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Office of International Corporate Finance
Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549, U.S.A.

RECEIVED Date: 04/09/08

2008 SEP 11 AM 11:24

OFFICE OF INTERNATIONAL
CORPORATE FINANCE

SUPL

RE: **Bank Hapoalim B.M. Documents Furnished Pursuant to
Rule 12g3-2(b) under the Securities Exchange Act of 1934 File No. 082-34955**

Ladies and Gentlemen:

On behalf of Bank Hapoalim, a company organized under the laws of the State of Israel (the "Company"), we submit the following information under Rule 12g3-2(b)(1)(iii) with respect to the Company in order to maintain our 12g3-2(b) exemption from the registration requirements of Section 12(g) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), available to foreign private issuers pursuant to Rule 12g3-2(b) under the Exchange Act.

Pursuant to Rule 12b3-2(b)(1)(iii) and 12b3-2(b)(4) under the Exchange Act, we are enclosing one copy of each of the documents set forth in Annex A.

All information and documents are being furnished under Rule 12g3-2(b)(1) with the understanding that such information and documents will not be deemed to be "filed" with the Commission or otherwise subject to the liabilities of Section 18 of the Exchange Act, and that neither this letter nor the furnishing of such information and documents shall constitute an admission for any purpose that the Company is subject to the Exchange Act.

If you have any questions or comments regarding the foregoing, please contact the Secretary of the Bank, by tel. (+972) 3-5673800 or by fax (+972) 3-5674576. Thank you for your attention to this matter.

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THOMSON REUTERS

Very truly yours,
Bank Hapoalim B.M.
Yoram Weissbren
Secretary of the Bank

**List of Documents Submitted Herewith to the
Commission Pursuant to Rule 12g3-2(b)(iii)**

	<u>Subject</u>	<u>Date</u>	<u>Schedule</u>
1.	<u>Interim Results</u>	<u>28/08/08</u>	<u>1</u>
2.	<u>Change in Corporation Securities</u>	<u>04/09/08</u>	<u>2</u>
3.	<u>Holding(s) in Company</u>	<u>31/08/08</u>	<u>3</u>
4.	<u>Holding(s) in Company</u>	<u>03/09/08</u>	<u>4</u>
5.	<u>Immediate Report</u>	<u>28/08/08</u>	<u>5</u>
6.	<u>Immediate Report</u>	<u>28/08/08</u>	<u>6</u>
7.	<u></u>	<u></u>	<u></u>
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Schedule 1
Date: August 28, 2008
Reference: 802/08

2008 SEP 11 A 11: 24

To : The London Stock Exchange

Dear Sir or Madam,

RE: **Immediate Report regarding the Approval of the
Financial Statements as at June 30, 2008**

1. We wish to inform you that at its meeting held at 4:00 p.m. on August 27, 2008, the Board of Directors of Bank Hapoalim resolved to approve the Financial Statements as at June 30, 2008.
2. An Immediate Report as required under the Securities (Periodical and Immediate Reports) Regulations, 5730-1970 and the Securities (Electronic Signature and Reporting) Regulations, 5763-2003, together with a copy of the financial statements has been filed with the Israel Securities Authority and the Tel Aviv Stock Exchange through the Securities Authority's computer system on August 28, 2008, and has been sent to the Bank of Israel and the Registrar of Companies in Israel.
3. Enclosed is a summary of the Financial Statements of the Bank as at June 30, 2008. The full Financial Statements are available upon request, and can be accessed on the Bank's internet site: <http://www.bankhapoalim.com>.

Sincerely yours,

Bank Hapoalim B.M.
Head Office

(-)

(-)

Barry Ben-Zeev
Senior Deputy Managing Director
CFO

Ofer Levy
Senior Deputy Managing Director
Chief Accountant

Bank Hapoalim reported today its Financial Results for the Second Quarter of 2008

**Net Profit for Q2 of 2008 totaled NIS 594 million
Capital Adequacy Ratio at end of Q2-08 reached 11.0%**

Tel Aviv, Israel -- Bank Hapoalim (IT: POLI, LI: BKHD, OTC: BHKYY)

Highlights of the financial statements:

- **Net Profit** for the second quarter of 2008 totaled NIS 594 million compared with a loss of NIS 1,567 million in the previous quarter and a profit of NIS 1,002 million in the same quarter last year.
- **Return on equity** for the second quarter of 2008 was 13.8%, on an annualized basis compared with a negative return in the previous quarter and 23.0% in the same quarter last year.
- **Net operating profit** for the second quarter of 2008 totaled NIS 545 million compared with a loss of NIS 2,005 million in the previous quarter and a profit of NIS 716 million in the same quarter last year.
- **Net return of operating profit on equity** for the second quarter of 2008 was 12.6%, on an annualized basis compared with a negative return in the previous quarter and 16.1% in the same quarter last year.
- **The Bank's capital adequacy** at the end of the second quarter of 2008 stood at 11.01% compared with 9.74% at the end of the first quarter of 2008 and 10.26% at the end of 2007. Tier 1 Capital reached 7.65% at the end of the second quarter of 2008 compared with 6.88% at the end of the first quarter of 2008 and 7.50% at the end of 2007.
- **Profit from financing activity before provision for doubtful debts** totaled NIS 1,943 million in the second quarter of 2008 compared with a loss of NIS 2,012 million in the previous quarter and a profit of NIS 1,995 million in the same quarter last year.
- **The provision for doubtful debts** totaled NIS 252 million in the second quarter of 2008 compared with NIS 32 million in the previous quarter and NIS 202 million in the same quarter last year.

The ratio of the specific provision for doubtful debts to the balance of balance-sheet credit to the public reached 0.44% in the second quarter of 2008. The ratio to the balance of overall balance-sheet and off-balance-sheet credit risk to the public reached 0.25% in the second quarter of 2008.

- **Problematic debt** for the Bank Group decreased from NIS 14.7 billion at the end of 2007 to NIS 12.2 billion in the second quarter of 2008, a decrease of 16.5%, while non-income-bearing debt declined from NIS 3.8 billion at the end of 2007 to NIS 3.4 billion at the end of the second quarter of 2008, a decrease of 11.9%.
- **Operating and other income** totaled NIS 1,205 million in the second quarter of 2008 compared with NIS 1,284 million in the previous quarter and NIS 1,254 million in the same quarter last year, a decrease of 6.2% and 3.9%, respectively.

Bank's operating income totaled NIS 333 million in the second quarter of 2008 compared with NIS 328 million in the previous quarter and NIS 300 million in the same quarter last year, an increase of 3.4% and 13.0%, respectively.

- **Operating and other expenses** totaled NIS 1,911 million in the second quarter of 2008 compared with NIS 2,268 million in the previous quarter and NIS 1,868 million in the same quarter last year, a decrease of 15.7% and an increase of 2.3%, respectively.
- **Contribution to the community** – The community-service activities of the Bank's employees are varied and extensive, and take the form of community involvement, monetary donations, and wide-ranging volunteer activities. This activity of the Bank Group in the second quarter of 2008 had a monetary value of approximately NIS 20 million.

Chairman of the Board of Directors Dan Dankner commented:

"The slowdown in growth in the developed countries (especially in the United States) and the sharp upsurges in raw-material prices started to take a toll on economic activity in Israel in the second quarter of 2008. We believe the economy now faces external conditions that could slow its growth in the second half of the year, and possibly in 2009 as well. These trends are apparent in most of the world's advanced economies.

The crisis in the financial markets, primarily in the United States, has not passed over the Israeli banking industry, including the Bank Hapoalim Group. Recall, in May 2008 the Bank sold the entire portfolio of mortgage-backed securities held at its New York branch. I am certain that this was the right move to make, and the results of the second quarter prove that the sale did not have a significant impact on the Bank's financial strength.

In line with the strategy we adopted at the beginning of this year, we have continued to take steps aimed at improving our capital-adequacy ratio. In the first quarter, the Bank's overall ratio of capital to risk-adjusted assets was 9.7%. Our objective was to reach a ratio of 11% by the end of this year and improve the ratio to 12% by the end of 2009. The 11% target has already been attained, at the end of the first half of 2008, by raising capital from York Capital, raising capital through subordinated notes, selling the entire MBS portfolio, and reducing risk assets abroad.

Bank Hapoalim will pursue its accelerated business development process in Israel and abroad and will continue to be a leading, innovative bank providing its customers with the highest-quality financial products and services in the market. "

CEO Zvi Ziv commented:

"The financial results for the second quarter of 2008 are affected by the first signs of a slowdown in economic activity in Israel, as a result of the crisis in global financial markets, while, at the same time, they prove that the Bank's core business remains strong, despite the losses incurred from the MBS crisis and especially considering the fact that this was the first quarter for which the Bank ceased to collect management fees from provident funds, a significant revenue source in the past.

Note that several factors weighed down our results, including accounting asymmetries arising from differences between fair value and measurement on an accrual basis in credit derivatives, as well as the fact that significant steps taken by

later date. Among these measures, it is important to note our voluntary retirement program, which is expected to reduce payroll expenses in the long term.

Other significant measures were carried out during the first half of the year: We concluded the sale of Bank Massad and Bank Yahav, which generated profits for the Bank, and we stepped up preparations for the launch of pension-advising activity. In the corporate sector, volumes of activity have continued to grow while strictly maintaining the quality of our credit portfolio. In fact, this quarter, the volume of problematic debt in the Bank continued to decrease significantly, despite the increase in credit balances and the relative worsening of economic conditions during the second quarter.

After putting behind us the MBS crisis, albeit with a heavy price, we continue to devote maximum energy on all fronts to realize the Bank's business plans and cope with the challenges of the future. "

Highlights of the financial statements for the second quarter of 2008:

Net Profit – the decrease in net profit, compared to the same period last year, is mainly a result of the following:

Profit from financing activity - financing profit, before provisions for doubtful debts, decreased by 2.6%, especially due to the differences in measurement of credit derivatives on a fair value basis in contrast to measurement of balance sheet financial activity on an accrual basis.

Provision for doubtful debts – increased by 24.8% compared to the same quarter last year, mainly due to an increase in specific provisions related to a small number of borrowers.

Operating Income – decreased by 3.9% compared to the same quarter last year, mainly due to the completion of the sale of provident fund management rights, the cessation of inclusion of Bank Massad and a decrease in income from capital market activity and investment in shares due to a decline in volumes of activity in the market.

Developments in Balance-Sheet Items

The **consolidated balance sheet** as at June 30, 2008 totaled NIS 300.9 billion, compared with NIS 303.0 billion at the end of 2007, a decrease of 0.7%.

Credit to the public totaled NIS 211.6 billion, an increase of 3.2% compared to the end of 2007. Appreciation of the shekel against most foreign currencies moderated the increase in credit to the public at a rate of 2.9%. Likewise, balances decreased by NIS 1.9 billion, as a result of the cessation of consolidation of Bank Massad data following its sale.

Deposits from the public totaled NIS 227.0 billion, a decrease of 2.1% compared to the end of 2007. The decline in deposits from the public was caused by, among other things, the appreciation of the shekel against most foreign currencies and as a result of the cessation of consolidation of Bank Massad data following its sale.

About Bank Hapoalim

Bank Hapoalim is Israel's leading financial group. In Israel, the Bank Hapoalim Group includes financial companies involved in investment banking, credit cards, trust services and portfolio management. The Group also has holdings in non-banking sectors.

Internationally, Bank Hapoalim operates through 44 branches, subsidiaries and representative offices, in North and Latin America, Europe, the Far East, Turkey and Australia. In these markets, the Bank is engaged in trade, corporate finance, private banking and retail banking.

Bank Hapoalim is the only Israeli Bank listed on both the Tel Aviv and London Stock Exchange. In addition, a Level-1 ADR is traded "over-the -counter" in New York.

For further information please contact the Bank's Spokesperson:

Tel: +972-3-567-3635; Fax: +972-3-567-3500

spokesperson@bnhp.co.il

Profit and profitability	For the three months ended on June 30		Change	For the six months ended on June 30		Change
	2008	2007		2008	2007	
Profit (loss) from financing activities before provision for doubtful debts	1,943	1,995	(2.6%)	(69)	3,775	(101.8%)
Provision for doubtful debts	252	202	24.8%	284	383	(25.9%)
Operating and other income	1,205	1,254	(3.9%)	2,489	2,621	(5.0%)
Operating and other expenses	1,911	1,868	2.3%	4,179	3,717	12.4%
Operating profit (loss) before taxes	985	1,179	(16.5%)	(2,043)	2,296	(189.0%)
Provision for taxes (tax benefit) on operating profit (loss)	431	440	(2.1%)	(521)	928	(156.1%)
Operating profit (loss) after taxes	554	739	(25.0%)	(1,522)	1,368	(211.3%)
Operating profit (loss)	545	716	(23.9%)	(1,460)	1,406	(203.8%)
Net profit from extraordinary transaction, after taxes	49	286	(82.9%)	487	231	110.8%
Net profit (loss)	594	1,002	(40.7%)	(973)	1,637	(159.4%)

Balance Sheet – Principal Items

	30.6.2008	30.6.2007	31.12.2007	Change compared with	
				30.6.2007	31.12.2007
Total balance sheet	300,909	290,829	302,991	3.5%	(0.7%)
Credit to the public	211,575	191,705	205,016	10.4%	3.2%
Securities	31,313	46,017	48,115	(32.0%)	(34.9%)
Deposits from the public	226,955	224,880	231,750	0.9%	(2.1%)
Debentures and subordinated notes	19,111	17,914	18,812	6.7%	1.6%
Shareholders' equity	18,758	19,214	18,778	(2.4%)	(0.1%)

Principal financial ratios

	30.6.2008	30.6.2007	31.12.2007
Shareholders' equity to total assets	6.2%	6.6%	6.2%
Tier I Capital to risk-adjusted assets	7.65%	7.5%	7.5%
Total Capital to risk-adjusted assets	11.01%	10.38%	10.26%
Credit to the public to total assets	70.3%	65.9%	67.7%
Deposits to the public to total assets	75.4%	77.3%	76.5%
Operating income to operating expenses	59.6%	70.5%	66.1%
Operating expenses to total income	172.7%	58.1%	65.2%
Provision for doubtful debts to credit to the public (balance sheet and off-balance sheet)(a)	0.2%	0.2%	0.1%
Rate of provision for taxes	25.5%	40.4%	39.1%
Return of operating profit (loss) on equity, net(a)	(15.3%)	15.6%	12.3%
Return of net profit (loss) on equity (a)	(10.3%)	18.3%	14.1%
Return of net profit (loss) on total assets (a)	(0.6%)	1.1%	0.9%

(a) Annualized

The securities of the corporation are listed for trading on the Tel Aviv Stock Exchange

Code name: Poalim

Street: P.O.B. 27, Tel Aviv 61000

Tel: 03-5673800; 03-5673333; Fax: 03-5674576

e-mail: yoram.weissbrem@mailpoalim.co.il

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Transmission date: 04/09/2008

Reference: 2008-01-256632

Securities Authority

www.isa.gov.il

Tel Aviv Stock Exchange Ltd.

www.tase.co.il

Immediate Report Regarding a Change in the Securities of the Corporation

The corporation advises that

o

- From 01/08/2008 until 31/08/2008

A change in the quantity of the securities of the Corporation has occurred as follows:

1. A Description of the Nature of the Change:

Explanation: A comprehensive description should be given of the transaction or the operation on account of which a change in the securities of the Corporation has occurred.

Realization of Employees Options

Date of the change	Nature of the change	Category and name of the securities with respect to which a change has occurred	Stock Exchange number	Quantity of the change	Whether executed through the Stock Exchange Clearing House
31/08/2008	Realization of Employees Options Not Including Expiries	Ordinary Share BNHP	662577	24,060	Yes

Explanations:

1. To the extent that the change affects more than one security, the effect of the change should be detailed on a separate line for each security.
2. Date of the Change – all of the changes of the same category, with respect to the same security, effected on the same day, should be summarized on one line. In that regard, a distinction should be made between changes made through the Stock Exchange Clearing House and changes made directly on the books of the Corporation.
3. The change – for a decrease the sign "-" should be added.
4. In all fields of the quantity, the quantity of securities should be filled in and not the NIS nominal value.

2.a. The Schedule of the Share Capital of the Corporation after the Change:

Name & category of share	Stock Exchange number	Number of shares in the authorized capital	Issued & paid up capital	
			Quantity in last report	Present quantity
BNHP Ordinary Shares	662577	4,000,000,000	1,315,683,550	1,315,707,610

Explanation: All categories of shares should be specified – including shares, which are not registered for trading.

b. Schedule of Other Securities of the Corporation:

No. of security	Name of security	Category of security	Name of trustee	Quantity in the last report	Present quantity	Listed for trade
6620207	Poalim Subordinated Capital Notes "A"	Other		676,000,000	676,000,000	Yes
6620215	Poalim Subordinated Capital Notes "B"	Other		459,400,000	459,400,000	No
6620280	Poalim Subordinated Capital Notes "C"	Other		896,400,000	896,400,000	Yes
6620280	Poalim Subordinated Capital Notes "C"	Other		3,600,000	3,600,000	No
6620223	Employees Options 2004	Option		1,409,155	1,385,095	No
6620231	Employees Options 2005	Option		3,892,063	3,889,019	No
6620249	Employees Options 2006	Option		3,959,181	3,957,012	No
6620256	Personal Employment Contract Options 2006	Option		42,684	42,684	No
6620264	Employees Options 2007	Option		4,040,715	4,037,991	No
6620272	Personal Employment Contract Options 2007	Option		60,684	60,684	No
6620306	Personal Employment Contract Options 2008	Option		99,000	99,000	No
6620298	Employees Options 2008	Option		4,143,152	4,139,874	No
6620318	Poalim Options 3/08 "A"	Option		3,750,000	3,750,000	No
6620322	Poalim Options 3/08 "B"	Option		3,750,000	3,750,000	No

Explanation: All of the securities of the Corporation should be specified, except for shares (including securities not registered for trading).

c. Attached hereto is an up-to-date file of the corporation's securities lists, as well as the shareholders lists, the option holder's notebook, and the bondholder's notebook Book_isa.pdf

List of Shareholders of Bank Hapoalim B.M.

Data on Holdings as at: 31 August 2008

List of Shareholders of Bank Hapoalim B.M	Amount of shares
<i>Nominee Company of Bank Hapoalim B.M.</i>	924,668,357
A. Shares of Core of Control	
<i>Arison Holdings (1998) Ltd.</i>	<u>262,731,308</u>
Total	262,731,308
B. Free Shares	
Israel Salt Industries Ltd.	<u>75,664,441</u>
York Global Finance II S.à r.l	52,500,000
Yaacov Diamant	70,000
Savion Tal	35,800
Tzitzian Avraham	31,680
Don Maxwell	2,450
Vardi Rachel	780
Agmon Eliyahu	700
Barkner Albert	603
Kikov Esther	568
Levi Victoria	544
Mindel Shira Milka	122
Geva Ariyeh	100
Pentzer Nathan	75
Zachs Eran	40
Newman David	10
Yehuda Bar Lev	10
Aaron Elias	10
Kelev Victoria	5
AMM G. Investments & Financials Ltd.	2
Livnat Raz	1
Zektzer Ram	1
Kramer Moshe	1
Erez Tal	1
Feldman Avi	<u>1</u>
	1,315,707,610

List of Holders of Subordinated Capital Notes 'A' 6620207

As of date : 31/08/2008

	Quantity of Capital Notes
Nominee Company of Bank Hapoalim B.M	671,000,000
The Provident Fund of Bank Leumi Staff	5,000,000
Total Capital	676,000,000

List of Holders of Subordinated Capital Notes 'B' 6620215

As of date : 31/08/2008

	Quantity of Capital Notes
Nominee Company of Bank Hapoalim B.M	459,400,000
Total Capital	459,400,000

List of Holders of Subordinated TACT (Tel-Aviv Continuous Trading) Institutional Capital Notes 'C' 6620280

As of date : 31/08/2008

	Quantity of Capital Notes
Nominee Company of Bank Hapoalim B.M	896,400,000
S.D.S.Z. Investments Ltd.	3,600,000
Total Capital	900,000,000

List of Holders of Employees Options 2004 6620223

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	1,385,095
Total Capital	1,385,095

List of Holders of Employees Options 2005 6620231

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	3,889,019
Total Capital	3,889,019

List of Holders of Employees Options 2006 6620249

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	3,957,012
Total Capital	3,957,012

List of Holders of Personal Employment

Contract Options 2006 6620256

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	42,684
Total Capital	42,684

List of Holders of Employees Options 2007 6620264

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	4,037,991
Total Capital	4,037,991

List of Holders of Personal Employment

Contract Options 2007 6620272

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	60,684
Total Capital	60,684

List of Holders of Personal Employment

Contract Options 2008 6620306

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	99,000
<hr/>	
Total Capital	99,000

List of Holders of Employees Options 2008 6620298

As of date : 31/08/2008

	Quantity of Capital Notes
G.L.E. 102 Trusts	4,139,874
Total Capital	4,139,874

List of Holders of Poalim Options 3/2008 "A" 6620318

As of date : 31/08/2008

	Quantity of Capital Notes
York Global Finance II S.à r.l	3,750,000
Total Capital	3,750,000

List of Holders of Poalim Options 3/2008 "B" 6620322

As of date : 31/08/2008

	Quantity of Capital Notes
York Global Finance II S.à r.l	3,750,000
Total Capital	3,750,000

The securities of the corporation are listed for trading on the Tel Aviv Stock Exchange

Code name: Poalim

Street: P.O.B. 27, Tel Aviv 61000

Tel: 03-5673800; 03-5673333; Fax: 03-5674576

e-mail: yoram.weissbrem@mailpoalim.co.il

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Transmission date: 31/08/2008

Reference: 2008-01-251487

Securities Authority
www.isa.gov.il

Tel Aviv Stock Exchange Ltd.
www.tase.co.il

Immediate Report regarding the schedule of holdings of Interested Parties and Senior Office Holders

Regulation 33 (c) of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970

Following is the schedule as of 28/08/2008

A. Interested Parties in the corporation (including CEO and directors, and including any employee holding five percent or more of the issued share capital of the corporation or voting rights therein).

No. of Holder	Name of Holder	Name, Category & Series of Security	Current Quantity of Securities	Extent of Holding		Extent of Holding (fully diluted)	
				% of capital	% of voting	% of capital	% of voting
1	Arison Holdings (1998) Ltd.	BNHP Ordinary Shares	262,731,308	19.97	19.97	19.59	19.59
2	Israel Salt Industries Ltd.	BNHP Ordinary Shares	75,764,441	5.76	5.76	5.65	5.65
3	Dan Dankner	Option	825,000	0.00	0.00	0.06	0.06
4	Zvi Ziv	BNHP Ordinary Shares	17,088	0.00	0.00	0.00	0.00
5	Zvi Ziv	Option	1,140,000	0.00	0.00	0.09	0.09
6	Yoseph Dauber	BNHP Ordinary Shares	16,530	0.00	0.00	0.00	0.00
7	Management clients of AllianceBernstein, AXA IM, and their respective affiliates	BNHP Ordinary Shares	78,448,257	5.96	5.96	5.85	5.85

Total Extent of Holding		Total Extent of Holding (fully diluted)	
% of capital	% of voting	% of capital	% of voting
31.10	31.10	31.69	31.69

B. Senior Office Holders in the corporation (not including CEO and directors, and not including any employee holding five percent or more of the issued share capital of the corporation or voting rights therein).

- o Do not hold securities of the corporation
- Following is the schedule of holdings of senior office holders in the corporation:

No. of Holder	Name of Holder	Name, Category & Series of Security	Current Quantity of Securities	Extent of Holding		Extent of Holding (fully diluted)	
				% of capital	% of voting	% of capital	% of voting
8	Ilan Mazur	BNHP Ordinary Shares	21,095	0.00	0.00	0.00	0.00
9	Hanna Pri-Zan	BNHP Ordinary Shares	13,682	0.00	0.00	0.00	0.00

Total Extent of Holding		Total Extent of Holding (fully diluted)	
% of capital	% of voting	% of capital	% of voting
0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00

Explanations:

1. Holdings of convertible securities should be reported, including convertible securities, which are not listed for trading.
2. If an interested party holds more than one category of securities, the extent of his holdings should be stated taking into consideration all of the securities held by him on one line only.
3. The schedule of holdings of all interested parties should be listed in this form, including holdings which have remained unchanged.
4. Where the interested party is a subsidiary company, the holdings should be separated into shares which were purchased before the Companies Law, 5759-1999 took effect and which confer rights as to capital and voting, and shares which were purchased after the Law took effect and which are inactive shares.
5. If the interested party is a corporation, the name of the controlling party in the corporation should be reported as well.
6. If a senior office holder holds 5 percent or more of the issued share capital of the corporation or voting rights therein, the holdings should be listed in the "Interested Parties" listings table as described in paragraph "A" above.

Name of Holder: *Arison Holdings (1998) Ltd.*
 No. of Holder: *1*
 Category of Holder: *Other Interested Party*
 Category of Identity Number: *Number at the Registrar of Companies*
 Identity Number: *512705153*
 Citizenship/Country of Incorporation or Registration: *Incorporated in Israel*
 Country of Citizenship/Incorporation or Registration: _____
 Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*
 Are the shares held inactive shares *No*
 Stock Exchange Security Number: *662577*
 Balance in previous comprehensive report (quantity of securities): *262,731,308*
 Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

1) The holdings of the interested parties in the Bank are as follows:

Eternity Holdings One Trust holds 23.07% of the shares of Arison Holdings (1998) Ltd., which holds 19.97% of the shares of Bank Hapoalim B.M. (hereinafter: "the Bank").

Furthermore, Eternity Holdings One Trust holds 23.07% of the shares of the company Arison Sustainability Ltd., which holds 100% of the shares of Arison Investments Ltd., which holds 100% of the shares of Arzaf D Ltd., which holds 82.2% of the shares of Israel Salt Industries Ltd., which holds 5.76% of the shares of the Bank.

Eternity Four Trust-A holds 53.86% of the shares of Arison Holdings (1998) Ltd., which holds 19.97% of the shares of the Bank.

Furthermore, Eternity Four Trust-A holds 53.86% of the company Arison Sustainability Ltd., which holds 100% of the shares of Arison Investments Ltd., which holds 100% of the shares of Arzaf D Ltd., which holds 82.2% of the shares of Israel Salt Industries Ltd., which holds 5.76% of the shares of the Bank.

Nickel 97 – A Trust holds 23.07% of the shares of Arison Holdings (1998) Ltd., which holds 19.97% of the shares of the Bank.

Furthermore, Nickel 97 – A Trust holds 23.07% of the shares of the company Arison Sustainability Ltd., which holds 100% of the shares of Arison Investments Ltd., which holds 100% of the shares of Arzaf D Ltd., which holds 82.2% of the shares of Israel Salt Industries Ltd., which holds 5.76% of the shares of the Bank.

Ms. Shari Arison, holder of Israeli citizenship (Israeli Identity Document 064767437) is the principal beneficiary of Eternity Holdings One Trust and of Eternity Four Trust-A.

Mr. Mickey Arison, holder of American citizenship (Passport Number 219203102) is the principal beneficiary of Nickel 97 – A Trust.

2) Arzaf D Ltd. submitted a tender offer, which has been accepted in full for the purchase of all of the holdings of the public in Israel Salt Industries Ltd.

Name of Holder: *Israel Salt Industries Ltd.*

No. of Holder: 2

Category of Holder: *Other Interested Party*

Category of Identity Number: *Number at the Registrar of Companies*

Identity Number: 520037573

Citizenship/Country of Incorporation or Registration: *Incorporated in Israel*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: 662577

Balance in previous comprehensive report (quantity of securities): 75,764,441

Change in Quantity of Securities: 0

Explanation: *If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".*

Remarks:

Name of Holder: *Dan Dankner.*

No. of Holder: 3

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: 059581280

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *0*

Balance in previous comprehensive report (quantity of securities): *825,000*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

A. the holding is in option warrants which were allotted in a private offer detailed in the private offer report of 13th February, 2008.

B. the data regarding the percentage of the holding on a fully diluted basis with reference to Mr. Dankner are theoretical data, since the exercise mechanism has been set as a net exercise mechanism (see Clause 3.6 of the aforesaid private offer report).

Name of Holder: *Zvi Ziv.*

No. of Holder: *4*

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: *004143699*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *17,088*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Name of Holder: *Zvi Ziv.*

No. of Holder: *5*

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: *004143699*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *0*

Balance in previous comprehensive report (quantity of securities): *1,140,000*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

A. the holding is in option warrants which were allotted in a private offer detailed in the private offer report of 31st March, 2008.

B. the data regarding the percentage of the holding on a fully diluted basis with reference to Mr. Ziv are theoretical data, since the exercise mechanism has been set as a net exercise mechanism (see Clause 3.6 of the aforesaid private offer report).

Name of Holder: *Yoseph Dauber*

No. of Holder: *6*

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: *007447584*

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *16,530*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Name of Holder: *Management clients of AllianceBernstein, AXA IM, and their respective affiliates*

No. of Holder: *7*

Category of Holder: *Other Interested Party*

Category of Identity Number: *Other Identification number*

Identity Number: *13-4064930*

Citizenship/Country of Incorporation or Registration: *Incorporated overseas*

Country of Citizenship/Incorporation or Registration: *U.S.A.*

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *Yes*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *81,971,927*

Change in Quantity of Securities: *-3,523,670*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Out of the total balance 53,434,881 holdings with voting rights

Together: AllianceBernstein L.P., AXA Investment Managers, AXA Rosenberg Investment Management LLC, AXA China Region Insurance Company (Bermuda) Ltd.

Name of Holder: *Ilan Mazur*

No. of Holder: *8*

Category of Holder: *Senior Office Holder who is not CEO or Director*

Category of Identity Number: *Number of Identity Document*

Identity Number: *007447386*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *21,095*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Name of Holder: *Hanna Pri-Zan*

No. of Holder: *9*

Category of Holder: *Senior Office Holder who is not CEO or Director*

Category of Identity Number: *Number of Identity Document*

Identity Number: *50963115*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

As of the date of this report and according to the directives of the law, the controlling party in the corporation is :

1. *Arison Holdings (1998) Ltd.*;
2. *Israel Salt Industries Ltd.*

- = Remarks = -

1. *extent of holding (fully diluted) does not include subordinated capital notes Series A, B and C.*
2. *When calculating the size of the holding of the interested parties in the Company on a fully diluted basis, 1,965,000 options held by Messrs Zvi Ziv and Dan Dankner were not taken with account, because those options are only exercisable into shares of the Bank to be purchased for that purpose by the Bank and no new shares will be allotted; the calculation of the size of the holdings of Zvi Ziv and Dan Dankner (on a fully diluted basis) was made on the assumption that each option would be exercised into one share. This is a theoretical assumption because the exercise mechanism for such options is a "net exercise" mechanism, so that in fact there will not be allotted to the offeree who exercises the options all of shares emanating therefrom, but only shares in a quantity which reflects the amount of the monetary benefit embodied in the options. It is to be noted that according to the terms of the options allotted to Messrs. Zvi Ziv and Dan Dankner, they are exercisable only into shares to be purchased for that purpose by the Bank. As at the time of this report, the Supervisor of Banks has permitted the Bank to purchase for its own account 1,250,000 shares so that the options may be exercised, as aforesaid.*

The securities of the corporation are listed for trading on the Tel Aviv Stock Exchange

Code name: Poalim

Street: P.O.B. 27, Tel Aviv 61000

Tel: 03-5673800; 03-5673333; Fax: 03-5674576

e-mail: yoram.weissbrem@mailpoalim.co.il

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Transmission date: 03/09/2008

Reference: 2008-01-256305

Securities Authority
www.isa.gov.il

Tel Aviv Stock Exchange Ltd.
www.tase.co.il

Immediate Report regarding the schedule of holdings of Interested Parties and Senior Office Holders
Regulation 33 (c) of the Securities (Periodic and Immediate Reports) Regulations, 5730-1970

Following is the schedule as of 02/09/2008

A. Interested Parties in the corporation (including CEO and directors, and including any employee holding five percent or more of the issued share capital of the corporation or voting rights therein).

No. of Holder	Name of Holder	Name, Category & Series of Security	Current Quantity of Securities	Extent of Holding		Extent of Holding (fully diluted)	
				% of capital	% of voting	% of capital	% of voting
1	Arison Holdings (1998) Ltd.	BNHP Ordinary Shares	262,731,308	19.97	19.97	19.59	19.59
2	Israel Salt Industries Ltd.	BNHP Ordinary Shares	75,764,441	5.76	5.76	5.65	5.65
3	Dan Dankner	Option	825,000	0.00	0.00	0.06	0.06
4	Zvi Ziv	BNHP Ordinary Shares	17,088	0.00	0.00	0.00	0.00
5	Zvi Ziv	Option	1,140,000	0.00	0.00	0.09	0.09
6	Yoseph Dauber	BNHP Ordinary Shares	16,530	0.00	0.00	0.00	0.00
7	Management clients of AllianceBernstein, AXA IM, and their respective affiliates	BNHP Ordinary Shares	78,448,257	5.96	5.96	5.85	5.85

Total Extent of Holding		Total Extent of Holding (fully diluted)	
% of capital	% of voting	% of capital	% of voting
31.10	31.10	31.69	31.69

B. Senior Office Holders in the corporation (not including CEO and directors, and not including any employee holding five percent or more of the issued share capital of the corporation or voting rights therein).

- o Do not hold securities of the corporation
- Following is the schedule of holdings of senior office holders in the corporation:

No. of Holder	Name of Holder	Name, Category & Series of Security	Current Quantity of Securities	Extent of Holding		Extent of Holding (fully diluted)	
				% of capital	% of voting	% of capital	% of voting
8	Ilan Mazur	BNHP Ordinary Shares	21,095	0.00	0.00	0.00	0.00
9	Hanna Pri-Zan	BNHP Ordinary Shares	13,682	0.00	0.00	0.00	0.00

Total Extent of Holding		Total Extent of Holding (fully diluted)	
% of capital	% of voting	% of capital	% of voting
0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00

Explanations:

1. Holdings of convertible securities should be reported, including convertible securities, which are not listed for trading.
2. If an interested party holds more than one category of securities, the extent of his holdings should be stated taking into consideration all of the securities held by him on one line only.
3. The schedule of holdings of all interested parties should be listed in this form, including holdings which have remained unchanged.
4. Where the interested party is a subsidiary company, the holdings should be separated into shares which were purchased before the Companies Law, 5759-1999 took effect and which confer rights as to capital and voting, and shares which were purchased after the Law took effect and which are inactive shares.
5. If the interested party is a corporation, the name of the controlling party in the corporation should be reported as well.
6. If a senior office holder holds 5 percent or more of the issued share capital of the corporation or voting rights therein, the holdings should be listed in the "Interested Parties" listings table as described in paragraph "A" above.

Name of Holder: *Arison Holdings (1998) Ltd.*
 No. of Holder: *1*
 Category of Holder: *Other Interested Party*
 Category of Identity Number: *Number at the Registrar of Companies*
 Identity Number: *512705153*
 Citizenship/Country of Incorporation or Registration: *Incorporated in Israel*
 Country of Citizenship/Incorporation or Registration: _____
 Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*
 Are the shares held inactive shares: *No*
 Stock Exchange Security Number: *662577*
 Balance in previous comprehensive report (quantity of securities): *262,731,308*
 Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

1) The holdings of the interested parties in the Bank are as follows:

Eternity Holdings One Trust holds 23.07% of the shares of Arison Holdings (1998) Ltd., which holds 19.97% of the shares of Bank Hapoalim B.M. (hereinafter: "the Bank").

Furthermore, Eternity Holdings One Trust holds 23.07% of the shares of the company Arison Sustainability Ltd., which holds 100% of the shares of Arison Investments Ltd., which holds 100% of the shares of Arzaf D Ltd., which holds 100% of the shares of Israel Salt Industries Ltd., which holds 5.76% of the shares of the Bank.

Eternity Four Trust-A holds 53.86% of the shares of Arison Holdings (1998) Ltd., which holds 19.97% of the shares of the Bank.

Furthermore, Eternity Four Trust-A holds 53.86% of the company Arison Sustainability Ltd., which holds 100% of the shares of Arison Investments Ltd., which holds 100% of the shares of Arzaf D Ltd., which holds 100% of the shares of Israel Salt Industries Ltd., which holds 5.76% of the shares of the Bank.

Nickel 97 – A Trust holds 23.07% of the shares of Arison Holdings (1998) Ltd., which holds 19.97% of the shares of the Bank.

Furthermore, Nickel 97 – A Trust holds 23.07% of the shares of the company Arison Sustainability Ltd., which holds 100% of the shares of Arison Investments Ltd., which holds 100% of the shares of Arzaf D Ltd., which holds 100% of the shares of Israel Salt Industries Ltd., which holds 5.76% of the shares of the Bank.

Ms. Shari Arison, holder of Israeli citizenship (Israeli Identity Document 064767437) is the principal beneficiary of Eternity Holdings One Trust and of Eternity Four Trust-A.

Mr. Mickey Arison, holder of American citizenship (Passport Number 219203102) is the principal beneficiary of Nickel 97 – A Trust.

2) Israel Salt Industries Ltd. published an immediate report on becoming a private company following the completion of a full tender offer by Arzaf D. Ltd.

Name of Holder: *Israel Salt Industries Ltd.*

No. of Holder: *2*

Category of Holder: *Other Interested Party*

Category of Identity Number: *Number at the Registrar of Companies*

Identity Number: *520037573*

Citizenship/Country of Incorporation or Registration: *Incorporated in Israel*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *75,764,441*

Change in Quantity of Securities: *0*

Explanation: *If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".*

Remarks:

Name of Holder: *Dan Dankner.*

No. of Holder: *3*

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: *059581280*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *0*

Balance in previous comprehensive report (quantity of securities): *825,000*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

A. the holding is in option warrants which were allotted in a private offer detailed in the private offer report of 13th February, 2008.

B. the data regarding the percentage of the holding on a fully diluted basis with reference to Mr. Dankner are theoretical data, since the exercise mechanism has been set as a net exercise mechanism (see Clause 3.6 of the aforesaid private offer report).

Name of Holder: *Zvi Ziv.*

No. of Holder: *4*

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: *004143699*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *17,088*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Name of Holder: *Zvi Ziv.*

No. of Holder: *5*

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: *004143699*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *0*

Balance in previous comprehensive report (quantity of securities): *1,140,000*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

A. the holding is in option warrants which were allotted in a private offer detailed in the private offer report of 31st March, 2008.

B. the data regarding the percentage of the holding on a fully diluted basis with reference to Mr. Ziv are theoretical data, since the exercise mechanism has been set as a net exercise mechanism (see Clause 3.6 of the aforesaid private offer report).

Name of Holder: *Yoseph Dauber*

No. of Holder: *6*

Category of Holder: *Director / CEO*

Category of Identity Number: *Number of Identity Document*

Identity Number: *007447584*

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *16,530*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Name of Holder: *Management clients of AllianceBernstein, AXA IM, and their respective affiliates*

No. of Holder: *7*

Category of Holder: *Other Interested Party*

Category of Identity Number: *Other Identification number*

Identity Number: *13-4064930*

Citizenship/Country of Incorporation or Registration: *Incorporated overseas*

Country of Citizenship/Incorporation or Registration: *U.S.A.*

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *Yes*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *78,448,257*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Out of the total balance 53,434,881 holdings with voting rights

Together: AllianceBernstein L.P., AXA Investment Managers, AXA Rosenberg Investment Management LLC, AXA China Region Insurance Company (Bermuda) Ltd.

Name of Holder: *Ilan Mazur*

No. of Holder: *8*

Category of Holder: *Senior Office Holder who is not CEO or Director*

Category of Identity Number: *Number of Identity Document*

Identity Number: *007447386*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Balance in previous comprehensive report (quantity of securities): *21,095*

Change in Quantity of Securities: *0*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

Name of Holder: *Hanna Pri-Zan*

No. of Holder: *9*

Category of Holder: *Senior Office Holder who is not CEO or Director*

Category of Identity Number: *Number of Identity Document*

Identity Number: *50963115*

Citizenship/Country of Incorporation or Registration: *Private person with Israeli citizenship*

Country of Citizenship/Incorporation or Registration: _____

Does the holder serve as a representative for reporting purposes of a number of shareholders who hold securities of the Corporation together with him: *No*

Are the shares held inactive shares: *No*

Stock Exchange Security Number: *662577*

Explanation: If a decrease in number is reported, a negative value should be stated, i.e. represented by the sign "-".

Remarks:

As of the date of this report and according to the directives of the law, the controlling party in the corporation is :

1. *Arison Holdings (1998) Ltd.;*
2. *Israel Salt Industries Ltd.*

- = Remarks = -

1. *extent of holding (fully diluted) does not include subordinated capital notes Series A, B and C.*
2. *When calculating the size of the holding of the interested parties in the Company on a fully diluted basis, 1,965,000 options held by Messrs Zvi Ziv and Dan Dankner were not taken with account, because those options are only exercisable into shares of the Bank to be purchased for that purpose by the Bank and no new shares will be allotted; the calculation of the size of the holdings of Zvi Ziv and Dan Dankner (on a fully diluted basis) was made on the assumption that each option would be exercised into one share. This is a theoretical assumption because the exercise mechanism for such options is a "net exercise" mechanism, so that in fact there will not be allotted to the offeree who exercises the options all of shares emanating therefrom, but only shares in a quantity which reflects the amount of the monetary benefit embodied in the options. It is to be noted that according to the terms of the options allotted to Messrs. Zvi Ziv and Dan Dankner, they are exercisable only into shares to be purchased for that purpose by the Bank. As at the time of this report, the Supervisor of Banks has permitted the Bank to purchase for its own account 1,250,000 shares so that the options may be exercised, as aforesaid.*

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Schedule 5

Date: August 28, 2008

Reference: 802/08

To: The London Stock Exchange

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LONDON STOCK EXCHANGE

Dear Sir or Madam,

RE: Immediate Report

In accordance with the Securities (Periodic and Immediate Reports) Regulations, 5730-1970, Bank Hapoalim B.M. (hereinafter: "the Bank") hereby advises that on 28th August, 2008 at about noon, there were received by the Bank a statement of claim and an application for the approval and prosecution thereof as a class action under the Class Actions Law, 5766-2006, which were filed with the District Court in Jerusalem against the Bank and against Kovetz Provident Funds Management Company Ltd. and Gad Gmulim Provident Funds Management Company Ltd., both of which are companies controlled by the Bank which managed provident funds (hereinafter: "the Managers"), and against the Supervisor of the Capital Market and Insurance at the Ministry of Finance as a formal respondent.

The amount of the class action specified in the statement of claim is NIS 1.27 billion.

The applicants allege that they and the claimants whom they wish to represent, were members of the provident funds that were managed by the Managers and the account holders with the bank through which were effected all of the deposits with, the withdrawals from and the adjustments by the provident funds. According to them, the consideration received in return for the transfer of the control of the assets of the provident funds, the management thereof and the trusteeship thereover, by the Managers to other managing companies, belongs to the provident funds and the members thereof and to any of the defendants receiving such consideration.

According to them, such consideration "is the fruit produced by the assets of the provident funds" and therefore it is profit which belongs to the members and the defendants are not entitled thereto, as according to the Supervision of Financial Services (Provident Funds) Law, 5765-2005, a company which manages provident funds is entitled only to expenses and management fees.

The applicants further allege that the defendants have been unjustly enriched and that they have breached statutory duties contained in the Contracts Law, the Agency Law, the Trust Law, the Banking (Licensing) Law, the Basic Law: Human Dignity and Freedom and in breaching these statutory duties they have caused damage to the claimants under the Civil Wrongs Ordinance.

The extent of the damage claimed, is all of the proceeds received for the assets of the provident funds, which were under the management and trusteeship of the Managers.

ask the Court to allow them to amend this amount, as required, after they receive from the defendants information about the value of the assets the control over which was transferred, the amount of the proceeds received by the Bank and the exact amount which stood to the credit of the claimants at the time of the transfer of control over the provident funds – information which they request the Court to order the defendants to disclose.

The main remedy requested of the Court is to establish that the amount of the proceeds belongs to the provident funds and to the members thereof and to order the defendants, jointly and severally, to transfer the proceeds in favour of the members, according to their relative share and to pay damages as may be determined by the Court to the members and to reward the claimants.

Yours faithfully,

Bank Hapoalim B.M.

(-)

(-)

Ilan Mazur, Advocate
Chief Legal Adviser

Yoram Weissbrem
Secretary of the Bank

Schedule 6

RECEIVED

Date: August 28, 2008

2008 SEP 11 A 11: 25

Reference: 802/08

To: The London Stock Exchange

בנק הפועלים
בנק ישראל

Dear Sir or Madam,

RE: **Immediate Report**

In accordance with the Securities (Periodic and Immediate Reports) Regulations, 5730-1970, Bank Hapoalim B.M. (hereinafter: "the Bank") hereby advises that on 28th August, 2008 at about noon, there were received by the Bank a statement of claim and an application for the approval and prosecution thereof as a class action under the Class Actions Law, 5766-2006, which were filed with the District Court in Jerusalem against the Bank and against Poalim Trust Funds Ltd., a company controlled by the Bank which managed trust funds (hereinafter: "the Manager"), against Almagor – Brightman Trusts Ltd. and against the Securities Authority as a formal respondent.

The amount of the class action specified in the statement of claim is NIS 834 million.

The applicant alleges that he and the claimants whom he wishes to represent, were unit holders of the further study funds that were managed by the Manager and account holders with the Bank which served as a distributor within the meaning thereof in the Joint Investment Trust Law, 5754-1994 (hereinafter: "the Investment Law") and through which all of the purchases, sales and adjustments of value of the units were made. According to him, the consideration received in return for the transfer of the control of the assets of the trust funds, the management thereof and the trusteeship thereover, by the Manager to other managing companies, belongs to the trust funds and the unit holders thereof and not to any of the defendants receiving such consideration.

According to him, such consideration "is the fruit produced by the assets of the trust funds" and therefore it is profit which belongs to the unit holders of the trust funds and the defendants are not entitled thereto, as according to the Investment Law, a company which manages trust funds is entitled only to expenses and management fees.

The applicant further alleges that the defendants have been unjustly enriched and that they have breached statutory duties contained in the Contracts Law, the Agency Law, the Trust Law, the Banking (Licensing) Law, the Basic Law: Human Dignity and Freedom and in breaching these statutory duties they have caused damage to the claimants under the Civil Wrongs Ordinance.

The extent of the damage claimed is all of the proceeds received for the assets of the trust funds which were under the management and trusteeship of the Manager. The applicant alleges that the amount stated in his claim is an estimated amount and he asks the Court to allow him to amend this amount, as required, after he receives from the defendants

of the proceeds received by the Bank and the value of the units which stood to the credit of the claimants at the time of the transfer of control over the trust funds – information which he requests the Court to order the defendants to disclose.

The main remedy requested of the Court is to establish that the amount of the proceeds belongs to the trust funds and to the unit holders thereof and to order the defendants, jointly and severally, to transfer the proceeds in favour of the unit holders, according to their relative share and to pay damages as may be determined by the Court to the unit holders and to reward the claimants.

Yours faithfully,

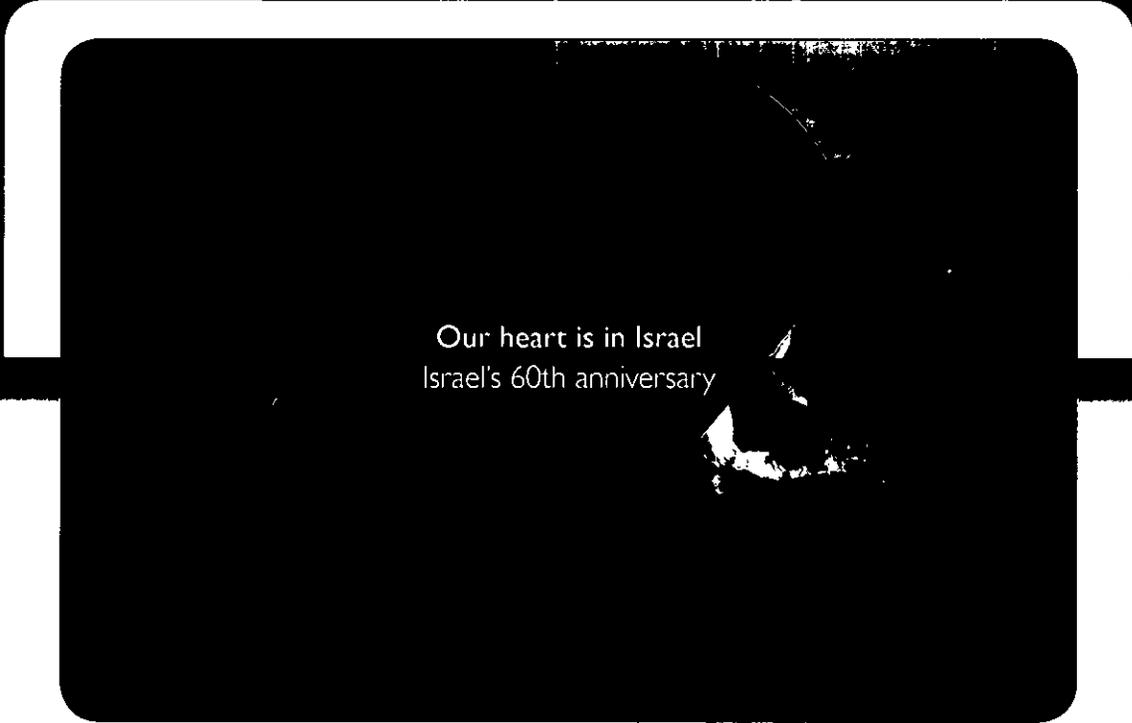
Bank Hapoalim B.M.

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Ilan Mazur, Advocate
Chief Legal Adviser

Yoram Weissbrem
Secretary of the Bank



Our heart is in Israel
Israel's 60th anniversary

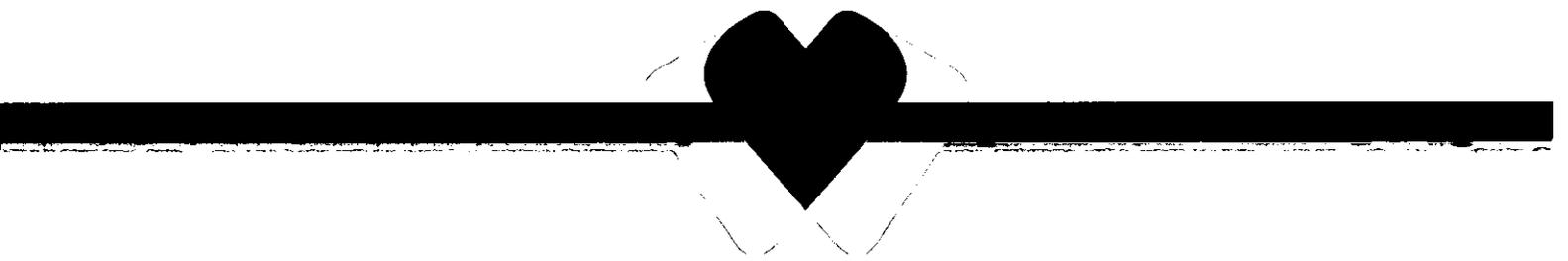
Bank Hapoalim
Condensed Financial Statement as at June 30, 2008

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Bank Hapoalim
Condensed Financial Statement as at June 30, 2008



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Contents

Board of Directors' Report on the Financial Statements	5
Economic Activity	5
Forward-Looking Information	7
Profit and Profitability	7
Developments in Balance-Sheet Items	17
Results of Operations of the Bank Group's Segments of Activity	22
Subsidiary and Affiliated Companies	61
Strategic Plan	71
International Activity	73
Activity of the Bank Group in Asset-Backed Securities	79
Accounting Policies on Critical Matters	85
Capital Market Activity	85
Liquidity and Policy for Raising Sources of Funds at the Bank	90
Risk Management	91
Poalim in the Community - Social Involvement and Contribution to the Community	105
Internal Auditor	108
Disclosure Regarding the Procedure for Approval of the Financial Statements	108
Other Matters	110
Controls and Procedures	113
Principal Data of the Bank Hapoalim Group	115
Board of Management's Review of the Financial Position of the Bank Group and its Results of Operations in the First Half of 2008	116
CEO Certification	129
Chief Accountant Certification	130
Auditors' Review	131
Condensed Financial Statements	132

Board of Directors' Report on the Financial Statements

As at June 30, 2008

At the meeting of the Board of Directors held on August 27, 2008, it was resolved to approve and publish the unaudited consolidated financial statements of Bank Hapoalim B.M. and its consolidated subsidiaries for the period January-June 2008.

The following are details of the principal developments and changes that occurred during the reported period:

Economic Activity

The slowdown in growth in the developed countries, especially the United States, and the steep increase in prices of raw materials began to take their toll on economic activity in the second quarter. Most indicators of economic activity show a decrease in the growth rate; the composite state-of-the-economy index remained stable during the second quarter. Some deceleration is apparent in the expansion of private consumption. The purchasing managers' index shows a decrease in activity in the industrial sector. However, industrial exports continued to grow, in dollar terms, and the upward trend in foreign tourism continued.

