C o n t e n t s

Condensed Board of Directors' Report

For the Financial Statements as of September 30, 2008

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 30, 2008, it was resolved to approve and publish the Board of Directors' report and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as at September 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 9 months of 2008

Real Developments

The impact of the crisis in global and domestic financial markets and the global economic slow-down is gradually permeating into real economic activity in Israel as well.

In the first 9 months of this year, the growth rate of the local economy slowed down gradually.

Estimates of the Central Bureau of Statistics (in annualized terms) for the 3rd quarter of 2008 indicate a significant slow-down in the GDP growth rate, which rose in this quarter by 2.3%, compared to 4.1% and 5.2% growth in the 2nd and 1st quarters, respectively.

Most significant were a 13.4% decline in exports of goods and services, compared to a 2.1% decline in the 2nd quarter and a 13.2% increase in the 1st quarter, as well as a 15.0% decrease in investment in fixed assets in the 3rd quarter, compared to 5.0% and 8.0% increases in the 2nd and 1st quarters, respectively.

Private consumption rose in the 3rd quarter of 2008 by 2.8%, compared to a 1.6% decrease in the 2nd quarter and a 10.3% increase in the first quarter.

According to preliminary estimates by the Central Bureau of Statistics for 2008, GDP is expected to grow this year by 4.5%, compared to 5.4% in 2007, and business production is expected to grow this year by 5.2%, compared to 6.2% in 2007. The growth rate of importation of goods and services is also expected to slow to an expected 4.2% this year, compared to 11.7% in 2007.

On the usage side, growth in private consumption is expected to continue to grow at an annual rate of 4.4% according to Central Bureau of Statistics estimate – compared to 6.7% in 2007. This increase reflects growth of 2.7% in per-capital private consumption.

The growth rate of investments in fixed assets is expected to reach 5.3% this year, compared to 15.5% in 2007, while public consumption expenditure is expected to rise by 2.3%, following a 2.9% rise in 2007.

Note that in November, the Bank of Israel revised its forecast of the expected growth rate of the economy in 2009 downwards, from 2.7% to 1.5%. This forecast anticipates a significant slow-down in growth compared to the past 5 years, in which the economy grew at an average pace of 5.1%.

Inflation and exchange rates

In the first 9 months of 2008, the Consumer Price Index rose by 4.4%, compared to a 2.3% rise in the same period last year.

In the 3rd quarter, the Consumer Price Index rose by 2.0%, compared to a 1.3% rise in the corresponding period last year. This rise is primarily due to higher prices of housing, home maintenance as well as fruits and vegetables.

In the first 9 months of 2008, the USD was devalued by 11.1% against the NIS, reaching NIS 3.421 per USD at the end of this period, compared to NIS 3.846 at the end of 2007.

The Euro was devalued against the NIS in this period by 11.7%, reaching NIS 5.000 per Euro, compared to NIS 5.659 per Euro at the end of 2007.

In the 3rd quarter of 2008, the NIS / USD exchange rate was devalued by 2.1%, with the NIS / Euro being revalued by 5.4%. The NIS devaluation vs. the USD in the 3rd quarter was against the backdrop of the global financial crisis (see details below), the stronger USD vs. the Euro and involvement by the Bank of Israel in the foreign currency market, reflected in USD purchasing in conjunction with the plan to increase foreign currency reserves.

In October, the NIS was devalued against the USD by 10.6%, reaching NIS 3.783 per USD on October 31, 2008.

Monetary and fiscal policy

Against the backdrop of growing inflationary pressures, and subsequent to the interest rate increase of June 2008, the Bank of Israel raised the interest rate in the 3rd quarter of this year 3 times by 0.25 percentage points each, so that the interest rate for September reached 4.25%, compared to 3.50% in June. The Bank of Israel maintained the interest rate for October at 4.25%, but during that month lowered the interest rate by an unusual 0.50 percentage points. This was in response to heightened financial instability in Israel and globally, and in view of signs of a slow down in the economy's growth rate, along with more moderate inflationary expectations. The Bank of Israel lowered the interest rate for November by 0.25 percentage points, and in November it once again lowered it by 0.5 percentage points, so that as of mid-November the interest rate was at 3.00%.

On November 24, the Bank of Israel announced a further interest rate cut of 0.5% percentage points, thus the interest rate for December would be at 2.5%.

In the first 9 months of 2008, the government budget recorded a NIS 2.1 billion surplus, compared to a NIS 7.8 billion surplus in the corresponding period last year. The lower budget surplus is due to a drop in the collection of direct taxes and to a higher than expected increase in ministerial expenditure levels.

In the 3rd quarter of this year, the government budget recorded a NIS 0.6 billion deficit, compared to a NIS 2.2 billion surplus in the corresponding period last year.

Residential construction and the mortgage market

In the first 8 months of 2008, sales of new apartments declined. This decline was primarily reflected in public construction, with the number of new apartments sold from public construction 15% lower, at an annualized rate, than the number of apartments sold in 2007. Sales of apartments from private construction declined in the Jerusalem, North and South regions, but increased in the Tel Aviv and Center regions. On the other hand, the number of used apartment transactions increased, so that total transactions (for new and used apartments) rose by an annualized 4% over 2007.

The supply side showed a decline during the year to date. In the first 7 months of 2008, housing starts declined by 5% year-over-year, and the Central Bureau of Statistics reported unchanged investment in residential construction in the first half of 2008. Furthermore, the supply of new apartments for sale from private construction at the end of August 2008 was only 8,830 units – or 23% lower than the number of apartments for sale in August of last year.

In the 3rd quarter, the economic slowdown had yet to impact the mortgage market, and the extent of arrears and its share of the housing loan portfolio even declined. Furthermore, mortgage origination activity (excluding refinancing) continued to grow in the 3rd quarter, and following higher apartment prices in recent months, primarily in high-demand areas, the average loan amount also grew.

Capital market

In the 3rd quarter of 2008, weakness continued in global capital markets along with sharp volatility which also characterized the markets in the first half of this year. These continued against the backdrop of the global financial crisis and the fear of a global economic slow-down (see below section on the global economy).

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

Equity market – the Tel Aviv 25 and Tel Aviv 100 indices declined in the first 9 months of this year by 27% and 30%, respectively. Even sharper declines were recorded by the Tel Tech 15 and the Banking indices, which dropped by 44% and 38%, respectively. The sharpest decline of the major stock indices was recorded by the Real Estate 15 index, which declined by 56% in the period under review. In the 3rd quarter, the Tel Aviv 25 and Tel Aviv 100 indices declined by 22% and 19%, respectively.
The market crisis was more strongly felt in September, with the collapse of investment firms and banks in the USA and in Europe.

The average daily trading volume in shares and convertible securities in the first 9 months of 2008 reached NIS 2.1 billion, similar to the average daily volume in 2007.
In the first 9 months of 2008, a significant drop was recorded in new offerings, which amounted to NIS 5 billion, compared to NIS 17.7 billion in the corresponding period last year.
From September 30, 2008 through mid-November 2008, the major stock indices continued to decline.

Bond market – the General Bond Index and the CPI-linked Bond Index rose in the first 9 months of 2008 by 0.8% and 1.0%, respectively. In the 3rd quarter, these indices dropped by 2.9% and 2.7%, respectively. The non-linked Bond Index rose in the first 9 months of this year by 3.8%, rising by 1.4% in the 3rd quarter.

The Tel Bond 20 index rose in the first 9 months of this year by 1.2%. In the 3rd quarter, this index dropped by 6.7%, after a 6.2% increase in the preceding quarter. The Tel Bond 40 index, which also includes real estate companies, declined since its initiation on February 3, 2008 by 7.8%. In the 3rd quarter, this index dropped by 11.1%, following a 4.5% increase in the 2nd quarter.

From September 30, 2008 through mid-November 2008, most major bond indices continued to decline.

As a consequence to the evolvement of the credit crisis and the increasing fear of slower growth, corporate bond margins over government bonds increased. Corporate bonds rated AAA traded at the end of the 3rd quarter at a margin of 0.68 percentage points above government bonds; bonds rated AA traded at a margin of 2.27 points above government bonds; and corporate bonds rated A traded at 7.1 percentage points above corresponding government bonds. The widening yield gap worsened significantly since mid-September and continued into October as well.

In total, the business sector raised NIS 22.0 billion worth of bonds in the first 9 months of this year from the public and from institutional investors, compared to NIS 68.3 billion in the corresponding period last year. In the 3rd quarter of 2008, NIS 3.7 billion was raised, compared to NIS 15.1 billion in the corresponding period last year.

The average daily trading volume in bonds for the first 9 months of this year (and similarly in the 3rd quarter of this year) was NIS 3.85 billion, a 17% increase over the average daily trading volume in 2007.

Global economy

In the 3rd quarter of this year, the global financial crisis worsened – reflected in unwillingness of financial institutions to provide credit to corporations and to other financial institutions, in collapse of financial institutions and in sharp declines in equity markets. In response, governments, mostly in Western countries, set in motion rescue plans amounting to hundreds of billions of dollars. These plans focused on capital injection into the banking system, guarantees provided for depositors' money and even acquisition of defective assets from banks.

The credit crisis, which started a year ago, has impacted the real economy. GDP in the US declined in the 3rd quarter of 2008 by an annualized 0.3%, after rising by an annualized 2.8% in the 2nd quarter. Industrial output and retail sales in the US declined in each month of the 3rd quarter. The state of the US labor market worsened with unemployment reaching 6.1% in September (4.6% in 2007).

The Euro bloc recorded negative growth in the 3rd quarter of this year, with GDP declining at an annualized 0.8%, following a 0.8% decline in the 2nd quarter of this year.

Negative growth was recorded in the 3rd quarter by major countries in the region: Germany, Spain and Italy. The UK, which is not part of the Euro bloc, recorded annualized 2.0% negative growth in the 3rd quarter, after zero growth in the 2nd quarter.

In Japan, GDP declined in the 3rd quarter by an annualized 0.4%, following a 3.6% decline in the 2nd quarter of this year.

The International Monetary Fund recently lowered its forecast global growth rate for 2008 (from -4.1% to -3.7%) and for 2009 (from -3.9% to -2.2%). Forecasted growth in the US for 2009 was lowered from 0.8% to -0.7% (negative growth), and in the Euro zone – from 1.2% to -0.5% (negative growth).

The economic slow-down led in recent months to a sharp decline in commodity prices, primarily the price of oil. This follows a period of inflationary pressures in most of the world economies, primarily due to higher energy and food prices. The more moderate inflationary pressures due to declining commodity prices has allowed central banks in several countries to lower interest rates in order to improve liquidity and thereby alleviate the credit crisis and encourage real economic activity. In October, several countries including the US, the Euro bloc, the UK and Canada took coordinated steps to lower interest rates by 0.50 percentage points. Interest rates were also lowered in Australia and in several emerging markets, including India, Korea and China. The US central bank's interest rate for November is a mere 1.0%.

Against the backdrop of the liquidity and trust crisis, fear of further credit losses, slower growth in the US and in other countries and the fear of the impact these may have on the global economy, declines in leading stock indices around the world continued in the 3rd quarter of 2008, and even worsened for most of them.

The Dow Jones, NASDAQ and S&P 500 indices declined in the first 9 months of 2008 by 16%-18%. The FTSE 100 and Nikkei indices declined in the same period by 21%-22%.

Sharper declines were recorded by the French CAC 40 index and the German DAX index, which declined in the period under review by 24%-26%, while the DJ EuroSTOXX index dropped by 28%.

In October, high volatility continued in equity markets with the leading indices continuing their decline.

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 November 24, 2008, the Bank Board of Directors resolved to update the strategic plan, extending it by one additional year to achieve the target average net operating profit return on equity of 18% by 2013. The original strategic plan for 2008-2012 (hereinafter: "the strategic plan"), as approved by the Board of Directors on December 24, 2007, set the target of an average net operating profit return on equity of 18% in 2012, which the Bank was to achieve using several growth engines and basic assumptions with regard to economic developments in Israel and overseas.

Due to the global financial crisis and its implications on world economies, including Israel, which is expected to cause a slow-down in activity in the economy as well as a more moderate growth rate, the Board of Directors resolved that the target to be achieved by 2013 is average net operating profit return on equity of 18%, compared to achieving this target by 2012. Other than extending the strategic plan over one additional year due to macro-economic changes, no other changes will be made to the Bank's growth and expansion plans in coming years.

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

The Board of Directors also resolved to extend the exercise periods of option warrants granted to employees (pursuant to a framework published by the Bank on June 8, 2008) by 24 months. See Note 11E to the financial statements for details.

This information is considered to be 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 - stipulating the calculation method for the consideration to be paid by the bank. On July 10, 2008, the transaction closed in exchange for NIS 371 million, in addition to NIS 48 million for 50% of the excess Yahav shareholders' equity generated due to sale of its provident funds.

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

Starting in the 3rd quarter of 2008, Bank Yahav's financial statements are consolidated with those of the Group. See Note 11.B to the financial statements for additional information.

Merger of Bank Adanim

On November 24, 2008, the Bank's Board of Directors resolved, subsequent to a decision by the Bank's Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. – a wholly owned and controlled subsidiary of the Bank – to approve the merger of Bank Adanim with and into the Bank. See Note 11.H 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 contractual arrangements with a new agreement (for a 10-year term) aimed at issuing Mizrahi-Tefahot brand 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 brand card through any party of its choice.
For details, see Note 11.D. to the financial statements.

Agreement with CAL

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

In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment and in exchange for payment of an exercise price according to a formula stated in the agreement, ordinary CAL shares, which if allotted upon the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted (hereinafter: "the option"), all subject to terms and conditions set forth in the agreement.
The agreement is effective for a 5-year term from its date of signing. Should the option be exercised or cashed as determined by the agreement, the agreement term will be extended to 10 years from its signing date, and may be further extended. The agreement is subject to all regulatory requirements required by statute, if any.
The agreement and option have no material impact on Group financial statements.

For details, see Note 11.G 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 Compensation and Management Committees of the Board of Dirctors of the Bank with regard to the principles of the stock option plan, to approve a stock option plan ("the plan" or "the option plan") for bank officers, branch-, department- and affiliate managers as well as for other employees of the Bank and its subsidiaries.

On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank Audit Committee, to extend the exercise periods of all option warrants allotted in accordance with the plan and the outline, and which are to be allotted thereby in the future, by 24 months.

The reasons indicated by the Bank's President for approval of this plan, as adopted by the Compensation and Management Committees, the Audit Committee and the Board of Directors, included, inter alia, that the option plan is a major component in providing an incentive to employees to achieve the Bank's objectives 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 sipulated by the option plan, provides an appropriate incentive to employees to continue their service to the Bank in coming years, and creates a direct connection between the Bank's annual rates of return in 2008-2012 and benefits for which the offerees would be eligible pursuant to terms of the option plan.

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

The theoretical benefit value of the option warrants currently allotted, as stated above, calculated in accordance with accounting principles in Accounting Standard No. 24, including adjustment of the option value due to the change in option terms and the impact of the change in number of options expected to vest, amounts to NIS 93 million (NIS 108 million including payroll tax), compared to NIS 115 million (NIS 133 million including payroll tax) prior to this change.

Calculation of the total theoretical benefit value of this allotment is based, inter alia, on management's estimate of the range of annual rates of return in each of the years 2008-2013, up to an annual rate of return of 18% in 2013, based on the Bank's updated strategic 5-year plan, as described above under business strategy, and on the estimate of the Bank's management of the average departure 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.

Collective bargaining agreement with the Managerial Organization

On August 19, 2008, a special collective bargaining agreement was signed with the Managerial Organization whereby managers may choose to receive a seniority bonus under a new format, which is updated based on success benchmarks and on the Bank's return on equity.

Furthermore, this agreement contains an extension of validity of the Managerial Employment Constitution through December 31, 2015, as well as a commitment by the Council not to engage in labor unrest through this date, except in case of the merger of Bank operations with another bank during the term of this agreement.

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 the 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 the combination of holdings by the 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 the Ofer Group to permanently resolve the issue of the holding of means of control, the Bank of Israel intends to allow to continue the process of deliberation aimed at regulating the manner of the holding by the Ofer Group of the 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 resources of at least 40%, 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 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 OABM (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 restructured, whereby LIN transferred some of its non-bank holdings to another company."

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 for the Group in the first 9 months of 2008 amounted to NIS 505 million, compared to NIS 528 million in the same period last year – a 4.4% decrease. This profit reflects an annualized 12.0% 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 the 3rd quarter of 2008 amounted to NIS 139 million, compared to NIS 181 million in the same period last year – a 23.2% decrease. This profit reflects a 10.0% annualized return on equity, compared to 14.4% in the corresponding period last year.

Net profit for the Group in the first 9 months of 2008 amounted to NIS 506 million, compared to NIS 761 million (including NIS 233 million from extraordinary items) in the same period last year. This profit reflects an annualized 12.1% return on equity, compared to 19.7% in the same period last year and to 17.2% in all of 2007.

Net income for the Group in the 3rd quarter of 2008 amounted to NIS 140 million, compared to NIS 184 million in the same period last year. This profit reflects a 10.0% annualized return on equity, compared to 14.7% in the corresponding period last year.

Profit from extraordinary items in the first 9 months of 2008 amounted to NIS 1 million, compared to NIS 233 million in the corresponding period last year, primarily due to sale of the Group's provident fund operations.

The following major factors had a positive impact on Group operating profit in the first 9 months of 2008 over the corresponding period last year:

- A NIS 131 million increase in profit from financing operations before provision for doubtful debt, derived, from current operations, excluding the impact of the initial consolidation of Bank Yahav (excluding impact of accounting treatment, provision for impairment of value and other factors, see below under analysis of profit from financing operations), compared to the corresponding period last year, an 8.7% increase.
- A NIS 40 million increase in operating commission revenues in the first 9 months of 2008 compared to the corresponding period last year. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, operating commission revenues grew by NIS 16 million.

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

- An increase of NIS 107 million in the provision for doubtful debt and other credit instruments. The increase is primarily due to a NIS 35 million increase in the current provision for doubtful debt due, *inter alia*, to implications of the financial crisis for the business sector, and to a NIS 96 million provision in the first 9 months of 2008 (of which NIS 77 million in the 3rd quarter) for impairment in value of Bank investments in securities primarily exposed to turmoil resulting from the financial crisis, and total provisions, as mentioned above, amounting to NIS 131 million in the first 9 months of 2008, compared to a NIS 24 million provision (all in the 3rd quarter of 2007) for investments in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds of any kind.

- These revenues, excluding the impact of the initial consolidation of Bank Yahav, loss of management fee revenues and dividends received from equity investments, grew by NIS 6 million, or 10.3%, compared to the corresponding period last year.
  Bank Yahav revenues amounted to NIS 8 million. Loss of provident fund management fee revenues amounted to NIS 22 million. Decline in dividend revenues amounted to NIS 21 million.

- The NIS 28 million increase in provision for taxes on operating profit net of the impact of the initial consolidation of Bank Yahav, primarily due to the lower provision for taxes in the corresponding period last year due to the impact of the application of the Adjustments Act, which was cancelled starting in 2008.

- Payroll expenses in the 2nd and 3rd quarters of 2008, excluding the impact of the initial consolidation of the Bank Yahav financial statements, declined by comparison to the 1st quarter. In the first 9 months of 2008, payroll and associated expenses, excluding the initial consolidation of Bank Yahav, grew by NIS 25 million compared to the corresponding period last year – a 2.8% increase.

- Operating and other expenses, excluding payroll expenses, net of the impact of the initial consolidation of Bank Yahav, in the first 9 months of 2008 were only 1.2% higher than the annual average last year. These expenses rose in the first 9 months of 2008 by NIS 35 million over the corresponding period last year, primarily due to higher amortization expenses for computers, buildings and equipment.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debt in the first 9 months of 2008 amounted to NIS 1,701 million, compared with NIS 1,519 million in the same period last year – a 12.0% increase. Group profit from financing operations before provision for doubtful debt in the 3rd quarter of 2008 amounted to NIS 598 million, compared with NIS 523 million in the same period last year – a 14.3% increase.

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

	First 9 months			Third Quarter		
	2008	2007	Rate of change	2008	2007	Rate of change
Current operations	**1,630**	**1,499**	**8.7%**	**579**	**523**	**10.7%**
Profit from collection of interest on problem loans	105	123		32	48	
Gains (losses) from realization and impairment of debentures held for sale and debentures held for trading, net (1)	(86)	2		(82)	(19)	
Effect of accounting treatment of derivatives at fair value and others (2)	(17)	(105)		-	(29)	
Initial consolidation of Bank Yahav	69	-		69	-	
Total	**1,701**	**1,519**	**12.0%**	**598**	**523**	**14.3%**

(1) Including a NIS 96 million provision in the first 9 months of 2008 (of which NIS 77 million in the 3rd quarter) for impairment in value of Bank investments in securities primarily exposed to turmoil resulting from the financial crisis, compared to a NIS 24 million provision (all in the 3rd quarter of 2007) for investments in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds.

