictive Trade Practices Authority

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

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

Dividends

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

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

Profit and Profitability

Operating net profit in the first half of 2008 amounted to NIS 366 million, compared to NIS 347 million in the same period last year – a 5.5% growth. This profit reflects an annualized 13.4% return on equity, compared to 13.6% in the same period last year and to 12.9% in all of 2007.

Operating net profit in Q2 of 2008 amounted to NIS 186 million, compared to NIS 184 million in the same period last year – a 1.1% growth.

The first half of last year included profit from extraordinary activities of NIS 230 million, of which NIS 23 million in Q2 of 2007, primarily for sale of the Bank's provident fund operations.

Net profit for the Group in the first half of 2008 amounted to NIS 366 million, compared to NIS 577 million (including NIS 230 million from extraordinary activities) in the same period last year. **Group net profit** for the Group in Q2 of 2008 amounted to NIS 186 million, compared to NIS 207 million (including NIS 23 million from extraordinary activities) in the corresponding period last year.

The following major factors contributed to growth in Group operating profit in the first half of 2008 over the same period last year:

- Profit from financing operations before provision for doubtful debt, net of provision for impairment of a non-temporary nature in respect of bank investments in leveraged funds (see below), increased by NIS 126 million, or 12.7%.
- Decrease of NIS 17 million in current provision for doubtful debt for problem loans. This decrease was offset by a NIS 19 million write-off ─ the balance of bank investment in leveraged funds ─ which was made in Q1 of 2008. This completed the write-off of the complete investment cost in leveraged funds and instruments exposed, directly or indirectly, to the US mortgage market was completed (original investment amounting to NIS 157 million, or US $35 million).

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

- Increase of NIS 41 million in provision for taxes on operating profit, due to rescinding of the Inflationary Adjustment Act and revisions to the VAT Act. See Note 11.F to the financial statements for additional information.
- NIS 31 million decrease in operating- and other revenues. These revenues include a dividend amounting to NIS 17 million received for share in the first half of 2008, compared to NIS 38 million received in the first half of last year, as well as loss of provident fund management fee revenues amounting to NIS 22 million, due to sale of provident fund operations. Excluding the aforementioned items, operating revenues grew in the first half of 2008 by NIS 12 million, compared to the same period last year.
- Payroll expenses in Q2 of 2008 remained unchanged compared to the preceding quarter. In the first half of 2008, a NIS 28 million increase occurred in payroll and associated expenses over the corresponding period last year, primarily due to continued constant growth in business operations in general, and in the retail banking segment in particular, while increasing the number of customers.

  In order to support these developments, the Bank has conducted a close review of both branch layout and alignment of headcount with the growth rate of operations over time. As a result of the standardization process, the Bank recruited, last year and through the end of Q1 of 2008, some 270 new employees, who were mostly assigned to branches, for staffing points of sale and new branches, and to continue improvement of quality of service and marketing capacity at existing branches. Some of the new employees were assigned to the call center – which is a major factor in new customer recruitment operations and in ongoing service to existing and new customers. This process has been completed in Q1 of 2008.
- Operating and other expenses, excluding payroll expenses, in the first half of 2007 were low compared to their annual average, so that in effect the first half of 2008 saw no increase in these expenses. In the first half of 2008, operating expenses, excluding payroll and associated expenses, grew by NIS 24 million compared to the corresponding period last year.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debt in the first half of 2008 amounted to NIS 1,103 million, compared with NIS 996 million in the same period last year - an increase of 10.7%.

Group profit from financing operations before provision for doubtful debt in Q2 of 2008 amounted to NIS 554 million, compared with NIS 529 million in the same period last year, an increase of 4.7%.

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

	First Half			Second Quarter		
	2008	2007	Rate of change	2008	2007	Rate of change
Current operations	**1,052**	**968**	**8.7%**	**533**	**492**	**8.3%**
Profit from interest on problem loans	73	75		32	35	
Profit (loss) from realization and impairment of debentures held for sale and debentures held for trading, net (1)	(5)	22		-	20	
Effect of accounting treatment of derivatives at fair value and others (2)	(17)	(69)		(11)	(18)	
Total	**1,103**	**996**	**10.7%**	**554**	**529**	**4.7%**

(1) Includes provision for impairment of non-temporary nature amounting to NIS 19 million of bank investments in leveraged funds, made in Q1 of 2008, thereby increasing the provision amount to the full investment cost in leveraged funds and in instruments exposed, directly or indirectly, to the US mortgage market.

(2) The effect of accounting treatment of derivatives at fair value is due to the difference between accounting treatment of balance sheet instruments, charged to the profit and loss statement on accrual basis (interest, linkage differentials and exchange rate differentials only), vs. derivatives measured at their fair value.

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

	First Half		
Operating segment	2008	2007	Rate of change
Retail banking:			
Mortgages	218	176	23.8%
Household	286	275	4.0%
Small business	160	133	20.3%
Total	**664**	**584**	**13.7%**
Private banking	18	21	(14.3%)
Commercial banking	74	54	37.0%
Business banking	236	224	5.4%
International operations	18 (2)	73	(75.3%)
Financial management	93	40	132.5%
Total	**1,103**	**996**	**10.7%**

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

(2) The decrease in segment profit from financing operations is due to a provision for impairment of a non-temporary nature of investment in leveraged funds in the USA (a provision made in Q1 of 2008, thereby increasing the provision amount to the full cost of investment in leveraged funds and in instruments exposed, directly or indirectly, to the US mortgage market); to expenses in respect of decrease in market value of investments in credit derivatives primarily exposed to the Israeli government and to the US government, for which the capital allocation rate is 0%; and to impact of changes in exchange rates.

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

Linkage segments	First Half		Rate
	2008	2007	Change
Israeli currency - non-linked (1)	72,750	56,951	% 27.7
Israeli currency - linked to the CPI	39,389	38,845	% 1.4
Foreign currency (including Israeli currency linked to foreign currency) (2)	62,587	59,861	% 4.6
Total	**174,726**	**155,657**	**% 12.3**

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

(2) Local operations and overseas affiliates.

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

Linkage segments	First Half	
	2008	2007
Israeli currency - non-linked	1.42%	1.79%
Israeli currency - linked to the CPI	0.39%	0.34%
Foreign currency (including Israeli currency linked to foreign currency) (1)	1.30%	(0.27%)
Total including impact of derivatives	1.13%	0.63%
Total excluding impact of derivatives	1.61%	1.65%

(1) Local operations and overseas affiliates.

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

Group provision for doubtful debt in the first half of 2008 amounted to NIS 96 million, compared to NIS 113 million in the same period last year – an 15.0% decrease, due to a decrease in specific provisions for problem borrowers.

Total provisions for doubtful debt and other credit instruments in the first half of 2008, increased by NIS 2 million over the corresponding period last year, due to a NIS 19 million provision for impairment of bank investments in leveraged funds in the USA, which was made in Q1 of 2008, thereby increasing the provision amount to the full investment cost in leveraged funds and instruments exposed, directly or indirectly, to the US mortgage market.

In Q2 of 2008, provision for doubtful debt amounted to NIS 55 million, compared with NIS 63 million in the same period last year, a decrease of 12.7%.

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

	First Half		Second Quarter	
	2008	2007	2008	2007
Specific provision:				
By extent of arrears (1)	28	4	26	3
Other	67	115	36	62
Total specific provision	95	119	62	65
General and additional provision	1	(6)	(7)	(2)
Total	96	113	55	63
Annualized rate of provision for doubtful debt to total credit to the public	0.25%	0.31%	0.28%	0.35%

(1) The provision by extent of arrears includes impact of the increase in the Consumer Price Index, amounting to NIS 12 million in the first half of 2008 and to NIS 11 million in Q2 of this year. Excluding CPI impact, the provision by extent of arrears amounts to NIS 16 million in the first half of 2008, and to NIS 15 million in Q2 of 2008.

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

	First Half		
Operating segment	2008	2007	Rate of change
Retail banking:			
Mortgages	29	6	-
Household	19	15	
Small business	26	43	(39.5%)
Total	**74**	**64**	**15.6%**
Commercial banking	(1)	6	-
Business banking	23	43	(46.5%)
International operations	-	-	-
Total	**96**	**113**	**(15.0%)**

The balance of the general and supplementary provision for doubtful debt on the Group's balance sheet amounted to NIS 173 million as of June 30, 2008, compared with NIS 172 million as of December 31, 2007.

Group profit from financing operations after provision for doubtful debt in the first half of 2008 amounted to NIS 1,007 million, compared with NIS 883 million in the same period last year - an increase of 14.0%.
In Q2 of 2008, profit from financing operations after provision for doubtful debt amounted to NIS 499 million, compared with NIS 466 million in the same period last year, an increase of 7.1%.

Total operating and other profit for the Group in the first half of 2008 amounted to NIS 583 million, compared to NIS 614 million in the same period last year - a 5.0% decline. Excluding the impact of dividend revenues amounting to NIS 17 million, received in the first half of 2008 from equity investments, compared to NIS 38 million in the corresponding period last year, as well as loss of NIS 22 million in revenues from provident fund management fees due to sale of said operations, total operating and other revenues grew by 2.2%.
In Q2 of 2008, operating and other revenues amounted to NIS 300 million, compared to NIS 286 million in the same period last year, a 4.9% increase.
Revenues from operating commissions for the Group was NIS 514 million in the first half of 2008, compared with NIS 509 million in the same period last year - a 1.0% growth.
In Q2 of 2008, operating commission revenues amounted to NIS 258 million, compared with NIS 256 million in the same period last year.

Net profit from equity investments in the first half of 2008 amounted to NIS 33 million, compared to NIS 46 million in the same period last year. This profit includes dividend revenues amounting to NIS 17 million received in the first half of 2008 from equity investments, compared to NIS 38 million in the same period last year.
In Q2 of 2008, net profit from equity investments amounted to NIS 25 million, compared with NIS 8 million in the same period last year. Profit in Q2 of 2008 includes NIS 12 million from dividends received, compared to NIS 1 million in the corresponding period last year.

Other revenues for the Group amounted to NIS 36 million in the first half of 2008, compared with NIS 59 million in the same period last year - a 39.0% decline. The decline is primarily due to loss of revenues amounting to NIS 22 million from provident fund management fees, due to sale of provident fund operations.

In Q2 of 2008, other revenues amounted to NIS 17 million, compared to NIS 22 million in the same period last year, a 22.7% decrease.

Operating and other expenses for the Group amounted to NIS 1,001 million in the first half of 2008, compared with NIS 949 million in the same period last year, a 5.5% growth.
In Q2 of 2008, operating and other expenses amounted to NIS 500 million, compared to NIS 482 million in the same period last year, a 3.7% increase.

Payroll and associated expenses for the Group amounted to NIS 615 million in the first half of 2008, compared with NIS 587 million in the same period last year - a 4.8% growth. Payroll expenses in Q2 of 2008 remained unchanged compared to the preceding quarter.

The bank continued to consistently expand its business operations in general, and the Retail Banking segment in particular, while increasing the number of bank customers.
In order to support these developments, the Bank has conducted a close review of both branch layout and alignment of headcount with the growth rate of operations over time. As a result of the standardization process, the Bank recruited, last year and through the end of Q1 of 2008, some 270 new employees, who were mostly assigned to branches, for staffing points of sale and new branches, and to continue improvement of quality of service and marketing capacity at existing branches. Some of the new employees were assigned to the call center – which is a major factor in new customer recruitment operations and in ongoing service to existing and new customers. This process has been completed in Q1 of 2008.
Excluding the impact of expanded operations, growth in payroll and associated expenses grew by only 2.4%.
In Q2 of 2008, payroll and associated expenses amounted to NIS 303 million, compared to NIS 294 million in the same period last year, a 3.1% increase.
Maintenance and depreciation expenses for buildings and equipment amounted in the first half of 2008 to NIS 215 million, compared to NIS 206 million in the same period last year – a 4.4% growth, primarily due to increase in depreciation expenses for buildings and equipment.

In Q2 of 2008, maintenance and depreciation of buildings and equipment expenses amounted to NIS 111 million, compared to NIS 106 million in the same period last year, a 4.7% increase.

Operating and other expenses for the Group amounted to NIS 171 million in the first half of 2008, compared with NIS 156 million in the same period last year - a 9.6% growth.
In Q2 of 2008, operating and other expenses amounted to NIS 86 million, compared to NIS 82 million in the same period last year, a 4.9% increase.

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

	First half of		All of
	2008	2007	2007
Operational Coverage Ratio (1)	58.2%	64.7%	61.4%
Cost-Profit Ratio(2)	59.4%	58.9%	60.3%

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

Pre-tax operating profit for the Group amounted to NIS 589 million in the first half of 2008, compared with NIS 548 million in the same period last year - a 7.5% growth.
In Q2 of 2008, pre-tax operating profit amounted to NIS 299 million, compared to NIS 270 million in the same period last year, a 10.7% increase.

Provision for taxes on operating profit amounted to NIS 223 million in the first half of 2008, compared with NIS 201 million in the same period last year, a 10.9% increase.
In Q2 of 2008, provision for taxes on operating profit amounted to NIS 113 million, compared to NIS 86 million in the same period last year, a 31.4% increase.
The increase in provision for taxes was also impacted by the rescinding of the Inflationary Adjustment Act and by revisions made to the VAT Act, which led to a NIS 41 million increase in provision for taxes on operating profit.
For details of the impact of rescinding of the Adjustment Act, see Note 11.F. to the financial statements.

Operating net profit in the first half of 2008 amounted to NIS 366 million, compared to NIS 347 million in the same period last year – a 5.5% growth in Q2 of 2008 amounted to NIS 186 million, compared to NIS 184 million in the same period last year, a 1.1% growth.

After-tax profit from extraordinary activities for the Group in the first half of last year amounted to NIS 230 million, and in Q2 of last year – to NIS 23 million, primarily due to sale of the Group's provident fund operations.

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

	First Half		
	2008	2007	All of 2007
From current operations	13.4	13.6	12.9
Net profit	13.4	23.1	17.2

(1) Annualized return.

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

Earnings per share

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

	First Ha		
	200	200	All of 200
Basic earnings per share:			
From current operations	1.65	1.58	3.08
From net profit	1.65	2.62	4.11
Diluted earnings per share:			
From current operations	1.63	1.54	3.03
From net profit	1.63	2.56	4.04

Development of balance sheet items

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

	June 3(		December 3	Change compared (1)	
	2008	2007	2007	June 30, 2007	December 31, 2007
Balance sheet total	97,499	96,648	95,317	0.9%	2.3%
Credit to the public	77,310	72,285	74,320	7.0%	4.0%
Deposits from the public	72,928	76,845	75,290	(5.1%)	(3.1%)
Securities	4,432	7,115	6,145	(37.7%)	(27.9%)
Shareholders' equity	**5,721**	**5,434**	**5,557**	**5.3%**	**3.0%**

Loans to the public - Loans to the public in the consolidated balance sheet as of June 30, 2008 accounted for 79% of total assets, compared with 78% at the end of 2007. The Group's loans to the public increased in the first six months of 2008 by NIS 3.0 billion, a 4.0% increase. Excluding impact of the NIS revaluation, credit volume increased by 6.0% in the first 6 months of 2008.

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

Linkage segment	June 30,			Change in %	
			December	June 30,	December
	2008	2007	31, 2007	2007	31, 2007
Israeli currency					
Non-linked	31,924	26,346	27,911	21.2%	14.4%
CPI- linked	33,882	32,975	33,586	2.8%	0.9%
Foreign currency and foreign currency linked	11,504	12,964	12,823	(11.3%)	(10.3%)(1)
Total	**77,310**	**72,285**	**74,320**	**7.0%**	**4.0%**

(1) Excluding impact of NIS revaluation, only a 0.8% increase.

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

	June 30,		December 31	Change compared to	
Operating				June 30,	December
segment	2008	2007	2007	2007	31, 2007
Retail banking:					
Mortgages	38,488	34,862	35,795	10.4%	7.5%
Household	8,342	7,368	7,808	13.2%	6.8%
Small business	4,692	4,820	4,806	(2.7%)	(2.4%)
Total	**51,522**	**47,050**	**48,409**	**9.5%**	**6.4%**
Commercial banking	4,214	3,573	4,087	17.9%	3.1%
Business banking	17,134	18,135	17,412	(5.5%)	(1.6%)
International operations	4,440	3,527	4,412	25.9%	0.6%
Total	**77,310**	**72,285**	**74,320**	**6.9%**	**4.0%**

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

		June 30,	December 31
	2008	2007	2007
Non-accrual debt	907	917	934
Rescheduled debt	203	342	185
Debt designated for rescheduling	3	2	2
Debt in temporary arrears	1,019	1,136	1,027
Includes: for housing loans	578	621	615
Debt under special supervision	1,759	1,822	1,582
Includes: Debt for which there is a specific provision	98	123	120
Includes: Housing loans for which there is a provision based on length of arrears	641	683	670
Total balance sheet credit to problem borrowers	3,891	4,219	3,730
Off-balance sheet credit to problem borrowers	693	673	616
Total credit risk for problem borrowers	**4,584**	**4,892**	**4,346**

Securities – the balance of investment in securities decreased at the end of the first half of 2008 by 27.9% (compared to December 31, 2007) due to liquidation of investments in securities in conjunction with management of assets and liabilities.

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

	June 30,		December 31	Change compared to	
				June 30,	December
Linkage segment	2008	2007	2007	2007	31, 2007
Israeli currency					
Non-linked	363	2,352	1,742	(84.6%)	(79.2%)
CPI- linked	834	974	1,207	(14.4%)	(30.9%)
Foreign currency denominated (Includes linked to foreign currency)	2,828	3,399	2,797	(16.8%)	1.1%
Non-monetary items	407	390	399	4.4%	2.0%
Total	**4,432**	**7,115**	**6,145**	**(37.7%)**	**(27.9%)**

Distribution of balance of Group investment in securities by issuer type as of June 30, 2008 (NIS in millions) is as follows:

	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities held for sale:				
Debentures of the Government of Israel	2,587	4	17	2,574
Foreign government debentures	16	-	-	16
Bank debentures	1,217	-	34	1,183
Corporate debentures	128	-	5	123
Asset-backed debentures	145	-	45	100
Other stocks	355	52	-	407
Total securities held for sale	4,448	56	101	4,403
Securities held for trading:				
Government of Israel debentures	29	-	-	29
Total securities	4,477	56	101	4,432

Deposits from the public - these account for 75% of total consolidated balance sheet as of June 30, 2008, compared with 79% at the end of 2007.

In the first six months of 2008, deposits from the public with the Bank Group declined by NIS 2.4 billion – a 3.1% decline. Excluding impact of NIS revaluation, the decrease in deposits from the public was 0.3%.

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

	June 30,		December 31	Change compared to	
Linkage segment				June 30,	December 31,
	2008	2007	2007	2007	2007
Israeli currency					
Non-linked	35,306	37,221	36,125	(5.1%)	(2.3%)
CPI- linked	20,452	20,238	20,020	1.1%	2.2%
Foreign currency and foreign currency linked	17,170	19,386	19,145	(11.4%)	(10.3%)(1)
Total	72,928	76,845	75,290	(5.1%)	(3.1%)

(1) Excluding impact of NIS revaluation, only a 1.1% increase.

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

	Balance as of June 30,		As of December 31,	Change compared to	
				June 30,	December 31,
Operating segment	2008	2007	2007	2007	2007
Retail banking:					
Household	31,996	30,918	30,731	3.5%	4.1%
Small business	11,402	9,471	11,106	20.4%	2.7%
Total	**43,398**	**40,389**	**41,837**	**7.5%**	**3.7%**
Private banking	2,126	2,451	2,204	(13.3%)	(3.5%)
Commercial banking	1,988	1,946	2,432	2.2%	(18.3%)
Business banking	10,903	12,891	10,753	(15.4%)	1.4%
International operations	5,204	5,408	(1)5,481	(3.8%)	(5.0%)
Financial management	9,309	13,760	(1)12,583	(32.4%)	(26.0%)
Total	72,928	76,845	75,290	(5.1%)	(3.1%)

(1) Reclassified.

Shareholders' equity

According to the measurement principles prescribed by the Supervisor of Banks with respect to securities held for sale, the adjustment of these securities to their fair value is recorded directly to shareholders' equity. Changes to capital reserve in the first 6 months of 2008, less applicable taxes, resulted in a NIS 51 million decrease. Shareholders' equity as of June 30, 2008 includes a negative capital reserve amounting to NIS 24 million, due to adjustment of securities held for sale to fair value, after applicable taxes.

The ratio of shareholders' equity to balance sheet total for the Group as of June 30, 2008 amounted to 5.87%, compared to 5.83% at the end of 2007.

Ratio of capital to risk-weighted elements

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

Development of Group ratio of capital to risk-weighted elements is as follows:

	June 30, 2008	December 31, 2007
Ratio of Tier I capital to risk elements	6.74%	6.69%
Ratio of total capital to risk elements	11.55%	11.33%
Minimum capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The ratio of capital to risk-weighted elements as of June 30, 2008 also accounts for the capital adequacy requirement due to market risk, in accordance with Directive 341 – Adequacy of Capital in Respect of Market Risk, the effect of which on the capital ratio, as of December March 31, 2008, is 0.29%.

The balance of complex capital notes and subordinated notes for Group capital adequacy, as of June 30, 2008, amounts to NIS 3,966 million, compared to NIS 3,710 million at the end of 2007. These amounts include complex capital notes listed for trading, amounting to NIS 1,110 million.

Main Investees

The contribution of investees to net operating profit amounted to NIS 24 million in the first half of 2008, compared with NIS 43 million in the same period last year.

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

Bank Adanim is a private company, wholly-owned by the Bank. Bank Adanim's contribution to Group net profit in the first half of 2008 amounted to NIS 13.4 million, compared to NIS 12.8 million in the same period last year. Net profit return on equity (average equity, as defined in the Supervisor of Banks' Public Reporting Regulations) amounted in the first half of 2008 to 9.1%, compared to a 9.6% return in the same period last year. Bank Adanim's balance sheet total as of June 30, 2008 amounted to NIS 4,320 million, compared to NIS 4,038 million as of December 31, 2007. The balance of credit to the public as of June 30, 2008 amounted to NIS 4,228 million, compared to NIS 3,933 million at end of 2007.

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

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

Tefahot Insurance's contribution to Group net profit in the first half of 2008 amounted to NIS 20.4 million, compared to NIS 20.2 million in the same period last year.

The net profit return on equity in the first half of 2008 amounted to 13.4%, compared to 15.4% in the same period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first half of 2008 amounted to CHF 1.7 million, compared to CHF 1.4 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of June 30, 2008 amounted to CHF 114 million, compared to CHF 141 million at the end of 2007.

Total credit to the public as of June 30, 2008 amounted to CHF 72 million, compared to CHF 86 million at end of 2007; total deposits at banks as of June 30, 2008 amounted to CHF 24 million, compared to CHF 35 million at end of 2007. Total deposits from the public as of June 30, 2008 amounted to CHF 27 million, compared to CHF 35 million at end of 2007; total deposits from banks as of June 30, 2008 amounted to CHF 39 million, compared to CHF 59 million at end of 2007. These data exclude off-balance-sheet items, such as fiduciary deposits and customer security portfolios which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland), which owns Mizrahi Bank Switzerland, to Group net profit Group in the first half of 2008, amounted to a loss of NIS 10.9 million, compared with a gain of NIS 6.8 million in the same period last year.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first half of the year amounted to NIS 6.6 million, compared to NIS 6.5 million in the same period last year.

Investment in non-banking corporations

The Bank has a department tasked with monitoring nostro investments made in non-banking corporations, and reviewing the value of these investments on an ongoing basis. About 81% of these investments are negotiable and presented at their market value. The other investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of June 30, 2008 amounted to NIS 365 million, compared to NIS 410 million at end of 2007.

These investments include NIS 294 million invested in negotiable securities included in the portfolio of securities held for sale (NIS 345 million as of end 2007); this amount includes NIS 281 million (NIS 322 million as of end 2007), constituting the market value of securities pledged for debt of a certain customer, which were classified under securities in accordance with the letter from the Supervisor of Banks.

Bank net revenues from dividends and capital gains from non-banking corporations, after provision for impairment, amounted in the first half of 2008 to NIS 31 million, compared to NIS 45 million in the same period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, which provides segment household customers with appropriate banking services and financial products, including mortgages.

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

Private banking - under responsibility of the Retail Division. This segment includes customers with high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

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

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

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

Financial management - operations in this segment include, *inter alia*, management of the nostro portfolio, management of exposure to market risk and liquidity management as well as trading room operations in the financial and capital markets. The segment is under responsibility of the Finance Division, except for investments in non-banking corporations, which are under the responsibility of the business division.

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

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

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

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

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

Note that profit from financing operations from external entities for derivative instruments is calculated based on changes to fair value of such derivatives. For derivative instrument operations with customers, transaction pricing (both for future transactions using discounting, and for options – using the Black and Scholes model) is based on spreads between the interest curve used by the Bank for transactions on which it the seller, and the interest curve used by the Bank for transactions on which it the buyer. This spread is attributed to customers and to the operating segments to which these customers' activity is attributed. Changes to fair value, in excess of profitability due to the financial spread inherent in derivatives, are included under the financial management segment.
Note 10 to the financial statements includes reporting of Bank Group business results by operating segment.

Below is a Condensed of financial results by operating segment (NIS in millions, in reported amounts).

Profitability

	Operating net profit in the first half		Net profit First half of		Return on equity (in %) in the first half	
	2008	2007 (1)	2008	2007 (1)	2008	2007
Household						
Mortgages	136	130	136	130	14.2	16.0
Other	38	38	38	159	15.8	82.8
Private banking	14	16	14	68	-	-
Small business	29	17	29	56	18.0	41.0
Commercial banking	26	15	26	16	20.1	12.6
Business banking	112	106	112	111	13.4	13.6
International operations	(7)	24	(7)	24	(5.4)	23.5
Financial management	18	1	18	13	6.3	3.9
Total	**366**	**347**	**366**	**577**	**13.4**	**23.1**

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Households Segment

	For the 6 months ended June 30, 2008					For the 6 months ended June 30, 2007 (1)				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions					NIS in millions				
Profit (loss) from financing operations before provision for doubtful debts										
From outside operating segments	(283)	7	7	1,432	1,163	(193)	7	11	915	740
Inter-segment	560	(5)	-	(1,214)	(659)	455	(5)	-	(739)	(289)
Profit from financing operations before provision for doubtful debt	277	2	7	218	504	262	2	11	176	451
Operating and other revenues	93	43	43	131	310	79	39	48	131	297
Total profit	370	45	50	349	814	341	41	59	307	748
Provision for doubtful debt	19	-	-	29	48	15	-	-	6	21
Operating and other expenses										
From outside operating segments	390	26	18	101	535	381	13	20	94	508
Inter-segment	(46)	(3)	-	-	(49)	(46)	(2)	-	-	(48)
Total operating and other expenses	344	23	18	101	486	335	11	20	94	460
Operating profit (loss) before taxes	7	22	32	219	280	(9)	30	39	207	267
Provision for taxes on operating profit	3	8	12	83	106	(4)	11	15	77	99
After-tax operating profit (loss)	4	14	20	136	174	(5)	19	24	130	168
Net after-tax profit from extraordinary activities	-	-	-	-	-	-	-	121	-	121
Net profit (loss)	**4**	**14**	**20**	**136**	**174**	**(5)**	**19**	**145**	**130**	**289**
Return on equity					**14.5%**					**28.9%**
Average balance of assets	6,667	1,271	-	37,465	45,403	6,196	1,111	-	34,187	41,494
Average balance of liabilities	31,687	-	-	3,684	35,371	29,105	-	-	3,280	32,385
Average balance of risk assets	7,486	-	-	29,476	36,962	6,751	-	-	25,227	31,978
Average balance of securities	-	-	15,231	-	15,231	-	-	19,723	-	19,723
Credit to the public (end balance)	6,820	1,522	-	38,488	46,830	6,133	1,235	-	34,862	42,230
Deposits from the public (end balance)	31,996	-	-	-	31,996	30,918	-	-	-	30,918
Average balance of other assets managed	172	-	-	16,621	16,793	170	-	-	16,779	16,949
Components of profit from financing operations before provision for doubtful debt:										
Margin from credit granting operations	105	-	7	168	280	96	-	11	141	248
Margin from receiving deposits	170	-	-	14	184	163	-	-	10	173
Other	2	2	-	36	40	3	2	-	25	30
Total	**277**	**2**	**7**	**218**	**504**	**262**	**2**	**11**	**176**	**451**

(1) Reclassified.