In our opinion, the economy now faces external conditions that will considerably slow its growth rate in the second half of this year, and possibly next year as well. The slowdown and possible recession in the American economy and the sharp appreciation of the shekel over the last year are likely to slow the growth of exports; the expansion of private consumption is expected to decelerate, due to the anticipated damage to the public's purchasing power. These trends are apparent in most of the world's developed economies at this time. We believe that the damage to the Israeli economy is actually moderate, compared to most countries. The economy grew very rapidly over the last five years, and the employment rate reached a record level. Concurrently, financial stability improved, as reflected in the decrease in the ratio of public debt to GDP. These factors reduce the economy's vulnerability to external shocks.

Developments in the Global Economy

While global growth in the first quarter was higher than advance estimates, current indicators for the second quarter point to a slowdown, especially in the developed countries. By contrast, rapid growth continues in the emerging economies. Global inflationary pressures have grown stronger due to the steep increase in commodity prices, primarily in prices of food and oil, which reached USD 142 per barrel at the end of June. In the twelve months ended in June, the consumer price index rose by 5.0% in the United States, 4.0% in Europe, and double-digit rates in many of the emerging economies. A sharp decline in commodity prices in general and energy in particular, which began in July (as the price of a barrel of oil fell to USD 114), somewhat eased concerns over inflation, but central banks around the world continue to confront the dilemma posed by still-high inflation rates alongside the deceleration of economic activity. As a result, policy-makers' focus has shifted from policies to support growth to policies to curb inflation; in many countries, the interest rate has started to rise, even at the expense of growth. In the United States, a series of rate cuts was halted; after a 25 basis point reduction in April, the interest rate remained at 2.00% in June. In the euro zone, the interest rate was raised to 4.25% in July. Most emerging markets also raised rates. The majority of estimates indicate that the monetary easing process in the United States has ended, and that the rate may rise towards the end of this year.

The US financial sector continues to deteriorate, as concerns over its resilience mount following the collapse of another bank and rumors of a lack of liquidity at two of the largest American mortgage agencies. The US central bank has announced that it would support mortgage agencies and increase the availability of credit in the market in order to prevent pressure in the financial markets. Meanwhile, negative momentum persisted in the US economy in the second quarter: the labor market continued to worsen, with an increase in initial unemployment claims and unemployment up to 5.5%. In the real-estate sector, house prices fell further, as the slowdown in sales of new and previously owned homes continued. Business confidence indices continue to drop; consumer confidence indices are plunging; and private consumption, as reflected in retail sales, is slowing.

Inflation and Exchange Rates

The consumer price index increased at a high rate of 2.2% in the second quarter. The year-on-year inflation reached 4.8% in June. The large increase in the CPI mainly resulted from the effect of energy and food prices; excluding these prices, the CPI rose by just 1.6% in the twelve months ended in June. The CPI continued to rise at a high rate of 1.1% in July, while the yearly rate remains 4.8%. So far, the sharp increases in commodity prices do not seem to have caused an increase in prices of nontradable products as well; for example, average wages increased only moderately. In our opinion, the emerging slowdown in the global economy will halt the increase in energy and commodity prices, and inflation will gradually return to the price-stability range. However, uncertainty regarding inflationary developments can be said to have increased greatly.

The shekel continued to strengthen in the second quarter, gaining 5.7% against the dollar, and 5.9% against the euro. Since the beginning of this year the shekel has appreciated by 12.8% and 6.6% against the dollar and the euro, respectively. The strengthening of the shekel does reflect the economy's financial stability, but even more so Israeli investors' concerns over the shocks to global capital markets, which have caused the growth rate of investments abroad to decline. In March, the Bank of Israel began to buy foreign currency at a rate of USD 25 million per day, with the aim of increasing foreign-currency reserves by about USD 10 billion. In July, the Bank of Israel announced that the pace of foreign-currency purchases would increase to an average of USD 100 million per day. Note that volatility in the foreign-currency market has greatly increased. Since the beginning of July to mid-August the shekel depreciated by 7.1% against the dollar. It should be noted that the dollar strengthened against most currencies during that period.

Fiscal and Monetary Policy

The slowdown in economic growth and the damage to profitability in many segments of the business sector checked the sharp increase in tax revenues, which remained unchanged compared to the first half of 2007, excluding changes in legislation. A budget surplus of NIS 2.7 billion accumulated in the first half, compared with a surplus of NIS 5.6 billion in the same period last year. In our opinion, the slowdown in economic growth will lead to a change in recent years' lower-than-targeted deficits. Though the budget deficit this year will be similar to the target of 1.6% of GDP, it seems likely to exceed this level next year.

Monetary policy in the second quarter, as in the first quarter, was marked by sharp changes. The interest rate was lowered by 0.5% in April to 3.25%, in response to the rapid strengthening of the shekel and the concerns over decelerating economic growth. A sharp rise in inflation led to 0.25% rate hikes each month from June to August, to 4.00% in August. The Bank of Israel joined a long line of countries starting to raise interest rates, with the aim of curbing inflation. Inflation expectations one year ahead stood at 3.5% as of July; in reference to this level, the Bank of Israel interest rate remains very low in real terms.

Financial and Capital Markets

Developments were affected by the high volatility in world financial markets and by the rising inflation. The TA-100 index rose in April and May, but declined again in June, with a total increase of 5.4% for the quarter. The sharp rise in inflation and in inflation expectations, as well as in expectations of a slowdown in growth, led to relatively large price gains in CPI-linked bonds, which rose by 4.5% in the second quarter, completing an 8.7% increase since January. Unlinked bonds remained stable during the quarter.

Set out below are data regarding changes in the consumer price index and in exchange rates:

	For the three months ended June 30		For the six months ended June 30		For the year
	2008	2007	2008	2007	2007
	In percent				
Rate of increase in "known" CPI	2.4	0.7	2.8	0.3	2.8
Rate of increase (decrease) in USD exchange rate	(5.7)	2.3	(12.8)	0.6	(9.0)
Rate of increase (decrease) in CHF exchange rate	(8.1)	1.2	(3.8)	(0.5)	(1.3)
Rate of increase (decrease) in EUR exchange rate	(5.9)	3.2	(6.6)	2.7	1.7
Rate of increase (decrease) in TRY exchange rate	2.7	8.3	(16.5)	9	9.7

Forward-Looking Information

The information contained in this report with regard to the description of the Bank's business, its financial status, and the results of its operations may contain forward-looking information, as defined in the Securities Law, 5728-1968. Statements containing expressions such as "we believe," "aim," "expect," "plan," "should", "estimate," "forecast," and similar expressions indicate forward-looking information. This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments, may not materialize at all or may only partially materialize.

Profit and Profitability

On May 20, 2008, the Bank sold the entire mortgage-backed securities (MBS) portfolio held at its New York branch for a total of USD 2.55 billion. Accordingly, the Bank recorded a loss of NIS 3,101 million before tax (NIS 1,960 million, after tax) in its financial statements for the first quarter of 2008.

In the first half of 2008, the Bank recorded a loss in the amount of NIS 973 million, compared with net profit of NIS 1,637 million in the same period last year.

Net negative return on equity amounted to 10.3%, in annualized terms, in the first half of 2008, compared with a positive return of 18.3% in the same period last year and a positive return of 14.1% in the whole of 2007.

Losses recorded related to the realization of mortgage-backed securities and the decline in value of asset-backed securities totaled approximately NIS 3,603 million in the first half of the year. Net profit excluding the aforesaid loss would have totaled NIS 1,304 million, compared with NIS 1,637 million in the same period last year, a decrease of 20.3%.

Net positive return on equity following these exclusions would have totaled 14.7%, compared with 18.3% in the same period last year.

Net operating loss totaled NIS 1,460 million, compared with a net operating profit of NIS 1,406 million in the same period last year.

Net negative return of operating profit on equity reached 15.3%, in annualized terms, in the first half of 2008, compared with a positive return of 15.6% in the same period last year and a positive return of 12.3% in the whole of 2007.

Excluding the aforesaid losses, net operating profit would have totaled NIS 817 million, compared with NIS 1,406 million in the same period last year, a decrease of 41.9%.

Net return on operating profit, following these exclusions, would have totaled 9.1%, compared with 15.6% in the same period last year.

Set out below are the changes in the results of operations for the period of January-June:

	2008	2007	Change	2008	Change	
	NIS millions			Profit excluding decline in value of asset-backed securities	NIS millions	%
Net operating profit (loss)	(1,460)	1,406	(2,866)	817	(589)	(41.9)
Net profit from extraordinary transactions, after taxes	487	231	256	487	256	110.8
Net profit (loss)	(973)	1,637	(2,610)	1,304	(333)	(20.3)

The Group's loss in the first half of 2008, compared with the profit in same period last year, resulted mainly from the following factors:

1. A loss of NIS 69 million from financing activity before provision for doubtful debts, compared with profit from financing activity of NIS 3,775 million, a decrease of NIS 3,844 million.
2. A decrease of NIS 132 million in operating and other income.
3. An increase of NIS 462 million in operating and other expenses.

However, the following factors had the effect of decreasing the loss:

1. A decrease of NIS 99 million in the provisions for doubtful debts
2. A decrease of NIS 1,449 million in the provision for taxes.
3. An increase of NIS 256 million in net profit from extraordinary transactions.

Net profit in the second quarter of the year totaled NIS 594 million, compared with NIS 1,002 million in the same quarter last year, a decrease of 40.7%.

Net return on equity amounted to 13.8%, in annualized terms, in the second quarter, compared with 23.0% in the same quarter last year.

Net operating profit totaled NIS 545 million in the second quarter of 2008, compared with NIS 716 million in the same period last year, a decrease of 23.9%.

Net return of operating profit on equity reached 12.6%, in annualized terms, in the second quarter, compared with 16.1% in the same quarter last year.

Set out below are the changes in profitability in the second quarter:

	2008	2007	Change	
		NIS millions		%
Net operating profit	545	716	(171)	(23.9)
Net profit from extraordinary transactions, after taxes	49	286	(237)	(82.9)
Net profit	594	1,002	(408)	(40.7)

The decrease in the Group's net profit in the second quarter of 2008, compared with the same period last year, resulted mainly from the following factors:

1. A decrease of NIS 52 million in profit from financing activity before provision for doubtful debts.
2. An increase of NIS 50 million in the provision for doubtful debts.
3. A decrease of NIS 49 million in operating and other income.
4. An increase of NIS 43 million in operating and other expenses.
5. A decrease of NIS 237 million in net profit from extraordinary transactions.

Developments in Income and Expenses

Loss from financing activity before provision for doubtful debts totaled NIS 69 million in the first half of 2008, compared with a profit of NIS 3,775 million in the same period last year. The loss was mainly the result of losses on asset-backed securities, due to the crisis in the United States. For details, see the section "Activity of the Bank Group in Asset-Backed Securities".

Excluding the losses described above, profit from financing activity would have totaled NIS 3,534 million, a decrease of 6.4% compared with the same period last year.

The following are the principal causes of the loss from financing activity in the first half of 2008.

- Losses arising from investments by the Bank's offices abroad in asset-backed securities in the amount of NIS 3,603 million (for further details, see the section "Activity of the Bank Group in Asset-Backed Securities").
- An increase in loss of NIS 158 million in the credit-derivative portfolio at the New York branch (mostly CDS (credit default swaps) transactions), presented at fair value (for further details, see the section "The Bank's Activity in the United States").
- An increase in loss of NIS 248 million stemming from the measurement of profit and loss in derivative instruments on a fair-value basis, in contrast to measuring results of balance-sheet financial activity on an accrual basis, mainly as a result of the decrease in interest rates in the CPI-linked segment. A loss in the amount of NIS 426 million was recorded in respect of the aforesaid difference in the first half of 2008, compared with a loss of NIS 178 million in the same period last year.

On the other hand, the following main factors offset the loss from financing activity:

- An increase of NIS 112 million in financing income on financial capital invested in the various linkage segments, mainly due to the 2.8% increase in the known CPI in the first half of 2008, versus an increase of 0.3% in the same period last year.
- An increase of NIS 100 million in respect of interest income on doubtful debts not previously attributed to the profit and loss.

Profit from financing activity totaled NIS 1,943 million in the second quarter, compared with NIS 1,995 million in the same quarter last year, a decrease of 2.6%.

The overall interest spread stood at 1.27% in the first half of 2008, compared with 1.15% in the same period last year.

The interest spread in the unlinked NIS segment stood at 2.15% in the first half of 2008, compared with 2.46% in the same period last year. The decrease in the interest spread in this segment mainly resulted from an increase in the volume of off-balance-sheet activity in derivative financial instruments, which has lower spreads than balance-sheet activity.

The interest spread in the CPI-linked segment during the first half of 2008 was negative at a rate of 0.48%, compared with a positive spread of 0.19% in the same period last year. The negative spread mainly resulted from the measurement of profit and loss in derivative instruments on a fair-value basis, versus the measurement of the results of balance-sheet financial activity on an accrual basis, due to the decrease in the interest rate in the CPI-linked segment, which caused an increase in the fair value of the CPI-linked liability component in derivative instruments.

The interest spread in this segment excluding the effect of derivatives was 0.94%, compared with 1.03% in the same period last year.

The interest spread in the foreign currency segment stood at 0.65% in the first half of 2008, compared with 0.69% in the same period last year.

Set out below is the contribution of the different linkage segments to profit from financing activity:

	For the six months ended June 30			
	2008		2007	
	Volume of activity	Contribution to profit, including effect of derivatives	Volume of activity	Contribution to profit, including effect of derivatives
	%	NIS millions	%	NIS millions
Israeli currency:				
Unlinked	35.5	2,065	31.1	1,841
CPI-linked	12.1	125	12.4	243
Foreign currency (including f.c. linked)	52.4	756	56.5	1,066
Other derivative financial instruments, net (non-ALM)	-	35	-	131
Other financing income (expense), net	-	(3,050)	-	494
Total	100	(69)	100	3,775

Unlinked NIS segment - Profit from financing activity in the unlinked NIS segment increased by NIS 224 million and totaled NIS 2,065 million, due mainly to an increase in financial capital invested in this segment and an increase in the volume of activity.

CPI-linked NIS segment - Profit from financing activity in the CPI-linked NIS segment decreased by NIS 118 million, and amounted to a profit of NIS 125 million. The decrease mainly resulted from the measurement of profit and loss in derivative instruments on a fair-value basis, versus the measurement of the results of balance-sheet financial activity on an accrual basis, as noted above. On the other hand, the decrease was offset by an increase in income from surplus assets invested in the segment, due to the 2.8% increase in the known CPI during the first half of 2008, compared with an increase of 0.3% during the same period last year.

Foreign-currency denominated and foreign-currency linked segment - Profit from financing activity in this segment decreased by NIS 310 million, and totaled NIS 756 million. Note that the results of activity in options, mainly currency options, which are not included in the segment's results, recorded income of NIS 131 million, compared with NIS 59 million in the same period last year.

Other derivative financial instruments, net - Includes net results of activity in derivative financial instruments not defined as hedging or ALM activity, principally the results of credit derivatives, results of activity in derivative instruments embedded in structured deposits, and activity in currency and interest-rate options. Net income in the amount of NIS 35 million was recorded in the first half of 2008, compared with net income of NIS 131 million in the same period last year. The decrease mainly resulted from an increased loss in the amount of NIS 158 million, due to a decrease in the fair value of the credit-derivative portfolio at the New York branch. The decrease was offset, as noted, by an NIS 72 million increase in profits in respect of options.

Other financing income (expenses) - Net expenses in the amount of NIS 3,050 million were recorded in the first half of 2008, which resulted from losses in asset-backed securities, as noted. Excluding losses, as noted, resulting from investments in asset-backed securities by the Bank's offices abroad, this income item totaled NIS 553 million, compared with NIS 494 million in the same period last year. This was mainly influenced by an increase in interest income on doubtful debts which were not attributed to the profit and loss in the past.

Set out below is the development of results of financing activity by principal segments of activity:

	For the six months ended June 30			For the three months ended June 30		
	2008	2007	Change	2008	2007	Change
	NIS millions		%	NIS millions		%
Households Segment	998	979	1.9	513	504	1.8
Private Banking Segment	600	632	(5.1)	247	318	(22.3)
Small Business Segment	490	481	1.9	237	239	(0.8)
Commercial Segment	214	287	(25.4)	162	159	1.9
Corporate Segment	814	1,046	(22.2)	592	509	16.3
Financial Management Segment	(3,185)	350	-	192	266	(27.8)
Total	(69)	3,775	-	1,943	1,995	(2.6)

The decline in the results of financing activity in the first half of the year is mainly reflected in the Financial Management Segment and in the Corporate Segment.

The loss from financing activity in the Financial Management Segment mainly resulted from the losses of the Bank's offices abroad in MBS-type asset-backed securities and in CDO instruments, which are included in the results of this segment, and due to losses from the credit-derivative portfolio in New York. The loss in this segment was also influenced by the measurement of profit and loss in derivative instruments on a fair-value basis, in contrast to the measurement of the results of balance-sheet financial activity on an accrual basis. The decrease was offset by an increase in financing income on financial capital, mainly as a result of a 2.8% increase in the known CPI, compared with an increase of 0.3% in the same period last year.

The decrease in profit from financing activity in the Corporate Segment mainly resulted from losses in respect of investments of the Bank's offices abroad in SIV-type asset-backed securities, which are included in the results of this segment. Excluding these losses, in the amount of NIS 356 million, the segment's financing profit increased by 11.9%.

The decrease in profit from financing activity in the Commercial Segment mainly resulted from a negative contribution from Bank Pozitif in shekels as a result of a sharp decrease in the exchange rate of the Turkish lira in the first quarter of 2008.

The provision for doubtful debts was made on a conservative basis, with due regard for assessments of the risks in the credit portfolio, and totaled NIS 284 million in the first half of 2008, compared with NIS 383 million in the same period last year; a decrease of 25.8%.

The specific provision for doubtful debts totaled NIS 307 million, compared with NIS 362 million in the same period last year. On one hand, provisions increased during the reported period, due to a small number of customers; on the other hand, the collection of debts written off in previous years in the amount of NIS 125 million served to decrease the provision.

The supplementary provision for doubtful debts, which is performed for unidentified risks in customer indebtedness portfolios, decreased by NIS 23 million in the first half of 2008, mainly due to a decrease in the volume of problematic debt for which the supplementary provision is calculated and a decrease in provisions in respect of "lack of financial information in customer files". This provision increased by NIS 21 million in the same period last year. The balance of the supplementary provision for doubtful debts totaled NIS 377 million on June 30, 2008.

The balance of the general provision, determined according to the directives of the Supervisor of Banks, totaled NIS 682 million on June 30, 2008. The aggregate total of the general and supplementary provisions for doubtful debts amounted to NIS 1,059 million, compared with NIS 1,088 million at the end of 2007.

For further details, see Note 11 to the Condensed Financial Statements with regard to the components of the specific provision and the supplementary provision for doubtful debts.

In the second quarter, the provision for doubtful debts totaled NIS 252 million, compared with NIS 202 million in the same period last year; an increase of 24.8%, mainly due to an increase in the specific provision, resulting from a small number of borrowers.

Near the date of publication of the financial statements, a borrower for whom the Bank had recorded a provision for doubtful debts in previous years, against the majority of the credit granted to him, redeemed the balance of his debt to the Bank. The effects of the repayment of said debt will be expressed, at a value of approximately NIS 120 million after taxes, in the third quarter of 2008.

Set out below are details of the provision for doubtful debts for the period of January-June 2008:

	For the six months ended June 30	
	2008	2007
	NIS millions	
Specific provision during the period	723	660
Reduction of specific provision	(291)	(279)
Collection of debts written off in the past	(125)	(19)
Change in specific provision	307	362
Change in supplementary provision	(23)	21
Total	284	383
Rate of specific provision out of credit to the public:		
Balance sheet	0.29%	0.38%
Balance sheet and off-balance sheet	0.17%	0.21%

Set out below is the quarterly development of the provision for doubtful debts:

	2008		2007			
	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions					
Specific provision	235	72	125	78	162	200
Supplementary provision	17	(40)	(134)	61	40	(19)
Total	252	32	(9)	139	202	181
Rate of specific provision out of total credit to the public:						
Balance sheet*	0.44%	0.14%	0.24%	0.16%	0.38%	0.43%
Balance sheet and off-balance sheet*	0.25%	0.08%	0.14%	0.09%	0.21%	0.24%

* Annualized.

Set out below is the development of the provision for doubtful debts by principal segments of activity:

	For the six months ended June 30			For the three months ended June 30		
	2008	2007	Change	2008	2007	Change
	NIS millions		%	NIS millions		%
Households Segment	67	91	(26.4)	36	51	(29.4)
Private Banking Segment	15	14	7.1	10	10	-
Small Business Segment	111	98	13.3	77	72	6.9
Commercial Segment	68	68	-	26	36	(27.8)
Corporate Segment	23	112	(79.5)	103	33	212.1
Total	284	383	(25.8)	252	202	24.8

Loss from financing activity after provision for doubtful debts totaled NIS 353 million in the first half of 2008, compared with a profit of NIS 3,392 million in the same period last year.

Operating and other income totaled NIS 2,489 million in the first half of 2008, compared with NIS 2,621 million in the same period last year, a decrease of 5.0%.

Income from capital-market activity decreased by 9.6% in the first half of 2008 and totaled NIS 742 million, compared with NIS 821 million in the same period last year.

Income from fees for securities activity totaled NIS 503 million, compared with NIS 483 million in the same period last year, an increase of 4.1%, as a result of an increase in the volume of activity.

Income from provident-fund management fees totaled NIS 89 million in the first half of 2008, compared with NIS 189 million in the same period last year, a decrease of 52.9%, due to the sale of the Bank's provident-fund management rights, most of which was carried out during 2007, and which was completed at the end of the first quarter of 2008.

Income from mutual-fund management fees originating with the activity of subsidiaries abroad totaled NIS 11 million in the first half of 2008, compared with NIS 24 million in the same period last year, a decrease of 54.2%.

Income from mutual-fund distribution fees reached NIS 104 million, compared with NIS 114 million in the same period last year, a decrease of 8.8%. Income from operating fees of provident and mutual funds totaled NIS 35 million, compared with NIS 11 million in the same period last year.

Net profit in the amount of NIS 21 million was recorded in respect of investments in shares in the first half of 2008, compared with net profit in the amount of NIS 144 million in the same period last year. The profit in the first half of 2008 resulted from the sale of shares of MasterCard and a dividend from shares held in receivership; this profit was offset by a provision for decline in value of investments in shares. In the same period last year, this item mainly included dividend income from shares held in receivership.

Operating and other income not derived from capital-market activity or investment in shares totaled NIS 1,726 million in the first half of 2008, compared with NIS 1,656 million in the same period last year, an increase of 4.2%.

The contribution of credit-card companies to the operating income of the Bank Group (before deduction of expenses relating to this activity) increased to a total of NIS 667 million, compared with NIS 601 million in the same period last year, an increase of 11.0%, as a result of an increase in the volume of activity.

In addition, income from handling credit and preparing contracts increased to NIS 204 million, compared with NIS 184 million in the same period last year.

Operating and other expenses totaled NIS 4,179 million in the first half of 2008, compared with NIS 3,717 million in the same period last year, an increase of 12.4%. In the second quarter, these expenses totaled NIS 1,911 million, compared with NIS 1,868 million in the same period last year, an increase of 2.3%.

Salary expenses totaled NIS 2,548 million in the first half of 2008, compared with NIS 2,253 million in the same period last year, an increase of 13.1%. The increase mainly resulted from the voluntary-retirement program, as described below, and from the effects of the wage agreement on provisions for benefits. These increases were offset by a decrease in the provision for bonuses and by the effect of the decrease in the Bank's share price on expenses for phantom options.

In March 2008, the Bank's Board of Directors decided to offer employees a voluntary-retirement program at a cost of NIS 250 million. The expense for the program was included in the financial statements for 2007. In order to accommodate additional employees whose requests to retire were denied within the aforementioned program, the Board decided to offer another voluntary-retirement program in May 2008, at a cost of NIS 300 million, that was attributed to the statement of profit and loss in the first quarter of 2008.

Maintenance expenses and depreciation of buildings and equipment totaled NIS 669 million, compared with NIS 615 million in the same period last year, an increase of 8.8%, mainly due to an increase in software depreciation expenses, an increase in taxes to local authorities and energy expenses.

Other expenses totaled NIS 962 million, compared with NIS 849 million in the same period last year, an increase of 13.3%, which mainly resulted from an increase in expenses for fees paid for activity in securities and credit cards, due to higher volumes of activity and an increase in advertising and marketing expenses and in provisions for legal claims.

The coverage rate of operating and other expenses by operating and other income reached 59.6%, compared with 70.5% in the same period last year and 66.1% in the whole of 2007.

The cost-income ratio, calculated according to the ratio of operating and other expenses to profit from financing activity before provision for doubtful debts and operating and other income, excluding the losses which the Bank recorded for its investments in asset-backed securities and the voluntary-retirement program, reached 69.4%, compared with 58.1% in the same period last year and 65.2% in the whole of 2007.

Operating loss before taxes totaled NIS 2,043 million, compared with a profit of NIS 2,296 million in the same period last year.

In the second quarter, operating profit before taxes totaled NIS 985 million, compared with NIS 1,179 million in the same period last year, a decrease of 16.5%.

The provision for taxes (tax benefit) on operating profit (loss) amounted to a tax benefit of NIS 521 million in the first half of 2008, compared with tax expenses of NIS 928 million in the same period last year.

On February 26, 2008, Knesset approved changes to the Income Tax (Adjustments for Inflation) Law, 5745-1985, due to the decrease in inflation rates in Israel in recent years. The aforesaid law essentially states that the effects of changes in the consumer price index starting on January 1, 2008 are not to be included in the calculation of taxable income for income-tax purposes. According to the Bank's estimates, the Bank's tax expenses will consequently increase as of that date, such that every 1% increase in the consumer price index will lead to an increase of approximately NIS 40 million in tax expenses, compared to the tax expenses prior to the rescission of the law. The increase in the CPI in the first half of 2008 totaled 2.8%.

Operating loss after taxes totaled NIS 1,522 million in the first half of 2008, compared with a profit of NIS 1,368 million in the same period last year.

In the second quarter, operating profit after taxes totaled NIS 554 million, compared with NIS 739 million in the same period last year, a decrease of 25.0%.

The Bank's share in the operating results of equity-basis investees, net, after taxes totaled a profit of NIS 13 million in the first half of 2008, compared with NIS 118 million in the same period last year. In the same period last year, the majority of the contribution to profit stemmed from Clal Insurance Enterprises Holdings, which contributed NIS 92 million. The large contribution resulted from profits from the flotation of a subsidiary and from the effect of a change in the treatment of special-risk reserves by insurance companies.

Minority interests' share in net results of consolidated companies totaled a share in losses in the amount of NIS 49 million in the first half of 2008, as a result of a negative contribution, in shekels, of Bank Pozitif, due to the significant appreciation of the shekel against the Turkish lira; compared with a share in profit in the amount of NIS 80 million in the same period last year.

Net operating profit (loss) totaled a loss of NIS 1,460 million in the first half of 2008, compared with a profit of NIS 1,406 million in the same period last year.

In the second quarter, net operating profit totaled NIS 545 million, compared with NIS 716 million in the same period last year, a decrease of 23.9%.

Net profit from extraordinary transactions after taxes totaled NIS 487 million in the first half of 2008, mainly as a result of profit from the sale of provident-fund management rights in the amount of NIS 437 million and profit from the sale of Bank Massad in the amount of NIS 50 million. In the same period of 2007, this item amounted to profit of NIS 231 million, mainly due to the sale of provident-fund management rights in the amount of NIS 290 million, less deferred tax expenses recorded in respect of the expected realization of the investments in Bank Yahav and Bank Massad in the amount of approximately NIS 74 million.

Net profit (loss) of the Bank Group totaled a loss of NIS 973 million in the first half of 2008, compared with a profit of NIS 1,637 million in the same period last year.

In the second quarter of 2008, net profit totaled NIS 594 million, compared with NIS 1,002 million in the same period last year, a decrease of 40.7%.

Net profit (loss) per share amounted to a loss of NIS 0.75 in the first half of 2008, compared with a profit of NIS 1.30 in the same period last year.

Set out below are details regarding return on equity, in annualized terms (in percent):

	For the six months ended June 30	
	2008	2007
Net return of operating profit (loss) on equity	(15.3)	15.6
Net return (loss) on equity	(10.3)	18.3

	2008		2007				
	Q2	Q1	FY 2007	Q4	Q3	Q2	Q1
Net return of operating profit (loss) on equity	12.6%	*(36.8%)	12.3%	*2.0%	18.4%	16.1%	16.0%
Net return on equity	13.8%	*(29.8%)	14.1%	*4.6%	18.3%	23.0%	14.6%

* Returns on equity, in the first quarter of 2008 and in the fourth quarter of 2007, were mainly influenced by losses attributed to the profit and loss statement, in respect of the Bank's investments in asset-backed securities, as noted above.

Set out below are the returns on equity excluding these effects:

	For the six months ended June 30	
	2008	2007
Net return of operating profit on equity	9.1%	15.6%
Net return on equity	14.7%	18.3%

	2008		2007				
	Q2	Q1	FY 2007	Q4	Q3	Q2	Q1
Net return of operating profit on equity	13.0%	5.6%	16.4%	17.5%	20.2%	16.1%	16.0%
Net return on equity	14.2%	15.9%	18.3%	20.4%	20.1%	23.0%	14.6%

Developments in Balance Sheet Items

The consolidated balance sheet totaled NIS 300.9 billion, compared with NIS 303.0 billion at the end of 2007, a decrease of 0.7%.

Set out below are the developments in the main balance-sheet items:

	June 30, 2008	Dec. 31, 2007	Change	
		NIS millions		%
Total balance sheet	300,909	302,991	(2,082)	(0.7)
Credit to the public	211,575	205,016	6,559	3.2
Cash on hand and deposits with banks	42,298	35,695	6,603	18.5
Securities	31,313	48,115	(16,802)	(34.9)
Deposits from the public	226,955	231,750	(4,795)	(2.1)
Bonds and subordinated notes	19,111	18,812	299	1.6
Shareholders' equity	18,758	18,778	(20)	(0.1)

Off-Balance Sheet Activity

Set out below are the developments in the balance of off-balance sheet monetary assets of the Bank Group's customers⁽¹⁾:

	June 30, 2008	Dec. 31, 2007	Change	
		NIS millions		%
Customers' securities portfolios	449,999	442,561	7,438	1.7
Provident funds and advanced study funds	74,097	74,983	(886)	(1.2)
Mutual funds ⁽²⁾	36,494	40,110	(3,616)	(9.0)
Total ⁽¹⁾	560,590	557,654	2,936	0.5

(1) Including customers' assets for which the Bank Group provides operational and safekeeping services; in 2007, also management services.

(2) These balances reflect Bank customers' holdings in mutual funds.

Credit to the public amounted to NIS 211.6 billion on June 30, 2008, compared with NIS 205.0 billion at the end of 2007, an increase of 3.2%. The growth was influenced by a rise in the construction and real-estate sector and in the private individuals' sector. Note that the appreciation of the shekel against most foreign currencies contributed to curbing the increase in credit to the public, by approximately 2.9%. In addition, there was a decrease in the amount of approximately NIS 1.9 billion as a result of the cessation of consolidation of the data of Bank Massad after its sale. For details regarding changes in credit to the public by activity segments, see the section "Results of Operations of the Bank Group's Segments of Activity."

Overall credit risk to the public on June 30, 2008 totaled NIS 374.5 billion, compared with NIS 385.5 billion at the end of 2007, a decrease of 2.9%. The decrease mainly resulted from NIS 21.5 billion in the financial services sector, as a result of the sale of the MBS portfolio in the New York branch; provisions for decline in value of asset backed securities and a decrease in unutilized credit lines mainly in the U.S.

This was offset by an increase in credit to private individuals for housing and other loans in the amount of NIS 3.0 billion and from an increase in the construction and real estate sector in the amount of NIS 4.2 billion.

Set out below is the development of overall credit risk* to the public, by principal sectors of the economy:

Economic Sectors	June 30, 2008		December 31, 2007		Rate of change
	Overall credit risk to the public	Percent of total	Overall credit risk to the public	Percent of total	
	NIS millions	%	NIS millions	%	
Agriculture	1,810	0.5	1,794	0.5	0.9
Industry	44,832	12.0	43,993	11.4	1.9
Construction & real estate	63,810	17.0	59,639	15.5	7.0
Electricity & water	7,352	2.0	6,767	1.8	8.6
Commerce	22,624	6.0	23,310	6.0	(2.9)
Hotels, hospitality & food services	9,948	2.7	8,404	2.2	18.4
Transportation & storage	8,804	2.4	8,223	2.1	7.1
Communications & computer services	7,616	2.0	7,515	1.9	1.3
Financial services	64,656	17.3	86,183	22.4	(25.0)
Business & other services	14,358	3.8	13,770	3.6	4.3
Public & community services	9,710	2.6	9,972	2.6	(2.6)
Private individuals - housing loans	31,757	8.5	30,145	7.8	5.3
Private individuals - other	81,853	21.8	80,540	20.8	1.6
Other debtors in respect of credit cards	5,322	1.4	5,277	1.4	0.9
Total	374,452	100.0	385,532	100.0	(2.9)

* Including off-balance-sheet credit risk, investments in bonds by the public, assets arising from derivative instruments transacted against the public, and securities borrowed or bought under resale agreements transacted against the public.

Problematic Credit

Set out below are the developments in problematic debts¹, according to the classifications determined by the Supervisor of Banks:

	June 30		December 31,
	2008	2007	2007
	(NIS millions)		
Problematic debts⁽¹⁾			
Non-income bearing	3,366	4,312	3,820
Restructured ^{(2)(b)}	1,167	1,452	1,536
Designated for restructuring ^{(3)(b)}	364	908	338
In temporary arrears	616	1,241	1,164
Under special supervision ^{(a)(b)}	5,351	6,627	6,261
Total balance-sheet credit to problematic borrowers⁽¹⁾	10,844	14,540	13,119
Off-balance-sheet credit risk in respect of problematic borrowers ⁽¹⁾⁽⁵⁾	1,364	1,674	1,512
Bonds of problematic borrowers	16	96	20
Other assets in respect of derivative instruments of problematic borrowers	9	2	1
Overall credit risk in respect of problematic borrowers⁽¹⁾	12,233	16,312	14,652
Assets received in respect of discharged credit	374	484	530
(a) Of which: credit for housing in respect of which a provision commensurate with extent of arrears exists	436	436	499
(b) Of which: debts for which a specific provision exists ⁽⁴⁾	3,604	4,790	4,085

(1) Not including problematic debts covered by collateral that can be deducted for the purpose of limits to the indebtedness of a borrower and of a group of borrowers.

(2) Credit restructured in the course of the current year, and credit restructured in previous years with waiver of income.

(3) Credit to borrowers for whom a restructuring decision has been made but not yet implemented.

(4) Except for housing credit for which a provision commensurate with the extent of arrears exists.

(5) As calculated for the purpose of limits to the indebtedness of a borrower and of a group of borrowers, except in respect of guarantees provided by a borrower to secure the indebtedness of a third party.

Securities held by the Bank Group totaled NIS 31.3 billion, compared with NIS 48.1 billion at the end of 2007, a decrease of 34.9%.

The decrease mainly resulted from the sale of the Bank's investments in MBS at the New York branch, the balance of which totaled NIS 13.5 billion at the beginning of the year (this amount includes the effect of the appreciation of the shekel, in the amount of NIS 1.9 billion), as described in the section "Activity of the Bank Group in Asset-Backed Securities."

In addition, redemption of bonds of foreign banks in the amount of NIS 1.5 billion contributed to the decrease. NIS 0.8 billion resulted from the cessation of consolidation of the data of Bank Massad, due to its sale.

The Bank is a member of the TASE Clearing House Ltd. and the Maof Clearing House Ltd. As at June 30, 2008, the Bank has pledged bonds in the amount of NIS 169 million to the TASE Clearing House, and bonds in the amount of NIS 1,507 million to the Maof Clearing House, in order to secure its clients' activity and for the mutual guarantee of clearing-house members.

In addition, the Bank has signed a certificate of debt in favor of the Bank of Israel as collateral for credit the Bank received or will receive from the Bank of Israel. In accordance with this certificate, the Bank pledged its inventory of Gilon and Shahar bonds in favor of the Bank of Israel, as a floating lien, up to an amount of NIS 4.9 billion, as at June 30, 2008.

Set out below is a breakdown of the securities portfolio by linkage segments:

	June 30, 2008	Dec. 31, 2007	Change	
		NIS millions		%
Israeli currency:				
Unlinked	13,198	13,564	(366)	(2.7)
CPI-linked	1,860	2,152	(292)	(13.6)
Foreign currency (including f.c. linked)*	14,621	30,493	(15,872)	(52.1)
Non-monetary items	1,634	1,906	(272)	(14.3)
Total	31,313	48,115	(16,802)	(34.9)

* For further details regarding the Bank's investments in asset-backed securities, see Note 2 to the Condensed Financial Statements and the section "Activity of the Bank Group in Asset-Backed Securities."

Total deposits amounted to NIS 238.8 billion, compared with NIS 243.0 billion at the end of 2007. These deposits include deposits from the public, deposits from the government, and deposits from the Bank of Israel and other banks.

Deposits from the public totaled NIS 227.0 billion, compared with NIS 231.8 billion at the end of 2007, a decrease of 2.1%. The decrease stemmed from the settlement of callable CDs, the effect of the appreciation of the shekel against most foreign currencies, and the cessation of consolidation of the data of Bank Massad due to its sale. An increase in deposits raised in Israel offset the decrease.

Deposits from banks totaled NIS 10.0 billion, compared with NIS 9.0 billion at the end of 2007, an increase of 10.9%.

Bonds and subordinated notes totaled NIS 19.1 billion, compared with NIS 18.8 billion at the end of 2007. The change mainly resulted from the issuance of subordinated notes in the amount of NIS 1.7 billion. This increase was offset by the settlement of subordinated notes and capital notes in the amount of NIS 1.4 billion.

Shareholders' equity totaled NIS 18.76 billion, compared with NIS 18.78 billion at the end of 2007, a decrease of 0.1%. The decrease in shareholders' equity mainly resulted from a loss in the amount of NIS 1.0 billion for the period, which was offset by the issuance of capital in the amount of NIS 0.7 billion.

The ratio of shareholders' equity to total assets reached 6.2%, similar to the ratio at the end of 2007.

The ratio of capital to risk-adjusted assets reached 11.01%, compared with 10.26% at the end of 2007.

The ratio of core (Tier 1) capital to risk-adjusted assets reached 7.65%, compared with 7.50% at the end of 2007. Tier 1 capital includes subordinated capital notes in the amount of NIS 1,446 million, which were authorized by the Supervisor of Banks as "hybrid capital instruments," and which contributed 0.5% to the core capital ratio.

The ratio of supplementary (Tier 2) capital to risk-adjusted assets reached 3.37%, compared with 2.77% at the end of 2007. Tier 2 capital includes Upper Tier 2 capital (subordinated capital notes and general provision for doubtful debts), the balance of which totaled NIS 1,475 million on June 30, 2008, and contributed 0.55% to the overall capital ratio.

The principal changes in total capital for the purpose of calculating the ratio of capital to risk-adjusted assets during the period of January-June 2008 are set out below:

In April 2008, the Bank allocated 52,500,000 ordinary shares of the Bank and 7,500,000 options exercisable into shares to York Capital Management, in consideration for a total of NIS 735 million.

During the first six months of the year, the Bank raised subordinated notes, which constitute Tier 2 capital, in the amount of NIS 1,734 million. This increase was offset by the cessation of inclusion of subordinated notes in secondary capital, in the amount of NIS 0.5 billion.

During the second half of 2008, some of the subordinated notes in the amount of approximately NIS 0.4 billion, which constitute Tier 2 capital for the purpose of calculating the ratio of capital to risk-adjusted assets, will cease to be considered Tier 2 capital, in accordance with the rules established by the Supervisor of Banks with regard to the recognition of notes of this type as Tier 2 capital by banking corporations.

Note that the aforesaid statements with regard to the aim of increasing the capital ratio and the ways of reaching these objectives constitute "forward-looking information," and their materialization depends both on external factors, such as conditions in the capital market and economic conditions in Israel and abroad, and on the Bank's business plans. Therefore, there is a possibility that the Bank may not be able to meet these objectives.

In May 2008, the Board of Directors of the Bank reaffirmed the Bank's resolutions dated January 16, 2008 and May 20, 2008 to proceed on a trajectory leading the Bank to an 11% ratio of capital to risk-adjusted assets by the end of 2008, and to a 12% capital ratio by the end of 2009.

The Board of Directors examined the various available options, in accordance with the Bank's work plans, for increasing the Bank's capital, encompassing the different components, by issuing core capital, hybrid core capital, or supplementary capital.

At this point, the Bank has passed the following resolutions:

- I. To approve the raising of supplementary capital by issuing subordinated notes (Series J) in the amount of up to NIS 2 billion (face value). These issues are to be performed by Hapoalim Hanpakot Ltd., a wholly owned subsidiary of the Bank (hereinafter: "Hapoalim Hanpakot").

In order to carry out these offerings, Hapoalim Hanpakot has acted to amend its shelf prospectus published on March 20, 2007 (hereinafter: the "Shelf Prospectus") with regard to the issuance of the aforesaid Series J, such that Hapoalim Hanpakot will be able to issue Series J subordinated bonds under the Shelf Prospectus in a total amount of up to NIS 3 billion, instead of NIS 1 billion under the existing Shelf Prospectus.

The terms of the subordinated notes to be issued by Hapoalim Hanpakot following the amendment of the Shelf Prospectus will be as detailed in the Shelf Prospectus. The Bank intends to apply to the Supervisor of Banks for permission to recognize the subordinated notes issued as described above as supplementary capital of the Bank, as stated in the Shelf Prospectus.

2. To approve the issuance of hybrid core capital through the issuance of subordinated capital notes (Series C) linked to the consumer price index in the amount of up to NIS 800 million (face value) in private placements to classified investors. These offerings are intended to expand the series of subordinated capital notes of this type (Series C). The terms of the subordinated capital notes issued in these offerings will be identical to the terms of the subordinated capital notes issued by the Bank in the same series, as detailed in the Immediate Report released by the Bank on November 5, 2007. On October 29, 2007, the Bank was granted permission by the Supervisor of Banks to recognize the subordinated capital notes (Series C) to be issued as hybrid capital instruments, as part of the core capital of the Bank, as detailed in the Immediate Report dated November 5, 2007.
3. To approve the raising of supplementary capital through the issuance of subordinated notes (Series K) not linked to any index, in the amount of up to NIS 900 million (face value), through Hapoalim Hanpakot, in an offering to the public, through a uniform offer in an auction for the unit price. These offerings are intended to expand this series of subordinated notes (Series K). The terms of the subordinated capital notes issued in the offering will be as detailed in the Shelf Prospectus of Hapoalim Hanpakot dated March 20, 2007. On February 12, 2007, the Bank was granted permission by the Supervisor of Banks to recognize the subordinated notes as supplementary capital, as detailed in the Shelf Prospectus of March 20, 2007.
4. To approve the raising of supplementary capital through a shelf prospectus to be published by Hapoalim Hanpakot, according to which up to 18 series of debt certificates will be offered to the public, at a face value of up to NIS 5 billion per series. These series are likely to include series of bonds at an ordinary settlement rank, equal to the settlement rank of all deposits deposited with the Bank from time to time, and/or series of subordinated notes at a settlement rank subordinate to all other liabilities of Hapoalim Hanpakot and of the Bank that have not been assigned a settlement rank equal or inferior to that of the subordinated notes of that series. The timing, volume, and final structure of each offering have yet to be determined. The issuance of any subordinated notes within series as described above will be subject to permission from the Supervisor of Banks to recognize the notes as supplementary capital.

Results of Operations of the Bank Group's Segments of Activity

The Bank Group operates in Israel and abroad in all areas of banking through the Bank, subsidiaries, branches, and representative offices, and provides a wide range of banking and financial services to its customers.

The Bank also engages in investments, principally in the areas of insurance and real estate, by means of equity-basis investee companies.

The activity of the Bank Group is managed via six principal segments of activity. The division into segments of activity is based on the types of products and services or on the types of customers included in each of the segments. The Board of Management of the Bank uses this division to make decisions and to analyze the Group's business results.

The segments of activity are presented according to characteristics stipulated by the Supervisor of Banks. A detailed description of the segments of activity and the manner of their measurement appears in the Annual Report for 2007.

The Bank sold its full holdings in Bank Massad, and consequently no longer includes the balances of Bank Massad and its share in the results of operations of Bank Massad in its financial statements, as of the beginning of the second quarter. This mainly affects the Households Segment, where the majority of Bank Massad's activity was focused.

Set out below are the results of operations of the Bank Group, by segments:

A. Net Operating Profit (Loss)

	For the six months ended June 30				For the three months ended June 30			
	2008	2007	Change		2008	2007	Change	
	NIS millions		%		NIS millions		%	
Households Segment	112	146	(34)	(23.3)	92	70	22	31.4
Private Banking Segment	140	226	(86)	(38.1)	49	116	(67)	(57.8)
Small Business Segment	87	114	(27)	(23.7)	40	43	(3)	(7.0)
Commercial Segment	16	71	(55)	(77.5)	53	41	12	29.3
Corporate Segment	357	567	(210)	(37.0)	219	267	(48)	(18.0)
Financial Management Segment	(2,233)	212	(2,445)	(1,153.3)	56	127	(71)	(55.9)
Others and Adjustments	61	70	(9)	(12.9)	36	52	(16)	(30.8)
Total	(1,460)	1,406	(2,866)	(203.8)	545	716	(171)	(23.9)

B. Net Profit (Loss)*

	For the six months ended June 30				For the three months ended June 30			
	2008	2007	Change		2008	2007	Change	
	NIS millions		%		NIS millions		%	
Households Segment	387	252	135	53.6	116	217	(101)	(46.5)
Private Banking Segment	277	313	(36)	(11.5)	59	203	(144)	(70.9)
Small Business Segment	130	134	(4)	(3.0)	49	63	(14)	(22.2)
Commercial Segment	24	76	(52)	(68.4)	53	46	7	15.2
Corporate Segment	374	579	(205)	(35.4)	219	279	(60)	(21.5)
Financial Management Segment	(2,223)	218	(2,441)	(1,119.7)	66	143	(77)	(53.8)
Others and Adjustments	58	65	(7)	(10.8)	32	51	(19)	(37.3)
Total	(973)	1,637	(2,610)	(159.4)	594	1,002	(408)	(40.7)

* Net profit (loss), according to the directives of the Bank of Israel, also includes the results of the sale of subsidiary and affiliated companies and other assets, which are included in the item "net profit from extraordinary transactions."

C. Balance-Sheet Balances

Credit to the public

	June 30, 2008	Dec. 31, 2007	Change	
			NIS millions	%
Households Segment	47,480	45,083	2,397	5.3
Private Banking Segment	24,169	24,860	(691)	(2.8)
Small Business Segment	20,258	20,511	(253)	(1.2)
Commercial Segment	20,518	18,791	1,727	9.2
Corporate Segment	98,575	95,270	3,305	3.5
Financial Management Segment	575	501	74	14.8
Total	211,575	205,016	6,559	3.2
Of which: retail credit in Israel, excluding housing loans:				
Households Segment	19,292	17,565	1,727	9.8
Private Banking Segment	5,991	5,920	71	1.2
Small Business Segment	15,754	16,228	(474)	(2.9)
Housing loans in Israel	32,330	31,125	1,205	3.9

Deposits from the public

	June 30, 2008	Dec. 31, 2007	Change	
			NIS millions	%
Households Segment	35,873	35,821	52	0.1
Private Banking Segment	108,982	115,827	(6,845)	(5.9)
Small Business Segment	17,985	18,059	(74)	(0.4)
Commercial Segment	8,821	8,266	555	6.7
Corporate Segment	43,877	36,129	7,748	21.4
Financial Management Segment	11,417	17,648	(6,231)	(35.3)
Total	226,955	231,750	(4,795)	(2.1)

The decrease in the Private Banking segment resulted from an erosion of balances, since a significant part of the balances are denominated in foreign currency and were eroded by the appreciation of the shekel.

D. Assets of the Public

Assets of the public under management⁽¹⁾

	June 30, 2008	Dec. 31, 2007	Change	
		NIS millions		%
Households Segment	9,117	28,706	(19,589)	(68.2)
Private Banking Segment	108,141	120,118	(11,977)	(10.0)
Small Business Segment	8,234	13,008	(4,774)	(36.7)
Commercial Segment	5,700	8,866	(3,166)	(35.7)
Corporate Segment	345,933	335,572	10,361	3.1
Others and Adjustments	83,465	51,384	32,081	62.4
Total	560,590	557,654	2,936	0.5

(1) Includes customer assets for which the Bank Group provides operational and custody services; in 2007, also management services.

Set out below are the condensed operating results of the principal segments, divided into sub-activities:

The Households Segment

Net operating profit in the Households Segment totaled NIS 112 million, compared with NIS 146 million in the same period last year; a decrease of 23.3%.

Due to the sale of Bank Massad, its results of operations attributed to the Households Segment are not included in the financial statements as of the second quarter of 2008.

The segment's income totaled NIS 1,723 million in the first half of 2008, compared with NIS 1,704 million in the same period last year, an increase of 1.1%, which resulted from an increase in income from banking and financial services and credit cards, while the segment's income abroad decreased, mainly due to the decrease in the exchange rate of the Turkish lira during the first quarter this year. In addition, due to the sale of Bank Massad, its results of operations attributed to the Households Segment are not included in the reports as of the second quarter of 2008.

Financing income totaled NIS 998 million in the first half of 2008, compared with NIS 979 million in the same period last year, an increase of 1.9%, mainly due to the increase in consumer credit, which was offset by a loss in the segment's activity in Turkey, mainly as a result of the depreciation of the Turkish lira, as noted above.

The provision for doubtful debts totaled NIS 67 million in the first half of 2008, compared with NIS 91 million in the same period last year.

The segment's expenses increased by 10.4% and amounted to NIS 1,456 million, compared with NIS 1,319 million in the same period last year. The increase mainly resulted from the voluntary-retirement program and from effects of the wage agreement on provisions for benefits. These increases were offset by a decrease in the provision for bonuses and by the effect of the decline in the Bank's share price on expenses for phantom options.

The segment's results include profit from extraordinary transactions in the amount of NIS 275 million, which reflects the segment's share of profits from the sale of provident-fund management rights and from the sale of Bank Massad. In the same period last year, the segment's results included profit in the amount of NIS 106 million reflecting the segment's share of profit from the sale of provident funds, less the segment's share of an expense recorded for deferred taxes, due to the expected realization of Bank Yahav and Bank Massad.

Net profit of the Households Segment totaled NIS 387 million, compared with NIS 252 million in the same period last year.

Credit to the public totaled NIS 47.5 billion on June 30, 2008, compared with NIS 45.1 billion at the end of 2007, an increase of 5.3%. The sale of Bank Massad offset this increase by approximately NIS 0.8 billion.

Consumer credit increased by 9.8% compared with the end of 2007, to a total of NIS 19.3 billion. Deposits from the public totaled NIS 35.9 billion on June 30, 2008, compared with NIS 35.8 billion at the end of 2007. The sale of Bank Massad reduced the segment's balances by approximately NIS 1.1 billion.