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

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

Operating segment	First 9 months 2008	2007	Rate of change
Retail banking:			
Mortgages	333	268	24.3%
Household (2)	538	427	26.0%
Small business	243	206	18.0%
Total (2)	**1,114**	**901**	**23.6%**
Private banking	35	37	(5.4%)
Commercial banking	112	81	38.3%
Business banking	383	329	16.4%
International operations	-	92	-
Financial management (3)	57	79	(27.8%)
Total	**1,701**	**1,519**	**12.0%**

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

(2) Including NIS 69 million from the initial consolidation of Bank Yahav in the 3rd quarter of 2008. Excluding this impact, financing profit from households grew by 9.8% and for all retail banking – by 16%.

(3) The decline in segment profits from financing operations is primarily due to a NIS 96 million provision in the first 9 months of 2008 (of which NIS 77 million in the 3rd quarter) for the impairment in value of Bank investments in securities primarily exposed to financial institutions overseas, compared to a NIS 24 million provision (all in the 3rd quarter of 2007) for investment in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds.

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

Linkage segments	First 9 months 2008	2007	Rate Change
Israeli currency - non-linked (1)	77,060	59,914	28.6%
Israeli currency - linked to the CPI	40,153	39,380	2.0%
Foreign currency (including Israeli currency linked to foreign currency) (2)	63,179	60,788	3.9%
Total	180,392	160,082	12.7%

(1) The increase in the average balance of financial assets in the non-linked segment is due to a significant increase in derivative instrument operating volume, to diversion of deposits from overseas banks to the Bank of Israel and to a NIS 2.2 billion increase in the average balance of non-linked assets due to the initial consolidation of Bank Yahav with the Group's financial statements.

(2) Local operations and overseas affiliates.

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

Linkage segments	First 9 months	
	2008	2007
Israeli currency - non-linked	1.39%	1.63%
Israeli currency - linked to the CPI	0.67%	0.37%
Foreign currency (including Israeli currency linked to foreign currency 1)	0.60%	(0.10%)
Total including impact of derivatives	0.99%	0.71%
Total excluding impact of derivatives	2.09%	1.41%

(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 the Management Discussion.

The provision for doubtful debt for the Group in the first 9 months of 2008 amounted to NIS 213 million, compared to NIS 178 million in the corresponding period last year – a 19.7% increase. In the 3rd quarter of 2008, the provision for doubtful debt amounted to NIS 117 million, compared with NIS 65 million in the same period last year, an increase of 80.0%.

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

Total provisions for doubtful debt and other credit instruments in the first 9 months of 2008 increase by NIS 107 million over the corresponding period last year. The increase is primarily due to a NIS 35 million increase in the current provision for doubtful debt due, *inter alia*, to implications of the financial crisis for the business sector, and to a NIS 96 million provision in the first 9 months of 2008 (of which NIS 77 million in the 3rd quarter) for impairment in value of the Bank's investments in securities primarily exposed to turmoil resulting from the financial crisis, compared to a NIS 24 million provision (all in the 3rd quarter of 2007) for investment in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds of any kind.

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

	First 9 months		Third Quarter	
	2008	2007	2008	2007
Specific provision:				
By extent of arrears	29	21	1	17
Other	170	167	103	52
Total specific provision	199	188	104	69
General and additional provision	14	(10)	13	(4)
Total	213	178	117	65
Annualized rate of provision for doubtful debt to total credit to the public	0.34%	0.32%	0.56%	0.35%

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

	First 9 months		
Operating segment	2008	2007	Rate of change
Retail banking:			
Mortgages	41	23	78.3%
Household	38	26	46.2%
Small business	44	67	(34.3%)
Total	**123**	**116**	**6.0%**
Private banking	1	-	-
Commercial banking	2	4	(50.0%)
Business banking	78	58	34.5%
Financial management	9	-	-
Total	**213**	**178**	**19.7%**

The balance of the general and supplementary provision for doubtful debt on the Group's balance sheet amounted to NIS 192 million as of September 30, 2008, compared with NIS 172 million as of December 31, 2007.

Profit from financing operations after provision for doubtful debt in the first 9 months of 2008 amounted to NIS 1,488 million, compared with NIS 1,341 million in the corresponding period last year - an -11.0% increase.

In the 3rd quarter of 2008, profit from financing operations after provision for doubtful debt amounted to NIS 481 million, compared with NIS 458 million in the corresponding period last year, a 5.0% increase.

Total operating and other revenues for the Group in the first 9 months of 2008 amounted to NIS 898 million, compared to NIS 887 million in the corresponding period last year - a 1.2% increase. Excluding revenues of NIS 32 million due to the initial consolidation of Bank Yahav's financial statements, the impact of dividend revenues amounting to NIS 17 million received in the first 9 months of 2008 on investments in shares, compared to NIS 38 million in the corresponding period last year, and loss of revenues amounting to NIS 22 million from provident fund management fees due to sale of these operations, total operating and other revenues increased by 2.7%.

In the 3rd quarter of 2008, operating and other revenues amounted to NIS 315 million, compared to NIS 273 million in the corresponding period last year, a 15.4% increase. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, operating and other revenues increased by 3.7%.

Revenues from operating commissions for the Group amounted to NIS 809 million in the first 9 months of 2008, compared with NIS 769 million in the corresponding period last year - a 5.2% increase. Excluding NIS 24 million in revenues due to the initial consolidation of Bank Yahav's financial statements, the increase over the corresponding period last year was 2.1%.

In the 3rd quarter of 2008, operating commission revenues amounted to NIS 295 million, compared to NIS 260 million in the corresponding period last year, a 13.5% increase. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the increase was 4.2%.

Net profit from investments in shares in the first 9 months of 2008 amounted to NIS 30 million, compared to NIS 45 million in the corresponding period last year. This gain includes dividend revenues amounting to NIS 17 million received in the first 9 months of 2008 on investments in shares, compared to NIS 38 million in the corresponding period last year.
In the 3rd quarter of 2008, the net loss from investments in shares amounted to NIS 3 million, compared with NIS 1 million in the corresponding period last year.

Other revenues for the Group amounted to NIS 59 million in the first 9 months of 2008, compared with NIS 73 million in the corresponding period last year – a 19.2% decrease. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the decrease was 30.1%. The decrease is primarily due to loss of revenues amounting to NIS 22 million from provident fund management fees, due to sale of provident fund operations.

In the 3rd quarter of 2008, other revenues amounted to NIS 23 million, compared to NIS 14 million in the same period last year, a 64.3% increase. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the increase was 7.1%.

Operating and other expenses for the Group amounted to NIS 1,565 million in the first 9 months of 2008, compared with NIS 1,427 million in the corresponding period last year – a 9.7% increase. Excluding NIS 78 million in expenses due to the initial consolidation of Bank Yahav's financial statements, the increase over the corresponding period last year was 4.2%.

In the 3rd quarter of 2008, operating and other expenses amounted to NIS 564 million, compared to NIS 478 million in the corresponding period last year, an 18.0% increase. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the increase *vis-à-vis* the same quarter last year was 1.7%.

Payroll and associated expenses for the Group amounted to NIS 946 million in the first 9 months of 2008, compared with NIS 878 million in the corresponding period last year – a 7.7% increase. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the increase was 2.8%.

Payroll expenses for the Group in the 3rd quarter of 2008 amounted to NIS 331 million, compared to NIS 291 million in the corresponding period last year. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, payroll expenses in the 3rd quarter of 2008 amounted to NIS 288 million, compared to NIS 291 million in the corresponding period last year.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 341 million in the first 9 months of 2008, compared with NIS 311 million in the corresponding period last year – a 9.6% increase. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the increase was 5.5%, primarily due to higher depreciation expenses for buildings and equipment.

In the 3rd quarter of 2008, maintenance and depreciation of buildings and equipment expenses amounted to NIS 126 million, compared to NIS 105 million in the corresponding period last year, a 20.0% increase. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the increase was 7.6%.

Operating and other expenses for the Group amounted to NIS 278 million in the first 9 months of 2008, compared with NIS 238 million in the corresponding period last year – a 16.8% increase. Excluding NIS 22 million in expenses due to the initial consolidation of Bank Yahav's financial statements, the increase over the corresponding period last year was 7.6%.

In the 3rd quarter of 2008, other operating expenses amounted to NIS 107 million, compared with NIS 82 million in the corresponding period last year. Excluding the impact of the initial consolidation of Bank Yahav's financial statements, the increase was 3.7%.
As a result of developments in profit and expenses, changes to financial ratios were as follows:

	In the first 9 months of		All of
	2008	2007	2007
Operational Coverage Ratio (1)	57.4%	62.2%	61.4%
Cost-Profit Ratio(2)	60.2%	59.3%	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.

Group pre-tax operating profit in the first 9 months of 2008 amounted to NIS 821 million, compared to NIS 801 million in the corresponding period last year. This increase is entirely due to the impact of initial consolidation of Bank Yahav's financial statements.
In the 3rd quarter of 2008, pre-tax operating profit amounted to NIS 232 million, compared to NIS 253 million in the corresponding period last year, an 8.3% decrease.
Excluding NIS 22 million in profit due to the initial consolidation of Bank Yahav's financial statements, the decrease over the corresponding period last year was 17.0%.

The provision for taxes on operating profit amounted to NIS 309 million in the first 9 months of 2008, compared with NIS 273 million in the corresponding period last year, a 13.2% increase.

In the 3rd quarter of 2008, the provision for taxes on operating profit amounted to NIS 86 million, compared to NIS 72 million in the corresponding period last year, a 19.4% increase.

The increase in the provision for taxes was also impacted by the rescinding of the Inflationary Adjustment Act and by revisions made to the VAT Act, which led to a NIS 67 million increase in the provision for taxes on operating profit.
For details of the effect of rescinding of the Adjustment Act, see Note 11.F. to the financial statements.

Operating net profit in the first 9 months of 2008 amounted to NIS 505 million, compared to NIS 528 million in the corresponding period last year – a 4.4% decrease.
Operating net profit in the 3rd quarter of 2008 amounted to NIS 139 million, compared to NIS 181 million in the same period last year – a 23.2% decrease.

After-tax profit from extraordinary items for the Group in the first 9 months of 2008 amounted to NIS 1 million, compared to NIS 233 million in the corresponding period last year, primarily due to the sale of the Group's provident fund operations.

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

	First 9 months		Third Quarter		All of
	2008	2007	2008	2007	2007
From current operations	12.0	13.6	10.0	14.4	12.9
Net profit	12.1	19.7	10.0	14.7	17.2

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

Earnings per share

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

	First 9 months		All of
	2008	2007	2007
Basic earnings per share:			
From current operations	2.27	2.39	3.08
From net profit	2.28	3.45	4.11
Diluted earnings per share:			
From current operations	2.25	2.35	3.03
From net profit	2.26	3.38	4.04

Development of balance sheet items

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

	September 30		December 31	Change compared to	
	2008	2007	2007	September 30, 2007	December 31, 2007
Balance sheet total	107,015	96,880	95,317	10.5%	12.3%
Credit to the public	83,880	73,688	74,320	13.8%	12.9%
Deposits from the public	84,681	76,074	75,290	11.3%	12.5%
Securities	7,449	6,763	6,145	10.1%	21.2%
Shareholders' equity	5,846	5,434	5,557	7.6%	5.2%

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

Loans to the public in the consolidated balance sheet as of September 30, 2008 accounted for 78% of total assets, similar to the end of 2007. Group loans to the public increased in the first 9 months of 2008 by NIS 9.6 billion – a 12.9% increase. Excluding the initial consolidation of Bank Yahav's loans to the public, amounting to NIS 3.6 billion, and the impact of the NIS revaluation, loans to the public in the first 9 months of 2008 increased by 10.2%.

Loans to the public by linkage segment (NIS in millions) are as follows:

Linkage segment				Change in %	
	September 30		December 31	September 30	December 31
	2008	2007	2007	2007	2007
Israeli currency					
Non-linked	37,417	26,958	27,911	38.8%	34.1%
CPI- linked	34,817	33,880	33,586	2.8%	3.7%
Foreign currency and foreign currency linked (1)	11,646	12,850	12,823	(9.4%)	(9.2%)
Total	83,880	73,688	74,320	13.8%	12.9%

(1) Excluding impact of NIS revaluation, only a 3.3% increase.

Loans to the public by operating segment (NIS in millions) are as follows:

				Change compared to	
	September 30		December 31	September 30	December 31
Operating segment	2008	2007	2007	2007	2007
Retail banking:					
Mortgages	40,807	35,701	35,795	14.3%	14.0%
Household	(1)(2) 12,651	7,676	7,808	64.8%	62.0%
Small business	4,771	4,820	4,806	(1.0%)	(0.7%)
Total	58,229	48,197	48,409	20.8%	20.3%
Private banking	(2) 1,312	-	-	-	-
Commercial banking	4,417	3,834	4,087	15.2%	8.1%
Business banking	(2) 19,922	17,813	17,412	11.8%	14.4%
International operations	(2) -	3,844	4,412	-	-
Total	**83,880**	**73,688**	**74,320**	**13.8%**	**12.9%**

(1) Includes NIS 3,614 million due to impact of initial consolidation of Bank Yahav.

(2) Includes credit to the public in respect of international operations, in the Household segment NIS 760 million, in the Private Banking segment NIS 1,312 million, and in the Business Banking segment – NIS 2,248 million.

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

	September 30		December 31
	2008	2007	2007
Non-accrual debt	1,093	1,036	934
Rescheduled debt	206	187	185
Debt designated for rescheduling	-	2	2
Debt in temporary arrears	944	1,178	1,027
Includes: housing loans	537	624	615
Debt under special supervision	2,435	1,743	1,582
Includes: Debt for which a specific provision was made	75	120	120
Includes: Housing loans for which there is a provision based on length of arrears	625	689	670
Total balance sheet credit to problem borrowers	4,678	4,146	3,730
Off-balance sheet credit to problem borrowers	917	719	616
Total credit risk, including in respect of problem borrowers	5,595	4,865	4,346

Securities – the balance of investment in securities rose in the first 9 months of 2008 by 21.2%.

The distribution of the Group's security portfolio by linkage segment (NIS in millions) is as follows:

	September 30		December 31	Change compared to	
Linkage segment	2008	2007	2007	September 30, 2007	December 31, 2007
Israeli currency					
Non-linked	2,773	1,881	1,742	47.4%	59.2%
CPI- linked	1,185	1,379	1,207	(14.1%)	(1.8%)
Foreign currency denominated (Includes linked to foreign currency)	3,113	3,115	2,797	(0.1%)	11.3%
Non-monetary items	378	388	399	(2.8%)	(5.5%)
Total	7,449	6,763	6,145	10.1%	21.2%

The distribution of the balance of the Group's investment in securities by type of issuer as of September 30, 2008 (NIS in millions) is as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value (book value)
Securities held for sale:				
Debentures of the Government of Israel	5,446	5	83	5,368
Foreign government debentures	16	-	-	16
Bank debentures	1,415	-	40	1,375
Corporate debentures	210	-	8	202
Asset-backed debentures	130	-	41	89
Other shares	331	55	8	378
Total securities held for sale	7,548	60	180	7,428
Securities held for trading:				
Debentures of the Government of Israel	19	-	-	19
Others	2	-	-	2
Total securities	7,569	60	180	7,449

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

	Duration in which fair value is lower than the amortized cost				
Rate of decline from amortized cost	Up to 6 months	6-9 months	9-12 months	Over 12 months	Total
Stocks held for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	-	-
Over 40%	4	-	4	-	8
Total	4	-	4	-	8
Asset-backed debentures held for sale					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	41	41
Over 40%	-	-	-	-	-
Total				41	41
Other debentures held for sale					
Up to 20%	75	3	5	17	100
20%-40%	-	17	-	12	29
Over 40%	-	-	-	2	2
Total	75	20	5	31	131

See Note 2 to the financial statements for details.

Deposits from the public - these account for 79% of the total consolidated balance sheet as of September 30, 2008, similar to their weight at the end of 2007.
In the first 9 months of 2008, deposits from the public with the Bank Group declined by NIS 9.4 billion – a 12.5% increase. Excluding the initial consolidation of deposits from the public at Bank Yahav, amounting to NIS 9.9 billion, and the impact of the NIS revaluation, the increase in total deposits from the public was 2.3%.

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

Linkage segment	September 30		December 31	Change compared to	
	2008	2007	2007	September 30, 2007	December 31, 2007
Israeli currency					
Non-linked	43,975	37,299	36,125	17.9%	21.7%
CPI- linked	22,603	20,241	20,020	11.7%	12.9%
Foreign currency and foreign currency linked (1)	18,103	18,534	19,145	(2.3%)	(5.4%)
Total	84,681	76,074	75,290	11.3%	12.5%

(1) Excluding impact of NIS revaluation, a 6.4% increase.

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

Operating segment	Balance as of September 30		As of December - 31	Change compared to	
	2008	2007	2007	September 30, 2007	December 31, 2007
Retail banking:					
Household	44,755 (1)(2)	31,693	30,731	41.2%	45.6%
Small business	8,967	10,195	11,106	(12.0%)	(19.3%)
Total	**53,722**	**41,888**	**41,837**	**28.3%**	**28.4%**
Private banking	(2) 6,317	2,299	2,204	174.8%	186.6%
Commercial banking	2,223	2,207	2,432	0.7%	(8.6%)
Business banking	(2) 12,164	11,879	10,753	2.4%	13.1%
International operations	-	5,191	5,481	-	-
Financial management	10,255	12,610	12,583	(18.7%)	(18.5%)
Total	**84,681**	**76,074**	**75,290**	**11.3%**	**12.5%**

(1) Includes NIS 9,909 million due to impact of initial consolidation of Bank Yahav.
(2) Includes credit to the public in respect of international operations, in the Household segment NIS 383 million, in the Private Banking segment NIS 3,783 million, and in the Business Banking segment – NIS 1,644 million.

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 the capital reserve in the first 9 months of 2008, less applicable taxes, amounted to a decrease of NIS 95 million. Shareholders' equity as of September 30, 2008 includes a negative capital reserve amounting to NIS 68 million, due to the adjustment of securities held for sale to fair value, after applicable taxes.

The ratio of shareholders' equity to the total balance sheet for the Group as of September 30, 2008 amounted to 5.46%, compared to 5.83% at the end of 2007.

Ratio of capital to risk components

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 the weighted total of risk components of its balance sheet assets and off-balance-sheet items, and said instructions describe the manner of calculation of total capital and total risk components.

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

	September 30, 2008	December 31, 2007
Ratio of Tier I capital to risk elements	6.68%	6.68%
Ratio of total capital to risk elements	11.43%	11.33%
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

The ratio of capital to risk components as of September 30, 2008 also takes into account the capital adequacy requirement due to market risk, in accordance with Directive 341 – Adequacy of Capital due to Market Risk, the effect of which on the capital ratio, as of September 30, 2008, is 0.34%.

The balance of complex capital notes and subordinated notes for Group capital adequacy, as of September 30, 2008, amounts to NIS 4,234 million, compared to NIS 3,710 million at the end of 2007. These amounts include complex capital notes listed for trading, amounting to NIS 1,177 million. See Note 4 to the financial statements for details.

Main Investees

The contribution of investees to net operating profit amounted to NIS 47 million in the first 9 months of 2008, compared with NIS 55 million in the corresponding period last year.

Bank Yahav for Government Employees Ltd. (hereinafter: "Bank Yahav")
Bank Yahav is a private company. On July 10, 2008, the Bank concluded the transaction to acquire 50% of Bank Yahav's issued capital and associated rights, Bank Yahav became a subsidiary of the Bank and its financial statements were initially consolidated within the Bank's consolidated financial statements as of September 30, 2008. Consequently, the consolidated balance sheet included assets of Bank Yahav for the first time amounting to NIS 10.9 billion, starting on September 30, 2008.

Bank Yahav's contribution to Group net profit in the first 9 months of 2008 amounted to NIS 8.0 million (initially consolidated in the 3rd quarter of this year). Bank Yahav's net profit return on equity (average equity, as defined in the Supervisor of Banks' Public Reporting Directive) in the first 9 months of 2008 was 27.7%, and net operating profit return on equity was 6.1%. Bank Yahav's balance sheet total as of September 30, 2008 amounted to NIS 10,864 million, compared to NIS 9,350 million as of December 31, 2007. The balance of credit to the public as of September 30, 2008 amounted to NIS 3,614 million, compared to NIS 2,390 million at end of 2007. As mentioned above, Bank Yahav's 2007 financial results were not included in Group financial statements.
See Note 11.B to the financial statements for additional information.

