Condensed Financial Statements as of September 30, 2011

Table of Contents

This translation of the financial statements is for convenience purposes only. The only binding version of the financial statement is the Hebrew version.

Condensed Board of Directors' Report for Financial Statements as of September 30, 2011

Table of Contents

Condensed Board of Directors' Report
For Financial Statements as of September 30, 2011

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 28, 2011, it was resolved to approve and publish the Board of Directors' report and the consolidated financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of September 30, 2011.
The financial statements were compiled in accordance with generally accepted accounting policies in Israel for interim financial reporting, and in accordance with directives and guidance of the Supervisor of Banks.

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

Developments in Israel's economy in the first nine months of 2011

Real Developments

In the third quarter of this year, the slow-down in the economy, which had started in the second quarter, continued.
According to estimates by the Central Bureau of Statistics, GDP growth in the third quarter of 2011 was 3.4%, in annualized terms, following growth of 3.5% in the second quarter and 4.7% in the first quarter. Per-capita GDP rose by 1.5% in the third quarter. Imports of goods and services decreased in this quarter by 7.6%, compared to 9.2% growth in the previous quarter.

Total consumption in the economy remained unchanged in the third quarter, following 4.6% growth in the second quarter and 10.4% growth in the first quarter. Private consumption expenditure increased by 0.9% in the third quarter, following 1.3% growth in the previous quarter - an increase reflecting a decline in per-capita private consumption.
Exports of goods and services decreased in the third quarter by 16.9%, compared to 1.5% growth in the previous quarter. Exports of goods and services increased in the third quarter by 13.0%, following 11.6% growth in the previous quarter. Growth in residential construction investment slowed down in this quarter to 4.1%, following double-digit growth in the previous five quarters. Public consumption expenditure increased in this quarter by 3.2%, compared to a 4.5% decline in the previous quarter.
The downward trend in unemployment, which started in mid 2009, continued in the third quarter of 2011. Unemployment in August was down to 5.6%, compared to 6.2% at the end of 2010.

Inflation and exchange rates

In the first nine months of 2011, the Consumer Price Index rose by 2.2%, compared to a 1.9% rise in the corresponding period last year. The CPI was mostly affected by the rising cost of housing and gas. In the third quarter of 2011, the CPI remained unchanged - compared to a 1.2% increase in the corresponding period last year.
The NIS was devalued by 4.6% against the USD in the first nine months of 2011, reaching NIS 3.712 per 1 USD at the end of September, compared to NIS 3.549 at the end of 2010. The NIS was revalued against the Euro in this period by 6.5%, reaching NIS 5.044 per Euro at the end of September, compared to NIS 4.738 per Euro at the end of 2010.
In the third quarter of 2011, the NIS/USD exchange rate was devalued by 8.7%, with the NIS being devalued by 2.0% vs. the Euro. On November 15, 2011, the USD/NIS exchange rate was 3.732.

Monetary and fiscal policy

The first half of 2011 saw a faster pace of increase in interest rates compared to the previous year, designed to face expectations which exceeded the target inflation range (1%-3%). For the first half of the year, the Bank of Israel interest rate was raised by 1.25 percentage points, from 2.0% at the end of 2010 to 3.25% in June 2011. In the third quarter, interest rate remained unchanged at 3.25% - concurrently with a sharp decline in expected inflation, down to the middle of the target range. Note that interest rate for October was lowered, for the first time since 2009, by 0.25 percentage point to 3.0%, and remained unchanged in November.

In the first nine months of 2011, the government budget recorded a NIS 9.7 billion deficit, compared to a NIS 14.0 billion deficit in the corresponding period last year. In this period, tax revenues increased by 5.2% on a real basis over the corresponding period last year. However, in the third quarter the pace of increase slowed down, and total tax collection for the first nine months was NIS 1.2 billion under budget. Government ministry expenditures increased by 4.7% for the period, lower than the budgeted 7.4%. The slow-down in increase in tax collection in the third quarter resulted in an increase in accumulated deficit, and in the 12 months ended in September, the accumulated deficit increased to NIS 25.9 billion. This compares to a budgeted deficit of NIS 25.2 billion in 2011.

The Tractenberg Commission, appointed in response to the "cost of living protest", presented its recommendations while stressing the need to stay within the framework of the national budget. Its recommendations with regard to changes to the tax system in 2012 were approved by the Government, including *inter alia* the following measures: Stopping the tax decrease outline, increasing taxes on corporations, on individuals with high earnings and on capital gains, while providing tax relief to parents of children under three years old, cancelling the increase in tax on gasoline and decreasing customs duty and sales taxes.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first nine months of 2011 demand for new apartments (apartments sold and apartments constructed not for sale) was 28,230 apartments, a decrease of 3.5% over the corresponding period last year. Starting in February, demand trended downwards by an average 3.8% per month. This decline in demand is also manifested in the mortgage market. In recent months, the number of mortgages originated declined, and in the third quarter total mortgage origination volume was 11% lower than in the second quarter.

Concurrently, the acceleration in construction starts continued. In January-July 2011, construction started on 43,500 residential units in annualized terms, compared to 39,700 units in 2010 and to an average of 33,000 over the past decade. More moderate demand, along with higher construction starts, resulted in an inventory of new apartments for sale from private development at the end of September of 13,244 compared to 10,900 at the end of 2010 - a 21.5% increase. Based on the average pace of sales in the nine months ended September 2011, this inventory would account for 11 months' sales - compared to 7.0 months at the end of 2010.

According to data from the Central Bureau of Statistics, in 2011 housing prices continued to rise, despite higher interest rates and restrictive regulatory action in the mortgage market initiated by the Bank of Israel in the second half of 2010 and in the first half of 2011. Housing prices, on nation-wide average basis, were 6% higher in July 2011 compared to the end of 2010, and 12% higher over the corresponding period last year.

Capital market

The decline in equity markets, which started in the first quarter of this year, was more pronounced in the third quarter of 2011. The sharp declines were primarily in response to sharp declines in overseas equity markets, especially in Europe, and in view of the social protests which started in this period. Unlike equity markets, the debenture market was higher. In October-November the markets were highly volatile.