Set out below are data regarding new loans granted and refinancing of loans, for purchases of homes and via mortgages of homes:

	For the six months ended June 30	
	2008	2007
	NIS millions	
From Finance Ministry funds:		
Loans	160	202
Grants	6	7
Total Finance Ministry funds	166	209
Loans from Bank funds:	3,125	2,725
Total new loans	3,291	2,934
Old loans refinanced from Bank funds	745	671
Total loans granted	4,036	3,605

Set out below are the condensed operating results of of the Households Segment:

	For the six months ended June 30, 2008							Total
	Activity in Israel				Activity abroad			
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services	Capital market ⁽¹⁾	Housing finance	
	NIS millions							
Profit from financing activities before provision for doubtful debts:								
- From externals	1,016	18	3	877	51	-	11	1,967
- Inter-segmental	(119)	-	-	(789)	(45)	-	(25)	(978)
Operating and other income:								
- From externals	347	297	56	52	1	2	-	755
- Inter-segmental	(22)	-	(8)	-	-	-	-	(30)
Total income	1,222	315	51	140	7	2	(14)	1,723
Provision for doubtful debts	53	-	-	13	1	-	-	67
Operating and other expenses:								
- From externals	1,184	233	43	77	39	-	8	1,584
- Inter-segmental	(128)	-	-	-	-	-	-	(128)
Operating profit before taxes	113	82	8	50	(33)	2	(22)	200
Provision for taxes (tax benefit)								
on operating profit	43	31	3	19	(5)	-	(5)	86
Operating profit after taxes	70	51	5	31	(28)	2	(17)	114
Minority interests' share in (profits) losses of consolidated companies	(3)	(8)	(3)	-	6	-	6	(2)
Net operating profit (loss)	67	43	2	31	(22)	2	(11)	112
Profit (loss) from extraordinary transactions, after taxes ⁽²⁾	24	-	251	-	-	-	-	275
Net profit (loss)	91	43	253	31	(22)	2	(11)	387
Return of operating profit on equity ⁽³⁾	13.9%	28.2%	-	4.8%	-	-	-	8.5%
Return on equity ⁽³⁾	19.1%	28.2%	-	4.8%	-	-	-	31.0%
Average balance of assets	25,054	6,575	-	20,836	188	-	453	53,106
Average balance of liabilities	35,689	6,511	-	-	30	-	-	42,230
Average balance of risk assets	17,901	5,842	-	17,329	186	-	442	41,700
Average balance of provident funds and mutual funds	-	-	10,769	-	-	8	-	10,777
Average balance of other assets under management	-	-	5,792	-	-	-	-	5,792
Average balance of securities in custody	-	-	7,606	-	-	73	-	7,679
Balance of credit to the public	19,292	6,289	-	21,128	226	-	545	47,480
Balance of deposits from the public	35,776	-	-	-	97	-	-	35,873

(1) Management and operational fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes the segment's profit from the sale of provident funds management rights, and the profit attributed to this segment from the sale of Bank Massad.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of of the Households Segment (continued):

	For the six months ended June 30, 2007							Total
	Activity in Israel				Activity abroad			
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services	Capital market ⁽¹⁾	Housing finance	
	NIS millions							
Profit from financing activities before provision for doubtful debts:								
- From externals	551	21	3	609	13	-	18	1,215
- Inter-segmental	302	-	-	(524)	(6)	-	(8)	(236)
Operating and other income:								
- From externals	344	267	93	56	-	5	-	765
- Inter-segmental	(31)	-	(9)	-	-	-	-	(40)
Total income	1,166	288	87	141	7	5	10	1,704
Provision for doubtful debts	64	-	-	27	-	-	-	91
Operating and other expenses:								
- From externals	1,071	198	52	72	17	-	24	1,434
- Inter-segmental	(115)	-	-	-	-	-	-	(115)
Operating profit (loss) before taxes	146	90	35	42	(10)	5	(14)	294
Provision for taxes on operating profit	60	36	14	17	(3)	1	(4)	121
Operating profit (loss) after taxes	86	54	21	25	(7)	4	(10)	173
Minority interests' share in (profits) losses of consolidated companies	(11)	(8)	(10)	-	1	(1)	2	(27)
Net operating profit (loss)	75	46	11	25	(6)	3	(8)	146
Profit (loss) from extraordinary transactions, after taxes ⁽²⁾	(51)	-	157	-	-	-	-	106
Net profit (loss)	24	46	168	25	(6)	3	(8)	252
Return of operating profit on equity ⁽³⁾	15.4%	28.9%	-	3.5%	-	-	-	10.7%
Return on equity ⁽³⁾	4.8%	28.9%	-	3.5%	-	-	-	18.8%
Average balance of assets	22,418	5,809	-	20,517	135	-	128	49,007
Average balance of liabilities	35,282	5,796	-	-	-	-	-	41,078
Average balance of risk assets	15,923	5,380	-	17,248	106	-	101	38,758
Average balance of provident funds and mutual funds	-	-	27,820	-	-	44	-	27,864
Average balance of other assets under management	-	-	4,984	-	-	-	-	4,984
Average balance of securities in custody	-	-	7,884	-	-	47	-	7,931
Balance of credit to the public on December 31, 2007	17,565	6,106	-	20,751	256	-	405	45,083
Balance of deposits from the public on December 31, 2007	35,617	-	-	-	204	-	-	35,821

(1) Management and operational fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the

segment's customers. This item includes the segment's profit from the sale of provident funds management rights, which was offset by the segment's share in a loss recorded for deferred taxes, due to the expected realization of Bank Yahav and Bank Massad.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of of the Households Segment (continued):

	For the three months ended June 30, 2008							Total
	Activity in Israel				Activity abroad			
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services	Capital market ⁽¹⁾	Housing finance	
	NIS millions							
Profit from financing activities before provision for doubtful debts:								
- From externals	481	8	1	615	28	-	6	1,139
- Inter-segmental	(37)	-	-	(571)	(16)	-	(2)	(626)
Operating and other income:								
- From externals	176	146	14	26	1	1	-	364
- Inter-segmental	(10)	-	(4)	-	-	-	-	(14)
Total income	610	154	11	70	13	1	4	863
Provision for doubtful debts	30	-	-	5	1	-	-	36
Operating and other expenses:								
- From externals	552	112	8	42	22	-	4	740
- Inter-segmental	(63)	-	-	-	-	-	-	(63)
Operating profit (loss) before taxes	91	42	3	23	(10)	1	-	150
Provision for taxes (tax benefit) on operating profit	35	16	1	9	(6)	-	(3)	52
Operating profit (loss) after taxes	56	26	2	14	(4)	1	3	98
Minority interests' share in (profits) losses of consolidated companies	2	(4)	(2)	-	(1)	-	(1)	(6)
Net operating profit (loss)	58	22	-	14	(5)	1	2	92
Profit from extraordinary transactions, after taxes ⁽²⁾	24	-	-	-	-	-	-	24
Net profit (loss)	82	22	-	14	(5)	1	2	116

(1) Management and distribution fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes profit attributed to the segment as a result of the sale of Bank Massad.

Set out below are the condensed operating results of of the Households Segment (continued):

	For the three months ended June 30, 2007							Total
	Activity in Israel			Activity abroad				
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services	Capital market ⁽¹⁾	Housing finance	
	NIS millions							
Profit from financing activities before provision for doubtful debts:								
- From externals	204	11	3	415	8	-	12	653
- Inter-segmental	231	-	-	(373)	(3)	-	(4)	(149)
Operating and other income:								
- From externals	171	130	38	28	-	3	-	370
- Inter-segmental	(15)	-	(5)	-	-	-	-	(20)
Total income	591	141	36	70	5	3	8	854
Provision for doubtful debts	36	-	-	15	-	-	-	51
Operating and other expenses:								
- From externals	545	99	25	35	9	-	14	727
- Inter-segmental	(57)	-	-	-	-	-	-	(57)
Operating profit (loss) before taxes	67	42	11	20	(4)	3	(6)	133
Provision for taxes (tax benefit) on operating profit	25	15	3	7	(1)	1	(2)	48
Operating profit (loss) after taxes	42	27	8	13	(3)	2	(4)	85
Minority interests' share in (profits) losses of consolidated companies	(6)	(4)	(5)	-	-	-	-	(15)
Net operating profit (loss)	36	23	3	13	(3)	2	(4)	70
Profit (loss) from extraordinary transactions, after taxes ⁽²⁾	(10)	-	157	-	-	-	-	147
Net profit (loss)	26	23	160	13	(3)	2	(4)	217

(1) Management fees for provident funds, mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident funds management rights, less the segment's share in an expense recorded for deferred taxes, due to the expected realization of Bank Massad.

Restrictions and supervision of the segment's activity

In July 2007, the Banking (Service to Customers) Law, 5741-1981, was amended with the addition of Section B2, which deals with "Supervision of Fees" (hereinafter: the "Fee Section"), main points of which are described below:

According to the Fee Section, the Governor of the Bank of Israel is to establish a list of services for which a banking corporation is permitted to charge fees from its customers, and the manner of calculation of the fees that may be charged for such services. The Governor may determine types of services to which his directives regarding the manner of calculation of fees shall not apply. A banking corporation may apply to the Supervisor of Banks to add a service for which it wishes to be permitted to charge fees. The Supervisor is authorized to approve the request, set conditions for its approval, or reject it. A banking corporation shall not raise the amount or rate of a fee unless it has notified the Supervisor accordingly thirty days in advance. In addition, the Governor may declare a particular service to be subject to supervision, if one of the following applies with regard to the service:

- (1) The fee for the service could reduce competition among the banking corporations, or between these corporations and another entity providing a similar service;
- (2) Customers can only receive the service from the banking corporation where their accounts are maintained;
- (3) In the opinion of the Governor of the Bank of Israel, the service is essential and needs to be supervised due to considerations of the public's best interests.

With regard to services subject to supervision, the Governor may determine any of the following through an order:

- (1) The amount or rate of the fee to be charged for the service;
- (2) The maximum amount or rate of the fee that may be charged for the service;
- (3) A prohibition on charging fees for the service.

This legislation was implemented on July 1, 2008, the date on which the fees approved by the Supervisor of Banks at the end of June 2008 took effect.

In July 2008, the Bank of Israel issued a draft circular, according to which the Supervisor of Banks intends to reduce the fees currently customary for residential maintenance committees, senior citizens, and disabled citizens. In addition, the customary fee for the collection of checks deposited in service boxes will be reduced.

The Bank cannot estimate the precise effect of the new legislation. However, the Board of Management of the Bank estimates that the Bank Group's income from fees may decrease by approximately NIS 200 million annually.

In addition, two new law proposals concerning the restriction of fees have been submitted. One proposal, concerning the reduction of bank fees and the establishment of fee packages, was passed in a preliminary reading in Knesset and is under discussion in the Economic Affairs Committee; the other proposal, which primarily concerns the cancellation of fees for households and the establishment of a different mechanism for new fees, has been submitted to the Knesset. It is not possible to estimate whether and how these law proposals may be advanced.

- With regard to the involvement of the Antitrust Commissioner in the area of credit cards and the declaration that Isracard is the holder of a monopoly, see the section "Subsidiary and Affiliated Companies" below.

Outlook for development in the coming year

- By the end of 2008, the Bank plans to open 10-15 "boutique" branches. The first such branch is scheduled to open in September 2008. The branches will be located in residential areas throughout Israel and will be targeted to the segment of middle-class customers with above-average income. Each of the "boutique" branches should serve 2,000-3,000 customers with 4-6 employees.
- The Bank plans to establish a central back-office over the course of the coming year. The central back-office will coordinate a wide range of technical, administrative, and financial activities not conducted directly with customers, from the branch network and from various professional departments within the Head Office.

The establishment of the central back-office will support the continued development of the Bank and of the branch network by improving and streamlining processes, reducing operational risks, and enhancing customer service, allowing branches to focus on activity with customers. Activities will be transferred to the central back-office gradually, starting in the third quarter of 2008.

Legal proceedings

See Note 9D to the Condensed Financial Statements.

Events or matters outside the segment's ordinary course of business

On May 14, 2008, the transaction for the sale of the Bank's full holdings in Bank Massad was completed. As of the second quarter of 2008, the Bank no longer includes the financial data of Bank Massad in the segment's results.

Balances of credit to the public (comprised of consumer credit in Israel, without housing loans) and deposits of Bank Massad as of the date of the sale, which were deducted from the segment's balances, totaled NIS 808 million and NIS 1,152 million, respectively.

On July 10, 2008, the transaction for the sale of the Bank's full holdings in Bank Yahav was completed. As of the third quarter of 2008, the segment will no longer include the financial data of Bank Yahav.

Balances of credit to the public and deposits from the public of Bank Yahav as of June 30, 2008, which were included in the segment's data, totaled NIS 3,389 million and NIS 9,173 million, respectively.

The Private Banking Segment

Net operating profit of the Private Banking Segment totaled NIS 140 million in the first half of 2008, compared with NIS 226 million in the same period last year, a decrease of 38.1%. The decrease mainly stemmed from an increase in the segment's expenses (see below) and the influence of foreign currencies' appreciation on the segment's investments in subsidiaries abroad. The segment's income totaled NIS 1,311 million in the first half of 2008, compared with NIS 1,357 million in the same period last year, a decrease of 3.4%. The decrease resulted from a decrease in the segment's income abroad, caused by depreciation of the Swiss franc. This decrease was offset by an increase in financing profit in Israel and operating income, due to an increase in income from credit cards.

The provision for doubtful debts totaled NIS 15 million, compared with NIS 14 million in the same period last year.

The segment's expenses totaled NIS 1,062 million, compared with NIS 960 million in the same period last year, an increase of 10.6%. The increase mainly resulted from the voluntary-retirement program and the effects of the wage agreement on provisions for benefits. These increases were offset by a decrease in the provision for bonuses and by the effect of the decline in the Bank's share price on expenses for phantom options.

The segment's results include profit from extraordinary transactions in the amount of NIS 137 million, reflecting the segment's share in profit from the sale of provident-fund management rights and from the sale of Bank Massad, compared with NIS 87 million in the same period last year.

Net profit of the Private Banking Segment totaled NIS 277 million, compared with NIS 313 million in the same period last year, a decrease of 11.5%.

Credit to the public totaled NIS 24.2 billion on June 30, 2008, compared with NIS 24.9 billion at the end of 2007, a decrease of 2.8%. The decrease resulted from the erosion of balances of credit in foreign currency, as a result of changes in exchange rates of foreign currencies.

Deposits from the public totaled NIS 109.0 billion on June 30, 2008, compared with NIS 115.8 billion at the end of 2007, a decrease of 5.9%, due to the erosion of the balance of foreign-currency deposits as a result of changes in the exchange rates of foreign currencies. In addition, the sale of Bank Massad contributed approximately NIS 1.4 billion to this decrease.

The average balance of securities in custody increased by 7.9% to a total of NIS 78.3 billion, due to an increase in the volume of activity in this area in Israel. This increase was offset by a decrease in the average balance abroad, mainly due to currency depreciation.

Set out below are the condensed operating results of the Private Banking Segment:

	For the six months ended June 30, 2008						Total
	Banking and financial services	Activity in Israel			Activity abroad		
		Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services	Capital market ⁽¹⁾	
NIS millions							
Profit from financing activity before provision for doubtful debts:							
- From externals	2,256	7	15	248	258	-	2,784
- Inter-segmental	(1,768)	-	-	(227)	(189)	-	(2,184)
Operating and other income:							
- From externals	132	120	332	11	79	128	802
- Inter-segmental	(16)	-	(69)	-	-	(6)	(91)
Total income	604	127	278	32	148	122	1,311
Provision for doubtful debts	11	-	-	4	-	-	15
Operating and other expenses:							
- From externals	499	85	182	16	158	102	1,042
- Inter-segmental	20	-	-	-	-	-	20
Operating profit (loss) before taxes	74	42	96	12	(10)	20	234
Provision for taxes on operating profit	28	16	36	5	3	7	95
Operating profit (loss) after taxes	46	26	60	7	(13)	13	139
Minority interests' share in losses of consolidated companies	1	-	-	-	-	-	1
Net operating profit (loss)	47	26	60	7	(13)	13	140
Profit from extraordinary transactions, after taxes ⁽²⁾	10	-	127	-	-	-	137
Net profit	57	26	187	7	(13)	13	277
Return of operating profit on equity ⁽³⁾	26.8%	35.1%	-	2.7%	(7.0%)	-	20.6%
Return on equity ⁽³⁾	32.9%	35.1%	-	2.7%	(7.0%)	-	42.6%
Average balance of assets	5,653	2,753	-	7,368	9,972	-	25,746
Average balance of liabilities	83,234	2,626	-	-	25,127	-	110,987
Average balance of risk assets	5,492	2,356	-	5,717	5,633	-	19,198
Average balance of provident funds and mutual funds	-	-	33,987	-	-	2,470	36,457
Average balance of other assets under management	-	-	712	-	-	3,060	3,772
Average balance of securities in custody	-	-	53,824	-	-	24,462	78,286
Balance of credit to the public	5,991	2,536	-	7,713	7,929	-	24,169
Balance of deposits from the public	80,574	-	-	-	28,408	-	108,982

(1) Management and operational fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident funds management rights, and the profit attributed to this segment from the sale of Bank Massad.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Private Banking Segment (continued):

	For the six months ended June 30, 2007						Total
	Activity in Israel			Activity abroad			
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services	Capital market ⁽¹⁾	
NIS millions							
Profit from financing activities before provision for doubtful debts:							
- From externals	(1,489)	8	15	160	(473)	-	(1,779)
- Inter-segmental	1,946	-	-	(143)	608	-	2,411
Operating and other income:							
- From externals	122	107	359	11	94	120	813
- Inter-segmental	(15)	-	(66)	-	-	(7)	(88)
Total income	564	115	308	28	229	113	1,357
Provision for doubtful debts	7	-	-	7	-	-	14
Operating and other expenses:							
- From externals	431	70	145	15	186	96	943
- Inter-segmental	17	-	-	-	-	-	17
Operating profit before taxes	109	45	163	6	43	17	383
Provision for taxes on operating profit	44	18	67	2	16	7	154
Operating profit after taxes	65	27	96	4	27	10	229
Minority interests' share in profits of consolidated companies	(3)	-	-	-	-	-	(3)
Net operating profit	62	27	96	4	27	10	226
Profit (loss) from extraordinary transactions, after taxes ⁽²⁾	(4)	-	91	-	-	-	87
Net profit	58	27	187	4	27	10	313
Return of operating profit on equity ⁽³⁾	47.7%	32.0%	-	2.0%	18.9%	-	42.7%
Return on equity ⁽³⁾	44.3%	32.0%	-	2.0%	18.9%	-	61.1%
Average balance of assets	4,796	2,441	-	5,904	7,828	-	20,969
Average balance of liabilities	80,921	2,338	-	-	27,969	-	111,228
Average balance of risk assets	3,443	2,170	-	3,493	4,127	-	13,233
Average balance of provident funds and mutual funds	-	-	50,872	-	-	4,364	55,236
Average balance of other assets under management	-	-	669	-	-	3,295	3,964
Average balance of securities in custody	-	-	44,823	-	-	27,748	72,571
Balance of credit to the public on December 31, 2007	5,920	2,463	-	7,076	9,401	-	24,860
Balance of deposits from the public on December 31, 2007	85,652	-	-	-	30,175	-	115,827

(1) Management fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident funds management rights, which was offset by the segment's share in a loss recorded for deferred taxes, due to the expected realization of Bank Massad.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Private Banking Segment (continued):

	For the three months ended June 30, 2008						Total
	Banking and financial services	Activity in Israel			Activity abroad		
		Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services	Capital market ⁽¹⁾	
NIS millions							
Profit (loss) from financing activity before provision for doubtful debts:							
- From externals	1,011	3	6	169	74	-	1,263
- Inter-segmental	(775)	-	-	(159)	(82)	-	(1,016)
Operating and other income:							
- From externals	61	59	155	6	31	59	371
- Inter-segmental	(9)	-	(33)	-	-	(4)	(46)
Total income	288	62	128	16	23	55	572
Provision for doubtful debts	8	-	-	2	-	-	10
Operating and other expenses:							
- From externals	209	41	91	9	62	50	462
- Inter-segmental	9	-	-	-	-	-	9
Operating profit (loss) before taxes	62	21	37	5	(39)	5	91
Provision for taxes (tax benefit) on operating profit	24	8	14	2	(5)	1	44
Operating profit (loss) after taxes	38	13	23	3	(34)	4	47
Minority interests' share in losses of consolidated companies	2	-	-	-	-	-	2
Net operating profit (loss)	40	13	23	3	(34)	4	49
Profit from extraordinary transactions, after taxes ⁽²⁾	10	-	-	-	-	-	10
Net profit (loss)	50	13	23	3	(34)	4	59

(1) Operational and distribution fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes the profit attributed to the segment from the sale of Bank Massad.

Set out below are the condensed operating results of the Private Banking Segment (continued):

	For the three months ended June 30, 2007						Total
	Activity in Israel			Activity abroad			
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Banking and financial services		
NIS millions							
Profit from financing activity before provision for doubtful debts:							
- From externals	(1,365)	3	8	111	(326)	-	(1,569)
- Inter-segmental	1,590	-	-	(102)	399	-	1,887
Operating and other income:							
- From externals	60	52	190	6	49	63	420
- Inter-segmental	(8)	-	(34)	-	-	(4)	(46)
Total income	277	55	164	15	122	59	692
Provision for doubtful debts	6	-	-	4	-	-	10
Operating and other expenses:							
- From externals	228	35	76	7	90	53	489
- Inter-segmental	8	-	-	-	-	-	8
Operating profit before taxes	35	20	88	4	32	6	185
Provision for taxes on operating profit	11	7	34	1	11	2	66
Operating profit after taxes	24	13	54	3	21	4	119
Minority interests' share in profits of consolidated companies	(3)	-	-	-	-	-	(3)
Net operating profit	21	13	54	3	21	4	116
Profit (loss) from extraordinary transactions, after taxes ⁽²⁾	(4)	-	91	-	-	-	87
Net profit	17	13	145	3	21	4	203

(1) Management fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident funds management rights, which was offset by the segment's share in a loss recorded for deferred taxes, due to the expected realization of Bank Massad.

Restrictions and supervision of the segment's activity

- For details regarding the regulatory involvement in the area of banking fees, see the "Households Segment" section above.
- With regard to the involvement of the Antitrust Commissioner in the area of credit cards and the declaration of Isracard as a monopoly, see the "Subsidiary and Affiliated Companies" section below.

Outlook for development in the coming year

For details regarding the opening of "boutique" branches, see the "Households Segment" section above.

For details regarding the establishment of a central back-office, see the "Households Segment" section above.

Legal proceedings

See Note 9D to the Condensed Financial Statements.

The Small Business Segment

Net operating profit of the Small Business Segment totaled NIS 87 million, compared with NIS 114 million in the same period last year, a decrease of 23.7%, mainly due to an increase in the provision for doubtful debts and an increase in the segment's expenses, as described below.

The segment's income totaled NIS 752 million in the first half of 2008, compared with NIS 746 million in the same period last year, an increase of 0.8%.

The provision for doubtful debts totaled NIS 111 million in the first half of 2008, compared with NIS 98 million in the same period last year.

The segment's expenses totaled NIS 500 million, compared with NIS 454 million in the same period last year, an increase of 10.1%. The increase mainly resulted from the voluntary-retirement program and effects of the wage agreement on provisions for benefits. These increases were offset by a decrease in the provision for bonuses and the effect of the decline in the Bank's share price on expenses for phantom options. Due to the sale of Bank Massad, its results of operations attributed to the Small Business Segment are not included in the reports as of the second quarter of 2008.

The segment's results include profit from extraordinary transactions in the amount of NIS 43 million, mainly reflecting the segment's share in profits from the sale of provident-fund management rights and from the sale of Bank Massad. Profit in the amount of NIS 20 million was recorded in the same period last year.

Net profit of the Small Business Segment totaled NIS 130 million, compared with NIS 134 million in the same period last year, a decrease of 3.0%.

Set out below are the condensed operating results of the Small Business Segment:

	For the six months ended June 30, 2008				Total
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	1,076	3	2	105	1,186
- Inter-segmental	(604)	-	-	(92)	(696)
Operating and other income:					
- From externals	208	47	29	4	288
- Inter-segmental	(19)	-	(7)	-	(26)
Total income	661	50	24	17	752
Provision for doubtful debts	109	-	-	2	111
Operating and other expenses:					
- From externals	413	32	25	6	476
- Inter-segmental	24	-	-	-	24
Operating profit (loss) before taxes	115	18	(1)	9	141
Provision for taxes on operating profit	44	7	-	3	54
Net operating profit (loss)	71	11	(1)	6	87
Profit from extraordinary transactions, after taxes ⁽²⁾	9	-	34	-	43
Net profit	80	11	33	6	130
Return of operating profit on equity ⁽³⁾	19.8%	45.8%	-	8.4%	19.1%
Return on equity ⁽³⁾	22.4%	45.8%	-	8.4%	29.2%
Average balance of assets	16,273	998	-	3,396	20,667
Average balance of liabilities	17,966	1,050	-	-	19,016
Average balance of risk assets	13,365	942	-	1,909	16,216
Average balance of provident funds and mutual funds	-	-	3,767	-	3,767
Average balance of other assets under management	-	-	37	-	37
Average balance of securities in custody	-	-	5,922	-	5,922
Balance of credit to the public	15,754	1,015	-	3,489	20,258
Balance of deposits from the public	17,958	-	-	-	17,985

(1) Management and operational fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes the segment's profit from the sale of provident-fund management rights and the profit attributed to this segment from the sale of Bank Massad.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Small Business Segment (continued):

	For the six months ended June 30, 2007				
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Total
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	357	3	2	86	448
- Inter-segmental	107	-	-	(74)	33
Operating and other income:					
- From externals	202	43	40	4	289
- Inter-segmental	(17)	-	(7)	-	(24)
Total income	649	46	35	16	746
Provision for doubtful debts	94	-	-	4	98
Operating and other expenses:					
- From externals	386	28	14	5	433
- Inter-segmental	21	-	-	-	21
Operating profit before taxes	148	18	21	7	194
Provision for taxes on operating profit	60	7	9	3	79
Operating profit after taxes	88	11	12	4	115
Minority interests' share in profits of consolidated companies	(1)	-	-	-	(1)
Net operating profit	87	11	12	4	114
Net profit (loss) from extraordinary transactions, after taxes ⁽²⁾	(5)	-	25	-	20
Net profit	82	11	37	4	134
Return of operating profit on equity ⁽³⁾	25.6%	43.3%	-	5.2%	25.9%
Return on equity ⁽³⁾	24.0%	43.3%	-	5.2%	30.8%
Average balance of assets	15,311	877	-	2,986	19,174
Average balance of liabilities	16,602	935	-	-	17,537
Average balance of risk assets	11,225	868	-	1,795	13,888
Average balance of provident funds and mutual funds	-	-	7,743	-	7,743
Average balance of other assets under management	-	-	42	-	42
Average balance of securities in custody	-	-	6,844	-	6,844
Balance of credit to the Public at December 31, 2007	16,228	985	-	3,298	20,511
Balance of deposits from the Public at December 31, 2007	18,059	-	-	-	18,059

(1) Management fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident funds management rights, which was offset by the segment's share in a loss recorded for deferred taxes, due to the expected realization of Bank Massad.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Small Business Segment (continued):

	For the three months ended June 30, 2008				
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Total
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	498	1	-	69	568
- Inter-segmental	(269)	-	-	(62)	(331)
Operating and other income:					
- From externals	101	23	12	2	138
- Inter-segmental	(10)	-	(3)	-	(13)
Total income	320	24	9	9	362
Provision for doubtful debts	76	-	-	1	77
Operating and other expenses:					
- From externals	175	16	12	3	206
- Inter-segmental	12	-	-	-	12
Operating profit (loss) before taxes	57	8	(3)	5	67
Provision for taxes (tax benefit) on operating profit	23	3	(1)	2	27
Net operating profit (loss)	34	5	(2)	3	40
Net profit from extraordinary transactions, after taxes ⁽²⁾	9	-	-	-	9
Net profit (loss)	43	5	(2)	3	49

(1) Operational and distribution fees for provident funds, distribution fees for mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes the profit attributed to the segment from the sale of Bank Massad.

Set out below are the condensed operating results of the Small Business Segment (continued):

	For the three months ended June 30, 2007				
	Banking and financial services	Credit cards	Capital market ⁽¹⁾	Housing finance	Total
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	79	2	1	59	141
- Inter-segmental	151	-	-	(53)	98
Operating and other income:					
- From externals	100	21	22	2	145
- Inter-segmental	(8)	-	(4)	-	(12)
Total income	322	23	19	8	372
Provision for doubtful debts	70	-	-	2	72
Operating and other expenses:					
- From externals	199	14	7	2	222
- Inter-segmental	10	-	-	-	10
Operating profit before taxes	43	9	12	4	68
Provision for taxes on operating profit	14	3	5	2	24
Operating profit after taxes	29	6	7	2	44
Minority interests' share in profits of consolidated companies	(1)	-	-	-	(1)
Net operating profit	28	6	7	2	43
Net profit (loss) from extraordinary transactions, after taxes ⁽¹⁾	(5)	-	25	-	20
Net profit	23	6	32	2	63

(1) Management fees for provident funds, mutual funds, and securities activity.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident funds management rights, which was offset by the segment's share in a loss recorded for deferred taxes, due to the expected realization of Bank Massad.

Restrictions and supervision of the segment's activity

For details regarding regulatory involvement in the area of banking fees, see the "Households Segment" section above.

Outlook for development in the coming year

During the second quarter of 2008, criteria for assigning customers to this segment were updated. Under the new criteria, borrowers assigned to this segment are customers with indebtedness to the Bank of up to NIS 6 million and an annual turnover of up to NIS 30 million.

The process of assigning customers according to the new criteria is expected to occur over the coming few quarters.

For details regarding the establishment of a central back-office, see the "Households Segment" section above.

Legal proceedings

See Note 9D to the Condensed Financial Statements.

The Commercial Segment

Segment structure

The Bank's Commercial Segment operates via the Commercial Division within the Corporate Area and through branches and subsidiaries of the Bank abroad. The Commercial Division operates through eight Business Centers, deployed throughout Israel, and through branches and subsidiaries abroad.

Several work teams operate within each Business Center, and are responsible for managing routine business relationships with customers. Each team is headed by a Customer Relationship Manager whose main banking specialization is in the area of business credit.

In addition, each Business Center has a certified investment manager, responsible for providing investment services to customers, and a legal advisor who provides legal advice to accompany business activities.

Segment customers' accounts are managed at the Bank's branches, which provide the full range of required operational banking services.

The Bank's activity in the Commercial Segment abroad primarily includes the activity of Bank Pozitif in Turkey, which provides credit and banking services.

Customers

Criteria for assigning customers to the Commercial Segment were updated during the second quarter of 2008. Under the new criteria, borrowers assigned to this segment are customers with an annual income turnover of NIS 30 million to NIS 400 million, and indebtedness to the Bank of NIS 6 million to NIS 100 million, or NIS 250 million to the banking system. For customers in the construction and real estate sector, indebtedness to the bank of up to NIS 200 million and up to NIS 400 million to the banking system.

Customers will be reassigned according to the new criteria over the coming few quarters.

Changes in the segment's volume of activity and net profit

Net operating profit of the Commercial Segment totaled NIS 16 million, compared with profit in the amount of NIS 71 million in the same period last year. The decrease mainly resulted from a loss in the segment's activity abroad (in Turkey), due to the sharp decrease in the exchange rate of the Turkish lira in the first half of 2008.

Net operating profit of the segment in Israel totaled NIS 57 million, similar to that in the same period last year.

The segment's income totaled NIS 287 million in the first half of 2008, compared with NIS 359 million in the same period last year, a decrease of 20.1%, which resulted from changes in the exchange rate, as explained above.

The segment's income from activity in Israel totaled NIS 306 million, compared with NIS 293 million in the same period last year.

The provision for doubtful debts in the first half of 2008 totaled NIS 68 million, similar to that in the same period last year.

The segment's results include profit from extraordinary transactions in the amount of NIS 8 million, reflecting the segment's share in profits from the sale of provident-fund management rights attributed to the segment's customers.

Net profit of the Commercial Segment totaled NIS 24 million, compared with NIS 76 million in the same period last year.

Credit to the public totaled NIS 20.5 billion on June 30, 2008, compared with NIS 18.8 billion at the end of 2007, an increase of 9.2%, mainly stemming from activity in Israel under Banking and Financial services. Deposits from the public totaled NIS 8.8 billion on June 30, 2008, compared with NIS 8.3 billion at the end of 2007, an increase of 6.7%.

Set out below are the condensed operating results of the Commercial Segment:

	For the six months ended June 30, 2008				
	Activity in Israel		Activity abroad		Total
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
NIS millions					
Profit (loss) from financing activity before provision for doubtful debts:					
- From externals	510	70	95	21	696
- Inter-segmental	(337)	1	(123)	(23)	(482)
Operating and other income:					
- From externals	63	16	10	1	90
- Inter-segmental	(16)	(1)	-	-	(17)
Total income (loss)	220	86	(18)	(1)	287
Provision for doubtful debts	59	2	6	1	68
Operating and other expenses:					
- From externals	107	16	32	2	157
- Inter-segmental	30	-	-	-	30
Operating profit (loss) before taxes	24	68	(56)	(4)	32
Provision for taxes (tax benefit) on operating profit	9	26	(2)	3	36
Operating profit (loss) after taxes	15	42	(54)	(7)	(4)
Minority interests' share in losses of consolidated companies	-	-	19	1	20
Net operating profit (loss)	15	42	(35)	(6)	16
Profit (loss) from extraordinary transactions, after taxes ⁽²⁾	8	-	-	-	8
Net profit (loss)	23	42	(35)	(6)	24
Return of operating profit on equity ⁽³⁾	5.5%	30.8%	(53.5%)	(67.3%)	3.3%
Return on equity ⁽³⁾	8.5%	30.8%	(53.5%)	(67.3%)	5.0%
Average balance of assets	12,695	5,134	1,563	228	19,620
Average balance of liabilities	7,008	1,186	186	43	8,423
Average balance of risk assets	10,721	4,155	1,694	214	16,784
Average balance of provident fund, mutual fund, and advanced study fund assets	1,955	-	-	-	1,955
Average balance of other assets under management	137	-	-	-	137
Average balance of securities in custody	4,902	-	-	-	4,902
Balance of credit to the public	13,340	4,986	1,896	296	20,518
Balance of deposits from the public	7,643	1,178	-	-	8,821

(1) Includes activity in the area of credit cards and the capital market.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes the segment's profit from the sale of provident funds management rights.

(3) In activities to which risk-weighted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Commercial Segment (continued):

	For the six months ended June 30, 2007				Total
	Activity in Israel		Activity abroad		
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
	NIS millions				
Profit from financing activities before provision for doubtful debts:					
- From externals	202	147	68	7	424
- Inter-segmental	(46)	(75)	(15)	(1)	(137)
Operating and other income:					
- From externals	67	11	6	1	85
- Inter-segmental	(13)	-	-	-	(13)
Total income	210	83	59	7	359
Provision for doubtful debts	52	16	-	-	68
Operating and other expenses:					
- From externals	86	13	19	2	120
- Inter-segmental	30	-	-	-	30
Operating profit before taxes	42	54	40	5	141
Provision for taxes on operating profit	17	22	12	1	52
Operating profit after taxes	25	32	28	4	89
Minority interests' share in profits of consolidated companies	-	-	(16)	(2)	(18)
Net operating profit	25	32	12	2	71
Net profit from extraordinary transactions, after taxes ⁽²⁾	5	-	-	-	5
Net profit	30	32	12	2	76
Return of operating profit on equity	6.0%	23.8%	49.4%	77.8%	14.4%
Return on equity	7.2%	23.8%	49.4%	77.8%	15.4%
Average balance of assets	10,810	4,081	953	107	15,951
Average balance of liabilities	6,651	708	-	-	7,359
Average balance of risk assets	10,678	3,615	748	85	15,126
Average balance of provident funds and mutual funds	3,726	-	-	-	3,726
Average balance of other assets under management	120	-	-	-	120
Average balance of securities in custody	4,658	-	-	-	4,658
Balance of credit to the public on December 31, 2007	12,232	4,589	1,768	202	18,791
Balance of deposits from the public on December 31, 2007	7,107	1,159	-	-	8,266

(1) Includes activity in the area of credit cards and the capital market.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes profit attributed to the segment from the sale of provident-fund management rights.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Commercial Segment (continued):

	For the three months ended June 30, 2008				Total
	Activity in Israel		Activity abroad		
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	266	24	50	11	351
- Inter-segmental	(175)	10	(19)	(5)	(189)
Operating and other income:					
- From externals	31	6	5	-	42
- Inter-segmental	(9)	(1)	-	-	(10)
Total income	113	39	36	6	194
Provision for doubtful debts	27	(7)	6	-	26
Operating and other expenses:					
- From externals	48	7	18	1	74
- Inter-segmental	15	-	-	-	15
Operating profit before taxes	23	39	12	5	79
Provision for taxes (tax benefit) on operating profit	9	15	(9)	-	15
Operating profit (loss) after taxes	14	24	21	5	64
Minority interests' share in profits of consolidated companies	-	-	(9)	(2)	(11)
Net profit	14	24	12	3	53

(1) Includes activity in the area of credit cards and the capital market.

Set out below are the condensed operating results of the Commercial Segment (continued):

	For the three months ended June 30, 2007				Total
	Activity in Israel		Activity abroad		
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	69	106	39	6	220
- Inter-segmental	8	(69)	1	(1)	(61)
Operating and other income:					
- From externals	34	5	3	1	43
- Inter-segmental	(7)	-	-	-	(7)
Total income	104	42	43	6	195
Provision for doubtful debts	30	8	(2)	-	36
Operating and other expenses:					
- From externals	41	6	9	2	58
- Inter-segmental	17	-	-	-	17
Operating profit before taxes	16	28	36	4	84
Provision for taxes on operating profit	6	10	10	1	27
Operating profit after taxes	10	18	26	3	57
Minority interests' share in profits of consolidated companies	-	-	(14)	(2)	(16)
Net operating profit	10	18	12	1	41
Profit from extraordinary transactions, after taxes ⁽²⁾	5	-	-	-	5
Net profit	15	18	12	1	46

(1) Includes activity in the area of credit cards and the capital market.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes profit attributed to the segment from the sale of provident-fund management rights.

Restrictions and supervision of the segment's activity

For details regarding regulatory intervention in the area of banking fees, see the "Households Segment" section above.

Outlook for development in the coming year

In the second quarter of 2008, the Bank began to open Business Branches for customers of the Corporate Segment and the Commercial Segment. The Business Branches will provide services suited to the segment's customers.

For details regarding the establishment of a central back-office, see the "Households Segment" section above.

Legal proceedings

See Note 9D to the Condensed Financial Statements.

The Corporate Segment

Segment structure

General

The Bank's Corporate Segment mainly operates through the Corporate Division within the Corporate Area, and through the Bank's branches abroad. The Corporate Division provides a range of banking services to large companies in the Israeli economy, with the granting of credit constituting the principal area of activity. The Corporate Division is divided into four sectors that are each handled by Customer Relations Managers (CRMs) specializing in specific areas. Customer Relations Managers coordinate all banking services for customers assigned to them.

In 2007, the Bank began gradual implementation of an organizational change aimed at clearly differentiating the various activities performed by the Division, with a focus on each of the following areas:

- Management of the comprehensive business relationship with customers;
- Analysis of credit risks;
- Routine credit management.

Operating within the Corporate Division is the Credit Control Unit, which includes a unit responsible for analyzing credit risks of the Division's customers; a unit responsible for financing and monitoring infrastructure projects; and a unit that handles debt restructuring, syndication, and risk sales. The Corporate Division also contains a unit specializing in foreign-trade transactions, which provides services to Bank customers engaged in such activity.

The various banking services are also provided to the segment's customers via the network of branches. In the second quarter of 2008, the Bank began to open Business Branches for customers of the Corporate Segment and the Commercial Segment. The Business Branches will provide services suited to the segment's customers.

Customers

Criteria for assigning customers to the Corporate Segment were updated during the second quarter of 2008. Under the new criteria, borrowers assigned to this segment are customers with an annual income turnover of over NIS 400 million, and indebtedness to the Bank of over NIS 100 million, or over NIS 250 million to the banking system. For customers in the construction and real estate sector indebtedness to the Bank of above NIS 200 million and above NIS 400 million to the banking system. Customers will be reassigned according to the new criteria over the coming few quarters.

Changes in the segment's volume of activity and net profit

Net profit of the Corporate Segment totaled NIS 374 million, compared with NIS 579 million in the same period last year, a decrease of 35.4%.

Net profit of the Corporate Segment in Israel totaled NIS 549 million, compared with NIS 498 million in the same period last year, an increase of 10.2%. The increase resulted from an increase in financing profit and from a decrease in the volume of provision for doubtful debts. The increase was partially offset by a decrease in dividend income from shares held in receivership, as well as a provision for decline in value of securities received in respect of repaid credit.

The segment's activity abroad recorded a loss in the amount of NIS 175 million, compared with a profit of NIS 81 million in the same period last year. The loss resulted from a loss in the amount of approximately NIS 356 million in respect of SIV-type asset-backed securities, as described in the section "Activity of the Bank Group in Asset-Backed Securities."

The segment's income totaled NIS 963 million in the first half of 2008, compared with NIS 1,385 million in the same period last year, a decrease of 30.5%. A loss was recorded in respect of the segment's activity abroad, mainly due to a provision for decline in value of an other-than-temporary nature recorded in respect of asset-backed securities. On the other hand, in the segment's activity in Israel, financing income increased, due to factors including the collection of debts for which financing income was not recorded in the past. Operating income decreased, mainly due to a provision for decline in value of securities received in respect of loans which were settled, whereas in the same period last year dividend income was recorded for shares held in receivership which based on the directives of the Supervisor of Banks are included in the Bank's securities portfolio, in an amount higher than that recorded in the period of January-June 2008.

The provision for doubtful debts totaled NIS 23 million in the first half of 2008, compared with NIS 112 million in the same period last year, a decrease mainly due to collection of debts that were written-off in the past.

Credit to the public totaled NIS 98.6 billion on June 30, 2008, compared with NIS 95.3 billion at the end of 2007, an increase of 3.5%. The increase in balances of credit to the public was recorded under activity in Israel, mainly in the Construction and Real Estate sector.

Deposits from the public totaled NIS 43.9 billion on June 30, 2008, compared with NIS 36.1 billion at the end of 2007, an increase of 21.4%. Most of the growth is derived from deposits from financial institutions which manage funds for their own clients.

The average balance of securities in custody in the first half of 2008 amounted to NIS 326.4 billion, compared with NIS 270.8 billion in the same period last year.

Set out below are the condensed operating results of the Corporate Segment:

	For the six months ended June 30, 2008				Total
	Activity in Israel		Activity abroad		
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
	NIS millions				
Profit (loss) from financing activity before provision for doubtful debts:					
- From externals	116	468	(154)	3	433
- Inter-segmental	632	(187)	(87)	23	381
Operating and other income:					
- From externals	120	19	45	-	184
- Inter-segmental	(34)	(1)	-	-	(35)
Total income (loss)	834	299	(196)	26	963
Provision for doubtful debts	2	15	6	-	23
Operating and other expenses:					
- From externals	173	39	88	10	310
- Inter-segmental	46	5	-	-	51
Operating profit (loss) before taxes	613	240	(290)	16	579
Provision for taxes (tax benefit) on operating profit	230	91	(106)	7	222
Net operating profit (loss)	383	149	(184)	9	357
Profit from extraordinary transactions, after taxes ⁽²⁾	17	-	-	-	17
Net profit (loss)	400	149	(184)	9	374
Return of operating profit on equity ⁽³⁾	28.8%	18.1%	(35.7%)	6.1%	12.7%
Return on equity ⁽³⁾	30.2%	18.1%	(35.7%)	6.1%	13.4%
Average balance of assets	54,258	29,759	10,978	4,133	99,128
Average balance of liabilities	33,213	6,392	3,148	132	42,885
Average balance of risk assets	54,221	24,146	14,306	4,614	97,287
Average balance of provident funds and mutual funds	5,902	-	-	-	5,902
Average balance of other assets under management	10,433	-	-	-	10,433
Average balance of securities in custody	326,392	-	-	-	326,392
Balance of credit to the public	55,806	31,129	9,023	2,617	98,575
Balance of deposits from the public	35,091	6,613	2,033	140	43,877

(1) Includes activity in the areas of credit cards and the capital market.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item mainly includes the segment's profit from the sale of provident funds management rights.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Corporate Segment (continued):

	For the six months ended June 30, 2007				Total
	Activity in Israel		Activity abroad		
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	1,183	742	375	(20)	2,280
- Inter-segmental	(575)	(489)	(217)	47	(1,234)
Operating and other income:					
- From externals	303	22	39	1	365
- Inter-segmental	(25)	(1)	-	-	(26)
Total income	886	274	197	28	1,385
Provision for doubtful debts	24	92	(4)	-	112
Operating and other expenses:					
- From externals	142	33	88	11	274
- Inter-segmental	42	5	-	-	47
Operating profit before taxes	678	144	113	17	952
Provision for taxes on operating profit	277	59	43	6	385
Operating profit after taxes	401	85	70	11	567
Profit from extraordinary transactions, after taxes ⁽²⁾	12	-	-	-	12
Net profit	413	85	70	11	579
Return of operating profit on equity ⁽³⁾	25.4%	9.2%	14.7%	14.6%	19.0%
Return on equity ⁽³⁾	25.4%	9.2%	14.7%	14.6%	19.4%
Average balance of assets	53,958	24,882	14,170	2,275	95,285
Average balance of liabilities	28,117	3,652	3,031	93	34,893
Average balance of risk assets	52,788	24,114	13,796	2,177	92,875
Average balance of provident funds and mutual funds	13,534	-	-	-	13,534
Average balance of other assets under management	18,039	-	-	-	18,039
Average balance of securities in custody	270,836	-	-	-	270,836
Balance of credit to the public on December 31, 2007	53,605	28,202	10,972	2,491	95,270
Balance of deposits from the public on December 31, 2007	26,628	5,684	3,669	148	36,129

(1) Includes activity in the areas of credit cards and the capital market.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident-fund management rights.

(3) In activities to which risk-adjusted assets cannot be attributed, return on equity was not calculated.

Set out below are the condensed operating results of the Corporate Segment (continued):

	For the three months ended June 30, 2008				Total
	Activity in Israel		Activity abroad		
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	60	197	29	(1)	285
- Inter-segmental	299	(61)	53	16	307
Operating and other income:					
- From externals	24	9	21	-	54
- Inter-segmental	(17)	-	-	-	(17)
Total income	366	145	103	15	629
Provision for doubtful debts	73	25	5	-	103
Operating and other expenses:					
- From externals	75	17	42	5	139
- Inter-segmental	23	2	-	-	25
Operating profit before taxes	195	101	56	10	362
Provision for taxes on operating profit	76	40	23	4	143
Net profit	119	61	33	6	219

(1) Includes activity in the areas of credit cards and the capital market.

	For the three months ended June 30, 2007				Total
	Activity in Israel		Activity abroad		
	Banking and financial services ⁽¹⁾	Construction and real estate	Banking and financial services ⁽¹⁾	Construction and real estate	
	NIS millions				
Profit from financing activity before provision for doubtful debts:					
- From externals	821	503	169	(17)	1,476
- Inter-segmental	(533)	(379)	(88)	33	(967)
Operating and other income:					
- From externals	92	16	25	1	134
- Inter-segmental	(14)	(1)	-	-	(15)
Total income	366	139	106	17	628
Provision for doubtful debts	(19)	56	(4)	-	33
Operating and other expenses:					
- From externals	74	17	47	7	145
- Inter-segmental	21	2	-	-	23
Operating profit before taxes	290	64	63	10	427
Provision for taxes on operating profit	107	24	25	4	160
Operating profit after taxes	183	40	38	6	267
Profit (loss) from extraordinary transactions, after taxes ⁽²⁾	12	-	-	-	12
Net profit	195	40	38	6	279

(1) Includes activity in the areas of credit cards and the capital market.

(2) In accordance with the Bank of Israel's directives, the segment's results under this item include the results of the sale of companies and other assets attributed to the segment's customers. This item includes the segment's profit from the sale of provident-fund management rights.

Restrictions and supervision of the segment's activity

For details regarding regulatory intervention in the area of banking fees, see the "Households Segment" section above.

Outlook for development in the coming year

For details regarding the establishment of a central back-office, see the "Households Segment" section above.

Legal proceedings

See Note 9D to the Condensed Financial Statements.

The Financial Management Segment

General

The activity of this segment includes the management of the Bank's proprietary portfolio (i.e., the Bank's activity on its own behalf, through investments in bonds, deposits with banks, bond issues, transactions in derivative financial instruments, and more), management of market and liquidity exposures resulting from Bank customers' business in the course of trading activity, and support for the development and pricing of sophisticated financial products. This segment's activity also includes the activity of the dealing rooms in financial instruments in foreign and local currency.

Market risk is the risk to the Group's income and capital resulting from changes in prices and rates in the financial markets, primarily the following:

Interest-rate risk - the risk to capital and income (including future income) that may result from changes in interest rates in the various currencies and sectors (unlinked shekel and CPI-linked shekel).

Inflation risk / exchange-rate risk - the risk to capital and income (including future income) that may result from the effect of changes in the consumer price index and in exchange rates on linkage-base exposure (the exposure of financial capital to the three linkage sectors: unlinked shekel, CPI-linked shekel, and foreign currency), and on exposures arising from trading activity.

Liquidity risk - the risk to income and capital that may result from an inability to supply liquidity needs, i.e. a decision by customers to withdraw funds from the Bank in an unforeseen amount. In exceptional supply and demand situations, larger costs may arise from unplanned fund raising.

Products and areas of activity

The Financial Management Segment is characterized by continual innovation. A series of complex products have been added to the product range in Israel in recent years, including exotic options and derivatives, credit derivatives, and sophisticated interest-rate products. In addition, structured products that include a deposit or bond for which the interest rate is determined by the terms of a derivative of some kind embedded within the debt instrument have been used increasingly in recent years.

The segment's activity also includes investments in asset-backed securities. On May 20, 2008, the Bank sold its entire portfolio of mortgage-backed securities at its New York branch (for details, see the section "Activity of the Bank Group in Asset-Backed Securities").

The Bank provides comprehensive hedging and investment services to its customers through its dealing rooms. The dealing room in Tel Aviv provides customers with services related to the various financial instruments (spots, forwards, options, exotic options, swaps, and structured products) and various underlying assets (foreign-currency/foreign-currency and foreign-currency/shekel exchange rates, shekel interest rates, consumer price index, stock and commodity indices, etc.). The Bank serves as one of the market makers in Shaha government bonds. In this activity, the dealing room also serves as a market maker, while the Customer Desk quotes prices and executes transactions with the Bank's customers.

The dealing room is a market maker in most of the products in which it has activity; in other words, the Bank acts as a party to the transaction with the customer, rather than as an intermediary between the customer and a third party.

Awareness of the activities offered by the dealing room has grown steadily in recent years, among customers seeking hedging transactions as well as investors. This increase has also led to demand for a broader range of products at a higher level of sophistication. In response to these needs, and in order to preserve the Bank's standing as a leader and innovator, the dealing room continues to develop financial instruments for its customers.

The dealing room has also substantially expanded its market-making activity in "exotic" options (such as options with terms including various conditions that can influence the value of the options). The dealing room carries out marketing activity directed to foreign financial institutions, which has led to a significant increase in volumes of activity with these customers (in the range of products in which the Bank serves as a market maker).

The segment also includes the results of investments in shares and of investments in equity-basis investee companies.

Changes in the segment's volume of activity and net profit

The segment's loss totaled NIS 2,223 million in the first half of 2008, compared with profit in the amount of NIS 218 million in the same period last year:

The loss from financing activity in the Financial Management Segment totaled NIS 3,185 million, compared with income in the amount of NIS 350 million. The decrease in income mainly resulted from the losses of the Bank's offices abroad in MBS-type asset-backed securities and CDO instruments, which are included in the results of this segment, and losses in the credit-derivative portfolio at the New York branch. In addition, the segment's loss was affected by the measurement of profit and loss in derivative instruments on a fair-value basis, in contrast to the measurement of the results of balance-sheet financial activity on an accrual basis. The decrease was offset by an increase in financing income on financial capital, mainly as a result of a 2.8% increase in the known CPI, compared with an increase of 0.3% in the same period last year.

Operating and other income totaled NIS 75 million, compared with NIS 17 million in the same period last year. The increase mainly resulted from profit from the sale of shares of MasterCard.

A profit of NIS 13 million was recorded in the segment's share of the operating results of equity-basis investees, compared with NIS 118 million in the same period last year. The decrease resulted from the fact that in the same period last year, the majority of the contribution to profit stemmed from Clal Insurance Enterprises Holdings, which contributed NIS 92 million. The large contribution resulted from profits from the issuing of a subsidiary and from the effect of a change in the treatment of special-risk reserves by insurance companies.

Net profit from extraordinary transactions totaled NIS 10 million in the first half of 2008, resulting from the share of the sale of Bank Massad attributed to the segment. In the same period last year, this profit totaled NIS 6 million, resulting from the sale of holdings in Moriah hotels and part of the investment in IBI, and excluding tax expenses in respect of the anticipated realization of the investments in Bank Yahav and Bank Massad. The Bank Group's investment in equity-basis investee companies totaled NIS 658 million on June 30, 2008, compared with NIS 766 million at the end of 2007.

Others and Adjustments

This section includes all other activities of the Bank Group, each of which does not form a reportable segment under the Supervisor of Banks' directives.

These activities mainly include investment banking, trust activity, credit-card activity, and capital-market activity not attributed to the banking segments. In addition, this activity includes adjustment of intersegmental activities.

Net profit of this section totaled NIS 58 million in the first half of 2008, compared with profit in the amount of NIS 65 million in the same period last year. The decrease in profit in this segment mainly resulted from a decrease in net profit from capital-market activity, compared with the same period last year. This decrease was offset by an increase in net profit from incoming tourism credit card activities.