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 9 months of 2008 amounted to NIS 21.7 million, compared to NIS 24.1 million (NIS 18.0 million from current operations) in the corresponding period last year. Net profit return on equity (average equity, as defined in the Supervisor of Banks' Public Reporting Regulations) amounted in the first 9 months of 2008 to 9.6%, compared to an 11.8% return (8.8% excluding profit from extraordinary items) in the same period last year. Bank Adanim's balance sheet total as of September 30, 2008 amounted to NIS 4,506 million, compared to NIS 4,043 million as of December 31, 2007. The balance of credit to the public as of September 30, 2008 amounted to NIS 4,437 million, compared to NIS 3,937 million at end of 2007.
For details of the Bank Board of Directors' approval of the merger of Bank Adanim into and with the Bank, see Note 11H to the financial statements.

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 9 months of 2008 amounted to NIS 29.7 million, compared to NIS 31.2 million in the same period last year.

The net income return in equity in the first 9 months of 2008 amounted to 13.0%, compared to 15.6% in the same period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first 9 months of 2008 amounted to CHF 2.2 million, compared to CHF 2.1 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of September 30, 2008 amounted to CHF 131 million, compared to CHF 141 million at the end of 2007.

Total credit to the public as of September 30, 2008 amounted to CHF 78 million, compared to CHF 86 million at end of 2007; total deposits at banks as of September 30, 2008 amounted to CHF 26 million, compared to CHF 35 million at end of 2007. Total deposits from the public as of September 30, 2008 amounted to CHF 31 million, compared to CHF 35 million at end of 2007; total deposits from banks as of September 30, 2008 amounted to CHF 52 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 in the first 9 months of 2008, amounted to a loss of NIS 13.7 million, compared with a profit of NIS 3.4 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 9 months of the year amounted to NIS 8.5 million, compared to a NIS 9.5 million profit in the same period last year.

Investment in non-banking corporations

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

Bank investments in non-banking corporations as of September 30, 2008 amounted to NIS 353 million, compared to NIS 410 million at end of 2007.

These investments include NIS 282 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 275 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 a 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 9 months of 2008 to NIS 29 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 six major operating segments, which are distinguished according to 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 described below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for customers and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

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

Small business segment - under responsibility of the Retail Division and 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 - within this segment, the Business Division provides a range of banking and financial services to among the largest corporations in the economy, in a range of sectors, having a relatively high volume of indebtedness. This segment also includes the banking services group for major customers in the construction and real estate sector.

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 accounts, 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 serve as investment vehicles for 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 as a whole. 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 by the organizational units in charge of servicing them. Information presented below by operating segment is based on the the Bank's organizational structure, on customer assignment to various units 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 the division into operating segments and the principles used for allocation of balances, revenues and expenses to customers in the system – see Note 30 to the financial statements as of December 31, 2007.
International operations were presented in 2007 as a separate segment. In these financial statements, results of international operations for 2008 were assigned to the different segments. Analysis of segment results below makes reference, *inter alia*, to the impact of the allocation of international operations to the various segments, wherever such impact has been material.

Note that profit from financing operations from external entities for derivative instruments is calculated based on changes in 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 is the seller, and the interest curve used by the Bank for transactions on which it is 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 a report of Bank Group business results by operating segment.

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

Profitability

	Net operating profit, first 9 months		Net profit First 9 months		Return on equity (in %), first 9 months	
	2008	(1) 2007	2008	(1) 2007	2008	2007
Household						
Mortgages	205	195	205	195	13.8	15.2
Other	73	63	73	184	16.0	56.7
Private banking	24	29	24	81	63.2	-
Small business	45	15	45	54	16.5	24.7
Commercial banking	39	17	39	18	19.5	9.6
Business banking	142	156	142	161	10.4	12.9
International operations	-	25	-	25	-	15.1
Financial management	(23)	28	(22)	43	(5.9)	9.6
Total	505	528	506	761	12.1	19.7

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Households Segment

	For the 9 months ended September 30, 2008					For the 9 months ended September 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 from financing operations before provision for doubtful debt										
From outside operating segments	(384)	11	11	2,518	2,156	(315)	10	17	1,844	1,556
Inter-segment	908	(8)	-	(2,185)	(1,285)	723	(8)	-	(1,576)	(861)
Profit from financing operations before provision for doubtful debt	524	3	11	333	871	408	2	17	268	695
Operating and other revenues	152	64	74	192	482	120	46	73	196	435
Total profit	676	67	85	525	1,353	528	48	90	464	1,130
Provision for doubtful debt	38	-	-	41	79	26	-	-	23	49
Operating and other expenses										
From outside operating segments	675	39	26	156	896	563	28	29	146	766
Inter-segment	(72)	(6)	-	-	(78)	(73)	(4)	-	-	(77)
Total operating and other expenses	603	33	26	156	818	490	24	29	146	689
Pre-tax operating profit	35	34	59	328	456	12	24	61	295	392
Provision for taxes on operating profit	13	13	22	123	171	5	8	21	100	134
After-tax operating profit	22	21	37	205	285	7	16	40	195	258
Minority interest in net after-tax operating profits of subsidiaries	(7)	--		-	(7)	-	-	-	-	-
Net operating profit	15	21	37	205	278	7	16	40	195	258
Net after-tax profit from extraordinary items	-	-	-	-	-	-	-	121	-	121
Net profit	**15**	**21**	**37**	**205**	**278**	**7**	**16**	**161**	**195**	**379**
Return on equity					14.3%					23.6%
Average balance of assets	9,143	1,322	-	38,159	48,624	4,665	887	-	36,377	41,929
Average balance of liabilities	35,681	7	-	3,870	39,558	29,346	116	-	3,327	32,789
Average balance of risk assets	10,026	-	-	30,140	40,166	6,852	-	-	25,983	32,835
Average balance of securities	-	-	19,784	-	19,784	-	-	12,421	-	12,421
Credit to the public (end balance)	11,011	1,640	-	40,807	53,458	6,320	1,356	-	35,701	43,377
Deposits from the public (end balance)	43,278	-	-	1,477	44,755	30,101	-	-	1,592	31,693
Average balance of assets under management	1,908	-	-	16,627	18,535	181	-	-	16,839	17,020
Components of profit from financing operations before provision for doubtful debt:										
Margin from credit granting operations	166	3	-	285	454	142	2	-	215	359
Margin from receiving deposits	328	-	-	12	340	253	-	-	17	270
Other	30	-	11	36	77	13	-	17	36	66
Total	**524**	**3**	**11**	**333**	**871**	**408**	**2**	**17**	**268**	**695**

(1) Reclassified.

The contribution of the household segment to Group operating profit in the first 9 months of 2008 increased by 7.8%, compared to its contribution in the same period last year. Excluding the Bank's share of Bank Yahav profits, initially consolidated in the 3rd quarter of 2008, net operating profit grew by 5.0%. Profit from extraordinary items, amounting to NIS 121 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

Profit from financing operations grew by 25.3%, and excluding the impact of initial consolidation of Bank Yahav – by 15.4%, primarily due to mortgage operations. The increase in profit from mortgage financing operations was also impacted by linkage differentials on credit balances for which a provision for doubtful debt has been made, countered by a similar impact on the provision for doubtful debt, as set forth below. Operating and other revenues rose by 10.8%, and excluding the impact of Bank Yahav's initial consolidation – by 3.4%.

On the other hand, the provision for doubtful debt increased by NIS 30 million, primarily due to a NIS 18 million increase in the provision by extent of arrears in mortgage operations, as well as an increase in the provision for individual borrowers. The increase in the provision by extent of arrears was impacted by the increase in the Consumer Price Index, which led to a NIS 9 million increase in this provision.

The 18.7% increase in operating expenses, 23.1% for banking and finance, was primarily due to the initial consolidation of Bank Yahav. Excluding this impact, operating expenses grew by 7.4%, 7.1% for banking and finance.

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

Results of Households Segment

	For the 3 months ended September 30, 2008					For the 3 months ended September 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 from financing operations before provision for doubtful debt										
From outside operating segments	(110)	4	4	1,086	984	(122)	3	6	929	816
Inter-segment	348	(3)	-	(971)	(626)	268	(3)	-	(837)	(572)
Profit from financing operations before provision for doubtful debt	238	1	4	115	358	146	-	6	92	244
Operating and other revenues	58	21	31	61	171	41	7	25	65	138
Total profit	296	22	35	176	529	187	7	31	157	382
Provision for doubtful debt	19	-	-	12	31	11	-	-	17	28
Operating and other expenses										
From outside operating segments	279	13	8	55	355	182	15	9	52	258
Inter-segment	(26)	(3)	-	-	(29)	(27)	(2)	-	-	(29)
Total operating and other expenses	253	10	8	55	326	155	13	9	52	229
Operating profit (loss) before taxes	24	12	27	109	172	21	(6)	22	88	125
Provision for taxes on operating profit	8	5	10	40	63	9	(3)	6	23	35
After-tax operating profit (loss)	16	7	17	69	109	12	(3)	16	65	90
Minority interest in net after-tax operating profits of subsidiaries	(7)	-	-	-	(7)	-	-	-	-	-
Net operating profit	9	7	17	69	102	12	(3)	16	65	90
Net after-tax profit from extraordinary items	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	**9**	**7**	**17**	**69**	**102**	**12**	**(3)**	**16**	**65**	**90**
Return on equity					**15.1%**					**16.5%**
Components of profit from financing operations before provision for doubtful debt: (1)										
Margin from credit granting operations	57	1	-	115	173	46	-	-	74	120
Margin from receiving deposits	153	-	-	-	153	90	-	-	7	97
Other	28	-	4	-	32	10	-	6	11	27
Total	**238**	**1**	**4**	**115**	**358**	**146**	**-**	**6**	**92**	**244**

(1) Reclassified.

The volume of mortgages granted by segment is as follows:

	Loans issued (in NIS millions)		
	9 months		
	2008	2007	Rate of change
Mortgages issued (for housing and for any purpose)			
From the Bank's funds	7,954	5,524	44.0%
From Finance Ministry funds			
Directed loans	475	582	(18.4%)
Standing loans and grants	139	98	41.8%
Management for others	1	54	(98.1%)
Total new loans	8,569	6,258	36.9%
Recycled loans	808	929	(13.0%)
Total loans issued	9,377	7,187	30.5%
Number of borrowers (includes recycled loans)	31,311	26,970	16.1%

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 9 months ended September 30, 2008			For the 9 months ended September 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	(154)	1	(153)	(77)	1	(76)
Inter-segment	188	-	188	113	-	113
Profit from financing operations before provision for doubtful debt	34	1	35	36	1	37
Operating and other revenues	38	12	50	2	13	15
Total profit	72	13	85	38	14	52
Provision for doubtful debt	1	-	1	-	-	-
Operating and other expenses						
From outside operating segments	42	1	43	7	-	7
Inter-segment	1	-	1	1	-	1
Total operating and other expenses	43	1	44	8	-	8
Pre-tax operating profit	28	12	40	30	14	44
Provision for taxes on operating profit	11	5	16	10	5	15
Net operating profit	17	7	24	20	9	29
Net after-tax profit from extraordinary items	-	-	-	-	52	52
Net profit	**17**	**7**	**24**	**20**	**61**	**81**
Return on equity			**63.2%**			**-**
Average balance of assets	1,384	-	1,384	-	-	-
Average balance of liabilities	6,186	-	6,186	2,136	-	2,136
Average balance of risk assets	806	-	806	-	-	-
Average balance of securities	-	4,960	4,960	-	5,456	5,456
Credit to the public (end balance)	1,312	-	1,312			
Deposits from the public (end balance)	6,317	-	6,317	2,299	-	2,299
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	32	-	32	35	-	35
Other	2	1	3	1	1	2
Total	**34**	**1**	**35**	**36**	**1**	**37**

(1) Reclassified.

Th contribution of the Private Banking segment to Group operating profit in the first 9 months of 2008 decreased by 17.2%, compared to the contribution in the same period last year. Profit from extraordinary items, amounting to NIS 52 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

Segment profit in 2008 includes operating results of private banking under international operations, which were presented as a separate segment in 2007. Excluding this impact, segment contribution in the first 9 months of 2008 decreased by 48% compared to the corresponding period last year.

Results of Private Banking Segment

	For the 3 months ended September 30, 2008			For the 3 months ended September 30, 2007 (1)		
	Banking and finance	Capital market	Total	Bankin g and finance	Capital market	Total
	NIS in millions			NIS in millions		
Profit from financing operations before provision for doubtful debt						
From outside operating segments	(45)	1	(44)	(34)	1	(33)
Inter-segment	54	-	54	49	-	49
Profit from financing operations before provision for doubtful debt	9	1	10	15	1	16
Operating and other revenues	15	4	19	-	7	7
Total profit	24	5	29	15	8	23
Provision for doubtful debt	1	-	1	-	-	-
Operating and other expenses			-			
From outside operating segments	16	1	17	4	-	4
Inter-segment	-	-	-	-	-	-
Total operating and other expenses	16	1	17	4	-	4
Operating profit (loss) before taxes	7	4	11	11	8	19
Provision for taxes on operating profit	3	2	5	3	3	6
Net operating profit (loss)	4	2	6	8	5	13
Net after-tax profit from extraordinary items	-	-	-	-	-	-
Net profit (loss)	**4**	**2**	**6**	**8**	**5**	**13**
Return on equity			**52.4%**			**-**

Components of profit from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	7	-	7	15	-	15
Other	2	1	3	-	1	1
Total	**9**	**1**	**10**	**15**	**1**	**16**

(1) Reclassified.

Results of the Small Business Segment

	For the 9 months ended September 30, 2008				For the 9 months ended September 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	11	2	6	19	(111)	2	2	(107)
Inter-segment	226	(2)	-	224	315	(2)	-	313
Profit from financing operations before provision for doubtful debt	237	-	6	243	204	-	2	206
Operating and other revenues	111	8	11	130	109	7	14	130
Total profit	348	8	17	373	313	7	16	336
Provision for doubtful debt	44	-	-	44	67	-	-	67
Operating and other expenses								
From outside operating segments	282	2	3	287	275	1	3	279
Inter-segment	(30)	-	-	(30)	(32)	-	-	(32)
Total operating and other expenses	252	2	3	257	243	1	3	247
Pre-tax operating profit	52	6	14	72	3	6	13	22
Provision for taxes on operating profit	20	2	5	27	1	2	4	7
Net operating profit	32	4	9	45	2	4	9	15
Net after-tax profit from extraordinary items	-	-	-	-	-	-	39	39
Net profit	**32**	**4**	**9**	**45**	**2**	**4**	**48**	**54**
Return on equity				**16.5%**				**24.7%**
Average balance of assets	4,838	35	-	4,873	4,942	32	-	4,974
Average balance of liabilities	9,264	-	-	9,264	9,596	-	-	9,596
Average balance of risk assets	5,544	-	-	5,544	4,475	-	-	4,475
Average balance of securities	-	-	12,628	12,628	-	-	10,782	10,782
Credit to the public (end balance)	4,734	37	-	4,771	4,785	35	-	4,820
Deposits from the public (end balance)	8,967	-	-	8,967	10,195	-	-	10,195
Average balance of other assets managed	157	-	-	157	170	-	-	170
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	149	-	-	149	122	-	-	122
Margin from receiving deposits	56	-	-	56	64	-	-	64
Other	32	-	6	38	18	-	2	20
Total	**237**	**-**	**6**	**243**	**204**	**-**	**2**	**206**

(1) Reclassified.

The contribution of the Small Business segment to Group operating profit in the first 9 months of 2008 increased by NIS 30 million compared to its contribution in the corresponding period last year. Profit from extraordinary items, amounting to NIS 39 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.
In the first 9 months of 2008, the segment was characterized by higher credit spreads which resulted in profit from financing operations in the first 9 months of 2008 being 18.0% higher than in the corresponding period last year. The provision for doubtful debt in the segment decreased in the first 9 months of 2008 by NIS 23 million, or 34.3%, compared to the corresponding period last year.
Operating expenses in the first 9 months of 2008 rose by a moderate 4.0% compared to the corresponding period last year.

Results of the Small Business Segment

	For the 3 months ended September 30, 2008				For the 3 months ended September 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	132	1	2	135	(59)	1	1	(57)
Inter-segment	(51)	(1)	-	(52)	131	(1)	-	130
Profit from financing operations before provision for doubtful debt	81	-	2	83	72	-	1	73
Operating and other revenues	39	3	2	44	34	2	5	41
Total profit	120	3	4	127	106	2	6	114
Provision for doubtful debt	18	-	-	18	24	-	-	24
Operating and other expenses								
From outside operating segments	93	1	1	95	106	-	1	107
Inter-segment	(11)	-	-	(11)	(12)	-	-	(12)
Total operating and other expenses	82	1	1	84	94	-	1	95
Operating profit (loss) before taxes	20	2	3	25	(12)	2	5	(5)
Provision for taxes on operating profit	8	-	1	9	(4)	-	1	(3)
Net profit (loss)	**12**	**2**	**2**	**16**	**(8)**	**2**	**4**	**(2)**
Return on equity				**14.9%**				**(2.6%)**
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	38	-	-	38	43	-	-	43
Margin from receiving deposits	18	-	-	18	23	-	-	23
Other	25	-	2	27	6	-	1	7
Total	**81**	**-**	**2**	**83**	**72**	**-**	**1**	**73**

(1) Reclassified.

Results of the Commercial Banking Segment

	For the 9 months ended September 30, 2008				For the 9 months ended September 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	207	-	1	208	137	-	1	138
Inter-segment	(96)	-	-	(96)	(57)	-	-	(57)
Profit from financing operations before provision for doubtful debt	111	-	1	112	80	-	1	81
Operating and other revenues	28	2	5	35	25	2	4	31
Total profit	139	2	6	147	105	2	5	112
Provision for doubtful debt	2	-	-	2	4	-	-	4
Operating and other expenses								
From outside operating segments	41	-	-	41	41	-	2	43
Inter-segment	41	-	-	41	38	-	-	38
Total operating and other expenses	82	-	-	82	79	-	2	81
Pre-tax operating profit	55	2	6	63	22	2	3	27
Provision for taxes on operating profit	21	1	2	24	8	1	1	10
Net operating profit	34	1	4	39	14	1	2	17
Net after-tax profit from extraordinary items	-	-	-	-	-	-	1	1
Net profit	**34**	**1**	**4**	**39**	**14**	**1**	**3**	**18**
Return on equity				**19.5%**				**9.6%**
Average balance of assets	4,281	2	-	4,283	4,664	2	-	4,666
Average balance of liabilities	2,082	-	-	2,082	2,209	-	-	2,209
Average balance of risk assets	4,075	-	-	4,075	3,770	-	-	3,770
Average balance of securities	-	-	1,697	1,697	-	-	1,704	1,704
Credit to the public (end balance)	4,414	3	-	4,417	3,832	2	-	3,834
Deposits from the public (end balance)	2,223	-	-	2,223	2,207	-	-	2,207
Average balance of other assets managed	**23**	**-**	**-**	**23**	**59**	**-**	**-**	**59**
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	75	-	-	75	54	-	-	54
Margin from receiving deposits	13	-	-	13	13	-	-	13
Other	23	-	1	24	13	-	1	14
Total	**111**	**-**	**1**	**112**	**80**	**-**	**1**	**81**

(1) Reclassified.

The contribution of the Commercial Banking segment to Group profit in the first 9 months of 2008 grew by NIS 22 million. In the first 9 months of 2008, the segment showed increased operations: The balance of credit for the segment as of September 30, 2008 amounted to NIS 4.4 billion, compared to NIS 3.8 billion as of September 30, 2007. As a result, and due to improved credit spreads in this segment, profit from financing operations in the first 9 months of 2008 grew by NIS 31 million, or about 38.3%, compared to the same period last year.

Operating revenues in the first 9 months of 2008 rose by 12.9% compared to the corresponding period last year. On the other hand, there was no significant change in the provision for doubtful debt or in operating expenses.

Results of the Commercial Banking Segment

	For the 3 months ended September 30, 2008				For the 3 months ended September 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	76	-	-	76	54	-	-	54
Inter-segment	(38)	-	-	(38)	(27)	-	-	(27)
Profit from financing operations before provision for doubtful debt	38	-	-	38	27	-	-	27
Operating and other revenues	9	1	2	12	6	1	1	8
Total profit	47	1	2	50	33	1	1	35
Provision for doubtful debt	3	-	-	3	(2)	-	-	(2)
Operating and other expenses								
From outside operating segments	12	-	(1)	11	16	-	1	17
Inter-segment	15	-	-	15	16	-	-	16
Total operating and other expenses	27	-	(1)	26	32	-	1	33
Pre-tax operating profit	17	1	3	21	3	1	-	4
Provision for taxes on operating profit	6	1	1	8	1	1	-	2
Net profit	**11**	**-**	**2**	**13**	**2**	**-**	**-**	**2**
Return on equity				**20.4%**				**3.1%**
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	16	-	-	16	19	-	-	19
Margin from receiving deposits	4	-	-	4	4	-	-	4
Other	18	-	-	18	4	-	-	4
Total	**38**	**-**	**-**	**38**	**27**	**-**	**-**	**27**

(1) Reclassified.