Equity market - the major indexes, Tel Aviv 25 and Tel Aviv 100, declined in the third quarter of 2011 by 11.9% and 12.9%, respectively, and year to date declines were 18.7% and 20.8%, respectively. Due to impact of the debt crisis in Europe, which was most noticeable in bank stocks around the world, financial stocks in Israel recorded the sharpest declines of all major benchmarks. The Financials 15 Index declined by 19.8% in the third quarter, and the Banking Index' decline was even sharper - 21.1%. Year to date, these indexes declined by 29.8% and 28.9%, respectively. The Real Estate 15 Index declined in the third quarter by 15.3% and by 23.4% year to date. The decline in small-cap equities was also pronounced, where the Yeter 50 Index declined by 18.8% in the third quarter and by 34.0% year to date.
Average daily trading volume of shares and convertible securities over the first nine months of this year was NIS 1.8 billion, compared to NIS 1.9 billion in the first half of this year. Total stock issuance (excluding capital raised overseas) in the third quarter amounted to NIS 1.1 billion - lower than in previous quarters. In the first nine months of this year, total stock issuance amounted to NIS 4.6 billion, compared to NIS 12.8 billion in all of 2010.

Debenture market - the debenture market was positive. The General Debenture index rose by 0.8% in the third quarter, after rising by 0.6% in the second quarter of 2011 and after trading unchanged in the first quarter. By comparison, the CPI-linked Debenture Index declined by 0.3%, after rising by 0.3% in the second quarter and rising by 0.4% in the first quarter. The Non-linked Debenture Index rose prominently by 3.1%, continuing its upward trend from the second quarter (1.4%), reversing the 1.0% decline in the first quarter. The significant rise in this index was associated with the stop in interest rate raises and lower expected inflation in Israel, as well as with higher debenture prices in the USA. The Tel-Bond 20 Index changed direction in the third quarter, declining by 0.8% compared to increases of 0.5% in each of the previous two quarters. The Tel-Bond 40 Index, which also includes real estate companies, declined even more sharply by 1.6%, compared to a 0.3% decline in the previous quarter and to a 1.1% increase in the first quarter.
Yield spreads for corporate debentures over government debentures were slightly higher in the third quarter, on concerns about solvency: Debentures rated AA traded at the end of this quarter at a 1.4 percentage points spread, compared to 1.1 percentage points at the end of the second quarter and to 0.8 percentage points at the end of the first quarter. Debentures rated A traded at the end of this quarter at a 3.5 percentage points spread, compared to 3.4 percentage points at the end of the second quarter and to 1.8 percentage points at the end of the first quarter.
Overall, the public sector placed debentures with the public and with institutional investors in the third quarter of 2011 amounting to NIS 10.0 billion, following NIS 12.0 billion raised in the second quarter of 2011 and NIS 11.7 billion raised in the first quarter of 2011.
Average daily trading volume in debentures over the first nine months of this year amounted to NIS 3.8 billion - similar to previous quarters.

Global economy

In the third quarter, uncertainty about the global economy increased as the sovereign debt crisis in Europe took a turn for the worse, and as the USA's credit rating was lowered from its previous level (at all times) of AAA. These events resulted in a sharp decline in business and consumer confidence, as indicated by various surveys. However, GDP in the USA rose in the third quarter of 2011 by an annualized 2.5%, an improvement over 1.3% growth in the second quarter and 0.4% growth in the first quarter.

The Euro Zone economy continued to be overshadowed by the debt crisis in several European countries, and risk of default of these countries increased significantly. This trend was most evident in Italy - where yield on 10-year debentures rose above 7%.

A comprehensive aid program for the Euro Zone was established in a bid to resolve this crisis. Highlights of this program are: A 50% debt write-off by the Government of Greece, an increase in the Rescue Fund for distressed countries up to EUR 1 trillion, an increase in capital adequacy rates for European banks up to 9%, with a promise to inject capital into banks which would be unable to raise funds on their own, as well as a promise to take action to reduce Italy's debt.

In view of these developments, GDP in the Euro Zone rose by an annualized 0.8% - similar to the pace in the previous quarter. Growth in the Euro Zone was led by Germany and France, with 2.0% and 1.6% growth, respectively.

Monetary policy in developed economies remained expansive, with interest rates in the USA and UK remaining low, and with interest in the Euro Zone lowered from 1.50% to 1.25%. In addition, programs for purchase of financial assets by central banks were expanded in both the USA and UK. Even economies which applied a restrictive monetary policy in the past two years - such as Brazil and Australia - changed direction over concerns of an economic slow-down, and lowered their interest rates. Note that expansive monetary policy in developed markets was applied despite the prevailing inflationary pressures: For the trailing 12 months, the CPI in the UK rose by 5.2%, in the USA - by 3.9% and in the Euro Zone - by 3.0%.

Leading overseas benchmarks were impacted by growing concern over solvency of several European countries and potential implications for banks in these and other countries.

The Dow Jones Index in the USA declined in the third quarter by 9.9% and declined year-to-date by 3.3%. The NASDAQ 100 and S&P 500 benchmarks declined in the third quarter by 8.0% and 11.0%, respectively, and in the first nine months of this year, these benchmarks declined by 3.5% and 6.5%, respectively. The German DAX benchmark declined by 23.7% in the third quarter, for a total decline of 18.6% year to date. The FTSE100 and Nikkei indices declined by 13.7% and 11.4%, respectively. In the first nine months of this year, these benchmarks declined by 13.1% and 14.9%, respectively.