Activity in Products

A. Set out below is the distribution of the results of credit card operations by segments of activity:

	For the six months ended June 30, 2008						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Activity of customers of banks outside the Group and incoming tourism	Total
	NIS millions						
Profit from financing activity	18	7	3	-	-	23	51
Operating and other income	297	120	47	6	4	193	667
Operating and other expenses	233	85	32	4	2	177	533
Operating profit before taxes	82	42	18	2	2	39	185
Provision for taxes on operating profit	31	16	7	1	1	15	71
Operating profit after taxes	51	26	11	1	1	24	114
Minority interests' share in profits of consolidated companies	(8)	-	-	-	-	-	(8)
Net profit	43	26	11	1	1	24	106
Average balances:							
Average balance of assets	6,575	2,753	998	100	199	-	10,625
Average balance of liabilities	6,511	2,626	1,050	105	209	-	10,501
Average balance of risk assets	5,842	2,356	942	94	188	-	9,422

	For the six months ended June 30, 2007						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Activity of customers of banks outside the Group and incoming tourism	Total
	NIS millions						
Profit from financing activity	21	8	3	-	-	16	48
Operating and other income	267	107	43	5	4	175	601
Operating and other expenses	198	70	28	3	2	159	460
Operating profit before taxes	90	45	18	2	2	32	189
Provision for taxes on operating profit	36	18	7	1	1	13	76
Operating profit after taxes	54	27	11	1	1	19	113
Minority interests' share in profits of consolidated companies	(8)	-	-	-	-	-	(8)
Net profit	46	27	11	1	1	19	105
Average balances:							
Average balance of assets	5,809	2,441	877	87	175	-	9,389
Average balance of liabilities	5,796	2,338	935	93	186	-	9,348
Average balance of risk assets	5,380	2,170	868	87	174	-	8,679

A. Set out below is the distribution of the results of credit card operations by segments of activity (continued):

	For the three months ended June 30, 2008						Total
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Activity of customers of banks outside the Group and incoming tourism	
	NIS millions						
Profit from financing activity	8	3	1	-	-	14	26
Operating and other income	146	59	23	3	1	107	339
Operating and other expenses	112	41	16	2	1	100	272
Operating profit before taxes	42	21	8	1	-	21	93
Provision for taxes on operating profit	16	8	3	1	-	8	36
Operating profit after taxes	26	13	5	-	-	13	57
Minority interests' share in profits of consolidated companies	(4)	-	-	-	-	-	(4)
Net profit	22	13	5	-	-	13	53

	For the three months ended June 30, 2007						Total
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Activity of customers of banks outside the Group and incoming tourism	
	NIS millions						
Profit from financing activity	11	3	2	-	-	9	25
Operating and other income	130	52	21	3	2	92	300
Operating and other expenses	99	35	14	2	1	83	234
Operating profit before taxes	42	20	9	1	1	18	91
Provision for taxes on operating profit	15	7	3	1	1	7	34
Operating profit after taxes	27	13	6	-	-	11	57
Minority interests' share in profits of consolidated companies	(4)	-	-	-	-	-	(4)
Net profit	23	13	6	-	-	11	53

B. Set out below is the distribution of the results of capital-market activity in Israel by segments of activity:

For the six months ended June 30, 2008

	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Others	Total
	NIS millions						
Profit (loss) from financing activity before provision for doubtful debts	3	15	2	-	13	1	34
Operating and other income:							
- From externals	58	460	29	8	130	57	742
- Inter-segmental	(8)	(75)	(7)	(2)	(18)	110	-
Total income	53	400	24	6	125	168	776
Operating and other expenses	43	284	25	1	81	168	602
Operating profit (loss) before taxes	10	116	(1)	5	44	-	174
Provision for taxes on operating profit	3	43	-	2	17	-	65
Operating profit (loss) after taxes	7	73	(1)	3	27	-	109
Minority interests' share in profits of consolidated companies	(3)	-	-	-	-	-	(3)
Operating profit (loss)	4	73	(1)	3	27	-	106
Net profit from extraordinary transactions, after taxes	251	127	34	8	17	-	437
Net profit	255	200	33	11	44	-	543
Average balances:							
Average balance of provident fund, mutual fund, and advanced study fund assets	10,777	36,457	3,767	1,955	5,902	67,425	126,283
Average balance of other assets under management	5,792	3,772	37	137	10,433	-	20,171
Average balance of securities in custody	7,679	78,286	5,922	4,902	326,392	37	423,218

B. Set out below is the distribution of the results of capital-market activity in Israel by segments of activity (continued):

	For the six months ended June 30, 2007						Total
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Others	
	NIS millions						
Profit from financing activity before provision for doubtful debts	3	15	2	1	28	8	57
Operating and other income:							
- From externals	98	479	40	10	96	98	821
- Inter-segmental	(9)	(73)	(7)	(2)	(14)	105	-
Total income	92	421	35	9	110	211	878
Operating and other expenses	52	241	14	1	79	196	583
Operating profit before taxes	40	180	21	8	31	15	295
Provision for taxes on operating profit	15	74	9	3	13	6	120
Operating profit after taxes	25	106	12	5	18	9	175
Minority interests' share in profits of consolidated companies	(11)	-	-	-	-	-	(11)
Net Operating profit	14	106	12	5	18	9	164
Net profit from extraordinary transactions, after taxes	157	91	25	5	12	-	290
Net profit	171	197	37	10	30	9	454
Average balances:							
Average balance of provident fund, mutual fund, and advanced study fund assets	27,864	55,236	7,743	3,726	13,534	29,345	137,448
Average balance of other assets under management	4,984	3,964	42	120	18,039	-	27,149
Average balance of securities in custody	7,931	72,571	6,844	4,658	270,836	92	362,932

B. Set out below is the distribution of the results of capital market activity in Israel by segments of activity (continued):

	For the three months ended June 30, 2008						Total
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Others	
	NIS millions						
Profit (loss) from financing activity before provision for doubtful debts	1	6	-	2	-	-	9
Operating and other income:							
- From externals	15	214	12	62	4	24	331
- Inter-segmental	(4)	(37)	(3)	(8)	(1)	53	-
Total income	12	183	9	56	3	77	340
Operating and other expenses	8	141	12	40	1	76	278
Operating profit (loss) before taxes	4	42	(3)	16	2	1	62
Provision for taxes (tax benefit) on operating profit	1	15	(1)	7	1	0	23
Operating profit (loss) after taxes	3	27	(2)	9	1	1	39
Minority interests' share in profits of consolidated companies	(2)	-	-	-	-	-	(2)
Net profit	1	27	(2)	9	1	1	37

	For the three months ended June 30, 2007						Total
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Others	
	NIS millions						
Profit (loss) from financing activity before provision for doubtful debts	3	8	1	1	11	3	27
Operating and other income:							
- From externals	41	253	22	5	51	44	416
- Inter-segmental	(5)	(38)	(4)	(1)	(7)	55	-
Total income	39	223	19	5	55	102	443
Operating and other expenses	25	129	7	1	41	89	292
Operating profit before taxes	14	94	12	4	14	13	151
Provision for taxes on operating profit	4	36	5	1	6	5	57
Operating profit after taxes	10	58	7	3	8	8	94
Minority interests' share in profits of consolidated companies	(5)	-	-	-	-	-	(5)
Operating profit	5	58	7	3	8	8	89
Net profit from extraordinary transactions, after taxes	157	91	25	5	12	-	290
Net profit	162	149	32	8	20	8	379

Subsidiary and Affiliated Companies

The Bank Group operates through banking and non-banking subsidiary companies in Israel and abroad. The Group also has investments in various economic sectors, mainly in Israel, through equity-basis investees.

The contribution of subsidiary and affiliated companies to the Bank's net operating profit was negative in the first six months of 2008 and amounted to a loss of NIS 72 million, compared with profit in the amount of NIS 567 million in the same period last year. The difference mainly resulted from the effects of changes in the exchange rate of the shekel against foreign currencies.

The Bank's investment in subsidiary and affiliated companies totaled NIS 13.3 billion on June 30, 2008, compared with NIS 14.1 billion at the end of 2007.

Banking Subsidiaries in Israel (Bank Yahav, and Bank Massad until its sale) contributed a total of NIS 8 million to the Bank's net operating profit, compared with NIS 15 million in the same period last year. The Bank's return on its investments in banking subsidiaries in Israel reached 3.8% in the first six months of 2008, compared with 8.4% in the same period last year.

The following is a review of the activities of the principal companies:

Bank Massad - Specializes in providing services to employees of the education sector, other salaried employees, and owners of small businesses.

In September 2007, the Bank signed an agreement with First International Bank of Israel Ltd. for the sale of the Bank's full holdings in Bank Massad, comprising 51% of the share capital of Bank Massad, in consideration for a total of NIS 236 million. On May 14, 2008, the transaction for the sale of Bank Massad was completed. The Bank included net profit from the sale of its investment in the amount of NIS 50 million in its financial statements as at June 30, 2008, under the item "net profit from extraordinary transactions after taxes."

Pursuant to the sale agreement, Bank Massad will continue to receive computer services from the Bank, according to the terms currently prevailing between the Bank and Bank Massad, for a period of three years from the date of completion of the transaction.

Bank Yahav - A bank specializing in the provision of services to civil servants and to employees of government companies and corporations.

In September 2007, the Bank signed an agreement with Mizrahi-Tefahot Bank Ltd. (hereinafter: "Mizrahi Bank") for the sale of the Bank's full holdings in Bank Yahav, comprising 50% of the issued share capital of Bank Yahav, and the related rights.

On November 13, 2007, the sale agreement was amended to state that the consideration for the Bank's holdings in Bank Yahav would be in a fixed amount of NIS 371 million. In addition, the Bank will be entitled to receive its proportional share of the profit from the sale of provident funds under the ownership or management of Bank Yahav.

The transaction for the sale of Bank Yahav was completed on July 10, 2008. The Bank will include net profit from the sale in the amount of NIS 50 million in its financial statements for September 30, 2008, under the item "net profit from extraordinary transactions after taxes."

It was also agreed that Bank Yahav would continue to receive computer services from the Bank, at the terms presently prevailing between the Bank and Bank Yahav, for a period of three years from the date of completion of the transaction.

Net profit of Bank Yahav in January-June 2008 totaled NIS 111 million, including profit from extraordinary transactions in the amount of NIS 96 million as a result of the sale of provident-fund management rights, compared with NIS 37 million in the same period last year. Net return on equity amounted to 40.2%, compared with 16.4% in the same period last year. Net return on equity excluding the sale of provident-fund management rights amounted to 5.1%, compared with 16.4% in the same period last year.

Bank Yahav's contribution to the Bank's net operating profit amounted to NIS 6 million, compared with NIS 10 million in the same period last year.

Bank Yahav's contribution to net profit from extraordinary transactions in the period of January-June 2008 totaled NIS 30 million.

The Bank's investment in Bank Yahav totaled NIS 329 million on June 30, 2008.

Subsidiaries abroad constitute part of the Bank's international activity.

The subsidiaries abroad ended the first six months of 2008 with a profit of NIS 81 million, compared with a profit of NIS 126 million in the same period last year (on the basis of their foreign-currency statements of profit and loss, converted into shekels according to the exchange rate on the report date).

The contribution of the subsidiaries abroad to the Bank's net operating profit in the first six months of 2008 was negative and amounted to a loss of NIS 302 million, compared with a profit of NIS 169 million in the same period last year. The difference mainly resulted from the effects of changes in the exchange rate of the shekel against the various currencies.

The Bank's investment in subsidiaries abroad totaled NIS 3.8 billion on June 30, 2008.

Bank Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland") - Mainly engages in the provision of private-banking services to international customers.

Net profit of Hapoalim Switzerland, according to its financial statements, totaled CHF 17 million in the first six months of 2008, compared with CHF 15 million in the same period last year.

Hapoalim Switzerland's contribution to the Bank's net operating profit totaled NIS 29 million, compared with NIS 46 million in the same period last year. The difference in the contribution resulted from declines in the exchange rate of the Swiss franc against the shekel.

The Bank's investment in Hapoalim Switzerland totaled NIS 1.0 billion on June 30, 2008.

Banque Hapoalim (Luxembourg) S.A. (hereinafter: "Hapoalim Luxembourg") - Engages in financial and banking activity in and outside of Luxembourg. Hapoalim Luxembourg participates in the granting of loans via international syndicates, as well as granting loans to Israeli customers.

According to its financial statements, losses of Hapoalim Luxembourg in the first six months of 2008 totaled USD 7.0 million, mainly resulting from a provision for decline in value of asset-backed securities, compared with a loss of USD 0.4 million in the same period last year.

Hapoalim Luxembourg made a negative contribution amounting to a loss of NIS 36 million in the first six months of 2008. In the same period last year, Hapoalim Luxembourg made no contribution to the Bank's profit.

The Bank's investment in Hapoalim Luxembourg totaled NIS 57 million on June 30, 2008.

Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif") - A bank incorporated and operating in Turkey, specializing in corporate and investment banking. In March 2008, Bank Pozitif decided to increase its capital by TRY 85 million (approximately USD 64 million). The increase in capital was carried out through an investment of the said amount by the Bank against an allocation of shares. Subsequently, the Bank's holdings in Bank Pozitif increased to 65%.

JSC Bank Pozitiv - In November 2007, Bank Pozitif acquired the full means of control of JSC Bank Pozitiv (hereinafter: "JSC"), a bank incorporated and operating in Kazakhstan, which provides banking services to business and private customers.

For further details, see the section "International Activity," below.

The reported net profit of the Bank Pozitif Group (Bank Pozitif and JSC), according to its financial statements, totaled TRY 14.5 million (approximately USD 12 million) in the first six months of 2008, compared with TRY 14 million (approximately USD 11 million) in the same period last year.

The contribution of the Bank Pozitif Group to the Bank's net operating profit was negative and amounted to a loss of NIS 74 million, compared with a positive contribution in the amount of NIS 68 million in the same period last year, as a result of a significant appreciation of the shekel against the Turkish lira.

The Bank's investment in the Bank Pozitif Group totaled NIS 937 million on June 30, 2008, compared with NIS 700 million on December 31, 2007.

Bank Hapoalim (Cayman) Ltd. (hereinafter: "Cayman") - A commercial bank, which under the terms of its license is permitted to operate in all types of banking activity except for activity with local residents. Cayman's assets include an investment in a wholly owned subsidiary, Hapoalim (Latin America) S.A.

The contribution of Cayman to the Bank's net operating profit in the first half of 2008 was negative and amounted to a loss of NIS 24 million, compared with profit in the amount of NIS 7 million in the same period last year. The difference resulted from changes in the shekel exchange rate against the dollar.

The Bank's investment in Cayman totaled NIS 178 million on June 30, 2008.

Poalim Asset Management (hereinafter: "PAM") - Global asset management companies. The companies develop complex new products for global private banking customers, in cooperation with the worldwide Frank Russell Company and with other leading bodies.

Net profit of PAM, according to its financial statements, totaled GBP 2 million in the first six months of 2008, similar to the same period last year.

The contribution of PAM to the Bank's net operating profit was negative and amounted to a loss of NIS 9 million, compared with profit in the amount of NIS 22 million in the same period last year.

The difference resulted from changes in the exchange rate of the shekel against the British pound.

The Bank's investment in PAM totaled NIS 134 million on June 30, 2008.

Hapoalim Securities U.S.A. Inc. (hereinafter: "Hapoalim Securities") - A broker-dealer registered and operating in the United States.

Net profit of Hapoalim Securities, according to its financial statements, totaled USD 1 million in the first six months of 2008, compared with USD 2 million in the same period last year. The decrease mainly resulted from the inclusion of income from taxes in respect of past losses in the same period last year.

The contribution of Hapoalim Securities to the Bank's net operating profit in the first half of 2008 was negative and amounted to a loss of NIS 11 million, compared with a profit in the amount of NIS 8 million in the same period last year. The difference resulted from changes in the shekel exchange rate against the dollar.

The Bank's investment in Hapoalim Securities totaled NIS 78 million on June 30, 2008. With regard to the granting of FHC (Financial Holding Company) status to the Bank, see the section "The Bank's Activity in the United States."

Hapoalim U.S.A. Holding Company Inc. (hereinafter: "Hapoalim USA")

A subsidiary that held shares of Signature Bank in the past. Most of the holdings in Signature Bank were sold on March 31, 2005. The remaining holdings were sold during 2006. Most of the proceeds of the sale are invested in a fixed-period deposit in the Bank and in bonds.

The company also holds the entire share capital of Hapoalim Securities.

The contribution of Hapoalim USA to net operating profit in the first half of 2008 was negative, amounting to a loss of NIS 167 million, compared with profit in the amount of NIS 20 million in the same period last year. The difference resulted from changes in the exchange rate of the shekel against the dollar.

The Bank's investment in Hapoalim USA totaled NIS 1,308 million on June 30, 2008.

Other Consolidated Companies

The Bank has non-banking subsidiaries engaged in financial activities. The main areas of these companies' activity are the marketing and operation of credit-card systems, trust activity, captive reinsurance of the Group's companies, issuing and financing, investment-banking services, research and valuation studies, and financial consulting.

Isracard, Europay (Eurocard) Israel, Poalim Express, and Aminit - The majority of the Bank Group's activity involving the use of credit cards in Israel and abroad is conducted via these companies. The companies operate payment systems under a single administrative and operational umbrella - the "Isracard Group."

Isracard Ltd. (hereinafter: "Isracard" or the "Company") issues, clears, and operates Isracard credit cards (a private brand owned by the Company), issued for use in Israel only. It also issues credit cards jointly with Europay (Eurocard) Israel Ltd. ("Europay") that combine the Isracard and MasterCard brands ("MasterCard cards"). In addition, the Company clears transactions in MasterCard cards issued in Israel, including MasterCard cards issued by other local issuers and executed with businesses with which it has agreements, and transactions executed in Israel with the aforesaid businesses using cards issued abroad and paid to the businesses in Israeli currency. Transactions using MasterCard cards issued abroad, executed in Israel with businesses with which Europay has agreements, and paid to the businesses in foreign currency are cleared by Europay. MasterCard cards are issued and cleared under a license from MasterCard International Incorporated. Isracard also issues, clears, and operates various additional products, such as fuel cards and gift cards.

Isracard and Europay issue bank cards as well as non-bank cards.

Cards issued by Isracard and Europay are distributed to owners of accounts at banks with which the companies have agreements. The Company also recruits customers and distributes cards through various other channels.

The range of different types of credit cards issued by Isracard includes cards issued jointly with consumer, professional, and other organizations, clubs, and groups, such as Ashmoret cards for members of the Israel Teachers Union, Hot cards for members of the Union of Practical Engineers and Technicians in Israel, Hever cards for career military personnel, credit cards for members of the Israel Bar Association, and a range of other collaborations with various consumer clubs.

Isracard issues cards that provide revolving credit (under the brand name More), allowing customers to determine the terms of repayment within the offered plan. Isracard also operates various credit programs under the Isracredit plan and provides general-purpose loans based on credit-card credit lines.

Within the MasterCard brand, Isracard issues World Signia cards, a prestigious brand with many high-quality benefits targeted to premium customers of banks. The credit cards serve customers in various sectors, including private customers, corporate employees, corporate purchasing, and B2B (business-to-business payment transfers).

Isracard operates loyalty programs for cardholders and conducts large-scale marketing campaigns, including joint campaigns with leading entities in various sectors.

Isracard and Europay have clearing agreements with businesses in a variety of industries. In addition to clearing services, they offer the businesses a range of financial services, such as loans, advance payments, and discounting, as well as marketing and operational services.

The number of Isracard and MasterCard cards of the Isracard Group issued by Isracard and Europay as at June 30, 2008 is approximately 2.6 million, compared with 2.5 million cards on December 31, 2007.

In the first half of 2008, the volume of activity in Isracard and MasterCard cards reached NIS 33.4 billion, compared with NIS 29.7 billion in the same period last year.

Poalim Express - Issues, clears, and operates American Express credit cards issued for use in Israel and abroad.

Poalim Express issues bank cards as well as non-bank cards. Bank cards issued by Poalim Express are distributed to owners of accounts at banks with which Poalim Express has agreements. Poalim Express also recruits customers and distributes cards through various other channels, including contractual engagements with organizations and clubs.

Poalim Express issues a range of credit cards targeted to specific population segments, including Business cards for business customers, Platinum cards, and Centurion cards for high-net-worth customers.

Poalim Express operates a loyalty program for cardholders and conducts marketing campaigns, including joint campaigns with various entities.

Poalim Express has clearing agreements with businesses in a variety of industries. In addition to clearing services, it offers the businesses a range of marketing, financial, and operational services.

The number of American Express cards issued by Poalim Express as at June 30, 2008 is approximately 237,000, compared with approximately 223,000 cards at the end of 2007.

In the first half of 2008, the volume of activity in American Express cards reached NIS 3.8 billion, compared with NIS 3.2 billion in the same period last year.

Within the Isracard Group, Aminit issues and clears Visa brand credit cards issued for use in Israel and abroad. Cards issued by Aminit are distributed to owners of accounts at banks with which Aminit has agreements.

The number of Visa cards issued by Aminit as at June 30, 2008 is approximately 30,000, similar to the number of cards on December 31, 2007.

On March 9, 2007, a memorandum of understanding was signed between the Bank and The Phoenix Holdings Ltd., according to which The Phoenix will acquire 25% of the total issued share capital of Isracard and Europay from the Bank.

The consideration to be paid by The Phoenix for the aforesaid holdings in the companies will be calculated based on an aggregate value of NIS 2.55 billion for the companies, adjusted for dividend distribution.

In view of the time elapsed since the signing of the memorandum of understanding, the difficulties in implementing the suspending conditions, and the Antitrust Commissioner's reservations about the structure of the transaction, the Bank addressed a request to The Phoenix to cancel the memorandum of understanding. The Phoenix decided to consent to this request.

The parties signed a document canceling the memorandum of understanding on June 25, 2008. The cancellation is not contingent upon payment of any consideration and/or compensation by either party of the memorandum of understanding to the other, and each party absolutely waived any claim and/or complaint and/or demand towards the other in connection with the memorandum of understanding signed and with the cancellation thereof.

On November 13, 2007, a memorandum of principles was signed between Isracard and Europay (Eurocard) Israel Ltd. (hereinafter: "Europay"), on the one hand, and Mizrahi Bank on the other hand, which states, among other matters, that Mizrahi Bank will continue the existing agreements between the parties with regard to the issuance of cards for an additional period of ten years. The parties further agreed to conduct negotiations to reach a new agreement between Isracard and Europay, and Mizrahi Bank, with the aim of completing the agreement by the end of February 2008, which will also address the issuance of branded credit cards for Mizrahi Bank and establish arrangements for operation and the provision of services by Isracard. The new agreement was also to be in effect for a ten-year period.

In return for the extension of the term of the existing agreements for ten additional years, Isracard and Europay allocated shares to Mizrahi Bank, in December 2007, granting it a holding of 1.8% of their share capital.

On April 10, 2008, the Bank was notified by Isracard and Europay that the negotiations for the new agreement between these companies and Mizrahi Bank had not concluded in a binding agreement. The bank is considering a public offering of Isracard Ltd. shares. At this stage, although a decision has not yet been reached with regard to aforesaid offering, and the capital-raising structure and timeframe have not yet been determined, Isracard is preparing a draft prospectus, at the request of the Bank.

In February 2008, Isracard and Europay entered into a new agreement with the Bank with regard to the issuance of cards, which replaces the previous agreements between the parties on this matter. The term of the agreement with the Bank is fifteen years from the signing date; the inception of the agreement is subject to the receipt of all relevant approvals, including approval by the boards of directors of Isracard, Europay, and the Bank. Under the agreement, Bank Hapoalim is entitled to receive various payments from the companies, as specified in the agreement. The agreement with the Bank also regularizes various matters related to cards, including operation, liability for damages, new products and services, club cards, marketing, advertising, and distribution. At this stage, the new agreement has been approved only by the audit committees and the boards of directors of Isracard and Europay.

Profit and income from credit cards - Net profit of the Isracard Group in the first half of 2008 totaled NIS 142 million, compared with NIS 77 million in the same period last year, an increase of 84.4%, mainly due to an increase in the volume of activity in credit cards and from net profit in the amount of NIS 57 million resulting from the sale of shares of MasterCard Incorporated.

The contribution of the Isracard Group to the Bank's net operating profit, after taxes, totaled NIS 128 million, compared with a profit of NIS 69 million in the same period last year, an increase of 85.5%, as mentioned above.

The contribution of the Isracard Group's activity to fee income, which is included under operating income (before clearing related expenses), amounted to NIS 667 million, compared with NIS 601 million in the same period last year, an increase of 11.0%, which mainly resulted from an increase in the volume of activity in Israel and in incoming and outgoing tourism.

In May 2005, the Antitrust Commissioner (hereinafter: the "Commissioner") declared Isracard a holder of a monopoly in clearing Isracard and MasterCard charge cards. Based on the opinion of legal advisors, the Bank and Isracard believe that Isracard has strong arguments against the aforesaid declaration of monopoly, and Isracard has appealed the declaration in court. In any case, it has been agreed with the Commissioner that the Commissioner's aforesaid declaration of monopoly will be canceled subject to the establishment of the "Arrangement" described below.

In August 2005, the Israel Antitrust Authority notified Isracard that the Commissioner intended to impose directives on Isracard under Section 30 of the Restrictive Trade Practices Law. The main points of the directives, of which Isracard received a draft, are as follows:

- A directive instructing Isracard to allow local clearing of MasterCard credit cards by additional clearers, as well as of Isracard cards (the brand owned by Isracard), subject to compliance with the license terms specified by the Commissioner, as described below.
- A directive instructing Isracard to sign a "Local Agreement" regulating the interaction between clearers and issuers for the purpose of clearing in Israel of the aforesaid cards, under temporary interchange-fee terms (a fee paid by clearers of credit-card transactions to the issuers of the credit cards), as approved by the Antitrust Tribunal for other clearers, and a fixed interchange fee, to be approved. These fees apply to the clearing of the aforesaid cards, as well as to the clearing by Isracard of Visa cards issued by the other clearers (hereinafter: the "Local Agreement").
- A directive instructing Isracard to implement a common technical interface for the performance of local clearing.

The terms stipulated by the Commissioner for the granting of a license to clear Isracard cards to the other clearers include Isracard's right to receive monetary remuneration for the license, and the obligation of other clearers who apply for such a clearing license to issue a minimum number of Isracard cards.

Based on the opinion of legal advisors, the Bank and Isracard believe that Isracard has strong arguments against the issuance of the directives in the aforesaid draft, in itself, as well as against their content and extent. In October 2005, Isracard presented this position to the Commissioner. Following talks held between Isracard, Amnit, the credit-card companies Leumi Card Ltd. and Cartisei Ashrai Lelsrael Ltd. (these four companies jointly, hereinafter: the "Credit Card Companies"), and the Commissioner, the Credit Card Companies reached an arrangement among themselves (hereinafter: the "Arrangement"), with the Commissioner's support, under which the Credit Card Companies will enter into a detailed Local Agreement regarding full local clearing in Israel, including the operation of an appropriate technical interface (hereinafter: the "Technical Interface"), of transactions in Visa and MasterCard credit cards. This Arrangement also includes matters that require approval of a binding arrangement from the Antitrust Tribunal. The Credit Card Companies, together with the banks that control each of them - respectively, the Bank, Bank Leumi Lelsrael B.M., Israel Discount Bank Ltd., and First International Bank of Israel Ltd. - filed a request with the Tribunal on October 30, 2006 to approve a binding arrangement, under the terms formulated and agreed upon with the Commissioner. According to the terms, the Arrangement will be in effect from the date of its approval by the Tribunal, and will expire on July 1, 2013. Objections to the aforesaid request have been filed. The Tribunal granted a temporary permit to the Arrangement, in effect until February 28, 2009.

The terms of the Arrangement include, among other things: the establishment of rates of interchange fees, which gradually decrease during the period of the Arrangement; commitment by the parties to petition the Tribunal for approval of an interchange fee for the period following the end of the Arrangement, should the parties wish to continue cross-clearing; the obligation of Isracard, under certain conditions, to set identical fees for the same business for clearing transactions in Isracard and MasterCard cards; and various rules of conduct that will apply to the Credit Card Companies in their contractual engagements with businesses to enter into clearing arrangements with them, including a prohibition on ligation of different cards and various prohibitions on discrimination; and in addition, a commitment by the banks listed above to apply the aforesaid rules of conduct to themselves as well, and to undertake rules of conduct in their relationships with holders of credit cards and with businesses that accept credit cards, essentially prohibitions on discrimination, ligation, or influence in manners prohibited in the Arrangement to transfer to a particular credit card or clear with any of the Credit Card Companies.

The Arrangement also includes a directive under which the Commissioner will cancel the declaration of Isracard as the holder of a monopoly in clearing Isracard and MasterCard credit cards, provided that the conditions stipulated in the Arrangement are fulfilled, including approval of the Arrangement by the Tribunal and implementation of cross-clearing of transactions through the Technical Interface.

On November 11, 2007, in the discussion of the petition to approve a binding arrangement, the Tribunal ruled that before it ruled on the appeal, an expert would be appointed to establish the components included in the principles set forth with regard to the calculation of interchange fees by the Tribunal in a different proceeding between some of the Credit Card Companies, to which Isracard was not a party. An expert was subsequently appointed. The Bank and Isracard appealed the Tribunal's decision and petitioned to postpone its implementation. The Commissioner and other parties petitioned to deny the appeal and the request to postpone implementation. The Supreme Court denied the appeal on March 18, 2008.

The Bank and Isracard cannot estimate whether or when the request for permanent approval of the Arrangement will be granted.

Isracard and Aminit signed the Local Agreement in May 2007.

In June 2007, the Credit Card Companies began direct clearing in Israel, through the Technical Interface, of transactions executed in MasterCard and Visa credit cards, according to the credit cards in which each company operates.

Following the recommendations of the Interministerial Committee for the Examination of Market Failures in the Credit Card Industry, in March 2007 a private law proposal (hereinafter: the "Private Law Proposal") was submitted to the Knesset, based on the committee's recommendations, and in April 2008 a legislative memorandum was issued by the Ministry of Finance (hereinafter: the "Memorandum"), both concerning amendment of the Banking (Licensing) Law, 5741-1981. In June 2008, the Private Law Proposal passed in Knesset in a preliminary reading.

The Private Law Proposal and the Memorandum are not identical in scope and details, but essentially both or either propose, among other matters, the imposition of a licensing requirement by the Governor of the Bank of Israel on any party seeking to engage in the clearing of credit cards, and the authorization of the Supervisor of Banks to determine that a clearer of a certain percentage of transactions in charge cards (10% in the Private Law Proposal and 20% in the Memorandum) is a "large clearer," and that an issuer of a certain percentage of charge cards (5% in the Private Law Proposal and 10% in the Memorandum) is a "large issuer." Such declarations by the Supervisor will enable him, if he finds it necessary in order to ensure competition in the clearing of charge cards or in order to protect the best interests of customers or of suppliers, to instruct a large issuer to allow all those clearing charge cards to clear transactions in its cards, and to instruct large clearers of charge-card transactions to clear cards issued by others. The Memorandum also proposes considering the interchange fee as a fee under the Banking (Service to Customers) Law, 5741-1981, while the Private Law Proposal proposes authorizing the Supervisor to pass a proposal to establish a maximum interchange fee to the "pricing committee" and to "the ministers," in accordance with the Supervision of Prices of Goods and Services Law, 5756-1996. It is further proposed that the Supervisor of Banks be granted authority aimed at assisting in the implementation of the aforesaid. The Bank estimates that the materialization of any of the following: large-scale clearing of transactions in MasterCard cards by additional clearers other than Isracard; implementation of the Arrangement and its terms, including reduction of the interchange fee or equalization of clearing fees in Isracard cards to those of MasterCard cards; the declaration of a monopoly remaining in effect, in contradiction of the Arrangement, and the issuance of directives on the basis thereof; or legislation on the basis of the Private Law Proposal or the Memorandum, and subsequent declaration of the Company as a "large issuer," and corresponding activity by existing or new participants in the credit-card market, including in brands owned and operated by the Bank's credit-card companies, may lead to a decrease in the Bank Group's income in the future. However, the Bank cannot estimate the extent of such an effect.

In March 2007, two private law proposals were submitted to the Knesset concerning the separation of ownership of credit-card companies from banks. At this stage, the Bank cannot estimate whether the aforesaid law proposals will be legislated, or if legislated, their implications for the Bank, if any.

With regard to a claim against Isracard, see Note 9A1 to the Condensed Financial Statements.

Poalim Capital Markets - Investment House Ltd. (hereinafter: "Poalim Capital Markets") -

Operates a wide range of investment-banking services and invests in private-equity funds and in knowledge-and technology-intensive companies. The activity of Poalim Capital Markets is conducted through two main segments: investment-banking activity, and the technology sector and investments in private-equity funds. In addition, Poalim Capital Markets manages venture-capital funds, in accordance with a permit from the Bank of Israel.

The Poalim Capital Markets Group provides a range of investment-banking services, including financial and strategic consulting for mergers and acquisitions in Israel and abroad, consulting for privatization processes and for public and private offerings abroad, and guidance of companies in Israel and abroad in investments of various kinds. The Poalim Capital Markets Group also provides, through its equity-basis investee (19.97%) Poalim I.B.I., consulting, underwriting, and management services for public offerings in Israel and capital raising through private offerings.

In accordance with the company's strategy of expanding the investment-banking services offered to its customers to encompass international capital markets, Poalim Capital Markets has entered into a strategic collaboration with the U.S. investment bank William Blair. Within this collaboration, Poalim Capital Markets and William Blair offer investment-banking services to individuals, Israeli companies, and Israeli-related companies, including services related to private and public offerings abroad, as well as services related to mergers and acquisitions.

Poalim Capital Markets ended the first half of 2008 with a total loss of NIS 13 million, compared with profit in the amount of NIS 48 million in the same period last year, mainly as a result of a decrease in investment-banking activity, a decrease in profits from equity-basis investee companies, losses from long-term investments, and losses from tradable securities.

The contribution of Poalim Capital Markets to the Bank's net profit was negative in the amount of NIS 9 million, compared with a positive contribution in the amount of NIS 22 million in the same period last year.

The Bank's investment in Poalim Capital Markets totaled NIS 594 million on June 30, 2008.

Poalim Trust Services - Offers a range of business, private, and personal and family trust services to local and foreign residents and to Israeli and foreign companies. The company also acts as trustee for a large number of mutual funds. Total assets in trust as at June 30, 2008 amounted to NIS 32.1 billion.

Equity-Basis Investees

The Bank's share in the net operating results of equity-basis investee companies amounted to a profit of NIS 13 million in the first half of 2008, compared with NIS 118 million in the same period last year, which mainly derived from Clal Insurance Enterprises Holdings.

The Bank Group's investment in equity-basis investee companies totaled NIS 658 million on June 30, 2008, compared with NIS 766 million at the end of 2007.

Clal Insurance Enterprises Holdings Ltd. (hereinafter: "Clal Holdings") is a holding company in the insurance sector and in insurance-related areas of activity.

The contribution of Clal Holdings to the Bank's net operating profit in the first half of 2008 totaled NIS 12 million, compared with NIS 92 million in the same period last year. The decrease resulted from profit recorded in the same period last year from the flotation of a subsidiary and from the effect of the change in insurance companies' treatment of special-risk reserves.

The Bank holds 10.1% of the share capital of Clal Holdings as at June 30, 2008.

The balance of the Bank's investment in the company totaled NIS 312 million on June 30, 2008.

The market value of the investment at that date totaled NIS 367 million.

With regard to restrictions on holdings in Clal Insurance Enterprises Holdings, see the section "Capital Market Activity" below.

With regard to the exposure to class-action suits at Clal Insurance Enterprises Holdings, see Note 9(D) to the Condensed Financial Statements.

Delek Real Estate Ltd. (hereinafter: "Delek Real Estate") - A company engaged in three main areas of activity: investments in yield-generating real estate abroad; initiatives, development, and construction of residential projects in Israel; and initiatives, development, construction, and acquisition of commercial buildings, gas stations, and office buildings, and rental of same as yield-generating assets. The contribution of Delek Real Estate to the Bank's net operating profit was negative and amounted to a loss of NIS 2 million in the first half of 2008, compared with profit in the amount of NIS 7 million in the same period last year.

On June 30, 2008, the Bank held 9.7% of the share capital of Delek Real Estate.

The Bank's investment in the company as at June 30, 2008 totaled NIS 243 million. The market value of the Bank's investment at that date was NIS 129 million. The Bank hired an independent assessor with the relevant professional qualifications to examine the recoverable amount of the Bank's investment in Delek Real Estate. Giza Zinger Even performed the assessment, in accordance with commonly accepted principles in the field of financing. The assessment was made using the NAV (net asset value) method, under the assumption of a going concern, based on the aggregate value of the assets of Delek Real Estate net of the value of its liabilities, in accordance with the assessment. The recoverable amount of the Bank's investment in Delek Real Estate is higher than the value of the investment in the Bank's books; consequently, no provision for decline in value was made in respect of this investment. The assumptions used to perform the assessment were based on a capital price of 9%-15%, according to the geographical location and characteristics of each project. Sale prices and construction costs in the assessment were based on existing data on sales and construction costs for each specific project, or on data from other projects located in the same area.

Strategic Plan

Bank Hapoalim operates under a long-term strategic plan, which is examined and updated each year. In early 2008, the Board of Management and Board of Directors of the Bank approved the Bank's work plans and business objectives for 2008, based on its strategic plan.

The Bank's business objectives are a gradual increase of its return on equity to the levels prevalent in international banking, reinforcement of its leadership in the Israeli market in all areas of banking activity, and continued expansion of its activity abroad.

The Bank's work plans, which were formulated at the end of 2007, were directed towards reaching a return of operating profit on equity of approximately 15% in 2008. However, the Bank recently announced a number of significant measures (including the sale of its MBS portfolio and the expansion of the voluntary-retirement program) which materially affected the Bank's results of operations in the first half of 2008. We therefore estimate, based on the data known to date, that net return on equity for the year will reach 7%-10%, including a return of operating profit on equity of 2%-4%.

The Bank has set forth a strategy focused on five main areas of activity, which are currently being examined in light of the changes in the financial markets and in macro-economic forecasts:

- Reinforcing the Bank's market leadership and increasing activity with Bank customers, while striving for excellence in customer relations;
- Expanding activity abroad, with a focus on three areas: 1) general banking in emerging markets 2) growth of the private-banking portfolio 3) taking advantage of opportunities arising from changes in the markets.
- Strengthening the Bank's risk-management capabilities;
- Limiting expenditures while maintaining existing operations and carrying out expansion and growth plans;
- Improving the organizational and managerial infrastructure supporting business capabilities.

The Bank has worked in recent years to solidify its leadership in the retail sector, focusing on the improving its value offer to the segment of customers with extensive banking activity and on expansion in the area of credit, while strengthening its risk-management capabilities. The Bank accords high importance to customer service and continually strives to significantly improve service while adapting it to customers' needs. The Bank aims to solidify its standing in the various customer segments and plans to invest efforts towards that end, including by improving the deployment of its branches.

The Corporate Area continues to work to preserve the Bank's leading position with business and commercial sector customers. In recent years, the Bank has achieved improvement in the quality of its credit portfolio and has strengthened its credit-risk measurement and credit management capabilities. These abilities should enable the Bank to function optimally even if the Israeli economy enters an economic recession. Concurrently, the Bank is working to extend its activity with customers, with an emphasis on expanding the service and product offering in order to increase its non-credit income from these customers.

In treasury activity, as of 2005 the Bank has been implementing a strategic plan based on global treasury management, encompassing the dealing rooms in Tel Aviv, New York, and London, while continuing to reinforce the infrastructures of the operational systems serving the dealing rooms and the area of asset and liability management at the Bank. This activity is centralized under the Global Treasury Area. In early 2008, in light of the changes in global financial markets, the Bank further highlighted the importance of focusing global treasury activity on activity with and for customers.

In international activity, under the management of the International Area, the Bank has continued its strategy of organic growth, parallelly, the Bank is progressing towards completion of bank acquisitions in Russia and Ukraine which were intended for expansion into emerging markets. These acquisitions constitute the completion of the first stage of the strategic plan that was formulated in the past and complement the acquisitions of Bank Pozitif in Turkey and its subsidiary, JSC in Kazakhstan.

In Global Private Banking, the Bank strives to continue to improve its abilities in products, marketing, and customer service in 2008, in order to accelerate the growth rate of its asset portfolio, focusing on customers with extensive assets. A future trajectory for the Bank's continued international expansion in developing and developed markets is currently being examined by the Bank, in cooperation with a leading international strategic consulting company. As part of this process, objectives for international activity and their derived implications will be defined, including the trajectory and character of the future activity of the New York branch.

The strategic plan was based, among other things, on a series of assumptions, primarily the following:

- A. The Israeli economy will continue to grow and develop in 2008;
- B. The inflation level in Israel will be in line with the stated intentions of the government and the Bank of Israel;
- C. The difficulties in global economic conditions, particularly in the United States, will not deteriorate into a recession, despite the current crisis in world financial markets;
- D. The rise in energy prices will come to a halt, and there will be no adverse developments in prices of other major resources;
- E. There will be no change for the worse in the condition of the Bank's customers, especially with regard to customers of the Corporate Area, so that provisions for doubtful debts will remain at the current level;
- F. Legal and regulatory conditions will allow the realization of the Bank's action plans, and no additional changes will be implemented that may disrupt the Bank's existing and/or planned activity;

G. The Bank will receive all required approvals, in Israel and abroad, in order to expand its international operations;

H. There will be no deterioration in geopolitical conditions, particularly in the security situation in Israel, in the region, and in the world.

The Bank is currently examining necessary adjustments to its strategic plan following a change in its assessment of some of the assumptions listed above, especially the increasing estimates that the slowdown in the U.S. and world markets, and consequently in Israel as well, may last longer and may escalate; the higher-than-planned energy prices and the higher-than-expected inflation in recent months; and concerns that the Israeli economy may slide into recession during 2009.

It should be noted that the strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Among these factors, it should be noted that the probability of success of a plan of this kind also depends on the Bank's internal ability to carry out its objectives, as well as on the materialization of the assumptions noted above, with special importance accorded to the condition of the global economy, taking into account the escalating crisis since the second half of 2007, and to the economic, political, and security situation in Israel and in the region, and the effects of the global crisis on these conditions. The possibility of a slowdown in the growth rate in Israel and in the industrialized countries must be taken into consideration; various risks threaten growth in Israel and worldwide, such as terrorist attacks, political instability, volatility of commodity prices in general and those of resources (such as fuel) in particular; volatility in capital markets, continuation or possibly escalation of the liquidity crisis in international banking due to the subprime crisis, and the global economy sliding into crisis and recession.

The consequences and effects of the reform in the Israeli capital market pursuant to the Bachar legislation, and of the Bank of Israel's directives concerning banking fees, for the Bank's activity and income are also insufficiently clear, and it is unknown whether they will impede the advancement of the Bank's plans and the attainment of the return targeted by the Bank.

It is emphasized that the Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, all of the above information in this section is "forward-looking information."

International Activity

An essential part of the Bank's strategy is the extensive development of its international activity. The Bank plans to invest in the development of all types of international activity, including development of Global Private Banking, expansion of the local activity of branches and subsidiaries worldwide, development of activity in emerging markets, participation in international transactions, and development of relationships with correspondent banks. The Bank maintains ties with over 2,500 correspondent banks throughout the world, through which it conducts international activities.

In international activity, under the management of the International Area, the Bank has continued its strategy of organic growth, along with the completion of the first stage of the acquisitions planned in order to expand into emerging markets (Russia and Ukraine).

A future trajectory for the Bank's continued international expansion in developing and developed markets is currently being examined by the Bank, in cooperation with a leading international strategic consulting company. As part of this process, objectives for international activity and their derived implications will be defined, including the trajectory and character of the future activity of the New York branch.

The Bank's Global Private Banking activity - Within this framework, the Bank provides its customers abroad with advanced professional services and products, including investment products and global asset management. This activity currently encompasses Israel, Europe, the United States, Latin America, Canada, Australia, Hong Kong, and Singapore by means of 36 activity centers including banking subsidiaries, branches, representative offices, and asset-management subsidiaries.

Development of activity in emerging markets - The Bank currently operates in Turkey and Kazakhstan. The Bank intends to develop retail and corporate activity in the emerging markets in these countries by expanding the range of products and service channels offered to customers and developing the network of branches, among other means. The Bank is also continuing to examine additional business opportunities in emerging markets.

On December 19, 2007, the Bank Group entered into an agreement for the acquisition of a controlling interest in OJSC Ukrainian Innovation Bank, which is incorporated and operates in Ukraine.

On July 16, 2008, the Bank Group entered into an agreement for the acquisition of a controlling interest in Commercial Bank SDM-Bank, which is incorporated and operates in Russia.

The Bank's Activity in the United States

In the United States, the Bank operates mainly through its branches in New York and Miami.

The Miami branch provides Global Private Banking services.

In March 2008, the Bank was notified that the U.S. Federal Reserve had consented to the Bank's request and would grant the Bank the status of a Financial Holding Company (FHC), as of that date, under the Bank Holding Company Act and the regulations of the U.S. central bank.

FHC status expands the range of activities permitted to the Bank and its subsidiaries, and allows them to diversify the services they offer to their customers in the United States, particularly in the area of securities.

The New York branch is focused on credit activity, treasury activity, and the provision of banking services to Israeli companies operating in the U.S. In the area of credit, the branch offers credit to large American companies, backup lines for issues of commercial paper, leasing transactions, and investments in credit-oriented structured-finance products such as credit derivatives. In the treasury area, the branch operates a dealing room and is part of the global treasury activity of Bank Hapoalim. The New York branch provides comprehensive banking services to large Israeli companies operating in the United States, including credit, foreign trade, investments, and dealing-room services. The Bank enables Israeli companies as well as American companies that have assets in Israel to use collateral held in Israel for the purpose of opening credit lines at the New York branch. The New York branch also provides FDIC deposit insurance coverage, similar to American banks. As at June 30, 2008, the branch's credit portfolio totaled approximately USD 2.9 billion, of which approximately USD 2.1 billion were in syndications with leading banks. The branch also provided unutilized credit limits and backup lines in the amount of USD 3.5 billion.

Some 80% of the credit was provided to companies rated Investment Grade or was secured by entities rated Investment Grade by the international rating agencies Standard & Poor's or Moody's. From 2005 to the end of May 2008, the Bank maintained a portfolio of investments in mortgage-backed securities (MBS) and collateralized mortgage obligations (CMO). The majority of the MBS and CMO purchased by the Bank were backed by residential loans or by derivatives of mortgage portfolios. In addition, the Bank invested in several additional instruments, such as CDO and SIV. For further details, see the section "Activity of the Bank Group in Asset-Backed Securities."

The New York branch has a portfolio of credit derivatives consisting mainly of credit default swaps (CDS) and credit default baskets (CDB). The branch has a small remaining number of unfunded CDO transactions.

CDS are credit derivatives representing a transaction in which credit risk is exchanged between the parties to the swap transaction. Credit risk is transferred from the provider of the credit to the seller of the swap. In return for payment of a premium, the buyer of the swap receives protection against the risk inherent in a particular credit, while the seller provides a guarantee of the quality of the credit in return for the premium.

Unfunded CDOs are credit derivatives representing a type of guarantee for a risk tranche. Funds are transferred in the case of a credit failure in the tranche for which the Bank is the guarantor.

The total face value of the Bank's credit-derivative portfolio (CDS and CDB) amounts to USD 680 million. The majority of the underlying assets of CDS transactions are bonds of major investment houses, such as Merrill Lynch, Lehman Brothers, Morgan Stanley, and others. As these transactions are treated as derivative financial instruments in the financial statements, changes in their fair value are allocated to the statement of profit and loss, as profit from financing activity.

As a result of the crisis in U.S. markets and the widening of credit spreads, the fair value of these derivatives declined and stood at a negative USD 26 million as at June 30, 2008. The Bank recorded losses with respect to these declines in the amount of approximately USD 30 million in the first half of 2008.

In view of the crisis in the U.S. economy, the Bank has decided to reduce its participation in credit syndications organized by consortiums of banks in the U.S., for the time being.

The bank is also reexamining the role of the New York branch within the Bank's international strategy, and considering the required changes, if any, in the nature of the branch's activity.

Under these circumstances, as part of the general streamlining measures being implemented by the Bank, the Bank has started to reduce the number of employees at the branch.

Hapoalim Securities U.S.A. Inc. (hereinafter: "Hapoalim Securities") - A broker-dealer registered and operating in the United States. The broker-dealer is under the supervision of and subject to the rules of the Securities and Exchange Commission (SEC) in the United States, the New York Stock Exchange (NYSE), the National Association of Securities Dealers (NASD), and additional stock markets in which it is a member. The company's activity is also subject to supervision by the Supervisor of Banks at the Bank of Israel.

The acquisition of the company was aimed at expanding the scope of the Bank's activity in securities trading on behalf of its customers. Receiving FHC status enables the company to expand its areas of activity.

Hapoalim U.S.A. Holding Company Inc.

A subsidiary that held shares of Signature Bank in the past. Most of the holdings in Signature Bank were sold on March 31, 2005. The remaining holdings were sold during 2006. Most of the proceeds of the sale are invested in a fixed-period deposit in the Bank and in bonds.

The Company also holds the entire share capital of Hapoalim Securities.

Global Private Banking (GPB)

The Bank's Global Private Banking operations provide its customers abroad with advanced, professional products and services, including investment products and global asset management services. Global Private Banking offices include a network of subsidiaries, branches overseas and in Israel, and representative offices around the world.

Following is a description of Global Private Banking units:

Bank Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland") - A banking subsidiary engaged mainly in private-banking services offered through four branches - two in Switzerland, in Zurich and Geneva, one in Luxembourg, and one in Singapore - as well as through its representative offices in Tel Aviv, Hong Kong, and Moscow.

In addition, the Bank operates in Luxembourg through a banking subsidiary, Banque Hapoalim (Luxembourg) S.A., which is engaged in financial banking activity in and outside of Luxembourg.

The PAM Group, including Poalim Asset Management (UK) Ltd. and Poalim Asset Management (Ireland) Ltd., held by PAM Holding Ltd. (hereinafter: "PAM Companies") -

PAM Companies are responsible for initiating, selecting, marketing, and providing professional support for investment products offered to Global Private Banking customers worldwide, in cooperation with leading international financial companies in these fields. The Group is a key element in the implementation of the Bank's growth strategy abroad.

Through PAM Companies, Global Private Banking customers are offered an extensive, diverse range of funds, including globally diversified funds. As at June 30, 2008, the Bank Group's customers have holdings in funds managed by PAM Companies totaling USD 2.7 billion.

PAM Companies also develop, plan, and market other investment products, such as structured products in accordance with international standards, including through collaboration with leading global financial entities. In addition, PAM Companies offer a portfolio-management service (discretionary management) through the Bank's branches and subsidiaries abroad.

Bank Hapoalim (Cayman) Ltd. (hereinafter: "Cayman") - A commercial bank, which under the terms of its license is permitted to operate in all types of banking activity except for activity with local residents in the Cayman Islands. Cayman's assets include an investment in a wholly-owned subsidiary in Uruguay, Hapoalim (Latin America) S.A.

Global Private Banking Center in Tel Aviv - A center providing private-banking services and products to foreign residents from all over the world; an integral part of the GPB network.

Private Banking in the United States - The Miami branch and the Private Banking Department at the New York branch offer private-banking services to GPB customers.

Branches in the U.K. - London and Manchester. The banking activity of the U.K. branches includes private-banking services to local customers and foreign residents. The area of private banking is a strategic goal for the development of the U.K. branches in the coming years.

In addition, the U.K. branches grant credit to customers and provide dealing-room and foreign-trade services and other banking services to corporate customers.

BHI Jersey Ltd. - This banking subsidiary began operations in August 2008, and will focus on providing a range of products and services to private-banking customers.

Corporate and Retail Banking in Emerging Markets

As part of Bank Hapoalim's business strategy in emerging markets, the Bank is considering mergers and acquisitions of banking corporations in attractive emerging markets, and the development of banking at Western standards by leveraging the Bank's capabilities in various areas.

Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif") -

A bank incorporated and operating in Turkey, specializing in corporate and investment banking. The Bank intends to help Bank Pozitif expand its activities in the areas of corporate and retail banking, by expanding the range of products offered to customers and developing the network of branches, among other means.

In April 2008, the Bank completed the process of increasing the capital of Bank Pozitif by TRY 85 million (about USD 64 million), in return for an allocation of shares. As a result, the Bank's holding in Bank Pozitif increased to 65%. The remaining holdings in Bank Pozitif are held by the Turkish partner in the bank, the company C Faktoring Anonim Sirketi.