Results of the Business Banking Segment

	For the 9 months ended September 30, 2008				For the 9 months ended September 30, 2007 (1)			
	Banking and finance (2)	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	244	14	305	563	179	21	300	500
Inter-segment	(2)	-	(178)	(180)	10	-	(181)	(171)
Profit from financing operations before provision for doubtful debt	242	14	127	383	189	21	119	329
Operating and other revenues	79	24	6	109	85	14	6	105
Total profit	321	38	133	492	274	35	125	434
Provision for doubtful debt	40	-	38	78	15	-	43	58
Operating and other expenses								
From outside operating segments	116	1	23	140	66	1	25	92
Inter-segment	41	-	7	48	41	-	8	49
Total operating and other expenses	157	1	30	188	107	1	33	141
Pre-tax operating profit	124	37	65	226	152	34	49	235
Provision for taxes on operating profit	46	14	24	84	52	11	16	79
Net operating profit	78	23	41	142	100	23	33	156
Net after-tax profit from extraordinary items	-	-	-	-	-	5	-	5
Net profit	**78**	**23**	**41**	**142**	**100**	**28**	**33**	**161**
Return on equity				**10.4%**				**12.9%**
Average balance of assets	16,240	9	6,240	22,489	11,865	-	5,106	16,971
Average balance of liabilities	12,382	-	1,065	13,447	11,220	-	897	12,117
Average balance of risk assets	16,638	-	10,830	27,468	13,389	-	11,932	25,321
Average balance of securities	-	37,701	-	37,701	-	38,682	-	38,682
Credit to the public (end balance)	14,150	-	5,772	19,922	11,679	-	6,134	17,813
Deposits from the public (end balance)	11,106	-	1,058	12,164	11,106	-	1,058	12,164
Average balance of other assets managed	**8**	**-**	**146**	**154**	**13**	**-**	**66**	**79**
Components of profit from financing operations before provision for doubtful debt:								
Margin from credit granting operations	123	-	110	233	85	-	115	200
Margin from receiving deposits	45	-	17	62	48	-	4	52
Other	74	14	-	88	56	21	-	77
Total	**242**	**14**	**127**	**383**	**189**	**21**	**119**	**329**

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

The contribution of the Business Banking segment to Group operating profit in the first 9 months of 2008 declined by NIS 14 million, or 9.0%, compared to its contribution in the corresponding period last year. Profit from extraordinary items, amounting to NIS 5 million, relates to the segment's share of capital gain from sale of the Bank group's provident fund operations in the first half of 2007.

Operating revenues in the first 9 months of 2008 include NIS 17 million from dividends on equity investments, compared to NIS 44 million in the same period last year. Excluding this impact, there was no significant change in segment contributions to net operating profit.

Segment contribution was impacted by a 16.4% increase in profit from financing operations (7.0% increase excluding the contribution of business banking under international operations, which was presented as a separate segment in 2007). On the other hand, segment contribution was moderated by a 34.5% increase in provision for doubtful debt due, *inter alia*, to implications of the financial crisis on the business segment and by a 33.3% increase in operating expenses, primarily due to international operations, as described above.

Results of the Business Banking Segment

	For the 3 months ended September 30, 2008				For the 3 months ended September 30, 2007 (1)			
	Banking and finance (2)	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	73	4	88	165	22	8	99	129
Inter-segment	6	-	(50)	(44)	46	-	(70)	(24)
Profit from financing operations before provision for doubtful debt	79	4	38	121	68	8	29	105
Operating and other revenues	19	9	3	31	12	8	1	21
Total profit	98	13	41	152	80	16	30	126
Provision for doubtful debt	32	-	23	55	(3)	-	18	15
Operating and other expenses								
From outside operating segments	38	-	6	44	18	-	9	27
Inter-segment	16	-	2	18	17	-	2	19
Total operating and other expenses	54	-	8	62	35	-	11	46
Pre-tax operating profit	12	13	10	35	48	16	1	65
Provision for taxes on operating profit	5	5	2	12	13	4	(2)	15
Net profit	**7**	**8**	**8**	**23**	**35**	**12**	**3**	**50**
Return on equity				**5.3%**				**12.3%**
Components of profit from financing operations before provision for doubtful debt: (1)								
Margin from credit granting operations	34	-	34	68	24	-	25	49
Margin from receiving deposits	3	-	4	7	16	-	4	20
Other	42	4	-	46	28	8	-	36
Total	**79**	**4**	**38**	**121**	**68**	**8**	**29**	**105**

(1) Reclassified.

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

Financial Management Segment results

	For the 9 months ended September 30, 2008			For the 9 months ended September 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	(1,095)	3	(1,092)	(517)	6	(511)
Inter-segment	1,149	-	1,149	590	-	590
Profit from financing operations before provision for doubtful debt	54	3	57	73	6	79
Operating and other revenues	80	12	92	105	27	132
Total profit	134	15	149	178	33	211
Provision for doubtful debt	9	-	9	-	-	-
Operating and other expenses						
From outside operating segments	151	7	158	127	20	147
Inter-segment	18	-	18	21	-	21
Total operating and other expenses	169	7	176	148	20	168
Operating profit (loss) before taxes	(44)	8	(36)	30	13	43
Provision for taxes on operating profit	(16)	3	(13)	11	4	15
After-tax operating profit (loss)	(28)	5	(23)	19	9	28
Net after-tax profit from extraordinary items	1	-	1	15	-	15
Net profit (loss)	**(27)**	**5**	**(22)**	**34**	**9**	**43**
Return on equity			**(5.9%)**			**9.6%**
Average balance of assets	23,759	-	23,759	18,554	-	18,554
Average balance of liabilities	28,627	-	28,627	22,556	-	22,556
Average balance of risk assets	8,693	-	8,693	8,983	-	8,983
Average balance of provident and mutual fund assets	51,958	-	51,958	45,707	-	45,707
Average balance of securities	1	23,531	23,532	-	21,423	21,423
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	**10,255**	**-**	**10,255**	**12,610**	**-**	**12,610**
Components of profit from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	54	3	57	73	6	79
Total	**54**	**3**	**57**	**73**	**6**	**79**

(1) Reclassified.

The contribution of the Financial Management segment to Group operating profit in the first 9 months of 2008 was negative, amounting to a NIS 23 million loss, compared to an operating profit of NIS 28 million in the corresponding period last year. Profit from extraordinary items last year, amounting to NIS 15 million, primarily relates to the segment's share of capital gain from sale of the Bank group's provident fund operations.

Profit from financing operations in the first 9 months of 2008 decreased by 27.8%, primarily due to a NIS 96 million provision for impairment of Bank investments in securities primarily exposed to fluctuations due to the financial crisis (a NIS 24 million provision in the corresponding period last year, due to investment in instruments directly or indirectly exposed to the US mortgage market or to leveraged funds, was classified separately under results of international operations, which, starting in 2008, are allocated to the appropriate segments and which were presented as a separate segment in 2007). The decrease in profit from financing operations was offset by the impact of recording derivatives at fair value, which led to recording of significant losses in the corresponding period last year, despite expenses in the first 9 months of 2008 amounting to NIS 66 million for impairment in market value of credit derivatives charged to profit and loss.

Operating and other revenues declined by NIS 40 million, 30.3%, mostly due to loss of revenues from provident fund management fees, amounting to NIS 22 million in the corresponding period last year.

In the first 9 months of 2008, the Financial Management segment recorded a provision for doubtful debt due, *inter alia*, to implications of the financial crisis on this segment.

Financial Management Segment results

	For the 3 months ended September 30, 2008			For the 3 months ended September 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	(719)	1	(718)	(382)	3	(379)
Inter-segment	706	-	706	418	-	418
Profit (loss) from financing operations before provision for doubtful debt	(13)	1	(12)	36	3	39
Operating and other revenues	33	5	38	45	-	45
Total profit	20	6	26	81	3	84
Doubtful debt expenses	9	-	9	-	-	-
Operating and other expenses						
From outside operating segments	41	1	42	18	15	33
Inter-segment	7	-	7	6	-	6
Total operating and other expenses	48	1	49	24	15	39
Operating profit (loss) before taxes	(37)	5	(32)	57	(12)	45
Provision for taxes on operating profit	(13)	2	(11)	23	(5)	18
Net operating profit (loss)	(24)	3	(21)	34	(7)	27
Net after-tax profit from extraordinary items	1	-	1	3	-	3
Net profit (loss)	**(23)**	**3**	**(20)**	**37**	**(7)**	**30**
Return on equity			**(19.0%)**			**29.0%**
Components of profit from financing operations before provision for doubtful debt:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	**(13)**	**1**	**(12)**	**36**	**3**	**39**
Total	**(13)**	**1**	**(12)**	**36**	**3**	**39**

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(1) Reclassified

International operations

Th international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking, providing financial services to Israeli customers who have activities outside of Israel, foreign trade financing, local credit and participation in syndicated loans.

Below are highlights of the Group's international presence:

Swiss subsidiary - UMB (Switzerland) Ltd. – specializes in private banking services, has one branch, owned by a wholly-owned holding company of the Bank registered in Holland – UMOHC B.V. ("the holding company"). The Swiss subsidiary is subject to the regulatory laws in Switzerland. For details of business results of the Swiss subsidiary, see chapter on major investees.

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

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

Los Angeles Branch - The branch is engaged mainly in commercial banking, private banking and foreign trade. Deposits with this branch are insured by the Federal Deposit Insurance Corporation (FDIC). Most of the branch customers are US residents. For details of an audit conducted by the FDIC at the Los Angeles branch in 2007 and for the Branch's compliance program – see chapter on legal proceedings.

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

Cayman Islands Branch - The Cayman Islands branch provides private banking services and is operated through the representation of the Bank by the Butterfield Bank in the Cayman Islands, pursuant to the management agreement between it and the Bank.

International banking branches in Israel : The Bank operates three special branches, located in Jerusalem, Tel Aviv and Ashdod, serving foreign resident customers. These branches provide full banking services to their customers, primarily private banking. In addition, the Bank operates a mortgage center in Jerusalem for overseas residents, providing mortgages to overseas residents who purchase housing in Israel. The branches are under Israeli supervision and report to the International Operations sector.

Representative offices: The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay and Germany.
On October 27, 2008, the Panama Supervisor of Banks authorized the Bank to set up an affiliate of the Bank in Panama. The Bank is taking action to establish such an affiliate.

For details of local supervision of Bank affiliates overseas, see the chapter on the international operations segment in the Board of Directors' Report included with the financial statements as of December 31, 2007.

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 September 30, 2008 amounted to NIS 84.7 billion (with NIS 9.9 billion at Bank Yahav, initially consolidated in the 3rd quarter of 2008), compared to NIS 75.3 billion at the end of 2007. Deposits from the public in the CPI-linked segment increased in the first 9 months of 2008 by 12.9%; deposits from the public in the foreign currency and foreign-currency-linked segment decreased by 5.4%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 21.7%. For details, see the chapter on development of balance sheet items above.

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

Under the terms of a shelf prospectus published by Tefahot Issue to the public on November 28, 2006, effective for 2 years, it may issue additional bonds to the public having par value of NIS 5 billion. Within this framework, the Company through September 30, 2008 issued obligatory notes amounting to NIS 780 million, of which NIS 480 million was in subordinated notes.

As of the date of these financial statements, Tefahot Issue had issued to the public obligatory notes (Series 25-30) with total par value of NIS 1,930 million. The revalued balance of these obligatory notes in circulation as of September 30, 2008 amounted to NIS 2,193 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, and in accordance with a confirmation received by the Bank from Maalot on September 22, 2008, Maalot has rated the subordinated notes issued by Tefahot Issuance as"AA". The bank's rating outlook has 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 the raising of further upper Tier II capital, amounting up to NIS 1 billion by the end of 2009. To this end, the Bank allotted bank subordinated capital notes (Series A) on June 30, 2008 with par value of NIS 119.8 million, in accordance with a private placement offer published on June 26, 2008. On September 9, 2008, the Bank allotted additional subordinated capital notes of the same series with NIS 42.5 million par value, pursuant to a private placement offer published on September 4, 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 1.12 billion, constitute upper Tier II capital, amounting to NIS 1.18 billion, as per approval of the Supervisor of Banks. 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 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 of the market risk and liquidity risk of the Bank under a single platform, and in the future, the various credit risk components as well, including implementation of the Basel II regulations for calculating regulatory and economic capital. During 2007 the Bank completed a move to enable use of advanced models for management of customer exposure to the foreign currency segment of the capital market. This effort was expanded in 2008, aiming to include customers operating in other trading arenas. Furthermore, the system started receiving input files for calculation of required regulatory capital in accordance with Basel II guidelines (layer 1 – standard method).

Credit risk

The Bank's credit policies prescribe principles and rules for making credit available and for the management and control over the loan portfolio, in order to preserve its quality and reduce 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 has 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 on a regular basis credit repayment in accordance with terms agreed as well as the financial status of the customer, based on their level of indebtedness. Any findings requiring action are reported to the entity in charge of the relevant credit. The Bank has a Tracking and Control Department, which uses computer mechanisms to warn of abnormal accounts and customers, including relying 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, are regularly reviewed and updated to adapt them to the changing business environment. A constant effort is also made to improve the 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.

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

Supervisor of Banks.

Below is information on the Bank's exposure to foreign financial institutions (1) (2) as of September 30, 2008 (NIS in millions):

External credit rating	Balance sheet credit risk (3)	Off-balance sheet credit risk (4)	Current credit exposure
AAA to AA-	4,692	535	5,227
A+ to A-	1,732	79	1,811
BBB+ to BBB-	85	194	279
BB+ to B-	79	17	96
Below B-	187	-	187
Unrated	3	1	4
Total credit exposure to foreign financial institutions	6,778	826	7,604

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, US, Germany, Spain and Canada. Exposure is primarily in connection with institutions incorporated in OECD countries.

(2) Net of deduction of specific provisions for doubtful debt.

(3) Bank deposits, credit to the public, investments in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets related to derivative instruments.

(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Conduct of Banking Business Directive no. 313.

Credit exposure amounting to NIS 326 million is from institutions rated AAA to AA-, and whose rating was lowered subsequent to the balance sheet date to A+. Total exposure to these institutions, as of November 15, 2008, amounted to NIS 132 million.

Credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and do not include investments in asset-backed securities. For details of investments in asset-backed securities, see Note 2 to the financial statements. For further information with regard to credit exposure composition with reesoect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 7b to the financial statements.

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank's Board of Directors sets, *inter alia*, the maximum exposure limit for foreign nations and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each nation and financial institution. Exposure limits are set based, *inter alia*, on rating of the various nations and financial institutions and on the Bank's assessment of the risk level in a manner which prevents the concentration of exposure.

The Bank determines the exposure limit for each financial institution based on the most recent rating available for said institution, and only ratings provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with said financial institution is also considered. The policy also sets forth a hierarchy of authority for approval of specific transactions within the exposure limits.

The Bank monitors current ratings published for financial institutions to which it has exposure, and adjusts the exposure limits and actual exposure, as required, to the current rating. The Bank also reviews on a regular basis any additional information available with regard to said institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

The Bank takes the maturity dates of its credit exposure into consideration in conjunction with the Bank's liquidity requirements. Deposits are normally accepted for short terms, whereas exposure with respect to derivatives and investments in securities are for longer terms.

Market risk

Market risk to which the Bank is exposed for the 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 risks 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 maximum VAR for the Bank Group (NIS in millions):

	First 9 months of 2008 (1)	All of 2007
At end of period	117	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 the calculation method.

The management of risk from an overall 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 September 30, 2008:

Profit (loss), NIS in millions

	Scenarios				Extreme historical scenario (1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	186.2	93.1	(93.1)	(186.2)	55.9	(16.8)
Dollar	18.0	7.9	(5.0)	(8.7)	8.2	(3.7)
Pound Sterling	(1.3)	(0.6)	0.7	1.7	(1.0)	0.6
Yen	(0.3)	0.0	(0.1)	1.3	(0.5)	0.1
Euro	8.2	3.3	(1.8)	(3.2)	5.1	(2.0)
Swiss Franc	5.6	1.7	(0.6)	(0.9)	4.7	(0.6)

(1) Extreme scenarios were calculated based on daily changes in the exchange rate and monthly changes in the CPI over 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 September 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	(19.7)	2.7
NIS, non-linked	(0.5)	(0.8)
Foreign currency denominated	(14.1)	15.3
All sectors	(34.3)	17.2

Liquidity risk

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

No exceptions to the Board of Directors' limitations were recorded in the 3rd quarter of 2008.

Liquidity risk at the Bank, in view of the global credit and liquidity crisis, is currently managed with extreme conservatism, while maintaining high liquid reserves and constantly reviewing the Bank's position under liquidity scenarios of various levels and types of severity. The regular monitoring of generators of internal and external risk has also been elevated, so as to indicate change in liquidity levels within the system as a whole and at the Bank in particular. Note that the Bank manages liquidity risk in the manner set forth above, despite the fact that the global credit crisis has not impacted the Bank's liquidity.

Surplus liquid means over financing requirements in NIS is invested mainly in deposits with the Bank of Israel and with commercial banks for terms of up to 1-week as well as in government bonds. Surplus liquid means over financing requirements in foreign currency liquidity 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. The credit exposure management policy reflected in management of excess liquidity in foreign currency has been revised in line with the global economic reality. The Bank frequently reviews credit facilities to various financial entities and operates vis-à-vis banks with the highest level of financial robustness, for the shortest duration possible, while maintaining diversification among different entities.

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 changes in credit rating, failure to meet obligations or any other credit event related to counter-parties which are foreign nations 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 September 30, 2008 amounted to NIS 821 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 referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II guidelines explicitly define operating risk, and indicate the major factors which create operating risk (internal processes, people, systems and external events). Furthermore, the Basel II first layer includes capital requirements for operating risk.

The operational risk manager for the Bank is the head of its Comptroller Division.

In 2008, Bank policy with regard to operational risk and to business continuity of the Bank was upgraded and adapted to the requirements of Basel II and the Bank of Israel.

The policy has been approved by the Bank Board of Directors.

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 the lack of the possibility to legally enforce 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 them.

The Bank prescribed procedures that facilitate the minimizing of legal risk in operations and in the different units of the Bank. The procedures prescribe, *inter alia*, the interfaces between the legal counsel system of the Bank and its various units; specify the kinds of agreements that the Bank is permitted to sign and the procedures for their drafting; determine 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 participation of the legal structure 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 defines arrangements concerning supervision of commission prices and increased transparency of banking service prices, so that customers may actually 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.

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 NIS-denominated amounts in real time 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 26, 2008, the Income Tax Law (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 Law (Apartments) (Securing Funds of Apartment Buyers), 1974

On March 31, 2008, amendments 4 and 5 to the Sale (Apartments) (Securing Funds of Apartment Buyers) Law, 1974 were enacted. These legislation amendments were spurred by the collapse of Heftziba Corp., and were designed to provide better protection for apartment buyers against cases where the apartment seller is unable to fulfill his obligations as per the sale agreement. The amendments to the law expand the seller's liability, and in the case of a corporation – officers of the corporation were also made liable. The amendments stipulate that as soon as payment equal to 7% of the apartment price is received (compared to 15% prior to the amendment), the seller must secure the buyer's money. The price of the apartment, payments for which are to be secured, shall include all amounts payable by the buyer to the seller in conjunction with purchase of the apartment. The seller must inform the buyer of his statutory rights to secure monies paid to the seller. The seller must also inform the buyer, prior to signing the sale contract, if it has failed to contract a financial assistance agreement with a banking corporation. Furthermore, the reasons were expanded 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 the consent of the Supervisor of Banks, may stipulate the wording of the guarantee for this matter, and the Minister of Finance may prescribe 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 a payment method using vouchers to be issued to buyers as part of the financial assistance. 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 his 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 law became effective on October 6, 2008. The Bank is prepared and is acting in accordance with provisions of the law.

Rejected Check Law (Amendment No. 7), 2008

The revision to the law, passed on June 10, 2008, authorizes the Supervisor of Banks to instruct banks not to restrict bank accounts and customers for rejected checks in any period in which an official resolution declares a special situation on the home front, mass disaster event, or army reserve call-up under emergency circumstances or during an extraordinary situation, for a maximum period of 90 days.
The law further authorizes the Minister of Justice to set regulations by abbreviated procedure, including provisions which would restrict the effectiveness of the Rejected Check Act, 1981 in times of emergency.
The law further stipulates that any customer, whose account has been restricted because of rejected checks due to injury to his person or property in an act of terror, or due to a significant deterioration in his revenues which occurred during an emergency period, may apply to the Court requesting that the check not be taken into account as a rejected check.

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

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

Debit Card Law (Amendment No. 4), 2008

The amendment to the law, passed on July 29, 2008, stipulates provisions relating to relations between credit card issuers (the credit card company) and customers with regard to liability for abuse of credit cards and termination of charges for a transaction.