Key data for Bank group

Evolution of income and expenses

	For the three months ended				
	30.9.2011	30.6.211	31.3.2011	31.12.2010	30.9.2010
	NIS in millions				
Profit and Profitability					
Profit from financing operations before expenses with respect to credit loss	877	795	752	880	735
Operating and other income	335	341	358	350	335
Total profit	1,212	1,136	1,110	1,230	1,070
Expenses with respect to credit loss	142	80	54	192	102
Operating and other expenses	650	655	(3)673	(3)687	(3)628
Provision for taxes on operating profit	154	138	(3)137	(3)124	(3)127
On operating profit(1)	255	253	(3)239	(3)222	(3)206
After-tax profit from extraordinary items before attribution to non-controlling interest	-	(1)	(1)	-	2
Net profit(1)	**255**	**252**	(3)**238**	(3)**222**	(3)**208**

	30.9.2011	30.6.211	31.3.2011	31.12.2010	30.9.2010
	NIS in millions				
Balance sheet - key items					
Balance sheet total	146,877	139,232	(3)136,185	(3)133,304	(3)126,408
Loans to the public, net	117,620	112,391	109,391	107,040	103,493
Securities	5,879	5,431	5,726	7,449	8,273
Deposits from the public	116,497	111,496	109,029	105,991	101,204
Debentures and subordinated notes	12,501	11,301	10,284	9,813	9,116
Shareholders' equity (1)	7,359	7,139	(3)6,886	(3)7,130	(3)6,877

	30.9.2011	30.6.211	31.3.2011	31.12.2010	30.9.2010
Key financial ratios (in percent)					
Net operating profit return on equity (2)	14.9	15.2	14.6	13.3	12.6
Net profit return on equity (2)	14.9	15.2	14.5	13.3	12.8
Net loans to the public to deposits from the public	101.0	100.8	100.3	101.0	102.3
Capital to total assets	5.0	5.1	5.1	5.3	5.4
Ratio of Tier I capital to risk elements	7.70	7.71	(3)7.61	(3)7.91	(3)7.84
Total ratio of capital to risk elements	13.55	13.61	(3)13.48	(3)13.96	(3)13.88
Cost income ratio	53.6	57.7	60.6	55.9	58.7
Expenses with respect to credit loss for the period to net total loans to the public (2)	0.48	0.29	0.20	0.72	0.39
Provision for taxes to net profit	60.4	54.8	57.6	55.9	61.1
Profit from financing operations before expenses with respect to credit loss to total assets(2)	2.41	2.30	2.23	2.67	2.35
Basic net earnings per share	1.12	1.11	1.05	0.99	0.93
Diluted net earnings per share	1.11	1.09	1.03	0.97	0.92

(1) In the Board of Directors' Report, wherever "net profit", "operating net profit" or "equity" are mentioned, these terms refer to net profit, operating net profit and equity attributable to equity holders of the banking corporation.
(2) Calculated on annualized basis.
(3) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. For details, see Note 1.E.4 to the financial statements.

Forward-looking information

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

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

The information presented here relies, inter alia, on publications of the Central Bureau of Statistics and the Ministry of Finance, on Bank of Israel data and on various forecasts as described below.

Permits and Arrangements with Regard to Control of the Bank

On August 22, 2011, Ofer Investments Ltd. (hereinafter: "Ofer Investments") informed the Bank of a letter received by Yuli Ofer RIP, Liora Ofer, Eyal Ofer and Doron Ofer from the Supervisor of Banks, concerning the Permit to acquire control and means of control over the Bank (hereinafter: "the Supervisor's letter").

Ofer Investments is a private company owned by Liora Ofer and Doron Ofer, and owned by a private company owned and controlled by Eyal Ofer and by a foreign resident company, and is one of a group of companies owned and controlled by the Ofer family - which have joint control over the Bank together with others.

The Supervisor's letter, which Ofer Investments has forwarded to the Bank, stipulates *inter alia* that, as requested by Messrs. Ofer, the Permit was temporarily amended on September 30, 2009 so as to reduce the equity required of Ofer Investments to at least 30% for a period of up to two years. According to the Supervisor's letter, the Permit was amended due to the request to allow the acquisition of shopping malls by Meliseron Ltd., a company controlled by Ofer Investments, within a set, short time available to it and in view of the commitment by Messrs. Ofer to have Ofer Investments restructured.

According to the Supervisor, if no steps have been taken to comply with the aforementioned equity requirements, then Messrs. Ofer are in apparent violation of a material condition in the Permit, which refers to stability of the control chain at the Bank.

The Supervisor, in the letter, demanded that Messrs. Ofer provide, no later than September 15, 2011, the opinion of the Independent Auditor of the equity as percentage of total sources at Ofer Investments, for review of compliance with the aforementioned condition in the Appendix to the Control Permit which refers to the aforementioned percentage as of July 1, 2011.

The Supervisor further noted that should the aforementioned condition be breached, the Supervisor would recommend that the Governor of the Bank of Israel exercise his authority pursuant to Section 34a(a) of the Banking Act (Licensing), 1981 and modify the current Permit.

Ofer Investments informed the Bank that the Supervisor's letter is based on the long-standing demand by the Supervisor of Banks that recipients of the Control Permit over the Bank should modify the holding structure of controlling Bank shares, such that these shares would be separate from other operations of Ofer Investments, including holding of real estate properties. Ofer Investments further reported that the outline for restructuring of Ofer's holding stake in the Bank (whereby the controlling Bank shares owned by Ofer Investments would be transferred to a sister company of Ofer Investments) was formulated many months ago by all recipients of the Control Permit, who also signed documents with regard to this matter, and resolutions were adopted by organs of the relevant corporations, and the delay is due to the position of a small minority of Ofer Investments shareholders, which is also one of the Control Permit recipients.

The Bank was informed that the opinion of the Independent Auditor, as requested in the letter, was provided in time to the Supervisor.

Dividends

Below are details of dividends distributed by the Bank since 2008 through the publication date of these financial statements (in reported amounts):

Payment date	Dividend per share	Total dividends paid
	(in Agorot)	(NIS in millions)
February 19, 2008	33.80	75
June 11, 2008	33.78	75
September 08, 2010	89.59	200
April 17, 2011	53.65	120

Profit and Profitability

Net profit in the third quarter of 2011 amounted to NIS 255 million, compared to NIS 208 million in the corresponding period last year – an increase of 22.6%. This reflects a 14.9% annualized return on equity, compared to 12.8% in the corresponding period last year.

