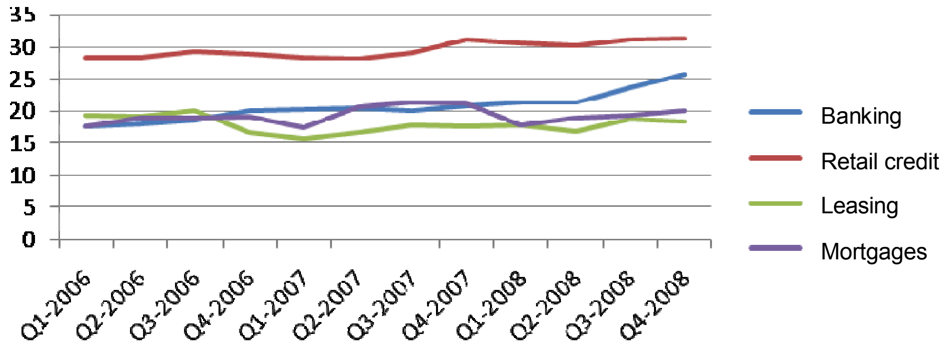
1. **Regarding Section 9.10 in Chapter 3, Part A of the Report – Description of the Banking and Retail Credit Sector**
   See below details of main indicators affecting TBIF operations:

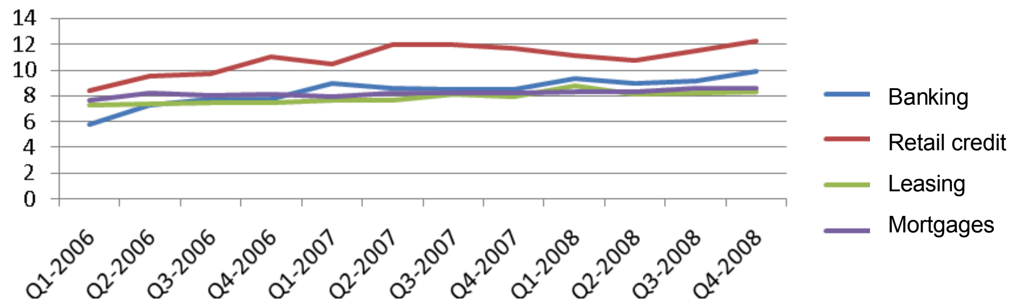
   A. Loan Portfolio Return and Operation Financing Costs

   The graph below shows the loan portfolio return of TBIF's subsidiaries:



The portfolio return described in the preceding graph reflects the average quarterly income of each segment's loan portfolio. The return takes into account the segment's interest income as well as commissions and other income automatically attributed to the segment.

The graph below shows the cost of financing the operations of TBIF's subsidiaries:



Operation financing costs include loans from banks, from deposits and from shareholders.

B. <u>Provision for Doubtful Debts</u>

TBIF examines its provision for doubtful debts every quarter. The policy at TBIF and its subsidiaries is to test for indications of impairment in the fair value of customer liability for a particular debt or group of debts. The method of testing for fair value impairment differs between retail credit loans, which are mostly uncollateralized loans granted in large numbers, and bank loans, leasing loans or security-backed mortgages.

For retail credit loans, the policy is to group the loans in categories having similar characteristics, based on each TBIF subsidiary's internal debt-rating system, taking into account various risk factors such as type of loan, delinquency on payments and depth of delinquency. The loans in each of these categories are assessed for expected future cash flow, on basis of the original loan terms as well as the company's historical experience with repayment rates, subject to adjustments derived from current market conditions.

For bank loans, leasing loans and security-backed mortgages, TBIF's subsidiaries apply the following policy: Delinquent loans for a significant amount are assessed individually to determine the fair value of the asset compared to its carrying value, and, accordingly, to determine whether there are indications of impairment and the extent thereof. In this context, the following parameters are examined, among others: loan terms, amount of delinquency, reasons for the delinquency, borrower's repayment ability, scope and fair value of the collateral, etc. Collateralized loans which individually are for insignificant amounts, are assessed collectively in the same way as retail credit loans, except that in this case the collateral component is also taken into account.