Inter alia, the revision sets forth conditions which, when met, the issuer must at the customer's request, desist from, charging the customer for a credit card transaction.

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

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 file an Immediate Report with regard to "details of a transaction with a controlling shareholder, or as to which the controlling shareholder has a personal interest in its confirmation, including highlights of the transaction or contract, details of the entity which confirmed the transaction and a summary of the reasons for the confirmation; in this paragraph, "transaction" not including a transaction where 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;
- In the context description of the undertaking with the controlling shareholder with regard to terms of employment and service, a general description of financing transactions contracted between them and the bank (if any), would be given, along with their characteristics .

Pursuant to the above and for that purpose, on August 11, 2008, the Bank's Board of Directors' Audit Committee prescribed 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. 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 at market conditions, based on comparison to other, similar transactions (which are not with related parties).
- A transaction in excess of 0.5% of the total of the consolidated balance sheet.
- A transaction where the resulting profit of the Bank 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 the total of the consolidated balance sheet.
- A transaction where the resulting profit of the Bank is not in excess of 0.01% of the Bank's shareholders' equity.

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

The Bank enters into contracts, in the normal course of business, for 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.

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

The law, passed on November 4, 2008, includes amendments to the Court Order Execution Law, 1967 aimed at improving efficiency of collection proceedings using the Court Order Execution Service, while setting restrictions on liquidation of certain assets so as not to excessively encumber debtors, especially those without the means to pay their debt as ordered.

The amendment extends the authorities of the Court Order Execution Service registrar to demand and obtain, under certain conditions, information with regard to assets, revenues, expenditures, the travel into and out of Israel of debtors, even without a waiver of confidentiality. The registrar was authorized to impose various restrictions on debtors.

The amendment creates a collection fast track for a 2-year period for collection of debt up to NIS 10,000 – which may be used at the discretion of the party being awarded the judgment.

This alternative would be operated by the Court Order Execution Service with minimum involvement of the awarded party, and without requiring processing by an attorney.

Along with the aforementioned directives, conditions were set for imposing of a prison sentence which would limit the option of the imprisonment of debtors. The law stipulates *inter alia*, that the debtor shall appear in person before the Court Order Execution Service registrar, and that the registrar must be convinced that the debtor is capable of debt repayment and has no reasonable explanation for its non-repayment, the debt must be over NIS 2,000 and the registrar must be convinced that there is no other means of lesser impact on the debtor which would lead to collection of the debt. The law further includes a temporary regulation for a 2-year term, starting 2 years after the law becomes effective, which completely eliminates the use of imprisonment.

The amendment also forbids foreclosing on certain items, the expected proceeds from the sale of which are small and do not justify the severe impact to the debtor and his family due to their foreclosure.

It was further stipulated that the registrar may not order the sale of real estate used, in whole or in part, as a residential apartment of the debtor, nor evacuation of the debtor and his family members who occupy the real estate with him, unless that parties have been summoned to appear before the registrar, and the registrar was satisfied that the debtor and his family members would have a reasonable place of dwelling, or that they have the financial wherewithal to finance a reasonable place of dwelling, or that an alternative arrangement has been provided for them. The registrar is also required to inform the debtor as to the options available to them for obtaining legal counsel.

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

The amendment to the law becomes effective on May 6, 2009.

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

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”). These regulations are 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 transferred 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 providing other collateral pursuant to the Apartment Sale Act within 14 days from the payment date. Furthermore, the regulation stipulates arrangements for providing information to buyers with regard to matching 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 Regulation No. 456 (“Sale Law guarantee”).

On April 2, 2008, the Supervisor of Banks issued the Proper Conduct of Banking Business Regulation no. 456 with regard to the wording of the guarantee pursuant to the

Sale Law (Apartments) (Assurance of Investment of Persons Acquiring Apartments), 1974. The regulation stipulates that, starting on June 1, 2008, all Sale Law guarantees issued by a banking corporation would carry the wording determined by the regulation.
The Bank has updated the wording of Sale Law guarantees issued by the Bank pursuant to the regulation.

Proper Conduct of Banking Business Regulation No. 309 regarding controls and procedures with regard to disclosure and internal control of financial reporting

On September 28, 2008, the Supervisor of Banks published the Proper Conduct of Banking Business Regulation No. 309. The regulation includes requirements of a banking corporation's management with regard to controls and procedures concerning disclosure and internal control of financial reporting. The regulation is based on regulations by the US Securities Exchange Commission, published pursuant to sections 302 and 404 of the Sarbanes-Oxley Act, and it includes provisions mostly issued by the Supervisor of Banks in previous circulars published by him. Pursuant to the circular enclosed with the regulation, it is to be applied in accordance with regulations, directives and clarifications in effect in the US.
The regulation stipulates that banking corporations must maintain controls and procedures with regard to disclosure and internal controls over financial reporting. The banking corporation's management must evaluate the effectiveness of the banking corporation's controls and procedures with regard to disclosure as of the end of each quarter, and estimate the effectiveness of internal controls over financial reporting as of the end of each year. Furthermore, management must assess any change in the banking corporation's internal controls over financial reporting occurring in each quarter, which has material impact or which is expected to have material impact on the banking corporation's internal controls over financial reporting. The regulation sets forth the required definitions, *inter alia*, for controls and procedures with regard to disclosure and internal controls over financial reporting.
The regulation shall apply starting with annual financial statements of banking corporations and credit card companies as of December 31, 2008. As of the date of these financial statements, the Bank complies with those directives published in conjunction with the regulation and which are effective pursuant to previous regulations and directives of the Supervisor, and is preparing to comply with all other directives as they become effective.

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.

Legal Proceedings

Arrest and plea bargain of bank employee in the US

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 US, 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 a review conducted by the Bank, it has not committed any offense in Israel nor in the US, and if any offenses 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 January 2009.
The Bank has informed the Supervisor of Banks of the aforementioned events and developments.

Update to Compliance Program at Los Angeles branch

On November 19, 2007, the FDIC conducted an audit at the Los Angeles branch regarding , *inter alia*, the implementation of the compliance program concerning banking confidentiality and the prohibition of money laundering. On August 28, 2008 a consensual order to correct deficiencies (Cease and Desist Order - hereinafter the "Consent Order") has entered into effect, which has been signed by the Branch and the Regulators.

The Consent Order contains the following basic requirements:

- The Branch shall make requisite corrections as detailed below, without admitting or denying any violations of applicable laws or regulations;

- The Consent Order relates to the granting of new "back-to-back" loans or their renewal at the Branch and enables their existence, subject to all the information relating to collateral held in Israel with respect to such loans, being provided to the Branch during the period that the Consent Order prevails. It is emphasized that the Consent Order does not impair the status of current transactions and activities at the time Consent Order is issued;

- The Branch shall revise its written anti-money laundering compliance program to incorporate recommendations contained in the Report;

- The Branch shall revise its customer due diligence program to incorporate recommendations contained in the Report;

- The Branch shall develop an additional program for reviewing the accounts of non-resident aliens;

- The Branch shall revise its written procedures for non-banking financial institution clients, including money services businesses.

Apart from the above, no sanctions have been imposed on the Los Angeles Branch.

The implementation of the Consent Order does not entail material expenses.

An institution subject to a Consent Order will usually undergo at least two examination cycles of the Regulators (assuming substantial compliance) before the Consent Order is lifted.

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 the 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 a decision as to exercising the 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 connected with the enforcement proceedings 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 2008, and therefore the deadline for submitting positions in conjunction with the hearing would be delayed until September 15, 2008. The letter of position for the hearing was filed on September 15, 2008.

Other Matters

The independent auditors have, in their reviw report, drawn attention to Note 6.C.3.(A-E) to the financial statements with regard to claims filed against the Bank, including claims accompanied 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 the internal audit, the annual and multi-annual work plan and considerations in its determination, the 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 summary 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 Bank Adanim, a wholly-owned subsidiary of the bank, decided to appoint the Bank's internal auditor as Bank Adanim's internal auditor as well. On August 13, 2008, the Board of Directors of Bank Yahav, a subsidiary of the bank, decided to appoint the Bank's internal auditor as Bank Yahav's internal auditor as well.

Approval process of the financial statements

The body in charge of audit supervision at the bank is its Board of Directors. Members of the Board of Directors, their names, accounting and financial skills and professional qualifications are described in the Board of Directors' report as of December 31, 2007.
The processes of preparing, auditing and approving the financial statements involve additional bodies and officers as mentioned below.
Bank financial statements are prepared by a professional department, headed by the Chief Accountant, pursuant to the disclosure policy set by the Bank’s Board of Directors.

Concurrently with preparing the financial statements, and based on the draft financial statements forwarded to them, all executive management members confirm by their signature that they are not aware of any detail which may indicate that data and descriptions in the Board of Directors’ Report and financial statements with regard to their areas of responsibility include any false representation of lack of material facts, that they instituted effective controls in order to ensure that any material information in their area of responsibility is brought to their attention, and that any significant fault or material weakness in 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 condition of problem loans of the bank, their classification and required provisions. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required for claims filed against the bank.
Matters of principle 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 in the application of accounting policies, requests or demands by regulatory authorities and issues on which Bank management and the outside auditors differ. As part of presentation of these issues to the Disclosure

Committee, the independent outside 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 of Directors' Balance Sheet Committee, a limited committee with 5 Board members, which has been charged 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 the by the independent outside 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, related provisions 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 defect discovered in the disclosure process in the financial statements. Any such faults as well as any findings by the independent outside auditors are also presented to the Board of Directors' Audit Committee. These discussions are also attended by the Internal Auditor and the independent outside auditors. Any report of significant defects is also presented to the Board of Directors.

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

Bank Management

On July 21, 2008, the Bank's Board of Directors confirmed the 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 9 months of 2008, the Bank's Board of Directors held 19 plenary meetings and 59 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 the composition of the Board of Directors in the first 9 months 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 President 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 segments, in the fourth quarter of 2007, internal control at the Bank of financial reporting by operating segment has subsequently improved. During 2008, as the new measuring system has stabilized, the aforementioned improvement has continued.

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

Ramat Gan, November 30, 2008

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)
Reported amounts (NIS in millions)

	For the 3 months ended September 30, 2008				For the 3 months ended September 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)	42,470	606	5.83		29,649	410	5.65	
Effect of embedded and ALM derivatives (4)	43,210	582			36,191	408		
Total assets	85,680	1,188		5.66	65,840	818		5.06
Liabilities (3)	44,792	(339)	(3.05)		39,464	(303)	(3.11)	
Effect of embedded and ALM derivatives (4)	36,045	(518)			24,680	(276)		
Total liabilities	80,837	(857)		(4.30)	64,144	(579)		(3.66)
Interest margin			2.78	1.36			2.54	1.40
Israeli currency - linked to the CPI								
Assets (3)	37,483	1,236	13.86		35,469	1,298	15.46	
Effect of embedded and ALM derivatives (4)	4,198	81			4,981	96		
Total assets	41,681	1,317		13.25	40,450	1,394		14.51
Liabilities (3)	30,557	(950)	(13.03)		28,228	(1,023)	(15.30)	
Effect of embedded and ALM derivatives (4)	9,121	(189)			10,647	(273)		
Total liabilities	39,678	(1,139)		(11.99)	38,875	(1,296)		(14.02)
Interest margin			0.83	1.26			0.16	0.49
Foreign currency (5)								
Assets (3)	21,176	96	1.83		27,618	(816)	(11.30)	
Effect of derivatives (4)								
Hedging derivatives	710	16			608	(5)		
Embedded and ALM derivatives	42,477	9,725			34,416	(1,537)		
Total assets	64,363	9,837		76.62	62,642	(2,358)		(14.23)
Liabilities (3)	19,070	154	3.19		20,406	702	13.07	
Effect of derivatives (4)								
Hedging derivatives	702	(31)			591	11		
Embedded and ALM derivatives	43,911	(9,865)			40,229	1,663		
Total liabilities	63,683	(9,742)		(76.72)	61,226	2,376		14.64
Interest margin			5.02	(0.10)			1.77	0.41

(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 A
Revenue and Expense Rates – Consolidated (1)
Reported amounts (NIS in millions)

	For the 3 months ended September 30, 2008				For the 3 months ended September 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)	101,129	1,938	7.89		92,736	892	3.90	
Effect of derivatives (4)								
Hedging derivatives	710	16			608	(5)		
Embedded and ALM derivatives	89,885	10,388			75,588	(1,033)		
Total assets	191,724	12,342		28.34	168,932	(146)		(0.34)
Monetary liabilities generating financing expenses (3)	94,419	(1,135)	(4.90)		88,098	(624)	(2.86)	
Effect of derivatives (4)								
Hedging derivatives	702	(31)			591	11		
Embedded and ALM derivatives	89,077	(10,572)			75,556	1,114		
Total liabilities	184,198	(11,738)		(28.03)	164,245	501		1.21
Interest margin			2.99	0.31			1.04	0.87
On options		5				86		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		(22)				10		
Commissions from financing transactions and other financing profit (5)		19				81		
Other financing expenses		(8)				(9)		
Profit from financing operations before provision for doubtful debt		598				523		
Provision for doubtful debt (includes general and supplementary provision)		(117)				(65)		
Profit from financing operations after provision for doubtful debt		481				458		
Total								
Monetary assets generating financing profit (3)	101,129				92,736			
Assets deriving from derivatives (6)	2,055				1,900			
Other monetary assets (3)	840				489			
General and supplementary provision for doubtful debt	(181)				(182)			
Total monetary assets	103,843				94,943			
Total								
Monetary liabilities generating financing expenses (3)	94,419				88,098			
Liabilities deriving from derivatives (6)	2,305				1,342			
Other monetary liabilities (3)	2,241				1,576			
Total monetary liabilities	98,965				91,016			
Total surplus monetary assets over monetary liabilities	4,878				3,927			
Non-monetary assets	1,569				1,501			
Non-monetary liabilities	199				146			
Total capital resources	6,248				5,282			

(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) Includes profits from the sale of investments in bonds and from the adjustment to fair value of bonds held for trading.
(6) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)
Nominal – in USD (USD in millions)

	For the 3 months ended September 30, 2008				For the 3 months ended September 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)	6,069	64	4.29		6,591	93	5.76	
Effect of derivatives (4)								
Hedging derivatives	202	5			145	(1)		
Embedded and ALM derivatives	12,168	132			8,212	93		
Total assets	18,439	201		4.43	14,948	185		5.04
Monetary liabilities in foreign currency generating financing expenses (3)	5,473	(29)	(2.14)		4,874	(52)	(4.34)	
Effect of derivatives (4)								
Hedging derivatives	202	(9)			139	2		
Embedded and ALM derivatives	12,673	(134)			9,608	(116)		
Total liabilities	18,348	(172)		(3.80)	14,621	(166)		(4.62)
Interest margin			2.16	0.63			1.42	0.42

(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 A
Revenue and Expense Rates – Consolidated (1)
Reported amounts (NIS in millions)

	For the 9 months ended September 30, 2008				For the 9 months ended September 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)	35,982	1,498	5.59		27,713	1,199	5.81	
Effect of embedded and ALM derivatives (4)	41,078	1,306			32,201	1,277		
Total assets	77,060	2,804		4.88	59,914	2,476		5.55
Liabilities (3)	39,966	(876)	(2.93)		37,132	(900)	(3.24)	
Effect of embedded and ALM derivatives (4)	34,163	(1,058)			20,798	(797)		
Total liabilities	74,129	(1,934)		(3.49)	57,930	(1,697)		(3.92)
Interest margin			2.66	1.39			2.57	1.63
Israeli currency - linked to the CPI								
Assets (3)	35,695	3,087	11.69		35,059	2,287	8.79	
Effect of embedded and ALM derivatives (4)	4,458	224			4,321	166		
Total assets	40,153	3,311		11.14	39,380	2,453		8.39
Liabilities (3)	28,929	(2,385)	(11.14)		27,796	(1,751)	(8.49)	
Effect of embedded and ALM derivatives (4)	9,967	(632)			9,935	(497)		
Total liabilities	38,896	(3,017)		(10.47)	37,731	(2,248)		(8.02)
Interest margin			0.55	0.67			0.30	0.37
Foreign currency (5)								
Assets (3)	21,888	(2,411)	(14.41)		26,100	242	1.24	
Effect of derivatives (4)								
Hedging derivatives	620	(7)			704	11		
Embedded and ALM derivatives	40,671	(3,688)			33,984	(1,112)		
Total assets	63,179	(6,106)		(12.67)	60,788	(859)		(1.88)
Liabilities (3)	19,244	2,585	17.50		19,752	(17)	(0.11)	
Effect of derivatives (4)								
Hedging derivatives	624	8			689	26		
Embedded and ALM derivatives	41,799	3,650			39,731	795		
Total liabilities	61,667	6,243		13.27	60,172	804		1.78
Interest margin			3.09	0.60			1.13	(0.10)

(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 A
Revenue and Expense Rates – Consolidated (1)
Reported amounts (NIS in millions)

	For the 9 months ended September 30, 2008				For the 9 months ended September 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)	93,565	2,174	3.11		88,872	3,728	5.63	
Effect of derivatives (4)					704	11		
Hedging derivatives	620	(7)						
Embedded and ALM derivatives	86,207	(2,158)			70,506	331		
Total assets	180,392	9		0.01	160,082	4,070		3.39
Monetary liabilities generating financing expenses (3)	88,139	(676)	(1.02)		84,680	(2,668)	(4.22)	
Effect of derivatives (4)								
Hedging derivatives	624	8			689	26		
Embedded and ALM derivatives	85,929	1,960			70,464	(499)		
Total liabilities	174,692	1,292		0.98	155,833	(3,141)		(2.68)
Interest margin			2.09	0.99			1.41	0.71
On options		209				278		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		(18)				34		
Commissions from financing transactions and other financing profit (5)		233				298		
Other financing expenses		(24)				(20)		
Profit from financing operations before provision for doubtful debt		1,701				1,519		
Provision for doubtful debt (includes general and supplementary provision)		(213)				(178)		
Profit from financing operations after provision for doubtful debt		1,488				1,341		
Total								
Monetary assets generating financing profit (3)	93,565				88,872			
Assets deriving from derivatives (6)	2,635				1,782			
Other monetary assets (3)	1,270				621			
General and supplementary provision for doubtful debt	(177)				(188)			
Total monetary assets	97,293				91,087			
Total								
Monetary liabilities generating financing expenses (3)	88,139				84,680			
Liabilities deriving from derivatives (6)	2,233				1,056			
Other monetary liabilities (3)	2,507				1,530			
Total monetary liabilities	92,879				87,266			
Total surplus monetary assets over monetary liabilities	4,414				3,821			
Non-monetary assets	1,651				1,615			
Non-monetary liabilities	181				156			
Total capital resources	5,884				5,280			

(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) Includes profits from the sale of investments in bonds and from the adjustment to fair value of bonds held for trading.
(6) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1)
Nominal – in USD (USD in millions)

	For the 9 months ended September 30, 2008				For the 9 months ended September 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)	6,235	211	4.54		6,401	264	5.54	
Effect of derivatives (4)								
Hedging derivatives	176	4			169	3		
Embedded and ALM derivatives	11,580	394			8,160	256		
Total assets	17,991	609		4.54	14,730	523		4.76
Monetary liabilities in foreign currency generating financing expenses (3)	5,485	(106)	(2.58)		4,840	(145)	(4.01)	
Effect of derivatives (4)								
Hedging derivatives	178	(4)			165	6		
Embedded and ALM derivatives	11,901	(401)			9,540	(308)		
Total liabilities	17,564	(511)		(3.90)	14,545	(447)		(4.12)
Interest margin			1.95	0.64			1.53	0.64

(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 by Economic Sector as of September 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	Expense for the first 9 months of 2008 in respect of specific provision for doubtful debt	Balance of problem loans (3)
Agriculture	675	141	816	1	25
Industry	4,925	2,246	7,171	21	257
Construction and real estate	6,510	7,098	13,608	28	2,128
Electricity and water	319	185	504	-	1
Commerce	4,835	1,540	6,375	30	180
Hotel and food services	287	70	357	1	26
Transport and storage	616	217	833	1	13
Communications and computer services	906	552	1,458	-	157
Financial services	6,895	2,343	9,238	21	831
Other business services	2,145	481	2,626	14	90
Public and community services	807	240	1,047	2	132
Private individuals - housing loans	43,529	3,247	46,776	36	1,217
Private individuals - other	8,889	6,851	15,740	42	538
Total	81,338	25,211	106,549	197	5,595
For borrowers' activities overseas	3,522	811	4,333	2	-
Total	84,860	26,022	110,882	199	5,595
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,361	281	1,642	-	182
Local authorities (5)	181	22	203	-	25

(1) Includes loans to the public and investments in debentures of the public of NIS 117 million and other assets related to derivatives of the public totaling NIS 671 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 debts.