Net profit for the Group in the first nine months of 2011 amounted to NIS 745 million, compared to NIS 579 million in the corresponding period last year - a 28.7% increase. This profit reflects an annualized 14.3% return on equity, compared to 11.6% in the corresponding period last year and to 11.8% in all of 2010.

Increase in net profit was due to rapid growth in business volume at the Bank Group: Investment in service quality and in unique products, along with intensive marketing activity, resulted in accelerated recruiting of new clients, resulting in 13.7% increase in net loans to the public and in 15.1% increase in deposits from the public, compared to the year-ago period.

The following major factors impacted Group operating profit in the first nine months of 2011 over the corresponding period last year:

- Profit from financing operations before expenses with respect to credit loss in the first nine months of 2011 increased by NIS 345 million over the year-ago period, amounting to NIS 2,424 million compared to NIS 2,079 million in the corresponding period last year - an increase of 16.6%.
- Income from operating commissions increased in the first nine months of 2011 by NIS 28 million, or 2.8%, over the corresponding period last year.
- Other operating income amounted to NIS 16 million in the first nine months of 2011, compared with NIS 27 million in the corresponding period last year.

Total financing and operating income in the first nine months of 2011 increased by NIS 362 million, to NIS 3,458 million compared to NIS 3,096 million in the corresponding period last year, an increase of 11.7%.

- Expenses with respect to credit loss decreased in the first nine months of 2011 by NIS 5 million, or 1.8%, over the corresponding period last year.
- Operating and other expenses, net of the effect of the accounting treatment of employee stock options and the adjustments of payroll provisions, increased by 4.7% in the first nine months of 2011 compared to the corresponding period last year. Operating and other expenses including this effect increased by 5.3%.

  Expanded operations, creation of infrastructure for "hybrid banking" recently launched and the launching of 13 new branches and points of sale over the past nine months - all affected payroll expenses for the first nine months of 2011. Excluding this effect, and excluding the effect of the accounting treatment of employee stock options and the adjustments to payroll provisions, growth in operating and other expenses over the corresponding period last year was 3.7%.

Evolution of income and expenses

Profit from financing operations before expenses with respect to credit loss for the Group in the first nine months of 2011 amounted to NIS 2,424 million, compared to NIS 2,079 million in the corresponding period last year - an increase of 16.6%.

Profit from financing operations before expenses with respect to credit loss for the Group in the third quarter of 2011 amounted to NIS 877 million, compared to NIS 735 million in the corresponding period last year - an increase of 19.3%.

Increase in profit from financing operations was due to rapid growth in business volume at the Bank Group: Investment in service quality and in unique products, along with intensive marketing activity, resulted in accelerated recruiting of new clients, resulting in 13.7% increase in net loans to the public and in 15.1% increase in deposits from the public, compared to the year-ago period.

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

	Third Quarter			First nine months		
	2011	2010	Rate of change	2011	2010	Rate of change
Current operations	**824**	**692**	**19.1%**	**2,267**	**1,937**	**17.0%**
Income from collection of interest on troubled loans	35	41		75	94	
Gain from realized debentures available for sale and debentures held for trading, net	2	3		6	38	
Exchange rate and linkage differentials with respect to impaired debt	32	-		34	-	
Effect of accounting treatment of derivatives at fair value and others (1)	(16)	(1)		42	10	
Total	**877**	**735**	**19.3%**	**2,424**	**2,079**	**16.6%**

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

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

	First nine months			
Operating segment	2011	2010	Change amount	Rate of change
Retail banking:				
Mortgages	415	371	44	11.9%
Household	818	633	185	29.2%
Small business	347	266	81	30.5%
Total	**1,580**	**1,270**	**310**	**24.4%**
Private banking	73	40	33	82.5%
Commercial banking	140	120	20	16.7%
Business banking	485	(2) 438	47	10.7%
Financial management	146	(2) 211	(65)	(30.8%)
Total	**2,424**	**2,079**	**345**	**16.6%**

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

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

	Third Quarter			First nine months		
Linkage segments	2011	2010	Rate of change	2011	2010	Rate of change
Israeli currency - non-linked	132,025	121,542	11.9%	136,921	113,140	22.2%
Israeli currency - linked to the CPI	52,124	42,967	21.3%	49,318	41,169	19.8%
Foreign currency (including Israeli currency linked to foreign currency) (1)	83,016	68,792	14.9%	77,303	64,528	7.7%
Total	**267,165**	**233,301**	**14.5%**	**263,542**	**218,837**	**20.4%**

(1) Local operations and overseas affiliates.

The increase in deposits with the Bank of Israel and derivatives operations contributed to the increase in the average balances of non-linked NIS-denominated financial assets.

The increase in mortgage volume resulted in higher average balances of NIS-denominated financial assets - both CPI-linked and non-linked.

The increase in the average balances of foreign currency denominated financial assets is primarily due to an increase in the volume of derivative operations.

Interest spreads of various linkage segments (in %, based on average balances)[(1)] (including impact of derivatives) are as follows:

	First nine months	
Linkage segments	2011	2010
Israeli currency - non-linked	1.49%	1.41%
Israeli currency - linked to the CPI	0.44%	0.63%
Foreign currency (including Israeli currency linked to foreign currency) [(2)]	0.43%	0.60%
Total including impact of derivatives	**1.01%**	**1.13%**

(1) In the first nine months of 2011, based on average balances before deduction of expenses with respect to credit loss; in the corresponding period last year - after deduction of such expenses.

(2) Local operations and overseas affiliates.

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

Expenses with respect to credit loss for the Group amounted to NIS 276 million in the first nine months of 2011, or 0.31% of total loans to the public, net, compared with NIS 281 million, or 0.36% of total loans to the public, net in the corresponding period last year - a decrease of 1.8%.

Expenses with respect to credit loss for the Group amounted to NIS 142 million in the third quarter of 2011, or 0.48% of total loans to the public, net (0.38% excluding the technical effect initially created in 2011 due to application of new provisions with regard to impaired debt), compared with NIS 102 million, or 0.39% of total loans to the public, net in the corresponding period last year - an increase of 39.2%.