Contribution of the household segment to Group operating profit in the first half of 2008 increased by 3.6%, compared to its contribution in the same period last year. Profit from extraordinary activities, amounting to NIS 121 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

Profit from financing operations increased by 11.8%, primarily due to mortgage operations. The increase in profit from mortgage financing operations was also impacted by linkage differentials on credit balance for which a provision for doubtful debt has been made, countered by a similar impact in provision for doubtful debt, as set forth below. Operating and other revenues increased by 4.4%, due to a 17.7% increase in banking and finance, primarily growth in commission revenues.

On the other hand, the provision for doubtful debt increased by NIS 27 million, primarily due to a NIS 23 million increase in provision by extent of arrears in mortgage operations. The increase in provision by extent of arrears was impacted by the increase in the Consumer Price Index, which led to a NIS 12 million increase in this provision.

Furthermore, segment contribution to profit was impacted by the increase in operating expenses, primarily due to recruitment of new employees to reinforce the branches and call centers, as set forth above under analysis of payroll expenses, and by the increase in provision for taxes, due to rescinding of the Adjustment Act.

Results of Households Segment

	For the 3 months ended June 30, 2008					For the 3 months ended June 30, 2007 (1)				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions					NIS in millions				
Profit (loss) from financing operations before provision for doubtful debts										
From outside operating segments	(147)	3	3	1,013	872	(137)	4	5	612	484
Inter-segment	289	(2)	-	(893)	(606)	274	(2)	-	(527)	(255)
Profit from financing operations before provision for doubtful debt	142	1	3	120	266	137	2	5	85	229
Operating and other revenues	42	25	21	66	154	35	23	26	66	150
Total profit	184	26	24	186	420	172	25	31	151	379
Provision for doubtful debt	9	-	-	27	36	3	-	-	2	5
Operating and other expenses										
From outside operating segments	194	13	7	52	266	192	8	9	47	256
Inter-segment	(24)	(1)	-	-	(25)	(21)	(1)	-	-	(22)
Total operating and other expenses	170	12	7	52	241	171	7	9	47	234
Pre-tax operating profit	5	14	17	107	143	(2)	18	22	102	140
Provision for taxes on operating profit	2	5	6	40	53	(2)	6	8	34	46
After-tax operating profit	3	9	11	67	90	-	12	14	68	94
Net after-tax profit from extraordinary activities	-	-	-	-	-	-	-	9	-	9
Net profit	**3**	**9**	**11**	**67**	**90**	**-**	**12**	**23**	**68**	**103**
Return on equity					**15.1%**					**20.5%**
Components of profit from financing operations before provision for doubtful debt:										
Margin from credit granting operations	60	-	3	81	144	51	-	5	72	128
Margin from receiving deposits	82	-	-	13	95	86	-	-	5	91
Other	-	1	-	26	27	-	2	-	8	10
Total	**142**	**1**	**3**	**120**	**266**	**137**	**2**	**5**	**85**	**229**

(1) Reclassified.

Volume of mortgages granted by the segment are as follows:

	Loans issued (in NIS millions)		
	First Half		
	2008	2007	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	4,773	3,404	40.2%
From the Treasury's funds			
Directed loans	341	370	(7.8%)
Standing loans and grants	97	78	24.4%
Management for others	1	28	(96.8%)
Total new loans	5,212	3,880	34.3%
Recycled loans	608	523	16.3%
Total loans issued	5,820	4,403	32.2%
Number of borrowers (includes recycled loans)	20,213	16,781	20.5%

For details of agreements between the Bank and the State of Israel with regard to providing loans to eligible borrowers, see Note 11.C. to the financial statements.

Results of Private Banking Segment

	For the 6 months ended June 30, 2008			For the 6 months ended June 30, 2007 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit from financing operations before provision for doubtful debt						
From outside operating segments	(86)	-	(86)	(43)	-	(43)
Inter-segment	104	-	104	64	-	64
Profit from financing operations before provision for doubtful debt	18	-	18	21	-	21
Operating and other revenues	2	8	10	2	6	8
Total profit	20	8	28	23	6	29
Operating and other expenses						
From outside operating segments	5	-	5	3	-	3
Inter-segment	1	-	1	1	-	1
Total operating and other expenses	6	-	6	4	-	4
Pre-tax operating profit	14	8	22	19	6	25
Provision for taxes on operating profit	5	3	8	7	2	9
After-tax operating profit	9	5	14	12	4	16
Net after-tax profit from extraordinary activities	-	-	-	-	52	52
Net profit	**9**	**5**	**14**	**12**	**56**	**68**
Return on equity			-			-
Average balance of assets	-	-	-	-	-	-
Average balance of liabilities	2,559	-	2,559	1,980	-	1,980
Average balance of risk assets	-	-	-	-	-	-
Average balance of securities	-	2,911	2,911	-	2,861	2,861
Deposits from the public (end balance)	2,126	-	2,126	2,451	-	2,451
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	17	-	17	20	-	20
Other	1	-	1	1	-	1
Total	**18**	**-**	**18**	**21**	**-**	**21**

(1) Reclassified.

Contribution of the Private Banking segment to Group operating profit in the first half of 2008 decreased by -12.5%, compared to its contribution in the same period last year. Profit from extraordinary activities, amounting to NIS 52 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

The decrease in segment contribution is primarily due to an increase in operating expenses attributed to this segment, whereas total revenues did not change significantly.

Results of Private Banking Segment

	For the 3 months ended June 30, 2008			For the 3 months ended June 30, 2007 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit (loss) from financing operations before provision for doubtful debts						
From outside operating segments	(22)	-	(22)	(25)	-	(25)
Inter-segment	30	-	30	39	-	39
Profit from financing operations before provision for doubtful debt	8	-	8	14	-	14
Operating and other revenues	1	4	5	1	3	4
Total profit	9	4	13	15	3	18
Operating and other expenses						
From outside operating segments	2	-	2	(2)	-	(2)
Inter-segment	1	-	1	4	-	4
Total operating and other expenses	3	-	3	2	-	2
Pre-tax operating profit	6	4	10	13	3	16
Provision for taxes on operating profit	2	1	3	5	-	5
After-tax operating profit	4	3	7	8	3	11
Net after-tax profit from extraordinary activities	-	-	-	-	5	5
Net profit	**4**	**3**	**7**	**8**	**8**	**16**
Return on equity			-			-
Components of profit from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	8	-	8	13	-	13
Other	-	-	-	1	-	1
Total	**8**	**-**	**8**	**14**	**-**	**14**

(1) Reclassified.

Results of the Small Business Segment

	For the 6 months ended June 30, 2008				For the 6 months ended June 30, 2007 (1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debt:								
From outside operating segments	(121)	1	4	(116)	(52)	1	1	(50)
Inter-segment	277	(1)	-	276	184	(1)	-	183
Profit from financing operations before provision for doubtful debt	156	-	4	160	132	-	1	133
Operating and other revenues	72	5	9	86	75	5	9	89
Total profit	228	5	13	246	207	5	10	222
Provision for doubtful debt	26	-	-	26	43	-	-	43
Operating and other expenses								
From outside operating segments	189	1	2	192	169	1	2	172
Inter-segment	(19)	-	-	(19)	(20)	-	-	(20)
Total operating and other expenses	170	1	2	173	149	1	2	152
Pre-tax operating profit	32	4	11	47	15	4	8	27
Provision for taxes on operating profit	12	2	4	18	5	2	3	10
After-tax operating profit	20	2	7	29	10	2	5	17
Net after-tax profit from extraordinary activities	-	-	-	-	-	-	39	39
Net profit	**20**	**2**	**7**	**29**	**10**	**2**	**44**	**56**
Return on equity				**18.0%**				**41.0%**
Average balance of assets	4,846	35	-	4,881	5,000	32	-	5,032
Average balance of liabilities	11,240	-	-	11,240	8,888	-	-	8,888
Average balance of risk assets	4,940	-	-	4,940	4,486	-	-	4,486
Average balance of securities	-	-	13,222	13,222	-	-	17,121	17,121
Credit to the public (end balance)	4,656	36	-	4,692	4,786	34	-	4,820
Deposits from the public (end balance)	11,402	-	-	11,402	9,471	-	-	9,471
Average balance of other assets managed	158	-	-	158	201	-	-	201
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	111	-	-	111	79	-	-	79
Margin from receiving deposits	38	-	-	38	41	-	-	41
Other	7	-	4	11	12	-	1	13
Total	**156**	**-**	**4**	**160**	**132**	**-**	**1**	**133**

(1) Reclassified.

Contribution of the Small Business segment to Group operating profit in the first half of 2008 grew by 70.6%, compared to its contribution in the same period last year. Profit from extraordinary activities, amounting to NIS 39 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

In the first half of 2008, the segment showed a decrease of 2.6% (NIS 0.1 billion) in credit operations, and a 20.4% increase in deposit operations (NIS 1.9 billion), compared to the same period last year. As a result, profit from financing operations in the first half of 2008 grew by 20.3% compared to the same period last year. The provision for doubtful debt in the segment decreased in the first half of 2008 by NIS 17 million compared to the same period last year. The major factor which offset growth in segment contribution in the first half of 2008 was operating expenses, which grew by 13.8% over the corresponding period last year.

Results of the Small Business Segment

	For the 3 months ended June 30, 2008				For the 3 months ended June 30, 2007 (1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debt:								
From outside operating segments	(97)	-	2	(95)	(55)	-	1	(54)
Inter-segment	179	-	-	179	122	-	-	122
Profit from financing operations before provision for doubtful debt	82	-	2	84	67	-	1	68
Operating and other revenues	35	3	5	43	38	3	4	45
Total profit	117	3	7	127	105	3	5	113
Provision for doubtful debt	11	-	-	11	26	-	-	26
Operating and other expenses								
From outside operating segments	91	-	1	92	75	1	1	77
Inter-segment	(9)	-	-	(9)	(9)	-	-	(9)
Total operating and other expenses	82	-	1	83	66	1	1	68
Pre-tax operating profit	24	3	6	33	13	2	4	19
Provision for taxes on operating profit	9	1	2	12	4	1	1	6
After-tax operating profit	15	2	4	21	9	1	3	13
Net after-tax profit from extraordinary activities	-	-	-	-	-	-	4	4
Net profit	**15**	**2**	**4**	**21**	**9**	**1**	**7**	**17**
Return on equity				**24.0%**				**25.2%**
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	60	-	-	60	39	-	-	39
Margin from receiving deposits	18	-	-	18	22	-	-	22
Other	4	-	2	6	6	-	1	7
Total	**82**	**-**	**2**	**84**	**67**	**-**	**1**	**68**

(1) Reclassified.

Results of the Commercial Banking Segment

	For the 6 months ended June 30, 2008				For the 6 months ended June 30, 2007 (1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debt								
From outside operating segments	131	-	1	132	83	-	1	84
Inter-segment	(58)	-	-	(58)	(30)	-	-	(30)
Profit from financing operations before provision for doubtful debt	73	-	1	74	53	-	1	54
Operating and other revenues	19	1	3	23	19	1	3	23
Total profit	92	1	4	97	72	1	4	77
Provision for doubtful debt	(1)	-	-	(1)	6	-	-	6
Operating and other expenses								
From outside operating segments	29	-	1	30	25	-	1	26
Inter-segment	26	-	-	26	22	-	-	22
Total operating and other expenses	55	-	1	56	47	-	1	48
Pre-tax operating profit	38	1	3	42	19	1	3	23
Provision for taxes on operating profit	15	-	1	16	7	-	1	8
After-tax operating profit	23	1	2	26	12	1	2	15
Net after-tax profit from extraordinary activities	-	-	-	-	-	-	1	1
Net profit	**23**	**1**	**2**	**26**	**12**	**1**	**3**	**16**
Return on equity				**20.1%**				**12.6%**
Average balance of assets	4,209	-	-	4,209	3,698	-	-	3,698
Average balance of liabilities	2,090	-	-	2,090	1,924	-	-	1,924
Average balance of risk assets	4,070	-	-	4,070	3,689	-	-	3,689
Average balance of securities	-	-	1,799	1,799	-	-	1,932	1,932
Credit to the public (end balance)	4,214	-	-	4,214	3,573	-	-	3,573
Deposits from the public (end balance)	1,988	-	-	1,988	1,946	-	-	1,946
Average balance of other assets managed	21	-	-	21	45	-	-	45
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	59	-	-	59	35	-	-	35
Margin from receiving deposits	9	-	-	9	9	-	-	9
Other	5	-	1	6	9	-	1	10
Total	**73**	**-**	**1**	**74**	**53**	**-**	**1**	**54**

(1) Reclassified.

Contribution of the Commercial Banking segment to Group profit in the first half of 2008 grew by NIS 11 million. In the first half of 2008, the segment showed increased operations: The credit balance for the segment as of June 30, 2008 amounted to NIS 4.2 billion, compared to NIS 3.6 billion as of June 30, 2007, and the balance of deposits as of June 30, 2008 amounted to NIS 2 billion, compared to NIS 1.9 billion as of June 30, 2007. As a result, and due to improved credit spreads in this segment, profit from financing operations in the first half of 2008 grew by NIS 20 million (37.0%) compared to the same period last year.

The operating revenue item remained unchanged in the first half of 2008 compared to the corresponding period last year. On the other hand, operating expenses grew by 16.7%. Provision for doubtful debt decreased in the first half of 2008 by NIS 7 million compared to the corresponding period last year, primarily due to collection from a customer in the current period and to a NIS 6 million provision made in Q2 of 2007.

Results of the Commercial Banking Segment

	For the 3 months ended June 30, 2008				For the 3 months ended June 30, 2007 (1)			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit (loss) from financing operations before provision for doubtful debts								
From outside operating segments	71	-	1	72	44	-	1	45
Inter-segment	(37)	-	-	(37)	(17)	-	-	(17)
Profit from financing operations before provision for doubtful debt	34	-	1	35	27	-	1	28
Operating and other revenues	9	-	1	10	9	-	2	11
Total profit	43	-	2	45	36	-	3	39
Provision for doubtful debt	(1)	-	-	(1)	6	-	-	6
Operating and other expenses								
From outside operating segments	15	-	1	16	8	-		8
Inter-segment	13	-	-	13	12	-	-	12
Total operating and other expenses	28	-	1	29	20	-	-	20
Pre-tax operating profit	16	-	1	17	10	-	3	13
Provision for taxes on operating profit	7	-	-	7	4	-	1	5
After-tax operating profit	9	-	1	10	6	-	2	8
Net after-tax profit from extraordinary activities	-	-	-	-	-	-	1	1
Net profit	**9**	**-**	**1**	**10**	**6**	**-**	**3**	**9**
Return on equity				**16.2%**				**15.4%**
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	28	-	-	28	17	-	-	17
Margin from receiving deposits	4	-	-	4	5	-	-	5
Other	2	-	1	3	5	-	1	6
Total	**34**	**-**	**1**	**35**	**27**	**-**	**1**	**28**

(1) Reclassified.

Results of the Business Banking Segment

	For the 6 months ended June 30, 2008				For the 6 months ended June 30, 2007 (1)			
	Banking and finance (1)	Capital market	Real estate and construction	Total	Banking and finance (2)	Capital market	Real estate and construction	Total
	NIS in millions				NIS in millions			
Profit from financing operations before provision for doubtful debt								
From outside operating segments	145	10	217	372	157	13	201	371
Inter-segment	(8)	-	(128)	(136)	(36)	-	(111)	(147)
Profit from financing operations before provision for doubtful debt	137	10	89	236	121	13	90	224
Operating and other revenues	56	15	3	74	73	6	5	84
Total profit	193	25	92	310	194	19	95	308
Provision for doubtful debt	8	-	15	23	18	-	25	43
Operating and other expenses								
From outside operating segments	58	1	17	76	48	1	16	65
Inter-segment	25	-	5	30	24	-	6	30
Total operating and other expenses	83	1	22	106	72	1	22	95
Pre-tax operating profit	102	24	55	181	104	18	48	170
Provision for taxes on operating profit	38	9	22	69	39	7	18	64
After-tax operating profit	64	15	33	112	65	11	30	106
Net after-tax profit from extraordinary activities	-	-	-	-	-	5	-	5
Net profit	**64**	**15**	**33**	**112**	**65**	**16**	**30**	**111**
Return on equity				**13.4%**				**13.6%**
Average balance of assets	12,318	-	6,354	18,672	11,447	-	6,201	17,648
Average balance of liabilities	11,071	-	1,094	12,165	9,590	-	1,077	10,667
Average balance of risk assets	14,543	-	11,204	25,747	13,483	-	11,796	25,279
Average balance of securities	-	37,612	-	37,612	-	31,392	-	31,392
Credit to the public (end balance)	11,208	-	5,926	17,134	12,204	-	5,931	18,135
Deposits from the public (end balance)	9,848	-	1,055	10,903	11,954	-	937	12,891
Average balance of other assets managed	8	-	168	176	6	-	79	85
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	79	-	89	168	61	-	90	151
Margin from receiving deposits	26	-	-	26	32	-	-	32
Other	32	10	-	42	28	13	-	41
Total	**137**	**10**	**89**	**236**	**121**	**13**	**90**	**224**

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

Contribution of the Business Banking segment to Group operating profit in the first half of 2008 increased by NIS 6 million (5.7%), compared to its contribution in the same period last year. Profit from extraordinary activities, amounting to NIS 5 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007. Operating revenues in the first half of 2008 include NIS 12 million from dividends from equity investments, compared to NIS 38 million in the same period last year. Excluding this impact, segment contribution to operating profit in the first half grew by 23.2% or NIS 19 million.

The major causes for the increase in segment contribution are a 5.4% increase in profit from financing operations, mostly in banking and finance due to growth of current operations, and the NIS 20 million decline in provision for doubtful debt, about half of it in banking and finance and half – in real estate.

The increase in segment contribution was partially offset by an 11.5% increase in operating expenses over the corresponding period last year.

There was no material change in contribution of the Construction and Real Estate segment in the first half of 2008 compared to the same period last year.

Results of the Business Banking Segment

	For the 3 months ended June 30, 2008				For the 3 months ended June 30, 2007 (1)			
	Banking and finance (1)	Capital market	Real estate and constructi on	Total	Banking and finance (2)	Capital market	Real estate and construction	Total
	NIS in millions				NIS in millions			
Profit (loss) from financing operations before provision for doubtful debts								
From outside operating segments	52	3	123	178	63	6	109	178
Inter-segment	11	-	(79)	(68)	2	-	(63)	(61)
Profit from financing operations before provision for doubtful debt	63	3	44	110	65	6	46	117
Operating and other revenues	38	7	1	46	21	5	2	28
Total profit	101	10	45	156	86	11	48	145
Provision for doubtful debt	5	-	3	8	13	-	13	26
Operating and other expenses								
From outside operating segments	28	1	9	38	24	1	7	32
Inter-segment	12	-	3	15	14	-	3	17
Total operating and other expenses	40	1	12	53	38	1	10	49
Pre-tax operating profit	56	9	30	95	35	10	25	70
Provision for taxes on operating profit	20	3	13	36	11	4	9	24
Net profit	**36**	**6**	**17**	**59**	**24**	**6**	**16**	**46**
Return on equity				**14.8%**				**11.4%**
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	36	-	44	80	34	-	46	80
Margin from receiving deposits	11	-	-	11	17	-	-	17
Other	16	3	-	19	14	6	-	20
Total	**63**	**3**	**44**	**110**	**65**	**6**	**46**	**117**

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

Results of international operations

	For the 6 months ended June 30, 2008	For the 6 months ended June 30, 2007 (1)
	Banking and finance	Banking and finance
	NIS in millions	NIS in millions
Profit from financing operations before provision for doubtful debt		
From outside operating segments	(14)	26
Inter-segment	32	47
Profit from financing operations before provision for doubtful debt	18	73
Operating and other revenues	30	26
Total profit	48	99
Provision for doubtful debt	-	-
Operating and other expenses		
From outside operating segments	58	61
Inter-segment	-	-
Total operating and other expenses	58	61
Operating profit (loss) before taxes	(10)	38
Provision for taxes on operating profit	(3)	14
Net profit (loss)	**(7)**	**24**
Return on equity	**(5.4%)**	**23.5%**
Average balance of assets	6,386	5,283
Average balance of liabilities	5,923	5,997
Average balance of risk assets	3,957	3,172
Average balance of securities	717	710
Credit to the public (end balance)	4,440	3,527
Deposits from the public (end balance)	5,204	5,408
Average balance of other assets managed	-	-
Components of profit from financing operations before provision for doubtful debt:		
Margin from credit granting operations	5	35
Margin from receiving deposits	12	37
Other	1	1
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**18**	**73**

(1) Reclassified.

The contribution of international operations to Group profit in the first half of 2008 amounted to a loss of NIS 7 million, compared to a profit of NIS 24 million in the same period last year.
The decrease in segment contribution is primarily due to a NIS 55 million decrease in profit from financing operations due to a provision for impairment of a non-temporary nature of investment in leveraged funds in the USA (a provision made in Q1 of 2008, thereby increasing the provision amount to the full cost of investment in leveraged funds and in instruments exposed, directly or indirectly, to the US mortgage market); to expenses in respect of decrease in market value of investments in credit derivatives primarily exposed to the Israeli government and to the US government, for which the capital allocation rate is 0%; and to impact of changes in exchange rates.

Results of international operations

	For the 3 months ended June 30, 2008	For the 3 months ended June 30, 2007 (1)
	Banking and finance	Banking and finance
	NIS in millions	NIS in millions
Profit from financing operations before provision for doubtful debt		
From outside operating segments	18	16
Inter-segment	14	31
Profit from financing operations before provision for doubtful debt	32	47
Operating and other revenues	12	13
Total profit	44	60
Provision for doubtful debt	1	-
Operating and other expenses		
From outside operating segments	35	36
Inter-segment	(1)	(1)
Total operating and other expenses	34	35
Pre-tax operating profit	9	25
Provision for taxes on operating profit	6	8
Net profit	**3**	**17**
Return on equity	**4.3%**	**34.5%**
Components of profit from financing operations before provision for doubtful debt:		
Margin from credit granting operations	3	23
Margin from receiving deposits	11	23
Other	18	1
Total	**32**	**47**

(1) Reclassified.

Financial Management Segment results

	For the 6 months ended June 30, 2008			For the 6 months ended June 30, 2007 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit (loss) from financing operations before provision for doubtful debt						
From outside operating segments	(350)	2	(348)	(135)	3	(132)
Inter-segment	441	-	441	172	-	172
Profit from financing operations before provision for doubtful debt	91	2	93	37	3	40
Operating and other revenues	43	7	50	60	27	87
Total profit	134	9	143	97	30	127
Operating and other expenses						
From outside operating segments	99	6	105	109	5	114
Inter-segment	11	-	11	15	-	15
Total operating and other expenses	110	6	116	124	5	129
Operating profit (loss) before taxes	24	3	27	(27)	25	(2)
Provision for taxes on operating profit	8	1	9	(12)	9	(3)
After-tax operating profit	16	2	18	(15)	16	1
Net after-tax profit from extraordinary activities	-	-	-	12	-	12
Net profit	**16**	**2**	**18**	**(3)**	**16**	**13**
Return on equity			6.3%			3.9%
Average balance of assets	16,728	-	16,728	20,089	-	20,089
Average balance of liabilities	21,178	-	21,178	25,975	-	25,975
Average balance of risk assets	8,741	-	8,741	8,684	-	8,684
Average balance of provident and mutual fund assets	45,492	-	45,492	43,722	-	43,722
Average balance of securities	-	24,108	24,108	-	12,146	12,146
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	9,309	-	9,309	13,760	-	13,760
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	91	2	93	37	3	40
Total	**91**	**2**	**93**	**37**	**3**	**40**

(1) Reclassified.

Contribution of the Financial Management segment to Group profit in the first half of 2008 grew by NIS 17 million. Profit from extraordinary activities, amounting to NIS 12 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations.

The main contribution to segment profit was due to profit from financing operations, which in the first half of 2008 amounted to NIS 93 million, compared to NIS 40 million in the same period last year. Several elements in the first half of 2008, compared to the same period last year, caused the change in profit from financing operations:

The first half of 2008 includes profit amounting to NIS 14 million from realized investments in debentures held for sale, compared to NIS 22 million in the same period last year.

Profit from financing operations in Q1 of 2008 includes a negative impact in respect of recording derivatives at fair value and other factors, amounting to NIS 22 million, compared to a negative impact amounting to NIS 69 million in the same period last year.

The growth in segment profitability was offset by a NIS 37 million decrease in operating revenues, primarily due to loss of management fee revenues from provident funds amounting to NIS 22 million in the same period last year, and to a decline in commission revenue from foreign currency operations, primarily due to revaluation of the NIS.

Financial Management Segment results

	For the 3 months ended June 30, 2008			For the 3 months ended June 30, 2007 (1)		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
			NIS in millions			NIS in millions
Profit from financing operations before provision for doubtful debt						
From outside operating segments	(469)	-	(469)	(118)	3	(115)
Inter-segment	488	-	488	141	-	141
Profit from financing operations before provision for doubtful debt	19	-	19	23	3	26
Operating and other revenues	26	4	30	22	13	35
Total profit	45	4	49	45	16	61
Operating and other expenses						
From outside operating segments	48	3	51	73	2	75
Inter-segment	6	-	6	(1)	-	(1)
Total operating and other expenses	54	3	57	72	2	74
Operating profit (loss) before taxes	(9)	1	(8)	(27)	14	(13)
Provision for taxes on operating profit	(5)	1	(4)	(12)	4	(8)
After-tax operating profit (loss)	(4)	-	(4)	(15)	10	(5)
Net after-tax profit from extraordinary activities	-	-	-	4	-	4
Net profit	**(4)**	**-**	**(4)**	**(11)**	**10**	**(1)**
Return on equity			**(2.7%)**			**(0.5%)**
Components of profit from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	19	-	19	23	3	26
Total	**19**	**-**	**19**	**23**	**3**	**26**

(1) Reclassified.

Sources and financing

Group financing sources include deposits, obligatory notes and debentures of various types, as well as shareholders' equity. The Group selects the mix of financing sources based on its business objectives, including objectives for profitability, return on equity and capital adequacy – subject to statutory limitations applicable to banking corporations and in accordance with the state of the capital market and management forecasts regarding development therein.

Total deposits from the public for the Group as of June 30, 2008 amounted to NIS 72.9 billion, compared to NIS 75.3 billion at end of 2007. Deposits from the public in the CPI-linked segment in the first half of 2008 grew by 2.16%; deposits from the public in the foreign currency and foreign-currency-linked segment decreased in the first 3 months of 2008 by 10.32%; and deposits from the public in the NIS-denominated, non-CPI-linked segment decreased by 2.27%. For details, see the chapter on development of balance sheet items above.

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

Under the terms of a shelf registration published by Tefahot Issue for the public on November 28, 2006, effective for 2 years, it may issue to the public additional bonds having par value of NIS 5 billion. Within this framework, the Company issued through June 30, 2008 obligatory notes amounting to NIS 750 million, of which NIS 450 millions in subordinated notes.