The table below shows the percentage of delinquent loans[1] and the percentage of the provision for doubtful debts out of the total credit portfolio:

		Banking		Retail Credit		Leasing			Mortgage
		Russia	Ukraine	Bulgaria	Romania	Ukraine	Bulgaria	Romania	Bulgaria
Percentage of delinquent loans out of the total credit portfolio	2008	5%	6%	4.4%	4.5%	0.6%	4.3%	0.4%	0.4%
	2007	2.8%	2.1%	1.9%	1.1%	0.6%	2.3%	0.3%	0.3%
	2006	5%	3.5%	0.3%	0.3%	0.4%	4.3%	0.2%	0.6%
Percentage of doubtful-debt provision out of the total credit portfolio	2008	10.3%	6.1%	2.4%	4.7%	1.9%	1.9%	1.9%	2.8%
	2007	4.8%	2%	[2]-	1.3%	0.5%	1%	0.5%	-
	2006	8.2%	1.5%	[3]-	0.1%	-	0.6%	0.1%	-
Provision expenses in TBIF's financial statements[4]	2008	20.0	18.3	1.4	2.8	0.3	0.5	1.9	0.4
	2007	9.5	2.7	-	1.6	-	0.2	0.7	-
	2006	2.9	1.1	-	0.1	-	0.5	0.1	-

[1] Delinquent loans are loans in which the borrower defaults on the payments under the loan agreement for a period of more than 90 days.
[2] No provision for doubtful debts was made, as credit insurance was purchased in respect of the portfolio risk.
[3] No provision for doubtful debts was made, as credit insurance was purchased in respect of the portfolio risk.
[4] In 2006 – based on reports of TBIF, which held directly activities in the financial sector and merged the activities that were held through TBIF.

C. Liquidity Table

The table below summarizes the liquidity indicators of TBIF's activities as of December 31, 2008 (euros in millions):

	Russia		**Ukraine**		**Romania**		**Bulgaria**	
	Customer Repayments	Loan Repayments	Customer Repayments	Loan Repayments	Customer Repayments	Loan Repayments	Customer Repayments	Loan Repayments
2009	237	1	129	72	75	49	87	32
2010	73	2	123	95	42	34	21	17
2011 and on	55	35	333	32	55	39	40	68
Total	365	38	585	199	172	122	148	117
Total surplus cash flow	327		386		50		31	
Cash and short-term investments	192		80		5		10	
Available resources	519		466		55		41	
Deposits	408		350		-		-	

The foregoing table analyzes the state of liquidity of TBIF's activities, through an annualized comparison between the expected cash flow from customer repayments in the credit portfolio and the outgoing cash flow in respect of loan repayments to third parties (except for shareholders and central banks). With respect to banks, also data regarding the scope of deposits was added. It is noted that the maturity date of most (more than 80%) of the deposits is in 2009. The analysis shows that in the long term, the total of the cash flow, together with the balance of cash and short-term investments, i.e. total available resources of the company, is positive. It should be emphasized that the table assumes no significant withdrawals of deposits by bank customers and refinancing of loans from the central banks.

If these assumptions are not realized (mainly in regard to central bank loans and stability in deposits), the banks' available resources are liable to be negative.

This applies especially to the activity in Ukraine, especially in respect of 2009.

As of the reporting date, TBIF is conducting contacts with the Ukrainian Central Bank for refinancing the loans provided by it. In addition, VAB is engaging in business efforts to stabilize the inventory of bank deposits.

The estimate that the banks' available resources are liable to be negative is forward-looking information based on assumptions of the Company's management concerning the ability to refinance the central banks' loans, the scope of deposit withdrawals and the macroeconomic situation, in particular the situation in the Ukrainian market. These assumptions might not be realized or may be realized in a different manner than expected due to central-bank decisions, changes in the macroeconomic situation and the implications on the Ukrainian banking market.

2. **Regarding Section 9.10.2 in Chapter 3, Part A of the Report – Restrictions, Legislation, Standardization and Constraints in the Banking Sector**

Russia

The main regulatory control in Russia in the banking sector consists of the Central Bank Law. The Russian Central Bank (The Bank of Russia) is the body that supervises the country's banking sector. The Central Bank is responsible for issuing and withdrawing banking licenses and for setting the operating procedures and accounting rules that govern the sector. In addition, the Central Bank grants credit for aiding distressed financial institutions. As of June 2009, the Russian Central Bank extended to Russian banks aid for a total sum of 757 billion roubles (16 billion euros), mainly in the form of capital infusions into the banks and encumbered loans. The Russian government has pledged, in case of need, to extend additional aid to the Russian banking system.

The Russian Central Bank enacts laws as to the ways of investing the banks' capital, raising capital, opening accounts, dealing in foreign currency, etc. It also establishes certain threshold ratios which the banks must meet with respect to capital, liquidity and credit diversification.

Furthermore, the Russian Central Bank lays down requirements for reporting by banks. There are many types of reports with varying reporting intervals, including daily, weekly, monthly, quarterly and annual reports. The Central Bank is authorized to conduct an annual audit in the banks.

Beginning in 2004, a Deposit Insurance Law is in effect in Russia, providing that in case of a bank's bankruptcy, the depositors will be compensated for their deposits. In 2008, a ceiling of 700,000 roubles (15,000 euros) was set for each insured depositor.