The Bank started retrospectively implementing the Public Reporting Regulation on measurement and disclosure of impaired debt, credit risk and provision for credit loss as from January 1, 2011, and therefore data for previous periods are not comparable to those for the current period. For further details, see Note 1.E.1 and Note 3 to the financial statements

Development of expenses with respect to credit loss (NIS in millions) is as follows:

	Third Quarter		First nine months	
	2011	2010	2011	2010
Specific provision for credit loss (including accounting write-offs)	86	84	225	270
Group provision for credit loss:				
By extent of arrears	(9)	9	(11)	9
Other (for 2010 - general and supplementary provision for doubtful debts)	65	9	62	2
Total expenses with respect to credit loss	**142**	**102**	**276**	**281**
Expense with respect to credit loss as percentage of total loans to the public (annualized)	**0.48%**	**0.39%**	**0.31%**	**0.36%**

Below are details of expenses with respect to credit loss by major operating segments of the Group (NIS in millions):

	First nine months	
Operating segment	2011	2010
Retail banking:		
Household - mortgages	14	18
Household - other	51	43
Small business	58	31
Total	**123**	**92**
Private banking	(6)	-
Commercial banking	11	2
Business banking	130	187
Financial management	18	-
Total	**276**	**281**

Profit from financing operations after expenses with respect to credit loss in the first nine months of 2011 amounted to NIS 2,148 million, compared to NIS 1,798 million in the corresponding period last year - an increase of 19.5% .

In the third quarter, profit from financing operations after expenses with respect to credit loss amounted to NIS 735 million, compared with NIS 633 million in the corresponding period last year, an increase of 16.1%.

Operating and other income for the Group amounted to NIS 1,034 million in the first nine months of 2011, compared with NIS 1,017 million in the corresponding period last year – a 1.7% increase.

In the third quarter of 2011, operating and other income for the Group amounted to NIS 335 million - similar to the corresponding period last year.

Income from operating commissions for the Group amounted to NIS 1,018 million in the first nine months of 2011, compared with NIS 990 million in the corresponding period last year - a 2.8% increase.

In the third quarter, income from operating commissions amounted to NIS 331 million, compared with NIS 325 million in the corresponding period last year - an increase of 1.8%.

Net gain from investment in shares for the Group in the first nine months of 2011 amounted to NIS 4 million, compared to no gain in the corresponding period last year.

In the third quarter of 2011, net gain from investment in shares amounted to NIS 1 million - compared to zero gain in the corresponding period last year.

Other income for the Group amounted to NIS 12 million in the first nine months of 2011, compared with NIS 27 million in the corresponding period last year.

In the third quarter of 2011, other income amounted to NIS 3 million, compared with NIS 10 million in the corresponding period last year.

Operating and other expenses, excluding the expansion in operations (creation of "hybrid banking" infrastructure and launching of 13 new branches and points of sale) and the effect of the accounting treatment of employee stock options and the adjustments to payroll provisions in the first nine months of 2011 increased by 3.7% over the corresponding period last year.

These expenses including this effect increased by 5.3%, to NIS 1,978 million compared to NIS 1,878 million in the corresponding period last year.

Operating and other expenses amounted to NIS 650 million in the third quarter of 2011, compared with NIS 628 million in the corresponding period last year - an increase of 3.5%.

Payroll and associated expenses, net of effect of the above expansion in operations and the effect of accounting treatment of employee stock options and the adjustment of payroll provisions, increased by 5.0% in the first nine months of 2011 compared to the corresponding period last year. Payroll and associated expenses, including this effect, amounted to NIS 1,204 million, compared to NIS 1,125 million.

In the second quarter of 2011, the Bank initially applied the Supervisor of Banks' directives concerning strengthening of internal control over financial reporting of employee rights; for further information see Note 1.E.4. to the financial statements.

Payroll and associated expenses amounted to NIS 389 million in the third quarter of 2011, compared with NIS 382 million in the corresponding period last year - a 1.8% increase.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 455 million in the first nine months of 2011, compared with NIS 436 million in the corresponding period last year – an increase of 4.4%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 155 million in the third quarter of 2011, compared with NIS 146 million in the corresponding period last year – a 6.2% increase.

Other expenses for the Group, excluding goodwill amortization, amounted to NIS 319 million in the first nine months of 2011, compared with NIS 306 million in the corresponding period last year - an increase of 4.2%.

Other expenses for the Group amounted to NIS 106 million in the third quarter of 2011, compared with NIS 96 million in the corresponding period last year - an increase of 10.4%, primarily due to increased advertising and marketing operations.

As a result of the evolution of income and expenses, changes to financial ratios were as follows (in %):

	First nine months		All of
	2011	2010	2010
Cost-Income Ratio[1]	57.2	60.7	59.3
Cost-Income Ratio, excluding Bank Yahav	52.8	57.1	55.8

	2011			2010			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Cost-Income Ratio[1]	53.6	57.7	60.6	55.9	58.7	58.6	65.1
Cost-Income Ratio, excluding Bank Yahav	48.4	53.7	56.6	52.6	56.1	53.6	62.0

(1) Total operating and other expenses to total operating and financing income before expenses with respect to credit loss.

Pre-tax operating profit for the Group amounted to NIS 1,204 million in the first nine months of 2011, compared with NIS 937 million in the corresponding period last year - a 28.5% increase.
In the third quarter of 2011, pre-tax operating profit amounted to NIS 420 million, compared to NIS 340 million in the corresponding period last year, a 23.5% increase.

The provision for taxes on operating profit amounted to NIS 429 million in the first nine months of 2011, compared with NIS 345 million in the corresponding period last year, a 24.3% increase.
In the third quarter of 2011, the provision for taxes on operating profit amounted to NIS 154 million, compared to NIS 127 million in the corresponding period last year, a 21.3% increase.

Operating net profit in the first nine months of 2011 amounted to NIS 747 million, compared to NIS 577 million in the same period last year – an increase of 29.5%.
Operating net profit in the third quarter of 2011 amounted to NIS 255 million, compared to NIS 206 million in the corresponding period last year – an increase of 23.8%.