As of the date of these financial statements, Tefahot Issue issued to the public obligatory notes (Series 25-30) with total par value of NIS 1,974 million. The revalued balance as of June 30, 2008 of these obligatory notes in circulation amounted to NIS 2,111 million.

Pursuant to the announcement by Standard & Poors Maalot (hereinafter: "Maalot") dated June 11, 2008, with regard to a credit watch of the rating methodology of subordinated notes issued by the banking system and rated by Maalot, and its alignment with S&P's international rating methodology, Maalot's Rating Committee determined on June 26, 2008 that subordinated notes would be rated one notch below the issuer's rating. Therefore, in line with the aforementioned announcement, Maalot has rated the subordinated notes issued by Tefahot Issuae "AA". The bank's rating outlook remained unchanged.

In conjunction with preparations for implementation of the Board of Directors' decision with regard to the capital adequacy ratio, the bank intends to finalize in 2008 raising of further upper Tier II capital, amounting up to NIS 1 billion. To this end, the bank allotted on June 30, 2008 bank subordinated capital notes (Series A) with par value of NIS 119.8 million, in accordance with a private placement offer published on June 26, 2008. The subordinated capital notes and shares resulting from their forced conversion have been approved by the stock exchange to be listed for trading. The aforementioned allotted capital notes are added to capital notes from the same series allotted in 2006-2007, such that all capital notes in this series, with total par value of NIS 1.08 billion, constitute upper Tier II capital, as per approval of the Supervisor of Banks, amounting to NIS 1.11 billion. See Note 4 to the financial statements for details.

Risk Management

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market and liquidity risk, credit risk, and operational risk. The risk management policies in the various areas are intended to support the achievement of the Group's business goals while limiting the associated risk.

The Group manages its risk on a day-to-day basis, in accordance with the Bank of Israel's Proper Conduct of Banking Business Directive no. 339. Within this framework, the Group has appointed risk managers, and the Bank has established a Risk Management Department. Bank management regards the Bank's risk control and management system as one of its core competencies, hence it is Bank policy to constantly strive to improve the risk control and management system, Specifically, the Bank is in advanced stages of applying the Basel II guidelines.

Bank management believes that risk control and management must be an integrative process. As part of this approach, the Bank purchased a risk management system (the Algorithmics system) that enables management and control under a single platform of the market risk and liquidity risk of the Bank, and in the future, also the various credit risk components, including implementation of Basel II regulations for calculating regulatory and economic capital. The Bank began implementation of an advanced module of the system, enabling it to manage and control exposure of its customers in the capital market, using the infrastructure it uses to manage market, liquidity and credit risk. During 2007 the Bank completed a move to enable use of advanced models for management of customer exposure to the foreign currency segment of the capital market. This effort is being expanded in 2008, aiming to include customers operating in other trading arenas. Furthermore, the system started receiving input files for calculation of required regulatory capital in accordance with Basel II guidelines (layer 1 – standard method).

Credit risk

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce the inherent risk. These principles and rules enable controlled management of the risk involved in granting loans to borrowers, at the level of the individual borrower, group of borrowers and the level of economic and business sectors. As mentioned earlier, the Bank is in advanced stages of applying the Basel II guidelines. Quantitative aspects of the regulation, and not less important – its qualitative components, have a strong impact on how credit risk is managed by the Bank. In the first half of 2008, the bank completed a gap review with regard to requirements of the second layer of Basel II provisions concerning credit risk management, and has prepared a work plan for eliminating said gaps. The bank ha started executing this work plan.

The Division Manager, Business Banking is in charge of credit risk management at the Bank. Each unit which provides credit monitors credit repayment on a regular basis in accordance with terms agreed as well as the financial status of the customer, based on their level of indebtedness. Any findings requiring action are reported to the entity in charge of the relevant credit. The Bank has a Tracking and Control Department, which used computer systems to discover and alert to unusual accounts and customers, including based on information external to the Bank. In addition, the bank operates the credit supervision unit in the Risk Control Division.

Procedures for granting credit and for processing credit and collateral, as well as the relevant IT systems there for, are regularly reviewed and updated to adapt them to the changing business environment. A constant effort is also made to improve professional skills and expertise of employees involved with credit, by means of training and professional workshops at all levels. Concurrently, the Bank invests extensive resources in improving its control mechanisms and IT systems available to decision makers in the credit sector.

Market risk

Market risk to which the Bank is exposed in different financial instruments arises from their susceptibility to unexpected changes in interest rates, inflation rates and exchange rates, such that changes in market conditions may lead to changes in the fair value of the different financial instruments. The principal market risk to which the Bank is exposed are interest risk, basis risk and liquidity risk.

Market risk management is intended to maximize Bank profit at the prescribed risk level.

Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank’s Executive Management acts, according to the market conditions at any given time. The market risk manager for the bank is the head of its Financial Division.

In order to improve response time to capital market volatility, the bank started calculating VAR using a new method in May 2008; this method combines multiple calculation methods, while adjusting the number of historic observations used for calculation.

The internal estimate of VAR of the Bank Group presents the risk of a loss during a month, with the probability of it occurrence not exceeding 1%. Below is the VAR (according to the historic method) of the Bank Group (in NIS millions):

	First half of 2008 (1)	2007
At end of period	89	126
Maximum value during period	121 (Jan.)	169 (Aug.)
Minimum value during period	80 (Feb.)	104 (Jan.)

(1) VAR values have been recalculated since the start of this year, due to the change in calculation method.

The management of risk from a total viewpoint, for all of the Bank's financial activity, on and off-balance sheet, enables the Bank to maximize the utilization of the correlation between the different risk factors (basis and interest) in the various linkage segments, and the best possible dispersal of the risk. In addition to measuring the total risk value, the Bank measures and manages the mix of risk elements.

Basis risk

Linkage-basis risk relates to the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank’s assets and liabilities are denominated in different currency or linkage segments.

Below is an analysis of the sensitivity of the Group's (pre-tax) profit to changes in the main exchange rates and in the CPI as of June 30, 2008:

Profit (loss), NIS in millions

	Scenarios				Extreme historical scenario (1)	
	increase	increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	59.9	30.0	(30.0)	(59.9)	18.0	(5.4)
Dollar	49.9	18.5	(10.0)	(12.6)	19.6	(7.4)
Pound Sterling	(0.8)	(0.3)	1.2	2.9	(0.6)	0.8
Yen	(0.9)	(0.3)	(0.5)	(1.1)	(2.1)	(0.7)
Euro	12.7	2.6	0.2	3.6	6.2	0.4
Swiss Franc	1.3	0.7	(1.8)	(3.7)	71.2	(2.3)

(1) Extreme scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI, in the last 10 years.

Interest risk

Interest risk is the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank’s assets and liabilities.

Below is a description of the sensitivity of the Bank's position as of June 30, 2008 to a corresponding change of 1% in the interest curves (NIS in millions):

	1% corresponding shift in curve	
	upwards	downwards
NIS, CPI-linked	(20.7)	2.3 (1)
NIS, non-linked	(16.3)	16.2
Foreign currency denominated	(14.5)	15.7
All sectors	**(51.5)**	**34.2**

(1) For part of the curve, use of the downwards scenario resulted in negative interest rates.

Liquidity risk

Liquidity risk results from uncertainty as to the availability of resources and the ability to realize assets within a specified period of time and at a reasonable price. Liquidity risk is managed subject to the limitations of the Board of Directors and Executive Management in an effort to minimize the losses deriving from an investment of surplus liquidity in assets that are highly liquid, but have a low yield.

No exceptions to the Board of Directors' limitations were recorded in Q2 of 2008.

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

Financial derivatives

The trading in financial derivatives is part of the Bank's management of assets and liabilities, and is subject to limitations prescribed by the Board of Directors. The Bank trades in these financial derivatives, both for its customers and for its own account, as part of the management of basis and interest exposure in the various linkage segments.

The Bank trades in financial derivatives in the foreign currency, non-linked Israeli currency and CPI-linked Israeli currency sectors. The trading in financial derivatives is mainly conducted in the Bank’s dealing room and is classified into three categories: Hedging transactions, transactions related to asset and liability management (ALM) and other transactions. See Note 7 to the financial statements for details.

The Bank operates in credit derivatives in its nostro portfolio. In these operations, the Bank guarantees eligibility for payment in case of change in credit rating, failure to meet obligations or any other credit event related to counter-parties which are states or overseas banks. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee. The par value of these credit derivatives as of June 30, 2008 amounted to NIS 687 million.

The policy for managing the options portfolio is based on the “delta-neutral” strategy. The activities in options are subject to the quantitative limits prescribed by management, which include delta exposure (sensitivity of option price to change in price of the underlying asset), maximum VAR value for an investment of one day at an absolute level of 99% calculated by the Monte Carlo method and maximum losses under different scenarios. The VAR limitation for the Bank's option portfolio is calculated intraday every hour.

In 2007, the Bank launched as part of its risk management system an advanced module for review of VAR, sensitivity of option prices to changes in various parameters which determine its price (such as: price of underlying asset, standard deviation and interest rate), and the value of stress tests on the Bank's option portfolio. System VAR calculations are made hourly, intra-day. The Bank has started the process of expanding use of this module to its entire derivative operations.

Operational risk

Basel I guidelines refer to operating risk as residual risk, and in fact define it as risk which is not market risk nor credit risk. Basel II guidelines explicitly define operating risk, and indicate the major factors which create operating risk (internal processes, people, systems and external events). Furthermore, the Basel II first layer includes capital requirements for operating risk.

The operational risk manager for the bank is the head of its Comptroller Division. In the first half of 2008, the Bank continued proceedings started in late 2007 to upgrade Bank policy on operational risk and its business continuation policy, as well as adaptation of current policy to requirements of Basel II and the Bank of Israel.

Legal risk

Proper Conduct of Banking Businesses Regulation 339 prescribes, *inter alia*, that banking corporations must take action to reduce the legal risk resulting from their various operations. According to the regulation, the legal risk is "the risk of a loss resulting from not having the possibility of legally enforcing an agreement".

Within the scope of the Bank's preparations to manage legal risk and comply with the regulation, the Chief Legal Counsel was appointed as Legal Risk Manager, with the function of managing this risk and taking action to reduce it.

The Bank prescribed procedures that facilitate the minimizing of legal risk in operations and in the different units of the Bank. The procedures prescribe, *inter alia*, the interfaces between the legal counsel system of the Bank and its various units; specify the kinds of agreements that the Bank is permitted to sign and the procedures for their drafting; determining the manner in which the other side to an agreement is evaluated, including his authority to act on behalf whoever is acting on behalf of others; and define the manner in which the collateral is to be obtained and recorded. Also specified was the share of the legal system in preparation of the Bank's internal procedures and in preparing the resultant documents and forms.

Restrictions on and Regulation of Bank Group Operations

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

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

For details of the amendment, regulations based on the statute, their application by the bank and their impact on the Bank's operating results – see Note 11.A. to the financial statements.

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

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

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

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

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

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

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

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

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

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

Payment System Act, 2008

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

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

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

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

For details of the amendment and Bank estimates with regard to its impact on Bank profit, see Note 11.F. to the financial statements.

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

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

The Act will become effective as of October 6, 2008. The Bank is preparing for implementation of provisions of the law.

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

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

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

- The corporation's Audit Committee would set criteria for an extraordinary transaction and for an immaterial transaction;
- Such financial statements would provide a general description of the transactions, their attributes and criteria determined for classifying the transactions as immaterial or as non-extraordinary, including details of facts, reasons and explanations for such determinations;
- The description of contracting with the controlling shareholder with regard to terms of employment and service, would provide a general description of financing transactions contracted between them and the bank (if any), along with their attributes.

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

An extraordinary transaction was defined to be a transaction which meets at least one of the following conditions:

- A transaction which is not in the normal course of Bank business, i.e. which is not a banking transaction – which by nature is a transaction in the normal course of business of a banking corporation. To this end, a banking transaction in the normal course of Bank business is, inter alia, any credit transaction of any type, guarantees, transactions in futures contracts and in derivatives, purchase and sale of securities and currencies, commissions for account management and transaction fees, deposits and interest on deposits etc.
- A transaction which is not under market conditions, based on comparison to other, similar transactions (which are not with related parties).
- A transaction in excess of 0.5% of consolidated balance sheet total.
- A transaction where the bank profit there from is in excess of 0.25% of the Bank's shareholder equity.

It was determined that an immaterial transaction is a transaction which is not extraordinary which also meets the following conditions:
With regard to a transaction with a corporation -
- A transaction not in excess of 0.05% of consolidated balance sheet total.
- A transaction where the bank profit there from is in excess of 0.01% of the Bank's shareholder equity.

With regard to a transaction with an individual -
- A transaction not in excess of 0.005% of consolidated balance sheet total.
- A transaction where the bank profit there from is in excess of 0.0025% of the Bank's shareholder equity.

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

Proper Conduct of Banking Business Regulations No. 326 (“Financial Assistance”)
On February 4, 2008, the Supervisor of Banks published the Proper Conduct of Banking Business Regulations No. 326 (“Financial Assistance”). This regulation is aimed at securing monies of apartment buyers on projects financed using financial assistance, and ensuring that sources designated for project construction, in particular proceeds from sale of apartments, are concentrated in the designated project account. This is

achieved by implementing payment vouchers. The regulation stipulates that a banking corporation may only provide financial assistance to a construction project if a booklet of payment vouchers is produced and handed to the developer for each apartment to be sold in the project. These payment vouchers will be used for all payments to be made by the apartment buyer to the developer for the cost of the apartment. The regulation specifies the details to be included on each payment voucher. The regulation required the banking corporation to issue a guarantee to the apartment buyer for any amount paid by a payment voucher, or to ensure provision of other collateral pursuant to the Apartment Sale Act within 14 days from the payment date. Furthermore, the regulation sets forth arrangements for providing information to buyers with regard to matching of the project account to a specific project, and determines the details to be included in the assistance agreement with the developer in order to allow for implementation of the voucher system.

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

Proper Conduct of Banking Business Regulations No. 456 ("Sale Law guarantee").

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

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

Extension Ordinance for Comprehensive Pension Insurance

On December 30, 2007, the Expansion Ordinance for Comprehensive Pension Insurance was published, effective starting on January 1, 2008. The Ordinance stipulates that employers are required to provide appropriate amounts for pension insurance for employees with 9 months of service or more, subject to terms set forth in the Ordinance. Provisions of the ordinance stipulate that pension provisions replace severance pay in accordance with provision rates. Provisions would be at 2.5% of salary in the first year, of which 1.667% by the employer and 0.833% by the employee, and would be updated as per provisions of the Ordinance. The Bank is in compliance with provisions of the Ordinance.

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

On December 31, 2007, the Supervisor of Banks published his circular regarding "Measuring and disclosure of impaired debt, credit risk and provision for credit loss" "the regulation"). For details of the regulation and the Bank's preparations for its implementation, see Note 1.D. to the financial statements.

Other Matters

The independent auditors in their review report, have drawn attention to Note 6.C.3.(A-E) to the financial statements with regard to claims filed against the Bank, including claims accompanies by applications for class action status, including on insurance matters.

Internal Auditor

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

The Condensed report of internal audit work for the first half of 2008 was submitted on July 24, 2008 and was discussed at the Audit Committee's meeting on July 31, 2008.

On July 17, 2008, the Board of Directors of Adanim, a wholly-owned subsidiary of the bank, decided to appoint the bank's internal auditor as Adanim's internal auditor as well.

Certification process of the financial statements

The organ in charge of audit supervision at the bank is its Board of Directors. Board members' names, accounting and financial skills and professional qualifications are set forth in the Board of Directors' report as of December 31, 2007. The processes of compiling, auditing and approving the financial statements involve additional organs and officers as set forth below.

Bank financial statements are compiled by a professional department, headed by the Chief Accountant, pursuant to the disclosure policy set by the Bank's Board of Directors.

Concurrently with compiling the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors' Report and financial statements with regard to their areas of responsibility include any false representation of lack of material facts, that they have instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness of the internal audit of financial reporting which is likely to impact the Bank's ability to record, process, summarize and report financial information in their areas of responsibility have been brought to the attention of the appropriate parties. For details of names and positions of bank executives, see the chapter on Senior Officers in the Board of Directors' report as of December 31, 2007.

The bank operates a Doubtful Debt Committee, headed by the manager of the Business Division, and attended by professional credit officers, as well as a doubtful debt committee headed by the President and attended by the manager of the Business Division, manager of the Retail Division, manager of the Financial Division, the Chief Accountant and the Chief Legal Counsel. In conjunction with preparation of the financial statements, the committee reviews the state of problem loans of the bank, their classification and provisions required there for. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required for claims filed against the bank.
Matters of principal with regard to disclosure in the financial statements are discussed by the Financial Statements Disclosure Committee ("the Disclosure Committee") headed by the President and including the Chief Accountant, Chief Legal Counsel and other members of the Executive Management. These discussions include issues with material impact on the financial statements, of interest to the public, issues requiring disclosure to the public, material changes to application of accounting policy, requests or demands by regulatory authorities and issues on which Bank management and the external auditors differ. As part of presentation of these issues to the Disclosure Committee, the external auditors' professional comments are also presented.

In order to improve efficiency of supervision and control of disclosure in financial statements, the bank's Board of Directors has established the Board Balance Sheet Committee, a restricted committee with 5 Board members, which is tasked with discussion and deliberation of proper disclosure in financial statements and with review of the financial statements in their entirety before they are submitted for discussion and approval by the Board of Directors plenum. For details of the committee members and their accounting and financial skills, see the Board of Directors' report as of December 31, 2007. Meetings of the balance sheet committee are also attended by the Chief Accountant and by the external auditors.

The Balance Sheet Committee reviews recommendations of the Disclosure Committee with regard to application of the disclosure policy, determines the required disclosure in public reports, and discusses recommendations of the Doubtful Debt Committee with regard to classification of problem loans, provisions there for and recommended provisions for claims. The Balance Sheet Committee also focuses on any material issue and any disclosure in the financial statements whose presentation allows for exercise of judgment, estimates or assessments.

Pursuant to directives of the Supervisor of Banks on implementation of provisions of Section 302 of the US Sarbanes-Oxley Act, the Balance Sheet Committee receives a report on any significant fault discovered in the disclosure process in the financial statements. Any such faults as well as any findings by the external auditors are also presented to the Board Audit Committee. These discussions are also attended by the Internal Auditor and the external auditors. Any report of significant faults is also presented to the Board of Directors.

After discussions are held and recommendations are reached by the Board Balance Sheet Committee, the financial statements are submitted for discussion and approval by the Board of Directors plenum. In conjunction with discussion at the Board of Directors, the Chief Accountant presents the financial results and analysis thereof, and recommendations of the Balance Sheet Committee as for approval of the financial statements are presented. The external auditors participate in the discussion and present their comments.

Bank Management

On July 21, 2008, the bank Board of Directors confirmed appointment of Mr. Ofer Argov as Manager, Comptrollership, Planning and Operations Division starting on November 1, 2008. He would replace Mr. Shimon Gal, who was appointed Manager, Business Banking Division on January 1, 2008.

Board of Directors

During the first half of 2008, the Bank Board of Directors held 14 plenary meetings and 40 Board committee meetings.

The Board of Directors' meeting on March 24, 2008 resolved to appoint Mr. Avraham (Bayga) Shochat as Chairman, Balance Sheet Committee – replacing Mr. Avraham Natan.

No changes were made to composition of the Board of Directors in the first half of this year.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on Section 302 of the American Sarbanes Oxley Act, the President and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification"). This directive of the Supervisor of Banks is part of an overall policy regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, *inter alia*, certification by the President and Chief Accountant on "the effectiveness of internal controls on the financial reporting", which will be attached to the financial statements as of December 31, 2008.

The Disclosure Certification relates to the controls and procedures that were designed to assure that the information that the Bank requires for disclosure in accordance with the public reporting directives of the Supervisor of Banks, is accumulated, processed and sent to the Bank's Executive Management in a manner that enables decisions to be reached at an appropriate time, with respect to disclosure requirements. The Disclosure Certification is not meant to cover the broad aspects of "the Effectiveness of the Internal Controls on the Financial Reporting", as noted.

At the end of the period covered by this Report, the Bank's management, together with the Presidents and Chief Accountant of the Bank, evaluated the effectiveness of the Bank's disclosure controls and procedures. Based on this evaluation, the President and Chief Accountant of the Bank concluded that at the end of this period, the disclosure controls and procedures are effective for recording, processing, summarizing and reporting the information that the Bank is required to disclose in the quarterly report, in accordance with the Public Reporting Regulations of the Supervisor of Banks, on the date stipulated in these Regulations.

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

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

Ramat Gan, August 18, 2008

Appendix: Additional information by operating segment for 2007

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Appendix: Additional information by operating segment for 2007

1. **Background**

In the financial statements for the year ended December 31, 2007, the Note concerning operating segments was compiled for the first time based on a new computer system which analyzes Bank results and its financial standing by operating segment by means of sophisticated costing mechanisms (hereinafter: "the new format"). This system is used by Bank management to review, analyze and assess results by operating segment and organizational unit – and it serves as basis for measurement of the Bank's profit margins and business objectives. The system is a considerable improvement compared to the reporting tool previously used by the Bank.

In accordance with the Supervisor of Banks' directive dated July 30, 2008, data is presented below by operating segment for 2007 in the new format, with adjustments required for presentation of this information in a more relevant manner as of the date of publication of these financial statements. In addition, as per directives of the Supervisor of Banks, additional information is provided, including data by operating segment for 2005, 2006 and 2007 which are based on the measuring tool used by the Bank to compile operating segment information through Q3 of 2007 (hereinafter: "the old format"). This additional information is aimed at facilitating analysis of developments in the Bank's operating segments in 2007 compared to previous years, and has no impact on the Bank's business results.

Since the end of 2007, the information presented below in the old format is no longer used by Bank management.

For generating information for 2007 included in this appendix in the old format, raw data was used which was available in the old measuring tool and principles used in compiling the note in the old format were reconstituted. This was aimed at reflecting, in as much as possible, 2007 data by operating segment which would have been presented in the 2007 financial statements – had they been compiled in the old format.

Appendix: Additional information by operating segment for 2007

2**. Net profit (loss) by operating segment**

Reported amounts (NIS in millions)

	New format	Old format		
Segment	2007	2007	2006	2005
Household				
Mortgages	230	312	205	176
Other	208	138	25	37
Private banking	90	76	65	42
Small business	65	133	79	64
Commercial banking	24	18	20	46
Business banking	231	259	159	67
Financial management	116	(28)	90	75
International operations	(56)	-	-	-
Total	908	908	643	507

Appendix: Additional information by operating segment for 2007

3. Additional information to Note on operating segments
For the year ended December 31, 2007 – new format

Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division: International operations	Financial Division: Financial management	Total Consolidated
Profit from financing operations before provision for doubtful debt								
From outside operating segments	1,822	(100)	(309)	185	657	(105)	(124)	2,026
Inter-segment	(906)	149	586	(70)	(195)	96	340	-
Profit from financing operations before provision for doubtful debt	916	49	277	115	462	(9) (4)	216	2,026
Operating and other revenues	589	21	173	42	163	56	146	1,190
Total profit	1,505	70	450	157	625	47	362	3,216
Provision for doubtful debt	67	-	74	7	77	3	-	228
Operating and other expenses								
From outside operating segments	1,012	11	361	124	133	130	167	1,938
Inter-segment	(62)	1	(26)	(9)	68	-	28	-
Other operating expenses - total	950	12	335	115	201	130	195	1,938
Operating profit (loss) before taxes	488	58	41	35	347	(86)	167	1,050
Provision for taxes on operating profit	171	20	15	12	121	(30)	59	368
After-tax operating profit (loss)	317	38	26	23	226	(56)	108	682
Share in net after-tax operating profits (losses) of affiliates	-	-	-	-	-	-	(1)	(1)
Net operating profit	317	38	26	23	226	(56)	107	681
Net after-tax profit from extraordinary items	121	52	39	1	5	-	9	227
Net profit (loss)	438	90	65	24	231	(56)	116	908
Return on equity	19.2%	-	21.6%	9.2%	13.0%	(24.0%)	26.3%	-
Average balance of assets	42,430	-	4,938	4,349	17,499	5,873	18,955	94,044
Average balance of liabilities	33,219	2,210	9,796	2,167	12,240	5,999	23,082	88,713
Average balance of risk assets(1)	33,999	-	4,561	3,801	26,298	3,456	8,681	80,796
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,472	45,472
Average balance of securities	19,565	4,731	21,091	2,149	37,711	766	6,790	92,803
Credit to the public (end balance)	43,603	-	4,806	4,087	17,412	4,412	-	74,320
Deposits from the public (end balance)	30,731	2,204	11,106	2,432	10,753	2,570	15,494	75,290
Average balance of other assets managed	17,110	-	158	50	113	-	-	17,431

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total Consolidated
Margin from credit granting operations	491	-	168	80	312	88	-	1,139
Margin from receiving deposits	360	47	86	18	72	17	-	600
Other	65	2	23	17	78	(114)	216	287
Total	916	49	277	115	462	(9)	216	2,026

C. Information regarding geographic regions (2)

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

(1) Includes off-balance-sheet balances, as computed for capital adequacy.
(2) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.
(3) Includes operating profit from financing operations before provision for doubtful debt and other operating profit.
(4) Includes provision for impairment of asset-backed securities, amounting to NIS 114 million.

Appendix: Additional information by operating segment for 2007

3. Additional information to Note on operating segments

For the year ended December 31, 2007 – old format

Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debt							
From outside operating segments	1,223	(553)	390	222	898	(154)	2,026
Inter-segment	(395)	711	60	(147)	(356)	127	-
Profit from financing operations before provision for doubtful debt	828	158	450	75	542	(27)	2,026
Operating and other revenues	556	116	307	27	134	50	1,190
Total profit	1,384	274	757	102	676	23	3,216
Provision for doubtful debt	67	-	74	7	80	-	228
Operating and other expenses							
From outside operating segments	1,747	35	25	17	57	57	1,938
Inter-segment	(925)	209	521	53	142	-	-
Total operating and other expenses	822	244	546	7	199	57	1,938
Operating profit (loss) before taxes	495	30	137	25	397	(34)	1,050
Provision for taxes on operating profit	(172)	(8)	(44)	(8)	(143)	7	(368)
After-tax operating profit (loss)	323	22	93	17	254	(27)	682
Share in net after-tax operating profits (losses) of affiliates	-	-	-	-	-	(1)	(1)
Net operating profit	323	22	93	17	254	(28)	681
Net after-tax profit from extraordinary items	127	54	40	1	5	-	227
Net profit	450	76	133	18	259	(28)	908
Return on capital (net profit as % of average capital)	22.1%	-	12.7%	28.0%	15.1%	(3.7%)	-
Average balance of assets	38,795	-	7,488	3,111	16,850	27,800	94,044
Average balance of liabilities	31,593	2,210	15,908	975	8,407	29,620	88,713
Average balance of risk assets(1)	30,856	-	9,692	2,947	25,949	11,352	80,796
Average balance of provident and mutual fund assets	24,623	11,552	7,815	136	1,129	218	45,472
Average balance of securities	2,538	9,590	55,924	6,223	18,528	-	92,803
Average balance of other assets managed	17,110	-	158	50	113	-	17,431

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	539	-	249	55	295	-	1,139
Margin from receiving deposits	224	156	177	3	41	-	600
Other	65	2	23	17	207	(27)	287
Total	828	158	450	75	542	(27)	2,026

C. Information regarding geographic regions (2)

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

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

(2) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.

(3) Includes operating profit from financing operations before provision for doubtful debt and other operating profit.