Management Review - Addendum B
Credit Risk by Economic Sector as of September 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	Expense for the first 9 months of 2008 in respect of specific provision for doubtful debt	Balance of problem loans (3)
Agriculture	671	161	832	1	31
Industry	4,656	2,602	7,258	28	244
Construction and real estate	6,902	8,417	15,319	67	1,939
Electricity and water	259	164	423	-	-
Commerce	4,947	1,372	6,319	25	215
Hotel and food services	258	88	346	2	37
Transport and storage	560	167	727	1	14
Communications and computer services	397	240	637	5	163
Financial services	7,296	1,939	9,235	2	66
Other business services	1,924	674	2,598	4	82
Public and community services	801	243	1,044	3	265
Private individuals - housing loans	38,293	2,854	41,147	23	1,217
Private individuals - other	4,812	4,128	8,940	27	592
Total	71,776	23,049	94,825	188	4,865
For borrowers' activities overseas	3,205	826	4,031	-	-
Total	74,981	23,875	98,856	188	4,865
Credit risk included in the various economic sectors:					
Settlement movements (4)	1,279	315	1,595	(2)	96
Local authorities (5)	209	22	231	-	36

(1) Includes loans to the public and investments in debentures of the public of NIS 134 million and other assets related to derivatives against the public totaling NIS 977 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 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 (6)	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 (6)	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 September 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.

E. Yones
President

November 30, 2008

Certification

I, Menachem Aviv, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended September 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.

M. Aviv
Vice-President
Chief Accountant

November 30, 2008

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

Dear Sir/Madam,

Re: Review of condensed interim consolidated unaudited financial statements For the three month and nine month periods ended September 30, 2008

At your request, we have reviewed the condensed consolidated balance sheet of Bank Mizrahi Tefahot Ltd. ("the Bank") as of September 30, 2008, the condensed consolidated statement of profit and loss and the condensed statement of changes in shareholders' equity for the three month and nine 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, meetings of the Board of Directors and its committees and holding discussions with those responsible for financial and accounting matters.

We have been provided with reports of other auditors with regard to review of interim reports of subsidiaries and affiliates. The assets of the aforementioned subsidiaries account for 9.54%of total assets included in the condensed consolidated interim balance sheet as of September 30, 2008 and their income from financing operations before the provision for doubtful debt account for 4.07% of total income from financing operations before the provision for doubtful debt included in the interim consolidated statement of profit and loss for the nine month period then ended. We have not reviewed the financial statements of an affiliate, the investment in which amounts to NIS 12 million as of September 30, 2008.

Since the review performed was limited in scope and does not constitute an audit in accordance with generally accepted auditing standards, we do not express an opinion on the aforementioned interim financial statements.

In the course of our review, including the reading of reports by other auditors, nothing came to our attention which indicates that material modifications are required to the aforementioned financial statements for them to be deemed interim financial statements prepared 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 Note 6c3(A-E) with regard to claims filed against the Bank, including claims that include applications for recognition as class actions .

Sincerely yours,

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

Tel Aviv,
November 30, 2008

Condensed consolidated balance sheet as of September 30, 2008
Reported amounts (NIS in millions)

	September 30, 2008 (unaudited)	September 30, 2007 (unaudited)	December 31, 2007 (audited)
Assets			
Cash and deposits with banks	10,892	12,463	10,701
Securities	7,449	6,763	6,145
Securities loaned or sold in repurchase agreements	-	13	5
Credit to the public	83,880	73,688	74,320
Loans to the Government	3	3	3
Investments in investees	17	18	17
Buildings and equipment	1,402	1,205	1,246
Other assets	3,372	2,727	2,880
Total assets	107,015	96,880	95,317
Liabilities and Shareholders' Equity			
Deposits from the public	84,681	76,074	75,290
Deposits from banks	2,465	4,357	3,752
Deposits from the Government	443	522	282
Securities loaned or sold in conjunction with repurchase agreements	600	-	-
Debentures and subordinated notes	6,870	6,357	6,189
Other liabilities	5,777	4,124	4,247
Total liabilities	100,836	91,434	89,760
Minority interest	333	12	-
Shareholders' equity	5,846	5,434	5,557
Total liabilities and shareholders' equity	107,015	96,880	95,317

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

Y. Perry
Chairman of the Board of Directors

E. Yones
President

M. Aviv
Vice-president, Chief Accountant

November 30, 2008

Condensed consolidated statement of profit and loss
Reported amounts (NIS in millions)

	For the 3 months ended September 30,		For the 9 months ended September 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	598	523	1,701	1,519	2,026
Provision for doubtful debt	117	65	213	178	228
Profit from financing operations after provision for doubtful debt	481	458	1,488	1,341	1,798
Operating and other revenues					
Operating commissions	295	260	809	769	1,034
Gains (losses) from investments in shares, net	(3)	(1)	30	45	65
Other profit	23	14	59	73	91
Total operating and other profit	315	273	898	887	1,190
Operating and other expenses					
Salaries and related expenses	331	291	946	878	1,169
Maintenance and depreciation of buildings and equipment	126	105	341	311	421
Other expenses	107	82	278	238	348
Total operating and other expenses	564	478	1,565	1,427	1,938
Pre-tax operating profit	232	253	821	801	1,050
Provision for taxes on operating profit	86	72	309	273	368
After-tax operating profit	146	181	512	528	682
Share in net after-tax operating losses of affiliates	-	-	-	-	(1)
Minority interest in net after-tax operating profits of subsidiaries	(7)	-	(7)	-	-
Net operating profit	139	181	505	528	681
Net after-tax profit from extraordinary items	1	3	1	233	227
Net profit	140	184	506	761	908
Earnings per share (1)					
Basic earnings per share (in NIS)					
Profit from ordinary operations	0.62	0.82	2.27	2.39	3.08
Profit from extraordinary items	0.01	0.01	0.01	1.06	1.03
Total	0.63	0.83	2.28	3.45	4.11
Diluted earnings per share (in NIS)					
Profit from ordinary operations	0.62	0.81	2.25	2.35	3.03
Profit from extraordinary items	0.01	0.01	0.01	1.03	1.01
Total	0.63	0.82	2.26	3.38	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 September 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 Dividends declared after balance sheet date	Total shareholders' equity
				(un-audited)					
Balance as of June 30, 2008	1,917	58	1,975	(25)	(51)	4	3,818	-	5,721
Net profit for the period	-	-	-	-	-	-	140	-	140
Benefit from share-based payment transactions	-	10	10	-	-	-	-	-	10
Capital reserve from tax benefit	-	-	-	-	-	-	-	-	-
Adjustments and changes due to: Stock issuance (4)	2	(2)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(78)	-	-	-	-	(78)
Related tax effect	-	-	-	35	-	-	-	-	35
Net profit from cash flow hedges	-	-	-	-	-	28	-	-	28
Related tax effect	-	-	-	-	-	(10)	-	-	(10)
Balance as of September 30, 2008	1,919	66	1,985	(68)	(51)	22	3,958	-	5,846

	For the 3 months ended September 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 profit from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
				(un-audited)					
Balance as of June 30, 2007	1,903	63	1,966	51	(51)	(3)	3,346	125	5,434
Net profit for the period	-	-	-	-	-	-	184	-	184
Dividend paid	-	-	-	-	-	-	-	(125)	(125)
Benefit from share-based payment transactions	-	3	3	-	-	-	-	-	3
Capital reserve from tax benefit	-	(4)	(4)	-	-	-	-	-	(4)
Adjustments and changes due to: Stock issuance (4)	6	(6)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(112)	-	-	-	-	(112)
Related tax effect	-	-	-	41	-	-	-	-	41
Net profit in respect of cash flow hedges	-	-	-	-	-	20	-	-	20
Related tax effect	-	-	-	-	-	(7)		-	(7)
Dividend declared after balance sheet date	-	-	-	-	-	-	(75)	75	-
Balance as of September 30, 2007	1,909	56	1,965	(20)	(51)	10	3,455	75	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 3rd quarter of 2008, 139,917 ordinary NIS 0.1 par value shares were issued (in the 3rd quarter of 2007 - 425,891) against exercise of options in conjunction with the Employee Stock Option Plan.

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 9 months ended September 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 as of December 31, 2007	1,911	68	1,979	27	(51)	-	3,527	75	5,557
Net profit for the period	-	-	-	-	-	-	506	-	506
Dividend paid	-	-	-	-	-	-	(75)	(75)	(150)
Benefit from share-based payment transactions	-	16	16	-	-	-	-	-	16
Capital reserve from tax benefit	-	(10)	(10)	-	-	-	-	-	(10)
Adjustments and changes due to:	-	-	-	-	-	-	-	-	
Stock issuance [(4)]	8	(8)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(166)	-	-	-	-	(166)
Related tax effect	-	-	-	71	-	-	-	-	71
Net profit from cash flow hedges	-	-	-	-	-	35	-	-	35
Related tax effect	-	-	-	-	-	(13)	-	-	(13)
Balance as of September 30, 2008	1,919	66	1,985	(68)	(51)	22	3,958	-	5,846

	For the 9 months ended September 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 profit from cash flow hedges	Retained earnings (3)	Dividend declared after balance sheet date	Total shareholders' equity
				(un-audited)					
Balance as of December 31, 2006	1,881	72	1,953	65	(51)	-	3,094	-	5,061
Net profit for the period	-	-	-	-	-	-	761		761
Dividend paid	-	-	-	-	-	-	(325)	-	(325)
Benefit from share-based payment transactions	-	14	14	-	-	-	-	-	14
Capital reserve from tax benefit	-	(2)	(2)	-	-	-	-	-	(2)
Adjustments and changes due to:									
Stock issuance [(4)]	28	(28)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	(137)	-	-	-	-	(137)
Related tax effect	-	-	-	52	-	-	-	-	52
Net profit in respect of cash flow hedges	-	-	-	-	-	17	-	-	17
Related tax effect	-	-	-	-	-	(7)	-	-	(7)
Dividend declared after balance sheet date	-	-	-	-	-	-	(75)	75	-
Balance as of September 30, 2007	1,909	56	1,965	(20)	(51)	10	3,455	75	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 9 months of 2008, 346,741 ordinary NIS 0.1 par value shares were issued (in the first 9 months of 2007 - 617,175) for exercise of options in conjunction with the Employee Stock Option Plan, and 658,987 ordinary NIS 0.1 par value shares (first 9 months 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 as of 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 as of 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 September 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 this regulations of this Law, will prepare their financial statements in conformity with the IFRS Standards, as from the reporting period commencing January 1, 2008.
This does not apply to 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, and 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 the 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.

Note 1 - Reporting Principles and Accounting Policies

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 condensed 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 circular regarding "Measurement 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 US Accounting Standards 5, 114 and 118 as well as on regulatory directives by banking supervision bodies and by the US 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 an 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 an adequate provision so as to cover expected credit losses associated with off-balance sheet credit instruments, such as contracts to provide credit and guarantees. The required provision to cover expected credit losses from the credit portfolio would be made under one of the following tracks: "individual provision" or "group provision".

"Individual provision for credit losses" would be applied for any debt determined to be impaired, whose contractual balance (without deducting 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 is conditional upon 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 US 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 US 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 debt estimated on a 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.

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 shareholders’ equity upon initial application.

Note 1 - Reporting Principles and Accounting Policies

In conjunction with the Bank's preparations for application of this directive, working teams were formed and an external consultant was 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 the financial statements. Teams have completed specification of the processes and computer systems required for implementation of the directive, as well as writing the detailed design specification of the new system to be developed. Based on the specifications written, work has started on implementation of the new system by means of a software vendor selected for implementation of required system development and modifications. The Bank intends to update work processes through the end of 2009, including recompilation of procedures and holding 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.
Completion of the methodology and initial estimate of the impact of said application are anticipated in the first half of 20089. Initial review of potential implications of these directives on major borrowers has revealed that implementation of these directives may increase to a certain degree the required provision for credit loss, although at this stage it is not possible to estimate whether this increase would be material.

E. The Bank conducts a review for each investment in securities, in order to determine whether an active market exists for them, by one or more of the following criteria: Availability or absence of quotes for transacting in the security (quote by a broker or by other relevant entities); large gaps between bid and ask which indicate low trading volume; significant decrease in activity and amounts quoted.
The fair value of securities for which a quote from an active market is available is based on sale prices on the stock exchange for securities traded on the stock exchange in Israel. Overseas securities are revalued using quoted sale prices from external sources, including quotes from well-known information systems, such as Bloomberg, or current quotes obtained from the issuing entity.
The fair value of securities for which a quote from an active market is not available is calculated using a marked-to model, accounting for all objective data available with regard to these securities and to attributes similar to which are available in the market, as well as changes in markets in general and with regard to the specific investments in particular, in respect of which adjustments to the fair value calculation should be made.

Note 2 - Securities
Reported amounts (NIS in millions)

	As of September 30, 2008				
	Balance sheet balance	Amortized cost	Total cumulative other profit (4)		Fair value (1)
			Profit	Loss	
	(unaudited)				
Securities available for sale					
Debentures and bonds-					
Of Government of Israel	5,368	5,446	5	83	5,368
Of foreign governments and their agencies	16	16	-	-	16
Of others	1,666	1,755	-	89	1,666
Total debentures available for sale	7,050	7,217	5	172	7,050
Shares of others (2)	378	331	55	8	(3) 378
Total securities available for sale	7,428	7,548	60	180	7,428

	Balance sheet balance	Amortized cost	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
	(unaudited)				
Securities held for trading					
-Debentures-					
Of Government of Israel	19	19	-	-	19
Of others	2	2	-	-	2
Total securities held for trading	21	21	-	-	21
Total securities	7,449	7,569	60	180	7,449

(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 September 30, 2003. The market value of these shares as of September 30, 2008, net of expected realization cost, amounts to NIS 275 million. This amount exceeds the amount of the loans, net of the provision for doubtful debt, by NIS 51 million.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for impairment in value that is not temporary, amounting to NIS 88 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)				
Securities available for sale					
Debentures and bonds of Government of Israel	4,010	4,026	5	21	4,010
Of foreign governments and their agencies	69	69	-	-	69
of others	1,587	1,628	-	41	1,587
Total debentures available for sale	5,666	5,723	5	62	5,666
Shares of others (2)	399	295	104	-	(3) 399
Total securities available for sale	6,065	6,018	109	62	6,065

	Balance sheet 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 September 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 September 30, 2008			
		Total cumulative other profit		
	Amortized cost	Profit	Losses	Fair value (book value)
	(unaudited)			
Mortgage-backed securities				
"Pass-through" securities	-	-	-	-
Other mortgage-backed securities	-	-	-	-
Asset-backed securities (ABS)				
CDO	40	-	15	25
CDO, mostly mortgage-backed (1)	-	-	-	-
CLO	90	-	26	64
(1) SIV	-	-	-	-
Total asset-backed securities available for sale	130	-	41	89

	As of December 31, 2007			
		Total cumulative other profit		
	Amortized cost	Profit	Loss	Fair value (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:

	September 30, 2008			
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS)				
CDO	-	-	25	15
CLO	-	-	64	26
Total	-	-	89	41

As of December 31, 2007, the entire balance of investments in asset-backed securities which include unrealized losses have been in a loss position for less than 12 months.

Asset-backed securities (ABS)
The fair value of Bank investments in these asset-backed securities, as of September 30, 2008, amounted to NIS 89 million (as of December 31, 2007 – NIS 159 million). For details of the calculation of fair value of investments in securities, see Note 1E above. 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 layers 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 September 30, 2008, amounted to NIS 25 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).

In the 3rd quarter of 2008, a provision was recorded in respect of some of these investments, amounting to NIS 13 million, for impairment of a non-temporary nature. The impairment charges to a capital reserve as of September 30, 2008 for these investments amounts to NIS 15 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 a continued overall increase in credit spreads in general, and in the financial sector in particular. In some of the underlying assets of investments in respect of which the impairment has been charged to a capital reserve, a few events of bankruptcy have been recorded, however significant protective layers are still in place ahead of the layers in which the Bank has invested.

Furthermore, these investments pay coupons regularly and for most of them, the credit rating has not been lowered.

The Bank estimates that this impairment reflects market fluctuations rather than material concern about 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.

B. **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 September 30, 2008 is NIS 64 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 have been 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.

Furthermore, the underlying assets are not biased towards the financial or real estate sectors. The impairment charged to capital reserve as of September 30, 2008 for the aforementioned investments amounted to NIS 26 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. In some of the underlying assets of investments in respect of which the impairment has been charged to a capital reserve, a few events of bankruptcy have been recorded, however significant protective layers are still in place ahead of the layers in which the Bank has invested. 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.

Note 3 – Provision for doubtful debt
Reported amounts (NIS in millions)

Information with regard to provision for doubtful debt

	For the 3 months ended September 30, 2008				For the 3 months ended September 30, 2007			
	Specific provision (1)		Supplementary provision (3)	Total	Specific provision (1) (2)		Supplementary provision (3)	Total
	By extent of arrears	Other			By extent of arrears	Other		
Balance of provision as of period start	836	1,901	173	2,910	809	1,911	186	2,906
Subsidiary consolidated for the first time	-	23	6	29	-	-	-	-
Provisions during reported period	72	113	13	198	64	63	-	127
Decrease in provisions	(71)	(9)	-	(80)	(47)	(10)	(4)	(61)
Recovery of debt written off in previous years	-	(1)	-	(1)	-	(1)	-	(1)
Amount charged to statement of profit and loss	1	103	13	117	17	52	(4)	65
Debt write-off	(1)	(21)	-	(22)	-	(40)	-	(40)
Balance of provision as of period end	836	2,006	192	3,034	826	1,923	182	2,931
Includes - Balance of provision that was not deducted from loans to the public	-	118	-	118	-	97	-	97

	For the 9 months ended September 30, 2008				For the 9 months ended September 30, 2007			
	Specific provision (1)		Supplementary provision (3)	Total	Specific provision (1) (2)		Supplementary provision (3)	Total
	By extent of arrears	Other			By extent of arrears	Other		
Balance of provision as of period start	821	1,917	172	2,910	805	1,870	192	2,867
Subsidiary consolidated for the first time	-	23	6	29	-	-	-	-
Transfer	-	(4) (8)	-	(8)	-	-	-	-
Provisions during reported period	232	196	21	449	198	194	-	392
Decrease in provisions	(203)	(24)	(7)	(234)	(177)	(25)	(10)	(212)
Recovery of debt written off in previous years	-	(2)	-	(2)	-	(2)	-	(2)
Amount charged to statement of profit and loss	29	170	14	213	21	167	(10)	178
Debt write-off	(14)	(96)	-	(110)	-	(114)	-	(114)
Balance of provision as of period end	836	2,006	192	3,034	826	1,923	182	2,931
Includes - Balance of provision that was not deducted from loans to the public	-	118	-	118	-	97	-	97

(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 interest on doubtful debt, after the debt were determined as doubtful.
(2) Reclassified.
(3) Includes general and special provisions for doubtful debt.
(4) Balance of provision for claims presented in previous periods under provision for doubtful debts.

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 9 months ended September 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	39,478	1,061	541	828	-	828
Large loans (5)	3,606	95	31	8	11	19
Other loans	639	27	7	-	22	22
Total	43,723	1,183	579	836	33	869

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

	For the 9 months ended September 30, 2007					
	Balance sheet loan balance2))	Debt balance (3)	Includes: Amount in arrears (4)	Specific provision		
				By extent of arrears	Other	Total
Housing loans for which specific provision according to length of arrears must be calculated	35,388	1,122	523	821	-	821
Large loans (5)	2,404	125	34	5	14	19
Other loans	684	44	12	-	8	8
Total	38,476	1,291	569	826	22	848

(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 balance of specific provision 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 845 thousand (on September 30, 2007 – NIS 805 thousand).