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

	First nine months		All of
	2011	2010	2010
Net operating profit	14.4	11.6	11.8
Net profit	14.3	11.6	11.8

	2011			2010			
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net operating profit	14.9	15.2	14.6	13.3	12.6	12.5	10.8
Net profit	14.9	15.2	14.5	13.3	12.8	12.4	10.9

(1) Annualized return.
(2) Return on average shareholders' equity, including "total capital resources", as presented in the report of income and expense rates, less the average balance of non-controlling interest and less/plus the average balance of unrealized gain/loss from adjustment to fair value of debentures held for trading as well as gain/loss from debentures available for sale.

Earnings per share

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

	Third Quarter		First nine months of		All of
	2011	2010	2011	2010	2010
Basic earnings per share:					
Net operating profit attributable to equity holders of the banking corporation	1.12	(1)0.92	3.30	(1)2.59	(1)3.58
Net profit attributable to equity holders of the banking corporation	1.12	(1)0.93	3.29	(1)2.60	(1)3.59
Diluted earnings per share:					
Net operating profit attributable to equity holders of the banking corporation	1.11	(1)0.91	3.23	(1)2.55	(1)3.53
Net profit attributable to equity holders of the banking corporation	1.11	(1)0.92	3.22	(1)2.56	(1)3.54

(1) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Evolution of balance sheet items

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2011	2010	2010	2010	2010
Balance sheet total	146,877	(1)126,408	(1) 133,304	16.2%	10.2%
Loans to the public, net	117,620	103,493	107,040	13.7%	9.9%
Deposits from the public	116,497	101,204	105,991	15.1%	9.9%
Securities	5,879	8,273	7,449	(28.9%)	(21.1%)
Shareholders' equity	7,359	(1)6,877	(1) 7,130	7.0%	3.2%

(1) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Loans to the public, net - loans to the public, net on the consolidated balance sheet as of September 30, 2011 accounted for 80% of total assets, similar to the end of 2010. Loans to the public, net for the Group in the first nine months of 2011 increased by NIS 10.6 billion, or 9.9%.

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

				Change over:	
	September 30		December 31	September 30	December 31 [1]
	2011	2010	2010	2010	2010
Israeli currency					
Non-linked	59,916	52,881	54,680	13.3%	9.6%
CPI- linked	43,272	37,931	39,865	14.1%	8.5%
Foreign currency and foreign currency linked	14,432	12,681	12,495	13.8%	15.5%
Total	**117,620**	**103,493**	**107,040**	**13.7%**	**9.9%**

(1) Excluding the impact of change in NIS exchange rate, a 10.5% increase in the foreign currency segment and a 9.3% increase in total loan volume, compared to December 31, 2010.

Loans to the public, net by operating segments (NIS in millions) are as follows:

				Change over:	
		September 30	December 31	September 30	December 31
Operating segment	2011	2010	2010	2010	2010
Retail banking:					
Mortgages	66,037	[1] 55,819	[1] 58,303	18.3%	13.3%
Household	16,293	[1] 15,842	[1] 15,566	2.8%	4.7%
Small business	6,185	[1] 5,363	5,771	15.3%	7.2%
Total	**88,515**	**77,024**	**79,640**	**14.9%**	**11.1%**
Private banking [2]	1,506	909	962	65.7%	56.5%
Commercial banking	4,831	4,643	4,717	4.0%	2.4%
Business banking	22,768	20,917	21,721	8.8%	4.8%
Total – business and others	**29,105**	**26,469**	**27,400**	**10.0%**	**6.2%**
Total	**117,620**	**103,493**	**107,040**	**13.7%**	**9.9%**

(1) Reclassified.
(2) As from 2011, this segment includes credit operations of private banking clients, which was previously included under other segments.

Below are details of non-performing assets, impaired debt accruing interest, commercial troubled credit risk and non-impaired debt in arrears 90 days or longer, in accordance with new directives for measurement and disclosure of impaired debt, credit risk and provision for credit loss:

Reported amounts (NIS in millions)	As of September 30, 2011			As of December 31, 2010 (pro-forma)		
	Credit risk	Provision for credit loss	Net credit risk	Credit risk	Provision for credit loss	Net credit risk
A. Troubled credit risk						
Troubled commercial credit risk	2,011	307	1,704	3,213	352	2,861
Troubled credit risk with respect to individuals	2,053	847	1,206	2,130	891	1,239
Total troubled credit risk	**4,064**	**1,154**	**2,910**	**5,343**	**1,243**	**4,100**
B. Composition of troubled indebtedness						
Impaired credit risk	1,661	286	1,375	1,932	321	1,611
Inferior credit risk	116	12	104	119	12	107
Credit risk under special supervision	562	34	528	1,577	81	1,496
Credit risk for housing loans in arrears over 90 days	1,725	822	903	1,715	829	886
Total troubled credit risk	**4,064**	**1,154**	**2,910**	**5,343**	**1,243**	**4,100**
C. Total non-performing assets:						
Non-accrual impaired loans to the public:						
Reviewed on individual basis	1,209	266	943	1,550	351	1,199
Non-accrual impaired debentures	16	-	16	14	-	14
Other non-accrual impaired debt	-	-	-	25	12	13
Total non-performing assets	**1,225**	**266**	**959**	**1,589**	**363**	**1,226**
D. Impaired debt in restructuring of accrual troubled debt[4]	133	17	116	140	21	119
E. Troubled commercial credit risk [1]						
On balance sheet credit risk with respect to loans to the public	1,528	297	1,231	2,333	330	2,003
Off-balance sheet credit risk with respect to the public[2]	467	10	457	866	22	844
Total commercial troubled credit risk with respect to the public	**1,995**	**307**	**1,688**	**3,199**	**352**	**2,847**
Other on balance sheet credit risk	16	-	16	14	-	14
Total commercial troubled credit risk	**2,011**	**307**	**1,704**	**3,213**	**352**	**2,861**
F. Non-impaired debt in arrears 90 days or longer	1,812	828	984	1,840	861	979
Includes: Housing loans provided for by extent of arrears[5]	1,322	809	513	1,311	829	482
Housing loans not provided for by extent of arrears[3]	403	13	390	404	-	836

Note: On- and off-balance sheet credit risk is stated before impact of provision for credit loss, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

(1) On- and off-balance sheet credit risk which is impaired, inferior or under special supervision, except for on- and off-balance sheet credit risk with respect to individuals.
(2) As calculated for restrictions on indebtedness of a borrower or group of borrowers, except with respect to guarantees provided by borrower to secure indebtedness of a third party, before impact of deductible collateral.
(3) Housing loans with respect to which the minimum provision is calculated by extent of arrears, in arrears between 3 and 6 months, and other housing loans which are not impaired and in arrears 90 days or longer, with respect to which the minimum provision is not calculated by extent of arrears.
(4) Includes impaired debts accruing interest revenues which was re-structured in previous years.
(5) Reclassified.