JSC Bank Pozitiv

In November 2007, Bank Pozitif acquired the full means of control of Demir Kazakhstan Bank, a bank incorporated and operating in Kazakhstan, in consideration for a total of USD 56 million, from its owner, Mr. Halit Cingillioglu. Mr. Cingillioglu is a related party of C Faktoring Anonim Sirketi (the minority shareholder in Bank Pozitif) and a controlling shareholder of other companies in its group. Following the acquisition, the bank's name was changed to JSC Bank Pozitiv. The bank provides banking services to business and private customers. Bank Pozitif intends to develop JSC Bank Pozitiv and its activity while building advanced banking capabilities, including expansion of the network of branches and enlarging the customer base.

OJSC Ukrainian Innovation Bank

On December 19, 2007, the Bank signed an agreement for the acquisition of 75.8% of the means of control of OJSC Ukrainian Innovation Bank, a bank incorporated and operating in Ukraine (hereinafter: "Ukrinbank").

According to the terms of the agreement, the Bank will pay the sellers a total of approximately USD 136 million for the acquisition, reflecting a total value of approximately USD 180 million for Ukrinbank. Execution of the agreement is subject to the receipt of the required permits and approvals from the relevant authorities in Israel and in Ukraine.

Ukrinbank is focused on activity with small and mid-sized businesses and with private customers, conducted through a network of about 30 branches and more than 120 additional points of sale located in 24 of 25 provinces in Ukraine. Ukrinbank has more than 80,000 customers, of which some 23,000 are business customers. At the end of the first quarter of 2008, Ukrinbank had total assets of approximately USD 300 million and shareholders' equity of approximately USD 85 million. On July 15, 2008, the Bank received a permit from the Governor of the Bank of Israel to control and hold means of control of Ukrinbank.

Commercial Bank SDM-Bank (hereinafter: "SDM")

On July 16, 2008, the Bank entered into an agreement to acquire 78% of the means of control of SDM, a bank incorporated and operating in Russia.

The shareholders' equity of SDM amounted to approximately USD 69 million, and the total balance sheet was approximately USD 655 million, at the end of the first quarter of 2008.

The Bank will pay a total of approximately USD 111 million for the acquisition, reflecting a total value of approximately USD 142 million.

SDM conducts all types of banking activity, through a network of 22 branches in Moscow and other large Russian cities, such as St. Petersburg, Rostov on Don, and Nizhny Novgorod, and about 30 mini-branches in the greater Moscow area. SDM also conducts extensive activity in the area of debit cards. SDM has approximately 140,000 customers, of which some 13,000 are business customers. Following completion of the acquisition, the Bank plans to help SDM develop its activity in the areas of corporate and retail banking. The Bank also intends to provide additional capital to SDM and make financing lines available to support the accelerated development of its activity, based on business needs identified from time to time, according to decisions made on this matter by the Bank.

Completion of the acquisition is subject to the fulfillment of suspending conditions, including permission from the Governor of the Bank of Israel for the acquisition, and receipt of the required permits from the relevant authorities in Russia.

Set out below are the aggregate condensed financial statements of international activity:

A. Balance Sheet*

	June 30, 2008	December 31, 2007
USD millions		
Assets		
Cash on hand and deposits with banks	8,130	6,774
Securities	3,434	6,682
Securities borrowed or bought under agreements to resell	9	122
Credit to the public	6,722	6,629
Buildings and equipment	46	47
Other assets	458	428
Total assets	18,799	20,682
Liabilities and capital		
Deposits from the public	12,573	13,142
Deposits from banks	4,400	4,557
Securities lent or sold under agreements to repurchase	62	362
Bonds and subordinated notes	719	904
Other liabilities	546	437
Total liabilities	18,300	19,402
Minority interests' rights	118	116
Capital means**	381	1,164
Total liabilities and capital	18,799	20,682

* Data based on the overseas offices' reports, while attributing expenses and supplementary taxes.

** Includes a calculated deficit in capital in the amount of USD 733 million (31.12.07: positive calculated capital in the amount of USD 169 million) for the Bank's branches which are not companies. The calculated capital includes the amounts of the original deposits deposited with the Bank's branches, with the addition of profits or deduction of losses recorded up to the balance-sheet date, including adjustments in respect of the presentation of securities available for sale at fair value. The decrease in calculated capital in the first half of 2008 results from a loss at the New York and London branches, due to losses in respect of asset-backed securities, as well as from a temporary decline in value of asset-backed securities.

B. Statement of Profit and Loss*

	For the six months ended June 30	
	2008	2007**
	USD millions	
Profit (loss) from financing activity before provision for doubtful debts	(939)	140
Provision for doubtful debts	4	(1)
Profit (loss) from financing activities after provision for doubtful debts	(943)	141
Operating and other income	81	61
Operating and other expenses	156	120
Operating profit (loss) before taxes	(1,018)	82
Tax benefit (Provision for taxes)**	375	(31)
Operating profit (loss) after taxes	(643)	51
Minority interests' share in profits of consolidated companies	(4)	(4)
Net profit (loss)	(647)	47

* Data based on the overseas offices' reports, while attributing expenses and supplementary taxes.

** Restated.

*** Includes provisions for supplementary taxes in Israel.

C. Customers' Assets

	June 30, 2008	December 31, 2007
	USD millions	
Deposits from the public, bonds, and subordinated notes	13,292	14,046
Customer assets (off-balance sheet)	8,391	8,963
Total	21,683	23,009

Activity of the Bank Group in Asset-Backed Securities

On May 20, 2008, the Board of Directors of the Bank resolved to realize the Bank's full holdings in mortgage-backed securities (hereinafter: "MBS"), which were purchased by the Bank's New York branch (hereinafter: the "MBS Portfolio"). The volume of the investment in these securities totaled approximately USD 3.4 billion at the date of the sale, in late May 2008.

In April 2008, the Bank received an instruction from the Supervisor of Banks to weight its holdings of most of the MBS Portfolio, for the purpose of calculating the ratio of capital to risk-adjusted assets, at twice their value in the books of the Bank. The implementation of this instruction placed in doubt the economic profitability of continuing to hold the MBS Portfolio for the long term, as the Bank had intended to do until that time.

Consequently, when the aforesaid instruction of the Supervisor was received, the Bank began to examine and make inquiries about the proper and profitable ways of continuing to handle the MBS Portfolio under its ownership, including the existing possibilities for realizing all or part of the portfolio. In view of the inquiries made and with due regard for the continuing global crisis, particularly in the realm of mortgages, given the assessments that the crisis in the United States real-estate market is deeper and more severe than was previously thought and is likely to continue for a long time and possibly escalate, and in the face of the decline and volatility of market prices of MBS around the world, and the fear that even MBS that enjoy a high rating may be affected should the crisis worsen, after the Board of Directors held a discussion of the various alternatives available to the Bank and the various offers which the Bank received during that period for the sale of its MBS

Portfolio, the Board of Directors adopted its aforesaid resolution to realize the entire portfolio. Further to the decision of the Board of Directors, on May 20, 2008, the Bank sold its entire MBS Portfolio to the investment fund Pimco, through Deutsche Bank, for a total consideration of USD 2.55 billion. In the Financial Statements as at March 31, 2008, the Bank set the value of the MBS Portfolio that was sold in accordance with the amount of the aforesaid consideration. Accordingly, the Bank recorded a loss in the amount of approximately NIS 3.1 billion (USD 876 million) in the Financial Statements as at March 31, 2008, which was included in the item "loss from financing activity before provision for doubtful debts." In addition, the Bank included a loss from a decline in value of an other-than-temporary nature of its investments in SIV-type securities in the amount of NIS 367 million in its financial statements, as well as losses from other asset-backed securities (including MBS at the London branch) in the amount of NIS 109 million.

Until the date of the aforesaid sale, the Bank Group invested in a variety of asset-backed securities, mainly through its branches in New York and London.

For full details regarding the Bank's investments in these securities, see the section on asset-backed securities in the Annual Financial Statements as at December 31, 2007 and in the Condensed Quarterly Financial Statements as at March 31, 2008.

On August 11, 2008 the Bank published an immediate release at the request of the Securities Authority (reference: 2008-01-231981) on the matter of the disclosure of the decline in value of the MBS portfolio during the months of March and April 2008.

Set out below are data regarding the Bank Group's holdings in asset-backed securities as at June 30, 2008:

	June 30, 2008				
	Depreciated cost	Unrealized profits*	Unrealized losses*	Fair value & balance-sheet value	Decline in value of an other-than-temporary nature**
	NIS millions				
Total Mortgage-backed securities (MBS)	751	-	72	679	22
Asset-backed securities (ABS):					
Automobile loans	22	-	-	22	
Commercial and industrial loans	160	5	16	149	31
Structured investment vehicles (SIV)	-	-	-	-	367
Collateralized debt obligations (CDO)	648	-	51	597	56
Other ⁽¹⁾	1,769	-	4	1,765	-
Total ABS	2,599	5	71	2,533	454
Total	3,350	5	143	3,212	476
(1) Including: Commercial Paper purchased due to securitizations transactions in which the Bank acted as the sponsor	1,683	-	-	1,683	-

* Attributed to the statement on changes in shareholders' equity.

** Charged as a loss to the statement of profit and loss for the period January-June 2008 (not including amounts related to securities that were sold).

The following table lists the sources of price quotes used by the Bank to determine the fair value of asset-backed securities:

Type		Indicative price*	Counterparty price**	Total
		NIS millions		
MBS	Fair value	608	71	679
	Depreciated cost	665	86	751
CDO	Fair value	-	597	597
	Depreciated cost	-	648	648
Other ABS	Fair value	109	1,827	1,936
	Depreciated cost	125	1,826	1,951

* Indicative price - An indication established by the Bank, usually based on price quotes obtained from a specialist external entity or entities.

** Counterparty price - a price quote obtained from the counterparty against which the transaction was executed.

During the period of January-June 2008, the Bank recorded losses in the amount of NIS 3,603 million in respect of its investments in asset-backed securities.

This amount includes a total of NIS 3,101 million in respect of the sale of the MBS Portfolio, as noted above. In addition, a total of NIS 367 million was recorded in this period for a provision for a decline in value of an other-than-temporary nature in respect of SIV securities; and a total of NIS 135 million for a decline in value of an other-than-temporary nature in respect of other asset-backed securities (including CDO, European MBS and others).

In addition, as at the end of the second quarter of 2008, the net decline in value of a temporary nature totals NIS 143 million. This decline was attributed to shareholders' equity.

The decline in value of a temporary nature in the amount of NIS 72 million mainly derives from the remaining MBS portfolio held by the London branch of the Bank. These securities are exposed to European assets only (in the U.K., Ireland, Holland, and Germany). The average price of these securities stands at 85% as at June 30, 2008. The credit ratings of the securities by rating agencies have remained stable since their purchase, while some have actually been upgraded since their purchase; however, other parameters (such as the amount of average arrears, LTV rates, etc.) have changed for the worse to an insignificant degree in some of the securities.

The Bank's investments in CDOs, with the exception of investments in respect of which a provision has been allocated for a decline in value of an other-than-temporary nature, have high ratings (76% are rated AAA). With the exception of three transactions, which were downgraded, and which were sold in early August at a price higher than their fair value as of the end of June 2008, there have been no changes in the ratings of the transactions. Their term to maturity is relatively short; over 75% of the portfolio matures in 2009 and the balance during 2010 and 2011. Therefore, the Bank estimates that principal and interest payments should be met in full.

MBS

Following the sale of the MBS portfolio of the New York branch, the Bank's investment is through its London branch and through Banque Hapoalim Luxembourg. The remaining fair value of the Bank Group's investments in MBS as at June 30, 2008 totals NIS 679 million (USD 202 million).

Calculation of the Fair Value of MBS

At the Bank's London branch:

The Bank has contracted with two companies engaged in providing price quotes. The companies provide quotes based on locating prices of recent transactions executed in each security. To the extent possible, the branch relies on price quotes from MarkIT.

MarkIT is the leading and most commonly used company in the industry in the U.K. The company generates price quotes by contacting 29 investment banks at the end of each business day and generating prices using a model that filters out unreasonable transaction prices, and at the end of the process provides a quote for each security.

In cases in which MarkIT does not quote a price for a security for a particular date, the branch uses a price quote obtained from the counterparty to the transaction.

Structured Investment Vehicles (SIV)

The New York and London branches invested a total of approximately USD 400 million in securities issued by SIVs. Up to June 30, 2008, a provision for decline in value of an other-than-temporary nature was recorded against this entire investment.

Collateralized Debt Obligations (CDO)

The Bank holds a CDO portfolio at a volume of approximately NIS 597 million (USD 178 million) at its New York and London branches and at its subsidiary in Luxembourg.

Over 75% of the CDOs mature in 2009, and the remainder mature in 2010 and 2011.

Of the above, a total of USD 20 million of CDOs, which were acquired in 2004, is exposed to subprime loans. There has been no decline in value in respect of these securities; they are rated AA+ and mature in 2009.

62% of the volume of the portfolio is invested in securities rated AAA, 18% is rated AA and AA+, 10% is rated AA- and A, and 10% is rated BBB+. There were no substantial changes to the ratings of the aforesaid securities, even during the recent downgrades by the international rating agencies, and the ratings of all the securities except three remain unchanged.

The Bank determines the fair value of CDO securities based on a price received from the counterparty to the transaction.

In the first half of 2008, a provision for decline in value of an other-than-temporary nature was recorded against CDO securities, in the amount of NIS 56 million (USD 16 million), and charged as a loss to the statement of profit and loss.

Off-balance sheet transactions with similar characteristics to CDOs

The Bank has investments in unfunded CDO or synthetic CDO transactions. These are transactions in which risk transfers are executed through credit derivatives, without a purchase of the CDO itself. Accordingly, these transactions are treated as derivatives, with changes in fair value charged to profit and loss.

The total face value of these transactions as at June 30, 2008 is NIS 684 million (USD 204 million). The fair value is negative, in the amount of NIS 71 million (USD 21 million). In the first half of 2008, losses in the amount of NIS 55 million (USD 16 million) were charged to the statement of profit and loss in respect of declines in the fair value of these transactions. In early 2007, the Bank made a decision to reduce its exposure to unfunded CDOs. No additional unfunded CDOs have been purchased since that time, and the face value of these instruments has decreased from a peak level of approximately USD 400 million to the present level.

The balance of other asset-backed securities as at June 30, 2008 mainly includes commercial paper purchased due to securitization transactions in which the Bank acted as a sponsor, as detailed below.

Recognition of Decline in Value

The Bank determines whether the decline in value of securities is of an other-than-temporary nature in accordance with generally accepted accounting principles, including FSP 115-1, FSP 124-1, EITF 99-20, and SAB 59. This test is based on the following considerations:

- The period of time for which the value of the security is lower than its cost.
- The rate of the decline in value out of the total cost of the security.
- The value of the collateral backing the security and the safety cushions.
- The Bank's intention and ability to hold the security for a sufficient amount of time in order to allow the value of the security to return to the level of its cost.
- The rating of the security by international rating agencies, including developments in ratings after the balance-sheet date.

The Bank also takes additional considerations and tests into account:

- Identification and evaluation of investments with possible declines in value.
- Individual analysis of investments whose fair value is significantly lower than their depreciated cost, including examination of the length of the period of time in which the investment accrued unrecognized losses.
- Discussion of the facts of the case, including evaluation of the factors or situations that may cause a particular investment to be classified as having a decline in value of an other-than-temporary nature, or that do not support classification of the investment as having a temporary decline in value.

The Bank has established principles in order to determine the amount of the provision for decline in value of an other-than-temporary nature in respect of asset-backed securities, as follows:

1. For securities which at the balance-sheet date the Bank does not intend to hold, or securities sold after the balance-sheet date, a decline in value will be recorded up to the fair value of the security.
2. For securities whose ratings have been significantly downgraded since the Bank's first investment in the security, a decline in value will be recorded up to the fair value of the security.
3. With regard to the remaining MBS portfolio that has not been sold, in securities for which the Bank does not have a model for examining expected losses according to the American standard EITF 99-20, the Bank implements a directive received from the Supervisor of Banks, according to which a decline in value of over 30% of the cost of each security constitutes a decline in value of an other-than-temporary nature, to be charged to the statement of profit and loss.

Commitments and Other Agreements with Securitization Entities

The Bank enters into various contractual engagements with securitization entities, chiefly as a sponsor of asset securitization transactions with the special-purpose entities (SPEs, or conduits) Venus and Voyager, and as a supplier of liquidity lines to securitization entities. The Bank has exclusive rights to advise and refer customers for securitization services through issues of commercial paper (CP) of these two entities. This allows the Bank to offer asset securitization services to its large customers in the United States and in Israel.

The various transactions through the entities Venus and Voyager are primarily transactions for the securitization of the debts of a cooperative of agricultural farms in the U.S., securitization of transactions for leasing of equipment, and securitization of premiums from insurance companies. In its capacity as a sponsor, the Bank provides various services to these entities, including the provision of liquidity lines.

Up to June 30, 2008, securitization transactions referred by the Bank totaled approximately USD 700 million.

The following are data regarding commitments and other agreements related to securitization entities, as at June 30, 2008:

	June 30, 2008
	NIS millions
Maximum credit exposure in respect of the balance of unutilized liquidity lines to securitization entities*	817
Maximum credit exposure in respect of credit supports (through guarantees, subordinated securities, and others) to securitization entities	-
Total assets issued by securitization entities in which the Bank acts as a sponsor	1,683
Of which: commercial paper purchased by the Bank and included in the balance sheet	1,683

* Of which, NIS 160 million to securitization entities in which the Bank acts as a sponsor.

Starting in the second half of 2007, as a result of the liquidity crisis in U.S. capital markets, the Bank acquired CPs with a balance of NIS 1,683 million (USD 502 million) as at June 30, 2008, mainly due to its obligation to provide backup lines for some securitization transactions it had referred. The CPs are rated P1 by the rating agency Moody's and are not exposed to the U.S. housing market. They are reported at a depreciated cost which is an estimate of fair value, based on price quotes from the Bank of New York, which serves as the distributor of the CPs.

Note: This section concerning the activity of the Bank Group in asset-backed securities contains forecasts, evaluations, estimates, and other information, all of which constitute forward-looking information, in all parts of this section. All forward-looking information, by nature, may not materialize, or may not materialize in full, and future actual developments may differ from current forecasts to some extent, possibly to a material extent.

Accounting Policies on Critical Matters

The financial statements of the Bank are prepared in conformity with accounting principles and rules, the main points of which are described in Note 2 to the Financial Statements as at December 31, 2007. In implementing the accounting principles, when preparing the financial statements, the Board of Management of the Bank uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities), and the results reported by the Bank. Actual future results may differ from estimates made when preparing the financial statements.

Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank, in all matters connected with accounting policy, as estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations used during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

The main areas are: provision for doubtful debts; fair value of financial instruments; obligations for employee rights; deferred taxes; contingent liabilities; and provisions for decline in value of non-financial assets, securities available for sale, and securities held to maturity.

During the reported period, no changes occurred in the Bank's accounting policy on critical matters, as described in the Board of Directors' Report on the Financial Statements as at December 31, 2007, except for that stated in Note 1A(2) to the Condensed Financial Statements as at June 30, 2008.

Capital Market Activity

On July 25, 2005, the Knesset enacted three laws that set forth material changes in the capital market and in banking activity, known as the Bachar Reform.

Under these laws, the Bank is prohibited from managing provident funds and joint investment trust funds ("mutual funds"), and is required to sell its full holdings in such funds within timeframes stipulated in the legislation ("Required Asset Sales").

In addition, as a condition for receiving a pension-advising license, the Bank is required to reduce its holdings in Clal Insurance Enterprises Holdings Ltd. to 10% or less of any type of means of control, because that company controls an insurer. In addition, the Bank must reduce its holdings of Tranit Insurance Agency Ltd. (hereinafter: "Tranit") to 10% or less of any type of means of control, because that company is an insurance agency other than under the provisions of Section 11(B) (2) of the Banking (Licensing) Law.

By the date of publication of this report, the Bank completed the sale of all of its holdings in mutual funds and provident funds.

With the completion of the sale of Bank Yahav on July 10, 2008, the sale of the provident funds which were under the management of Bank Yahav was completed in as far as the Bank is concerned. With the completion of the sale of Bank Massad on May 14, 2008, the sale of the provident funds which were under the management of Bank Massad was completed in as far as the Bank is concerned.

Upon completion of the aforesaid sales, and after the Bank reduced its holdings in Clal Insurance Enterprises Holdings and in Tranit to the permitted level, the prerequisite conditions for the Bank to receive a pension-advising license will be fulfilled, according to the directives of the Supervision of Financial Services (Engaging in Pension Advising and Pension Marketing) Law, 5765-2005 (the "Pension Advising Law," which is part of the Bachar Reform); accordingly, the Bank filed an advance application with the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance (the "Supervisor") to grant the Bank a pension-advising license upon fulfillment of the aforesaid conditions.

Note, however, that under the provisions of the Pension Advising Law, as an additional condition for granting a pension-advising license, the Supervisor must be persuaded that "granting the bank a pension advisor's license shall not cause material damage to the development of competition and to the prevention of concentration in Israel, in the area of pension advising, in the area of mediation between customers and institutional entities, and in the area of banking." (Section 11(A) (5) of the Pension Advising Law).

Also note that in accordance with the agreements with the Supervisor of the Capital Market, Insurance, and Savings and the trajectory he has established, and pursuant to the January 2008 amendment to the Pension Advising Law, upon completion of the Required Asset Sales by the Bank and the corporations under its control, as required by the Bachar Reform, subject to receiving a pension-advising license and permit, the Bank will be permitted to provide pension-advising services to self-employed persons throughout Israel and to employed persons in the peripheral areas listed in the amendment to the Pension Advising Law. Pursuant to the said amendment to the Pension Advising Law, starting in January 2009, the Bank will also be able to provide advice on insurance funds and life-insurance products included in or supplementary to provident funds, to customers in peripheral areas. Starting in April 2009, it will also be able to provide advice on insurance funds and life-insurance products included in or supplementary to provident funds to self-employed persons throughout Israel. As of August 1, 2010, the Bank will be able to provide advice to all population groups on all pension products, including insurance.

The Capital Market

The Bank Group's capital-market activity includes a range of financial activities and services in various areas: executing trading transactions in securities and financial assets, including in the "Maof" area, for the Bank's customers; safekeeping services in securities; research and consulting services for customers on the capital market; provision of services to financial-asset managers; management of investment portfolios; and underwriting and issue management.

Some of the aforesaid financial activities and services are performed directly by the Bank, while others are performed by subsidiaries, each of which specializes and engages in a specified field.

Among other things, the Bank operates through subsidiaries that manage investment portfolios in securities and financial assets for private customers, corporations, non-profit associations, and institutions, and also provide trustee services.

The Bank is a member of the Tel Aviv Stock Exchange, the TASE Clearing House, and the Maof Clearing House, and operates in this market on behalf of its customers and on behalf of TASE members that are not clearing-house members.

Distribution of Mutual Funds

The Bank has reached agreements with the decisive majority of mutual-fund managers in Israel with regard to the distribution of mutual-fund units to its customers. The Bank is entitled to collect distribution fees in respect of this activity, as stipulated in the regulations.

For details regarding the volume of the mutual funds distributed by the Bank Group, see the section "Developments in Balance Sheet Items - Off-Balance-Sheet Activity," above.

Distribution of Advanced-Study Funds

The Bank is entitled to collect distribution fees for the distribution of advanced-study funds, as stipulated in the regulations. The Bank has entered into agreements with management companies of advanced-study funds with regard to the distribution of advanced-study funds to its customers.

Poalim Sahar Ltd.

The company, a wholly-owned subsidiary of the Bank, is a member of the Tel Aviv Stock Exchange and the TASE Clearing House. The company specializes in services to institutions such as established and new pension funds, bank provident funds, segmental provident funds, advanced-study funds, insurance companies, and public companies and institutions. The company offers brokerage services in Israel and abroad, research services, representation at general assemblies, and safekeeping and operational services.

Peilim Portfolio Management Company Ltd. (hereinafter: "Peilim")

Peilim, a wholly-owned subsidiary of the Bank, manages investments for private customers, business organizations, non-profit entities and others. Investments are managed for local and foreign customers in the Israeli capital market and in capital markets worldwide.

As at June 30, 2008, the company manages portfolios at a monetary value of NIS 8.3 billion, compared with NIS 8.2 billion at the end of 2007.

Pursuant to the Law for Increasing Competition and Reducing Concentration and Conflicts of Interest in the Israeli Capital Market (Legislative Amendments), 5765-2005, on August 10, 2008, (hereinafter: the determinant date), Peilim ceased providing investment-portfolio management services to joint trust investment funds, provident funds, pension funds, advanced-study funds, and insurers with investments credited to insured clients.

Provident Funds, Advanced-Study Funds, Severance-Pay Funds, and Paid Sick-Leave Funds

Under the Law for Increasing Competition, the Bank is required to divest from its holdings in management companies of provident funds within three years of the aforesaid law's publication. The Bank has completed the sale of all management rights of provident funds under its ownership. Pursuant to the law, the Bank is permitted to continue to provide operational services to provident-fund management companies.

The following are details regarding the sale of the principal provident funds:

On April 20, 2007, a sale transaction was completed in which Kovetz Provident Funds Management Company Ltd., a wholly-owned subsidiary of the Bank, transferred the entire management activity of the following provident funds: Keren Or, Katzir, Kinnereth, Aluma, Teutza, Zahav Zehira BeHashkaot, Dynamit, Gevanim, Migvan Pitzuim, Kinnaroth, and Marpeh Central Sick Pay Fund to Prisma the New Provident Funds Company Ltd., for a total consideration of NIS 455 million.

On June 28, 2007, a sale transaction was completed in which Gad-Gmulim Provident Fund Management Company Ltd., a wholly-owned subsidiary of the Bank, transferred the entire management activity of the provident fund Tagmulim to Dash Provident Fund Management Ltd. in consideration for a total of NIS 31 million.

On December 30, 2007, a sale transaction was completed in which Kovetz transferred the entire management activity of the provident funds Poalim Central Compensation Fund and Kovetz Pitzuim - Central Severance Pay Fund to Clal Insurance Company Ltd. in consideration for a total of NIS 30 million.

On March 2, 2008, a sale transaction was completed in which Kovetz transferred the entire activity of the provident fund Yeter, a guaranteed-return fund, to Menorah Mivtachim Gemel Ltd., in consideration for a total of NIS 33 million. Net profit in the amount of NIS 20 million was charged to the statement of profit and loss in the first quarter of 2008.

On March 24, 2008, a sale transaction was completed in which Gad-Gmulim transferred the entire activity of the provident fund Gadish to Psagot Provident Funds Ltd. (hereinafter: "Psagot"), in consideration for a total of NIS 628 million. Net profit in the amount of NIS 387 million was charged to the statement of profit and loss in the first quarter of 2008.

As part of the transaction described above, Psagot entered into long-term agreements with the Bank concerning the distribution of Gadish by the Bank and the provision of operational services by the Bank to Psagot.

Provident funds of Bank Massad:

With the completion of the sale of Bank Massad in May 2008, the Bank completed the sale of the provident funds which were under the management of Bank Massad.

Provident funds of Bank Yahav for Government Employees Ltd.:

In March 2008, Bank Yahav sold the majority of its provident funds. The Bank recorded its share of this sale in the amount of NIS 30 million under the item "profit from extraordinary transactions" in the first quarter of 2008.

With the completion of the sale of Bank Yahav on July 10, 2008, the sale of the provident funds which were under the management of Bank Yahav was completed in as far as the Bank is concerned. For details regarding the balances of the provident funds operated by the Bank Group, see the section "Developments in Balance Sheet Items - Off-Balance-Sheet Activity," above.

Pension Advising

According to the directives of the Pension Advising Law and the Banking (Licensing) Law, 5741-1981, as amended by the Law for Increasing Competition (hereinafter, together: the "Legal Arrangement"), the Bank shall be permitted to engage in pension advising in the future, under the terms stipulated in the Legal Arrangement, including, especially, receiving a pension-advising license from the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance.

The Bank is preparing for the time when it may begin engaging in pension advising, as noted. Among other things, a new Pension, Insurance, and Retirement Funds Division has been established within the Bank, responsible for coordinating pension-advising activity. Personnel specializing in the pension savings and insurance market have been hired by the Division, and the Bank has trained pension advisors from among its employees while also hiring additional employees, in order to be able to adequately provide pension advice to the public once it receives a license to engage in this activity.

To date, some 400 advisors have been trained and have passed Finance Ministry pension-advising licensing examinations. In addition, the Bank is adapting its procedures and systems; working to prepare distribution agreements with producers of retirement-fund products and pension products; and setting up IT infrastructures to allow the provision of service to customers, including support systems for pension advising to help match suitable pension solutions to customers.

As part of these preparations, the Bank has acquired the company Meitavit Maayan for Research and Development Ltd., which owns rights to products and system developments of the type required by the Bank in order to establish pension-advising support systems, and has the expertise needed for specification, writing, and editing of software solutions for pension advising. The Bank has also acquired a pension payment management system, which together with systems developed at the Bank will allow agreements to be made with producers of pension products and with employers and customers, in order to collect pension payments; breakdown of payments to the different producers according to the customer's instructions; and retrieval of information from producers for customers through the various channels.

To date, the Bank has signed distribution agreements with 25 management companies.

In November 2007, the Bank commenced the provision of financial advice in the area of advanced-study funds through Investment Advisors at all branches of the Bank.

Subject to receiving a pension-advising license, the Bank will be able to engage in pension advising, in accordance with the stipulations of the legal arrangement and of the permits and directives derived from it.

Services for Financial Asset Managers

The Financial Asset Manager Services Division within the Client Asset Management Area coordinates activities related to the provision of various services to financial-asset managers: provident-fund managers, mutual-fund managers, and investment-portfolio managers.

The division collects under one roof the knowledge, experience, and human and IT capabilities accumulated at the Bank in the operation of the financial assets mentioned above and in the provision of banking services to entities that manage these assets: provident-fund management companies, mutual-fund management companies, and investment-portfolio managers. Services include asset revaluation, production of control reports, production of reports to government agencies, management of the fund's books, management of accounts and rights of provident-fund members, calculation of daily and monthly returns of provident funds, and calculation of daily rates in mutual funds.

The Bank has signed agreements for the provision of operational services in the area of provident funds to provident-fund management companies, some incidental to the sale of provident funds formerly owned by the Bank. In the area of mutual funds, service agreements have been signed with mutual-fund management companies.

At the end of June 2008, the volume of assets of provident and pension funds for which the Bank provides operational services totaled NIS 77.5 billion.

The Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance has issued a directive by circular according to which a pension advisor providing operational services to a provident fund shall not charge operational fees from management companies higher than 0.1% annually of the total assets of the provident funds receiving said services from the pension advisor. As the Bank is preparing to become a pension advisor, this directive limits the rate of operational fees to be collected from provident-fund management companies.

In addition, the division provides supplementary account-management services to mutual funds. The value of these funds' assets at the end of June 2008 totaled NIS 16.6 billion.

Liquidity and Policy for Raising Sources of Funds at the Bank

The Bank of Israel's monetary interest rate, which stood at an annual rate of 4.25% at the beginning of 2008, was lowered to 3.25% at the end of March 2008, and rose again to 4.0% on July 31, 2008. The banking system deposited NIS 2 billion with the Bank of Israel at the beginning of 2008. In early April 2008, the banking system borrowed NIS 2 billion. The Bank of Israel reduced net issues of short-term notes by NIS 1 billion during the quarter. In addition, the banking system borrowed NIS 7 billion in early July 2008. The Bank of Israel reduced net issues of short-term notes by NIS 1 billion during the first half of the year.

Unlinked shekel resources raised from the Bank's customers totaled NIS 111.1 billion at the end of the second quarter of 2008, an increase of NIS 10.0 billion compared with the end of 2007.

Unlinked demand deposits (current-account deposits and daily-interest deposits) with the Bank reached NIS 27.8 billion at the end of the second quarter of 2008, similar to the amount at the end of 2007.

Unlinked deposits increased to NIS 83.3 billion at the end of the second quarter of 2008, an increase of NIS 10.0 billion compared with the end of 2007.

CPI-linked resources accrued in saving plans and deposits with the Bank decreased, totaling NIS 26.5 billion at the end of the second quarter of 2008, compared with NIS 26.7 billion at the end of 2007.

Foreign-currency-linked resources, which mainly derive from foreign-currency-linked deposits and saving plans, totaled NIS 0.8 billion at the end of the second quarter of 2008, compared with NIS 1.1 billion at the end of 2007.

Foreign-currency resources raised by the Bank from customers in Israel and abroad totaled USD 23.6 billion at the end of the second quarter of 2008, compared with USD 23.4 billion at the end of 2007.

Since early July 2007, global financial markets have been undergoing a crisis that began in the U.S. subprime mortgage market. The damage caused by the crisis led to a decline in value of financial assets. The crisis has hurt investors as well as the financial entities that develop the products. Consequently, a liquidity crisis developed in the international markets, which caused short-term interest rates to rise. The central banks exerted a moderating effect by providing an inflow of cash to the markets.

During this period, the scope of the existing and potential losses became apparent, and concerns arose that the crisis might spill over into additional areas. Credit spreads widened substantially, for those involved in particular and for the financial sector in general. Consequently, banks and financial entities in New York used credit lines, the availability of resources from banks and financial institutions decreased, and capital-raising costs increased. Access to the repo market was limited as well.

The high level of liquidity surpluses in foreign currency and a proactive increase in current liquidity balances in response to these events allowed the liquidity needs of the New York and London branches to be met.

CLS and RTGS Systems

The RTGS (real-time gross settlement) system operating at the Bank since September 2007 allows the shekel to be added as a cleared currency via CLS (Continuous Linked Settlement), an international inter-bank clearing system, in order to neutralize clearing risk in exchange transactions in which the shekel is one of the currencies. The shekel was added to CLS as a cleared currency on May 26, 2008.

Risk Management

General

The Bank's activity is accompanied by financial risks: credit risks, which represent the risk that a borrower or debtor will default on scheduled payments to the Bank as defined in the credit agreement; market risks deriving from exposure to changes in rates in financial markets, such as exchange rates, interest rates, and inflation; and liquidity risk, which is the risk to the profit and capital of a banking corporation resulting from uncertainty with regard to the availability of resources. These risks are managed by designated members of the Board of Management and under their responsibility. A regulatory requirement of capital adequacy applies to credit risk and market risks.

The member of the Board of Management responsible for managing credit risks is Mr. Z. Kenan. The member of the Board of Management responsible for managing market and liquidity risks is Mr. M. Szuszan.

Other non-financial risks are mainly legal risk and operational risks. Legal risk is managed by the Chief Legal Advisor, Attorney I. Mazur. Operational risk, excluding legal risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible. Operational risk is defined as the risk of losses that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. A regulatory requirement of capital adequacy is expected to apply to operational risk in the future.

Other risks to which the Bank is exposed are handled directly as part of the management of its business: reputation risk, competitive risk, regulatory and legislative risk, economic risk, and political/security-related risk.

The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the risks to which a banking corporation is exposed and stipulate various basic principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the assessment and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function.

The member of the Board of Management responsible for the Risk Management Area is Mr. D. Koller. The Area's principal activities include control and assessment of credit risks, market risks, liquidity risks, and operational risks. In addition, the Anti-Money Laundering Unit and the Compliance Officer Unit operate within the Area. The Area's main objective is to promote an advanced risk-management culture within the Bank Group while formulating a risk-management policy compatible with the Group's goals and with the guidelines of Basel II and of the Supervisor of Banks.

A Board of Directors' Committee on Risk Management and Basel II Implementation is in operation at the Bank. The committee's mission is to formulate the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of banking subsidiaries. The management team responsible for risk management, headed by the CEO of the Bank, is charged with formulating methodology for the assessment of market and liquidity risks, operational risk, and credit risks, with the guidance of the Board of Directors' Committee on Risk Management and Basel II Implementation. Risks are managed separately by each banking subsidiary in the Bank Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Bank. Risk control and the assessment of financial risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the unique characteristics of the activity of each subsidiary.

The approach taken with regard to control of all financial risks involves identification, assessment of the various risks, and control of compliance with the limits stipulated in the various regulations, at three levels of control: the first level is comprised of those responsible for risk taking and exposure management; the second level consists of internal control units at the Areas and at subsidiaries; and the third level is the independent control units within the Risk Management Area. This level is also responsible for presenting an overview of risks.

The Board of Directors' Committee on Risk Management and Basel II Implementation and the plenum of the Board of Directors receive reports on risks and on the execution of approved policy at least once each quarter.

Basel II

The Basel II guidelines are a set of guidelines and basic procedures published during 2004-2006 by the Basel Committee, which coordinates the activity of the central banks in the industrialized countries with respect to numerous matters. The objectives of these directives are, among other things, to define capital-adequacy requirements in relation to the level of credit risks, market risks, and operational risks; to establish a comprehensive system of rational treatment of risk identification, evaluation, management, and control; and to expand reporting to the public on this subject.

In late March 2007, the Supervisor of Banks published a draft directive concerning standard approaches to credit risk, market risks, and operational risks. According to the directive, all Israeli banking corporations will be required to implement the Basel II recommendations for the first time in 2009, using the approach best suited to each corporation's degree of readiness. In preparation for implementation of the recommendations, in the first stage, all banks are required to carry out quantitative surveys to estimate the regulatory capital allocation that will be required in order to implement the recommendations, under various assumptions (QIS5), as well as qualitative gap surveys for the implementation of Pillars 1 and 2 of the recommendations.

The Board of Management of the Bank views the implementation of the international standard described above as an important goal for the coming years, and is formulating its policy for this implementation with the guidance of the Board of Directors' Committee on Risk Management and Basel II Implementation. The Risk Management Area is responsible for examining and coordinating the implementation of the Basel II directives as well as the directives of the Supervisor of Banks in Israel on this subject within the Group.

The Bank has been taking action towards implementation of the Basel II recommendations for several years within the framework of its multi-year work plans. Following the recent draft directive on this subject published by the Supervisor of Banks, the Bank established a project-management team and is currently re-examining its plans, with the intention of adapting these plans to the said publication.

Credit Risks

The Bank's policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio among a large number of borrowers in different sectors of the economy, among the different linkage segments, and among different geographical regions in Israel and abroad. The policy of distributing risks among economic sectors is based on an estimate of anticipated developments in the different sectors. For this purpose, the Bank conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Bank's business objectives are determined in accordance with these surveys and studies.

The Bank's Board of Directors establishes credit policy, which is routinely examined and updated according to the changes in the financial markets and in the economy. This policy includes various restrictions of the credit portfolio, which include exposure limits by economic sector, country, and financial institution, as a function of the risk level estimated by the Bank. Limits are also imposed on the maximum exposure to a single borrower, based on the credit rating assigned to the customer, which reflects the customer's risk level; and limits on maximum exposure to a group of borrowers. Procedures are in place for the monitoring and control of compliance with such limits, and any exception from these limits is reported to the Board of Directors, which decides on the way of handling the exception.

The credit-management system relies on the delegation of credit authority at different levels of the Bank, as established and approved by the Board of Directors, and on credit procedures that define the credit authorization process and the control process. Credit authorizations at the various levels were updated during the current quarter.

Within the framework of collateral policy, principles and rules have been set forth to determine the value of collateral with respect to its type and the type of credit that it secures, such as the estimated time range and expenses necessary for realization of the collateral, type of indexation, volatility in the value of the collateral, etc. Procedures have also been defined for the processing of collateral and for monitoring changes in collateral and its value. A computerized collateral-management system is operational with respect to most types of collateral.

Collateral received by the Bank to secure credit includes financial assets, real-estate assets, and other assets. Against credit granted to companies, the Bank also receives collateral in the form of general floating liens on the companies' assets.

According to the directives of the Supervisor of Banks, collateral, as defined in Proper Conduct of Banking Business 311, may be deducted from risk-adjusted assets for the purpose of calculating the capital-adequacy ratio.

Details of the aforesaid deductions:

Total balance-sheet deductions amount to approximately NIS 17.1 billion.

Total off-balance-sheet deductions amount to approximately NIS 4.2 billion.

In this connection, total guarantees used for the deduction amount to NIS 4.9 billion, of which NIS 4.4 billion are guarantees from banks and NIS 0.5 billion are government guarantees.

In the area of financing of Bank customers' transactions involving derivative financial instruments, the Bank has developed computerized models for measuring and controlling the level of counterparty risk at the transaction level and the customer level. These models allow the Bank to regularly monitor customers' financial situation. In this activity, credit risk at a particular date is defined as the total of the value of the present position (MTM) plus potential risk of future losses arising from volatility of the underlying assets in the position of the counterparty, taking into account offsets and correlation between the transactions; this represents the Bank's loss in the event of default by the client. Rules and working procedures have been defined to determine the level of collateral required for these transactions. Rules have also been defined for the closing of exposures in respect to transactions and to customers. Limits on exposure to counterparties are set by the appropriate credit authorities at the Bank.

The Bank regularly invests resources in training employees responsible for making credit decisions and assessing credit risk, and in improving the computerized control mechanisms and information systems available to them. As part of this process, credit-decision support systems and a borrower grading procedure have been operated. Borrowers' credit rating is routinely examined, and used to make decisions regarding the Bank's activities in relation to the borrowers.

The Bank has established procedures for the identification and handling of borrowers who, according to the Bank's evaluation, may not meet their obligations to the Bank. These borrowers are supervised and monitored more closely, and the Bank endeavors to reduce its exposure in respect of these borrowers by redeeming credit from the borrowers' resources and/or by obtaining additional collateral from them. In certain cases, customers are handled by a division specializing in monitoring and restructuring of customers' debt, or by a division specializing in debt arrangements and the collection of debts by legal process.

In addition, the Bank regularly reviews the level of credit risk in borrowers' portfolios on the basis of conservative assumptions, and records a sufficient provision for doubtful debts in respect of borrowers whose capability to fully repay their debts to the Bank is in doubt.

Credit-risk management policy at the Bank's offices and branches abroad is based on similar principles to those of credit-risk management policy in Israel, adapted to regulatory requirements in each country. Credit-risk policy at the Bank's offices abroad is approved by the local board of directors, following consultation with credit-risk management officials at the Bank, and is presented to the Board of Directors of the Bank.

The Credit Risk Management Unit

The Unit reports to the Head of Risk Management. The Unit's role is to formulate credit-risk management methodologies in line with the strategic goals of the Bank Group, and to ensure that the Bank acts in accordance with the policy established. The Unit's responsibilities include developing models for the measurement of credit-risk rating and pricing at the level of individual borrowers and at the portfolio level; developing credit-risk identification, control, and management methodologies; and advancing preparations in the area of credit risk in anticipation of the implementation of Basel II regulations.

Also operating within the Unit is the Credit Control Unit, which regularly performs independent assessments of the risk level of the Bank's major corporate clients and assigns credit ratings to these borrowers.

The subprime crisis that emerged in the United States in 2007, the increase in inflation, and the development of an economic slowdown in the U.S., influencing markets worldwide, have raised the risk level of the credit portfolio – especially in the residential real estate, commercial real estate, and finance sectors in the U.S. and in Europe. The global situation has also led to signs of a slowdown in the local market, with an increase in risk, as demonstrated by various economic risk indices. The Board of Directors and the Board of Management of the Bank continually monitor developments in the global markets and their effect on the risk in the portfolio, in Israel and abroad, and update policy accordingly.

Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses

A circular of the Supervisor of Banks on the subject of “Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses” (hereinafter: the “Circular” or the “Directive”) was issued on December 31, 2007. The Circular is based, among other things, on U.S. accounting standards and the related regulatory directives of bank supervision agencies and the Securities and Exchange Commission in the United States. The fundamental guiding principles of the Circular represent a substantial departure from the current directives. For further details, see Note 1B(3) to the Condensed Financial Statements as at June 30, 2008.

Management of Market and Liquidity Risks

Market and liquidity risks are managed based on a global view of the Bank’s activity in Israel and at its branches abroad, taking into account the activity of the banking subsidiaries.

The Board of Management and the Board of Directors approve areas of activity and risk limits. Global asset and liability management (ALM) and trading management (in the dealing rooms and in the proprietary bond portfolios) are performed under the responsibility and direction of the Global Treasurer. Routine management and supervision are under the responsibility of managers in the Asset and Liability Management Division in Tel Aviv, in asset and liability management units at the Bank’s branches abroad, and in the dealing rooms in Tel Aviv, New York, and London, as relevant. These units report to the Head of Global Treasury.

In accordance with the Supervisor of Banks’ Proper Conduct of Banking Business Directive No. 339 concerning risk management and control, the Bank has a unit engaged in operational and market risk management. This unit reports to Head of Risk Management. Within the unit, market and liquidity risk assessment and control are performed by the Market and Liquidity Risk Management Department, independently and in addition to the monitoring and analysis performed as part of the Global Treasury Area’s activity.

Routine control and monitoring of activity at branches abroad are performed by local units, with full coordination and routine reports to the corresponding Head Office units: the Exposure Management Department in the Global Treasury Area and the Market and Liquidity Risk Management Department in the Risk Management Area.

In addition to the assessment of risks, examination of outcomes, and routine control of compliance with limits, the Execution and Control Unit in the Global Treasury Area performs control activities. This control is operational and is aimed at checking for correctness, completeness, and congruence among the different databases in the various reporting systems, and identifying operational errors.

Market and Liquidity Risk Policy and Management

Risk limits reflect the Bank's risk appetite - the extent of risk to which the Board of Management and the Board of Directors are willing to expose the Bank. The limits are approved by the Board of Directors and anchored in regulations, including, among other things, limits on the sensitivity of the Bank's economic value to changes in the primary risk factors and specific limits for each of the various trading activities. A summary of the main limits is presented below.

ALM and market and liquidity risk management policy are defined and controlled by the Global Asset and Liability Management Committee of the Bank's Board of Management, headed by the Bank's Chief Executive Officer.

Policies, including the limits established, are submitted for discussion and approval to the Global Asset and Liability Management Committee of the Bank's Board of Management, the Business and Budget Committee of the Board of Directors, or the plenum of the Board of Directors, as relevant. Market-risk management policy is aimed at increasing expected returns on an economic basis, while maintaining approved and controlled risk levels.

Ongoing activity is conducted by secondary committees led by the Head of Global Treasury, with the participation of senior Bank officials. Local committees also operate in New York and London. The committees operate on the basis of resolutions adopted by the Board of Directors or by its committees regarding exposure to market and liquidity risks, subject to the directives issued by the Supervisor of Banks or by the local regulator, as relevant.

The Business and Budget Committee and the Risk Management and Basel II Implementation Committee of the Board of Directors and the plenum of the Board of Directors receive reports on activities, exposures, results of operations, and execution of approved policy at least once each quarter. Market and liquidity risks are managed separately by each banking subsidiary in the Bank Group, according to policy formulated by each company's board of directors. Market and liquidity risks are assessed and controlled based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the size of capital and the unique characteristics of the activity of each banking subsidiary.

Subsidiaries' exposures to market and liquidity risks are examined by the Market and Liquidity Risk Management Department in the Risk Management Area, and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level.

Market risks derive from the Bank's exposure to price changes in the financial markets in which it operates. The Bank is exposed to changes in interest rates ("interest-rate exposure"), exchange rates, and inflation ("currency exposure" or "linkage-base exposure"). Liquidity risk arises from uncertainty with regard to the availability of resources, and is addressed separately.

Market Risks

Market-risk exposure management at the Bank differentiates between exposures that arise in the course of the Bank's routine asset and liability management (ALM - banking book, "non-trade") and trading exposures ("trade"). A detailed description of the management of market risks in ALM and trade activity appears in the Financial Statements as at December 31, 2007.

Liquidity Risk

Liquidity risk in foreign currency and in shekels in the various segments of activity is managed and controlled routinely, in order to ensure that the Bank can compete effectively even during situations of exceptional demand and supply in the financial markets.

Routine liquidity management is under the responsibility of the ALM Division and is carried out through the liquidity units, in shekels and in foreign currency. In accordance with the Proper Conduct of Banking Business Directive regarding liquidity management, the Bank uses an internal liquidity-risk assessment model, as detailed in the Financial Statements as at December 31, 2007. A daily liquidity-risk report is generated by the ALM system, a comprehensive asset and liability management system.

Risk Assessment and Control

Identification and assessment of risks, monitoring of limits on the level of risks, and reporting of findings are carried out or controlled by the Risk Management Area, independent of the routine analyses and reports performed as part of the operation of the Global Treasury Area.

The Market and Liquidity Risk Management Department in the Risk Management Area is responsible for the formulation of market and liquidity risk assessment methodology, in line with the strategic goals of the Bank Group, and for the control of market and liquidity risks in the Group. The Bank's risk level is measured and controlled according to procedures that include, among other things, limits in terms of the sensitivity of the Bank's economic value to changes in the primary risk factors. In addition, a risk estimate is calculated using the VAR (value at risk) method. The VAR method is used to estimate the maximum potential loss to a corporation resulting from the materialization of market risks within a given period of time and at a level of statistical significance predefined by the Bank and approved by the Board of Directors.

Risk assessments as well as limit control of trading positions are performed at least once daily.

Market Risk Assessment Methodology

The estimation of the risk in trading activity is calculated for a horizon of ten business days and at a significance level of 99%. The higher of the risk-level outcomes of two commonly accepted risk-assessment methods (historical simulation and Monte Carlo simulation) is taken into account. This methodology is compatible with the relevant recommendations of the Basel Committee following the crisis in U.S. markets. The estimation provides a relatively prompt alert of the market risk level during periods of rising volatility. A full revaluation of the trading portfolio is performed every business day, numerous times under various scenarios, in order to produce an estimate. An assessment of the risk level of the Bank's overall activity is executed once a month, using a historical simulation with a one-month horizon.

In addition, a backtest procedure is performed routinely, based on the criteria recommended by the Basel Committee, in order to examine the validity of the risk-assessment model. The results of these tests are reported annually to the Board of Management and to the Board of Directors. For an extensive description of this methodology, see this section in the Financial Statements as at December 31, 2007.

Overall Activity of the Bank

Set out below are the main data for the reporting period:

Sensitivity of the Bank's capital to changes in the CPI (Theoretical change in economic value as a result of each scenario)

Scenario	June 30, 2008	Maximum in 1H 2008	Minimum in 1H 2008
	NIS millions		
1% decrease in CPI	(32.7)	(74.3)	(32.7)

The Bank operates in currency markets through spot and forward transactions, as well as through options, both on its own behalf and on behalf of its customers. Consequently, the Bank has activity in most of the world's tradable currencies, in developed markets as well as emerging markets. Due to the limits imposed on currency exposure, key points of which are noted in the summary of limits below, net currency exposure is relatively low.

Set out below are the main sensitivities to currency exchange rates as at June 30, 2008:

Sensitivity of the Bank's capital to changes in main currency exchange rates (Theoretical change in economic value as a result of each scenario; appreciation scenario indicates strengthening of the currency in question against all of the other currencies)

Currency:	10% appreciation	5% appreciation	5% depreciation	10% depreciation
	NIS millions			
USD	115.1	32.4	(34.0)	(75.7)
JPY	22.3	14.9	(17.1)	(35.5)
CHF	(8.9)	1.1	(11.6)	(29.8)
EUR	(17.9)	(15.3)	21.7	50.8
TRY	18.3	9.1	(9.1)	(18.3)
CAD	(10.4)	(4.0)	1.6	8.4

Limits are imposed on the sensitivity of the capital of the Bank (including financial subsidiaries managed by the Bank) to a scenario of change in the shekel, CPI-linked, and dollar interest-rate curves.

Sensitivity of the Bank's capital to parallel shifts in interest rate curves (Theoretical change in economic value as a result of each scenario)

Scenario		June 30, 2008	Maximum in 1H 2008	Minimum in 1H 2008
		NIS millions		
1% shift in CPI-linked interest rate (Sensitivity arises entirely from the banking book)	Decrease	(209.8)	(209.8)	(125.7)
1% shift in unlinked interest rate	Decrease	(193.6)	(243.2)	(193.6)
Of which, in the banking book	Decrease	(178.8)	(271.6)	(106.1)
1% shift in foreign-currency interest rates (Sensitivity arises entirely from the banking book)	Increase	(124.4)	(271.1)	(124.4)

Trading Activity

Set out below are the main data for the reporting period:

VAR Estimates of Trading Activity

Scenario	June 30, 2008	Average in 1H 2008	Maximum in 1H 2008	Minimum in 1H 2008
	NIS millions			
Bond trading	5.9	7.2	17.9	2.0
Trading in the dealing room	38.8	32.0	52.5	18.0
Total trading	44.7	39.2		

Procedures for Exposure to Market and Liquidity Risks

In early 2008, the Board of Directors approved a document on exposures to market and liquidity risks, based on the work plan of the Global Treasury Area.

The approved limits include a general limit for the overall risk estimate of the Bank, limits on the overall sensitivity of the Bank to risk factors, and risk limits in the various areas of trading activity, including the establishment of a risk limit for activity in foreign-currency interest rates. Utilization of the approved limits, as listed below, is subject to approval by the Global ALM Committee.