Ukraine

The main regulatory control in Ukraine in the banking sector consists of the Ukrainian Central Bank Law and the Banking Activity Law. In addition, banking activity in the country is affected by legal acts enacted by the Central Bank (National Bank of Ukraine), relating to such issues as receiving a bank license, opening branches and bank divisions, creating provisions for doubtful debts, guidelines for bank transfers in local currency, guidelines for opening foreign currency accounts and guidelines in respect of deposits. The Ukrainian Central Bank is the main regulatory entity responsible for the country's monetary stability and the stability of its banking system.

The Central Bank acts on two levels to realize its purposes: On the administrative level – it issues banking licenses, sets operative requirements for the banks, imposes sanctions on banks that do not comply with the requirements and regularly supervises the banking system. On the level of banking norms – it sets the bank equity requirements, including

minimum equity and equity ratios, as well as the liquidity ratios, the amount of the provisions required of the banks, the ways of investing and the policy on interest.

In response to the global financial crisis and its deleterious effects on Ukraine, in October 2008 the International Monetary Fund (IMF) approved a 16-billion-dollar aid facility for the Ukrainian government with the aim of stabilizing the financial system. In practice, the aid was provided to Ukraine in a number of stages, the last of which was approved in July 2009. The balance of the aid facility stands at 6 billion dollars.

Under a law enacted in 2001, a Deposit Insurance Fund was set up in Ukraine for the purpose of repaying deposits of customers in banks undergoing bankruptcy proceedings and unable to meet their obligations to the depositors. The compensation cap stands at 150,000 hryvnyas (13,000 euros).

In December 2008 the Ukrainian Central Bank determined that banks would not be allowed to release customer deposits that had not yet matured. This step was intended to stabilize the country's bank deposits sector following the crisis. In April 2009, for the first time since the outbreak of the crisis, public deposits in the Ukrainian banking system appeared to be stabilizing, and in May 2009 the Central Bank permitted the release of deposits at the customer's request.

3. **Regarding Section 9.11.2[A] in Chapter 3, Part A of the Report – Restrictions, Legislation and Regulatory Control in the Insurance and Pension Sector**

The insurance sector in the countries in which the TBIH Group operates is subject to extensive regulation, although the scope of regulation and the degree of influence exercised by the regulators has still not attained the accepted level in the West. It should be noted that every year brings improvement in this area in those countries. Nevertheless, whereas in Western Europe, insurers' capital requirements are set by Solvency 1 and derived mainly from premium/claims-to-capital ratios, in TBIH's countries of activity, excluding Turkey in which Solvency 1 has been implemented, the capital requirements relate to minimum capital which is determined according to local regulatory policy, and Western European standards have still to be met.

Western Europe, Israel and the US are planning to implement Solvency 2, with a view to strengthening the capital requirements applying to insurers and improving the mechanism by which the required capital is determined, based on the specific composition of each insurer's insurance portfolio. Under Solvency 2, insurers will be required to maintain capital levels according to various risk scenarios. Solvency 2 is expected to become effective in Western Europe and Israel in 2012, and subsequently also in the US, which could lead to an increase in insurers' capital requirements. The main impact is expected to be felt in the life insurance line and less in the nonlife insurance line. In this context, it is noted that TBIH operates mainly in the nonlife insurance line.

In the countries in which TBIH operates, thus far no decisions have been taken regarding implementation of Solvency 2. Given this fact, and considering also that Solvency 2 is due to be implemented in the West only in several years' time, the Company assesses the possible impact of these regulations as far-removed, and it is unable to estimate this impact as of now.

The Group's insurance activity is subject to the provisions of the general law in every country as well as the legal provisions applying specifically to insurance, such as insurance

laws, minimum capital requirements, reports to the insurance supervisor, calculation of insurance reserves, etc.

Furthermore, insurance activity in every country is subject to oversight by the insurance supervisory body. The insurance supervisor is responsible, inter alia, for verifying the insurance companies' compliance with the various laws including those relating to minimum capital and ways of investing, and for issuing and revoking insurance licenses.