Below is the sector composition of the top 6 borrowers of the Group as of September 30, 2011:

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1.	Electricity and water	210	971	1,181
2.	Construction and real estate	351	630	981
3.	Industry	753	105	858
4.	Construction and real estate	225	499	724
5.	Industry	169	512	681
6.	Commerce	370	202	572

On- and off-balance sheet credit risk is stated before the impact of the provision for credit loss, and before the impact of deductible collateral with respect to indebtedness of borrower and of borrower group.

Securities - the balance of investment in securities decreased in the first nine months of 2011 by NIS 1.6 billion, and by NIS 2.4 billion compared to September 30, 2010. The change in total investment in securities is within asset and liability management.

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

				Change compared to	
	September 30		December 31	September 30	December 31
Operating segment	2011	2010	2010	2010	2010
Israeli currency					
CPI- linked	262	652	413	(59.8%)	(36.6%)
Non-linked	2,920	3,762	3,760	(22.4%)	(22.3%)
Foreign currency and foreign currency linked	2,614	3,772	3,195	(30.7%)	(18.2%)
Non-monetary items	83	87	81	(4.6%)	2.5%
Total	**5,879**	**8,273**	**7,449**	**(28.9%)**	**(21.1%)**

Investments in securities in the held-to-maturity portfolio, the available-for-sale portfolio and the held-for-trading portfolio

Below are further details of Bank Group investments in securities (NIS in millions):

	Carrying amount as of	
	September 30, 2011	December 31, 2010
Government debentures:		
Government of Israel	4,928	6,308
Government of USA	65	103
Total government debentures	**4,993**	**6,411**
Debentures of banks in developed nations:		
UK	133	191
Israel	121	127
Germany	101	99
South Korea	26	25
Canada	-	35
Australia	-	18
Other(1)	10	18
	391	**513**
Debentures of financial institutions (other than banks) in developed nations(2):		
USA	149	184
UK	19	36
Luxembourg	11	10
	179	**230**
Total debentures of banks and financial institutions	**570**	**743**
Corporate debentures (composition by sector):		
Industry	88	17
Construction	38	45
Electricity and water	4	24
Hotel and food services	-	1
Communications and computer services	17	23
Financial services	23	44
Total corporate debentures	**170**	**154**
Asset-backed debentures (CLO)	63	60
Shares	83	81
Total securities	**5,879**	**7,449**

(1) Includes 2 countries with a high balance of NIS 8 million as of September 2011, and NIS 14 million as of December 2010.

(2) Exposure primarily consists of exposure to banks, investments and holding companies in bank groups.

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

					As of September 30, 2011
Share of impairment out of amortized cost	Duration in which fair value is lower than the amortized cost				
	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
Up to 20%	-	-	-	4	4
20%-40%	-	-	-	7	7
Over 40%	-	-	-	-	-
Total	**-**	**-**	**-**	**11**	**11**
Other debentures available for sale					
Up to 20%	26	-	-	46	72
20%-40%	-	-	-	11	11
Over 40%	-	-	-	27	27
Total	**26**	**-**	**-**	**84**	**110**
Total securities available for sale	**26**	**-**	**-**	**95**	**121**

l					As of December 31, 2010
	Duration in which fair value is lower than the amortized cost				
Share of impairment out of amortized cost	Up to 6 months	9-6 months	12-9 months	Over 12 months	Total
Asset-backed debentures available for sale					
20%	-	-	-	4	4
20%-40%	-	-	-	7	7
Over 40%	-	-	-	-	-
Total	**-**	**-**	**-**	**11**	**11**
Other debentures available for sale					
20%	19	-	6	24	49
20%-40%	-	-	2	-	2
Over 40%	-	-	-	-	-
Total	**19**	**-**	**8**	**24**	**51**
Total securities available for sale	**19**	**-**	**8**	**35**	**62**

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 79% of the total consolidated balance sheet as of September 30, 2011, compared with 80% at the end of 2010. In the first nine months of 2011, deposits from the public with the Bank Group increased by NIS 10.5 billion – a 9.9% increase.

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

				Change compared to	
	September 30		December 31	September 30	December 31 [(1)]
	2011	2010	2010	2010	2010
Israeli currency					
Non-linked	70,214	58,598	62,754	19.8%	11.9%
CPI- linked	22,691	21,005	22,342	8.0%	1.6%
Foreign currency and foreign currency linked	23,592	21,601	20,895	9.2%	12.9%
Total	**116,497**	**101,204**	**105,991**	**15.1%**	**9.9%**

(1) Excluding the impact of change in the NIS exchange rate, a 7.9% increase in the foreign currency segment and a 8.9% increase in total deposits, compared to December 31, 2010.

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

				Change compared to	
		September 30	December 31	September 30	December 31
	2011	2010	2010	2010	2010
Retail banking:					
Household	52,325	46,698	46,864	12.0%	11.7%
Small business	7,221	6,259	6,413	15.4%	12.6%
Total	**59,546**	**52,957**	**53,277**	**12.4%**	**11.8%**
Private banking	6,307	4,746	4,946	32.9%	27.5%
Commercial banking	3,060	2,764	3,631	10.7%	(15.7%)
Business banking	33,402	23,542	24,072	41.9%	38.8%
Financial management	14,182	17,195	20,065	(17.5%)	(29.3%)
Total	**116,497**	**101,204**	**105,991**	**15.1%**	**9.9%**

The ratio of shareholders' equity to balance sheet total for the Group as of September 30, 2011 amounted to 5.01%, compared to 5.35% as of the end of 2010.