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of September 30, 2008 (unaudited)
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	1,985
Retained earnings (2)	3,929
Minority interest in equity of subsidiaries	333
Amortization (3)	(138)
Total tier I capital	6,109
Upper Tier II capital (4)	1,287
Other Tier II capital	3,057
Total capital	10,453

	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	10,892	2,131	8,761	-	-	1,752	158
Securities	7,449	(9) 5,433	1,229	-	787	1,033	93
Securities loaned or sold in repurchase agreements	-	-	-	-	-	-	-
Loans to the public (4)	83,990	6,108	84	20,142	57,656	67,744	6,097
Loans to the Government	3	3	-	-	-	-	-
Investment in affiliates	17	(7) 6	-	-	11	11	1
Buildings and equipment	1,402	-	-	-	1,402	1,402	126
Positive fair value of derivatives	2,418	-	1,591	-	827	1,145	103
Other assets	954	(8) 284	10	-	660	662	60
Total assets	107,125	13,965	11,675	20,142	61,343	73,749	6,638
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,700	277	461	287	9,675	9,911	892
Financial derivatives	12,414	-	9,342	-	3,072	4,940	445
Others	358	-	213		145	188	17
Total off-balance sheet instruments	23,472	277	10,016	287	12,892	15,039	1,354
Total credit risk assets and capital requirement							
Market risk	2,664	-	-	-	2,664	2,664	240
Total risk assets and capital requirements	133,261	14,242	21,691	20,429	76,899	91,452	8,232

(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 110 million represents part of Tier II capital and is not deducted from loans to the public.
(5) Assets - balance sheet balances; off-balance sheet instruments - balance of stated values weighted by the conversion coefficients for loans.
(6) Capital requirement was calculated at a rate of 9%, in accordance with instructions of the Supervisor of Banks.
(7) Deducted from capital.
(8) Includes NIS 113 million deducted from capital.
(9) Includes NIS 14 million deducted from capital.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of September 30, 2008 – Consolidated (unaudited)
Reported amounts (NIS in millions)

3. Details of capital requirement for market risk:	
Interest risk	180
Share price risk	-
Exchange rate and inflation risk	45
Risk associated with options trading	15
Total capital requirement for market risk	240

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	11.43
Total minimum capital ratio required by the Supervisor of Banks	9.00

(1) In accordance with a letter received from the Supervisor of Banks on October 29, 2008, starting with financial statements as of December 31, 2008 it would no longer be possible to weight at 50% mortgages insured by EMI insurance where the loan-to-value ratio is higher than 60%. These mortgages shall be weighted at a 100% financing rate while the company rating has not been raised above a threshold set forth in Proper Banking Management Directive no. 311. Had this directive been applied to these financial statements, risk assets would have increased by NIS 374 million, and the ratio of capital to risk elements would have decreased by 0.05%.

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks
As of September 30, 2007 – Consolidated (unaudited)
Reported amounts (NIS in millions)

1. Bank capital for calculating minimum capital ratio (1)	
Tier I capital:	
Paid-up share capital and capital reserves	1,965
Retained earnings (2)	3,489
Minority interest in equity of subsidiaries	12
Amortization (3)	(57)
Total tier I capital	5,409
Upper Tier II capital (4)	1,094
Other Tier II capital	2,715
Total capital	9,219

	Balances (5)	Weighting of risk assets					
		0%	20%	50%	100%	Risk balances	Capital requirement (6)
2. Weighted credit risk balances by risk groups							
Assets							
Cash and deposits with banks	12,463	3,001	9,462	-	-	1,892	170
Securities	6,763	4,149	1,894	-	720	1,099	99
Securities loaned or sold in repurchase agreements	13	13	-	-	-	-	-
Loans to the public (4)	73,795	5,919	418	17,930	49,528	58,577	5,272
Loans to the Government	3	3	-	-	-	-	-
Investment in affiliates	18	(7) 7	-	-	11	11	1
Buildings and equipment	1,205	-	-	-	1,205	1,205	108
Positive fair value of derivatives	2,108	-	1,122	-	986	1,210	109
Other assets	619	109	-	-	510	510	46
Total assets	96,987	13,201	12,896	17,930	52,960	64,504	5,805
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	9,253	562	23	307	8,361	8,519	767
Financial derivatives	10,595	-	6,760	-	3,835	5,187	467
Others	417	-	280	-	137	193	17
Total off-balance sheet instruments	20,265	562	7,063	307	12,333	13,899	1,251
Total credit risk assets and capital requirement	117,252	13,763	19,959	18,237	65,293	78,403	7,056
Market risk	1,919	-	-	-	1,919	1,919	172
Total risk assets and capital requirements	119,171	13,763	19,959	18,237	67,212	80,322	7,228

(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 September 30, 2007 – Consolidated (unaudited)
Reported amounts (NIS in millions)

3. Details of capital requirement for market risk:	
Interest risk	137
Share price risk	1
Exchange rate and inflation risk	23
Risk associated with options trading	11
Total capital requirement for market risk	172

4. Ratio of capital to elements of risk	in %
Ratio of Tier I capital to risk elements	6.73
Ratio of total capital to risk elements	11.48
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 (5)	Weighting of risk assets					
		0%	20%	50%	100%	Risk balances	Capital requirement (6)
2. Weighted credit risk balances by risk groups							
Assets							
Cash and deposits with banks	10,701	2,679	8,022	-	-	1,604	144
Securities	6,145	(9) 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	(7) 6	-	-	11	11	1
Buildings and equipment	1,246	-	-	-	1,246	1,246	112
Positive fair value of derivatives	2,298		1,401	-	897	1,177	106
Other assets	582	(8) 74	-	-	508	508	46
Total assets	95,424	12,221	10,974	18,179	54,050	65,334	5,880
Off-balance sheet instruments							
Transactions in which the balance represents credit risk	10,112	116	499	268	9,229	9,463	852
Financial derivatives	11,876	-	8,187	-	3,689	5,326	479
Others	447	-	296	-	151	210	19
Total off-balance sheet instruments	22,435	116	8,982	268	13,069	14,999	1,350
Total credit risk assets and capital requirement	117,859	12,337	19,956	18,447	67,119	80,333	7,230
Market risk	1,866	-	-	-	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) Includes NIS 26 million deducted from capital.
(9) Includes NIS 4 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	6.86
Ratio of total capital to risk elements	11.33
Total minimum capital ratio required by the Supervisor of Banks	9.00

B. On May 14, 2007 the Board of Directors passed a resolution, effective as of May 17, 2007, instructing Bank management to act so as to have capital adequacy ratios (including upper tier II capital) of no less than 11.2% starting with financial statements for the second quarter of 2007. On February 25, 2008, the Bank's Board of Directors resolved to instruct Bank management to act so as to have the capital adequacy ratio (including upper tier II capital) of no less than 12% by the 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 September 30, 2008
Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)			Non-monetary items	Total
	Non-linked	CPI-linked	US dollars	Euro	Other currencies		
	(un-audited)						
Assets							
Cash and deposits with banks	3,060	2,408	3,099	1,897	428	-	10,892
Securities	2,773	1,185	1,658	1,425	30	(3) 378	7,440
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Loans to the public (2)	37,417	34,817	7,189	1,881	2,576	-	83,880
Loans to the Government	-	2	1	-	-	-	3
Investment in affiliates	26	-	-	-	-	(9)	17
Buildings and equipment	-	-	-	-	-	1,402	1,402
Other assets	2,485	286	317	47	88	149	3,285
Total assets	45,761	38,798	12,264	5,250	3,122	1,920	107,009
Liabilities							
Deposits from the public	43,975	22,603	11,954	3,684	2,465	-	84,681
Deposits from banks	618	1,072	592	107	76	-	2,465
Deposits from the Government	188	220	35	-	-	-	443
Securities loaned or sold in conjunction with repurchase agreements	600	-	-	-	-	-	600
Debentures and subordinated notes	-	6,870	-	-	-	-	6,870
Other liabilities	4,317	655	542	34	40	189	5,776
Total liabilities	49,698	31,420	13,123	3,825	2,581	189	100,835
Difference	(3,937)	7,278	(859)	1,425	541	1,731	6,174
Non-hedging financial derivatives:							
Derivatives (except for options)	5,777	(5,189)	1,037	(1,088)	(537)	-	-
Net in-the-money options (in terms of underlying asset)	307	-	171	(515)	50	(13)	-
Net out-of-the-money options (in terms of underlying asset)	(26)	-	140	(8)	(118)	12	-
Total	2,121	2,089	489	(186)	(64)	1,730	6,174
Net in-the-money options (capitalized par value)	(1,090)	-	435	427	(204)	432	-
Net out-of-the-money options (capitalized par value)	189	-	(238)	(173)	69	153	-

(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 275 million for shares received to secure credit. See also Note 2.

Note 5 – Consolidated statement of assets and liabilities by linkage basis
As of September 30, 2007
Reported amounts (NIS in millions)

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

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

(1) Includes amounts linked to foreign currency.
(2) The general, special and supplementary provisions for doubtful debt were deducted ratably from the various linkage categories.
(3) Includes NIS 322 million for shares received to secure credit.

Note 6 - Contingent Liabilities and Special Commitments
Reported amounts (NIS in millions)

	September 30, 2008	September 30, 2007	December 31, 2007
	(unaudited)	(unaudited)	(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	508	584	707
- Loan guarantees	3,751	2,625	2,847
- Guarantees to purchasers of homes	6,266	5,794	5,613
- Other guarantees and liabilities (1)	4,409	4,185	(2) 4,830
- Unutilized revolving credit card facilities	3,502	3,148	3,192
-Unutilized debitory account and other credit facilities in accounts available on demand	22,482	22,688	23,895
- Irrevocable commitments for loans approved but not yet granted	4,158	4,391	4,391
- Commitments to provide credit to savers	1,712	1,695	1,686
- Commitments to issue guarantees	5,214	4,254	4,017

	September 30, 2008	December 31, 2007
	(unaudited)	(audited)
B. Special commitments		
Liabilities in respect of:		
Long-term rental contracts	376	351
Computerization and software services contracts	18	100
Acquisition of buildings and their renovation	22	19
Deposits received on future dates	5	5

(1) Includes Bank commitment for its share of the MAOF Clearinghouse Risk Fund, amounting to NIS 107 million (on September 30, 2007 and on December 31, 2007 – NIS 209 million and NIS 225 million, respectively).

(2) Restated.

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 opinion of Bank management, 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 shareholders' 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 October 2008, a claim was filed with the Haifa District Court in the amount of $80 million or more (as set forth in the claim) against the Bank, against an officer of the Bank, and against Bank Leumi, Bank Otzar HaChayal, Bank Hapoalim, Municipality of Haifa and the Supervisor of Banks, due to non-provision of credit allegedly promised to the plaintiff and/or to companies under his control, which has allegedly caused their collapse. In addition to the claim, the plaintiff has filed with the Court a motion for waiving of Court fees, which has yet to be heard.
This claim has been filed after the Supreme Court had nullified 2 previous claims filed by the plaintiff and companies under his control, due to non-payment of the fee by the plaintiffs, following rejection of their motions for waiving of the fee.
According to the assessment of the Bank's management, based on a legal opinion it has obtained, the prospects that the plaintiffs will succeed in their claim are remote. Therefore, no provision was recorded in the financial statements for this claim.

For all claims against the Bank Group in individual amounts of more thanr 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 130 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, as to 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 cannot be estimated at this stage, hence no provision was made for them.

A. Two motions are pending and open in District Court and the Supreme Court to recognize as class actions two legal actions against the Bank and other mortgage banks totaling more than one and one-half billion NIS. The specific amount demanded from each Bank was not stated.
In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks over-charged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.
The banks deny all plaintiffs' claims and reject them out of hand. The banks claim, inter alia, that their actions were lawful both in charging the commissions and in the rates of these commissions.
In the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to assess whether the claims will be recognized as class actions and what the possible outcome will be.

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

B. In December 2007, a claim was filed against the Bank with the Tel Aviv District Court, along with a motion for class action status, amounting to NIS 114 million. The plaintiffs cite two causes. According to the first cause, estimated at NIS 54 million, the Bank charged property insurance premiums to borrowers in addition to property insurance purchased independently by the plaintiffs, allegedly under coercion and unlawfully.
   According to the second cause, estimated at NIS 60 million, the Bank coerced its customers to pay insurance premiums based on the full property value and not on the loan balance, i.e. at an amount which was higher than the debt amount.
   Bank management estimates 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 on renewable short-term deposits based on a non-binding expectation of 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 the anti-trust statutes, 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 upon the transfer of control of provident fund assets, management and trusteeship to management and control by management companies, in lieu of transferring them to provident fund account holders, pro rata to their share of fund assets since, according to his claim, these proceeds are the fruit generated by the provident fund assets and arise from rights associated with these assets, therefore, according to the claim, this profit belongs to provident fund account holders rather than to the Bank.
The Supervisor of Capital Market and Insurance was requested to join the claim as plaintiff, along with 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

	September 30, 2008				
	Interest contracts				Commodities and other contracts
	NIS - CPI	Other	Currency contracts	Contracts for shares	
	(unaudited)				
1. Stated amounts of financial derivatives					
A. Hedging derivatives (1)					
Forward contracts	1,116	-	-	-	-
Swaps	-	1,082	-	-	-
Total	1,116	1,082	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate		976			
B. ALM derivatives (1) (2)					
Futures contracts	-	-	161	-	-
Forward contracts	10,635	5,939	40,438	510	145
Option contracts traded on stock exchange:					
Options written	-	-	480	-	-
Options purchased	-	-	354	-	-
Other option contracts:					
Options written	-	-	16,831	1,025	-
Options purchased	-	-	17,278	1,068	-
Swaps	17,507	16,946	4,455	-	-
Total	28,142	22,885	79,997	2,603	145
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	7,353	10,448	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	55	-	-
Option contracts traded on stock exchange:	-	-	-	-	-
Options written	-	-	2,131	8,766	1
Options purchased	-	-	2,219	8,766	1
Other option contracts:					
Options written	-	1,741	2,112	671	2
Options purchased	-	1,741	2,170	675	2
Swaps	-	-	-	-	-
Total	-	3,482	8,687	18,878	6
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives for which the Bank is guarantor	-	-	-	-	821
Foreign currency spot swap contracts	-	-	652	-	-
Total	-	-	652	-	821

(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

	September 30, 2008				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
	unaudited				
A. Hedging derivatives (1)					
Positive fair value, gross	8	2	-	-	-
Negative fair value, gross	32	43	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	299	100	1,508	121	6
Negative fair value, gross	360	150	1,840	118	5
C. Other derivatives (1)					
Positive fair value, gross	-	17	213	143	2
Negative fair value, gross	-	17	203	135	2
D. Credit derivatives					
Credit derivatives for which the Bank is guarantor					
Positive fair value, gross	-	-	-	-	-
Negative fair value, gross	-	-	-	-	36

(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

	September 30, 2007				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
	unaudited				
1. **Stated amounts of financial derivatives**					
A. Hedging derivatives (1)					
Forward contracts	1,706	-	-	-	-
Swaps	-	808	-	-	-
Total	1,706	808	-	-	-
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate		353			
B. ALM derivatives (1) (2)					
Forward contracts	13,722	945	37,640	170	63
Option contracts traded on stock exchange:					
Options written	-	-	2,182	-	-
Options purchased	-	-	1,154	-	-
Other option contracts:	-	-		-	-
Options written	-	-	13,484	575	-
Options purchased	-	-	16,070	686	-
Swaps	5,255	12,425	1,709	-	-
Total	18,977	13,370	72,239	1,431	63
Includes interest rate swaps on which the Bank agrees to pay a fixed interest rate	5,255	5,169	-	-	-
C. Other derivatives (1)					
Forward contracts	-	-	2,264	-	-
Option contracts traded on stock exchange:					
Options written	-	-	2,079	14,130	-
Options purchased	-	-	2,029	14,130	-
Other option contracts:					
Options written	-	1,895	4,231	3,314	-
Options purchased	-	1,895	3,425	2,968	-
Swaps	-	32	-	-	-
Total	-	3,822	14,028	34,542	-
D. Credit derivatives and foreign currency spot swaps					
Credit derivatives in which the Bank is guarantor	-	-	-	-	562
Foreign currency spot swap contracts	-	-	384	-	-
Total	-	-	384	-	562

(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

	September 30, 2007				
	Interest contracts				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
	(unaudited)				
A. Hedging derivatives (1)					
Positive fair value, gross	23	3	-	-	-
Negative fair value, gross	7	2	-	-	-
B. ALM derivatives (1) (2)					
Positive fair value, gross	147	159	1,183	76	2
Negative fair value, gross	228	68	866	55	2
C. Other derivatives (1)					
Positive fair value, gross	-	56	103	225	-
Negative fair value, gross	-	56	97	250	-
D. Credit derivatives					
Credit derivatives for which the Bank is guarantor					
Positive fair value, gross	-	-	-	-	2
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				
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts
	(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 for 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 for 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

	September 30, 2008				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	unaudited				
Positive fair value, gross, of financial derivatives (1)	159	1,592	32	636	2,419
Off-balance sheet credit risk on financial derivatives	61	9,341	121	2,890	12,413
Total credit risk on financial derivatives	220	10,933	153	3,526	14,832

	September 30, 2007				
	Stock exchanges	Banks	Dealers/ Brokers	Others	Total
	unaudited				
Positive fair value, gross, of financial derivatives (1)	161	1,124	90	604	1,979
Off-balance sheet credit risk on financial derivatives (2)	127	6,760	498	3,772	11,157
Total credit risk on financial derivatives	288	7,884	588	4,376	13,136

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

(1) Includes positive fair value, gross, of embedded financial derivatives totaling NIS 4 million. (September 30, 2007 – NIS 3 million, December 31, 2007 – NIS 3 million) and balance sheet balance of autonomous derivative instruments of NIS 2,415 million included under Other Assets (September 30, 2007 – NIS 1,976 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

September 30, 2008 (unaudited)

	Up to 3 months	Over 3 months to 1 year	1-5 years	Over 5 years	Total
	(un-audited)				
Interest contracts					
NIS-CPI	4,864	10,719	9,901	3,774	29,258
Other	6,947	17,052	1,285	2,165	27,449
Currency contracts	48,771	36,261	3,670	634	89,336
Contracts for shares	18,351	1,712	1,418	-	21,481
Commodities and other contracts	89	62	667	154	972
Total as of September 30, 2008	79,022	65,806	16,941	6,727	168,496
September 30, 2007 (unaudited)	93,980	51,030	13,930	2,992	161,932
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 September 30		For the 9 months ended September 30	
	2008	2007	2008	2007
	(unaudited)			
A. **From assets** (1)				
From loans to the public	1,734	1,275	3,117	3,490
From loans to the Government	-	-	-	(1)
From deposits with the Bank of Israel and from cash	29	(29)	(16)	121
From deposits with banks	160	(360)	(701)	(58)
From securities loaned or sold in repurchase agreement	-	-	1	-
From debentures	-	10	(226)	211
	1,923	896	2,175	3,763
B. **On liabilities** (1)				
On deposits from the public	(1,000)	(301)	(276)	(2,010)
On deposits from the government	(8)	(6)	(13)	(17)
On deposits from the Bank of Israel and from cash	(1)	(2)	(8)	(40)
On deposits from banks	108	(74)	186	(217)
On debentures and subordinated notes	(234)	(242)	(565)	(384)
	(1,135)	(625)	(676)	(2,668)
C. **On financial derivatives and hedging activities**				
Ineffective element of fair value hedge	-	1	-	2
Net revenues (expenses) from ALM derivatives (2)	(184)	84	(198)	(166)
Net revenues from other derivatives	(17)	95	191	310
	(201)	180	(7)	146
D. **Other**				
Commissions from financing transactions	24	19	69	62
Financing revenues from collection of interest on arrears from individual borrowers (3)	13	11	37	31
Interest profit on problem loans	19	37	68	92
Gain (loss) from sale of debentures held for sale, net (4)	(82)	(19)	(86)	3
Other financing profit	45	33	145	110
Other financing expenses	(8)	(9)	(24)	(20)
	11	72	209	278
Total profit from financing operations before provision for doubtful debt	598	523	1,701	1,519
Includes: exchange rate differences, net	(2)	(8)	(36)	(12)
E. **Details of net effect of hedging financial derivatives on profit from financing operations**				
Financing revenues from assets (section A)	(15)	4	1	35

(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) From mortgages.
(4) Includes a provision for impairment amounting to NIS 96 million for the 9 months ended September 30, 2008, and to NIS 77 million for the 3 months ended September 30, 2008. For additional details, see Note 2.