As part of Turkey's obligations in connection with its accession to the European Union, there have been changes in recent years in its insurance laws (Turkey is the main country in which TBIH operates in the insurance sector). The old insurance law which regulated insurance activity over the past 47 years (the Insurance Supervision Law) was superseded by a new law in 2007. With the inception of the law, the Undersecretariat of Treasury of the Prime Ministry (UT) became the chief regulator in the insurance sector, and it has begun enacting regulations. The new law relates to such issues as transparency of the information presented by the insurer to the customer. It also defines requirements for insurance companies' shareholders with respect to financial robustness and sets conditions for the withdrawal of an insurance license that was issued to an insurer. The law specifies the minimum capital requirements for a company in general, and for each branch opened by the company. The law also addresses technical issues in the realm of insurance (reserves, investments, etc.) as well as the necessity of establishing internal control and risk management systems in an insurance company. The law determines which insurance products are mandatory in the country – for example: third party motor vehicle insurance, professional liability insurance and earthquake insurance. In Turkey there is an earthquake compensation fund owned by all the insurance companies, which transfer to it every year premium on a pro-rata basis according to each company's share of premiums, in addition to the regular reinsurance cover which the companies purchase in this regard.

4. **Regarding Section 9.11.2[G] in Chapter 3, Part A of the Report – Reinsurance**

Reinsurance is a measure taken by an insurer to hedge its risks and protect its capital. Reinsurance allows the insurer to share its risk with other insurance companies, thereby reducing its exposure. Protection is purchased both in respect of catastrophe risks and in respect of isolated risks.

Below are the main types of reinsurance contracts:

Treaty – An annual agreement with a reinsurer or group of reinsurers, in which the reinsurer undertakes to participate in risks, generally in a specific line.

Facultative insurance – This is a specific reinsurance that is purchased for specific businesses (mostly large businesses) in respect of which the limits of liability exceed the treaty limits or which cannot be covered by the treaty for some other reason.

Proportional reinsurance – The reinsurer's participation in the risk is defined in advance according to its proportional share in the premium, and that is the proportion of its participation in the damage payment. There are two main types of proportional reinsurance:

- *Quota share* – A proportional reinsurance contract under which reinsurers agree to accept a fixed part of all the insurance policies of a certain type that were accepted by the direct insurer. The reinsurer receives a proportionate part of the net premium received by the direct insurer, and they both share in all the damages and expenses

according to the same proportion.

- *Surplus contract* – A type of proportional contract in which the direct insurer bears the first layer of risk as determined by it (retention), and the reinsurer bears a proportion above this layer according to a certain capacity.

Excess of loss (XOL) – A nonproportional reinsurance contract in which the reinsurer accepts the layer that was agreed upon in advance and participates in the damage payment only if it belongs to that layer. In contracts of this sort, the distribution of the risk is not proportional and the reinsurer's participation is dependent on the amount of the damage.

<u>Reinsurance at TBIH</u>

In general, reinsurers' share in TBIH's insurance premiums is not high, since its policies, unlike policies in the West, including Israel, put a limit on the amount of the risk for which the insured is covered, including bodily injury. For this reason, most of the reinsurance purchased by TBIH comprises XOL reinsurance, in respect of catastrophes in the property lines, or facultative reinsurance, in respect of large businesses or which it is required to purchase under local regulatory provisions.

In the automobile insurance lines (bodily injury and property damage), in Turkey, quota share reinsurance is provided at a rate of 15% mainly by a local reinsurer. In Ukraine, facultative reinsurance on high-end vehicles is available only from local reinsurers, by virtue of regulatory provisions, while in Georgia there is XOL reinsurance above a certain amount, mainly for bodily injury coverage.

In the fire, property and other insurance lines, which accounted for approximately 35% of the premium in 2008, XOL reinsurance cover is provided against catastrophes, apart from which the following reinsurance cover is available: surplus reinsurance, mainly in Turkey, quota share reinsurance, and facultative reinsurance for large transactions.

<u>Main Commissions Received from Reinsurers</u>:

No commissions are received in respect of nonproportional reinsurance contracts (on XOL basis).

<u>Exposure to Reinsurers</u>:

TBIH and its various companies follow a policy of working with highly rated international reinsurers, including a subsidiary of VIG which engages in reinsurance and is rated A+, as well as local insurers in accordance with the local regulator's directives.

The Group's reinsurance contracts in the different insurance lines are made on an annual basis. Each reinsurer's proportion in any of the insurance lines may vary from year to year and from line to line, based on the business policy of TBIH and its subsidiaries and the nature of the insured businesses.

TBIH's insurance expenses amounted to 75 million euros in 2008. The table lists TBIH's main reinsurers and their rating:

Reinsurer	Rating	% of Total TBIH Reinsurance Expenses
MILLI RE	A	13%
SWISS RE	A	11%
ALLIANZ GLOBAL CORPORATE	A+	7%
Llyod's	A+	6%
HDI GERLING	A	5%
DELVAG	B++	5%
SCOR RE	A-	4%
IPA, a subsidiary of AXA	AA(-)	4%
EVEREST RE	A+	4%
AXA CORPORATE SOLUTION	AA(-)	3%
HANNOVER	A	3%
ALFAYER	A-	3%
MAPFRE	A+	3%