Appendix: Additional information by operating segment for 2007

3. Additional information to Note on operating segments
For the year ended December 31, 2006 – old format
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household (1)	Private banking	Small business	Commercial banking	Business banking	Financial management (1)	Total consolidated
Profit from financing operations before provision for doubtful debt							
From outside operating segments	814	(562)	452	211	883	189	1,987
Inter-segment	(17)	751	(16)	(139)	(393)	(186)	-
Profit from financing operations before provision for doubtful debt	797	189	436	72	490	3	1,987
Operating and other revenues	610	140	329	24	79	33	1,215
Total profit	1,407	329	765	96	569	36	3,202
Provision for doubtful debt	174	-	65	6	60	-	305
Operating and other expenses							
From outside operating segments	1,849	72	53	3	112	28	2,117
Inter-segment	(922)	206	553	53	110	-	-
Total operating and other expenses	927	278	606	56	222	28	2,117
Operating profit (loss) before taxes	306	51	94	34	287	8	780
Provision for taxes on operating profit	148	19	38	14	131	(1)	349
After-tax operating profit (loss)	158	32	56	20	156	9	431
Share in net after-tax operating profits (losses) of affiliates	-	-	-	-	-	(4)	(4)
Net operating profit	158	32	56	20	156	5	427
Net after-tax profit from extraordinary items	72	33	23	-	3	85	216
Cumulative effect	-	-	-	-	-	-	-
Net profit	230	65	79	20	159	90	643
Return on capital (net profit as % of average capital)	11.3%	76.7%	13.3%	11.1%	10.0%	19.7%	-
Average balance of assets	38,437	2,498	7,018	2,916	15,793	21,482	88,144
Average balance of liabilities	31,261	17,115	14,919	914	7,684	11,306	83,199
Average balance of risk assets(2)	30,571	1,272	8,880	2,700	23,774	6,828	74,025
Average balance of provident and mutual fund assets	7,439	3,490	2,361	41	341	66	13,738
Average balance of securities (1)	1,956	7,392	43,106	4,797	14,281	-	71,532
Average balance of other assets managed	17,442	12	138	137	216	74	18,019

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	590	54	275	61	325	-	1,305
Margin from receiving deposits	181	118	118	5	42	-	464
Other	26	17	43	6	123	3	218
Total	797	189	436	72	490	3	1,987

C. Information regarding geographic regions (3)

	Profit for the year ended December 31, 2006 (4)	Net profit for the year ended December 31, 2006	Average total asset balance For 2006
Israel	3,153	621	83,941
Outside of Israel	49	22	4,203
Total consolidated	3,202	643	88,144

(1) Restated. For details see section 5.
(2) Includes off-balance-sheet balances, as computed for capital adequacy.
(3) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.
(4) Includes operating profit from financing operations before provision for doubtful debt and other operating profit.

Appendix: Additional information by operating segment for 2007

3. Additional information to Note on operating segments
For the year ended December 31, 2005 – old format
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household (1)	Private banking	Small business	Commercial banking	Business banking	Financial management (1)	Total consolidated
Profit from financing operations before provision for doubtful debt							
From outside operating segments	570	(410)	265	264	797	418	1,904
Inter-segment	141	559	168	(142)	(456)	(270)	-
Profit from financing operations before provision for doubtful debt	711	149	433	122	341	148	1,904
Operating and other revenues	584	131	310	27	38	24	1,114
Total profit	1,295	280	743	149	379	172	3,018
Provision for doubtful debt	119	-	97	3	73	-	292
Operating and other expenses	821	208	536	66	176	32	1,839
Pre-tax operating profit	355	72	110	80	130	140	887
Provision for taxes on operating profit	142	30	46	34	63	56	371
After-tax operating profit	213	42	64	46	67	84	516
Share in net after-tax operating profits (losses) of affiliates	-	-	-	-	-	(3)	(3)
Minority interest in net after-tax operating profits of subsidiaries	-	-	-	-	-	-	-
Net operating profit	213	42	64	46	67	81	513
Net after-tax loss from extraordinary items	-	-	-	-	-	(2)	(2)
Cumulative effect	-	-	-	-	-	(4)	(4)
Net profit	213	42	64	46	67	75	507
Return on equity	11.9%	57.5%	9.4%	13.1%	5.8%	18.2%	-
Average balance of assets	36,235	2,423	8,142	5,354	12,059	19,133	83,346
Average balance of liabilities	34,326	16,302	15,722	1,374	3,913	7,324	78,961
Average balance of risk assets(2)	27,521	1,119	10,403	5,363	17,850	6,136	68,392
Average balance of provident and mutual fund assets	8,828	4,351	2,787	247	507	88	16,808
Average balance of securities (1)	1,442	5,606	37,281	3,652	5,369	-	53,351
Average balance of other assets managed	17,732	12	140	163	204	77	18,328

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	538	35	274	96	253	-	1,196
Margin from receiving deposits	148	101	94	6	15	-	364
Other	25	13	65	20	73	148	344
Total	711	149	433	122	341	148	1,904

C. Information regarding geographic regions (3)

	Profit for the year ended December 31, 2005 (4)	Net profit for the year ended December 31, 2005	Average total asset balance For 2005
Israel	2,910	478	79,439
Outside of Israel	108	29	3,907
Total consolidated	3,018	507	83,346

(1) Re-classified, see section 5 below.
(2) Includes off-balance-sheet balances, as computed for capital adequacy.
(3) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.
(4) Includes operating profit from financing operations before provision for doubtful debt and other operating profit.

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007
Reported amounts (NIS in millions)

Results of Household segment – new format

	For the Year Ended December 31, 2007				
	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions				
Profit (loss) from financing operations before provision for doubtful debt					
From outside operating segments	(412)	13	21	2,200	1,822
Inter-segment	964	(10)	-	(1,860)	(906)
Profit from financing operations before provision for doubtful debt	552	3	21	340	916
Operating and other revenues	167	63	97	262	589
Total profit	719	66	118	602	1,505
Provision for doubtful debt	26	-	-	41	67
Operating and other expenses					
From outside operating segments	724	41	40	207	1,012
Inter-segment	(59)	(3)	-	-	(62)
Total operating and other expenses	665	38	40	207	950
Operating profit (loss) before taxes	28	28	78	354	488
Provision for taxes on operating profit (loss)	9	10	28	124	171
After-tax operating profit (loss)	19	18	50	230	317
Net after-tax profit from extraordinary items			121	-	121
Net profit (loss)	**19**	**18**	**171**	**230**	**438**
Return on equity					**19.2%**
Average balance of assets	6,647	848	-	34,935	42,430
Average balance of liabilities	33,219	-	-	-	33,219
Average balance of risk assets	7,056	-	-	26,943	33,999
Average balance of provident and mutual fund assets		-	-	-	-
Average balance of securities	-	-	19,565	-	19,565
Credit to the public (end balance)	6,477	1,331	-	35,795	43,603
Deposits from the public (end balance)	30,731	-	-	-	30,731
Average balance of assets under management	176	-	-	16,934	17,110
Components of profit from financing operations before provision for doubtful debt:					
Margin from credit granting operations	148	3	-	340	491
Margin from receiving deposits	360	-	-	-	360
Other	44	-	21	-	65
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**552**	**3**	**21**	**340**	**916**

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007
Reported amounts (NIS in millions)

Results of Private Banking segment – new format

	For the Year Ended December 31, 2007		
	Banking and finance	Capital market	Total
	NIS in millions		
Profit from financing operations before provision for doubtful debt			
From outside operating segments	(101)	1	(100)
Inter-segment	148	1	149
Profit from financing operations before provision for doubtful debt	47	2	49
Operating and other revenues	3	18	21
Total profit	50	20	70
Operating and other expenses			
From outside operating segments	11	-	11
Inter-segment	1	-	1
Total operating and other expenses	12	-	12
Pre-tax operating profit	38	20	58
Provision for taxes on operating profit	13	7	20
After-tax operating profit	25	13	38
Net after-tax profit from extraordinary items	-	52	52
Net profit	**25**	**65**	**90**
Return on equity			**-**
Average balance of assets	-	-	-
Average balance of liabilities	2,210	-	2,210
Average balance of risk assets	-	-	-
Average balance of provident and mutual fund assets	-	-	-
Average balance of securities	-	4,731	4,731
Credit to the public (end balance)	-	-	-
Deposits from the public (end balance)	2,204	-	2,204
Average balance of other assets managed	-	-	-
Components of profit from financing operations before provision for doubtful debt:			
Margin from credit granting operations	-	-	-
Margin from receiving deposits	47	-	47
Other	-	2	2
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**47**	**2**	**49**

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007
Reported amounts (NIS in millions)

Results of Small Business segment – new format

	For the Year Ended December 31, 2007			
	Banking and finance	Credit cards	Capital market	Total
	NIS in millions			
Profit from financing operations before provision for doubtful debt				
From outside operating segments	(314)	3	2	(309)
Inter-segment	588	(2)	-	586
Profit from financing operations before provision for doubtful debt	274	1	2	277
Operating and other revenues	147	9	17	173
Total profit	421	10	19	450
Provision for doubtful debt	74	-	-	74
Operating and other expenses				
From outside operating segments	353	2	6	361
Inter-segment	(26)	-	-	(26)
Total operating and other expenses	327	2	6	335
Pre-tax operating profit	20	8	13	41
Provision for taxes on operating profit	7	3	5	15
After-tax operating profit	13	5	8	26
Net after-tax profit from extraordinary items	-	-	39	39
Net profit	**13**	**5**	**47**	**65**
Return on equity				**21.6%**
Average balance of assets	4,938	-	-	4,938
Average balance of liabilities	9,796	-	-	9,796
Average balance of risk assets	4,561	-	-	4,561
Average balance of provident and mutual fund assets	-	-	-	-
Average balance of securities	-	-	21,091	21,091
Credit to the public (end balance)	4,806	-	-	4,806
Deposits from the public (end balance)	11,106	-	-	11,106
Average balance of other assets managed	158	-	-	158
Components of profit from financing operations before provision for doubtful debt:				
Margin from credit granting operations	168	-	-	168
Margin from receiving deposits	86	-	-	86
Other	20	1	2	23
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**274**	**1**	**2**	**277**

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007
Reported amounts (NIS in millions)

Results of Commercial Banking segment – new format

	For the Year Ended December 31, 2007			
	Banking and finance	Credit cards	Capital market	Total
	NIS in millions			
Profit from financing operations before provision for doubtful debt				
From outside operating segments	183	-	2	185
Inter-segment	(70)	-	-	(70)
Profit from financing operations before provision for doubtful debt	113	-	2	115
Operating and other revenues	34	2	6	42
Total profit	147	2	8	157
Provision for doubtful debt	7		-	7
Operating and other expenses				
From outside operating segments	121	-	3	124
Inter-segment	(9)	-	-	(9)
Total operating and other expenses	112	-	3	115
Pre-tax operating profit	28	2	5	35
Provision for taxes on operating profit	9	1	2	12
Operating profit after taxes	20	1	3	23
Net after-tax profit from extraordinary items	1	-	-	1
Net profit	**21**	**1**	**3**	**24**
Return on equity				**9.2%**
Average balance of assets	4,349	-	-	4,349
Average balance of liabilities	2,167	-	-	2,167
Average balance of risk assets	3,801	-	-	3,801
Average balance of provident and mutual fund assets	-	-	-	-
Average balance of securities	-	-	2,149	2,149
Credit to the public (end balance)	4,087	-	-	4,087
Deposits from the public (end balance)	2,432	-	-	2,432
Average balance of other assets managed	50	-	-	50
Components of profit from financing operations before provision for doubtful debt:				
Margin from credit granting operations	80	-	-	80
Margin from receiving deposits	18	-	-	18
Other	15	-	2	17
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**113**	**-**	**2**	**115**

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

Results of Business Banking segment – new format

	For the Year Ended December 31, 2007				
	Banking and finance	Credit cards	Capital market	Real estate and construction	Total
	NIS in millions				
Profit from financing operations before provision for doubtful debt					
From outside operating segments	238	-	31	388	657
Inter-segment	15	-	-	(210)	(195)
Profit from financing operations before provision for doubtful debt	253	-	31	178	462
Operating and other revenues	131	1	23	8	163
Total profit	384	1	54	186	625
Provision for doubtful debt	24	-	-	53	77
Operating and other expenses					
From outside operating segments	99	-	1	33	133
Inter-segment	57	-	-	11	68
Total operating and other expenses	156	-	1	44	201
Pre-tax operating profit	204	1	53	89	347
Provision for taxes on operating profit	72	-	18	31	121
After-tax operating profit	132	1	35	58	226
Net after-tax profit from extraordinary items	-	-	5	-	5
Net profit	**132**	**1**	**40**	**58**	**231**
Return on equity					**13.0%**
Average balance of assets	12,217	-	-	5,282	17,499
Average balance of liabilities	11,379	-	-	861	12,240
Average balance of risk assets	13,830	-	-	12,468	26,298
Average balance of provident and mutual fund assets	-	-	-	-	-
Average balance of securities	-	-	37,711	-	37,711
Credit to the public (end balance)	11,201	-	-	6,211	17,412
Deposits from the public (end balance)	9,800	-	-	953	10,753
Average balance of other assets managed	20	-	-	93	113
Components of profit from financing operations before provision for doubtful debt:					
Margin from credit granting operations	134	-	-	178	312
Margin from receiving deposits	72	-	-	-	72
Other	47	-	31	-	78
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**253**	**-**	**31**	**178**	**462**

Appendix: Additional information by operating segment for 2007

4. Additional information to the Board of Directors' Report
For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

Results of International Operations segment – new format

	For the Year Ended December 31, 2007		
	Banking and finance	Capital market	Total
Profit from financing operations before provision for doubtful debt			
From outside operating segments	(105)	-	(105)
Inter-segment	96	-	96
Profit from financing operations before provision for doubtful debt	(9)	-	(9)
Operating and other revenues	53	3	56
Total profit	44	3	47
Provision for doubtful debt	3	-	3
Operating and other expenses			
From outside operating segments	130	-	130
Inter-segment	-	-	-
Total operating and other expenses	130	-	130
Pre-tax operating profit	(89)	3	(86)
Provision for taxes on operating profit	(31)	1	(30)
After-tax operating profit	(58)	2	(56)
Net after-tax profit from extraordinary items	-	-	-
Net profit (loss)	**(58)**	**2**	**(56)**
Return on equity			**(24.0%)**
Average balance of assets	5,873	-	5,873
Average balance of liabilities	5,999	-	5,999
Average balance of risk assets	3,456	-	3,456
Average balance of provident and mutual fund assets	-	-	-
Average balance of securities	-	766	766
Credit to the public (end balance)	4,412	-	4,412
Deposits from the public (end balance)	2,570	-	2,570
Average balance of other assets managed	-	-	-
Components of profit from financing operations before provision for doubtful debt:			
Margin from credit granting operations	88	-	88
Margin from receiving deposits	17	-	17
Other	(114)	-	(114)
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**(9)**	**-**	**(9)**

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007
Reported amounts (NIS in millions)

Results of Financial Management segment – new format

	For the Year Ended December 31, 2007		
	Banking and finance	Capital market	Total
	NIS in millions		
Profit (loss) from financing operations before provision for doubtful debt			
From outside operating segments	(131)	7	(124)
Inter-segment	341	(1)	340
Profit from financing operations before provision for doubtful debt	210	6	216
Operating and other revenues	114	32	146
Total profit	324	38	362
Operating and other expenses			
From outside operating segments	153	14	167
Inter-segment	28	-	28
Total operating and other expenses	181	14	195
Pre-tax operating profit	143	24	167
Provision for taxes on operating profit	50	9	59
After-tax operating profit	93	15	108
Share in net after-tax operating losses of affiliates	(1)	-	(1)
Net after-tax profit from extraordinary items	9	-	9
Net profit	**101**	**15**	**116**
Return on equity			**26.3%**
Average balance of assets	18,955	-	18,955
Average balance of liabilities	23,082	-	23,082
Average balance of risk assets	8,681	-	8,681
Average balance of provident and mutual fund assets	45,472	-	45,472
Average balance of securities	-	6,790	6,790
Credit to the public (end balance)	-	-	-
Deposits from the public (end balance)	15,494	-	15,494
Average balance of other assets managed	-	-	-
Components of profit from financing operations before provision for doubtful debt:			
Margin from credit granting operations	-	-	-
Margin from receiving deposits	-	-	-
Other	210	6	216
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**210**	**6**	**216**

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

Results of Household segment – old format

	For the Year Ended December 31, 2007					For the Year Ended December 31, 2006				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
	NIS in millions					NIS in millions				
Profit (loss) from financing operations before provision for doubtful debts										
From outside operating segments	(26)	-	-	1,249	1,223	(127)	-	-	941	814
Inter-segment	377	-	-	(772)	(395)	445	-	-	(462)	(17)
Profit from financing operations before provision for doubtful debt	351	-	-	477	828	318	-	-	479	797
Operating profit	189	59	13	295	556	172	52	80	306	610
Total profit	540	59	13	772	1,384	490	52	80	785	1,407
Provision for doubtful debt	28	-	-	39	67	38	-	-	136	174
Operating and other expenses										
From outside operating segments	1,452	24	28	243	1,747	1,485	25	57	282	1,849
Inter-segment	(925)	-	-	-	(925)	(922)	-	-	-	(922)
Total operating and other expenses	527	24	28	243	822	563	25	57	282	927
Operating profit (loss) Before taxes	(15)	35	(15)	490	495	(111)	27	23	367	306
Provision for taxes on operating profit (loss)	13	(13)	6	(178)	(172)	(36)	12	10	162	148
After-tax operating profit (loss)	(2)	22	(9)	312	323	(75)	15	13	205	158
Share in net after-tax operating profits of affiliates	-	-	-	-	-	-	-	-	-	-
Minority interest in net after-tax operating profits of subsidiaries	-	-	-	-	-	-	-	-	-	-
Net operating profit (loss)	(2)	22	(9)	312	323	(75)	15	13	205	158
Net after-tax profit from extraordinary items	-	-	127	-	127	-	-	72	-	72
Net profit (loss)	**(2)**	**22**	**118**	**312**	**450**	**(75)**	**15**	**85**	**205**	**230**
Return on capital:										
(net profit as % of average capital)					**22.1%**					**11.3%**
Average balance of assets	4,736	-	-	34,059	38,795	4,602	-	-	33,835	38,437
Average balance of liabilities	11,024	-	-	20,568	31,593	10,828	-	-	20,433	31,261
Average balance of risk assets	4,411	-	-	26,445	30,856	4,300	-	-	26,271	30,571
Average balance of provident and mutual fund assets	20,005	-	-	4,618	24,623	6,044	-	-	1,395	7,439
Average balance of securities (1)	2,538	-	-	-	2,538	1,956	-	-	-	1,956
Average balance of assets under management	60	-	-	17,050	17,110	60	-	-	17,382	17,442
Components of profit from financing operations before provision for doubtful debt:										
Margin from credit granting operations	125	-	-	414	539	136	-	-	454	590
Margin from receiving deposits	210	-	-	14	224	169	-	-	12	181
Other	16	-	-	49	65	13	-	-	13	26
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**351**	**-**	**-**	**477**	**828**	**318**	**-**	**-**	**479**	**797**

(1) Restated. See section 5.

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**
For the Year Ended December 31, 2007

Profit of the Household segment in 2007 grew by NIS 220 million, or 95.7%, compared to 2006. Results of this segment in these years were impacted by net capital gain amounting to NIS 72 million in capital market operations due to sale of mutual fund operations in 2006; by provision for pension and severance pay amounting to NIS 127 million (NIS 79 million after tax) in respect of retirement plan in 2006; by implementation of new directives by the Supervisor of Banks with regard to calculation of the provision for doubtful debt by length of arrears, which increased the provision for doubtful debt in Q1 of 2006 by NIS 54 million (NIS 33 million after tax); and by net capital gain amounting to NIS 127 million in capital market operations, primarily due to sale of provident fund operations in Q1 of 2007. Excluding these effects, the growth in segment contribution in 2007 amounted to NIS 53 million, or 19.6%.

The growth in segment contribution was due to an increase of NIS 31 million, or 3.9%, in profit from finance operations – primarily in banking and finance. Concurrently, the provision for doubtful debt was reduced by NIS 53 million (net of impact of new directives with regard to extent of arrears), of which NIS 43 million in mortgage operations, due to reduction in provision by extent of arrears in mortgage operations, and NIS 10 million in banking and finance.

Appendix: Additional information by operating segment for 2007

4. Additional information to the Board of Directors' Report
For the Year Ended December 31, 2007
Reported amounts (NIS in millions)

Results of Private Banking segment – old format

	For the Year Ended December 31, 2007				For the Year Ended December 31, 2006			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions				NIS in millions			
Profit (loss) from financing operations before provision for doubtful debts								
From outside operating segments	(553)	-	-	(553)	(562)	-	-	(562)
Inter-segment	711	-	-	711	751	-	-	751
Profit from financing operations before provision for doubtful debt	158	-	-	158	189	-	-	189
Operating profit	102	8	6	116	94	9	37	140
Total profit	260	8	6	274	283	9	37	329
Operating and other expenses								
From outside operating segments	17	8	10	35	43	9	20	72
Inter-segment	209	-	-	209	206	-	-	206
Total operating and other expenses	226	8	10	244	249	9	20	278
Pre-tax operating profit	34	-	(4)	30	34	-	17	51
Provision for taxes on operating profit	(8)	-	-	(8)	11	-	8	19
After-tax operating profit (loss)	26	-	(4)	22	23	-	9	32
Net after-tax profit from extraordinary items	-	-	54	54	-	-	33	33
Net profit	**26**	**-**	**50**	**76**	**23**	**-**	**42**	**65**
Return on capital: (net profit as % of average capital)				**-**				**76.7%**
Average balance of assets	-	-	-	-	2,498	-	-	2,498
Average balance of liabilities	2,210	-	-	2,210	17,115	-	-	17,115
Average balance of risk assets	-	-	-	-	1,272	-	-	1,272
Average balance of provident and mutual fund assets	11,552	-	-	11,552	3,490	-	-	3,490
Average balance of securities (1)	9,590	-	-	9,590	7,392	-	-	7,392
Average balance of other assets managed	-	-	-	-	12	-	-	12
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	-	-	-	-	54	-	-	54
Margin from receiving deposits	156	-	-	156	118	-	-	118
Other	2	-	-	2	17	-	-	17
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	**158**	**-**	**-**	**158**	**189**	**-**	**-**	**189**

(1) Restated. See section 5b.

Profit of the Private Banking segment in 2007 grew by NIS 11 million, or 16.9%, compared to 2006. Segment results in these years were impacted by net capital gain amounting to NIS 33 million in capital market operations from sale of mutual fund operations in 2006; by provision for pension and severance pay amounting to NIS 22 million (NIS 14 million after tax) in respect of retirement plan in 2006; and by net capital gain amounting to NIS 54 million in capital market operations, primarily from sale of provident fund operations in Q1 of 2007. Excluding these effects, the segment contribution in 2007 declined by NIS 24 million.

The decrease in segment contribution is due to a NIS 55 million 16.7% decline in profit from finance operations and in operating revenues, mainly explained by decreased revenues from provident fund management fees. The decline in total revenues was partially offset by a NIS 8 million increase in operating revenues of banking and finance. On the other hand, operating expenses (net of the impact of provision for pension and severance pay) decreased by NIS 12 million, or 4.7%, which partially offset the decrease in revenues.

Appendix: Additional information by operating segment for 2007

4. Additional information to the Board of Directors' Report
For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

Results of Small Business segment – old format

	For the Year Ended December 31, 2007				For the Year Ended December 31, 2006			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	cards Credit	Capital market	Total
	NIS in millions				NIS in millions			
Profit (loss) from financing operations before provision for doubtful debts								
From outside operating segments	390	-	-	390	452	-	-	452
Inter-segment	60	-	-	60	(16)	-	-	(16)
Profit from financing operations before provision for doubtful debt	450	-	-	450	436	-	-	436
Operating profit	280	20	7	307	269	18	42	329
Total profit	730	20	7	757	705	18	42	765
Provision for doubtful debt	74	-	-	74	65	-	-	65
Operating and other expenses								
From outside operating segments	(4)	14	15	25	7	15	31	53
Inter-segment	521	-	-	521	553	-	-	553
Total operating and other expenses	517	14	15	546	560	15	31	606
Pre-tax operating profit	139	6	(8)	137	80	3	11	94
Provision for taxes	45	3	(4)	44	32	1	5	38
After-tax operating profit	94	3	(4)	93	48	2	6	56
Net after-tax profit from extraordinary items	-	-	40	40	-	-	23	23
Net profit	94	3	36	133	48	2	29	79
Return on capital:								
(net profit as % of average capital)				**12.7%**				**13.3%**
Average balance of assets	7,448	-	-	7,448	7,018	-	-	7,018
Average balance of liabilities	15,908	-	-	15,908	14,919	-	-	14,919
Average balance of risk assets	9,692	-	-	9,692	8,880	-	-	8,880
Average balance of provident and mutual fund assets	7,815	-	-	7,815	2,361	-	-	2,361
Average balance of securities (1)	55,924	-	-	55,924	43,106	-	-	43,106
Average balance of other assets managed	158	-	-	158	138	-	-	138
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	249	-	-	249	275	-	-	275
Margin from receiving deposits	177	-	-	177	118	-	-	118
Other	23	-	-	23	43	-	-	43
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	450	-	-	450	436	-	-	436

(1) Restated. See section 5b.

Profit of the Small Business segment in 2007 grew by NIS 54 million, or 68.4%, compared to 2006. Segment results in these years were impacted by net capital gain amounting to NIS 23 million from sale of mutual fund operations in 2006; by provision for pension and severance pay amounting to NIS 67 million (NIS 42 million after tax) in respect of retirement plan in 2006; and by net capital gain amounting to NIS 40 million, primarily from sale of provident fund operations in Q1 of 2007. Excluding these effects, the segment contribution in 2007 declined by 5.1%.
The decline in segment contribution is primarily due to decrease in operating revenues, due to loss of management fee revenues from provident funds; to a 13.8% increase in provision for doubtful debt; and to a 1.3% increase in operating expenses (net of impact of provision for pension and severance pay).

Appendix: Additional information by operating segment for 2007

4. Additional information to the Board of Directors' Report

For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

Results of Commercial Banking segment – old format

	For the Year Ended December 31, 2007				For the Year Ended December 31, 2006
	Banking and finance	Credit cards	Capital market	Total	Banking and finance (1)
	NIS in millions				NIS in millions
Profit (loss) from financing operations before provision for doubtful debts					
From outside operating segments	222	-	-	222	211
Inter-segment	(147)	-	-	(147)	(139)
Profit from financing operations before provision for doubtful debt	75	-	-	75	72
Operating profit	23	2	2	27	24
Total profit	98	2	2	102	96
Provision for doubtful debt	7	-	-	2	6
Operating and other expenses					
From outside operating segments	15	1	1	17	3
Inter-segment	53	-	-	53	53
Total operating and other expenses	68	1	1	70	56
Pre-tax operating profit	23		1	25	34
Provision for taxes on operating profit	(8)		-	(8)	14
After-tax operating profit	15	1	1	17	20
After-tax profit from extraordinary items	-	-	1	1	-
Net profit	15	1	2	18	20
Return on capital:					
(net profit as % of average capital)				**28.0%**	**11.1%**
Average balance of assets	3,111	-	-	3,111	2,916
Average balance of liabilities	975	-	-	975	914
Average balance of risk assets	2,947	-	-	2,947	2,700
Average balance of provident and mutual fund assets	136	-	-	136	41
Average balance of securities (2)	6,223	-	-	6,223	4,797
Average balance of other assets managed	50	-	-	50	137
		-	-		
Components of profit from financing operations before provision for doubtful debt:		-	-		
Margin from credit granting operations	55	-	-	55	61
Margin from receiving deposits	3	-	-	3	5
Other	17	-	-	17	6
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	75	-	-	75	72

(1) Includes operating results for credit cards and the capital market, in immaterial amounts.
(2) Restated – see section 5b.