Set out below are the principal limits on exposures to market risks, overall for the Bank and separately for overall trading activity:

	Limit	NIS millions	% of active financial capital
Overall Bank	Overall risk estimate	1,000	
	Sensitivity to 1% change in interest rate curve:		
	CPI-linked shekel	500	
	Unlinked shekel	620	
	Foreign currency	720	
	Linkage base exposures by segment:		
	CPI-linked shekel		+/-100
	Foreign currency, including foreign currency linked		+/-30
	Sensitivity to 3% change in shekel/dollar exchange rate	150	
	Trade	Overall risk estimate (VAR)	250
Shekel/foreign currency exposure			+/-10
Sensitivity to 3% change in shekel/dollar exchange rate		60	
Foreign currency exposure / foreign currency in trading and currencies		800	

Reporting

The Board of Directors and its committees (the Business and Budget Committee or the Risk Management and Basel II Implementation Committee, as relevant) receive periodic reports on exposures, results, and execution of approved policy. Details of these reports appear in the Financial Statements as at December 31, 2007.

During the reported period, periodic control reports were submitted to the Board of Directors of the Bank in which no material exceptions from procedures were noted.

The Bank is required to maintain a minimum capital ratio in respect of market risks on the basis of a standard model defined by the Bank of Israel. The regulatory rate of capital adequacy is calculated for interest-rate risks in the areas of trading alone, as defined above, and for currency and inflation risks at the Bank Group.

The capital required in this respect on June 30, 2008, was NIS 475 million, of which NIS 325 million were in respect of the Bank and financial subsidiaries managed by the Bank, and NIS 150 million were in respect of other subsidiaries.

Set out below are details of the required capital for market risks:

	Bank	Subsidiaries	Total required capital
	NIS millions		
Exchange-rate risk	68	115	183
Interest-rate risk	160	35	195
Share risk	2	-	2
Option risk	95	-	95
Total	325	150	475

Operational Risks

Operational risk is defined as the risk of loss resulting from failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputation risk.

Operational risk management policy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and prudent treatment with regard to operational risks to contribute to managerial decision-making, based on considerations of business value versus cost in terms of risk, both on the level of the management of the organization and on the level of the various units.

The responsibility for routine operational risk management and for activities aimed at mitigating the risk lies with the Area managers and the managers of subsidiaries in the Bank Group. These activities are overseen by the Operational Risk Management Department at the Risk Management Area. Routine activity is conducted at the Bank's units and in the Group by a network of operational risk controllers, based on the matrix management principle; controllers report organizationally to Area managers or CEOs of subsidiaries, and receive methodology guidance from the Operational Risk Management Department.

Operational risk management activity is supervised and directed by three forums:

- The Board of Directors' Committee on Risk Management and Control and Basel II Implementation;
- The Board of Management Committee on Risk Management and Basel II Implementation, headed by the CEO;
- The Sub-Committee on Operational Risk Management, headed by the Head of the Risk Management Area.

The operational risk management policy was approved by the Board of Directors of the Bank. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties, taking into consideration the Basel II guidelines. The Bank is preparing to implement the Basel II recommendations in stages, as part of the preparations for the Basel II Sound Practice principles, in line with the Bank's policy in this area. The Bank of Israel has published draft standards related to operational risk management and the internal control structure, which match the recommendations of the Basel Committee. These drafts serve as the basis for dialogue on this subject between the Supervisor of Banks and the banking sector, within designated committees.

In the area of information security, activity is conducted as required under the directives of the Bank of Israel, the Protection of Privacy Law, and other laws, as relevant, with the aim of protecting the information-technology system and minimizing information-security risks.

The Supervisor of the Prohibition of Money Laundering and Prevention of Terrorism Financing

During the second quarter of 2008, the unit's activity focused on tight supervision of banking activities in accounts, with the aim of identifying activities that appear to be unusual and reporting such activities to the Israel Money Laundering Prohibition Authority. The quantity of proactive reports filed increased during the quarter compared with the same period last year. The development and improvement of control systems and the system for reporting to the Israel Money Laundering Prohibition Authority continued. Upgrades were made to the system for scanning names against international alert lists of entities and individuals that pose a risk in relation to the prohibition on money laundering and prevention of the financing of terrorism. Training and implementation of legal directives continued, with an emphasis on international banking activity, accounts of foreign residents, and transactions with banks in the Palestinian Authority.

The routine training and implementation activities contribute to increasing knowledge on the subject of compliance and improving the quality of reports handled by the unit.

The unit is continuing to develop new tutorials on subjects related to the prohibition of money laundering and the prevention of terrorism financing, with adaptations for changing legal and business conditions.

The unit continues its initiatives in developing new control tools, in order to reinforce its ability to identify and examine activities that appear to be unusual in the context of the prohibition of money laundering or activities that appear to be related to terrorism financing. The unit is responsible, among other things, for preventing the performance of such acts by or through the Bank and for reporting them to the Israel Money Laundering Prohibition Authority and/or to the Israel Police, as relevant.

In addition, the Supervisor of the Prohibition of Money Laundering continues to monitor and control the activity of branches and subsidiaries abroad in all matters related to the prohibition of money laundering and the prevention of terrorism financing.

The unit actively participates in content management on the website for the Bank's Compliance Officers. The website provides employees with general and specific information on subjects related to compliance, originating in Israel and elsewhere; serves as a real-time help center; and is an important tool for the absorption of regulations, making use of lessons learned from events arising from banking activity.

On September 24, 2007, the Bank announced that in light of the government's decision to declare the Gaza Strip a hostile territory, the Bank had decided to terminate banking activity with banks and branches located in the Gaza Strip. At this stage, this activity continues to be carried out, at the request of the Bank of Israel and the Ministry of Finance.

Activity of the Compliance Officer Unit

Proper Conduct of Banking Business Directive No. 308 represents an important phase in adherence to and compliance with consumer-protection directives relevant to the Bank's operations, in regard to the relationship between the Bank and its customers.

The appointment and activity of a Compliance Officer are required under the general framework of risk management in a banking corporation. The Compliance Officer's role involves assisting the Board of Management and the Board of Directors in fulfilling requirements in these areas, reducing the corporation's exposure to legal claims, and protecting the corporation's reputation.

The Compliance Officer Unit monitors gaps and violations (if any) in the area of consumer-protection directives. In addition, changes in legislation and in the directives of the Bank of Israel are monitored, as they pertain to consumer-protection directives.

Main activities during the second quarter of 2008:

Work sessions were held with professional units supporting the execution of the compliance plan. In the area of training and implementation of consumer-protection directives, visits were made to branches and Regional Administrations in order to conduct explanatory activities and raise awareness of the importance of this subject. The unit continues to monitor the process of implementation of consumer-protection directives through tutorials prepared by the Compliance Officer Unit.

Seminars were held for Compliance Officers. In addition, branch Compliance Officers performed control processes in areas related to consumer-protection directives, focusing on improving data on accounts opened for non-residents and improving data on encoded accounts.

During the quarter, we prepared to produce a new infrastructure survey, as required once every five years under Proper Conduct of Banking Business Directive 308.

The unit is coordinating a project in the area of training and authorizations for opening accounts, so that all employees who handle account opening will have the appropriate training.

The Compliance Officer Unit, in cooperation with the Poalim Campus, completed the collection of data for knowledge mapping in the area of consumer-protection directives, which was carried out at the beginning of the year, and is currently preparing to produce training solutions in this area. The unit is also preparing for additional knowledge mapping in other areas.

In the area of computerization, processes were completed for the setup of two new computerized systems:

1. The Consumer Protection Directives Compliance Control System, which is used to transmit deficiencies identified in relation to consumer-protection directives directly to branch Compliance Officers' desktops.
2. Development of the Infrastructure Survey System, designed to ensure that the Bank is prepared to implement and fulfill its duties, as derived from consumer-protection directives, in the prevention of exposures and in the resolution of gaps and risk areas, in accordance with Proper Conduct of Banking Business Directive 308. The system's interface is currently being improved and made more user-friendly.

The Compliance Officers' website and forum are a significant aid to the routine activity of Compliance Officers and to increasing their knowledge and professional expertise. The website is used by the community of Compliance Officers at branches, Regional Administrations, and the Head Office. The site contains professional content and serves as an efficient tool for the benefit of all members of this community.

Regulatory Risk

Changes in legislation as well as various regulatory developments, which result, among other things, in the imposition of limits on holdings of shares of the Bank and on holdings by the Bank in shares of entities related to the Bank, influence the Bank's operations and may influence its business results. As a "bank" and as a "banking corporation," the Bank's activities are guided and bound by a system of laws, orders, and regulations, including, among others, the Banking Ordinance, 1941; the Bank of Israel Law, 5714-1954; the Banking (Licensing) Law, 5741-1981; and the Banking (Service to Customers) Law, 5741-1981; as well as other laws with implications for its activity, such as the Securities Law, 5728-1968; the Supervision of Financial Services (Profession of Pension Advising) Law, 5765-2005; the Regulation of Engaging in Pension Advising, Pension Marketing, and Investment Portfolio Management Law, 5755-1995; and regulations and rules including the rules of the Governor of the Bank of Israel, and the directives, guidelines, and position statements of the Supervisor of Banks.

Banking laws include directives that apply to numerous areas of the Bank's activity, to the point that there is no area, or almost no area, of its activity that is not influenced by them to some degree. Banking laws also influence the Bank's subsidiaries, including those not considered "banking corporations," and to a lesser extent, companies related to the Bank.

Under the banking laws, the Bank is subject to supervision by the Bank of Israel, and in particular, supervision by the Governor of the Bank of Israel and by the Supervisor of Banks. In addition, the Bank is subject to supervision by agencies within government ministries, particularly the Ministry of Finance.

Banking laws refer to the Bank's capital and to the manner of its management, including the imposition of external and internal auditing and internal controls; they also determine the areas of activity in which the Bank is permitted to engage, and the other legal entities in which the Bank is permitted to hold control or to hold means of control at specified rates; and they restrict the extent of the Bank's influence on controlled, related, and other companies in which it holds means of control.

These laws restrict the Bank's freedom of investment, particularly in "non-financial corporations," as defined in the Banking (Licensing) Law. The banking laws impose certain usages of assets on the Bank, and they impose restrictions and conditions for other usages of its assets.

Competition Risk

The Bank is exposed to competition in Israel, in all areas of banking business in which it is engaged. The Bank also faces additional competitors in Israel and abroad, which offer alternative financial tools to those offered by the Bank.

Legal Risk

According to the Bank of Israel's definition, legal risk is "the risk of a loss due to the inability to enforce an agreement by legal actions."

Risks of this kind in the Bank's work may arise from a wide range of diverse circumstances. Thus, for example, risks may arise from the absence of written documentation of contractual engagements between the Bank and its customers, or between the Bank and its suppliers or others, deficient signatures, and/or a lack of details in written agreements; from improperly phrased agreements and/or agreements open to interpretation that does not reflect the Bank's intentions; or from agreements that are subject to cancellation (in full or in part) and/or that include unenforceable directives or other legal flaws.

The Bank takes a broad approach to legal risks, encompassing risks arising from primary and secondary legislative directives, regulatory directives, rulings of courts, tribunals, and other entities with quasi-judicial authority, risks arising from activity not backed by legal counsel or from flawed legal counsel, and risks arising from legal proceedings.

Legal risks are naturally intertwined with operational risks, as for example in the case of the possible absence of a full, written, legally signed agreement in a particular transaction, despite the fact that an agreement of the same type exists at the Bank and is used in the ordinary course of its business.

Legal handling of these issues emphasizes the following points:

- Identifying and addressing areas of material legal risk, with the appointment of an officer responsible for implementing the directives.
- Preparing suitable agreements, guidelines, and procedures in order to ensure that risk-prevention measures are implemented.
- Examining the implications of legislative directives (including court rulings) and directives of government agencies, and their consequences for the Bank's work.
- Drawing conclusions from legislative changes (including court rulings) and applying those conclusions in the legal documents customarily used at the Bank; delivering opinions on such matters to the relevant Bank units.
- With regard to subsidiaries in Israel and abroad, the plan delineates a general risk-management policy which each subsidiary must adapt to its circumstances and operations; mechanisms for reporting to the Head of Legal Risk are also required of these subsidiaries.

Poalim in the Community - Social Involvement and Contribution to the Community

Strategy and Vision

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives. This involvement, implemented through "Poalim for the Community," is part of an advanced managerial concept stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community, and as a business leader, should strengthen the community and take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged.

In the spirit of this business philosophy, the Bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. Activity on behalf of the community is an important factor in cultivating employees' sense of pride and cohesion.

Ongoing Activities

All of the Bank's community-oriented activity is organized under the "Poalim for the Community" framework (hereinafter: "Poalim for the Community"); part of the activity is conducted through the "Poalim for the Community Foundation (Registered Non-Profit Organization)" (hereinafter: "Poalim for the Community Foundation"), and the rest is conducted through other channels, described below. "Poalim for the Community" devotes special attention to work with children and adolescents, with the aim of advancing the generation of the future. However, the activity of "Poalim for the Community" is extensive and varied, and includes other target audiences as well.

Through the areas of activity described below, and through the various projects promoted by the Bank Group, the Group's involvement in the community in the first half of 2008 was expressed in a financial contribution of approximately NIS 32 million.

The following are details of the various channels and projects:

"Poalim Volunteers" employee volunteer project - Several Bank units collaborate on this project, aimed at assisting employees interested in volunteering for community activities. The Bank units involved are the Human Resources Area, the Logistics and Procurement Area, the Employees' Union, the Head of Community Affairs, Regional Administrations in the Retail Banking Area, and the "Matan" Foundation. Within this collaboration, employees are offered a wide variety of volunteering possibilities, for groups, branches, or individuals. Other Bank employees also volunteer individually with the Bank's assistance.

“Poalim for the Community” Foundation - Monetary donations to the numerous organizations supported by the Bank Group are made via the “Poalim for the Community” Foundation. Donations are given to organizations that fulfill the criteria defined under the Foundation’s donation policy. In the first half of 2008, as in previous years, the “Poalim for the Community” Foundation contributed to a large number of causes, including assistance for children and youth, strengthening disadvantaged population groups, and support for educational, culture, welfare, health care, and science institutions. Through the Foundation, the Bank contributes to higher-education institutions, to scholarships for university students and underprivileged schoolchildren, and to the creation of educational initiatives and enrichment programs for children and youth, as well as for children who are hospitalized and need special assistance in order to progress in their studies. The “Poalim for the Community” Foundation contributes to the advancement of culture and the arts, and makes donations to various activities throughout Israel, focusing on enrichment programs for children and youth via innovative educational projects. The Foundation helps to run workshops in Jewish and Arab schools throughout Israel in order to promote understanding and coexistence among the peoples and to encourage tolerance and democracy. Another important area in which the “Poalim for the Community” Foundation is a regular donor is health care. The “Poalim for the Community” Foundation supports several medical centers, with donations intended mainly to improve conditions of patients’ treatment and hospitalization. The Foundation also promotes projects aimed at integrating persons with disabilities into community life. In addition, the Foundation contributes to organizations that help realize wishes of children suffering from cancer.

“Read & Succeed” community project - “Poalim for the Community” is committed to changing the reading habits of Israeli children and youth. In addition to its ongoing community activities, the Foundation decided in 2004 to initiate a focused effort to bring about fundamental changes in the reading habits of Israeli children and youth. The project has continued in 2005-2008. The aim of the project is to raise public awareness of the encouragement of reading. The project includes a public informational campaign, distribution of books, funding of story hours throughout Israel, activities during National Book Week, and collaboration with the Children’s Channel and other media.

Community-oriented sponsorships - “Poalim for the Community” is involved in various community activities through community-oriented sponsorships, primarily encouraging excellence in sports, funding cultural events, and assisting health-care institutions.

Donations of computers and accompanying equipment - The Bank is aware of the paramount importance of investments in technological education for children and youth, and accordingly donates computers and other accompanying equipment each year. In the first half of 2008, the Bank donated 374 computer systems as well as additional accompanying equipment.

“Poalim for Culture and Nature in Israel” - The Bank believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for parents and children throughout Israel to travel during holidays and enjoy a variety of sites all over the country, without the visits causing a heavy financial burden for the families. During Passover 2005, the Bank launched a special project in which all Israelis were invited to visit sites throughout Israel free of charge during Chol Hamoed (the holiday week). This project has become a tradition, and continued during Passover in April 2008.

Support for culture and arts - Each year, the Bank contributes to the promotion of culture and the arts through donations and sponsorships; for example, the Bank provides support to museums throughout Israel. Likewise, the Bank accompanies and supports, through multi-year agreements, several internationally recognized cultural institutions committed to leadership and excellence in their field: the Bank supports the activity of the Batsheva Dance Company through three-year scholarships for dancers, and supports the Israel Philharmonic Orchestra and the Cameri Theater under five-year agreements.

The Bank also holds art exhibits at its Head Office building, with revenues devoted to the various foundations that participate in this initiative.

“From Three to Five” Project - Bank Hapoalim participates in the efforts of the Israel Technion Society and the ORT organization to help students from lower socio-economic backgrounds improve their academic achievements in mathematics. The aim is to increase the number of applicants for the five credit points matriculation exam in mathematics by about 5%. The Bank’s involvement enabled 1,500 students to participate in the project during the current academic year.

“Matan - Your Way to Give” (hereinafter: “Matan”) - Since 1999, the Bank has engaged in activity on behalf of the community in cooperation with the “Matan -YourWay to Give” Foundation. Through the “Matan Campaign,” employees engaged in volunteer work gain awareness of community needs and the importance of giving, and bring this message to their colleagues. The model is based on partnership between management and employees in the workplace. All donations to “Matan” by employees and management are intended for a wide variety of community causes, aimed at supporting and strengthening disadvantaged groups in society. Donations are distributed in a special procedure that involves an examination of needs and effectiveness. Bank employees participate as volunteers on the “Matan” fund designation committee, which decides on the distribution of the funds in the community, and as “Matan Observers,” assisting in the monitoring process of use of the funds donated.

“Matan” is committed to transferring donations to organizations or community causes chosen by the employee.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) refers to business organizations' activity aimed at generating profits responsibly, while reducing the firm's negative impact on the environment and on society, such as through the prevention of pollution, and increasing its positive impact, such as through financial education for the community.

The Bank is working to incorporate social responsibility in its ongoing activity. For this purpose, the Bank has prepared an organization-wide program to instill social responsibility in all areas of its activity. The Bank's objective is to meet international standards in this field.

As part of this program, a detailed gap analysis was performed in reference to some 400 leading CSR indicators and parameters, used by the best business organizations in the world. The diagnostic process involved an examination of the Bank's position relative to these indicators and parameters. A work plan was constructed according to the findings, encompassing long-term activities of the Bank alongside new work plans.

The diagnostic process and the subsequent work carried out by the Bank will be described in a CSR report to be published during 2008, in compliance with the highest standards of the international organization GRI (Global Reporting Initiative).

The Bank has adopted sustainability values as an integral part of its commitment to social responsibility, including care and preservation of the environment in all areas. The Bank views nature and its resources as an asset of the public, the community, and future generations. Accordingly, the Bank aspires to achieve a balance between economic development and the protection of the environment, with due consideration for the prevention of environmental damage and a commitment to manage our environmental impact so as to ensure continual improvement. The Bank cooperates with companies and public agencies to promote environmental issues, works to impart environmental values to its employees, and initiates and participates in community projects related to the protection of the environment.

The Internal Auditor

Details regarding the Group's internal auditing, including the professional standards under which the internal audit operates and the considerations involved in formulating the yearly and multi-year work plans, are described in the Annual Report for 2007. No material changes occurred in this regard during the reported period.

Disclosure Regarding the Procedure for Approval of the Financial Statements

The Board of Directors of the Bank is the organ charged with overarching control at the Bank, pursuant to the resolution of the Board of Directors of June 29, 2006, and with the approval of its financial statements.

The Board of Directors has established the Balance-Sheet Committee, which is responsible for examining the draft of the financial statements presented to it and making a recommendation to the Board of Directors with regard to the approval of the financial statements. The names and qualifications of the nine members of this committee are detailed in the section "The Board of Directors and the Discharge of its Functions" and in the section "Report on Directors with Accounting and Financial Expertise" in the Board of Directors' Report for 2007.

The Balance-Sheet Committee discusses the annual and quarterly financial statements of the Bank (the "Financial Statements") and presents its recommendations with regard to the approval of the Financial Statements to the Board of Directors of the Bank, prior to the date of approval of the Financial Statements by the Board of Directors.

The Bank's external auditors, Ziv Haft CPA (Isr.) and Somekh Chaikin CPA (Isr.) (the "Auditors"), are invited to the meetings of the Balance-Sheet Committee and of the Board of Directors in which the Financial Statements are discussed and approved, and they attend all such meetings. The Bank's Internal Auditor, Mrs. Orit Lerer, also participates in the discussions of the Balance-Sheet Committee and the Board of Directors in which the Financial Statements are approved.

Through detailed presentations by officers and others at the Bank, including the Chief Financial Officer Mr. Barry Ben-Zeev and the Chief Accountant Mr. Ofer Levy, the Balance-Sheet Committee examines the material issues and critical estimates applied in the Financial Statements; the reasonableness of the data; the accounting policies applied and the changes thereto, if any; and the implementation of the due disclosure principle in the Financial Statements and in the accompanying information, all this also through slide presentations and detailed explanations.

Also as part of the discussion of the Financial Statements, the Balance-Sheet Committee discusses the Bank's doubtful debts, in Israel and at the branches abroad, and presents its recommendations to the plenum of the Board of Directors on the matter of executing provisions accordingly. The Balance-Sheet Committee also receives reports about problematic borrowers of the Bank in Israel and at the branches abroad and also discusses and examines the Bank's exposure to various risks and their presentation and effect on the Financial Statements.

In addition, as required in the amendment to the control permit received by the controlling shareholder Arison Holdings (1998) Ltd. from the Bank of Israel, the Bank's doubtful debts in Israel and at the branches abroad are also discussed by the Audit Committee. The names and qualifications of the five members of the committee are detailed in the section "The Board of Directors and the Discharge of its Functions" and in the section "Report on Directors with Accounting and Financial Expertise" in the Board of Directors' Report for 2007.

The Audit Committee also discusses the methodology for classification of problematic debts and provisions for doubtful debts, and the principal trends and changes in doubtful-debt data in Israel and at the branches abroad.

The Audit Committee also receives reports of and discusses material deficiencies and weaknesses in the internal control of financial reporting, if and as found, and receives reports of any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a role in the internal control of financial reporting at the Bank, as required under Directive 645 - Disclosure Certification of the Public Reporting Directives of the Supervisor of Banks.

The Auditors, the officers of the Bank, and the Internal Auditor are invited to and attend the meeting of the Audit Committee in which the disclosure required in the Financial Statements is discussed, as noted above.

The Balance-Sheet Committee and the Audit Committee hold several meetings on these subjects, as necessary, and present their recommendations to the plenum of the Board of Directors, prior to the date when the Board of Directors discusses the Financial Statements.

Other Matters

On November 29, 2004, investigators from the Antitrust Authority arrived at the Bank's Head Office and seized various documents. The Antitrust Authority did not disclose to the Bank the reason for the seizure of the documents or the subject of its investigation.

As published in the press, investigators from the Antitrust Authority also seized documents at the headquarters of Bank Leumi on the same day. Soon after, similar operations were carried out at the headquarters of Discount Bank and Mizrahi-Tefahot Bank. In July 2005, and subsequently, the Bank was asked to provide the Authority with additional materials. Several Bank employees were also called into the Authority's offices for questioning.

On March 19, 2008, the Bank received notification from the Antitrust Authority that the Antitrust Commissioner was considering the possibility of exercising her authority under Section 43(A)(1) of the Restrictive Trade Practices Law, 5748-1988 (hereinafter: the "Restrictive Trade Practices Law") to determine that binding arrangements existed between the Bank and Bank Leumi, Discount Bank, Mizrahi Bank, and First International Bank, with regard to the transfer of information concerning fees. The Commissioner informed that the Bank may present its position to her, in writing, prior to her decision as to whether to exercise the said authority and the term that was determined for this purpose is now, up to September 15, 2008.

On March 6, 2005, the Israel Police opened an overt investigation of suspicions of violations of the Money Laundering Prohibition Law. In the course of the investigation, the police seized documents and records from various Bank offices and from the offices of Poalim Trust Services (hereinafter: the "Trust Company"). In addition, certain customers' accounts were frozen, some of which serve as collateral for credit. The police summoned employees of the Bank and of the Trust Company, including officers, for questioning.

Further to this investigation, in February 2006, two mid-level employees at one of the Bank's branches were indicted for an offense under the Prohibition of Money Laundering Law.

In the Bank's opinion, based on the information available to it at this stage, the Bank's exposure in respect of the matters known to be under investigation is not material to its business. However, at this stage the Bank cannot estimate the outcome and consequences of the investigation.

The annual ordinary general meeting of the Bank's shareholders convened on March 20, 2008. Among other things, the shareholders resolved to approve the re-election of the directors Oded Sarig, Mali Baron, Leslie Littner, Nir Zichlinsky, and Ronen Israel; and to approve the terms of service of the members of the Board of Directors, including the approval of the terms of service of Chairman of the Board of Directors Mr. D. Dankner for 2007, including the granting of options, and the agreement with Mr. D. Dankner with regard to his service as Chairman of the Board of Directors of the Bank, including basic terms of employment (salary and benefits), for the period from January 1, 2008 to June 30, 2012. The shareholders further resolved to ratify the terms of the directors' and officers' liability insurance; to approve the commitment to indemnify the directors Efrat Peled, Yair Orgler, Oded Sarig, Mali Baron, Leslie Littner, Nir Zichlinsky, and Ronen Israel, under the same indemnification terms approved in the past for the other directors of the Bank; and to approve the re-appointment of Ziv Haft Certified Public Accountants and of Somekh Chaikin Certified Public Accountants.

A special general meeting of the Bank's shareholders convened on August 6, 2008. The shareholders resolved to increase the Bank's registered capital by an additional 2 billion ordinary shares with par value of NIS 1 each, such that following the said increase the registered capital of the Bank would consist of 4 billion ordinary shares; and resolved to amend the memorandum and articles of the Bank accordingly.

In addition, the shareholders resolved to update the annual compensation and the participation compensation paid to all directors of the Bank (including external directors), and to adjust this compensation to the amounts permitted pursuant to the Companies Regulations (Rules Regarding Compensation and Expenses for External Directors, 5760-2000), with the exception of the compensation of the Chairman of the Board of Directors, which was approved separately, as mentioned above.

Further to the information reported in the section on the Bank Group's activity and business developments in the Financial Statements as at December 31, 2007, regarding investments in the Bank's share capital, note that:

The issued and paid-up share capital of the Bank near the date of publication of these financial statements amounts to NIS 1,315,692,872 composed of 1,315,692,872 ordinary shares of par value NIS 1 each.

On April 7, 2008, the Bank allocated 52,500,000 ordinary shares of the Bank and 7,500,000 options convertible into shares to York Capital Management, for a total consideration of NIS 735 million. In addition, since the beginning of the year and until close to the publication of the financial statement 2,475,372 shares were issued to employees of the Bank, as a result of the exercise of options notes, within the option plan for employees.

The holders of the permit for control of the Bank at the date of publication of the financial statements are Ms. Shari Arison and Mr. Micky Arison. Their stake in the Bank is held through several trusts that have holdings in the following Israeli companies, which own shares of the Bank: Arison Holdings (1998) Ltd. (hereinafter: "Arison Holdings") holds shares comprising approximately 19.97% of the Bank's share capital near the date of publication of the financial statements, which constitute the "controlling interest" (as defined in the control permit issued by the Governor of the Bank of Israel).

Arison Investments Ltd. (a sister company of Arison Holdings; hereinafter: "Arison Investments"), through a wholly-owned subsidiary, holds approximately 82.2% of the share capital of Salt Industries Ltd., which holds shares comprising approximately 5.76% of the share capital of the Bank. Near the date of publication of the financial statements, the Arison Group (through Arison Holdings and Arison Investments) holds a total of approximately 25.7% (25.2% fully diluted) of the share capital of the Bank.

On February 13, 2008, the Board of Directors of the Bank resolved to allocate 825,000 nontradable option notes exercisable into ordinary shares of the Bank to Mr. Dan Dankner, Chairman of the Board of Directors. The allocation of the aforesaid option notes to the Chairman of the Board of Directors was approved on March 20, 2008 by the general meeting of shareholders.

On March 30, 2008, the Board of Directors of the Bank resolved to allocate 1,140,000 nontradable option notes exercisable into ordinary shares of the Bank to Mr. Zvi Ziv, CEO of the Bank. The aforesaid options were allocated on June 10, 2008.

The option notes allocated to Mr. Dankner and Mr. Ziv will be blocked for a period of two years from the date of allocation, and will be exercisable for two additional years from the end of the blockage period.

Upon exercising the aforementioned option notes, the Chairman of the Board of Directors and the CEO will be entitled to receive shares from the Bank in an amount reflecting the value of the benefit at the exercise date; i.e., the difference between the price of the Bank's shares on the Tel Aviv Stock Exchange at the exercise date and the exercise price. The shares will be transferred to their ownership from a pool of shares to be held by the Bank for that purpose.

Ratings assigned to the Bank by rating agencies in Israel and abroad:

In Israel, the Bank is rated AAA by S&P Ma'alot - Israel Securities Rating Co. Ltd.

- In early May 2008, S&P Ma'alot announced a change in its rating outlook for the Bank from Stable to Negative, due to uncertainty with respect to additional provisions for asset-backed securities and the way in which required capital would be supplemented. Note that the Bank's rating by the company remains unchanged.

On May 22, 2008, S&P Ma'alot stated that following the Bank's announcement of its decision to sell its full holdings in mortgage-backed securities in New York and its decision to supplement its provisions in respect of investments in SIV instruments up to the full balance of its holdings in these instruments, the said uncertainty had been eliminated. Nevertheless, S&P Ma'alot announced that its rating of the Bank remained unchanged at AAA with a negative outlook.

On June 11, 2008, S&P Ma'alot announced a credit watch with regard to the rating methodology of subordinated notes issued by the banking system and rated by S&P Ma'alot, and its alignment with the international rating methodology of S&P.

On June 26, 2008, the S&P Ma'alot rating committee determined that the subordinated notes would be rated one notch lower than the rating of the issuer:

Accordingly, the rating of subordinated notes issued by Hapoalim Hanpakot Ltd., a wholly-owned subsidiary of the Bank, was set at AA+.

Ratings of the Bank and of Israel by international rating agencies:

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook
Israel - sovereign rating:				
	Moody's	A1	P-1	Positive
	S&P	A	A-1	Positive
	Fitch Ratings	A	F1	Stable
Bank Hapoalim:				
	Moody's	A1	P-1	Under review
	S&P	A-	A-2	Negative
	Fitch Ratings	A-	F2	Stable

- On April 17, 2008, Moody's upgraded Israel's sovereign rating from A2 to A1, to reflect the resilience demonstrated by the Israeli economy in recent years in the face of political and economic volatility.

On April 22, 2008, the Bank's long-term rating was upgraded to A1, accordingly. However, Moody's advised that the Bank's financial strength rating is under review, due to the Bank's investments in asset-backed securities and their continuous decline in value.

- On May 22, 2008, Fitch reaffirmed the Bank's long-term rating of A- and its Stable rating outlook, following the Bank's announcement of the sale of its MBS portfolio in New York. Fitch also reaffirmed the Bank's short-term rating at F2.

The Board of Directors of the Bank held 21 meetings during the period of January-June 2008. The various committees of the Board of Directors held 97 meetings during the period of January-June 2008.

Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer and the Chief Accountant of the Bank must each separately sign a declaration regarding "Evaluation of Controls and Procedures Concerning Disclosure," in accordance with the directives of Section 302 of the law known as the "Sarbanes-Oxley Act," enacted in the United States (hereinafter: the "Disclosure Declaration"). This directive refers to the responsibility of management for the disclosure in the financial statements, and applies as of the financial statements dated June 30, 2005. The Disclosure Declaration refers to controls and procedures regarding disclosure, aimed at ensuring that material information which the Bank is required to disclose in its financial statements is properly recorded, processed, and presented, and is reported in accordance with the Supervisor of Banks' Public Reporting Directives, and in accordance with additional reporting directives. The "controls and procedures concerning disclosure" are aimed, among other things, at ensuring that such material information is accumulated and delivered to the management of the corporation in an appropriate manner with respect to the disclosure requirements, and that disclosure is made to the auditors, the audit committee, and the board of directors.

At this stage, the Disclosure Declaration is not meant to cover the broader aspects established in Section 404 of the above-mentioned law with regard to the responsibility of management for the internal control of financial reporting.

Section 404 of the above-mentioned law was adopted by the Supervisor of Banks in December 2005, in a circular stating that banking corporations should prepare to include in their financial statements, starting with the financial statements for December 31, 2008, a declaration regarding management's responsibility for the establishment and maintenance of suitable systems and procedures of internal control of financial reporting, as well as an evaluation as of the end of the fiscal year of the effectiveness of the procedures of internal control of financial reporting. At the same time, auditors of banking corporations will be required to provide an opinion on the suitability of the internal controls of financial reporting at the Bank, in line with the relevant standards of the PCAOB (Public Company Accounting Oversight Board).

The Bank is preparing to comply with the requirements of Section 404 of the above-mentioned law on the stipulated date. For that purpose, the Bank has hired an external consulting company and has adopted the COSO (Committee of Sponsoring Organization) model for the structure of the internal control of financial reporting.

The Bank is working to implement the directives according to the milestones defined. The Bank has completed the documentation of all procedures for internal control of financial reporting with regard to material processes at the Bank and of controls in all material processes, using the prevalent methodologies. This stage was completed by the Bank and the consultants at the end of 2007, and all processes have been verified and validated by those responsible for the processes at the Bank.

In January 2008, the Bank and the consulting company hired by the Bank carried out planning for the stage in which the effectiveness of material controls will be examined, based on current directives of the SEC (the Securities and Exchange Commission in the United States) and on Standard 5, the current PCAOB standard for Section 404 of the law. These directives encourage an approach in which the material controls are examined while mapping processes at the Bank by risk level, with the aim of concentrating efforts on examining high-risk processes.

The examination of the effectiveness of the material controls is currently being concluded by the consultants, as planned.

Evaluations of Controls and Procedures Regarding Disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer and the Chief Accountant of the Bank, have assessed the effectiveness of the controls and procedures regarding disclosure at the Bank as at June 30, 2008. Based on this assessment, the Chief Executive Officer and the Chief Accountant of the Bank have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information which the Bank is required to disclose in its quarterly report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in Internal Control

During the quarter ended on June 30, 2008, there was no change in the Bank's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on its financial reporting.

Dan Dankner

Chairman of the Board of Directors

Zvi Ziv

President & Chief Executive Officer

Tel-Aviv, August 27, 2008.

Principal Data of the Bank Hapoalim Group

(in millions of NIS)

	For the three months ending on June 30		Change	For the six months ending on June 30		Change
	2008	2007		2008	2007	
Profit and Profitability						
Profit (loss) from financing activities before provision for						
doubtful debts	1,943	1,995	(2.6%)	(69)	3,775	(101.8%)
Provision for doubtful debts	252	202	24.8%	284	383	(25.9%)
Operating and other income	1,205	1,254	(3.9%)	2,489	2,621	(5.0%)
Operating and other expenses	1,911	1,868	2.3%	4,179	3,717	12.4%
Operating profit (loss) before taxes	985	1,179	(16.5%)	(2,043)	2,296	(189.0%)
Provision for taxes (tax benefit) on operating profit (loss)	431	440	(2.1%)	(521)	928	(156.1%)
Operating profit (loss) after taxes	554	739	(25.0%)	(1,522)	1,368	(211.3%)
Operating profit (loss), net	545	716	(23.9%)	(1,460)	1,406	(203.8%)
Net profit from extraordinary transaction, after taxes	49	286	(82.9%)	487	231	110.8%
Net profit (loss)	594	1,002	(40.7%)	(973)	1,637	(159.4%)

	30.6.2008	30.6.2007	31.12.2007	change compared with	
				30.6.2007	31.12.2007
Balance Sheet – Principal Items					
Total balance sheet	300,909	290,829	302,991	3.5%	(0.7%)
Credit to the public	211,575	191,705	205,016	10.4%	3.2%
Securities	31,313	46,017	48,115	(32.0%)	(34.9%)
Deposits from the public	226,955	224,880	231,750	0.9%	(2.1%)
Debentures and subordinated notes	19,111	17,914	18,812	6.7%	1.6%
Shareholders' equity	18,758	19,214	18,778	(2.4%)	(0.1%)

	30.6.2008	30.6.2007	31.12.2007
Principal financial ratios			
Shareholders' equity to total assets	6.2%	6.6%	6.2%
Tier I capital to risk assets	7.65%	7.5%	7.5%
Total capital to risk assets	11.01%	10.38%	10.26%
Credit to the public to total assets	70.3%	65.9%	67.7%
Deposits to the public to total assets	75.4%	77.3%	76.5%
Operating income to operating expenses	59.6%	70.5%	66.1%
Operating expenses to total income	172.7%	58.1%	65.2%
Provision for doubtful debts to credit to the public (balance sheet and off-balance sheet) ^(a)	0.2%	0.2%	0.1%
Rate of provision for taxes	25.5%	40.4%	39.1%
Return of operating profit (loss) on equity, net ^(a)	(15.3%)	15.6%	12.3%
Return of net profit (loss) on equity ^(a)	(10.3%)	18.3%	14.1%
Return of net profit (loss) on total assets ^(a)	(0.6%)	1.1%	0.9%

(a) Annualized.

**Management Review -
Rates of Income and Expense -
Consolidated
Appendix I**

For the three months period ended June 30

	2008				*2007			
	Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾	
			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾
(in millions of NIS)		%	%	(in millions of NIS)		%	%	
Israeli currency - Unlinked								
Assets ⁽⁵⁾⁽⁶⁾	116,308	1,551	5.44		102,933	1,450	5.75	
Effect of derivatives ⁽⁴⁾								
Embedded derivatives								
and ALM	74,143	578			51,181	531		
Total assets	190,451	2,129		4.55	154,114	1,981		5.24
Liabilities ⁽⁶⁾	(129,249)	(760)	(2.37)		(115,240)	(704)	(2.47)	
Effect of derivatives ⁽⁴⁾								
Embedded derivatives								
and ALM	(53,366)	(374)			(33,176)	(305)		
Total liabilities	(182,615)	(1,134)		(2.51)	(148,416)	(1,009)		(2.75)
Interest spread			3.07	2.04			3.28	2.49
Israeli currency - Linked to the CPI								
Assets ⁽⁵⁾⁽⁶⁾	61,998	2,283	15.56		56,555	1,062	7.73	
Effect of derivatives ⁽⁴⁾								
Embedded derivatives								
and ALM	541	24			2,250	43		
Total assets	62,539	2,307		15.59	58,805	1,105		7.73
Liabilities ⁽⁶⁾	(40,446)	(1,394)	(14.52)		(40,607)	(679)	(6.86)	
Effect of derivatives ⁽⁴⁾								
Embedded derivatives								
and ALM	(18,754)	(700)			(11,260)	(277)		
Total liabilities	(59,200)	(2,094)		(14.92)	(51,867)	(956)		(7.58)
Interest spread			1.04	0.67			0.87	0.15

* Reclassified.

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked local currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 78 million (June 30, 2007: NIS 151 million) in the unlinked segment, NIS 15 million (June 30, 2007: NIS 26 million) in the CPI-linked segment, NIS (216) million (June 30, 2007: NIS 43 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Rates of Income and Expense -
Consolidated**
Appendix I (continued)

For the three months period ended June 30

	2008				* 2007			
	Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾	
			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾
(in millions of NIS)			%	%	(in millions of NIS)		%	%
Foreign currency -								
(including Israeli currency								
linked to foreign currency)								
Assets ⁽⁵⁾⁽⁶⁾	106,135	(5,456)	(19.03)		116,280	4,638	16.93	
Effect of derivatives ⁽⁴⁾								
Hedging derivatives	18,862	(109)			25,132	139		
Embedded derivatives and ALM	142,286	(5,396)			121,044	5,710		
Total assets	267,283	(10,961)		(15.42)	262,456	10,487		16.97
Liabilities ⁽⁶⁾	(101,368)	5,570	20.23		(102,278)	(3,875)	(16.04)	
Effect of derivatives ⁽⁴⁾								
Hedging derivatives	(18,812)	(84)			(25,261)	(325)		
Embedded derivatives and ALM	(144,307)	5,915			(129,861)	(5,655)		
Total liabilities	(264,487)	11,401		16.16	(257,400)	(9,855)		(16.22)
Interest spread			1.20	0.74			0.89	0.75

* Reclassified.

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked local currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 78 million (June 30, 2007: NIS 151 million) in the unlinked segment, NIS 15 million (June 30, 2007: NIS 26 million) in the CPI-linked segment, NIS (216) million (June 30, 2007: NIS 43 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Rates of Income and Expense -
Consolidated**
Appendix I (continued)

For the three months period ended June 30

	2008				* 2007				
	Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		
			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾	
(in millions of NIS)			%	%	(in millions of NIS)		%	%	
Total									
Monetary assets that generated									
financial income ⁽⁵⁾⁽⁶⁾	284,441	(1,622)	(2.26)		275,768	7,150	10.78		
Effect of derivatives ⁽⁴⁾									
Hedging derivatives	18,862	(109)			25,132	139			
Embedded derivatives									
and ALM	216,970	(4,794)			174,475	6,284			
Total assets	520,273	(6,525)		(4.92)	475,375	13,573			11.92
Monetary liabilities that generated									
financial expenses ⁽⁶⁾	(271,063)	3,416	4.95		(258,125)	(5,258)	(8.40)		
Effect of derivatives ⁽⁴⁾									
Hedging derivatives	(18,812)	(84)			(25,261)	(325)			
Embedded derivatives									
and ALM	(216,427)	4,841			(174,297)	(6,237)			
Total liabilities	(506,302)	8,173		6.30	(457,683)	(11,820)			(10.74)
Interest spread			2.69	1.38			2.38		1.18

* Reclassified.

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked local currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 78 million (June 30, 2007: NIS 151 million) in the unlinked segment, NIS 15 million (June 30, 2007: NIS 26 million) in the CPI-linked segment, NIS (216) million (June 30, 2007: NIS 43 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Rates of Income and Expense -
Consolidated
Appendix I (continued)**

(in millions of NIS)

	For the three months period ended June 30			
	2008		2007	
	Average balance ⁽¹⁾	Financing income (expenses)	Average balance ⁽¹⁾	Financing income (expenses)
In respect of options		69		(20)
In respect of other derivative instruments (not including options, hedging derivatives, ALM derivatives and embedded derivatives that have been detached) ⁽²⁾		49		35
Commissions from financing transactions and other financing income ⁽⁵⁾		241		*229
Other financing expenses		(64)		(2)
Profit from financial activities before provision for doubtful debts		1,943		*1,995
Provision for doubtful debts (including general and supplementary provision)		(252)		(202)
Profit from financing activities after provision for doubtful debts		1,691		*1,793
Total				
Financial assets that generated financial income ⁽³⁾⁽⁴⁾	284,441		275,768	
Assets deriving from derivative instruments ⁽⁶⁾	8,491		4,775	
Other financial assets	4,378		2,042	
General provision and supplementary provision for doubtful debts	(1,037)		(1,117)	
Total financial assets	296,273		281,468	
Total				
Financial liabilities that generated financial expenses ⁽⁴⁾	(271,063)		(258,125)	
Liabilities deriving from derivative instruments ⁽⁶⁾	(8,942)		(4,486)	
Other financial liabilities	(3,588)		(5,651)	
Total financial liabilities	(283,593)		(268,262)	
Total excess of assets over financial liabilities	12,680		13,206	
Non-monetary assets	7,453		7,035	
Non-monetary liabilities	(1,047)		(823)	
Total capital resources	19,086		19,418	

* Reclassified.

(1) On the basis of balances at the beginning of the months (in unlinked local currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(2) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(3) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 78 million (June 30, 2007: NIS 151 million) in the unlinked segment, NIS 15 million (June 30, 2007: NIS 26 million) in the CPI-linked segment, NIS (216) million (June 30, 2007: NIS 43 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(4) Excluding derivative instruments.

(5) Including profits and losses 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 derivative instruments (not including average off-balance sheet balances of derivative instruments).

**Management Review -
Rates of Income and Expense -
Consolidated
Appendix I (continued)**

(In nominal amounts)

For the three months period ended June 30								
2008				* 2007				
Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		
		Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾	
(in millions of U.S.\$)		%	%	(in millions of U.S.\$)		%	%	
Foreign currency -								
(including Israeli currency								
linked to foreign currency)								
Monetary assets in foreign								
currency that generated								
financial income ⁽⁵⁾⁽⁶⁾	31,053	208	2.71	28,407	436	6.28		
Effect of derivatives ⁽⁴⁾								
Hedging derivatives	5,563	(31)		6,196	35			
Embedded derivatives								
and ALM	41,870	528		29,599	809			
Total assets	78,486	705		64,202	1,280			8.22
Monetary liabilities in foreign								
currency that generated								
financial expenses ⁽⁶⁾	(29,667)	(111)	(1.51)	(24,771)	(268)	(4.40)		
Effect of derivatives ⁽⁴⁾								
Hedging derivatives	(5,551)	(25)		(6,229)	(79)			
Embedded derivatives								
and ALM	(42,371)	(512)		(31,859)	(758)			
Total liabilities	(77,589)	(648)		(62,859)	(1,105)			(7.22)
Interest spread			1.20			1.88		1.00

* Reclassified.

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked local currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 78 million (June 30, 2007: NIS 151 million) in the unlinked segment, NIS 15 million (June 30, 2007: NIS 26 million) in the CPI-linked segment, NIS (216) million (June 30, 2007: NIS 43 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Rates of Income and Expense -
Consolidated**
Appendix I (continued)

For the six months period ended June 30							
2008				* 2007			
Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾	
		Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾
(in millions of NIS)		%	%	(in millions of NIS)		%	%
Israeli currency - Unlinked							
Assets ⁽⁵⁾⁽⁶⁾	113,685	3,216	5.74	101,394	2,910	5.82	
Effect of derivatives ⁽⁴⁾							
Embedded derivatives and ALM	70,695	1,686		45,014	1,042		
Total assets	184,380	4,902	5.39	146,408	3,952		5.47
Liabilities ⁽⁶⁾	(126,806)	(1,595)	(2.53)	(112,530)	(1,485)	(2.66)	
Effect of derivatives ⁽⁴⁾							
Embedded derivatives and ALM	(49,739)	(1,242)		(28,705)	(626)		
Total liabilities	(176,545)	(2,837)	(3.24)	(141,235)	(2,111)		(3.01)
Interest spread			3.21			3.16	2.46
Israeli currency - Linked to the CPI							
Assets ⁽⁵⁾⁽⁶⁾	61,841	3,297	10.95	56,331	1,598	5.75	
Effect of derivatives ⁽⁴⁾							
Embedded derivatives and ALM	901	32		2,180	76		
Total assets	62,742	3,329	10.89	58,511	1,674		5.80
Liabilities ⁽⁶⁾	(40,828)	(1,994)	(10.01)	(41,072)	(959)	(4.72)	
Effect of derivatives ⁽⁴⁾							
Embedded derivatives and ALM	(17,082)	(1,210)		(10,644)	(472)		
Total liabilities	(57,910)	(3,204)	(11.37)	(51,716)	(1,431)		(5.61)
Interest spread			0.94			1.03	0.19

* Reclassified.

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked local currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 77 million (June 30, 2007: NIS 144 million) in the unlinked segment, NIS 12 million (June 30, 2007: NIS 20 million) in the CPI-linked segment, NIS (652) million (June 30, 2007: NIS 33 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Rates of Income and Expense -
Consolidated**
Appendix I (continued)

For the six months period ended June 30

	2008				* 2007			
	Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾	
			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾
(in millions of NIS)			%	%	(in millions of NIS)		%	%
Foreign currency -								
(including Israeli currency								
linked to foreign currency)								
Assets ⁽⁵⁾⁽⁶⁾	112,020	(10,332)	(17.60)		116,672	4,556	7.96	
Effect of derivatives ⁽⁴⁾								
Hedging derivatives	20,935	267			27,095	519		
Embedded derivatives								
and ALM	138,693	(9,669)			122,297	6,598		
Total assets	271,648	(19,734)		(14.00)	266,064	11,673		8.97
Liabilities ⁽⁶⁾	(105,545)	10,665	19.19		(104,060)	(3,485)	(6.81)	
Effect of derivatives ⁽⁴⁾								
Hedging derivatives	(20,818)	(268)			(27,175)	(645)		
Embedded derivatives								
and ALM	(142,777)	10,093			(130,047)	(6,477)		
Total liabilities	(269,140)	20,490		14.65	(261,282)	(10,607)		(8.28)
Interest spread			1.59	0.65			1.15	0.69

* Reclassified.

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked local currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that form part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 77 million (June 30, 2007: NIS 144 million) in the unlinked segment, NIS 12 million (June 30, 2007: NIS 20 million) in the CPI-linked segment, NIS (652) million (June 30, 2007: NIS 33 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Rates of Income and Expense -
Consolidated**
Appendix I (continued)

For the six months period ended June 30							
2008				* 2007			
Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾	
		Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾
(in millions of NIS)		%	%	(in millions of NIS)		%	%
Total							
Monetary assets that generated							
financial income ⁽⁵⁾⁽⁶⁾	287,546	(3,819)	(2.64)	274,397	9,064	6.72	
Effect of derivatives ⁽⁴⁾							
Hedging derivatives	20,935	267		27,095	519		
Embedded derivatives							
and ALM	210,289	(7,951)		169,491	7,716		
Total assets	518,770	(11,503)	(4.39)	470,983	17,299		7.48
Monetary liabilities that generated							
financial expenses ⁽⁶⁾	(273,179)	7,076	5.11	(257,662)	(5,929)	(4.66)	
Effect of derivatives ⁽⁴⁾							
Hedging derivatives	(20,818)	(268)		(27,175)	(645)		
Embedded derivatives							
and ALM	(209,598)	7,641		(169,396)	(7,575)		
Total liabilities	(503,595)	14,449	5.66	(454,233)	(14,149)		(6.33)
Interest spread			2.47			2.06	1.15

* Reclassified

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked Israeli currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that are part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 77 million (June 30, 2007: NIS 144 million) in the unlinked segment, NIS 12 million (June 30, 2007: NIS 20 million) in the CPI-linked segment, NIS (652) million (June 30, 2007: NIS 33 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Rates of Income and Expense -
Consolidated
Appendix I (continued)**

(in millions of NIS)

	For the six months period ended June 30			
	2008		* 2007	
	Average balance ⁽¹⁾	Financing income (expenses)	Average balance ⁽¹⁾	Financing income (expenses)
In respect of options		131		59
In respect of other derivative instruments (not including options, hedging derivatives, ALM derivatives and embedded derivatives that have been detached) ⁽²⁾		(96)		72
Commissions from financing transactions and other financing income ⁽⁵⁾		(3,038)		497
Other financing expenses		(12)		(3)
Profit (loss) from financing activities before provision for doubtful debts		(69)		3,775
Provision for doubtful debts (including general and supplementary provision)		(284)		(383)
Profit (loss) from financing activities after provision for doubtful debts		(353)		3,392
Total				
Financial assets that generated financial income ⁽³⁾⁽⁴⁾	287,546		274,397	
Assets deriving from derivative instruments ⁽⁶⁾	7,945		4,745	
Other financial assets	3,553		1,516	
General provision and supplementary provision for doubtful debts	(1,059)		(1,126)	
Total financial assets	297,985		279,532	
Total				
Financial liabilities that generated financial expenses ⁽⁴⁾	(273,179)		(257,662)	
Liabilities deriving from derivative instruments ⁽⁶⁾	(8,122)		(4,509)	
Other financial liabilities	(3,410)		(4,549)	
Total financial liabilities	(284,711)		(266,720)	
Total excess of assets over financial liabilities	13,274		12,812	
Non-monetary assets	7,739		7,129	
Non-monetary liabilities	(1,257)		(727)	
Total capital resources	19,756		19,214	

* Reclassified

(1) On the basis of balances at the beginning of the months (in unlinked Israeli currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(2) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that are part of the Bank's ALM network.

(3) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 77 million (June 30, 2007: NIS 144 million) in the unlinked segment, NIS 12 million (June 30, 2007: NIS 20 million) in the CPI-linked segment, NIS (652) million (June 30, 2007: NIS 33 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(4) Excluding derivative instruments.

(5) Including profits and losses 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 derivative instruments (not including average off-balance sheet balances of derivative instruments).