Note 9 - Profit from Investments in Shares, Net

Reported amounts (NIS in millions)

	For the 3 months ended September 30		For the 9 months ended September 30	
	2008	2007	2008	2007
	(unaudited)			
Gain from sale of shares available for sale, net	(1)	-	16	8
Provision for impairment of shares available for sale	(2)	(1)	(3)	(1)
Dividends from shares available for sale	-	-	17	38
Total profit from investments in shares, net	(3)	(1)	30	45

Note 10 – Operating Segments
For the 9 months ended September 30, 2008
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
				(unaudited)			
Profit from financing operations before provision for doubtful debt							
From outside operating segments	2,156	(153)	19	208	563	(1,092)	1,701
Inter-segment	(1,285)	188	224	(96)	(180)	1,149	-
Profit from financing operations before provision for doubtful debt	871	35	243	112	383	57	1,701
Operating and other revenues	482	50	130	35	109	92	898
Total profit	1,353	85	373	147	492	149	2,599
Provision for doubtful debt	79	1	44	2	78	9	213
Operating and other expenses							
From outside operating segments	896	43	287	41	140	158	1,565
Inter-segment	(78)	1	(30)	41	48	18	-
Other operating expenses - total	818	44	257	82	188	176	1,565
Operating profit (loss) before taxes	456	40	72	63	226	(36)	821
Provision for taxes on operating profit	171	16	27	24	84	(13)	309
After-tax operating profit (loss)	285	24	45	39	142	(23)	512
Minority interest in net after-tax operating profits of subsidiaries	(7)	-	-	-	-	-	(7)
Net operating profit (loss)	278	24	45	39	142	(23)	505
Net after-tax profit from extraordinary items	-	-	-	-	-	1	1
Net profit (loss)	278	24	45	39	142	(22)	506
Return on equity	14.3%	63.2%	16.5%	19.5%	10.4%	(5.9%)	12.1%
Average balance of assets	48,624	1,384	4,873	4,283	22,489	23,759	105,412
Average balance of liabilities	39,558	6,186	9,264	2,082	13,447	28,627	99,164
Average balance of risk assets(1)	40,166	806	5,544	4,075	27,468	8,693	86,752
Average balance of provident and mutual fund assets	-	-	-	-	-	51,958	51,958
Average balance of securities	19,784	4,960	12,628	1,697	37,701	23,532	100,302
Credit to the public (end balance)	53,458	1,312	4,771	4,417	19,922	-	83,880
Deposits from the public (end balance)	44,755	6,317	8,967	2,223	12,164	10,255	84,681
Average balance of other assets managed	18,535	-	157	23	154	-	18,869

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	454	-	149	75	233	-	911
Margin from receiving deposits	340	32	56	13	62	-	503
Other	77	3	38	24	88	57	287
Total	871	35	243	112	383	57	1,701

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

Note 10 – Operating Segments
For the 9 months ended September 30, 2007 (1)(2)
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial Division: Internationao perations	Financial Division: Financial management	Total consolidated
	(unaudited)							
Profit from financing operations before provision for doubtful debt								
From outside operating segments	1,556	(76)	(107)	138	500	19	(511)	1,519
Inter-segment	(861)	113	313	(57)	(171)	73	590	-
Profit from financing operations before provision for doubtful debt	695	37	206	81	329	92	79	1,519
Operating and other revenues	435	15	130	31	105	39	132	887
Total profit	1,130	52	336	112	434	131	211	2,406
Provision for doubtful debt	49	-	67	4	58	-	-	178
Operating and other expenses								
From outside operating segments	766	7	279	43	92	93	147	1,427
Inter-segment	(77)	1	(32)	38	49	-	21	-
Other operating expenses - total	689	8	247	81	141	93	168	1,427
Pre-tax operating profit	392	44	22	27	235	38	43	801
Provision for taxes on operating profit	134	15	7	10	79	13	15	273
Net operating profit	258	29	15	17	156	25	28	528
Net after-tax profit from extraordinary items	121	52	39	1	5	-	15	233
Net profit	379	81	54	18	161	25	43	761
Return on equity	23.6%	-	24.7%	9.6%	12.9%	15.1%	9.6%	19.7%
Average balance of assets	41,929	-	4,974	4,666	16,971	5,608	18,554	92,702
Average balance of liabilities	32,789	2,136	9,596	2,209	12,117	6,019	22,556	87,422
Average balance of risk assets(2)	32,835	-	4,475	3,770	25,321	3,334	8,983	78,718
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,707	45,707
Average balance of securities	12,421	5,456	10,782	1,704	38,682	738	21,423	91,206
Credit to the public (end balance)	43,377	-	4,820	3,834	17,813	3,844	-	73,688
Deposits from the public (end balance)	31,693	2,299	10,195	2,207	11,879	5,191	12,610	76,074
Average balance of other assets managed	17,020	-	170	59	79	-	-	17,328

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	359	-	122	54	200	44	-	779
Margin from receiving deposits	270	35	64	13	52	47	-	481
Other	66	2	20	14	77	1	79	259
Total	695	37	206	81	329	92	79	1,519

(1) Reclassified.
(2) reporting system and are presented as per instructions of the Supervisor of Banks dated July 30, 2008. For details see appendix to the Bank's interim financial statements as of June 30, 2008.
(3) Includes off-balance-sheet balances, as computed for capital adequacy.

Note 10 – Operating Segments
For the 3 months ended September 30, 2008
Reported amounts (NIS in millions)

A. Information regarding operating segments

	Household	Private banking	Small business	Commercial banking (unaudited)	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debt							
From outside operating segments	984	(44)	135	76	165	(718)	598
Inter-segment	(626)	54	(52)	(38)	(44)	706	-
Profit from financing operations before provision for doubtful debt	358	10	83	38	121	(12)	598
Operating and other revenues	171	19	44	12	31	38	315
Total profit	529	29	127	50	152	26	913
Provision for doubtful debt	31	1	18	3	55	9	117
Operating and other expenses							
From outside operating segments	355	17	95	11	44	42	564
Inter-segment	(29)	-	(11)	15	18	7	-
Other operating expenses - total	326	17	84	26	62	49	564
Operating profit (loss) before taxes	172	11	25	21	35	(32)	232
Provision for taxes on operating profit (loss)	63	5	9	8	12	(11)	86
After-tax operating profit (loss)	109	6	16	13	23	(21)	146
Minority interest in net after-tax operating profits of subsidiaries	(7)	-	-	-	-	-	(7)
Net operating profit (loss)	102	6	16	13	23	(21)	139
Net after-tax profit from extraordinary items	-	-	-	-	-	1	1
Net profit (loss)	102	6	16	13	23	(20)	140
Return on equity	15.1%	52.4%	14.9%	20.4%	5.3%	(19.0%)	10.0%

B. Information regarding profit from financing operations before provision for doubtful debt (1)

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	173	-	38	16	68	-	295
Margin from receiving deposits	153	7	18	4	7	-	189
Other	32	3	27	18	46	(12)	114
Total	358	10	83	38	121	(12)	598

(1) Reclassified.

Note 10 – Operating Segments
For the 3 months ended September 30, 2007 (1)(2)
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 from financing operations before provision for doubtful debt								
From outside operating segments	816	(33)	(57)	54	129	(7)	(379)	523
Inter-segment	(572)	49	130	(27)	(24)	26	418	-
Profit from financing operations before provision for doubtful debt	244	16	73	27	105	19	39	523
Operating and other revenues	138	7	41	8	21	13	45	273
Total profit	382	23	114	35	126	32	84	796
Provision for doubtful debt	28	-	24	(2)	15	-	-	65
Operating and other expenses								
From outside operating segments	258	4	107	17	27	32	33	478
Inter-segment	(29)	-	(12)	16	19	-	6	-
Other operating expenses - total	229	4	95	33	46	32	39	478
Operating profit (loss) before taxes	125	19	(5)	4	65	-	45	253
Provision for taxes on operating profit	35	6	(3)	2	15	(1)	18	72
Net operating profit (loss)	90	13	(2)	2	50	1	27	181
Net after-tax profit from extraordinary items	-	-	-	-	-	-	3	3
Net profit (loss)	90	13	(2)	2	50	1	30	184
Return on equity	16.5%	-	(2.6%)	3.1%	12.3%	1.6%	29.0%	14.7%

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	120	-	43	19	49	9	-	240
Margin from receiving deposits	97	15	23	4	20	10	-	169
Other	27	1	7	4	36	-	39	114
Total	244	16	73	27	105	19	39	523

(1) Reclassified.
(2) Information by operating segment for the 9 months and 3 months ended September 30, 2007 are based on a new reporting system and are presented as per instructions of the Supervisor of Banks dated July 30, 2008. For details see appendix to the Bank's interim financial statements as of June 30, 2008.

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
				(audited)				
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	(2) (9)	216	2,026
Operating and other revenues	589	21	173	42	163	56	146	1,190
Total profit	1,505	70	450	157	625	47	362	3,216
Provision for doubtful 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 loss of affiliates	-	-	-	-	-	-	(1)	(1)
Net operating profit (loss)	317	38	26	23	226	(56)	107	681
Net after-tax profit from extraordinary items	121	52	39	1	5	-	9	227
Net profit (loss)	438	90	65	24	231	(56)	116	908
Return on equity	19.2%	-	21.6%	9.2%	13.0%	(24.0%)	26.3%	17.2%
Average balance of assets	42,430	-	4,938	4,349	17,499	5,873	18,955	94,044
Average balance of liabilities	33,219	2,210	9,796	2,167	12,240	5,999	23,082	88,713
Average balance of risk assets(1)	33,999	-	4,561	3,801	26,298	3,456	8,681	80,796
Average balance of provident and mutual fund assets	-	-	-	-	-	-	45,472	45,472
Average balance of securities	19,565	4,731	21,091	2,149	37,711	766	6,790	92,803
Credit to the public (end balance)	43,603	-	4,806	4,087	17,412	4,412	-	74,320
Deposits from the public (end balance)	30,731	2,204	11,106	2,432	10,753	5,481	12,583	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 in value of asset-backed securities, amounting to NIS 114 million.

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 Governor of the Bank of Israel 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 price list"). 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 price list, by type of banking services or by customer type ("limited price lists").

The banking corporation would be required to set the price charged by it for each service included in the full price list, and to inform its customers of the price lists and commission prices it charges. Charging of any commission not included in the price lists 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. 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 the charging of a 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 rise 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 price lists for customers serviced by a banking corporation, as well as limited price lists for customers of the banking corporation who are provided services of current account management and housing loans, and for customers to whom the banking corporation has issued credit cards. The regulations require the banking corporation to prominently display the price lists 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 price lists via automated machines provided to customers. The banking corporation is required to provide the customer with the applicable limited price list upon initial receipt of the service.

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

The regulations apply as of July 1, 2008 and the Bank is preparing to implement them. In conjunction with said preparations, commissions for the various services provided by the Bank were adapted to rules set forth in the regulations. The impact of application of these new regulations on Group revenues, as reflected in results for the 3rd quarter of 2008, are not material.

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 further agreed that Yahav would continue receiving IT services from Bank Hapoalim under current terms and conditions agreed by Bank Hapoalim and Yahav, for a 3-year term starting on the date of closing of the transaction. On September 9, 2007, a detailed agreement was signed with regard to the sale of the acquired shares based on the principles set forth in the MOU dated March 27, 2007.

Note 11 – Other matters

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 stipulated, subject to the statute, with regard to Bank Yahav's preparations in connection to 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 distributions). 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. The total investment cost amounted to NIS 419 million, and the excess acquisition cost over the Bank's share of Bank Yahav's shareholders' equity as of June 30, 2008 amounted to NIS 91 million, representing goodwill.

The following are details [(1)] of Bank Yahav for Government Employees Ltd. – a newly consolidated subsidiary:

	Reported amounts NIS in millions
Balance sheet total	9,953
Cash and deposits with banks	3,749
Securities	2,634
Credit to the public	3,389
Deposits from the public	9,178
Net profit for 2007	72
Net profit for the first 9 months of 2008	126
Net profit for the 3 months ended September 30, 2008	16
Excess acquisition cost	91

(1) According to financial statements of Bank Yahav for Government Employees Ltd. as of June 30, 2008, except for 2008 net profit which is according to financial statements as of September 30, 2008.

Note 11 – Other matters

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 September 30, 2004. According to a letter from the Ministry of Finance, the agreement was extended until June 30, 2008.

In February 2008, the Ministry of Finance issued a tender for providing loans to eligible borrowers having a low point rating, which would be in place concurrently with and in addition to the aforementioned agreement. The new agreement became effective starting in May 2008 for 1 year. After that 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 from the Ministry of Finance’s resources. The remainder of the conditions would be in line with conditions in place for assistance out of Ministry of Finance resources, 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 or non existence of credit insurance, plus an additional margin of 0.24%, as determined for the bank which is 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 budget funds).

Furthermore, it was determined for all eligible borrowers, that those eligible for assistance at "market interest" terms, would receive, starting on May 1, 2008, the assistance loans at an interest rate to be determined in accordance with the average mortgage interest for the loan term (subject to the aforementioned terms), as it will be known on 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 9 months of 2008 amounted to NIS 72 million, compared to NIS 73 million in the corresponding 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 consideration 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 for a 10-year term from the date of signing the MOU. In this case the Bank may distribute its branded card through any party of its choice.

Note 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 allotted to it on December 19, 2007; these were recorded in the Bank's 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's Board of Directors resolved, after obtaining approval of the Bank's Audit Committee and the recommendations of the Compensation and Management Committeesof the Bank's Board of Directors 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 are to be granted, pursuant to the plan, to members of the Bank Board of Directors, including the Chairman of the Board, nor to the Bank President.

In addition to approval of the option plan, as mentioned 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 of Directors members, including the Chairman of the Board of Directors, 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 described in the outline.

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 determined 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 ratio of return of the net profit from normal operations on the Bank's average shareholders' equity, up to an annual rate of return equal to 18%, based on the exercise eligibility formula, as set forth in the option plan.

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

Furthermore, allotment of the full number of realization shares is merely theoretical, since in actual fact the offerees would not be allotted the full number of realization 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 stipulateds by 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.

Note 11 – Other matters

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 income-from-wages track, via a trustee, pursuant to provisions of Section 102 of the Income Tax Ordinance (New Version), 1961 including all regulations, rules, circulars and guidelines issued within its authority.

On November 24, 2008, the Board of Directors resolved, after receiving approval of the Bank Audit Committee dated November 23, 2008, to extend the exercise periods of all option warrants allotted in accordance with the plan and the outline, and which are to be so allotted in the future, by 24 months.
Accordingly, the exercise period for each lot of the option warrants allotted or to be allotted pursuant to the option plan, including all option warrants allotted on July 8, 2008, would be extended by 24 months, and will end after 7 years and 90 days from the date of allotment, rather than after 5 years and 90 days from the date of allotment, as determined in the original plan.

For the purposes of recording the expense in the Bank's financial statements, and based on the strategic 5-year plan, as described 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 mentioned in the outline.

On November 24, 2008, the Bank’s Board of Directors approved an updated strategic plan, whereby the Bank's objective is to achieve an annual rate of return of 18% in 2013, rather than in 2012, as was stated in the strategic plan prior to its update. Accordingly, management’s estimate with regard to the framework of annual rates of return has been updated for the purpose of recording this expense in the Bank's financial statements.

Note 11 – Other matters

The theoretical benefit value of the option warrants currently allotted, as set forth above, calculated in accordance with accounting principles in Accounting Standard No. 24, including the adjustment of option value with respect to the change in option terms and the impact of the change on the number of options expected to vest, amounts to NIS 93 million (NIS 108 million including payroll tax), compared to NIS 115 million (NIS 133 million including payroll tax) prior to this change.

Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise in reliance upon management's estimate of the range of annual rates of return, as mentioned above, as well as based on Bank management's assessment with regard to the average rate of departure of plan offerees, meaning that some of the option warrants to be granted would expire due to the offerees' retirement.

Adjustment of the benefit value for the change in option terms is the difference between the fair value of the options, under their original terms, on the date of change in said terms, and their fair value under the new terms on the same date.

The theoretical benefit value is recorded in the Bank's 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 rates of departure are reviewed and updated on an on-going basis, and the extent of total expenses recorded in the financial statements is updated accordingly.

The theoretical benefit value of the option warrants was determined using the Black and Scholes model. The 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 was determined based on gross yield to maturity for CPI-linked government bonds bearing fixed interest ("Galil"), for a term equal to the expected life to exercise of each lot.

Note 11 – Other matters

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted on July 8, 2008, as of the grant date and as of the date of modification of terms:

	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
As of July 8, 2008 – the grant date					
Annualized standard deviation	26.05%	26.23%	25.44%	24.71%	24.98%
Exercise price (in NIS)	25.15	25.15	25.15	25.15	25.15
Interest	2.03%	2.20%	2.34%	2.47%	2.58%
Term to exercise (in years)	3.1	3.6	4.1	4.6	5.1
Fair value per single option	5.25	5.79	6.13	6.45	6.95
As of November 24, 2008 – for the original exercise period (exercise price unchanged)					
Annualized standard deviation	29.84%	29.22%	28.76%	28.35%	27.43%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.08%	4.11%	4.13%	4.15%	4.16%
Term to exercise (in years)	2.75	3.25	3.75	4.25	4.75
Fair value per single option	1.17	1.43	1.69	1.94	2.12
As of November 24, 2008 – for the updated exercise period (exercise price unchanged)					
Annualized standard deviation	28.76%	28.35%	27.43%	26.77%	27.18%
Share price	15.70	15.70	15.70	15.70	15.70
Exercise price	25.70	25.70	25.70	25.70	25.70
Interest	4.13%	4.15%	4.16%	4.18%	4.19%
Term to exercise (in years)	3.75	4.25	4.75	5.25	5.75
Fair value per single option	1.69	1.94	2.12	2.32	2.66
Value of change per single option	0.52	0.51	0.43	0.38	0.54
Cumulative value per single option	5.77	6.30	6.56	6.83	7.49

F. On February 26, 2008 the Knesset passed the Income tax Law (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 amounts of depreciation on fixed assets and tax loss carry-forwards would be discontinued, so 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, one half of 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.

For 2008, as an 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 one half of the employer's share of National Insurance fees paid for employees pursuant to the National Insurance Act.

The impact of rescinding the Inflationary Adjustment Act, for the first 9 months of 2008, amounted to a NIS 74 million increase in the Bank's provision for taxes. The impact of revisions to the VAT Act, based on payroll expenses for the first 9 months of 2008, amounted to a NIS 7 million decrease in the Bank's provision for taxes.

G. On November 18, 2008, the Bank and Israel Credit Cards Ltd. (hereinafter: "CAL"), and with Diners Club Israel Ltd. – a company controlled by CAL (hereinafter: "Diners") - (hereinafter jointly: "CAL Group") signed an agreement with regard to joint issuance of Visa, MasterCard and Diners Club charge cards, including cards with the Bank trade brand, to be distributed by the Bank to its customers (hereinafter, respectively: "the agreement" and "the cards"). The agreement sets forth the parties' rights as well as operating arrangements and services to be provided by the CAL Group for the cards, as well as all other related terms and conditions. The agreement supersedes current agreements between the Bank and the CAL Group in effect since July 26, 1995.

In conjunction with the agreement, the Bank received an option to acquire from CAL, by way of allotment, up to 121,978 ordinary CAL shares, which if allotted on the date of signing the agreement would have constituted up to 10% of CAL's ordinary share capital, fully diluted (hereinafter: "the option"). The number of shares allotted upon exercise of the option may be adjusted for certain changes in CAL's capital, as set forth in the agreement. The number of shares allotted may be larger if, prior to exercise of the option, CAL would allot shares at a price reflecting a price below market value, in accordance with a formula stipulated in the agreement.

Furthermore, the number of shares may change accordingly, should CAL decide on a reverse split of its ordinary shares into shares of higher par value, or on a split of its ordinary shares into shares of lower par value, or on distribution of bonus shares – all from the date of signing the agreement and through a date prior to the option exercise date. The option may be exercised on a one time basis, no later than 5 years from the date of signing the agreement (or, under certain circumstances, a slightly longer period), at any time after the average monthly credit utilization volume by Bank customers of their cards has reached the minimum amount that was stated in the agreement.

Note 11 – Other matters

The number of ordinary shares to be allotted in conjunction with the exercise of the option shall be calculated using a formula specified in the agreement, in accordance with transactions made by card holders.

In return for exercising the option, the Bank shall pay an exercise price based on a formula specified in the agreement, based on the current company value. The option may be converted into a cash payment to the Bank should there by any hindrance to exercising the option by way of allotment of CAL shares as stated above, or should CAL elect to do so.

The agreement is effective for a 5-year term from the date it was signed. Should the option be exercised or cashed as described above, the agreement term shall be extended for 10 years from the date it was signed, and may be further extended. The agreement is subject to all regulatory requirements required by statute, if any.

The signed agreement and the related option granted to the Bank have no material impact on the Group's financial statements.

H. On November 24, 2008, the Bank's Board of Directors resolved, subsequent to a decision by the Bank's Audit Committee as well as the Audit Committee and Board of Directors of Adanim Mortgage Bank Ltd. – a wholly owned and controlled subsidiary of the Bank – (hereinafter: "Bank Adanim") to approve the merger of Bank Adanim (the target company) into the Bank (the receiving company) in accordance with sections 314-327 of the Companies Law, 1999 and to authorize Bank management to sign the merger agreement between the companies.

Conclusion of this merger is conditional on fulfillment of contingent terms, including obtaining approval of the General Meeting of Bank shareholders as well as approvals and permits required by law or by provisions of the merger agreement expected to be signed by the Bank and by Bank Adanim.

The great majority of Bank Adanim's branch staff would continue to hold similar positions with Adanim or Mizrahi-Tefahot; the great majority of headquarter staff at Bank Adanim would be hired in similar positions, and the remaining staff would be offered temporary employment by Mizrahi-Tefahot so as to allow them to navigate the crisis period and to locate new employment opportunities in a timely manner.

Bank Adanim employees who select another route, outside the Group, would benefit from improved retirement benefits – identical to those offered to Tefahot employees who retired upon the merger with Bank Mizrahi, even though Adanim employees are not party to a collective bargaining agreement.

The financial statements include an appropriate provision of a non-material amount for the retirement cost of Bank Adanim employees, based on management expectations as of the date of publication of these financial statements.