Profit of the Commercial Banking segment in 2007 decreased by NIS 2 million, or 10.0%, compared to 2006. The decrease is primarily due to a NIS 14 million increase in operating expenses attributed to this segment, partially offset by a NIS 6 million increase in profit from finance operations and in operating revenues.

Appendix: Additional information by operating segment for 2007

4. Additional information to the Board of Directors' Report
For the Year Ended December 31, 2007
Reported amounts (NIS in millions)

Results of Business Banking segment – old format

	For the Year Ended December 31, 2007					For the Year Ended December 31, 2006		
	Banking and finance	Credit cards	Capital market	Real estate and construction	Total	Banking and finance(1)	Real estate and construction	Total
	NIS in millions					NIS in millions		
Profit from financing operations before provision for doubtful debt								
From outside operating segments	404	-	-	494	898	389	494	883
Inter-segment	(84)	-	-	(272)	(356)	(124)	(269)	(393)
Profit from financing operations before provision for doubtful debt	320	-	-	222	542	265	225	490
Operating profit	112	-	1	21	134	52	27	79
Total profit	432	-	1	243	676	317	252	569
Provision for doubtful debt	12	-	-	68	80	4	56	60
Operating and other expenses								
From outside operating segments	14	4	4	35	57	78	34	112
Inter-segment	112	-	-	30	142	81	29	110
Total operating and other expenses	126	4	4	65	199	159	63	222
Pre-tax operating profit	294	(4)	(3)	110	397	154	133	287
Provision for taxes on operating profit	(110)	1	1	(35)	(143)	76	55	131
After-tax operating profit	184	(3)	(2)	75	254	78	78	156
Net after-tax profit from extraordinary items	-	-	5	-	5	2	1	3
Net profit	184	(3)	3	75	259	80	79	159
Return on capital:								
(net profit as % of average capital)					**15.1%**			**10.0%**
Average balance of assets	10,382	-	-	6,468	16,850	9,264	6,529	15,793
Average balance of liabilities	7,012	-	-	1,395	8,407	6,247	1,437	7,684
Average balance of risk assets	15,128	-	-	10,821	25,949	13,141	10,633	23,774
Average balance of provident and mutual fund assets	1,129	-	-	-	1,129	260	81	341
Average balance of securities (2)	16,147	-	-	2,381	18,528	12,446	1,835	14,281
Average balance of other assets managed	43	-	-	70	113	82	134	216
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	135	-	-	160	295	163	162	325
Margin from receiving deposits	23	-	-	18	41	24	18	42
Other	167	-	-	40	207	78	45	123
Total profit from financing operations from outside of operating segments and inter-segment before provision for doubtful debt	320	-	-	222	542	265	225	490

(1) Includes operating results for credit cards and the capital market, in immaterial amounts.
(2) Restated. See section 5b.

Profit of the Business Banking segment in 2007 grew by NIS 100 million, or 62.9%, compared to 2006. The increase is due to a NIS 52 million, or 10.6%, increase in profit from finance operations and to a NIS 55 million, or 69.6%, increase in operating revenues - primarily due to gains from investment in securities in respect of dividends received.
The major development occurred in the banking and finance operations, while profits of construction and real estate decreased in the first half of 2008 by NIS 4 million compared to the same period last year – primarily due to an increase in provision for doubtful debt.

Appendix: Additional information by operating segment for 2007

4. **Additional information to the Board of Directors' Report**

Reported amounts (NIS in millions)

Results of Financial Management segment – old format (1)

	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Profit from financing operations before provision for doubtful debt		
From outside operating segments	(154)	189
Inter-segment	127	(186)
Profit from financing operations before provision for doubtful debt	(27)	3
Operating and other revenues	50	33
Total profit	23	36
Provision for doubtful debt	-	-
Operating and other expenses		
From outside operating segments	57	28
Inter-segment	-	-
Total operating and other expenses	57	28
Operating profit (loss) before taxes	(34)	8
Provision for taxes on operating profit	7	(1)
After-tax operating profit (loss)	(27)	9
Share in net after-tax operating profits (losses) of affiliates	(1)	(4)
Net operating profit (loss)	(28)	5
Net after-tax profit from extraordinary items	-	85
Net profit (loss)	**(28)**	**90**
Return on capital (net profit as % of average capital)	**(3.7%)**	**19.7%**
Average balance of assets	27,800	21,482
Average balance of liabilities	29,620	11,306
Average balance of risk assets(1)	11,352	6,828
Average balance of provident and mutual fund assets	218	66
Average balance of securities	-	-
Average balance of other assets managed	-	74
Components of profit from financing operations before provision for doubtful debt:		
Margin from credit granting operations	-	-
Margin from receiving deposits	-	-
Other	(27)	3
Total	**(27)**	**3**

(1) Restated. See section 5.

Results of the financial management segment in 2007 resulted in a loss of NIS 28 million, compared to a profit of NIS 90 million in 2006. Excluding the segment's share of profit from extraordinary items, primarily the sale of provident fund operations, profit in 2006 reached NIS 5 million.

The decline in segment contribution in 2007 resulted primarily from a decline in profit from financing operations, arising from losses due to impairment of investments in asset-backed securities, recognized in the statement of profit and loss, amounting to NIS 114 million. These losses were partially offset by position gains.

Appendix: Additional information by operating segment for 2007

5. **Reclassification of data included in the 2007 financial statements and in this appendix – old format**

A. Profit (loss) from financing operations before provision for doubtful debt
NIS in millions

	For the year ended December 31, 2006			
	In Note to financial statements		In Board of Directors' Report	
	Household	Financial management	Household - mortgages	Financial management
In the 2006 report	922	(122)	604	(122)
Reclassified (1)	(90)	90	(90)	90
In the 2007 report	832	(32)	514	(32)
Restated (2)	(35)	35	(35)	35
In this appendix	797	3	479	3

	For the year ended December 31, 2005	
	In Note to financial statements	
	Household	Financial management
In the 2006 report	779	80
Reclassified (1)	(68)	68
In the 2007 report	711	148

(1) Reclassification of finance revenues due to assets and liabilities management operations, primarily commission for early payment of mortgages.
(2) Restatement due to a correction in the charging mechanism of inter-segment prices in mortgage operations.

B. Average balance of securities
NIS in millions

	For the year ended December 31, 2006					
	Household	Private banking	Small business	Commercial banking	Business banking	Total
	NIS in millions					
In the 2006 report	1,272	4,806	28,026	3,119	9,285	46,508
Reclassification (1)	684	2,586	15,080	1,678	4,996	25,024
In the 2007 report	1,956	7,392	43,106	4,797	14,281	71,532

	For the year ended December 31, 2005					
	Household	Private banking	Small business	Commercial banking	Business banking	Total
	NIS in millions					
In the 2006 report	1,120	4,353	28,947	2,836	4,169	41,425
Reclassification (1)	322	1,253	8,334	816	1,200	11,925
In the 2007 report	1,442	5,606	37,281	3,652	5,369	53,350

(1) Average balance of securities restated due to current data produced from the new system.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the 3 months ended June 30 2008				For the 3 months ended June 30 2007			
			Profit (expense) rate				Profit (expense) rate	
	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets (3)	33,268	436	5.33		26,473 (4)	398	6.15	
Effect of embedded and ALM derivatives (5)	41,876	233			32,300	454		
Total assets	75,144	669		3.61	58,773 (4)	852		5.93
Liabilities (3)	38,331	(258)	(2.72)		36,535 (4)	(289)	(3.20)	
Effect of embedded and ALM derivatives (5)	34,314	(155)			20,743	(301)		
Total liabilities	72,645	(413)		(2.29)	57,278 (4)	(590)		(4.18)
Interest margin			2.61	1.32			2.95	1.75
Israeli currency - linked to the CPI								
Assets (3)	34,609	1,281	15.63		35,081	655	7.68	
Effect of embedded and ALM derivatives (5)	4,181	105			4,410	48		
Total assets	38,790	1,386		15.08	39,491	703		7.31
Liabilities (3)	28,062	(999)	(15.02)		27,581	(491)	(7.31)	
Effect of embedded and ALM derivatives (5)	10,397	(339)			9,944	(154)		
Total liabilities	38,459	(1,338)		(14.66)	37,525	(645)		(7.05)
Interest margin			0.62	0.42			0.37	0.26
Foreign currency (6)								
Assets (3)	22,158	(1,319)	(21.78)		26,581	1,131	18.14	
Effect of derivatives (5)								
Hedging derivatives	621	1			812	6		
Embedded and ALM derivatives	41,473	(11,140)			32,708	720		
Total assets	64,252	(12,458)		(57.77)	60,101	1,857		12.94
Liabilities (3)	18,668	1,060	20.85		20,087	(854)	(18.12)	
Effect of derivatives (5)								
Hedging derivatives	629	36			793	16		
Embedded and ALM derivatives	42,811	11,382			38,639	(1,097)		
Total liabilities	62,108	12,478		59.23	59,519	(1,935)		(13.65)
Interest margin			(0.93)	1.46			0.02	(0.71)

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the 3 months ended June 30, 2008				For the 3 months ended June 30 2007			
			Profit (expense) rate				Profit (expense) rate	
	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing profit (3)	90,035	398	1.78		88,135 (4)	2,184	10.29	
Effect of derivatives (5)								
Hedging derivatives	621	1			812	6		
Embedded and ALM derivatives	87,530	(10,802)			69,418	1,222		
Total assets	178,186	(10,403)		(21.39)	158,365 (4)	3,412		8.90
Monetary liabilities generating financing expenses (3)	85,061	(198)	(0.93)		84,203	(1,634)	8.00	
Effect of derivatives (5)								
Hedging derivatives	629	36			793	16		
Embedded and ALM derivatives	87,522	10,889			69,326	(1,552)		
Total liabilities	173,212	10,727		22.56	154,322	(3,170)		(8.48)
Interest margin			0.85	1.17			2.30	0.43
On options		110				168		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (5))		15				11		
Commissions from financing transactions and other financing profit (6)		114				114		
Other financing expenses		(9)				(6)		
Profit from financing operations before provision for doubtful debt		554				529		
Provision for doubtful debt (includes general and supplementary provision)		(55)				(63)		
Profit from financing operations after provision for doubtful debt		499				466		
Total								
Monetary assets generating financing profit (3)	90,035				88,135 (4)			
Assets deriving from derivatives (7)	3,047				1,984			
Other monetary assets (3)	1,693				559			
General and supplementary provision for doubtful debt	(174)				(192)			
Total monetary assets	94,601				90,486			
Total								
Monetary liabilities generating financing expenses (3)	85,061				84,203 (4)			
Liabilities deriving from derivatives (7)	2,267				1,039			
Other monetary liabilities (3)	3,012				1,513			
Total monetary liabilities	90,340				86,755			
Total surplus monetary assets over monetary liabilities	4,261				3,731			
Non-monetary assets	1,670				1,855			
Non-monetary liabilities	178				158			
Total capital resources	5,753				5,428			

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Nominal – in USD (USD in millions)

	For the 3 months ended June 30 2008				For the 3 months ended June 30 2007			
			Profit (expense) rate				Profit (expense) rate	
	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Monetary assets in foreign currency generating financing profit (3)	6,534	69	4.29		6,490	89	5.60	
Effect of derivatives (4)								
Hedging derivatives	180	3			198	1		
Embedded and ALM derivatives	12,074	152			8,006	88		
Total assets	18,788	224		4.85	14,694	178		4.93
Monetary liabilities in foreign currency generating financing expenses (3)	5,478	(30)	(2.21)		4,760	(46)	(3.92)	
Effect of derivatives (4)								
Hedging derivatives	183	6			194	5		
Embedded and ALM derivatives	12,363	(146)			9,446	(103)		
Total liabilities	18,024	(170)		(3.83)	14,400	(144)		(4.06)
Interest margin			2.08	1.02			1.68	0.87

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the 6 months ended June 30 2008				For the 3 months ended June 30 2007			
			Profit (expense) rate				Profit (expense) rate	
	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets (3)	32,738	892	5.52		26,745	789	5.99	
Effect of embedded and ALM derivatives (5)	40,012	724			30,206	869		
Total assets	72,750	1,616		4.49	56,951	1,658		5.91
Liabilities (3)	37,553	(537)	(2.88)		35,966	(597)	(3.35)	
Effect of embedded and ALM derivatives (5)	33,222	(540)			18,857	(521)		
Total liabilities	70,775	(1,077)		(3.07)	54,823	(1,118)		(4.12)
Interest margin			2.64	1.42			2.64	1.79
Israeli currency - linked to the CPI								
Assets (3)	34,801	1,851	10.92		34,854	989	5.76	
Effect of embedded and ALM derivatives (5)	4,588	143			3,991	70		
Total assets	39,389	1,994		10.38	38,845	1,059		5.53
Liabilities (3)	28,115	(1,435)	(10.47)		27,580	(728)	5.35	
Effect of embedded and ALM derivatives (5)	10,390	(443)			9,579	(224)		
Total liabilities	38,505	(1,878)		(9.99)	37,159	(952)		(5.19)
Interest margin			0.45	0.39			0.41	0.34
Foreign currency (6)								
Assets (3)	22,244	(2,507)	(21.27)		25,341	1,058	8.52	
Effect of derivatives (5)								
Hedging derivatives	575	(23)			752	16		
Embedded and ALM derivatives	39,768	(13,413)			33,768	424		
Total assets	62,587	(15,943)		(44.46)	59,861	1,498		5.07
Liabilities (3)	19,331	2,431	23.57		19,425	(718)	(7.52)	
Effect of derivatives (5)								
Hedging derivatives	585	39			738	15		
Embedded and ALM derivatives	40,743	13,515			39,482	(868)		
Total liabilities	60,659	15,985		45.76	59,645	(1,571)		(5.34)
Interest margin			2.30	1.30			1.00	(0.27)

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Reported amounts (NIS in millions)

	For the 6 months ended June 30 2008				For the 6 months ended June 30 2007			
			Profit (expense) rate				Profit (expense) rate	
	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing profit (3)	89,783	236	0.53		86,940	2,836	6.63	
Effect of derivatives (5)								
Hedging derivatives	575	(23)			752	16		
Embedded and ALM derivatives	84,368	(12,546)			67,965	1,363		
Total assets	174,726	(12,333)		(13.62)	155,657	4,215		5.49
Monetary liabilities generating financing expenses (3)	84,999	459	1.08		82,971	(2,043)	(4.98)	
Effect of derivatives (5)								
Hedging derivatives	585	39			738	15		
Embedded and ALM derivatives	84,355	12,532			67,918	(1,613)		
Total liabilities	169,939	13,030		14.75	151,627	(3,641)		(4.86)
Interest margin			1.61	1.13			1.65	0.63
On options		204				192		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (5)		4				24		
Commissions from financing transactions and other financing profit (6)		214				217		
Other financing expenses		(16)				(11)		
Profit from financing operations before provision for doubtful debt		1,103				996		
Provision for doubtful debt (includes general and supplementary provision)		(96)				(113)		
Profit from financing operations after provision for doubtful debt		1,007				883		
Total								
Monetary assets generating financing profit (3)	89,783				86,940			
Assets deriving from derivatives (7)	2,925				1,723			
Other monetary assets (3)	1,485				687			
General and supplementary provision for doubtful debt	(175)				(191)			
Total monetary assets	94,018				89,159			
Total								
Monetary liabilities generating financing expenses (3)	84,999				82,971			
Liabilities deriving from derivatives (7)	2,197				913			
Other monetary liabilities (3)	2,640				1,507			
Total monetary liabilities	89,836				85,391			
Total surplus monetary assets over monetary liabilities	4,182				3,768			
Non-monetary assets	1,692				1,672			
Non-monetary liabilities	172				161			
Total capital resources	5,702				5,279			

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

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1)

Nominal – in USD (USD in millions)

	For the 6 months ended June 30 2008				For the 6 months ended June 30 2007			
			Profit (expense) rate				Profit (expense) rate	
	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing profit (expense)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Monetary assets in foreign currency generating financing profit (3)	6,318	147	4.71		6,306	171	5.50	
Effect of derivatives (4)								
Hedging derivatives	163	(1)			181	4		
Embedded and ALM derivatives	11,286	262			8,134	163		
Total assets	17,767	408		4.65	14,621	338		4.68
Monetary liabilities in foreign currency generating financing expenses (3)	5,491	(77)	(2.82)		4,823	(93)	(3.90)	
Effect of derivatives (4)								
Hedging derivatives	166	5			178	4		
Embedded and ALM derivatives	11,515	(267)			9,506	(192)		
Total liabilities	17,172	(339)		(3.99)	14,507	(281)		(3.91)
Interest margin			1.89	0.66			1.60	0.77

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

Management Review - Addendum B

Credit risk of loans to the public by economic sector as of June 30, 2008 - consolidated

Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Semi-annual expense in respect of specific provision for doubtful debt	Balance of problem loans (3)
Agriculture	663	134	797	1	39
Industry	4,677	2,324	7,001	13	204
Construction and real estate	6,595	7,475	14,070	9	1,786
Electricity and water	384	174	558	-	1
Commerce	4,405	1,526	5,931	13	169
Hotel and food services	265	71	336	1	34
Transport and storage	566	182	748	1	14
Communications and computer services	396	358	754	-	153
Financial services	7,459	2,585	10,044	1	232
Other business services	2,084	613	2,697	2	101
Public and community services	785	239	1,024	2	134
Private individuals - housing loans	41,313	3,329	44,642	29	1,241
Private individuals - other	5,044	4,350	9,394	22	476
Total	74,636	23,360	97,996	94	4,584
For borrowers' activities overseas	3,802	782	4,584	1	-
Total	78,438	24,142	102,580	95	4,584
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,288	248	1,536	-	125
Local authorities (5)	185	26	211	-	36

(1) Includes loans to the public and investments in debentures of the public of NIS 89 million and other assets related to derivatives to the public totaling NIS 866 million.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debt.

Management Review - Addendum B

Credit risk of loans to the public by economic sector as of June 30, 2007 - consolidated

Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Semi-annual expense in respect of specific provision for doubtful debt	Balance of problem loans (3)
Agriculture	644	272	916	-	40
Industry	5,076	2,631	7,707	24	324
Construction and real estate	6,422	8,855	15,277	39	1,411
Electricity and water	267	161	428	-	-
Commerce	4,770	1,440	6,210	19	209
Hotel and food services	259	55	314	2	40
Transport and storage	518	153	671	1	17
Communications and computer services	412	335	747	4	327
Financial services	7,729	2,418	10,147	1	370
Other business services	1,954	554	2,508	3	82
Public and community services	778	267	1,045	2	189
Private individuals - housing loans	36,955	3,859	40,814	5	1,301
Private individuals - other	4,600	2,845	7,445	19	582
Total	70,384	23,845	94,229	119	4,892
For borrowers' activities overseas	2,906	607	3,513	-	-
Total	73,290	24,452	97,742	119	4,892
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,241	447	1,688	(1)	115
Local authorities (5)	171	21	192	-	36

(1) Includes loans to the public and investments in debentures of the public of NIS 107 million and other assets related to derivatives against the public totaling NIS 712 million.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debt.

Management Review - Addendum B

Credit risk of loans to the public by economic sector as of December 31, 2007 - consolidated

Reported amounts (NIS in millions)

	Balance sheet credit risk (1)	Off-balance sheet credit risk (2)	Total credit risk of the public	Annual expense in respect of specific provision for doubtful debt	Balance of problem loans (3)
Agriculture	715	154	869	1	53
Industry	4,645	2,298	6,943	34	206
Construction and real estate	6,609	7,653	14,262	67	1,568
Electricity and water	364	292	656	-	-
Commerce	4,437	1,432	5,869	37	204
Hotel and food services	221	47	268	3	32
Transport and storage	583	152	735	2	12
Communications and computer services	490	313	803	5	164
Financial services (1)	7,256	2,327	9,583	4	82
Other business services	1,914	546	2,460	6	82
Public and community services	753	289	1,042	4	134
Private individuals - housing loans	38,931	2,865	41,796	39	1,309
Private individuals - other (1)	4,734	3,894	8,628	44	500
Total	71,652	22,262	93,914	246	4,346
For borrowers' activities overseas	3,733	904	4,637	2	-
Total	75,385	23,166	98,551	248	4,346
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,306	299	1,605	-	138
Local authorities (5)	185	25	210	-	34

(1) Includes loans to the public and investments in debentures of the public of NIS 127 million and other assets related to derivatives against the public totaling NIS 766 million.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Balance of problem loans net of loans covered by collateral that may be deducted for the purpose of computing the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(4) Kibbutzim and Moshavim, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes corporations under their control.
(6) Reclassified.

Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debt.

Certification

I, Eliezer Yones, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended June 30, 2008 ("the Report").

2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.

3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial standing, operating results and changes in shareholders' equity of the Bank as of and for the periods presented in this Report.

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

   A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those subsidiaries, particularly during the period in which the Report is being prepared;

   B. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and

   C. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and

5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank's independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:

   A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and

   B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

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

August 18, 2008

E. Yones
President

Certification

I, Menachem Aviv, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended June 30, 2008 (“the Report”).
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial standing, operating results and changes in shareholders’ equity of the Bank as of and for the periods presented in this Report.
4. I and others in the Bank who are declaring this certification, are responsible for determining and maintaining disclosure controls and procedures required for the Bank’s Report, and:
    - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those subsidiaries, particularly during the period in which the Report is being prepared;
    - B. We have evaluated the effectiveness of the Bank’s disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
    - C. We have disclosed in this Report any change in the Bank’s internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank’s internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the Bank’s independent auditors, the board of directors and the audit and financial statements committees of the board of directors of the Bank:
    - A. All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting which are reasonably likely to impair the Bank’s ability to record, process, summarize and report financial information; and
    - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal control over financial reporting.

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

August 18, 2008

M. Aviv
Vice-President
Chief Accountant

To:
The Mizrahi-Tefahot Bank Ltd. Board of Directors

Dear Sir/Madam,

Re: Review of summary interim consolidated un-audited financial statements for the six-month and three-month periods ended June 30, 2008

At your request, we have reviewed the summary interim consolidated balance sheet of Bank Mizrahi Tefahot Ltd. ("the Bank") as of June 30, 2008, the summary interim consolidated statement of profit and loss and the summary interim statement of changes in equity for the six-month and three-month periods then ended.

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

Other auditors have reviewed the financial statements of an affiliate, the investment in which as of June 30, 2008 amounted to NIS 11 million. This review, in as much as it refers to the aforementioned affiliate, is based on the other auditors' review of the financial statements of the aforementioned affiliate.

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

In the course of our review, including review of reports by other auditors nothing came to our attention which indicates that material modifications are required to the aforementioned statements in order for them to be deemed interim financial statements compiled in accordance with generally accepted accounting principles and in accordance with the directives and guidelines of the Supervisor of Banks.

We draw your attention to:
1. Note 6c3(A-E) with regard to claims filed against the Bank, including claims accompanied by applications for class action status.
2. Note 10 with regard to restatement of data in the household and financial management operating segments for the year ended December 31, 2006.

Sincerely yours,

Brightman, Almagor, Zohar & Co.
Certified Public Accountants (Israel)

Tel Aviv
August 18, 2008

Summary consolidated balance sheet as of June 30, 2008

Reported amounts (NIS in millions)

	30.6.2008	30.6.2007	31.12.2007
	(un-audited)	(un-audited)	(audited)
Assets			
Cash and deposits with banks	10,439	13,240	10,701
Securities	4,432	7,115	6,145
Securities loaned or sold in repurchase agreements	28	500	5
Credit to the public	77,310	72,285	74,320
Loans to the Government	3	4	3
Investments in investees	17	17	17
Buildings and equipment	1,258	1,219	1,246
Other assets	4,012	2,268	2,880
Total assets	97,499	96,648	95,317
Liabilities and Shareholders' Equity			
Deposits from the public	72,928	76,845	75,290
Deposits from banks	5,620	4,112	3,752
Deposits from the Government	256	539	282
Debentures and subordinated notes	6,649	6,077	6,189
Other liabilities	6,325	3,628	4,247
Total liabilities	91,778	91,201	89,760
Minority interest	-	13	-
Shareholders' equity	5,721	5,434	5,557
Total liabilities and shareholders' equity	97,499	96,648	95,317

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

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

August 18, 2008

Summary consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the 3 months ended June 30		For the 6 months ended June 30		For the Year Ended December 31
	2008	2007	2008	2007	2007
		(un-audited)		(un-audited)	(audited)
Profit from financing operations before provision for doubtful debt	554	529	1,103	996	2,026
Provision for doubtful debt	55	63	96	113	228
Profit from financing operations after provision for doubtful debt	499	466	1,007	883	1,798
Operating and other revenues					
Operating commissions	258	256	514	509	1,034
Profits from investments in shares, net	25	8	33	46	65
Other profit	17	22	36	59	91
Total operating and other profit	300	286	583	614	1,190
Operating and other expenses					
Salaries and related expenses	303	294	615	587	1,169
Maintenance and depreciation of buildings and equipment	111	106	215	206	421
Other expenses	86	82	171	156	348
Total operating and other expenses	500	482	1,001	949	1,938
Pre-tax operating profit	299	270	589	548	1,050
Provision for taxes on operating profit	113	86	223	201	368
After-tax operating profit	186	184	366	347	682
Share in net after-tax operating losses of affiliates	-	-	-	-	1
Net operating profit	186	184	366	347	681
Net after-tax profit from extraordinary items	-	23	-	230	227
Net profit	186	207	366	577	908
Earnings per share (1)					
Basic earnings per share (in NIS)					
Profit from ordinary operations	0.84	0.84	1.65	1.58	3.08
Profit from extraordinary items	-	0.10	-	1.04	1.03
Total	0.84	0.94	1.65	2.62	4.11
Diluted earnings per share (in NIS)					
Profit from ordinary operations	0.83	0.82	1.63	1.54	3.03
Profit from extraordinary items	-	0.10	-	1.02	1.01
Total	0.83	0.92	1.63	2.56	4.04

(1) Share of NIS 0.1 par value each.

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

Summary Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the 3 months ended June 30, 2008								
				Total cumulative other profit					
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net profit from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
	(un-audited)								
Balance at March 31, 2008	1,911	63	1,974	(11)	(51)	2	3,632	75	5,621
Net profit for the period	-	-	-	-	-		186	-	186
Dividend paid	-	-	-	-	-	-	-	(75)	(75)
Benefits from share-based payment transactions	-	4	4	-	-	-	-	-	4
Capital reserve from tax benefit	-	(3)	(3)	-	-	-	-	-	(3)
Adjustments and changes due to:			-	-	-	-	-	-	-
Stock issuance (4)	6	(6)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(24)	-	-	-	-	(24)
Related tax effect	-	-	-	10	-	-	-	-	10
Net profit from cash flow hedges	-	-	-	-	-	5	-	-	5
Related tax effect	-	-	-	-	-	(3)	-	-	(3)
Balance as of June 30, 2008	1,917	58	1,975	(25)	(51)	4	3,818	-	5,721

	For the 3 months ended June 30, 2007								
				Total cumulative other profit					
	share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net loss from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
	(un-audited)								
Balance at March 31, 2007	1,887	72	1,959	55	(51)	-	3,264	200	5,427
Net profit for the period	-	-	-	-	-	-	207	-	207
Dividend paid	-	-	-	-	-	-	-	(200)	(200)
Benefits from share-based payment transactions	-	6	6	-	-	-	-	-	6
Capital reserve from tax benefit	-	1	1	-	-	-	-	-	1
Adjustments and changes due to:									
Stock issuance (4)	16	(16)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(6)	-	-	-	-	(6)
Related tax effect	-	-	-	2	-	-	-	-	2
Net profit from cash flow hedges	-	-	-	-	-	(3)	-	-	(3)
Dividend declared after balance sheet date	-	-	-	-	-	-	(125)	125	-
Balance as of June 30, 2007	1,903	63	1,966	51	(51)	(3)	3,346	125	5,434

(1) The premium on shares was created before March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2007.
(4) In Q2 of 2008, 42,526 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS 0.1 par value shares (Q2 of 2007 - 1,938,771) were issued to the President for exercise of options.