**Management Review -
Rates of Income and Expense -
Consolidated**
Appendix I (continued)

(In nominal amounts)

For the six months period ended June 30							
2008				*2007			
Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾		Average balance ⁽¹⁾⁽²⁾	Financing income (expenses) ⁽¹⁾	Rate of income (expense) ⁽³⁾	
		Without effect of derivatives	Including effect of derivatives ⁽⁴⁾			Without effect of derivatives	Including effect of derivatives ⁽⁴⁾
(in millions of U.S.\$)		%	%	(in millions of U.S.\$)		%	%
Foreign currency -							
(including Israeli currency							
linked to foreign currency							
Monetary assets in foreign							
currency that generated							
financial income ⁽⁵⁾⁽⁶⁾	31,475	1,024	6.61	28,050	870	6.30	
Effect of derivatives ⁽⁴⁾							
Hedging derivatives	5,893	73		6,552	125		
Embedded derivatives							
and ALM	39,446	803		29,506	1,226		
Total assets	76,814	1,900	5.01	64,108	2,221		7.05
Monetary liabilities in foreign							
currency that generated							
financial expenses ⁽⁶⁾	(29,681)	(669)	(4.56)	(25,056)	(579)	(4.68)	
Effect of derivatives ⁽⁴⁾							
Hedging derivatives	(5,862)	(76)		(6,572)	(155)		
Embedded derivatives							
and ALM	(40,486)	(1,016)		(31,347)	(1,200)		
Total liabilities	(76,029)	(1,761)	(4.69)	(62,975)	(1,934)		(6.24)
Interest spread			2.05			1.62	0.81

* Reclassified

(1) The data are given before and after the effect of derivative instruments (including off-balance-sheet effects of derivative instruments).

(2) On the basis of balances at the beginning of the months (in unlinked Israeli currency, on the basis of daily balances) net of the average balance-sheet balance of the specific provision for doubtful debts.

(3) Calculated on an annual basis.

(4) Hedging derivative instruments (excluding options), embedded derivatives that have been detached and ALM derivatives that are part of the Bank's ALM network.

(5) The average balance of the profits (losses) not yet realized from the adjustment to fair value, was deducted/added from the average balance of bonds available for sale and bonds held for trading: on June 30, 2008 NIS 77 million (June 30, 2007: NIS 144 million) in the unlinked segment, NIS 12 million (June 30, 2007: NIS 20 million) in the CPI-linked segment, NIS (652) million (June 30, 2007: NIS 33 million) in the foreign currency segment (including Israeli currency linked to foreign currency).

(6) Excluding derivative instruments.

**Management Review -
Total Credit Risk to the Public
by Economic Sector - Consolidated**
Appendix 2

(in millions of NIS)

In respect of borrower activities in Israel

	As at June 30, 2008				
	Credit risk in balance sheet ⁽¹⁾	Off-balance sheet credit risk ⁽²⁾	Total credit risk to the public	In respect of specific provision for doubtful debts	Problematic debt balances ⁽¹⁾⁽³⁾
Agriculture	1,368	406	1,774	(105)	150
Industry	21,666	16,305	37,971	182	3,564
Construction and real estate	37,312	19,904	57,216	37	3,891
Electricity and water	2,270	2,552	4,822	-	3
Commerce	12,930	7,228	20,158	21	430
Restaurants and hotels	4,933	1,270	6,203	(13)	1,185
Transportation and storage	5,815	2,338	8,153	-	55
Communications and computer services	3,528	2,539	6,067	25	149
Financial services	16,744	20,623	37,367	(4)	549
Other business services	10,054	2,755	12,809	37	286
Public and community services	6,379	1,634	8,013	4	241
Private individuals - residential loans	30,529	601	31,130	18	1,017
Private individuals - other	31,008	46,022	77,030	91	579
Other debtors in respect of credit cards	5,322	-	5,322	-	-
Total with respect to borrower activities in Israel	189,858	124,177	314,035	293	12,099
With respect to borrowers activities abroad	32,298	28,119	60,417	14	134
Total	222,156	152,296	374,452	307	12,233
Credit risk included within the various economic sectors:					
Settlement movements ⁽⁴⁾	4,070	1,428	5,498	(111)	789
Local authorities ⁽⁵⁾	3,841	295	4,136	-	57

(1) Credit to the public, investment in corporate bonds, securities which were borrowed or bought under agreements to resell and assets deriving from derivative instruments transacted against the public amounted to NIS 212,609, 6,332, 128, and 3,062 millions respectively.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

(3) Problematic debt balances including off-balance sheet credit risk components, net of credit covered with collateral, is permitted as a deduction for purposes of individual and borrowers' group credit limits.

(4) Kibbutzim and Moshavim, regional and national organizations and entities controlled by settlement movements.

(5) Including entities under their control.

Credit risk and problematic debt balances are presented net of specific provision for doubtful debts.

**Management Review -
Total Credit Risk to the Public
by Economic Sector - Consolidated**
Appendix 2 (continued)

(in millions of NIS)

In respect of borrower activities in Israel (continued)

	As at June 30, 2007				
	Credit risk in balance sheet ⁽¹⁾	Off-balance sheet credit risk ⁽²⁾	Total credit risk to the public	In respect of specific provision for doubtful debts	Problematic debt balances ⁽¹⁾⁽³⁾
Agriculture	1,222	372	1,594	5	157
Industry	20,939	14,881	35,820	99	4,633
Construction and real estate	32,051	16,813	48,864	110	4,946
Electricity and water	1,487	2,033	3,520	-	2
Commerce	12,608	7,497	20,105	20	519
Restaurants and hotels	4,693	752	5,445	(58)	1,298
Transportation and storage	6,119	1,859	7,978	2	162
Communications and computer services	3,880	2,223	6,103	13	675
Financial services	15,064	16,930	31,994	2	1,371
Other business services	7,702	4,349	12,051	36	345
Public and community services	5,961	1,291	7,252	4	438
Private individuals - residential loans	28,109	351	28,460	20	975
Private individuals - other	27,095	44,140	71,235	113	534
Other debtors in respect of credit cards	4,564		4,564	-	-
Total with respect to borrower activities in Israel	171,494	113,491	284,985	366	16,055
With respect to borrowers activities abroad	45,855	37,071	82,926	(4)	257
Total	217,349	150,562	367,911	362	16,312
Credit risk included within the various economic sectors:					
Settlement movements ⁽⁴⁾	4,167	1,104	5,271	(7)	-
Local authorities ⁽⁵⁾	3,708	338	4,046	-	69

(1) Credit to the public, investment in corporate bonds and assets deriving from derivative instruments transacted against the public amounted to NIS 193,856, 20,878 and 2,615 millions respectively.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

(3) Problematic debt balances including off-balance sheet credit risk components, net of credit covered with collateral, is permitted as a deduction for purposes of individual and borrowers' group credit limits.

(4) Kibbutzim and Moshavim, regional and national organizations and entities controlled by settlement movements.

(5) Including entities under their control.

Credit risk and problematic debt balances are presented net of specific provision for doubtful debts

**Management Review -
Total Credit Risk to the Public
by Economic Sector - Consolidated**
Appendix 2 (continued)

(in millions of NIS)

In respect of borrower activities in Israel (continued)

	As at December 31, 2007				
	Credit risk in balance sheet ⁽¹⁾	Off-balance sheet credit risk ⁽²⁾	Total credit risk to the public	In respect of specific provision for doubtful debts	Problematic debt balances ⁽¹⁾⁽³⁾
Agriculture	1,357	393	1,750	5	152
Industry	20,481	16,466	36,947	168	4,131
Construction and real estate	34,918	19,100	54,018	183	4,687
Electricity and water	2,069	1,794	3,863	1	1
Commerce	12,308	7,759	20,067	67	400
Restaurants and hotels	4,734	971	5,705	(83)	1,208
Transportation and storage	5,539	2,178	7,717	5	58
Communications and computer services	3,259	2,418	5,677	25	745
Financial services	16,943	18,388	35,331	(112)	553
Other business services	9,196	2,786	11,982	72	289
Public and community services	6,188	1,325	7,513	(28)	488
Private individuals - residential loans	29,175	462	29,637	50	1,064
Private individuals - other	28,978	47,094	76,072	207	692
Other debtors in respect of credit cards	5,277	-	5,277	-	-
Total with respect to borrower activities in Israel	180,422	121,134	301,556	560	14,468
With respect to borrowers activities abroad	49,886	34,090	83,976	5	184
Total	230,308	155,224	385,532	565	14,652
Credit risk included within the various economic sectors:					
Settlement movements ⁽⁴⁾	4,220	1,217	5,437	-	992
Local authorities ⁽⁵⁾	3,874	363	4,237	-	59

(1) Credit to the public, investment in corporate bonds, securities which were borrowed or bought under agreements to resell and assets deriving from derivative instruments transacted against the public amounted to NIS 206,104, 21,128, 471 and 2,605 millions respectively.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for the purpose of per borrower credit limitations.

(3) Problematic debt balances including off-balance sheet credit risk components, net of credit covered with collateral, is permitted as a deduction for purposes of individual and borrowers' group credit limits.

(4) Kibbutzim and Moshavim, regional and national organizations and entities controlled by settlement movements.

(5) Including entities under their control.

Credit risk and problematic debt balances are presented net of specific provision for doubtful debts.

Certification

I, Zvi Ziv, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended June 30, 2008 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included in it, in light of the circumstances under which such presentations were included, are not misleading with regard 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 reflect the financial condition, results of operations, and changes in shareholders' equity of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures for the required disclosure in the Bank's Report; furthermore:
 - a. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
 - b. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
 - c. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during this quarter; and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
 - a. Any significant deficiencies and material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
 - b. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Zvi Ziv

President & Chief Executive Officer

Tel-Aviv, August 27, 2008.

Certification

I, Ofer Levy, declare that:

1. I have reviewed the quarterly report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the quarter ended June 30, 2008 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included in it, in light of the circumstances under which such presentations were included, are not misleading with regard 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 reflect the financial condition, results of operations, and changes in shareholders' equity of the Bank, in all material aspects, for the dates and periods covered in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures for the required disclosure in the Bank's Report; furthermore:
 - a. We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
 - b. We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure, as at the end of the period covered in the Report, based on our assessment; and
 - c. We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during this quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
 - a. Any significant deficiencies and material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
 - b. Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Ofer Levy

Senior Deputy Managing Director
Chief Accountant

Tel-Aviv, August 27, 2008.



Somekh Chaikin



ZIV HAFT

To:

The Board of Directors of Bank Hapoalim B.M.

Subject:

Review of Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2008

At your request, we have reviewed the following condensed consolidated interim financial statements of Bank Hapoalim B.M. and its subsidiaries: balance sheet as at June 30, 2008, statement of profit and loss and statement of changes in shareholders' equity for the three and six months period then ended. Our review was carried out in accordance with procedures prescribed by the Institute of Certified Public Accountants in Israel, and included, inter alia, reading of the aforementioned interim financial statements, reading the minutes of shareholders' meetings and meetings of the Board of Directors and its Committees, as well as making inquiries of officers of the Bank responsible for financial and accounting matters.

Since such a review is limited in scope and does not constitute an audit in accordance with Generally Accepted Auditing Standards, we do not express an opinion on the said condensed consolidated interim financial statements.

In the course of our review, nothing came to our attention which would indicate the necessity of making material changes in the condensed consolidated interim financial statements in order for them to be in conformity with Generally Accepted Accounting Principles and in accordance with the reporting instructions and directives of the Supervisor of Banks.

We draw attention to Note 9D(B) to the condensed interim financial statements regarding exposure to class action claims filed against the Bank.

Somekh Chaikin

Certified Public Accountants (Isr.)

Ziv Haft

Certified Public Accountants (Isr.)

Tel-Aviv, August 27, 2008.

Condensed Consolidated Balance Sheet

as at June 30, 2008

(in millions of NIS)

December 31		June 30	
2007		2008	2007
Audited		Unaudited	
Assets			
*35,695	Cash on hand and deposits with banks	42,298	39,690
*48,115	Securities	31,313	*46,017
471	Securities which were borrowed or bought under agreements to resell	128	*946
205,016	Credit to the public	211,575	191,705
404	Credit to governments	298	519
766	Investments in equity basis investees	658	907
3,941	Buildings and equipment	3,972	3,833
8,583	Other assets	10,667	7,212
302,991	Total assets	300,909	290,829
Liabilities and Shareholders' Equity			
231,750	Deposits from the public	226,955	224,880
9,043	Deposits from banks	10,031	6,886
2,210	Deposits from the Government	1,828	2,472
1,388	Securities which were lent or sold under agreements to repurchase	208	41
18,812	Debentures and subordinated notes	19,111	17,914
20,068	Other liabilities	23,227	18,643
283,271	Total liabilities	281,360	270,836
942	Minority interests	791	779
18,778	Shareholders' equity	18,758	19,214
302,991	Total liabilities and shareholders' equity	300,909	290,829

* Reclassified.

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

Dan Dankner
Chairman of the
Board of Directors

Zvi Ziv
President &
Chief Executive Officer

Ofer Levy
Senior Deputy Managing Director
Chief Accountant

Tel-Aviv, August 27, 2008.

Condensed Consolidated Statement of Profit and Loss

(in millions of NIS)

for the Periods Ended June 30, 2008

Year ended December 31		Three months ended June 30		Six months ended June 30	
		2008	2007	2008	2007
2007					
Audited			Unaudited		
	Profit (loss) from financing activities				
6,933	before provision for doubtful debts	1,943	*1,995	(69)	*3,775
513	Provision for doubtful debts	252	202	284	383
6,420	Profit (loss) from financing activities after provision for doubtful debts	1,691	*1,793	(353)	*3,392
	Operating and other income				
4,257	Operating commissions	1,070	*1,052	2,178	*2,083
251	Profits from investments in shares, net	24	19	21	144
742	Other income	111	*183	290	*394
5,250	Total operating and other income	1,205	*1,254	2,489	*2,621
	Operating and other expenses				
4,769	Salaries and related expenses	1,085	1,119	2,548	2,253
	Maintenance and depreciation of buildings and equipment	326	307	669	615
1,871	Other expenses	500	442	962	849
7,940	Total operating and other expenses	1,911	1,868	4,179	3,717
3,730	Operating profit (loss) before taxes	985	1,179	(2,043)	2,296
	Provision for taxes (tax benefit) on operating profit (loss)	431	440	(521)	928
2,272	Operating profit (loss) after taxes	554	739	(1,522)	1,368
	The share in net, after-tax operating profits of equity basis investees	6	34	13	118
	Minority interests, net in after-tax operating profits of subsidiary companies	(15)	(57)	49	(80)
2,328	Net operating profit (loss)	545	716	(1,460)	1,406
	Net profit from extraordinary transactions, after taxes	49	286	487	231
2,679	Net profit (loss)	594	1,002	(973)	1,637
	Earning per share (in NIS):				
	Basic earnings				
1.85	Net operating profit (loss)	0.42	0.57	(1.13)	1.12
0.28	Profit from extraordinary transactions	0.04	0.23	0.38	0.18
2.13	Net profit (loss) per share	0.46	0.80	(0.75)	1.30
	Diluted earnings				
1.83	Net operating profit (loss)	0.41	0.57	(1.13)	1.12
0.28	Profit from extraordinary transactions	0.04	0.23	0.38	0.18
2.11	Net profit (loss) per share	0.45	0.80	(0.75)	1.30

* Reclassified.

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

**Condensed Statement of
Changes in Shareholders' Equity**
for the Periods Ended June 30, 2008

(in millions of NIS)

	For the three months ended June 30, 2008									
	Capital Reserves				Cumulative other comprehensive income			Surplus	Dividend declared after the balance sheet date	Total shareholder's equity
	Share capital and capital reserves	Capital fund inherent in share based payment transactions	Other capital funds	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments*	Net profits (losses) from cash flow hedging			
	Unaudited									
Balance as at March 31, 2008	7,259	143	2	7,404	126	(51)	(268)	10,111	-	17,322
Net profit								594		594
Share issue	732		3	735						735
Adjustments in respect of presentation of securities available for sale at fair value					(139)					(139)
Adjustments in respect of presentation of securities available for sale which were reclassified to the statement of profit and loss					29					29
Related tax effect					45					45
Benefit inherent in share based payment transactions		16		16						16
Net profit in respect of cash flow hedging							215			215
Net profit in respect of cash flow hedging which were reclassified to the statement of profit and loss							67			67
Related tax effect							(104)			(104)
Translation adjustments relating to equity basis investees*						(22)				(22)
Balance as at June 30, 2008	7,991	159	5	8,155	61	(73)	(90)	**10,705	-	18,758

* Adjustments from translation of financial statements of autonomous units.

** Includes NIS 2,744 million that cannot be distributed as dividend.

**Condensed Statement of
Changes in Shareholders' Equity**
for the Periods Ended June 30, 2008 (continued)

(in millions of NIS)

	For the three months ended June 30, 2007									
	Capital Reserves			Cumulative other comprehensive income				Surplus	Dividend declared after the balance sheet date	Total shareholder's equity
	Share capital and capital reserves	Capital fund inherent in share based payment transactions	Other capital funds	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments*	Net profits (losses) from cash flow hedging			
	Unaudited									
Balance as at March 31, 2007	7,259	81	13	7,353	300	1	(17)	10,541	315	18,493
Net profit		-		-				1,002		1,002
Adjustments in respect of										
presentation of securities										
available for sale										
at fair value				-	(68)			-		(68)
Related tax effect				-	27			-		27
Dividend paid				-				-	(315)	(315)
Dividend that was declared										
after the balance										
sheet date				-				(504)	504	-
Benefit inherent in										
share based										
payment transactions	-	14		14						14
Net profit in respect of										
cash flow hedging				-			113	-		113
Related tax effect				-			(43)	-		(43)
Translation adjustments										
relating to equity										
basis investees*				-		(4)		-		(4)
Other adjustments										
relating to equity										
basis investees	-		(5)	(5)						(5)
Balance as at June 30, 2007	7,259	95	8	7,362	259	(3)	53	11,039	504	19,214

* Adjustments from translation of financial statements of autonomous units.

**Condensed Statement of
Changes in Shareholders' Equity**
for the Periods Ended June 30, 2008 (continued)

(in millions of NIS)

	For the six months ended June 30, 2008									
	Capital Reserves			Cumulative other comprehensive income						
	Share capital and reserves	Capital fund inherent in share based payment transactions	Other capital funds	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments*	Net profits (losses) from cash flow hedging	Surplus	Dividend declared after the balance sheet date	Total shareholder's equity
	Unaudited									
Balance as at										
December 31, 2007	7,259	137	7	7,403	(145)	(11)	(147)	11,678	-	18,778
Net loss				-				(973)		(973)
Share issue	732		3	735						735
Adjustments in respect of										
presentation of securities available for sale at fair value				-	(288)			-		(288)
Adjustments in respect of										
presentation of securities available for sale which were reclassified to the statement of profit and loss				-	610			-		610
Related tax effect				-	(116)			-		(116)
Benefit inherent in share based payment transactions	-	22		22						22
Net profit in respect of cash flow hedging				-			24	-		24
Net profit in respect of cash flow hedging which were reclassified to the statement of profit and loss							67			67
Related tax effect				-			(34)	-		(34)
Translation adjustments relating to equity basis investees*				-		(62)		-		(62)
Other adjustment relating to equity basis investees	-		(5)	(5)						(5)
Balance as at June 30, 2008	7,991	159	5	8,155	61	(73)	(90)	**10,705	-	18,758

* Adjustments from translation of financial statements of autonomous units.

** Includes NIS 2,744 million that cannot be distributed as dividend.

**Condensed Statement of
Changes in Shareholders' Equity**
for the Periods Ended June 30, 2008 (continued)

(in millions of NIS)

	For the six months ended June 30, 2007									
	Capital Reserves			Cumulative other comprehensive income				Surplus	Dividend declared after the balance sheet date	Total shareholder's equity
	Share capital and capital reserves	Capital fund inherent in share based payment transactions	Other capital funds	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments*	Net profits (losses) from cash flow hedging			
	Unaudited									
Balance as at										
December 31, 2006	7,259	68	13	7,340	294	2	(2)	10,221	378	18,233
Net profit				-				1,637		1,637
Adjustments in respect of										
presentation of securities										
available for sale										
at fair value				-	(59)			-		(59)
Related tax effect				-	24					24
Dividend paid				-				(315)	(378)	(693)
Dividend that was declared after										
the balance sheet date				-				(504)	504	-
Benefit inherent in share based										
payment transactions	-	27		27						27
Net profit in respect of cash										
flow hedging				-			89	-		89
Related tax effect				-			(34)	-		(34)
Translation adjustments relating										
to equity basis investees*				-		(5)		-		(5)
Other adjustment relating										
to equity basis investees	-		(5)	(5)						(5)
Balance as at June 30, 2007	7,259	95	8	7,362	259	(3)	53	11,039	504	19,214

* Adjustments from translation of financial statements of autonomous units.

**Condensed Statement of
Changes in Shareholders' Equity**
for the Periods Ended June 30, 2008 (continued)

(in millions of NIS)

	For the year ended December 31, 2007									
	Capital Reserves				Cumulative other comprehensive income			Surplus	Dividend declared after the balance sheet date	Total shareholder's equity
	Share capital and capital reserves	Capital fund inherent in share based payment transactions	Other capital funds	Total capital and capital reserves	Adjustments in respect of presentation of securities available for sale at fair value	Translation adjustments*	Net profits (losses) from cash flow hedging			
	Audited									
Balance as at										
December 31, 2006	7,259	68	13	7,340	294	2	(2)	10,221	378	18,233
Net profit	-			-				2,679		2,679
Adjustments in respect of										
presentation of securities available for sale at fair value				-	(688)			-		(688)
Adjustments in respect of										
presentation reclassified to the statement of profit and loss				-	(45)					(45)
Related tax effect				-	294					294
Dividend paid				-				(1,222)	(378)	(1,600)
Benefit inherent in share based payment transactions	-	69		69						69
Net profit in respect of cash flow hedging				-			(237)	-		(237)
Related tax effect				-			92	-		92
Translation adjustments relating to equity basis investees*				-		(13)		-		(13)
Other adjustment relating to equity basis investees	-		(6)	(6)						(6)
Balance as at										
December 31, 2007	7,259	137	7	7,403	(145)	(11)	(147)	11,678	-	18,778

* Adjustments from translation of financial statements of autonomous units.

Notes to the Condensed Financial Statements

as at June 30, 2008

Note I

Accounting Policy and the Effect of New Accounting Standards in the Period Prior to Implementation

A. Accounting Policy

(1) The Condensed Financial Statements as at June 30, 2008 were prepared in accordance with the same accounting principles used in the preparation of the Audited Annual Financial Statements as at December 31, 2007, with the exception noted in Section B below. These reports should be perused in the context of the Annual Financial Statements as at December 31, 2007, and the accompanying Notes.

(2) Further to the statements in Note 2E to the Financial Statements as at December 31, 2007, the Bank has established principles in order to determine the amount of the provision for decline in value of an other-than-temporary nature in respect of asset-backed securities, as follows:

1. For securities which at the balance-sheet date the Bank does not intend to hold, or securities sold after the balance-sheet date, a decline in value will be recorded up to the fair value of the security.
2. For securities whose ratings have been significantly downgraded since the Bank's first investment in the security, a decline in value will be recorded up to the fair value of the security.
3. With regard to the remaining MBS portfolio that has not been sold, in securities for which the Bank does not have a model for examining expected losses according to the American standard EITF 99-20, the Bank implements a directive received from the Supervisor of Banks, according to which a decline in value of over 30% of the cost of each security constitutes a decline in value of an other-than-temporary nature, to be attributed to the statement of profit and loss.

B. Effect of New Accounting Standards in the Period Prior to Implementation

1. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereinafter: the "Standard"). The Standard stipulates that entities subject to the Securities Law-1968 and required to report under its regulations shall prepare their financial statements according to IFRS for periods starting as of January 1, 2008. The aforesaid does not apply to banking corporations whose financial statements are prepared according to the directives and guidelines of the Supervisor of Banks.

With regard to the manner of implementation of the Standard by banking corporations, the Supervisor of Banks has notified the banking corporations of the following:

a) The Supervisor of Banks intends to routinely set forth directives for the implementation of Israeli standards published by the Israel Accounting Standards Board based on IFRS that do not pertain to the core business of banking.

b) In the second half of 2009, the Supervisor of Banks will publish his decision regarding the implementation date of IFRS pertaining to the core business of banking, taking into consideration the results of the process of adoption of these standards in Israel, on one hand, and the progress of the convergence process between IFRS and American accounting standards, on the other hand.

Thus, with regard to the core business of banking, financial statements of banking corporations prepared according to the directives and guidelines of the Supervisor of Banks shall continue to be prepared based on the American accounting standards as stipulated in the Public Reporting Directives.

2. In December 2006, the Israel Accounting Standards Board issued Accounting Standard No. 23 concerning the accounting treatment of transactions between an entity and its controlling party (hereinafter: "Standard 23"). The standard replaces the Securities Regulations (Presentation of Transactions between a Corporation and its Controlling Party in Financial Statements), -1996, as adopted in the Public Reporting Directives of the Supervisor of Banks. The standard stipulates that assets and liabilities in respect of which a transaction has been executed between an entity and its controlling party shall be measured at the date of the transaction at fair value, with the difference between the fair value and the consideration allocated in the transaction to be allocated to shareholders' equity. A negative difference essentially constitutes a dividend and therefore reduces the balance of surpluses. A positive difference essentially constitutes an owner's investment, and is therefore stated in a separate item under shareholders' equity: "capital fund from a transaction between an entity and its controlling party."

The standard addresses three issues related to transactions between an entity and its controlling party, as follows:

- Transfers of assets to the entity from the controlling party, or alternatively, transfers of assets from the entity to the controlling party.
- Undertaking of a liability of the entity towards a third party, in full or in part, by the controlling party, or indemnification of the entity by its controlling party for expenses, or a waiver by the controlling party of a debt owed by the entity, in full or in part.
- Loans given to or received from the controlling party. In addition, the standard stipulates the disclosure to be made in the financial statements with regard to transactions between an entity and its controlling party during the period.

Notes to the Condensed Financial Statements

as at June 30, 2008

Note I

Accounting Policy
and the Effect of New
Accounting Standards
in the Period Prior to
Implementation
(continued)

The Supervisor of Banks recently issued a letter stated that the rules that are to apply to banking corporations and credit-card companies with regard to the treatment of transactions between an entity and its controlling party are being reexamined. According to the letter, the Supervisor of Banks intends to apply the following rules to transactions between banking corporations or credit-card companies and their controlling parties, and to transactions between banking corporations and companies under their control:

- a. International financial reporting standards.
- b. In the absence of a specific reference in the international reporting standards, generally accepted accounting principles in the United States applicable to banking corporations in the U.S. shall be applied, provided that they do not conflict with international reporting standards.
- c. In the absence of references in U.S. generally accepted accounting principles, parts of Standard 23 shall be applied, provided that they do not conflict with international reporting standards or with U.S. generally accepted accounting principles, as noted above. As at the date of publication of the financial statements, the Supervisor of Banks has not yet issued a final directive with regard to the adoption of specific rules on this subject and with regard to the manner of the first-time implementation thereof.

3. Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses

A circular of the Supervisor of Banks on the subject of "Measurement and Disclosure of Impaired Debts, Credit Risk, and Provision for Credit Losses" (hereinafter: the "Circular" or the "Directive") was issued on December 31, 2007. The Circular is based, among other things, on U.S. accounting standards and the related regulatory directives of bank supervision agencies and the Securities and Exchange Commission in the United States. The fundamental guiding principles of the Circular represent a substantial change from the current directives, detailed in Note 2F to the Annual Financial Statements for 2007, on the classification of problematic debts and the measurement of provisions for credit losses in respect of such debts.

According to the Circular, banking corporations are required to make provisions for credit losses at an appropriate level in order to cover estimated credit losses with respect to their credit portfolios. In addition to the aforesaid, according to the Circular, provisions must be made in a separate liability account at an appropriate level to cover estimated credit losses related to off-balance-sheet credit instruments, such as contractual engagements to provide credit and guarantees. The required provision to cover estimated credit losses with respect to the credit portfolio is to be assessed by one of two methods: "individual provisions" and "group provisions." Individual provisions are to be applied for all debts where the contractual balance (without deducting accounting write-offs that do not involve legal waivers, unrecognized interest, provisions for credit losses, and collateral) is NIS 1 million or more, and for other debts identified by the banking corporation for individual assessment and for which the provision for decline in value is not included in the group provision. The individual provision for credit losses is to be assessed based on expected future cash flows, discounted at the effective interest rate of the debt; or, for debts contingent upon collateral, or when the Bank determines that seizure of an asset is expected, according to the fair value of the collateral placed under lien to secure the credit.

Group provisions are applied in provisions for the decline in value of large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The specific provision for credit losses in respect of debts evaluated on a group basis, excluding housing loans, for which a minimum specific provision was calculated based on the extent of arrears, is to be calculated in accordance with the rules stipulated in U.S. accounting standard FAS 5 – Accounting for Contingencies (hereinafter: "FAS 5").

The required provision in respect of off-balance-sheet credit instruments is to be assessed in accordance with the rules stipulated in U.S. accounting standard FAS 5.

The Directive further stipulates various definitions and classifications of balance-sheet and off-balance-sheet credit risk, rules for the recognition of interest income from impaired debts, and rules for accounting write-offs of problematic debts. Among other things, the Circular states that accounting write-offs should be performed for any individually examined debts thought to be uncollectible, of such low value that their retention as assets is unjustified, or debts in respect of which the banking corporation has carried out prolonged collection efforts. With regard to debts evaluated on a group basis, write-off rules were established based on the period of arrears, depending on whether the debts are secured by residences, with the exception of housing loans for which a minimum provision is made according to the extent of arrears, debts secured by collateral other than residences, unsecured debts, debts of bankrupt borrowers, and debts created by fraud.

The Directive is to be implemented in the financial statements of banking corporations and credit-card companies from January 1, 2010 (hereinafter: the "First Implementation Date") forward. The Directive is not to be implemented retroactively in financial statements for previous periods.

Notes to the Condensed Financial Statements

as at June 30, 2008

Note I Accounting Policy and the Effect of New Accounting Standards in the Period Prior to Implementation (continued)

At the First Implementation Date, banking corporations and credit-card companies will be required, among other things: to perform accounting write-offs of all debts meeting the conditions for accounting write-offs on that date, adjust the balance of the provision for credit losses in respect of credit to the public and in respect of off-balance-sheet credit instruments at the transition date to the requirements of the Directive, classify all debts meeting the conditions for such classification as under special supervision, inferior, or impaired; cancel all accrued unpaid interest income in respect of all debts meeting the relevant conditions on that date, and examine the need to adjust the balance of current and deferred taxes receivable and payable.

Adjustments of the balance of the provision for credit losses in respect of credit to the public and in respect of off-balance-sheet credit instruments to the requirements of the Directive at the First Implementation Date are to be included directly in the reserves item within shareholders' equity.

In this connection, it is clarified that despite the definition according to which restructured problematic debt is impaired debt, banking corporations and credit-card companies are not required to classify as impaired debts restructured prior to January 1, 2007, provided that the debt is not impaired based on the conditions stipulated in the restructuring agreement.

Implementation of the Directive is expected to have implications for the Bank's future relationships with its customers, due to the requirement to implement principles suited to the business environment in the United States in the existing business environment in Israel. The stricter documentation requirements and requirements regarding the evaluation and execution of provisions for estimated credit losses in respect of debts with different classifications than those currently stipulated in the Public Reporting Directives and in Proper Conduct of Banking Business No. 314 concerning the treatment of problematic debts and in respect of off-balance-sheet credit exposures may have a material impact on the reported results and financial position of the Bank. In addition, implementation of the Directive requires substantial preparations and changes to existing information systems, which are currently not adapted to reporting according to the proposed principles.

The Bank will implement the requirements of the Circular as of January 1, 2010. The Board of Management of the Bank is preparing for implementation of the Directive. Preparations include the establishment of a steering committee led by a Member of the Board of Management; allocation of financial, computing, and human resources at the necessary level in order to comply with the requirements and timelines stipulated in the Directive and the examination of processes, systems, controls, and procedures at the Bank related to credit risks.

As part of the implementation of the Directive, the Bank is developing and updating various computerized tools and processes, primarily: the preparation of appropriate information infrastructure, administration of new debt components, segmentation of credit by the different types of provisions, identification of problematic credit, group provisions, accounting write-offs, adaptation of systems for the individual examination of credit, and adaptation of accounting systems for the required accounting treatment and reporting. As at June 30, 2008, the Bank is in an advanced development stage with regard to the preparation of the appropriate information infrastructures, the segmentation of credit by the different types of provisions, identification of problematic credit, and group provisions. The other processes listed above are in the stage of defining requirements and specifications; development is planned to be completed by the date on which the Directive takes effect.

At this stage, prior to the completion of the required preparations at the Bank for the measurement of provisions for credit losses in accordance with the new Directive, the Board of Management of the Bank is unable to estimate the extent of the quantitative impact on the shareholders' equity of the Bank at the transition date and on its future financial results. At this stage, in light of the complex, prolonged implementation process of the Directive, the Board of Management of the Bank believes that it will not be possible to estimate the full extent of the quantitative impact on the shareholders' equity of the Bank at the transition date earlier than the end of the third quarter of 2009.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 2
Securities

Composition:

	as at June 30, 2008				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
1) Debentures held to maturity					
Debentures and bonds:					
Government	17	17	-	-	17
Of others	2,619	2,619	-	-	2,619
Total debentures held to maturity	2,636	2,636	-	-	2,636
	Book value	Amortized cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Profits	Losses	
2) Securities available for sale					
Debentures and bonds:					
Government	13,169	13,093	123	(47)	13,169
Of others	10,728	10,907	53	(232)	10,728
Total debentures available for sale	23,897	24,000	176	(279)	23,897
Shares:					
Of others**	1,613	1,426	199	(12)	⁽¹⁾ 1,613
Total securities available for sale	25,510	25,426	⁽²⁾ 375	⁽²⁾ (291)	⁽¹⁾ 25,510
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value**
3) Securities held for trading					
Debentures and bonds:					
Government	3,092	3,091	4	(3)	3,092
Of others	55	55	-	-	55
Total debentures held for trading	3,147	3,146	4	(3)	3,147
Shares:					
Of others	20	20	-	-	20
Total securities held for trading	3,167	3,166	⁽³⁾ 4	⁽³⁾ (3)	3,167
Total securities	31,313	31,228	379	(294)	31,313

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.

** According to the directive of the Supervisor of Banks, the Bank has included its share of credit granted by consortiums of banks, to be repaid via realization of traded shares on the stock exchange by a receiver, under the 'available-for-sale securities' item. As of this date, accounting with respect to the balance of such credit is handled in accordance with the Supervisor of Banks' directives on reporting to the public which apply to securities available for sale. These securities are presented at the fair value or the balance of the credit-the lower of the two.

(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 469 million.

(2) Included in shareholders' equity in the item "Adjustments in respect of presentation of securities available for sale at fair value".

(3) Attributed to the Statement of Profit and Loss.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 2
Securities
(continued)

4) Additional consolidated data regarding the asset-backed securities available for sale⁽¹⁾

	as at June, 2008				
	Amortized cost	Cumulative other comprehensive profit		Fair value	Decline in value of an other than temporary nature**
		Profits*	Losses*		
Mortgage-backed securities (MBS):	751	-	72	679	22
Asset-backed securities (ABS):					
Automobile loans	22	-	-	22	-
Commercial and Industrial loans	160	5	16	149	31
Structured Investment Vehicles (SIV)	-	-	-	-	367
Collateralized Debt Obligations (CDO)	648	-	51	597	56
Other***	1,769	-	4	1,765	-
Total Asset-backed securities	2,599	5	71	2,533	454
Total	3,350	5	143	3,212	476

* Attributed to the Statement of changes in Shareholder's equity.

** Charged as a loss in the Statement of Profit and Loss during January-June 2008 (not including amounts related to securities that were sold).

*** Includes CP totaling NIS 1,683 million purchased in securitization transactions in which the Bank acted as the sponsor.

(1) For further details regarding activity in asset backed securities, see section "Activity of the Bank Group in Asset-Backed Securities" in the Board of Directors Report.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 2
Securities (continued)

5) Further details regarding mortgage-backed and asset-backed securities available for sale in an unrealized loss position from adjustments to fair value

	as at June 30, 2008					
	Less than 12 months		12 months and above		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Mortgage-backed securities (MBS):	557	58	87	14	644	72
Asset-backed securities (ABS):						
Commercial and Industrial loans	22	5	60	11	82	16
Collateralized Debt Obligations (CDO)	548	45	26	6	574	51
Other	-	-	25	4	25	4
Total Asset-backed securities	570	50	111	21	681	71
Total	1,127	108	198	35	1,325	143

6) Distribution of mortgage-backed and asset-backed securities available for sale in an unrealized loss position from adjustments to fair value

	as at June 30, 2008					
	Less than 12 months		12 months and above		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Price in %:						
Between 70-100	1,127	108	198	35	1,325	143

Notes to the Condensed Financial Statements
as at June 30, 2008

Audited
(in millions of NIS)

Note 2
Securities
(continued)

Composition:

	as at December 31, 2007				
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value**
1) Debentures held to maturity Debentures and bonds:					
Government	20	20	-	-	20
Of others	2,443	2,443	-	-	2,443
Total debentures held to maturity	2,463	2,463	-	-	2,463
	Book value	Amortized cost (in shares-cost)	Cumulative other comprehensive income		Fair value**
			Profits	Losses	
2) Securities available for sale Debentures and bonds:					
Government	13,562	13,475	115	(28)	13,562
Of others	*26,921	*27,617	217	(913)	*26,921
Total debentures available for sale	*40,483	*41,092	332	(941)	*40,483
Shares:					
Of others**	1,876	1,513	370	(7)	⁽¹⁾ 1,876
Total securities available for sale	*42,359	*42,605	⁽²⁾ 702	⁽²⁾ (948)	⁽¹⁾ *42,359
	Book value	Amortized cost (in shares-cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value***
3) Securities held for trading Debentures and bonds:					
Government	3,213	3,209	7	(3)	3,213
Of others	50	50	-	-	50
Total debentures held for trading	3,263	3,259	7	(3)	3,263
Shares:					
Of others	30	30	-	-	30
Total securities held for trading	3,293	3,289	⁽³⁾ 7	⁽³⁾ (3)	3,293
Total securities	*48,115	*48,357	709	(951)	*48,115

* Reclassified.

** Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will be obtained from a large-volume sale of securities.

*** According to the directive of the Supervisor of Banks, the Bank has included its share of credit granted by consortiums of banks, to be repaid via realization of traded shares on the stock exchange by a receiver, under the 'available-for-sale securities' item. As of this date, accounting with respect to the balance of such credit is handled in accordance with the Supervisor of Banks' directives on reporting to the public which apply to securities available for sale. These securities are presented as the fair value or the balance of the credit - the lower of the two.

(1) Including shares and options for which no fair value is available, which are stated at cost, amounting to NIS 558 million.

(2) Included in shareholders' equity in the item "Adjustments in respect of presentation of securities available for sale at fair value".

(3) Attributed to the Statement of Profit and Loss.

Notes to the Condensed Financial Statements
as at June 30, 2008

Audited
(in millions of NIS)

Note 2
Securities
(continued)

4) Additional consolidated data regarding the asset-backed securities available for sale⁽¹⁾

	as at December 31, 2007				
	Amortized cost	Cumulative other comprehensive profit		Fair value	Decline in value of an other than temporary nature**
		Profits*	Losses*		
Mortgage-backed securities (MBS):					
Pass Through type securities					
Securities secured by GNMA	21	-	-	21	-
Securities issued by FNMA & FHLMC	1,583	6	5	1,584	-
Total Pass Through type securities	1,604	6	5	1,605	-
Other Mortgage-backed securities					
(including CMO)	13,354	19	609	12,764	-
Total Mortgage-Backed Securities	14,958	25	614	14,369	-
Asset-backed securities (ABS):					
Automobile loans	24	-	-	24	-
Commercial and Industrial loans	219	-	14	205	-
Structured Investment Vehicles (SIV)	409	-	28	381	1,122
Collateralized Debt Obligations (CDO)	786	1	15	772	50
Other***	1,994	-	3	1,991	4
Total Asset-backed securities	3,432	1	60	3,373	1,176
Total	18,390	26	674	17,742	1,176

* Attributed to the Statement of changes in Shareholder's equity.

** Charged as a loss in the Statement of Profit and Loss as at December 31, 2007.

*** Includes Commercial Paper totaling NIS 1,882 million purchased in securitization transactions in which the Bank acted as the sponsor.

(1) For further details regarding activity in asset backed securities, see section "Activity of the Bank Group in Asset-Backed Securities" in the Board of Directors Report.

Notes to the Condensed Financial Statements
as at June 30, 2008

Audited
(in millions of NIS)

Note 2
Securities
(continued)

5) Further details regarding mortgage-backed and asset-backed securities available for sale in an unrealized loss position from adjustment to fair value

	as at December 31, 2007					
	Less than 12 months		12 months and above		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities issued by FNMA & FHLMC	724	5	-	-	724	5
Other Mortgage-backed securities (including CMO)	10,792	608	40	1	10,832	609
Total Mortgage-backed Securities	11,516	613	40	1	11,556	614
Asset-backed securities (ABS):						
Commercial and Industrial loans	181	13	24	1	205	14
Structured Investment Vehicles (SIV)	244	28	-	-	244	28
Collateralized Debt Obligations (CDO)	420	15	-	-	420	15
Other	32	3	-	-	32	3
Total Asset-backed securities	877	59	24	1	901	60
Total	12,393	672	64	2	12,457	674

6) Distribution of mortgage-backed and asset-backed securities available for sale in an unrealized loss position from adjustment to fair value

	as at December 31, 2007					
	Less than 12 months		12 months and above		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Price in %:						
Between 70-100	12,393	672	64	2	12,457	674

Notes to the Condensed Financial Statements

as at June 30, 2008

Unaudited

Note 3 Sale of Mortgage-Backed Bond Portfolio

On May 20, 2008, the Board of Directors of the Bank resolved to realize the Bank's full holdings in mortgage-backed securities which were purchased by the Bank's New York branch (hereinafter: the "MBS Portfolio"). The volume of the investment in these securities at that date totaled approximately USD 3.42 billion.

Further to the decision of the Board of Directors, on May 20, 2008, the Bank sold its entire MBS Portfolio to the investment fund Pimco, through Deutsche Bank, for a total consideration of USD 2.55 billion.

In the Financial Statements as at March 31, 2008, the Bank set the value of the MBS Portfolio that was sold in accordance with the amount of the aforesaid consideration. Accordingly, the Bank recorded a loss in the amount of approximately NIS 3,101 million (USD 870 million) in the Financial Statements as at March 31, 2008, which was included in the item "loss from financing activity before provision for doubtful debts."

Note 4 Investment in Subsidiary and Affiliated Companies

A. Sale of Bank Massad

The transaction for the sale of the Bank's full holdings in Bank Massad was completed on May 14, 2008.

The Bank recorded profit in the amount of NIS 50 million in the second quarter of 2008, included under net profit from extraordinary transactions after taxes.

As of the second quarter of 2008, the financial statements of Bank Massad are no longer consolidated with the financial statements of the Bank.

The following are the main balance-sheet and result data from the financial statements of Bank Massad, as included in the Consolidated Financial Statements of the Bank Group:

Balance-sheet data:	March 31, 2008		
	NIS millions		
Total assets	2,807		
Securities	797		
Credit to the public	1,943		
Deposits from the public	3,189		
		For the six months ended June 30	For the year
	2008	2007	2007
Profit and Loss data:	NIS millions		
Profit from financing activity			
before provision for doubtful debts	36	65	131
Provision for doubtful debts	3	4	13
Fees and other income	15	25	52
Operating expenses	36	54	113

The sale agreement states that Bank Massad will continue to receive computer services from the Bank, according to the terms currently prevailing between the Bank and Bank Massad, for a period of three years from the date of completion of the transaction.

Notes to the Condensed Financial Statements

as at June 30, 2008

Unaudited

Note 4 Investment in Subsidiary and Affiliated Companies (continued)

B. Sale of Bank Yahav

The transaction for the sale of the Bank's full holdings in Bank Yahav was completed on July 10, 2008.

As a result of the completion of the transaction, the Bank will record a profit in the amount of approximately NIS 50 million in the third quarter of 2008, to be included under net profit from extraordinary transactions, after taxes.

The following are the main balance-sheet and result data from the financial statements of Bank Yahav, as included in the Consolidated Financial Statements of the Bank Group:

Balance-sheet data:	June 30, 2008		
	NIS millions		
Total assets			7,753
Securities			2,634
Credit to the public			3,389
Deposits from the public			9,173

Profit and loss data:	For the six months ended June 30		For the year
	2008	2007	2007
	NIS millions		
Profit from financing activity before provision for doubtful debts	123	113	245
Provision for doubtful debts	2	2	6
Fees and other income	34	51	99
Operating expenses	129	99	224

The sale agreement states that Bank Yahav will continue to receive computer services from the Bank, according to the terms currently prevailing between the Bank and Bank Yahav, for a period of three years from the date of completion of the transaction.

C. Delek Real Estate

The Bank's investment in the company as at June 30, 2008 totaled NIS 243 million. The market value of the Bank's investment at that date was NIS 129 million. The Bank hired an independent assessor with the relevant professional qualifications to examine the recoverable amount of the Bank's investment in Delek Real Estate. Giza Zinger Even performed the assessment, in accordance with commonly accepted principles in the field of financing. The assessment was made using the NAV (net asset value) method, under the assumption of a going concern, based on the aggregate value of the assets of Delek Real Estate net of the value of its liabilities, in accordance with the assessment. The recoverable amount of the Bank's investment in Delek Real Estate is higher than the value of the investment in the Bank's books; consequently, no provision for decline in value was made in respect of this investment. The assumptions used to perform the assessment were based on a capital price of 9%-15%, according to the geographical location and characteristics of each project. Sale prices and construction costs in the assessment were based on existing data on sales and construction costs for each specific project, or on data from other projects located in the same area.

Note 5 Shareholders' Equity

A. On April 7, 2008, the Bank allocated 52,500,000 ordinary shares of the Bank and 7,500,000 options (in two allocations) exercisable into shares to York Capital Management, in consideration for a total of NIS 735 million. The consideration received was attributed to the shares and options according to their relative fair value.

The first allocation consists of 3,750,000 option notes, each exercisable into one ordinary share of the Bank for a period of twelve months from the closing date of the transaction, at an exercise price of NIS 19 per ordinary share.

The second allocation consists of 3,750,000 option notes, each exercisable into one ordinary share of the Bank for a period of 24 months from the closing date of the transaction, at an exercise price of NIS 22 per ordinary share.

B. On August 6, 2008, the special general meeting of the Bank's shareholders resolved to increase the Bank's registered capital by an additional 2 billion ordinary shares with par value of NIS 1 each, such that following the said increase the registered capital of the Bank would consist of 4 billion ordinary shares; and resolved to amend the memorandum and articles of the Bank accordingly.

Notes to the Condensed Financial Statements
as at June 30, 2008

(in millions of NIS)

Note 6
Capital Adequacy

Capital adequacy is calculated in accordance with the rules set forth in Supervisor of Banks Directive No. 311 ("Minimum Capital Ratio") and No. 341 ("Capital Allocations for Exposure to Market Risks").

A. Consolidated

	June 30		December 31
	2008	2007	2007
	unaudited		audited
1. Capital for the purpose of calculating the capital to risk assets ratio			
Tier I capital	20,684	19,989	21,152
Total Capital	29,765	27,650	28,926

	June 30, 2008		June 30, 2007		December 31, 2007	
	unaudited		unaudited		audited	
	Balances*	Risk Balances	Balances*	Risk Balances	Balances*	Risk Balances
2. Weighted risk balances						
Assets	301,507	216,914	291,536	211,916	303,944	223,951
Off-balance sheet						
instruments	69,138	48,267	69,827	49,876	76,543	52,899
Total credit risk assets	370,645	265,181	361,363	261,792	380,487	276,850
Market risk	-	5,278	-	4,711	-	5,067
Total risk assets	370,645	270,459	361,363	266,503	380,487	281,917

* Assets-balance sheet balances; off-balance sheet instruments-stated value calculated taking into account the conversion ratios to credit

	June 30		December 31
	2008	2007	2007
	unaudited		audited
3. Ratio of capital to risk assets			
Ratio of Tier I capital to risk assets	7.65%	7.50%	7.50%
Total ratio of capital to risk assets	11.01%	10.38%	10.26%
Total minimum ratio of capital to risk assets			
as required by the Supervisor of Banks	9.00%	9.00%	9.00%

B. Subsidiaries abroad under Supervisor's directive to maintain minimum capital requirement

Bank Pozitif			
Ratio of Tier I capital to risk assets	34.73%	39.20%	39.02%
Total ratio of capital to risk assets	35.42%	39.98%	39.58%
Total minimum ratio of capital to risk assets			
as required by the Supervisor of Banks	15.00%	15.00%	15.00%

Note 7
Retirement Program

In May 2008, the Board of Directors of the Bank resolved to implement a voluntary-retirement program at a cost of NIS 300 million, allocated to the statement of profit and loss in the first quarter of 2008.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 8

Assets and Liabilities
According to Linkage Basis -
Consolidated

	as at June 30, 2008						Total
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items*	
	Unlinked	Linked to the CPI	U.S. Dollars	Euro	Other		
Assets							
Cash on hand and deposits with banks	6,272	1,408	31,592	2,344	682	-	42,298
Securities	13,198	1,860	8,019	3,564	3,038	1,634	31,313
Securities which were borrowed or							
bought under agreement to resell	100	-	-	-	28	-	128
Credit to the public ⁽²⁾	101,895	59,125	29,451	8,687	11,936	481	211,575
Credit to governments	1	41	256	-	-	-	298
Investments in equity-basis investees	-	-	-	-	-	658	658
Buildings and equipment	-	-	-	-	-	3,972	3,972
Other assets	5,032	734	2,652	538	1,250	461	10,676
Total assets	126,498	63,168	71,970	15,133	16,934	7,206	300,909
Liabilities							
Deposits from the public	114,431	23,215	64,253	15,112	9,463	481	226,955
Deposits from banks	5,221	1,032	2,854	588	336	-	10,031
Deposits from the Government	54	1,641	133	-	-	-	1,828
Securities which were lent or sold							
under agreements to repurchase	-	-	-	-	208	-	208
Debentures and subordinated notes	718	15,944	2,202	125	122	-	19,111
Other liabilities	15,367	2,732	2,793	654	1,324	357	23,227
Total liabilities	135,791	44,564	72,235	16,479	11,453	838	281,360
Excess of assets (liabilities)	(9,293)	18,604	(265)	(1,346)	5,481	6,368	19,549
Effect of hedging derivatives:							
Derivatives instruments (not including options)	-	-	80	(80)	-	-	-
Effect of non hedging derivatives:							
Derivatives instruments (not including options)	16,138	(14,669)	1,696	1,371	(4,536)	-	-
Options in the money, net							
(in terms of underlying asset)	1,252	-	(1,493)	(102)	343	-	-
Options out of the money, net							
(in terms of underlying asset)	(89)	-	519	(108)	(322)	-	-
Total	8,010	3,910	537	(265)	966	6,368	
Options in the money, net							
(present value of stated amount)	1,059	-	(1,337)	(186)	464	-	-
Options out of the money, net							
(present value of stated amount)	12	-	1,783	(306)	(1,489)	-	-

* Including derivative instruments whose underlying assets refer to a non-monetary item.

(1) Including linked to foreign currency.

(2) After deduction of provisions for doubtful debts partly from borrowers who were specifically identified, and partly according to the proportion of each linkage basis to the total credit to the public.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 8

Assets and Liabilities
According to Linkage Basis -
Consolidated (continued)

	as at June 30, 2007						
	Israeli currency		Foreign currency ⁽¹⁾				Total
	Unlinked	Linked to the CPI	U.S. Dollars	Euro	Other	Non-monetary items**	
Assets							
Cash on hand and deposits with banks	7,699	1,201	25,204	1,989	3,597	-	39,690
Securities	11,128	2,124	22,424	6,083	*2,355	1,903	46,017
Securities which were borrowed or bought under agreement to resell	10	-	936	-	*-	-	*946
Credit to the public ⁽²⁾	83,727	53,609	36,326	8,149	9,676	218	191,705
Credit to governments	-	62	457	-	-	-	519
Investments in equity-basis investees	-	-	-	-	-	907	907
Buildings and equipment	-	-	-	-	-	3,833	3,833
Other assets	1,433	144	3,024	368	1,673	570	7,212
Total assets	103,997	57,140	*88,371	16,589	17,301	7,431	290,829
Liabilities							
Deposits from the public	101,960	23,368	76,577	14,381	8,376	218	224,880
Deposits from banks	1,329	991	3,474	281	811	-	6,886
Deposits from the Government	105	2,193	172	1	1	-	2,472
Securities which were lent or sold under agreements to repurchase	-	-	-	-	41	-	41
Debentures and subordinated notes	1,218	12,716	3,647	140	193	-	17,914
Other liabilities	12,278	678	3,212	442	1,557	476	18,643
Total liabilities	116,890	39,946	87,082	15,245	10,979	694	270,836
Excess of assets (liabilities)	(12,893)	17,194	1,289	1,344	6,322	6,737	19,993
Effect of hedging derivatives:							
Derivatives instruments (not including options)	-	-	472	(151)	(321)		
Effect of non hedging derivatives:							
Derivatives instruments (not including options)	13,765	(7,408)	(670)	(579)	(5,108)		
Options in the money, net							
(in terms of underlying asset)	1,439	(101)	(632)	(406)	(300)		
Options out of the money, net							
(in terms of underlying asset)	267	-	(264)	13	(16)		
Total	2,578	9,685	195	221	577	6,737	
Options in the money, net							
(present value of stated amount)	1,743	(105)	(724)	(687)	(227)		
Options out of the money, net							
(present value of stated amount)	3,322	1	(2,768)	(345)	(210)		

* Reclassified.