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

Summary Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

For the 6 months ended June 30, 2008									
				Total cumulative other profit					
	share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net profit from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
					(un-audited)				
Balance at January 1, 2008	1,911	68	1,979	27	(51)	-	3,527	75	5,557
Net profit for the period	-	-	-	-	-	-	366	-	366
Dividend paid	-	-	-	-	-	-	(75)	(75)	(150)
Benefits from share-based payment transactions	-	6	6	-	-	-	-	-	6
Capital reserve from tax benefit	-	(10)	(10)	-	-	-	-	-	(10)
Adjustments and changes due to: Stock issuance [4]	6	(6)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(88)	-	-	-	-	(88)
Related tax effect	-	-	-	36	-	-	-	-	36
Net profit from cash flow hedges	-	-	-	-	-	7	-	-	7
Related tax effect	-	-	-		-	(3)	-	-	(3)
Balance as of June 30, 2008	1,917	58	1,975	(25)	(51)	4	3,818	-	5,721

For the 6 months ended June 30, 2007									
				Total cumulative other profit					
	share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net loss from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
					(un-audited)				
Balance at January 1, 2007	1,881	72	1,953	65	(51)	-	3,094	-	5,061
Net profit for the period	-	-	-	-	-	-	577	-	577
Dividend paid	-	-	-	-	-	-	(200)	-	(200)
Benefit from share-based payment transactions	-	11	11	-	-	-	-	-	11
Capital reserve from tax benefit	-	2	2	-	-	-	-	-	2
Adjustments and changes due to: Stock issuance [4]	22	(22)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(25)	-	-	-	-	(25)
Related tax effect				11					11
Net loss from cash flow hedges	-	-	-	-	-	(3)	-	-	(3)
Dividend declared after balance sheet date	-	-	-	-	-	-	(125)	125	-
Balance as of June 30, 2007	1,903	63	1,966	51	(51)	(3)	3,346	125	5,434

(1) The premium on shares was created before March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2007.
(4) In the first half of 2008, 351,979 ordinary NIS 0.1 par value shares (in the first half of 2007 - 191,284) were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS 0.1 par value shares (in the first half of 2007 - 1,938,771) were issued to the President for exercise of options.

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

Summary Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the Year Ended December 31, 2007							
				Total cumulative other profit				
	share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Total paid-up Share capital and premium	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
								(audited)
Balance at December 31, 2006	1,881	72	1,953	65	(51)	3,094	-	5,061
Net profit for the period	-	-	-	-	-	908	-	908
Dividend paid	-	-	-	-	-	(400)	-	(400)
Benefits from share-based payment transactions (4)	-	18	18	-	-	-	-	18
Related tax effect	-	8	8	-	-	-	-	8
Adjustments and changes due to:								
Stock issuance	30	(30)	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(57)	-	-	-	(57)
Related tax effect	-	-	-	19	-	-	-	19
Dividend declared after balance sheet date	-	-	-	-	-	(75)	75	-
Balance at December 31, 2007	1,911	68	1,979	27	(51)	3,527	75	5,557

(1) The premium on shares was created before March 31, 1986.

(2) Foreign currency translation adjustment of autonomous overseas units.

(3) For details on various limitations on dividend distributions, see Notes 13 and 14 to the financial statements for the year ended December 31, 2007.

(4) In 2007, 872,824 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 1,938,771 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Note 1 - Reporting Principles and Accounting Policies

A. The financial statements as of June 30, 2008 have been prepared in accordance with the directives and guidelines of the Supervisor of Banks. These financial statements have been prepared using the same accounting principles used for compiling the audited financial statements as of December 31, 2007, and in accordance with the new format for quarterly reports specified in the circular of the Supervisor of Banks dated March 18, 2008.

These financial statements should be perused in conjunction with the Group's annual financial statements as of December 31, 2007 and the Notes thereto.

B. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard"). The Standard prescribes that companies subject to the Securities Law, 1968, and required to report in accordance with regulations under this Law, will prepare their financial statements in conformity with the IFRS Standards, as from the reporting period commencing January 1, 2008.

This does not apply to banking corporations whose financial statements are compiled in accordance with guidance and directives of the Supervisor of Banks. The IFRS Standards will be adopted for the first time with the application of the provisions of IFRS 1 “First-time Adoption of IFRS Standards”, for transition purposes.

With respect to the manner in which the Standard will be applied by banking corporations, the Supervisor of Banks informed the banking corporations that:

1) He intends to prescribe, on a current basis, guidelines for applying the Israeli Standards published by the Israel Accounting Standards Board, which are based on IFRS, which do not involve the core banking business;
2) In the second half of 2009, he will publish his decision regarding the date for application of IFRS Standards relating to the core banking business. In doing so, he will take into consideration the results of the process of adopting these standards in Israel, on one hand, and the progress in the convergence process between the international reporting standards and the American standards, on the other hand.

3) Thus, with respect to the core banking business, the financial statements of a banking corporation which are prepared according to the directives and guidelines of the Supervisor of Banks will continue to be prepared in accordance with the American standards that were prescribed in the public reporting regulations.

C. In December 2006, the Israel Accounting Standards Board published Accounting Standard No. 23 "Accounting Treatment of Transactions between an Entity and its Controlling Shareholder" ("the Standard"). The Standard supersedes the Securities Regulations (Financial Statement Presentation of Transactions between a Corporation and its Controlling Shareholder), 1996 - as adopted in directives of the Supervisor of Banks.

The Standard prescribes that assets and liabilities for which a transaction was executed between the entity and its controlling shareholder, will be measured according to their value on the transaction date, and the difference between the fair value and the consideration prescribed in the transaction will be charged to shareholders' equity. A positive difference will be offset against the retained earnings balance and a negative difference will be presented in a separate shareholders' equity item to be called "capital reserve from transaction between an entity and its controlling shareholder". The difference between the asset's fair value and its carrying amount upon the transfer date will be recognized as profit or loss.

Furthermore, pursuant to Standard 23, a loan granted to a controlling shareholder or obtained from a controlling shareholder shall be presented, upon initial recognition in the entity's financial statements, as an asset or liability, as the case may be, at fair value, with the difference between the amount of the loan received or granted and its fair value upon initial recognition being charged to shareholders' equity. Subsequent to initial recognition, the loan shall be presented in the entity's financial statements at amortized cost, applying the effective interest method, except where presentation at fair value is called for in accordance with generally accepted accounting principles.

Standard 23 applies to transactions between an entity and its controlling shareholder transacted after January 1, 2007, as well as to loans granted to or obtained from the controlling shareholder prior to the effective date of Standard 23, which is effective as of its publication.

As of the publication date of these summary financial statements, the Supervisor of Banks has yet to issue directives as to application of the Standard. Since transactions between the Bank and its controlling shareholder are transacted at market prices, even should the Standard be applied to banking corporations, its impact on the Bank's financial statements should not be material.

D. On December 31, 2007, the Supervisor of Banks published his directive in a circular concerning: "Measuring and disclosure of impaired debt, credit risk and provision for credit losses" (hereinafter: "the circular" or "the directive"). This circular is based, *inter alia*, on USA Accounting Standards 5, 114 and 118 as well as on regulatory directives by banking supervision bodies and by the USA Securities and Exchange Commission. The guiding principles on which the directive is based introduce a material change over current directives on classification of problem debt and measuring of provisions for credit losses in conjunction with such debt.

According to the circular, the banking corporation is required to maintain adequate provision for credit losses so as to cover expected credit losses from its credit portfolio. Furthermore, according to the circular, the Bank is required to maintain adequate provision so as to cover expected credit losses associated with off-balance sheet credit instruments, such as contracts for provision of credit and guarantees. The required provision to cover expected credit losses from the credit portfolio would be made under one of the following tracks: "Individual provision" or "group provision".

Note 1 - Reporting Principles and Accounting Policies

"Individual provision for credit losses" would be applied for any debt determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 1 million or higher. For other debt, the banking corporation may decide whether to make an individual assessment. The individual provision for credit losses will be estimated based on expected future cash flows, discounted using the original discount rate for the debt or, if the debt requires collateral or when the banking corporation determined that seizure of an asset is probable, based on the fair value of the collateral provided to secure said credit.

"Specific provision for credit losses using group estimate" would be applied for large, homogeneous groups of small debt (whose balance is below NIS 1 million) (such as: credit card debt, housing loans and consumer debt repaid by installments) as well as for large, non-impaired debt. The specific provision for credit losses from debt based on group estimate, except for loans for which a specific minimum provision based on length of arrears has been calculated as per directives of the Supervisor of Banks, shall be calculated based on rules set forth in USA Accounting Standard FAS 5: "Accounting for Contingencies" ("FAS 5"), using statistical models which take into consideration the extent of past losses for each homogeneous group of debt having similar risk attributes. The required provision with regard to off-balance sheet credit instruments would be assessed as per rules set forth in the USA Accounting Standard FAS 5.

Changes to provision for credit losses would be recorded under "Expenses for tax losses" in the statement of profit and loss. Furthermore, the directive specifies various definitions and classifications of on- and off-balance sheet credit risk, rules for recognizing interest profit from impaired debt as well as rules for accounting write-off of problem debt. The directive stipulates, inter alia, that accounting write-off is mandated for debts estimated on group basis and classified as impaired based on their length of arrears, taking into consideration the banking corporation's ability to assess that collection is probable, and considering the fact that they are secured by a residence.

Note 1 - Reporting Principles and Accounting Policies

This directive will be applied in financial statements of banking corporations starting on January 1, 2010, with no retroactive application to financial statements for previous periods. According to transition directives, the impact of changes due to the new directives shall be charged directly to equity upon initial application.

In conjunction with the Bank's preparations for application of this directive, teams were formed and an external consultant has been hired to review required changes to Bank work processes, both in terms of credit management and processing of impaired debt, as well as in terms of accounting treatment and impact on its financial statements. As of the publication date of these financial statements, the Bank has completed the specification of processes and computer systems required for implementation of the directive and the detailed design of the new system specifications for its development. Concurrently, work has started on implementation of the new system by means of a software vendor selected for implementation of required system development and modifications. The Bank intends to update work processes in the second half of 2008 and in 2009, including recompilation of procedures and delivery of comprehensive training for professional staff in preparation for applying this directive.

At this stage in preparation for application of the directives, it is not possible to estimate the impact of application of the directives on the Bank's shareholders' equity, since the models for calculating provisions for credit losses have yet to be finalized, especially for small-size debt to be treated via group provision. The methodology is expected to be completed, and the initial estimate of implications of its application, are expected during 2008.

On July 27, 2008, a letter from the Supervisor of Banks was received, requesting a current estimate of the provision to be made in Q3 of 2008, based on the new rules, for the largest problem borrowers.

Note 2 - Securities

Reported amounts (NIS in millions)

	As of June 30, 2008				
	Balance sheet balance	Amortized cost	Total cumulative other profit (4) Profit	Loss	Fair value (1)
					(un-audited)
Composition					
Securities available for sale					
Debentures and bonds					
of Government of Israel	2,574	2,587	4	17	2,574
Of foreign governments and their agencies	16	16	-	-	16
of others	1,406	1,490	-	84	1,406
Total debentures available for sale	3,996	4,093	4	101	3,996
Shares of others (2)	407	355	52	-	407 (3)
Total securities available for sale	4,403	4,448	56	101	4,403

	As of June 30, 2008				
	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
					(un-audited)
Securities held for trading					
- Debentures					
of Government of Israel	29	29	-	-	29
Total securities held for trading	29	29	-	-	29
Total securities	4,432	4,477	56	101	4,432

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of June 30, 2008, net of expected realization cost, amounts to NIS 294 million. This amount is larger than the borrower's debt balance net of dividends received for said shares, and since the Bank is not entitled to amounts in excess of the revaluated credit balance, the investment in said shares was included in the financial statements – amounting to NIS 281 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 89 million.

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

Note 2 - Securities

Reported amounts (NIS in millions)

	As of December 31, 2007				
	Balance sheet balance	Amortized cost	Total cumulative other profit (4)		Fair value (1)
			Profit	Loss	
	(audited)				
Composition					
Securities available for sale					
Debentures and bonds					
of Government of Israel	4,010	4,026	5	21	4,010
Of foreign governments and their agencies	69	69	-	-	69
of others	1,587	1,628	-	41	1,587
Total debentures available for sale	5,666	5,723	5	62	5,666
Shares of others (2)	399	295	104	-	399 (3)
Total securities available for sale	6,065	6,018	109	62	6,065

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

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.

(2) In July 2003, a letter was received from the Supervisor of Banks, requiring the Bank to classify loans that had been given to a certain customer, which do not meet the repayment terms prescribed and against which shares of a leading telecommunication company were pledged, as “securities available for sale”, beginning from the financial statements as of June 30, 2003. The market value of these shares as of December 31, 2007, included in this item, amounts to NIS 322 million. This amount exceeds the amount of the loans, net of the provision for doubtful debt, by NIS 98 million.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 46 million.

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

Note 2 - Securities

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

Reported amounts (NIS in millions)

	As of June 30, 2008			
		Total cumulative other profit		Fair value
	Amortized cost	Profit	Loss	(book value)
	(un-audited)			
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	50	-	20	30
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	95	-	25	70
SIV (1)	-	-	-	-
Total asset-backed securities available for sale	145	-	45	100

	As of December 31, 2007			
	Amortized	Total cumulative other profit		Fair value
	cost	Profit	Loss	(book value)
	(audited)			
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	58	-	11	47
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	102	-	12	90
SIV	22	-	-	22
Total asset-backed securities available for sale	182	-	23	159

(1) Fully amortized.

Note 2 - Securities

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

Reported amounts (NIS in millions)

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

	June 30, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	13	4	17	16
CLO	23	5	47	20
Total	**36**	**9**	**64**	**36 (1)**

(1) Of this amount, loss amounting to NIS 32 million was generated after June 30, 2007.

Asset-backed securities (ABS)

The fair value of Bank investments in these asset-backed securities, as of June 30, 2008, amounted to NIS 100 million (as of December 31, 2007 – NIS 159 million). These investments include CDO and CLO securities, as set forth below:

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

   The fair value of Bank investments in these securities, as of June 30, 2008, amounted to NIS 30 million (as of December 31, 2008 – NIS 47 million). All Bank investments in this asset class are rated as investment grade with protection layers, and are managed by one of the leading investment management firms in the world. The backing assets are synthetic assets widely distributed across sectors and of different credit ratings, mostly investment grade (BBB- or higher).

Note 2 - Securities
Further details with regard to asset-backed securities held for sale

The impairment charges to capital reserve as of June 30, 2008 for these investments amounts to NIS 20 million (As of December 31, 2007 - NIS 11 million). According to information available to the Bank, this impairment is due to the continuing crisis sentiment in international financial markets and to continued overall increase in credit spreads in general, and in the financial sector in particular. Note that no default has been recorded in any underlying asset; therefore the protection layers are intact. Furthermore, these investments pay coupons regularly and the credit rating has not been lowered.

The Bank estimates that this impairment reflects market fluctuations rather than material danger of elimination of the protection layers in these investments. Furthermore, the Bank is capable of and intends to hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

In July 2008, the fair value of the aforementioned investments declined by NIS 1 million.

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

C. **CLO (collateralized Loan Obligation)** is a specific type of CDO. The debt instruments which back the CLO investment are senior and junior loan portfolios provided to commercial entities. The fair value of Bank investments in these securities as of June 30, 2008 is NIS 70 million. (As of December 31, 2007 – NIS 90 million). All Bank investments in this asset class are in layers with investment-grade rating (BBB- or higher) with a protection layer, managed by some of the largest investment management firms in the world, which are carefully selected. About 85% of loans backing these securities are senior secured loans. The Bank's CLO portfolio has no exposure to mortgages, including sub prime mortgages, or to any leveraged products whose value has declined due to the current crisis.

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

Note 2 - Securities
Further details with regard to asset-backed securities held for sale

Furthermore, the underlying assets are not biased towards the financial or real estate sectors. The impairment charged to capital reserve as of June 30, 2008 for the aforementioned investments amounted to NIS 25 million (As of December 31, 2007 – NIS 12 million). According to information available to the Bank, this impairment is due to the continuing crisis sentiment in international financial markets and to continued overall increase in credit spreads. The Bank estimates that there is no reason to assume that issuers will default on their obligations. Note that no default has been recorded in any underlying asset, therefore the protection layers are intact. Furthermore, these investments pay coupons regularly and the credit rating has not been lowered. The Bank may hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary. In July 2008, the fair value of the aforementioned investments declined by NIS 1 million.

D. **SIV (Structured Investment Vehicle)** is a structured investment product (including mainly asset-backed securities: CMBS[2], RMBS, credit card receipts, student loans etc.) with high investment ratings for medium- to long term. A major share of financing for acquisition of asset-backed securities (the senior layer) is obtained by issuing short-term commercial paper and mid-term debentures (MTN). The balance (the junior layer) is financed by issuing capital notes which are inferior to the senior layer.
The Bank invests in a structured investment vehicle (SIV), in the Capital Notes layer. The portfolio mainly consists of credit card receipts, insurance, CDO, CMBS, RMBS and corporate debentures. About 93% of the asset portfolio is rated as high investment grade, AA or higher. The Bank's original investment amount in the structured investment vehicle (SIV) amounted to NIS 115 million ($25 million). The liquidity crisis in the credit markets has led to increased credit spreads in all sectors, and hence to decline in the value of structured investment vehicles.

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

Note 2 - Securities
Further details with regard to asset-backed securities held for sale

Concurrently, the cost for issuing capital notes has risen, so that current financing costs for the transaction have increased. The high leverage in this transaction intensified the impairment due to growing spreads. Therefore, even though the assets hold high ratings and the extent of their quality impairment was relatively low, there is significant impact on the total fair value of the structured investment vehicle (SIV). The financial statements as of June 30, 2008 include a provision for impairment equal to the full amount invested in SIV, compared to a provision amounting to NIS 76 million (80% of the original investment cost) as of December 31, 2007 – in line with the fair value of this investment on this date. The assessment that this impairment is not of temporary nature is primarily due to the current erosion in the value of this investment due to high financing costs and high leverage, as well as to the working assumption that it would take a long time before market financing costs would return to their pre-crisis level. Note that although this investment has been fully depreciated, the Bank continues to receive regular coupon payments. The most recent coupon was received subsequent to the balance sheet date, in mid July 2008.

Note 3 – Provision for doubtful debt

Reported amounts (NIS in millions)

Information with regard to provision for doubtful debt

	For the 3 months ended June 30, 2008				For the 3 months ended June 30, 2007			
	Specific provision (1)				Specific provision (1) (2)			
	By extent of arrears	Other	Supplementary provision (3)	Total	By extent of arrears	Other	Supplementary provision (3)	Total
Balance of provision as of period start	816	1,897	180	2,893	799	1,880	188	2,867
Transfer	-	(5) (8)	-	(8)	(4) 6	(4) (6)	-	-
Provisions during reported period	83	42	-	125	66	68	-	134
Decrease in provisions	(57)	(6)	(7)	(70)	(63)	(5)	(2)	(70)
Recovery of debt written off in previous years	-	-	-	-	-	(1)	-	(1)
Amount charged to statement of profit and loss	26	36	(7)	55	3	62	(2)	63
Debt write-off	(6)	(24)	-	(30)	-	(24)	-	(24)
Balance of provision as of period end	836	1,901	173	2,910	808	1,912	186	2,906
Includes - Balance of provision that was not deducted from loans to the public	-	114	-	114	-	112	-	112

	For the 6 months ended June 30, 2008				For the 6 months ended June 30, 2007			
	Specific provision (1)				Specific provision (1) (2)			
	By extent of arrears	Other	Supplementary provision (3)	Total	By extent of arrears	Other	Supplementary provision (3)	Total
Balance of provision as of period start	821	1,917	172	2,910	798	1,877	192	2,867
Transfer	-	(5) (8)	-	(8)	(4) 6	(4) (6)	-	-
Provisions during reported period	160	83	8	251	132	131	-	263
Decrease in provisions	(132)	(15)	(7)	(154)	(128)	(15)	(6)	(149)
Recovery of debt written off in previous years	-	(1)	-	(1)	-	(1)	-	(1)
Amount charged to statement of profit and loss	28	67	1	96	4	115	(6)	113
Debt write-off	(13)	(75)	-	88	-	(74)	-	(74)
Balance of provision as of period end	836	1,901	173	2,910	808	1,912	186	2,906
Includes - Balance of provision that was not deducted from loans to the public		114	-	114	-	112	-	112

(1) Loans for which the provision was based on extent of arrears, does not include a provision for interest on debt in arrears. For other loans, does not include doubtful debt, after the debt were determined as doubtful.
(2) Reclassified.
(3) Includes general and special provisions for doubtful debts.
(4) Balance of provision for mortgages previously specifically reviewed.
(5) Balance of provision for claims presented in previous periods under provision for doubtful debt.

Note 3 – Provision for doubtful debt

Reported amounts (NIS in millions)

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

	For the period ended June 30, 2008					
	Balance sheet loan balance(2)	Debt balance (3)	Includes: Amount in arrears (4)	Specific provision		
				By extent of arrears	Other	Total
	(un-audited)					
Housing loans for which specific provision according to length of arrears must be calculated	37,843	1,098	542	830	-	830
Large loans (5)	2,958	101	29	6	10	16
Other loans	704	42	9	-	15	15
Total	41,505	1,241	580	836	25	861

	For the period ended June 30, 2007					
	Balance sheet loan balance(1)	Debt balance (2)	Includes: Amount in arrears (3)	Specific provision		
				By extent of arrears	Other	Total
	(un-audited)					
Housing loans for which specific provision according to length of arrears must be calculated	34,173	1,104	510	804	-	804
Large loans (5)	2,222	127	35	4	15	19
Other loans	723	70	11	-	8	8
Total	37,118	1,301	556	808	23	831

(1) For details of calculation of provision for doubtful debt by extent of arrears, see Note 1(o)2-3 to the annual financial statements as of December 31, 2007.
(2) The balance of housing loans, after deducting specific balance for doubtful debt and provision for delinquency interest.
(3) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(4) Includes delinquency interest before deduction of the provisions balance.
(5) Housing loans, the balance of each of which exceeds NIS 828 thousand (on June 30, 2007 – NIS 785 thousand).

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of June 30, 2008 (un-audited)

Reported amounts (NIS in millions)

A. Capital adequacy is computed in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risks".

1. Bank capital for calculating minimum capital ratio (1)	
Tier I capital:	
Paid-up share capital and capital reserves	1,974
Retained earnings (2)	3,771
Amortization (3)	(37)
Total tier I capital	5,708
Upper Tier II capital (4)	1,217
Other Tier II capital	2,856
Total capital	9,781

	Balances (5)	Weighting of risk assets				Risk balances	Capital requirement (6)
		0%	20%	50%	100%		
2. Weighted credit risk balances by risk groups							
Assets							
Cash and deposits with banks	10,439	3,689	6,750	-	-	1,350	122
Securities	4,432	2,486	1,251	-	695	945	85
Securities loaned or sold in repurchase agreements	28	28	-	-	-	-	-
Loans to the public (4)	77,417	5,887	115	19,097	52,318	61,890	5,570
Loans to the Government	3	3	-	-	-	-	-
Investment in affiliates	17	7 (7)	-	-	10	10	1
Buildings and equipment	1,258	-	-	-	1,258	1,258	113
Positive fair value of derivatives	3,216	-	2,197	-	1,019	1,458	131
Other assets	796	89 (8)	-	-	707	707	64
Total assets	97,606	12,189	10,313	19,097	56,007	67,618	6,086
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	9,908	174	452	280	9,002	9,232	831
Financial derivatives	13,005	-	9,351	-	3,654	5,524	497
Others	389	-	245	-	144	193	17
Total off-balance sheet instruments	23,302	174	10,048	280	12,800	14,949	1,345
Total credit risk assets and capital requirement	120,908	12,363	20,361	19,377	68,807	82,567	7,431
Market risk	2,091	-	-	-	2,091	2,091	188
Total risk assets and capital requirements	122,999	12,363	20,361	19,377	70,898	84,658	7,619

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debt of NIS 107 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Deducted from capital.
(8) Included NIS 24 million deducted from capital.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of June 30, 2008 – Consolidated (un-audited)

Reported amounts (NIS in millions)

3**. Details of capital requirement for market risk:**	
Interest risk	148
Share price risk	1
Exchange rate and inflation risk	17
Risk associated with options trading	22
Total capital requirement for market risk	188

4. Ratio of capital to elements of risk	in %
Ratio of Tier I capital to risk elements	6.74
Ratio of total capital to risk elements	11.55
Total minimum capital ratio required by the Supervisor of Banks	9.00

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of June 30, 2007 – Consolidated (un-audited)

Reported amounts (NIS in millions)

1. **Bank capital for calculating minimum capital ratio (1)**	
Tier I capital:	
Paid-up share capital and capital reserves	1,966
Retained earnings (2)	3,418
Minority interest in equity of subsidiaries	13
Amortization (3)	(54)
Total tier I capital	5,343
Upper Tier II capital (4)	1,058
Other Tier II capital	2,682
Total capital	9,083

	Balances (1)	Weighting of risk assets				Risk balances	Capital requirement (6)
		0%	20%	50%	100%		
2. **Weighted credit risk balances by risk groups**							
Assets							
Cash and deposits with banks	13,240	4,270	8,970	-	-	1,794	161
Securities	7,115	4,518	1,753	-	844	1,195	108
Securities loaned or sold in Repurchase agreements	500	500	-	-	-	-	-
Loans to the public (4)	72,392	6,556	372	19,515	45,949	55,781	5,020
Loans to the Government	4	4	-	-	-	-	1
Investment in affiliates	17	4 (7)	-	-	13	13	-
Buildings and equipment	1,219	-	-	-	1,219	1,219	110
Positive fair value of derivatives	1,673	-	945	-	728	917	83
Other assets	595	56	2	-	537	537	48
Total assets	96,755	15,908	12,042	19,515	49,290	61,456	5,531
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	8,598	-	21	303	8,274	8,430	759
Financial derivatives	11,049	-	6,401	-	4,648	5,928	534
Others	376	-	242	-	134	182	16
Total off-balance sheet instruments	20,023	-	6,664	303	13,056	14,540	1,309
Total credit risk assets and capital requirement	116,778	15,908	18,706	19,818	62,346	75,996	6,840
Market risk	1,907	-	-	-	1,907	1,907	171
Total risk assets and capital requirements	118,685	15,908	18,706	19,818	64,253	77,903	7,011

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debt of NIS 107 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Deducted from capital.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks

As of June 30, 2007 – Consolidated (un-audited)

Reported amounts (NIS in millions)

3. **Details of capital requirement for market risk:**	
Interest risk	147
Share price risk	-
Exchange rate and inflation risk	20
Risk associated with options trading	4
Total capital requirement for market risk	171

4. **Ratio of capital to elements of risk**	in %
Ratio of Tier I capital to risk elements	6.86
Ratio of total capital to risk elements	11.66
Total minimum capital ratio required by the Supervisor of Banks	9.00

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks

As of December 31, 2007 – Consolidated (audited)

Reported amounts (NIS in millions)

1. **Bank capital for calculating minimum capital ratio (1)**	
Tier I capital:	
Paid-up share capital and capital reserves	1,979
Retained earnings (2)	3,551
Minority interest in equity of subsidiaries	-
Amortization (3)	(37)
Total tier I capital	5,493
Upper Tier II capital (4)	1,068
Other Tier II capital	2,749
Total capital	9,310

	Balances (1)	Weighting of risk assets				Risk balances	Capital requirement (6)
		0%	20%	50%	100%		
2. **Weighted credit risk balances by risk groups**							
Assets							
Cash and deposits with banks	10,701	2,679	8,022	-	-	1,604	144
Securities	6,145	3,964	1,479	-	702	998	90
Securities loaned or sold in repurchase agreements	5	5	-	-	-	-	-
Loans to the public (4)	74,427	5,490	72	18,179	50,686	59,790	5,381
Loans to the Government	3	3	-	-	-	-	-
Investment in affiliates	17	6 (7)	-	-	11	11	1
Buildings and equipment	1,246	-	-	-	1,246	1,246	112
Positive fair value of derivatives	2,298		1,401	-	897	1,177	106
Other assets	582	74 (8)	-	-	508	508	46
Total assets	95,424	12,221	10,974	18,179	54,050	65,334	5,880
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,112	116	499	268	9,229	9,463	852
Financial derivatives	11,876	-	8,187	-	3,689	5,326	479
Others	447	-	296	-	151	210	19
Total off-balance sheet instruments	22,435	116	8,982	268	13,069	14,999	1,350
Total credit risk assets and capital requirement	117,859	12,337	19,956	18,447	67,119	80,333	7,230
Market risk	1,866	-	-	-	1,866	1,866	168
Total risk assets and capital requirements	119,725	12,337	19,956	18,447	68,985	82,199	7,398

(1) There is no difference between the basis of consolidation according to accounting rules and the supervisory basis of consolidation according to instructions of the Supervisor of Banks with regard to minimum capital ratio.
(2) Including foreign currency translation adjustment of autonomous overseas units.
(3) Includes goodwill.
(4) The general provision for doubtful debt of NIS 107 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Deducted from capital.
(8) Included NIS 26 million deducted from capital.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks

As of December 31, 2007 – Consolidated (audited)

Reported amounts (NIS in millions)

3**. Details of capital requirement for market risk:**	
Interest risk	134
Share price risk	-
Exchange rate and inflation risk	26
Risk associated with options trading	8
Total capital requirement for market risk	168

4**. Ratio of capital to elements of risk**	in %
Ratio of Tier I capital to risk elements	6.68
Ratio of total capital to risk elements	11.33
Total minimum capital ratio required by the Supervisor of Banks	9.00

On May 14, 2007 the Board of Directors passed a resolution, effective as of May 17, 2007, instructing Bank management to act so as to have capital adequacy ratios (including upper tier II capital) of no less than 11.2% starting with financial statements for the second quarter of 2007. On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) be no less than 12% by end of 2009. These resolutions are in conjunction with the resolution by the Bank’s Board of Directors from April 2006, stipulating that the capital adequacy ratio, excluding upper tier II capital, shall be no less than 10%.

There is no change to the Bank's dividend policy.

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of June 30, 2008

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	
	Non-linked	CPI- linked	US dollars	Euro	Other currencies		Total
	(un-audited)						
Assets							
Cash and deposits with banks	2,038	580	5,252	2,341	228	-	10,439
Securities	363	834	1,291	1,491	46	407 (3)	4,432
Securities loaned or sold in conjunction with repurchase agreements	28	-	-	-	-	-	28
Loans to the public (2)	31,924	33,882	6,865	2,017	2,622	-	77,310
Loans to the Government	-	2	1	-	-	-	3
Investment in affiliates	25	-	-	-	-	(8)	17
Buildings and equipment	-	-	-	-	-	1,258	1,258
Other assets	3,120	368	277	85	95	67	4,012
Total assets	37,498	35,666	13,686	5,934	2,991	1,724	97,499
Liabilities							
Deposits from the public	35,306	20,452	11,270	3,330	2,570	-	72,928
Deposits from banks	2,837	1,599	783	274	127	-	5,620
Deposits from the Government	-	222	34	-	-	-	256
Debentures and subordinated notes	-	6,649	-	-	-	-	6,649
Other liabilities	4,850	674	403	92	121	185	6,325
Total liabilities	42,993	29,596	12,490	3,696	2,818	185	91,778
Difference	(5,495)	6,070	1,196	2,238	173	1,539	5,721
Non-hedging financial derivatives:							
Derivatives (except for options)	8,004	(5,429)	(780)	(1,507)	(288)	-	-
Net in-the-money options (in terms of underlying asset)	935	-	(571)	(394)	6	24	-
Net out-of-the-money options (in terms of underlying asset)	164	-	28	(215)	55	(32)	-
Total	3,608	641	(127)	122	(54)	1,531	5,721
Net in-the-money options (capitalized par value)	(1,151)	-	1,072	66	11	2	-
Net out-of-the-money options (capitalized par value)	(371)	-	(306)	399	216	62	-

(1) Includes amounts linked to foreign currency.

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

(3) Includes NIS 281 million for shares received to secure credit (see also Note 2).

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of June 30, 2007

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	
	Non-linked	CPI- linked	US dollars	Euro	Other currencies		Total
Assets							
Cash and deposits with banks	1,552	964	9,253	625	846	-	13,240
Securities	2,352	974	1,262	2,065	72	390 (3)	7,115
securities loaned or sold in repurchase agreements	500	-	-	-	-	-	500
Loans to the public (2)	26,346	32,975	8,313	2,307	2,344	-	72,285
Loans to the Government	-	3	1	-	-	-	4
Investment in affiliates	17	-	-	-	-	-	17
Buildings and equipment	-	-	-	-	-	1,219	1,219
Other assets	1,327	208	511	65	108	49	2,268
Total assets	32,094	35,124	19,340	5,062	3,370	1,658	96,648
Liabilities							
Deposits from the public	37,221	20,238	13,939	3,237	2,210	-	76,845
Deposits from banks	1,126	1,704	998	147	137	-	4,112
Deposits from the Government	-	496	43	-	-	-	539
Debentures and subordinated notes	-	6,077	-	-	-	-	6,077
Other liabilities	2,422	487	360	70	136	153	3,628
Total liabilities	40,769	29,002	15,340	3,454	2,483	153	91,201
Difference	(8,675)	6,122	4,000	1,608	887	1,505	5,447
Non-hedging financial derivatives:							
Derivatives (except for options)	10,949	(5,441)	(2,988)	(1,826)	(694)	-	-
Net in-the-money options (in terms of underlying asset)	727	-	(889)	122	40	-	-
Net out-of-the-money options (in terms of underlying asset)	(94)	-	(27)	132	(11)	-	-
Total	2,907	681	96	36	222	1,505	5,447
Net in-the-money options (capitalized par value)	511	-	(456)	(206)	151	-	-
Net out-of-the-money options (capitalized par value)	(963)	-	110	352	501	-	-

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debt were deducted ratably from the various linkage categories.
(3) Includes NIS 313 million for shares received to secure credit.

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of December 31, 2007

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	
	Non-linked	CPI- linked	US dollars	Euro	Other currencies		Total
	(audited)						
Assets							
Cash and deposits with banks	2,009	616	5,338	1,527	1,211	-	10,701
Securities	1,742	1,207	1,165	1,581	51	399	6,145
Securities loaned or sold in repurchase agreements	5	-	-	-	-	-	5
Loans to the public (2)	27,911	33,586	8,167	2,237	2,419	-	74,320
Loans to the Government	-	2	1	-	-	-	3
Investment in affiliates	24	-	-	-	-	(7)	17
Buildings and equipment	-	-	-	-	-	1,246	1,246
Other assets	2,184	310	242	66	35	43	2,880
Total assets	33,875	35,721	14,913	5,411	3,716	1,681	95,317
Liabilities							
Deposits from the public	36,125	20,020	13,651	3,256	2,238	-	75,290
Deposits from banks	1,052	1,633	748	106	213	-	3,752
Deposits from the Government	-	243	39	-	-	-	282
Debentures and subordinated notes	-	6,189	-	-	-	-	6,189
Other liabilities	3,249	558	150	82	61	147	4,247
Total liabilities	40,426	28,643	14,588	3,444	2,512	147	89,760
Difference	(6,551)	7,078	325	1,967	1,204	1,534	5,557
Non-hedging financial derivatives:							
Derivatives (except for options)	7,634	(5,220)	421	(1,592)	(1,243)	-	-
Net in-the-money options (in terms of underlying asset)	1,213	-	(837)	(413)	50	(13)	-
Net out-of-the-money options (in terms of underlying asset)	82	-	7	4	(100)	7	-
Total	2,378	1,858	(84)	(34)	(89)	1,528	5,557
Net in-the-money options (capitalized par value)	(1,841)	-	2,536	(660)	(41)	6	-
Net out-of-the-money options (capitalized par value)	84	-	(505)	415	(20)	26	-

(1) Includes amounts linked to foreign currency.

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

(3) Includes NIS 322 million for shares received to secure credit.

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	30.6.2008 (un-audited)	30.6.2007 (un-audited)	31.12.2007 (audited)
A. Off-balance sheet financial instruments			
Contract balances or their stated amounts at the end of the period			
Transactions in which the balance represents a credit risk:			
- Documentary credit	769	689	707
- Loan guarantees	2,741	2,022	2,847
- Guarantees to purchasers of homes	5,986	5,698	5,613
- Other guarantees and liabilities (1)	4,561	4,289	4,830 (2)
- Unutilized revolving credit card facilities	3,403	3,085	3,192
- Unutilized debitory account and other credit facilities in accounts available on demand	22,724	21,918	23,895
- Irrevocable commitments for loans approved but not yet granted	4,477	4,095	4,391
- Commitments to provide credit to savers	1,733	1,696	1,686
- Commitments to issue guarantees	3,800	4,452	4,017

	30.6.2008 (un-audited)	31.12.2007 (audited)
B. Special commitments		
Liabilities in respect of:		
Long-term rental contracts	370	351
Computerization and software services contracts	31	100
Acquisition of buildings and their renovation	9	19
Deposits received on future dates	5	5

(1) Includes Bank commitment for its share of the MAOF clearinghouse risk fund, amounting to NIS 153 million (on June 30, 2007 and on December 31, 2007 – NIS 170 million and NIS 225 million, respectively).

(2) Restated.

Note 6 - Contingent Liabilities and Special Commitments (cont.)

C. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19d to the financial statements for the year ended December 31, 2007. Below is a description of material changes relative to the description provided in the 2007 annual report.

2) Various claims are pending against the Bank and its subsidiaries, namely, claims of customers, as well as motions for recognition of various class actions. In the estimation of the management of the Bank, based on the estimation of the managements of its subsidiaries and on the opinion of their legal counsel as to the possible outcome of the pending claims and motions for approval of claims as class actions, the financial statements include fair provisions, where necessary, to cover possible damages.

   Below are details of material claims, where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2007 financial statements.

   A. In July 2003, an action was filed with Tel Aviv District Court as well as a motion for recognition as a class action ("the claim") against Bank Tefahot, other banks and the Commissioner of Customs and Stamp Duty. The claim relates to the calculation of the stamp duty.

      One of the plaintiffs, who received a loan from Bank Tefahot, is claiming differences on stamp duty of NIS 36. The claim was filed for a total of NIS 300 million. The claim alleges that the Bank failed to comply with a ruling by the Supreme Court, which held that when an agreement includes consideration to be paid in installments, the nominal amount that is to be valued for stamp duty purposes is to be according to the present value of the loan principal only. It was the practice at Bank Tefahot, like at the other banks, to take all the future interest into account for stamp duty purposes, without discounting it, in accordance with the requirements of the Stamp Duty Authorities.

      The Court erased the claim in March 2008.

Note 6 - Contingent Liabilities and Special Commitments (cont.)

B. In April 2006, a claim in the amount of NIS 183 million was filed with the Haifa District Court, against the Bank and against Bank Hapoalim Ltd., alleging that credit promised to the plaintiffs was not granted, allegedly causing their demise. In June2006, another claim was filed in Haifa District Court by those plaintiffs, as discussed in the previous paragraph, in the amount of NIS 108 million. The claim was filed against the Bank and against an officer of the Bank, alleging that credit promised to the plaintiffs was not granted, allegedly causing their demise.

The District Court Registrar dismissed the plaintiffs' motion for exemption from court fees. The plaintiffs appealed to the district court the Court Registrar's ruling on exemption from the fee.

At the Bank's request, rulings were issued dismissing the plaintiffs' motion due to non-payment of court fees by the plaintiffs. However, the Court ruled that due to the fact that appeals were filed regarding the fee, should the appeals filed by the plaintiffs be accepted, the rulings would be cancelled. In March 2007, the plaintiffs’ appeals were dismissed by the District Court, and they filed in May 2007, requesting the right to appeal to the Supreme Court, wherein they also requested to be exempted from court fees and deposits. In June 2008, the Supreme Court erased both claims due to non-payment of fees by the plaintiffs.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding claims listed in section 3 below, there is additional, non-remote exposure for which no provision was made, amounting to NIS 126 million.

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

Note 6 - Contingent Liabilities and Special Commitments (cont.)

A. Two motions are pending and open in District Court and the Supreme Court to recognize as class actions two legal actions against the Bank and other mortgage banks totaling more than one and one-half billion NIS. The specific amount demanded from each Bank was not stated.

   In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks over-charged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.

   The banks deny all plaintiffs' claims and reject them out of hand. The banks claim, *inter alia*, that their actions were lawful both in charging the commissions and in the rates of these commissions.

   In the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to assess whether the claims will be recognized as class actions and what the possible outcome will be.

B. In December 2007, a claim was filed against the Bank with the Tel Aviv District Court, along with a motion for class action status, amounting to NIS 114 million. The plaintiffs cite two causes. According to the first cause, estimated at NIS 54 million, the Bank charged property insurance premiums to borrowers in addition to property insurance purchased independently by the plaintiffs, allegedly under coercion and unlawfully. According to the second cause, estimated at NIS 60 million, the Bank coerced its customers to pay insurance premiums based on the full property value and not on the loan balance, i.e. at an amount which was higher than the debt amount.

Note 6 - Contingent Liabilities and Special Commitments (cont.)

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

C. In January 2008, a claim against the Bank was filed with the Central District Court at Petah-Tikva, along with a motion for class action status, amounting to NIS 237 million.

The plaintiff claims that the Bank lowers interest rates paid for renewable short-term deposits based on a non-binding outlook for reduction of the Bank of Israel interest rate. By contrast, when a similar outlook existed for raising the Bank of Israel interest rate, interest rates on deposits were only raised by the Bank after the date on which the Bank of Israel actually raised its interest rate.

The plaintiff further claims that the Bank acted arbitrarily and misled its customers in the pre-contract stage – by not disclosing to customers that it used different criteria for raising the Bank of Israel interest rate compared to those for lowering the Bank of Israel interest rate, as well as during the contract stage - by not informing its customers that it had lowered interest rates for such deposits based on the outlook for a reduction in Bank of Israel interest rates rather than on actual reduction thereof.

The plaintiff claims that the Bank was also in breach of its duty to disclose, imposed by the Banking Act (Customer Service). The plaintiff further claims that should it be determined that under terms of the contract between the Bank and the customer, the Bank may lower interest rates at will, according to the plaintiff, this is a discriminatory condition in a uniform contract.

In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

Note 6 - Contingent Liabilities and Special Commitments (cont.)

D. In March 2008, a claim against the Bank was filed with the Tel Aviv District Court, including an application for class action status, amounting to over NIS 2.5 million (as set forth in the claim).

The plaintiffs claim that banks are in breach of Anti-trust statute, with restrictive practices leading to reduced competition among banks with regard to various commissions. The banks, according to the claim, have shared information with regard to the various commissions they charge.

The plaintiffs claim that this impacted competition in the banking sector, and customers, such as the plaintiffs, have been charged higher commissions than they would have paid had the banks acted lawfully.

In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

E. In August 2008, a claim was filed at the Jerusalem District Court against the Bank and against Mizrahi Provident Fund Management Company Ltd., along with an application for class action status – in the amount of NIS 374 million. The claim was also filed against the Supervisor of Capital Market and Insurance as a formal defendant. The plaintiff, who has held accounts in multiple provident funds managed in his name at the Bank, claims that the Bank unlawfully appropriated proceeds he had received in respect of the transfer of control of provident fund assets, management and trusteeship there for to management and control by management companies, in lieu of transferring them to provident fund account holders, pro rata to their share of fund assets since, according to his claim, these proceeds are the fruit generated by the provident fund assets and arise from rights associated with these assets, therefore, according to the claim, this profit belongs to provident fund account holders rather than to the Bank.

Note 6 - Contingent Liabilities and Special Commitments (cont.)

The Supervisor of Capital Market and Insurance was requested to join the claim as plaintiff, alongside the provident fund account holders, claiming that the Supervisor should rightly voice his position on the claim in both material and public aspects.

In the estimation of the Bank's management, based on the opinion of its legal counsel, and taking into consideration that the action is in a very preliminary stage, it is still not possible to assess the outcome of the action or whether the action will be recognized as a class action.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	June 30, 2008				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
	(un-audited)				
1**. Stated amounts of financial derivatives**					
A. Hedging derivatives (1)					
Forward contracts	1,256	-	-	-	-
Swaps	-	1,014	-	-	-
Total	1,256	1,014	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	910	-	-	-
B. ALM derivatives (1) (2)					
Futures contracts	-	-	165	-	-
Forward contracts	10,275	1,697	45,204	740	182
Option contracts traded on stock exchange:					
Options written	-	-	447	-	-
Options purchased	-	-	347	-	-
Other option contracts:					
Options written	-	-	16,850	990	-
Options purchased	-	-	18,022	1,049	-
Swaps	14,324	17,684	4,538	-	-
Total	24,599	19,381	85,573	2,779	182
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	8,525	10,844	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	93	-	-
Option contracts traded on stock exchange:					
Options written	-	-	1,877	10,998	1
Options purchased	-	-	1,924	10,998	1
Other option contracts:					
Options written	-	1,933	5,393	1,967	-
Options purchased	-	1,933	5,413	1,951	-
Swaps					
Total	-	3,866	14,700	25,914	2
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	687
Foreign currency spot swap contracts	-	-	2,641	-	-
Total	-	-	2,641	-	687

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis (cont.)

2**. Fair value, gross, of financial derivatives**

	June 30, 2008				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
	un-audited				
A. Hedging derivatives (1)					
Positive fair value, gross	1	16	-	-	-
Negative fair value, gross	39	20	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	311	119	2,319	97	2
Negative fair value, gross	305	222	2,694	95	2
C. Other derivatives (1)					
Positive fair value, gross	-	28	174	153	-
Negative fair value, gross	-	28	169	171	-
d. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Positive fair value, gross	-	-	-	-	-
Negative fair value, gross	-	-	-	-	16

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	June 30, 2007				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
	un-audited				
1. Stated amounts of financial derivatives					
A. Hedging derivatives (1)					
Forward contracts	1,595	-	-	-	-
Swaps	-	1,301	-	-	-
Total	1,595	1,301	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	776	-	-	-
B. ALM derivatives (1) (2)					
Forward contracts	12,659	66	39,461	338	49
Option contracts traded on stock exchange:					
Options written	-	-	1,678	-	-
Options purchased	-	-	1,071	-	-
Other option contracts:					
Options written	-	-	16,855	466	-
Options purchased	-	-	19,470	762	-
Swaps	5,330	11,269	1,715	-	-
Total	17,989	11,335	80,250	1,566	49
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	5,330	-	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	2,220	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,131	9,911	-
Options purchased	-	-	1,942	9,911	-
Other option contracts:					
Options written	-	1,812	3,142	4,187	-
Options purchased	-	1,812	2,268	3,906	-
Swaps	-	21	-	-	-
Total	-	3,645	11,703	27,915	
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	128
Foreign currency spot swap contracts	-	-	2,408	-	-
Total	-	-	2,408	-	128

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis - continued

2. Fair value, gross, of financial derivatives

	June 30, 2007				
	Interest contracts				Commodities
			Currency	Contracts	and other
	NIS - CPI	Other	contracts	for shares	contracts
	(un-audited)				
A. Hedging derivatives (1)					
Positive fair value, gross	37	33	-	-	-
Negative fair value, gross	-	-	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	152	183	870	96	1
Negative fair value, gross	145	69	642	69	1
C. Other derivatives (1)					
Positive fair value, gross	-	23	85	196	-
Negative fair value, gross	-	23	82	222	-
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Positive fair value, gross	-	-	-	-	1
Negative fair value, gross	-	-	-	-	-

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	December 31, 2007				
	Interest contracts		Currency contracts	Contracts for shares	Commodities and other contracts
	NIS - CPI	Other			
	(audited)				
1**. Stated amounts of financial derivatives**					
A. Hedging derivatives (1)					
Forward contracts	1,331	-	-	-	-
Swaps	-	1,013	-	-	-
Total	1,331	1,013	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	-	539	-	-	-
B. ALM derivatives (1) (2)					
Forward contracts	14,377	3,438	38,421	615	120
Option contracts traded on stock exchange:					
Options written	-	-	1,228	-	-
Options purchased	-	-	456	-	-
Other option contracts:					
Options written	-	-	16,035	739	-
Options purchased	-	-	18,966	785	-
Swaps	10,163	13,718	1,555	-	-
Total	24,540	17,156	76,661	2,139	120
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	5,498	7,275	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	2,210	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,725	14,748	1
Options purchased	-	-	2,712	14,748	1
Other option contracts:					
Options written	-	1,742	3,177	3,002	-
Options purchased	-	1,742	2,220	2,681	-
Swaps	-	32	-	-	-
Total	-	3,516	13,044	35,179	2
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	692
Foreign currency spot swap contracts	-	-	2,700	-	-
Total	-	-	2,700	-	692

(1) Except for credit derivatives and spot contracts for foreign currency swaps.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

Reported amounts (NIS in millions)

A. Activity on consolidated basis - continued

2. Fair value, gross, of financial derivatives

	December 31, 2007				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
	(audited)				
A. Hedging derivatives (1)					
Positive fair value, gross	9	10	-	-	-
Negative fair value, gross	8	10	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	187	133	1,530	67	1
Negative fair value, gross	213	62	1,078	56	1
C. Other derivatives (1)					
Positive fair value, gross	-	74	102	187	-
Negative fair value, gross	-	74	100	217	-
D. Credit derivatives					
Credit derivatives in which the Bank is guarantor					
Positive fair value, gross	-	-	-	-	1
Negative fair value, gross	-	-	-	-	3

(1) Except for credit derivatives.

(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

B. Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	June 30, 2008				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	un-audited				
Positive fair value, gross, of financial derivatives net of set-off agreements (1)	144	2,197	46	833	3,220
Off-balance sheet credit risk on financial derivatives (2)	44	9,351	289	3,321	13,005
Total credit risk on financial derivatives	188	11,548	335	4,154	16,225

	June 30, 2007				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	un-audited				
Positive fair value, gross, of financial derivatives (1)	103	891	114	569	1,677
Off-balance sheet credit risk on financial derivatives (2)	122	6,401	602	3,924	11,049
Total credit risk on financial derivatives	225	7,292	716	4,618	12,726

	December 31, 2007				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	audited				
Positive fair value, gross, of financial derivatives net of set-off agreements (1)	116	1,402	97	686	2,301
Off-balance sheet credit risk on financial derivatives (2)	51	8,187	534	3,104	11,876
Total credit risk on financial derivatives	167	9,589	631	3,790	14,177

(1) Includes positive fair value, gross, of embedded financial derivatives totaling NIS 4 million. June 30, 2007 – NIS 4 million, December 31, 2007 – NIS 3 million) and balance sheet balance of independent derivative instruments of NIS 3,216 million included under Other Assets (June 30, 2007 – NIS 1,673 million, December 31, 2007 – NIS 2,298 million).

(2) Off-balance sheet credit risk for financial derivatives (including those with negative fair value) as computed for the purposes of the per-borrower limitation.

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates

C. Maturity dates – stated amounts

June 30, 2008 (un-audited)

	Up to 3 months	Over 3 months to 1 year	1-5 years	Over 5 years	Total
	(un-audited)				
Interest contracts					
NIS-CPI	3,197	11,120	8,502	3,036	25,855
Other	3,983	16,880	1,791	1,607	24,261
Currency contracts	63,115	34,996	3,818	985	102,914
Contracts for shares	25,246	2,326	1,121	-	28,693
Commodities and other contracts	141	43	-	687	871
Total as of June 30, 2008	95,682	65,365	15,232	6,315	182,594
June 30, 2007 (un-audited)	91,957	50,378	14,589	2,960	159,884
December 31, 2007 (audited)	93,638	64,302	15,254	4,899	178,093

Note 8 - Profit from Financing Operations before Provision for Doubtful Debt

Reported amounts (NIS in millions)

	For the 3 months ended June 30		For the 6 months ended June 30	
	2008	2007	2008	2007
	(un-audited)			
A. **From assets** (1)				
From loans to the public	1,052	1,543	1,383	2,215
From loans to the Government	-	(4)	-	(1)
From deposits with the Bank of Israel and from cash	(24)	159	(45)	150
From deposits with banks	(488)	317	(861)	302
From securities loaned or sold in repurchase agreement	1	-	1	-
From debentures	(106)	191	(226)	201
	435	2,206	252	2,867
B. **On liabilities** (1)				
On deposits from the public	54	(1,358)	724	(1,708)
On deposits from the government	(5)	(7)	(5)	(11)
On deposits from the Bank of Israel and from cash	(5)	(25)	(7)	(38)
On deposits from banks	(14)	(146)	78	(143)
On debentures and subordinated notes	(228)	(98)	(331)	(143)
	(198)	(1,634)	459	(2,043)
C. **On financial derivatives and hedging activities**				
Ineffective element of fair value hedge	-	-	-	1
Net revenues (expenses) from ALM derivatives (2)	87	(330)	(14)	(250)
Net revenues from other derivatives	125	179	208	215
	212	(151)	194	(34)
D. **Other**				
Commissions from financing transactions	21	21	45	43
Financing revenues from collection of interest on arrears from individual borrowers (3)	13	11	24	20
Interest profit on problem loans	19	24	49	55
Gain (loss) from sale of debentures held for sale, net (4)	-	20	(5)	22
Other financing profit	61	38	101	77
Other financing expenses	(9)	(6)	(16)	(11)
	105	108	198	206
Total profit from financing operations before provision for doubtful debt	554	529	1,103	996
Includes: exchange rate differences, net	(18)	3	(33)	(4)
E. **Details of net effect of hedging financial derivatives on profit from financing operations**				
Financing revenues in respect of assets (section A)	37	22	16	31

(1) Includes the effective element in the hedging ratios.
(2) Financial derivatives constitute part of the Bank's asset and liability management which were not intended for hedging.
(3) In respect of mortgages.
(4) Includes provision for impairment amounting to NIS 19 million in Q1 of 2008 – see Note 2.