** Including derivative instruments which their underlying assets present non-monetary item.

(1) Including linked to foreign currency.

(2) After deduction of provisions for doubtful debts - partly from borrowers who were specifically identified, and partly according to the proportion of each linkage basis to the total credit to the public.

Notes to the Condensed Financial Statements
as at June 30, 2008

Audited
(in millions of NIS)

Note 8

Assets and Liabilities
According to Linkage Basis -
Consolidated (continued)

	as at December 31, 2007						Total
	Israeli currency		Foreign currency ⁽¹⁾			Non-monetary items**	
	Unlinked	Linked to the CPI	U.S. Dollars	Euro	Other		
Assets							
Cash on hand and deposits with banks	5,311	1,258	*25,648	1,710	1,768	-	*35,695
Securities	13,564	2,152	*22,708	4,957	2,828	1,906	*48,115
Securities which were borrowed or							
bought under agreement to resell	6	-	385	-	80	-	471
Credit to the public ⁽²⁾	91,148	56,424	34,242	9,478	12,776	948	205,016
Credit to governments	1	50	353	-	-	-	404
Investments in equity basis investees	-	-	-	-	-	766	766
Buildings and equipment	-	-	-	-	-	3,941	3,941
Other assets	2,874	776	2,604	474	1,412	443	8,583
Total assets	112,904	60,660	85,940	16,619	18,864	8,004	302,991
Liabilities							
Deposits from the public	105,814	23,305	76,734	15,506	9,443	948	231,750
Deposits from banks	3,765	958	3,571	305	444	-	9,043
Deposits from the Government	70	1,983	155	1	1	-	2,210
Securities which were lent or sold							
under agreements to repurchase	-	-	1,240	-	148	-	1,388
Debentures and subordinated notes	1,261	14,049	3,178	139	185	-	18,812
Other liabilities	14,174	989	2,561	530	1,515	299	20,068
Total liabilities	125,084	41,284	87,439	16,481	11,736	1,247	283,271
Excess of assets (liabilities)	(12,180)	19,376	(1,499)	138	7,128	6,757	19,720
Effect of hedging derivatives:							
Derivatives instruments (not including options)	-	-	92	(92)	-	-	-
Effect of non hedging derivatives:							
Derivatives instruments (not including options)	19,006	(13,843)	1,358	305	(6,826)	-	-
Options in the money, net							
(in terms of underlying asset)	147	-	(707)	401	159	-	-
Options out of the money, net							
(in terms of underlying asset)	602	-	(307)	(392)	97	-	-
Total	7,575	5,533	(1,063)	360	558	6,757	
Options in the money, net							
(present value of stated amount)	37	-	(906)	699	170	-	-
Options out of the money, net							
(present value of stated amount)	2,365	-	(2,103)	(667)	405	-	-

* Reclassified.

** Including derivative instruments which their underlying assets present non-monetary item.

(1) Including linked to foreign currency.

(2) After deduction of provisions for doubtful debts - partly from borrowers who were specifically identified, and partly according to the proportion of each linkage basis to the total credit to the public.

Notes to the Condensed Financial Statements
as at June 30, 2008

(in millions of NIS)

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated

	June 30		December 31
	2008	2007	2007
	Unaudited		Audited
A. Off-balance sheet financial instruments:			
Contract balances or nominal amounts -			
Transactions, the balance of which represents a credit risk:			
(1) Documentary credit	1,316	1,144	1,113
(2) Credit guarantees	13,085	10,353	13,606
(3) Guarantees to purchasers of apartments	7,373	5,324	6,500
(4) Other guarantees and liabilities	11,670	11,242	12,292
(5) Unutilized credit facilities for credit cards	11,757	9,350	12,089
(6) Unutilized revolving debitory facilities	63,548	60,837	63,486
(7) Irrevocable obligations to grant credit, which has been approved but is yet undrawn	33,792	42,372	38,105
(8) Obligations to issue guarantees	3,663	3,573	3,677
B. Contingent liabilities and other special commitments:			
(1) Construction and purchase of buildings and equipment	33	63	32
(2) Rent payable in future years for buildings and equipment in respect of commitments for periods longer than three years after balance sheet date:			
First year	75	77	77
Second year	75	78	77
Third year	75	78	77
Fourth year	71	74	74
Fifth year	63	66	67
Over five years	446	490	477
Total rent for buildings and equipment	805	863	849

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 9
Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates:

a. Nominal value of derivative instruments

	June 30, 2008				
	Interest Contracts		Foreign currency contracts	Equity related contracts	Commodity and other contracts
	NIS-CPI	Other			
I. Hedging derivatives*					
Swaps	-	15,707	140	-	-
Total Hedging derivatives	-	15,707	140	-	-
Of which swaps interest rate contracts in which the banking corporation has agreed to pay a fixed interest rate		5,415			
2. ALM derivatives*,**					
Futures contracts	-	2,320	1,073	-	-
Forward contracts	8,117	44,390	72,530	41	2,734
Option contacts traded on an exchange:					
Options written	-	-	17	-	-
Options bought	-	-	17	-	-
Other option contracts:					
Options bought	-	436	267	-	-
Swaps	-	95,392	13,202	-	-
Total ALM derivatives	8,117	142,538	87,106	41	2,734
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate		50,270			

* Except for credit derivatives and foreign currency spot swap contracts.

** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging relationships.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

a. Nominal value of derivative instruments (continued)

	June 30, 2008				
	Interest Contracts		Foreign currency contracts	Equity related contracts	Commodity and other contracts
	NIS-CPI	Other			
3. Other derivatives*					
Futures contracts	-	453	-	-	-
Forwards contracts	-	-	8,811	302	-
Option contracts traded on an exchange:					
Options written	-	-	986	7,339	-
Options bought	-	-	992	7,339	-
Other option contracts:					
Options written	-	6,349	47,313	8,997	3,039
Options bought	-	6,017	47,204	2,177	3,039
Swaps	-	2,962	1,519	2,642	-
Total Other derivatives	-	15,781	106,825	28,796	6,078
Of which interest rate swaps contracts					
in which the banking corporation					
has agreed to pay a fixed interest rate		377			
4. Credit derivatives and spot swap					
foreign currency contracts					
Credit derivatives for which the					
banking corporation is guarantor					3,454
Credit derivatives for which the					
banking corporation is a beneficiary					536
Spot swap foreign currency contracts			14,712		

* Except for credit derivatives and foreign currency spot swap contracts.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 9
Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

b. Gross fair value of derivative instruments

	June 30, 2008					
	Interest Contracts		Foreign currency contracts	Equity related contracts	Commodity and other contracts	
	NIS-CPI	Other				
1. Hedging derivatives*						
Gross positive fair value	-	115	-	-	-	
Gross negative fair value	-	337	59	-	-	
2. ALM derivatives*,**						
Gross positive fair value	3	1,522	2,768	4	239	
Gross negative fair value	253	1,439	3,494	12	238	
3. Other derivatives*						
Gross positive fair value	-	55	1,613	630	210	
Gross negative fair value	-	74	1,651	497	210	
4. Credit derivatives						
Credit derivatives for which the banking corporation is guarantor						
Gross positive fair value						2
Gross negative fair value						165
Credit derivatives for which the banking corporation is a beneficiary						
Gross positive fair value						4
Gross negative fair value						1

* Except for credit derivatives.

** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging relationships.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 9
Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

a. Nominal value of derivative instruments

	June 30, 2007				
	Interest Contracts NIS-CPI	Other	Foreign currency contracts	Equity related contracts	Commodity and other contracts
1. Hedging derivatives*					
Swaps	-	25,991	478	-	-
Total hedging derivatives	-	25,991	478	-	-
Of which interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate	-	11,518			
2. ALM derivatives*,**					
Futures contracts	-	17,692	413	-	-
Forward contracts	8,048	41,590	74,573	-	-
Option contracts traded on an exchange:					
Options written	-	-	64	-	-
Options bought	-	-	64	-	-
Other option contracts:					
Options bought	-	9	9	53	-
Swaps	-	74,507	7,603	-	-
Total ALM derivatives	8,048	133,798	82,726	53	-
Of which swaps interest rate swaps contracts in which the banking corporation has agreed to pay a fixed interest rate		39,876			

* Except for credit derivatives and foreign currency spot swap contracts.

** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging relationships.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 9
Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

a. Nominal value of derivative instruments (continued)

	June 30, 2007				
	Interest Contracts		Foreign currency contracts	Equity related contracts	Commodity and other contracts
	NIS-CPI	Other			
3. Other derivatives*					
Futures contracts	-	10,419	-	-	-
Forward contracts	-	-	6,902	-	-
Option contracts traded on an exchange:					
Options written	-	-	5,635	6,178	-
Options bought	-	4,504	5,353	6,117	-
Other option contracts:					
Options written	100	16,891	63,790	12,586	-
Options bought	-	17,146	58,273	2,534	-
Swaps	10	7,522	624	3,328	-
Total other derivatives	110	56,482	140,577	30,743	-
Of which interest rate swaps contracts					
in which the banking corporation					
has agreed to pay a fixed interest rate	-	510			

4. Credit derivatives and spot swap

foreign currency contracts

Credit derivatives for which	
the banking corporation is a guarantor	2,941
Credit derivatives for which	
the banking corporation is a beneficiary	701
Spot swap foreign currency contracts	31,598

* Except for credit derivatives and foreign currency spot swap contracts.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

b. Gross fair value of derivative instruments

	June 30, 2007				
	Interest NIS-CPI	Contracts Other	Foreign currency contracts	Equity related contracts	Commodity and other contracts
1. Hedging derivatives*					
Gross positive fair value	-	234	1	-	-
Gross negative fair value	-	417	82	-	-
2. ALM derivatives*,**					
Gross positive fair value	91	934	1,443	-	-
Gross negative fair value	53	878	1,640	-	-
3. Other derivatives*					
Gross positive fair value	-	226	1,459	748	-
Gross negative fair value	7	315	1,435	512	-
4. Credit derivatives					
Credit derivatives for which the bank is guarantor					
Gross positive fair value					36
Gross negative fair value					1
Credit derivatives for which the banking corporation is a beneficiary					
Gross negative fair value					11

* Except for credit derivatives.

** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging relationships.

Notes to the Condensed Financial Statements
as at June 30, 2008

Audited
(in millions of NIS)

Note 9
Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

a. Nominal value of derivative instruments

	December 31, 2007				
	Interest Contracts NIS-CPI	Other	Foreign currency contracts	Equity related contracts	Commodity and other contracts
1. Hedging derivatives*					
Swaps	-	24,294	148	-	-
Total Hedging derivatives	-	24,294	148	-	-
Of which swaps interest rate contracts in which					
the banking corporation has agreed to pay					
a fixed interest rate					
		8,186			
2. ALM derivatives*,**					
Futures contracts	-	5,719	809	-	-
Forward contracts	9,282	54,870	83,127	-	4,037
Option contracts traded on an exchange:					
Options written	-	-	58	-	-
Options bought	-	-	58	-	-
Other option contracts:					
Options bought	-	311	191	-	-
Swaps	150	79,062	11,554	-	-
Total ALM derivatives	9,432	139,962	95,797	-	4,037
Of which swaps interest rate contracts in which					
the banking corporation has agreed to pay					
a fixed interest rate					
		42,319			

* Except for credit derivatives and foreign currency spot swap contracts.

** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging relationships.

Notes to the Condensed Financial Statements
as at June 30, 2008

Audited
(in millions of NIS)

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

a. Nominal value of derivative instruments (continued):

	December 31, 2007				
	Interest Contracts		Foreign currency contracts	Equity related contracts	Commodity and other contracts
	NIS-CPI	Other			
3. Other derivatives*					
Futures contracts	-	192	-	-	-
Forward contracts	-	-	13,271	149	-
Option contracts traded on an exchange:					
Options written	-	-	3,770	12,647	-
Options bought	-	-	3,770	12,647	-
Other option contracts:					
Options written	-	12,590	58,389	11,766	2,970
Options bought	-	12,590	53,702	2,621	2,970
Swaps	-	6,005	4,537	2,919	-
Total Other derivatives	-	31,377	137,439	42,749	5,940
Of which swaps interest rate contracts in which					
the banking corporation has agreed to pay					
a fixed interest rate					
		462			
4. Credit derivatives and spot swap					
foreign currency contracts					
Credit derivatives for which the banking corporation					
is guarantor					
					5,356
Credit derivatives for which the banking corporation					
is a beneficiary					
					519
Spot swap foreign currency contracts			16,538		

* Except for credit derivatives and foreign currency spot swap contracts.

Notes to the Condensed Financial Statements
as at June 30, 2008

Audited
(in millions of NIS)

Note 9
Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

b. Gross fair value of derivative instruments

	December 31, 2007				
	Interest Contracts		Foreign currency contracts	Equity related contracts	Commodity and other contracts
	NIS-CPI	Other			
1. Hedging derivatives*					
Gross positive fair value	-	183	-	-	-
Gross negative fair value	-	315	56	-	-
2. ALM derivatives*,**					
Gross positive fair value	54	1,338	2,197	-	130
Gross negative fair value	116	1,187	1,812	-	129
3. Other derivatives*					
Gross positive fair value	-	174	1,357	754	62
Gross negative fair value	-	212	1,392	509	62
4. Credit derivatives					
Credit derivatives for which the bank is guarantor					
Gross positive fair value					15
Gross negative fair value					106
Credit derivatives for which the banking corporation is a beneficiary					
Gross positive fair value					1
Gross negative fair value					6

* Except for credit derivatives.

** Derivatives constituting part of the Bank's assets and liabilities management, that have not been designated for hedging relationships.

Notes to the Condensed Financial Statements
as at June 30, 2008

(in millions of NIS)

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

c. Credit risk in respect of derivatives instruments, according to transaction counterparty

	June 30, 2008					
	Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
	Unaudited					
Positive gross fair value of derivative instruments ⁽¹⁾	401	3,652	811	1	2,300	7,165
Balance sheet balances of assets deriving from						
derivative instruments ⁽²⁾	401	3,652	811	1	2,300	7,165
Off balance sheet credit risk in respect of						
derivative instruments ⁽³⁾	-	20,801	3,543	175	10,028	34,547
Total credit risk in respect of derivative instruments	401	24,453	4,354	176	12,328	41,712

	June 30, 2007					
	Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
	Unaudited					
Positive gross fair value of derivative instruments ⁽¹⁾	127	2,493	317	28	2,207	5,172
Balance sheet balances of assets deriving from						
derivative instruments ⁽²⁾	127	2,493	317	28	2,207	5,172
Off balance sheet credit risk in respect of						
derivative instruments ⁽³⁾	-	20,062	2,932	358	13,259	36,611
Total credit risk in respect of derivative instruments	127	22,555	3,249	386	15,486	41,783

	December 31, 2007					
	Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
	Audited					
Positive gross fair value of derivative instruments ⁽¹⁾	194	3,434	703	12	1,922	6,265
Balance sheet balances of assets deriving from						
derivative instruments ⁽²⁾	194	3,434	703	12	1,922	6,265
Off balance sheet credit risk in respect of						
derivative instruments ⁽³⁾	-	23,634	4,157	304	10,554	38,649
Total credit risk in respect of derivative instruments	194	27,068	4,860	316	12,476	44,914

(1) Of which positive gross value of embedded derivative instruments is NIS 54 million (June 30, 2007: NIS 39 million; December 31, 2007: NIS 40 million).

(2) Of which the balance sheet balance of freestanding derivative instruments is NIS 7,111 million comprised in other assets (June 30, 2007: NIS 5,133 million; December 31, 2007: NIS 6,225 million).

(3) Off balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative value) as calculated for the purpose of per borrower debt limitations.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 9
Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

C. Derivative financial instruments - Volume, credit risks and maturity dates (continued)

d. Maturity dates (Nominal value amounts)

	June 30, 2008				Total
	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Interest rate contracts					
NIS-CPI	669	3,603	3,778	67	8,117
Other	38,844	43,972	45,897	45,313	174,026
Currency contracts	120,876	73,900	4,697	9,310	208,783
Equity related contracts	15,600	4,600	5,917	2,720	28,837
Commodity and other contracts					
(including credit derivatives)	1,653	8,013	2,382	754	12,802
Total	177,642	134,088	62,671	58,164	432,565
	June 30, 2007				Total
	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Total	227,876	162,073	66,335	57,962	514,246
	December 31, 2007				Total
	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	
Total	282,002	94,583	71,562	65,441	513,588

Notes to the Condensed Financial Statements

as at June 30, 2008

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

D. Legal Claims

The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions taken against it by its customers, former customers, and various third parties, who deem themselves injured or harmed by the Bank Group's operations during the normal course of its business. The causes of the claims against the Bank Group are various and wide-ranging. In the opinion of the Bank's Board of Management, based on legal opinions with regard to the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.

The additional exposure in respect of claims filed against the Bank Group on various matters that have a "reasonably possible" chance of materialization amounts to approximately NIS 309 million as at June 30, 2008.

A. For details concerning claims and petitions to certify claims as class actions in material amounts, see Note 21C(4)(a) to the Financial Statements as at December 31, 2007.

As at the date of publication of the Financial Statements, there have been no material changes with regard to claims against the Bank Group relative to the description in the aforesaid Financial Statements, except for the following:

1. On June 11, 2008, a claim and a petition to certify the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against Isracard Ltd. (hereinafter: "Isracard," a subsidiary of the Bank). The amount of the class action suit stated in the claim statement is NIS 15 billion.

The cause of the claim, according to the claimant, is the forgery of amounts on sales slips in a credit card used by his wife in July 1999, and Isracard's refusal at that time to accede to the demand to cancel the charges in respect of these sales slips. The claimant alleges that Isracard thereby disregarded its statutory duty. Isracard intends to submit a request to dismiss the claim and the suit.

In the opinion of Isracard, based on a legal opinion, the probability that the claim will be accepted is remote; no provision was made in respect thereof.

2. With regard to the appeal mentioned in Note 21C(4)(a)2, filed with the Supreme Court on February 25, 2007, concerning the collection of new credit-card fees by Isracard - the appeal was denied on February 7, 2008.

3. With regard to the claim mentioned in Note 21C(4)(a)5, filed with the District Court of Jerusalem on December 13, 2006, which alleged the collection of excessive interest payments from households, a decision was made to delay proceedings in the claim until a ruling is given in the claim described in Note 21C(4)(a)7.

4. With regard to the claim mentioned in Note 21C(4)(a)9, filed with the District Court of Tel Aviv in July 2003, which alleged over-collection of stamp duties - the petition to certify the claim as a class action was consensually expunged, and the claim was denied.

5. A claim and a petition to certify the claim as a class action, filed with the District Court of Tel Aviv-Jaffa on April 1, 2007 against the Bank and Bank Leumi, as described in Note 21C(4)(b)1 to the Financial Statements as at December 31, 2007, are pending against the Bank. The amount stipulated in the claim statement is approximately NIS 386 million.

The claimants allege that the defendants, who are TASE members, charged fees in the past and charge fees in the present from mutual-fund managers for securities and/or foreign-currency buying and selling transactions which are higher than the fees charged from other entities at the same time, in contravention of the provisions of Section 69 of the Joint Trust Investment Law, -1994. According to the claimants, the claim concerns losses caused to themselves and to the other members of the group as a result of the fact that the defendants unlawfully charged mutual-fund managers, brokerage fees at a higher rate than should have been charged, thereby increasing economic costs, reducing the value of the fund's assets, reducing the value of each participatory unit, and, as a consequence of all of the above, reducing the profit (or increasing the loss) of each investor.

In the opinion of the Bank's Board of Management, based on a legal opinion, the probability that the claim will be accepted is remote, and no provision has been made in respect thereof.

B. Also pending against the Bank are claims, including petitions to certify class actions, as detailed below. In the opinion of the Bank's Board of Management, based on legal opinions, at this stage it is not possible to assess the chances of these legal proceedings; accordingly, no provision has been made in respect thereof.

1. On June 30, 2008, a claim statement and a petition to certify and administer the claim as a class action in the amount of NIS 3 billion were filed against the Bank, against Bank Leumi Lelsrael Ltd. and against Israel Discount Bank Ltd. with the District Court of Tel-Aviv-Jaffa. The cause of the claim, according to the claimants, is binding arrangements allegedly made by the respondent banks over a consecutive period of approximately ten years, or more, based on coordination of prices of various operational fees collected by the respondent banks from their private customers during the period relevant to the claim. The claim statement alleges that the respondent banks coordinated the timing of increases and/or reductions of fee prices as well as the rates of the fees, and that as a result, the claimants and the members of the group which they seek to represent paid an unfair, unreasonable, uneconomic price that was substantially higher than the price which they would have paid under conditions of free competition. The claimants allege that the banks thereby obtained unjust enrichment at the expense of their customers.

Notes to the Condensed Financial Statements

as at June 30, 2008

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

D. Legal Claims (continued)

2. On May 14, 2008, a claim and a petition to certify the claim as a class action against the Bank and against Bank Leumi Lelsrael Ltd. were filed with the District Court of Tel-Aviv-Jaffa. The amount of the class action stipulated in the claim statement is NIS 3.4 billion. The cause of the claim is the non-payment of interest on positive balances in customers' current accounts at the respondent banks. The claimant alleges in the claim that billions of shekels are deposited each day in customers' accounts at the respondent banks, which do not generate any interest for their owners, despite the fact that, according to the claimant, the respondent banks make use of these funds, lend them, invest them, and reap profits from them, acquiring unjust enrichment at the expense of their customers. The claimant argues that the respondent banks must credit their customers with interest on positive balances, just as they charge interest for every day on which the accounts have a negative balance, also pursuant to the Trust Law and the Guards Law.

According to the claimant, the respondent banks are engaging in monopolistic conduct; violating the provisions of the Banking Ordinance, 1941 and the Banking Order (Inactive Deposits) -2000, enacted under its power; and the Bank is also violating the disclosure duty established in the Banking Law (Service to Customers) -1981.

3. On April 29, 2008, a claim and a petition to certify the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against the Bank and against directors, the CEO, and controlling shareholders of the Bank. The class action suit did not stipulate an amount. The claimant alleges that the defendants violated the provisions of the Securities Law and the regulations enacted on the basis thereof, by unlawfully failing to publish, on the required date according to the claimant, (August 30, 2007), the full material information regarding the condition of the Bank, in all matters related to the Bank's investments in financial instruments and its consequent exposure to risks (hereinafter: the "Information Regarding the Bank's Investments").

The claim concerns the monetary damages caused, according to the claimant, to the claimant himself and to the other members of the group, as a result of the fact that they purchased shares of the Bank during the period from September 1, 2007 to January 10, 2008 (hereinafter: the "Determinant Period"), without possessing the Information Regarding the Bank's Investments. According to the claimant, the price of the Bank's share gradually decreased during the Determinant Period on each date when Information Regarding the Bank's Investments was released to the public, and decreased at a total rate of approximately 9% during the Determinant Period. As a result, he claims that the members of the group paid an excessive price for the shares which they purchased, which they would not have had to pay, if the defendants had made public the full Information Regarding the Bank's Investments at the appropriate time.

4. In early April 2007, the Bank's New York branch was served with five third-party complaints filed by Arab Bank plc. (hereinafter: "Arab Bank") against the Bank, as well as against Israel Discount Bank Ltd., Israel Discount Bank of New York, Mercantile Discount Bank Ltd., and twenty other parties whose names it did not specify (hereinafter: the "Third Party Complaints"). These complaints were filed by Arab Bank in connection with part of a series of claims filed against it in the course of 2005 and 2006 (hereinafter, jointly: the "Original Claim"), by more than two thousand plaintiffs, for payment of compensation following the alleged involvement of Arab Bank in activities connected with the financing of terrorism, aiding and abetting acts of genocide, aiding and abetting the perpetration of crimes against humanity, and more. The Original Claim is based on causes of action under U.S. law, and Arab Bank is now attempting, by means of the above-mentioned Third Party Complaints, to shift the responsibility onto third parties, including the Bank.

The Third Party Complaints do not specify an amount, the liability for the payment of which Arab Bank is attempting to attribute to the Bank, or to any of the other third parties, and does not indicate how the alleged liability should be apportioned between the Bank and such third parties. Yet Arab Bank contends that in as much as it may be found liable under the Original Claim, which also does not specify amounts, and seeks determination of the amount of compensation according to U.S. law, the Bank and the other third parties are obliged to assume such liability in full.

The allegations contained in the Third Party Complaints are formulated in general terms, focus on the fact that the third parties are Israeli banks, and do not provide any support for linking the Bank to the actions which are the subject of the Original Claim. Moreover, Arab Bank makes no specific reference to the actions regarding which allegations were made against it in the Original Claim, except for a general denial thereof, and placing of the responsibility on the Bank, on the other Israeli banks, and on the additional parties whose names it did not specify, as noted above, as third parties in the Third Party Complaints. At this stage, Arab Bank has chosen to file third party complaints only against Israeli banks, notwithstanding its allegations that international banks were also involved in some of the actions alleged in the complaints.

Prior to lodging the Third Party Complaints against the Bank, Arab Bank approached the Bank with a demand for the discovery and production of documents, in accordance with U.S. rules of procedure, for the purpose of defending itself against the Original Claim. This proceeding is still pending.

On February 14, 2008, an additional Third Party Complaint was delivered to the Bank's branch in New York, which was also filed against the Bank and other parties with similar causes to those in respect of which the previous complaints were filed.

The complaints, as well as the claims in respect of which they were filed, do not state specific amounts; therefore, no monetary evaluation of the complaints can be performed.

Notes to the Condensed Financial Statements

as at June 30, 2008

Note 9

Contingent Liabilities
and Special
Commitments -
consolidated
(continued)

D. Legal Claims (continued)

5. In October 2007, a claim and a petition to certify the claim as a class action were filed with the District Court of Tel Aviv against the Bank, in the amount of NIS 208 million. In the claim, the claimant lists several alleged faults in the conduct of the Bank, which caused damage to him and to the group which he seeks to represent. The faults listed by the customer in the claim are the following: collection of a management fee for a full month, even for accounts not opened on the first day of the month; collection of a credit allocation fee for a full month, even for credit not executed on the first day of the month; non-unification of several deposits of the same type, as a result of which the interest credited to the customer is lower than it should be; deposits of different types which in practice earn the same interest, despite the fact that according to the Bank's presentations, "Choice" type deposits have preference, as do "Plus" deposits; collection of management fees for securities deposits at the end of the quarter by the Bank in a minimum amount, while disregarding the management fees collected during the quarter; in sales of foreign securities, crediting of the customer's account with the proceeds of the sale with a value date three days later attached to the credit.

E. Exposure to Class Actions at Clal Insurance Enterprises Holdings Ltd.

Claims and petitions to file class actions related to the company's insurance business are pending against Clal Insurance Enterprises Holdings Ltd., an equity-basis investee of the Bank.

For details of the aforesaid claims, see Note 21C(15) to the Financial Statements as at December 31, 2007.

As at the date of publication of the Financial Statements, there have been no material changes with regard to claims against the company relative to the description in the aforesaid Financial Statements, other than the following:

(1) Further to Note 21C(15)(h) to the Financial Statements dated December 31, 2007, in March 2008, an arrangement between the appellants and Clal Insurance was submitted to the Supreme Court for the granting of the status of a verdict, in which an agreement was reached regarding the denial of the appeal against Clal Insurance, with no expense order. The Supreme Court has granted this agreement the status of a verdict, such that the appeal and the class action suit against Clal Insurance have been denied.

(2) Further to Note 21C(15)(b) to the Financial Statements dated December 31, 2007, in the opinion of the management of Clal Insurance, based on assessments by its legal advisors, Clal Insurance has strong defense arguments against the petition. Accordingly, in the opinion of the management of Clal Insurance, based on assessments by its legal advisors, it is not likely (i.e., the probability is not greater than 50%) that the court will grant the petition and that the claimants will win the petition. Accordingly, no provision was made in the financial statements.

However, in the event that the claim is certified as a class action, in the opinion of the management of Clal Insurance, based on assessments by its legal advisors, at this initial stage it is not possible to estimate the probability of success of the class action suit or the extent of the monetary charge to be imposed upon Clal Insurance if the class action suit is accepted.

(3) In February 2008, a claim filed with the District Court of Tel-Aviv-Jaffa (hereinafter: the "Claim") and a petition to certify the Claim as a class action (hereinafter: the "Petition") were received at the offices of Clal Insurance. The Claim was also filed against additional defendants, all of which are insurance companies (hereinafter: the "Defendants").

The claimants allege that the Defendants charged a premium for additional insurance coverage (a rider) against the theft and/or replacement of an integral audio system as part of a comprehensive vehicle insurance policy. According to the claimants, charging such a premium is patently unreasonable, because, they claim, an original integral audio system cannot be stolen, and/or the theft of such a system is so exceptional and rare that it should be seen as having a probability verging on zero (hereinafter: "Integral Audio System"), and accordingly, there should be no charge imposed for the insurance thereof, and/or the insurance charge in respect thereof should be equal to the charge imposed on clients who do not have an Integral Audio System installed in their vehicles.

The claimants are petitioning the court for a mandatory injunction ordering the Defendants to repay funds paid to the Defendants, futilely according to the claimants, as a result of the collection of premiums for insurance coverage of Integral Audio Systems, in the amount of approximately NIS 50 per insured client per insurance year. In addition, the court has been asked to issue a mandatory injunction ordering the Defendants to provide the claimants with copies of documents for the purpose of the investigation and quantification of the damage claimed and for the precise identification of the group. Alternatively, to the extent that it is difficult to assess the personal damage incurred by each applicant, the court is petitioned to order that any other remedy be granted in favor of the group.

The group which the claimants seek to represent consists of all insured clients who purchased a comprehensive insurance policy (and/or a subscription for insurance coverage in a specific package) from the Defendants and who paid, within the last seven years, premiums and/or subscription fees for insurance coverage of vehicle audio systems within comprehensive vehicle insurance policies, where an Integral Audio System was installed in the specific vehicle model for which the insured client paid the said premium.

Notes to the Condensed Financial Statements as at June 30, 2008

Note 9 Contingent Liabilities and Special Commitments - consolidated (continued)

E. Exposure to Class Actions at Clal Insurance Enterprises Holdings Ltd. (continued)

The causes claimed in the Claim include the following: cancellation of the provisions of the policies with regard to the insurance of audio systems pursuant to the Insurance Contracts Law, -1981; return of the premium pursuant to the Contract Law (General Part), -1973; misrepresentation and acting in a manner that exploits the distress of the consumer, pursuant to the Supervision of Financial Services Law (Insurance), -1981 and the Consumer Protection Law, -1981 (the "Consumer Protection Law"); breach of the disclosure duty pursuant to the Consumer Protection Law; breach of the Sale Law, -1968; negligence; breach of a legislated duty; bad faith; and unjust enrichment. The claimants have not assessed the total amount of the claims of the entire represented group, but note that it is likely to be many tens of millions of shekels. The claimants also do not note their estimate regarding the share of Clal Insurance in the total amount claimed. Clal Insurance has not yet responded to the Petition. The response of Clal Insurance is expected to be submitted in a few days. The financial statements of Clal Holdings as at June 30, 2008 state that the management of Clal Insurance, based on an evaluation by its legal advisors, believes that it is not likely (i.e., the probability is no greater than 50%) that the court will accept the Petition and that the claimants will win the Petition. Therefore, no provision has been made in the financial statements. However, in the event that the Claim be certified as a class action, in the opinion of the management of Clal Insurance, based on an evaluation by its legal advisors, at this initial stage it is not possible to estimate the probability of success of the class action, or the extent of the monetary charge to be imposed upon Clal Insurance if the class action is accepted.

(4) In March 2008, Clal Insurance received a monetary claim filed with the District Court of Tel-Aviv (hereinafter: the "Claim") and a petition to certify the Claim as a class action (hereinafter: the "Petition").

The claimant alleges that when a third party's vehicle is damaged by an vehicle insured by Clal Insurance, and the party sustaining the damages chooses not to repair the vehicle and sues Clal Insurance for compensation for the damage incurred, Clal Insurance demands proof from the third party that the vehicle has been repaired, and if no such proof is provided, in practice it avoids paying the full insurance compensation that it should pay to the third party, while requiring the third party to sign a settlement statement, when the insurance compensation has been paid in part.

According to the claimant, in acting in the aforesaid manner Clal Insurance acts in contravention of the provisions of Sections 65, 67, 56(A), and 56(C) of the Insurance Contract Law, -1981 and of Section 12(A) of the Addendum to the Supervision of Insurance Business Regulations (Terms of Private Vehicle Insurance Contracts), -1986.

The main causes claimed are: breach of duties enacted in law, as noted above; and a cause under the Unjust Enrichment Law -1979.

The group which the claimant seeks to represent consists of any person and/or other legal entity entitled to receive moneys and/or insurance compensation due to damage to vehicles, as a third party, from Clal Insurance, during the three years prior to the filing of the Claim, to whom Clal Insurance did not provide the full moneys and/or insurance compensation owed, due to their failure to prove to Clal Insurance that they had repaired the damage to the vehicle. The claimant notes that in this Claim it will be possible to locate those entitled to compensation using data which is in the possession of Clal Insurance.

The claimant's personal Claim is in the amount of approximately NIS 2,780. The claimant estimates the amount of the damage to the entire group at approximately NIS 225 million. The claimant notes that precise data for the assessment of the size of the group and the scope of the damage to the group are in the possession of Clal Insurance.

The Claim in respect of the entire group is the amount of the alleged damage, as noted, with the addition of special compensation for the claimant and legal fees.

In the opinion of the management of Clal Insurance, based on assessments by its legal advisors, Clal Insurance has strong defense arguments against the petition. Accordingly, in the opinion of the management of Clal Insurance, based on assessments by its legal advisors, it is not likely (i.e., the probability is not greater than 50%) that the court will grant the petition and that the claimants will win the petition. Accordingly, no provision was made in the financial statements.

However, in the event that the claim is certified as a class action, in the opinion of the management of Clal Insurance, based on assessments by its legal advisors, at this initial stage it is not possible to estimate the probability of success of the class-action suit or the extent of the monetary charge to be imposed upon Clal Insurance if the class-action suit is accepted.

(5) In April 2008, Clal Insurance received a monetary claim filed with the Labor Court of Jerusalem (hereinafter: the "Claim") and a petition to certify the claim as a class action (hereinafter: the "Petition").

The claimant alleges that Clal Insurance established that in senior executive insurance policies, the coefficient used to calculate the retirement allowance paid to insured women upon reaching retirement age would be lower than that of insured men, due to the longer life expectancy of women. However, the respondent collected, and continues to collect, a risk premium from insured women that is identical to the risk premium collected from men, despite the fact that women's mortality rates are far lower than those of men. According to the claimant, the defendant corrected the policies in 2001, or near that date, but the correction applies to new policies only.

Notes to the Condensed Financial Statements as at June 30, 2008

Note 9 Contingent Liabilities and Special Commitments - consolidated (continued)

E. Exposure to Class Actions at Clal Insurance Enterprises Holdings Ltd. (continued)

The main remedies requested of the court are orders wherein:

- (A) The discrimination applied by the defendant is unlawful, and all provisions of policies and/or actions based on such discrimination are null and void.
- (B) The claimant and the other members of the group which she wishes to represent (the "Group") are entitled to choose between the following alternatives:
- (1) Equalization of the retirement allowance coefficients for insured women and insured men, with an order that in the case of a one-time payment in place of an allowance, the one-time amount should be enlarged for insured women, at the proportion of the retirement allowance coefficient for men to the retirement allowance coefficient for insured women, at the relevant age;
- (2) Retroactive and prospective reduction of the risk amounts collected from the claimant to the proper risk amounts, according to the claimant, for insured women, with the reduced amounts added to the amounts accrued for savings.
- (C) Appropriate directives to be given with regard to members of the Group who have not been located or who have not exercised their right to choose between the aforesaid alternatives.

The causes alleged in the Claim are, among others, breach of the principle of equality and discriminatory conduct, a discriminatory condition in a uniform contract, bad faith, and unjust enrichment.

The group which the claimant seeks to represent consists of all women who bought senior executive insurance policies from the defendant, in which a distinction was made between women and men with regard to the payment of retirement allowances, but no distinction was made between the sexes with regard to risk premiums.

The claimant does not note the amount of the damage she incurred; in the absence of the information needed to estimate the precise monetary amount, she estimates the amount of the total damage incurred by the members of the group at hundreds of millions of shekels. In the opinion of the management of Clal Insurance, based on assessments by its legal advisors, Clal Insurance has strong defense arguments against the petition. Accordingly, in the opinion of the management of Clal Insurance, based on assessments by its legal advisors, it is not likely (i.e., the probability is not greater than 50%) that the court will grant the petition and that the claimants will win the petition. Accordingly, no provision was made in the financial statements.

However, in the event that the claim is certified as a class action, in the opinion of the management of Clal Insurance, based on assessments by its legal advisors, at this initial stage it is not possible to estimate the probability of success of the class-action suit or the extent of the monetary charge to be imposed upon Clal Insurance if the class-action suit is accepted.

(6) In April 2008, Clal Insurance received a monetary claim filed with the District Court of Petach Tikva (hereinafter: the "Claim"), and a petition to certify the Claim as a class action (hereinafter: the "Petition").

The claimant alleges that in risk policies sold by Clal Insurance until the end of 1998 and in combined risk and savings policies it sold until the end of 1999, Clal Insurance used old mortality tables prepared in the 1950s to calculate the premium for the risk components of the insurance policies it sold tens of years later, when more current mortality tables already existed. The main causes claimed include: breach of fiduciary duty; deception; breach of disclosure duties; bad faith; a discriminatory condition under the Uniform Contracts Law; and unjust enrichment.

The group which the claimant seeks to represent consists of all insured clients of Clal Insurance who entered into life insurance, senior executive insurance, or personal insurance contracts starting July 31, 1998, whose policies include risk coverage provided up to age 65 or higher, and whose insurance was prepared using the mortality tables A49-52 and the derivatives thereof.

The claimant notes that he has no precise knowledge with regard to the estimated maximum number of members of the group; he estimates that this maximum number is likely to reach tens of thousands or hundreds of thousands.

The claimant notes that the damage caused to the claimant and to the other members of the group is equal to the amount by which the premium actually collected exceeded the correct amount of the premium that should have been established using a current, relevant mortality table, plus the loading component.

The claimant is petitioning the court, among other things, to grant a declaratory remedy with regard to the breaches and/or wrongs committed by Clal Insurance, as detailed above.

In addition, the claimant is petitioning the court to declare that the mortality tables according to which the premiums should have been calculated are the alternative mortality tables he proposes, and to order Clal Insurance to pay refunds in respect of the excessive premiums collected.

The financial statements of Clal Holdings as at June 30, 2008 state that at this initial stage, it is not yet possible to estimate the probability of success of the Petition and the Claim, as Clal Insurance is still examining the matter with its legal advisors; therefore, no provision has been made in the financial statements in respect thereto.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 10

Profit (loss) from
Financing Activities
Before
Provision for Doubtful
Debts - Consolidated

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
A. In respect of assets*:				
From credit to the public	880	4,370	1,331	6,180
From credit to the Government	(12)	18	(34)	17
From deposits with banks	(1,096)	1,216	(2,458)	1,177
From deposits with the Bank of Israel and from cash	(143)	21	(285)	23
From securities which were borrowed or bought under agreements to resell	(20)	14	(66)	4
From debentures****	(1,204)	1,517	(2,308)	1,684
From other assets	(3)	15	2	9
	(1,598)	7,171	(3,818)	9,094
B. In respect of liabilities*:				
On deposits from the public	3,769	(4,541)	7,260	(4,912)
On deposits from the Government	(53)	(41)	(68)	(52)
On deposits from the Bank of Israel	(22)	(24)	(38)	(56)
On deposits from banks	56	(303)	500	(335)
Securities which were lent or sold under agreements to repurchase	73	(2)	160	(2)
On debentures and subordinated note	(653)	(535)	(805)	(722)
On other liabilities	20	(15)	56	(2)
	3,190	(5,461)	7,065	(6,081)
C. In respect of derivative instruments and hedging activities:				
Ineffective part in hedging relations**	9	(4)	9	(4)
Net income (expenses) in respect of ALM derivative instruments***	47	47	(310)	141
Net income (expenses) in respect of other derivative instruments	118	15	35	131
	174	58	(266)	268

* Including effective component in hedging relations.

** Ineffectiveness which stems from hedging fair value.

*** Derivative instruments constituting part of the bank's Assets and Liabilities management that are not designated for hedging relations.

**** Includes interest and positive (negative) exchange rate differentials resulting from mortgage backed securities (MBS) in the amount of NIS (1,364) million. (1-6/07: NIS 442 million).

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 10

Profit (loss) from
Financing Activities
Before
Provision for Doubtful
Debts - Consolidated
(continued)

	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
D. Other*				
Commissions from financing transactions	71	63	142	123
Profits (losses) from sale of debentures available for sale, net	(25)	34	(3,579)	48
Realized and unrealized profits (losses) from adjustments to				
fair value of debentures held for trading, net	(9)	(5)	10	7
Other financing income	204	*137	389	*319
Other financing expenses	(64)	(2)	(12)	(3)
	177	*227	** (3,050)	*494
Total profit (loss) from financing activities before provision				
for doubtful debts	1,943	*1,995	(69)	*3,775
Of which, exchange rate differences, net	(434)	(31)	(557)	(188)
E. Details of net effect of derivative instruments				
hedging on profit from financing activities				
Financing income in respect of assets	24	21	1	30
Financing expenses in respect of liabilities	(226)	(203)	(11)	(152)

* Reclassified.

** Including effective component in hedging relations.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 11

**Composition of the
Provision for Doubtful
Debts - Consolidated**

	Three months ended June 30							
	2008			2007				
	Specific provision*	Supplementary	Total	Specific provision*	Supplementary	Total		
According to the extent of arrears	Other	provision**		According to the extent of arrears	Other	provision**		
Provision balance as at the								
beginning of the period	296	8,954	1,048	10,298	301	9,566	1,121	10,988
Subsidiary consolidated								
in the past	-	(56)	(6)	(62)	-	-	-	-
Provisions during the period	33	343	58	434	32	318	62	412
Reduction of provisions	(32)	(94)	(41)	(167)	(21)	(154)	(22)	(197)
Recoveries of debts written-off								
in previous years	-	(15)	-	(15)	-	(13)	-	(13)
Provision charged to statement								
of profit and loss	1	234	17	252	11	151	40	202
Write-offs, net***	-	(293)	-	(293)	(1)	(246)	-	(247)
Provision balance as at the								
end of the period	297	8,839	1,059	10,195	311	9,471	1,161	10,943
Including: provision balance								
which was not deducted								
from the item "Credit to								
the public"	-	437	-	437	-	501	-	501

* In loans for which a provision was made according to the extent of arrears, not including provision for interest in respect of the debts in arrears.
In other loans, not including provision for interest on doubtful debts after the debts were declared doubtful.

** Including a general provision for doubtful debts.

*** Less recoveries of debts which were written off this year.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 11

**Composition of the
Provision for Doubtful
Debts - Consolidated
(continued)**

	Six months ended June 30							
	2008			Total	2007			
	Specific provision* According to the extent of arrears	Other	Supplementary provision**		Specific provision* According to the extent of arrears	Other	Supplementary provision**	Total
Provision balance as at the								
beginning of the period	300	9,073	1,088	10,461	293	9,600	1,140	11,033
Subsidiary consolidated								
in the past	-	(56)	(6)	(62)	-	-	-	-
Provisions during the period	63	660	58	781	67	593	62	722
Reduction of provisions	(65)	(226)	(81)	(372)	(46)	(233)	(41)	(320)
Recoveries of debts written-off								
in previous years	-	(125)	-	(125)	-	(19)	-	(19)
Provision charged to statement								
of profit and loss	(2)	309	(23)	284	21	341	21	383
Write-offs, net***	(1)	(487)	-	(488)	(3)	(470)	-	(473)
Provision balance as at the								
end of the period	297	8,839	1,059	10,195	311	9,471	1,161	10,943
Including: provision balance								
which was not deducted								
from the item "Credit to								
the public"	-	437	-	437	-	501	-	501

* In loans for which a provision was made according to the extent of arrears, not including provision for interest in respect of the debts in arrears. In other loans, not including provision for interest on doubtful debts after the debts were declared doubtful.

** Including a general provision for doubtful debts.

*** Less recoveries of debts which were written off this year.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 11

Composition of the
Provision for Doubtful
Debts - Consolidated
(continued)

	as at June 30, 2008					
	Balance sheet credit balance ⁽¹⁾	Balance of debt ⁽²⁾	Of which - amount in arrears ⁽³⁾	Amount of specific provision		Total
				By extent of arrears	Other	
Details of the manner of calculation of the						
specific provision in housing loans - consolidated						
Housing loans for which the provision must be calculated						
based on the extent of arrears	27,637	821	182	297	-	297
Large loans ⁽⁴⁾	1,983	93	36	-	9	9
Others loans	3,457	162	39	-	104	104
Total	33,077	1,076	257	297	113	410

	as at June 30, 2007					
	Balance sheet credit balance ⁽¹⁾	Balance of debt ⁽²⁾	Of which - amount in arrears ⁽³⁾	Amount of specific provision		Total
				By extent of arrears	Other	
Housing loans for which the provision must be calculated						
based on the extent of arrears	25,408	845	236	311	-	311
Large loans ⁽⁴⁾	2,232	92	31	-	15	15
Others loans	2,303	95	33	-	111	111
Total	29,943	1,032	300	311	126	437

- (1) Balance of housing credit, after deducting the balance of the specific provision for doubtful debts and the balance of the provision for interest on arrears.
(2) Balance of problematic credit (more than three months in arrears), after deducting the balance of provisions.
(3) Including interest on the amount in arrears, without deducting the balance of provisions.
(4) Housing loans, the balance of each of which exceeds approximately NIS 828 thousand (June 30, 2007: NIS 785 thousand).

Notes to the Condensed Financial Statements as at June 30, 2008

(in millions of NIS)

Note 12

Profits (losses)
from Investments
in Shares, net

	Consolidated			
	For the three months ended June 30		For the six months ended June 30	
	2008	2007	2008	2007
	Unaudited			
Profit from the sale of shares available for sale	78	19	81	26
Losses from the sale of shares available for sale ⁽¹⁾	(89)	(2)	(99)	(4)
Realized and unrealized profits (losses) from adjustments				
to the fair value of shares held for trading, net	(3)	1	(2)	5
Dividend from shares available for sale and held for trading	38	1	41	117
Total profits from investments in shares, net	24	19	21	144

(1) Including provision for decline in value.

Note 13

Sale of Provident Fund
Management Rights

On March 24, 2008, a sale transaction was completed in which Gad-Gmulim transferred the entire management rights of the provident fund Gadish to Psagot Provident Funds Ltd. (hereinafter: "Psagot"), in consideration for a total of NIS 628 million. Net profit in the amount of NIS 387 million was allocated to the statement of profit and loss in the first quarter of 2008.

As part of the transaction described above, Psagot entered into long-term agreements with the Bank concerning the distribution of Gadish by the Bank and the provision of operational services by the Bank to Psagot.

Note 14

Operating segments
Information -
Consolidated

	For the three months ended June 30, 2008							Total
	Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial management segment	Others and adjustments	
	Unaudited							
Profit (loss) from financing								
activity before provision								
for doubtful debt:								
- from externals	1,139	1,263	568	351	285	(1,663)	-	1,943
- inter-segmental	(626)	(1,016)	(331)	(189)	307	1,855	-	-
Operating and other income:								
- from externals	364	371	138	42	54	78	158	1,205
- inter-segmental	(14)	(46)	(13)	(10)	(17)	-	100	-
Total income	863	572	362	194	629	270	258	3,148
Provision for doubtful debts	36	10	77	26	103	-	-	252
Net profit	116	59	49	53	219	66	32	594
Return on equity*	18.7%	17.8%	22.5%	24.0%	16.3%	5.3%		13.8%

* Calculated based on the capital allocated to the segment, according to the risk assets which were attributed to it.

Notes to the Condensed Financial Statements
as at June 30, 2008

(in millions of NIS)

Note 14

Operating segments
Information -
Consolidated
(continued)

	For the six months ended June 30, 2008							Total
	Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial management segment	Others and adjustments	
	Unaudited							
Profit (loss) from financing								
activity before provision								
for doubtful debt:								
- from externals	1,976	2,784	1,186	696	433	(7,144)	-	(69)
- inter-segmental	(978)	(2,184)	(696)	(482)	381	3,959	-	-
Operating and other income:								
- from externals	755	802	288	90	184	75	295	2,489
- inter-segmental	(30)	(91)	(26)	(17)	(35)	-	199	-
Total income (loss)	1,723	1,311	752	287	963	(3,110)	494	2,420
Provision for doubtful debts	67	15	111	68	23	-	-	284
Net profit (loss)	387	277	130	24	374	(2,223)	58	(973)
Return on equity**	31.0%	42.6%	29.2%	5.0%	13.4%	(68.0%)		(10.3%)

	For the year ended December 31, 2007*							Total
	Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial management segment	Others and adjustments	
	Audited							
Profit (loss) from financing								
activity before provision								
for doubtful debt:								
- from externals	3,019	(578)	1,426	1,047	2,955	(936)	-	6,933
- inter-segmental	(1,008)	1,875	(460)	(483)	(1,914)	1,990	-	-
Operating and other income:								
- from externals	1,547	1,653	587	170	626	81	586	5,250
- inter-segmental	(76)	(179)	(49)	(27)	(47)	-	378	-
Total income	3,482	2,771	1,504	707	1,620	1,135	964	12,183
Provision for doubtful debts	182	25	156	109	41	-	-	513
Net profit (loss)	371	514	236	170	568	675	145	2,679
Return on equity**	12.8%	38.7%	26.2%	16.0%	9.4%	12.7%		14.1%

* Reclassified.

** Calculated based on the capital allocated to the segment, according to the risk assets which were attributed to it.

Notes to the Condensed Financial Statements
as at June 30, 2008

Unaudited
(in millions of NIS)

Note 14

Operating segments
Information -
Consolidated
(continued)

For the three months ended June 30, 2007*

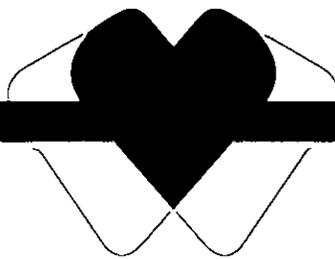
	Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial management segment	Others and adjustments	Total
Profit from financing								
activity before provision								
for doubtful debt:								
- from externals	653	(1,569)	141	220	1,476	1,074	-	1,995
- inter-segmental	(149)	1,887	98	(61)	(967)	(808)	-	-
Operating and other income:								
- from externals	370	420	145	43	134	11	131	1,254
- inter-segmental	(20)	(46)	(12)	(7)	(15)	-	100	-
Total income	854	692	372	195	628	277	231	3,249
Provision for doubtful debts	51	10	72	36	33	-	-	202
Net profit	217	203	63	46	279	143	51	1,002
Return on equity**	34.3%	89.1%	29.5%	19.0%	18.9%	11.6%		23.0%

For the six months ended June 30, 2007*

	Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial management segment	Others and adjustments	Total
Profit from financing								
activity before provision								
for doubtful debt:								
- from externals	1,215	(1,779)	448	424	2,280	1,187	-	3,775
- inter-segmental	(236)	2,411	33	(137)	(1,234)	(837)	-	-
Operating and other income:								
- from externals	765	813	289	85	365	17	287	2,621
- inter-segmental	(40)	(88)	(24)	(13)	(26)	-	191	-
Total income	1,704	1,357	746	359	1,385	367	478	6,396
Provision for doubtful debts	91	14	98	68	112	-	-	383
Net profit	252	313	134	76	579	218	65	1,637
Return on equity**	18.8%	61.1%	30.8%	15.4%	19.4%	8.8%		18.3%

* Reclassified.

** Calculated based on the capital allocated to the segment, according to the risk assets which were attributed to it.



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