Note 9 - Profits from Investments in Shares, Net

Reported amounts (NIS in millions)

	For the 3 months ended June 30		For the 6 months ended June 30	
	2008	2007	2008	2007
	(un-audited)			
Gain from sale of shares available for sale, Net	14	7	17	8
Provision for impairment of shares available for sale	(1)	-	(1)	-
Dividends from shares available for sale	12	1	17	38
Total profits from investments in shares, net	25	8	33	46

Note 10 – Operating Segments

For the 6 months ended June 30, 2008

Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division International operations	Financial Division Financial management	Total consolidated
	(un-audited)							
Profit (loss) from financing operations before provision for doubtful debt								
From outside operating segments	1,163	(86)	(116)	132	372	(14)	(348)	1,103
Inter-segment	(659)	104	276	(58)	(136)	32	441	-
Profit from financing operations before provision for doubtful debt	504	18	160	74	236	18	93	1,103
Operating and other revenues	310	10	86	23	74	30	50	583
Total profit	814	28	246	97	310	48	143	1,686
Provision for doubtful debt	48	-	26	(1)	23	-	-	96
Operating and other expenses								
From outside operating segments	535	5	192	30	76	58	105	1,001
Inter-segment	(49)	1	(19)	26	30	-	11	-
Other operating expenses - total	486	6	173	56	106	58	116	1,001
Operating profit (loss) before taxes	280	22	47	42	181	(10)	27	589
Provision for taxes on operating profit	106	8	18	16	69	(3)	9	223
Net profit (loss)	174	14	29	26	112	(7)	18	366
Return on equity	14.5%	-	18.0%	20.1%	13.4%	(5.4%)	6.3%	13.4%
Average balance of assets	45,403	-	4,881	4,209	18,672	6,386	16,728	96,279
Average balance of liabilities	35,371	2,559	11,240	2,090	12,165	5,923	21,178	90,526
Average balance of risk assets(1)	36,962	-	4,940	4,070	25,747	3,957	8,741	84,417
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,492	45,492
Average balance of securities	15,231	2,911	13,222	1,799	37,612	717	24,108	95,600
Credit to the public (end balance)	46,830	-	4,692	4,214	17,134	4,440	-	77,310
Deposits from the public (end balance)	31,996	2,126	11,402	1,988	10,903	5,204	9,309	72,928
Average balance of other assets managed	16,793	-	158	21	176	-	-	17,148

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	280	-	111	59	168	5	-	623
Margin from receiving deposits	184	17	38	9	26	12	-	286
Other	40	1	11	6	42	1	93	194
Total	504	18	160	74	236	18	93	1,103

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

Note 10 – Operating Segments
For the 6 months ended June 30, 2007 (1)

Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division: International operations	Financial Division: Financial management	Total consolidated
	(un-audited)							
Profit (loss) from financing operations before provision for doubtful debt								
From outside operating segments	740	(43)	(50)	84	371	26	(132)	996
Inter-segment	(289)	64	183	(30)	(147)	47	172	-
Profit from financing operations before provision for doubtful debt	451	21	133	54	224	73	40	996
Operating and other revenues	297	8	89	23	84	26	87	614
Total profit	748	29	222	77	308	99	127	1,610
Provision for doubtful debt	21	-	43	6	43	-	-	113
Operating and other expenses								
From outside operating segments	508	3	172	26	65	61	114	949
Inter-segment	(48)	1	(20)	22	30	-	15	-
Other operating expenses - total	460	4	152	48	95	61	129	949
Operating profit (loss) before taxes	267	25	27	23	170	38	(2)	548
Provision for taxes on operating profit (loss)	99	9	10	8	64	14	(3)	201
After-tax operating profit	168	16	17	15	106	24	1	347
Net after-tax profit from extraordinary items	121	52	39	1	5	-	12	230
Net profit	289	68	56	16	111	24	13	577
Return on equity	28.9%	-	41.0%	12.6%	13.6%	23.5%	3.9%	23.1%
Average balance of assets	41,494	-	5,032	3,698	17,648	5,283	20,089	93,244
Average balance of liabilities	32,385	1,980	8,888	1,924	10,667	5,997	25,975	87,816
Average balance of risk assets(2)	31,978	-	4,486	3,689	25,279	3,172	8,684	77,288
Average balance of provident and mutual fund assets	-	-	-	-	-	-	43,722	43,722
Average balance of securities	19,723	2,861	17,121	1,932	31,392	710	12,146	85,885
Credit to the public (end balance)	42,230	-	4,820	3,573	18,135	3,527	-	72,285
Deposits from the public (end balance)	30,918	2,451	9,471	1,946	12,891	5,408	13,760	76,845
Average balance of other assets managed	16,949	-	201	45	85	-	-	17,280

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	248	-	79	35	151	35	-	548
Margin from receiving deposits	173	20	41	9	32	37	-	312
Other	30	1	13	10	41	1	40	136
Total	451	21	133	54	224	73	40	996

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

Note 10 – Operating Segments
For the 3 months ended June 30, 2008

Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division: International operations	Financial Division: Financial management	Total consolidated
	(un-audited)							
Profit (loss) from financing operations before provision for doubtful debt								
From outside operating segments	872	(22)	(95)	72	178	18	(469)	554
Inter-segment	(606)	30	179	(37)	(68)	14	488	-
Profit from financing operations before provision for doubtful debt	266	8	84	35	110	32	19	554
Operating and other revenues	154	5	43	10	46	12	30	300
Total profit	420	13	127	45	156	44	49	854
Provision for doubtful debt	36	-	11	(1)	8	1	-	55
Operating and other expenses								
From outside operating segments	266	2	92	16	38	35	51	500
Inter-segment	(25)	1	(9)	13	15	(1)	6	-
Other operating expenses - total	241	3	83	29	53	34	57	500
Operating profit (loss) before taxes	143	10	33	17	95	9	(8)	299
Provision for taxes on operating profit	53	3	12	7	36	6	(4)	113
Net profit (loss)	90	7	21	10	59	3	(4)	186
Return on equity	15.1%	-	24.0%	16.2%	14.8%	4.3%	(2.7%)	13.7%

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	144	-	60	28	80	3	-	315
Margin from receiving deposits	95	8	18	4	11	11	-	147
Other	27	-	6	3	19	18	19	92
Total	266	8	84	35	110	32	19	554

Note 10 – Operating Segments

For the 3 months ended June 30, 2007 (1)

Reported amounts (NIS in millions)

A. Information regarding operating segments

						Financial Division		
	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
	(un-audited)							
Profit (loss) from financing operations before provision for doubtful debt								
From outside operating segments	484	(25)	(54)	45	178	16	(115)	529
Inter-segment	(255)	39	122	(17)	(61)	31	141	-
Profit from financing operations before provision for doubtful debt	229	14	68	28	117	47	26	529
Operating and other revenues	150	4	45	11	28	13	35	286
Total profit	379	18	113	39	145	60	61	815
Provision for doubtful debt	5	-	26	6	26	-	-	63
Operating and other expenses								
From outside operating segments	256	(2)	77	8	32	36	75	482
Inter-segment	(22)	4	(9)	12	17	(1)	(1)	-
Other operating expenses - total	234	2	68	20	49	35	74	482
Pre-tax operating profit	140	16	19	13	70	25	(13)	270
Provision for taxes on operating profit	46	5	6	5	24	8	(8)	86
After-tax operating profit	94	11	13	8	46	17	(5)	184
Net after-tax profit from extraordinary items	9	5	4	1	-	-	4	23
Net profit	103	16	17	9	46	17	(1)	207
Return on equity	20.5%	-	25.2%	15.4%	11.4%	34.5%	(0.5%)	16.2%

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	128	-	39	17	80	23	-	287
Margin from receiving deposits	91	13	22	5	17	23	-	171
Other	10	1	7	6	20	1	26	71
Total	229	14	68	28	117	47	26	529

(1) Reclassified.

Note 10 – Operating Segments

For the Year Ended December 31, 2007

Reported amounts (NIS in millions)

A. Information regarding operating segments (1)

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division: International operations	Financial Division: Financial management	Total consolidated
Profit (loss) from financing operations before provision for doubtful debt								
From outside operating segments	1,822	(100)	(309)	185	657	(105)	(124)	2,026
Inter-segment	(906)	149	586	(70)	(195)	96	340	-
Profit from financing operations before provision for doubtful debt	916	49	277	115	462	(9) [(2)]	216	2,026
Operating and other revenues	589	21	173	42	163	56	146	1,190
Total profit	1,505	70	450	157	625	47	362	3,216
Provision for doubtful debt	67	-	74	7	77	3	-	228
Operating and other expenses								
From outside operating segments	1,012	11	361	124	133	130	167	1,938
Inter-segment	(62)	1	(26)	(9)	68	-	28	-
Other operating expenses - total	950	12	335	115	201	130	195	1,938
Operating profit (loss) before taxes	488	58	41	35	347	(86)	167	1,050
Provision for taxes on operating profit	171	20	15	12	121	(30)	59	368
After-tax operating profit (loss)	317	38	26	23	226	(56)	108	682
Share in net after-tax operating profits (losses) of affiliates	-	-	-	-	-	-	(1)	(1)
Net operating profit	317	38	26	23	226	(56)	107	681
Net after-tax profit from extraordinary items	121	52	39	1	5	-	9	227
Net profit (loss)	438	90	65	24	231	(56)	116	908
Return on equity	19.2%	-	21.6%	9.2%	13.0%	(24.0%)	26.3%	-
Average balance of assets	42,430	-	4,938	4,349	17,499	5,873	18,955	94,044
Average balance of liabilities	33,219	2,210	9,796	2,167	12,240	5,999	23,082	88,713
Average balance of risk assets(1)	33,999	-	4,561	3,801	26,298	3,456	8,681	80,796
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,472	45,472
Average balance of securities	19,565	4,731	21,091	2,149	37,711	766	6,790	92,803
Credit to the public (end balance)	43,603	-	4,806	4,087	17,412	4,412	-	74,320
Deposits from the public (end balance)	30,731	2,204	11,106	2,432	10,753	2,570	15,494	75,290
Average balance of other assets managed	17,110	-	158	50	113	-	-	17,431

B. Information regarding profit from financing operations before provision for doubtful debt

	Household	Private banking	Small business	Commercial banking	Business banking	International operations	Financial management	Total consolidated
Margin from credit granting operations	491	-	168	80	312	88	-	1,139
Margin from receiving deposits	360	47	86	18	72	17	-	600
Other	65	2	23	17	78	(114)	216	287
Total	916	49	277	115	462	(9)	216	2,026

(1) Includes off-balance-sheet balances, as computed for capital adequacy.
(2) Includes provision for impairment of asset-backed securities, amounting to NIS 114 million.

Note 10 – Operating Segments

For the year ended December 31, 2006

Reported amounts (NIS in millions)

A. Information regarding operating segments (1)

	Household (1)	Private banking	Small business	Commercial banking	Business banking	Financial management (1)	Total consolidated
Profit (loss) from financing operations before provision for doubtful debt							
From outside operating segments	814	(562)	452	211	883	189	1,987
Inter-segment	(17)	751	(16)	(139)	(393)	(186)	-
Profit from financing operations before provision for doubtful debt	797	189	436	72	490	3	1,987
Operating and other revenues	610	140	329	24	79	33	1,215
Total profit	1,407	329	765	96	569	36	3,202
Provision for doubtful debt	174	-	65	6	60	-	305
Operating and other expenses							
From outside operating segments	1,849	72	53	3	112	28	2,117
Inter-segment	(922)	206	553	53	110	-	-
Total operating and other expenses	927	278	606	56	222	28	2,117
Operating profit (loss) before taxes	306	51	94	34	287	8	780
Provision for taxes on operating profit	148	19	38	14	131	(1)	349
After-tax operating profit (loss)	158	32	56	20	156	9	431
Share in net after-tax operating profits (losses) of affiliates	-	-	-	-	-	(4)	(4)
Net operating profit	158	32	56	20	156	5	427
Net after-tax profit from extraordinary items	72	33	23	-	3	85	216
Cumulative effect	-	-	-	-	-	-	-
Net profit	230	65	79	20	159	90	643
Return on capital (net profit as % of average capital)	11.3%	76.7%	13.3%	11.1%	10.0%	19.7%	-
Average balance of assets	38,437	2,498	7,018	2,916	15,793	21,482	88,144
Average balance of liabilities	31,261	17,115	14,919	914	7,684	11,306	83,199
Average balance of risk assets(2)	30,571	1,272	8,880	2,700	23,774	6,828	74,025
Average balance of provident and mutual fund assets	7,439	3,490	2,361	41	341	66	13,738
Average balance of securities (1)	1,956	7,392	43,106	4,797	14,281	-	71,532
Average balance of other assets managed	17,442	12	138	137	216	74	18,019

B. Information on profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	590	54	275	61	325	-	1,305
Margin from receiving deposits	181	118	118	5	42	-	464
Other	26	17	43	6	123	3	218
Total	797	189	436	72	490	3	1,987

C. Information regarding geographic regions (3)

	Revenues for the year ended December 31, 2006 (4)	Net profit for the year ended December 31, 2006	Average balance of total assets for 2006
Israel	3,153	621	83,941
Outside of Israel	49	22	4,203
Total consolidated	3,202	643	88,144

(1) Restatement of profit (loss) from financing operations before provision for doubtful debt included in the 2007 financial statements, in respect of the year ended December 31, 2006, arising from a correction in the inter-segment charging mechanism under mortgage operations:

	For the year ended December 31, 2006	
	Household	Financial management
In the 2007 report	832	(32)
Restatement	(35)	35
In this report	797	3

(2) Includes off-balance-sheet balances, as computed for capital adequacy.
(3) Profit and assets according to geographic regions were allocated on the basis of the location of the Group's offices.
(4) Includes operating profit from financing operations before provision for doubtful debt and other operating profit.

Note 11 – Other matters

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

Pursuant to the Act, the Bank of Israel Governor would be authorized, after consulting with the Governor's Consultative Committee pursuant to provisions of the Bank of Israel Act, 1954, to specify a list of all commissions which a banking corporation may charge for banking services, and how they are to be calculated ("the full pricelist"). This provision is aimed at reducing the number of commissions and generating uniform commission names among all banking corporations. Furthermore, the Governor is authorized to specify limited lists, based on the full pricelist, by type of banking services or by customer type ("limited pricelists").

The banking corporation would be required to set the price charged by it for each service included in the full pricelist, and to inform its customers of the pricelists and commission prices it charges. Charging of any commission not included in the pricelists would be prohibited. These provisions shall apply to individual customers and to corporations which are "small businesses", as specified by the Governor in regulations, considering their business turnover.

The Act specifies causes which, upon occurrence, authorize the Supervisor to declare a banking service to be under supervision. Should a service be placed under supervision, the Governor would be authorized to set prices for commissions for such service or to set, if appropriate, maximum prices and to prohibit charging of a certain commission. Furthermore, the Supervisor of Banks would be authorized to discuss and decide on applications by a banking corporation to raise its commissions for a service under supervision.

Note 11 – Other matters

The Act also explicitly prohibits charging a commission for any service under supervision in contradiction to instructions of the Governor and Supervisor. Should any service be placed under supervision and the Governor has not set a price for it and has not prohibited charging of commission, and the banking corporation would wish to increase its price compared to the price charged prior to its placement under supervision - the Bank would have to apply for permission. The Act also required prior notification to the Supervisor of any raise in commissions for services not under supervision.

On January 8, 2008 the Banking Regulations (Customer Service) (Commissions), 2008 were enacted pursuant to the Act. These regulations set forth the full pricelists for customers serviced by a banking corporation, as well as limited pricelists for customers of the banking corporation who are provided services of current account management and housing loan, and for customers to whom the banking corporation has issued credit cards. The regulations require the banking corporation to prominently display the pricelists in its branches, and to enable customers to receive them at its branches and via its website, and to also enable customers to receive the limited pricelists via automated machines provided to customers. The banking corporation is required to provide the customer with the applicable limited pricelist upon initial provision of the service.

On May 21, 2008, the Governor has determined that several Bank services constitute services under supervision.

The regulations apply as of July 1, 2008 and the Bank is preparing to implement them. In conjunction with said preparations, commissions for the various services provided by the Bank were adapted to rules set forth in the regulations. Bank management estimates that application of these rules is expected to impact the Bank's revenue mix, however at this stage it is impossible to estimate the impact on total Bank revenues.

Note 11 – Other matters

B. On March 27, 2007, the Bank signed a memorandum of understandings, whereby the Bank would acquire 50% of the issued capital of Bank Yahav for Government Employees Ltd. ("Bank Yahav") inclusive of all rights associated therewith ("the acquired shares"). In exchange for the acquired shares, the Bank would pay proceeds as follows, based on Bank Yahav's required shareholders' equity for maintaining a minimum capital ratio of 10% "required shareholders' equity"). It was agreed that Bank Yahav would continue to obtain computer services from Bank Hapoalim, under terms currently in place between Bank Hapoalim and Bank Yahav, for a 3-year period from the transaction completion date. On September 9, 2007, a detailed agreement was signed for sale of the acquired shares based on principles set forth in the memorandum of understandings dated March 27, 2007.

On November 13, 2007, an addendum to the agreement was signed by the parties, whereby, *inter alia*, the transaction closing date was set at June 27, 2008. Furthermore, arrangements were agreed, subject to the statute, with regard to Bank Yahav's preparations in conjunction with competition in the sector in which it operates. The parties also agreed on the final proceeds to be paid by the Bank for Bank Yahav shares owned by Bank Hapoalim, in accordance with principles for such calculation set forth in the agreement, at NIS 371 million, such that the proceeds would no longer be adjusted to changes in Bank Yahav's capital or results through the completion date (other than potential adjustment due to dividend distribution). In addition, Bank Hapoalim would be eligible to receive NIS 48 million for the additional equity in Bank Yahav, due to sale of the provident funds.

On July 10, 2008, the transaction was concluded.

C. Beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the commission rate determined by the tender held by the Finance Ministry, with the participation of the mortgage banks will apply to loans issued beginning July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. According to a letter from the Ministry of Finance dated May 13, 2007, the agreement was extended until June 30, 2008.

Note 11 – Other matters

In February 2008, the Ministry of Finance issued a tender for providing loans to eligible borrowers having a low point rating, which would be in place concurrently with and in addition to the aforementioned agreement. The new agreement became effective starting in May 2008 for 1 year. After this year, the agreement would be renewed for one more year, up to a cumulative maximum total term of 5 years, unless one of the parties announces its wish to terminate the agreement. In accordance with terms of the new agreement, as set forth in the tender, the loans to eligible borrowers with a low point rating would be granted out of Bank funds. The interest would be determined based on the interest rate for assistance out of Ministry of Finance funds, or the average interest rate for mortgages, as published by the Bank of Israel - whichever is lower. Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with conditions in place for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For the loans to eligible borrowers having a low point rating, the Ministry of Finance would pay the banks granting assistance out of Bank funds, the interest difference between the actual interest charged for the loans, and the average interest as published by the Bank of Israel, plus a margin of 0.0% to 0.4%, depending on the financing rate, area where the property is acquired (as specified by the Ministry of Finance), and on existence of credit insurance, plus an additional margin of 0.24%, as determined for the Bank, being the winner of the bid (the additional margin for other, non-winning banks, is lower). Concurrently, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the group of low-rated eligible borrowers not exceeding 8% of total Bank loans to this group (out of Bank funds and out of budgeted funds).

Note 11 – Other matters

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

Bank management estimates that impact of the new tender would moderate, in coming years, the decline in revenues from new loans in the eligible borrowers' credit portfolio, due to previous Ministry of Finance tenders. The share of this credit portfolio for which the Bank is responsible would increase at the same time. Bank revenues from total loans to eligible borrowers in the first half of 2008 amounted to NIS 48 million, compared to NIS 49 million in the same period last year, and to NIS 98 million in all of 2007.

D. On November 13, 2007, the Bank signed a memorandum of understandings with Isracard Ltd. and Europay (Eurocard) Israel Ltd. (“Isracard" and “Europay”, respectively), whose highlights are set forth below. Isracard, Europay and the Bank would enter into accelerated negotiations (aiming to conclude them by April 10, 2008, pursuant to the addendum to the MOU signed on April 3, 2008) to replace their current agreed arrangements with a new agreement (for a 10-year term) aimed at issuing Mizrahi-Tefahot branded credit cards and agreeing on arrangements for operation and servicing by Isracard and/or Europay of debit cards to be issued by them and to be distributed by the Bank to its customers (“the new agreement").

It was agreed that in exchange for the new agreement, the Bank would be eligible to receive an allotment, for no further consideration, of 3.6% of Isracard and Europay ordinary shares in exchange for the new agreement and its provisions.

It was further agreed that, should the new agreement not be signed by April 3, 2008, the Bank would be eligible to receive an allotment of 1.8% of Isracard and Europay ordinary shares in exchange for continuing the current agreements in place of a 10-year term from the date of signing the MOU. In this case the Bank may distribute its branded card through any party of its choice.

Note 11 – Other matters

Note that the maximum total shares to be allotted to the Bank in exchange for the aforementioned agreements, would be 3.6% of Isracard and Europay shares. The shares would be allotted subject to customary first-right-of-refusal to Bank Hapoalim Ltd. upon transfer of the shares by Mizrahi-Tefahot to any third party, and subject to a blocking period, whereby Mizrahi-Tefahot may not transfer the shares to any third party (other than Bank Hapoalim) during a 1-year period (the aforementioned right-of-first-refusal and blocking period shall be in effect for as long as Isracard and/or Europay shares are not listed for trading on the stock exchange).

On April 10, 2008, the Bank announced that negotiations with respect to signing a new agreement between the Bank and Isracard and Europay have not resulted in a binding agreement. As a result of the parties not reaching a new agreement, the existing contractual agreements between the parties would remain in effect for a 10-year term starting on November 13, 2007, and the Bank retained 1.8% of Isracard and Europay ordinary shares allocated to it on December 19, 2007; these were recorded on Bank accounts in early 2008 at their fair value, estimated at NIS 37 million. Accordingly, the parties remain committed to the agreed provisions of the MOU signed by them on November 13, 2007.
The MOU is subject to all regulatory requirements required by statute, if any.

E. On May 19, 2008, the Bank Board of Directors resolved, after obtaining approval of the Bank Audit Committee and the recommendations of the Bank Board's Compensation and Management Committees with regard to principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for Bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries – as set forth in the option plan and in the outline published on June 8, 2008 ("the outline"). No stock options would be granted, pursuant to the plan, to members of the Bank Board of Directors, including the Chairman of the Board, nor to the Bank President.

Note 11 – Other matters

In addition to approval of the option plan, as set forth above, the Board of Directors resolved, after receiving approval of the Audit Committee and the recommendations of the Compensation and Management Committees, to approve a framework plan for bonus payment to Bank officers, excluding Board members, including the Chairman of the Board, and excluding the Bank President, for each of the years 2008-2012, *inter alia* by way of creating a pool for bonus payment to officers, as set forth in the framework.

The option plan is for a term of 5 years and 90 days, starting on the date of option allotment in accordance with the plan. In conjunction with approval of the plan, the Board of Directors resolved that the number of option warrants to be used as a pool for allotment of option warrants pursuant to the plan, would include 32,500,000 option warrants, registered in the owner's name, not listed for trading on the Tel Aviv Stock Exchange, which would be granted at no cost to offerees, and which may be exercised for up to 32,500,000 Bank ordinary shares, NIS 0.1 par value each, subject to adjustments as set forth in the plan, and subject to achieving the eligibility conditions set forth there in.

The option warrants allotted to the trustee for each offeree, in accordance with the plan, will be allotted in 5 equal lots. The vesting period for each such lot would be at the end of each of the 1st, 2nd, 3rd, 4th and 5th anniversaries of the allotment date of option warrants pursuant to the plan, respectively. The number of exercised shares, as set forth above, is the maximum number of shares arising from exercise of all option warrants which may be allotted pursuant to the plan. However, the number of option warrants which the offerees may actually exercise, pursuant to terms of the plan, will be based on the ration of net profit return from normal operations to the Bank's average shareholders' equity, up to an annual rate of return equal to 18%, based on the exercise eligibility formula, as set forth in the option plan.

The personal eligibility rate for each offeree included in the group of branch-, department- and affiliate managers (as defined in the plan) to exercise the option warrants granted to them in accordance with the plan will be determined, in addition to the aforementioned, also by the quality rating assigned to them, as set forth in the option plan.

Note 11 – Other matters

Furthermore, allotment of the full number of exercised shares is merely theoretical, since in actual fact the offerees would not be allotted the full number of exercised shares arising from the option warrants which the offerees may exercise, pursuant to plan terms, but rather only the number of shares reflecting the monetary benefit inherent in the aforementioned option warrants, as set forth in the option plan.

The exercise price for each of the option warrants allotted pursuant to the plan was determined based on the closing price of the Bank's ordinary shares on the stock exchange on July 7, 2008 – the final trading day preceding the allotment date of option warrants to the offeree. The exercise price is NIS 25.15 plus linkage differentials to the Consumer Price Index starting on the allotment date, adjusted for dividends to be distributed by the Bank.

On July 8, 2008, 28,625,300 option warrants were allotted, in accordance with the plan, at no cost to 313 offerees who are Bank officers, branch-, department- and affiliate managers, as well as other employees of the Bank and its subsidiaries, as set forth in the option plan.

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

For recording the expense in the Bank's financial statements, and based on the strategic 5-year plan, as set forth above, management has estimated a range of annual rates of return (though not linear) for each plan year (2008-2012) up to an 18% annual rate of return in 2012. Using this range, the number of option warrants each offeree may exercise out of the total number of option warrants granted to them in accordance with the plan has been estimated, as set forth in the framework.

Note 11 – Other matters

The theoretical benefit value of the option warrants allotted at this stage, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 115 million (NIS 133 million including Payroll Tax). Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as set forth above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the option warrants to be granted would expire due to the offerees retirement. The theoretical benefit value will be recorded on Bank accounts starting on the grant date and over a 5 year period. Management estimates with regard to the range of annual rates of return and churn rates would be reviewed and updated on an on-going basis, and the extent of total expenditure recorded in the financial statements would be updated accordingly.

The theoretical benefit value of the option warrants was determined using the Black and Scholes model. Standard deviation was separately calculated for each lot, based on daily share prices in a period equal to the expected life of each lot. The option term in the model was determined based on the average time between the vesting period and the option expiration date (Simplified Approach). The rate of risk-free interest is determined based on gross yield to maturity for CPI-linked government bonds bearing fixed interest ("Galil"), for a term equal to the expected life to exercise of each lot.
Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on July 8, 2008:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
Annualized standard deviation	26.05%	26.23%	25.44%	24.71%	24.98%
Exercise price (in NIS)	25.15	25.15	25.15	25.15	25.15
Interest	2.03%	2.20%	2.34%	2.47%	2.58%
Term to exercise (in years)	3.1	3.6	4.1	4.6	5.1
Fair value per single option	5.25	5.79	6.13	6.45	6.95

Note 11 – Other matters

F. On February 26, 2008 the Knesset passed the Profit Tax Act (Adjustments for Inflation) (Amendment no. 20) (Restriction of Applicable Period), 2008 ("the amendment"), whereby the Inflationary Adjustment Act would be rescinded in the 2007 tax year, and starting in the 2008 tax year, provisions of the Act shall no longer apply, other than interim provisions aimed at avoiding distortions in tax calculations.

Pursuant to the amendment, from the 2008 tax year onwards, revenues will no longer be adjusted, for tax purposes, to a real measuring base. In addition, linkage to the CPI of depreciation amounts for fixed assets and carry-forwards tax losses would be discontinued, such that these amounts would be adjusted to the CPI through the 2007 tax year, and hence forward would no longer be linked to the CPI. The amendment also amends the definitions of “profit” and “salary” in the VAT Act. Pursuant to the amendments, in calculating profit for tax purposes, the salary tax paid by the financial institution would be deducted. Furthermore, payment of the employer’s share of insurance fees paid for his employer under the National Insurance Act (Combined Version), 1995 (hereinafter: “the National Insurance Act”) would be taxable for salary tax purposes.

In 2008, as interim provision, half of the salary tax paid by the financial institution would be deducted in calculating profit for profit tax purposes, and salary tax shall also apply to half of the employer’s share of national insurance fees paid for their employee pursuant to the National Insurance Act.

The impact of the rescinding of the Inflationary Adjustment Act, in the first half of 2008, amounted to a NIS 44 million increase in the Bank's provision for taxes. The impact of revisions to the VAT Act, based on payroll expenses in the first half of 2008, amounted to a NIS 3 million decrease in the Bank's provision for taxes.