Ratio of capital to risk elements

As per instructions of the Supervisor of Banks, every banking corporation is required to maintain a total minimum capital ratio of no less than 9% of weighted total of risk components of its balance sheet assets and off-balance-sheet items, and these instructions specify the manner of calculation of total capital and total risk components. Starting on December 31, 2009, the ratio of capital to risk elements is calculated in accordance with Basel II rules.

Development of Group ratio of capital to risk components is as follows (in %):

	September 30, 2011	December 31, 2010
Ratio of Tier I capital to risk elements	7.70	(1) 7.91
Ratio of total capital to risk elements	13.55	(1) 13.96
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00	9.00

(1) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

The decrease in the ratio of capital to risk elements is primarily due to impact of initial application of directives on measurement of impaired debt and the provision for credit loss, which reduced equity as of January 1, 2011 by NIS 359 million.

Major Investees

The contribution of investees to operating net profit (excluding amortization of goodwill) in the first nine months of 2011 amounted to NIS 116.8 million, compared with NIS 74.8 million in the corresponding period last year.
Excluding the effect of interest rate differentials, the contribution of investees amounted to NIS 93.9 million, compared to NIS 72.8 million in the corresponding period last year.

Bank Yahav for Government Employees Ltd. ("Bank Yahav")
Bank Yahav is a banking corporation operating in accordance with a "Bank" license as per provisions of the Banking Act (Licensing), 1981. On January 28, 2009, the replacement license for the Bank's previous license dated January 11, 2005, was received which allows the Bank to do business with government and public sector employees. In accordance with the new license, Bank Yahav may engage in new operations and may expand its client base in comparison with the situation prior to receiving the license, and subject to advance permission by the Supervisor of Banks.

Along with this license, Bank Yahav received approval from the Supervisor of Banks to provide services to individual clients (such as salaried employees, self employed and households) and to corporations, provided that credit granted to corporations shall not exceed the specified limit. Bank Yahav has completed preparations for operating in accordance with the new license, subject to policy of the Bank's Board of Directors on this matter.

Bank Yahav's contribution to Group net profit in the first nine months of 2011, excluding goodwill amortization, amounted to NIS 28.8 million, compared to NIS 14.5 million in the same period last year (NIS 7.7 million after goodwill amortization). Bank Yahav's net profit return on equity in the first nine months of 2011 was 10.7% on an annualized basis, compared to 5.6% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2011 amounted to NIS 16,272 million, compared to NIS 14,795 million as of December 31, 2010. The balance of loans to the public, net as of September 30, 2011 amounted to NIS 5,595 million, compared to NIS 5,432 million at the end of 2010. The balance of deposits from the public as of September 30, 2011 amounted to NIS 13,960 million, compared to NIS 12,572 million at the end of 2010.

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

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

Tefahot Insurance's contribution to Group net profit in the first nine months of 2011 amounted to NIS 51.2 million, compared to NIS 42.3 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2011 was 23.6% on an annualized basis, compared to 22.1% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

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

Net profit of Mizrahi Bank Switzerland in the first nine months of 2011 amounted to CHF 1.1 million, compared to CHF 1.9 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of September 30, 2011 amounted to CHF 153 million, compared to CHF 195 million at the end of 2010.

Loans to the public as of September 30, 2011 amounted to CHF 49 million, compared to CHF 59 million at the end of 2010. The deposits with banks as of September 30, 2011 amounted to CHF 89 million, compared to CHF 118 million at the end of 2010. Deposits from the public as of September 30, 2011 amounted to CHF 87 million, compared to CHF 122 million at the end of 2010. Deposits from banks as of September 30, 2011 amounted to CHF 8 million, compared to CHF 16 million at the end of 2010.

These data exclude off-balance-sheet items, such as fiduciary deposits which are major components of the Bank's business operations in Switzerland.

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first nine months of 2011, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to NIS 27.8 million, compared with NIS 10.4 million in the same period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first nine months of the year amounted to a NIS 4.9 million profit, compared to a NIS 8.4 million profit in the corresponding period last year.

In recent months, tax authorities in the USA and Switzerland have been negotiating in conjunction with the double taxation avoidance treaty between these two countries. At the request of Swiss authorities, several Swiss banks including United Mizrahi (Switzerland) Ltd. (a wholly owned and controlled subsidiary of the Bank), have provided statistical information about their business with US clients - to be provided to US authorities. No personally identifiable information, such as client names, has been provided. United Mizrahi Bank (Switzerland) Ltd. cooperates with Swiss authorities and acts in adherence to applicable statutory provisions.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. About 9% of these investments are negotiable and are stated at their market value. The other investments are presented at cost or at their carrying amount. In case of impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of September 30, 2011 amounted to NIS 63 million, compared to NIS 59 million at the end of 2010. In the first nine months of 2011, the Bank had net gain from dividends and capital gains from non-banking corporations amounting to NIS 4 million - compared to no gain in the corresponding period last year.

Financial Information Regarding Operating Segments

Bank Group operating segments

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

The Bank's operating segments are:

Household segment - under responsibility of the Retail Division, This segment includes small household clients and mortgage operations. The division provides appropriate banking services and financial products to segment clients, including in the field of mortgages.

Small business segment – under responsibility of the Retail Division, which also serves small business clients, having an indebtedness level of less than NIS 6 million, sales of less than NIS 30 million and liquid asset balance of less than NIS 10 million. Banking services and financial products, including commercial banking services as required, are provided to segment clients.

Private banking – private banking is under responsibility of the Private Banking and International Operations sector of the Financial Division. Private banking sector clients are individual clients with liquid assets (primarily short-term deposits and security investments) over NIS 2.5 million. Clients of this segment have high financial wealth, to whom the Bank offers access to unique products and services in capital management activity, advisory service and investment management.

Commercial banking – clients of this segment are private and public companies of medium size (middle market) and medium level of indebtedness, and are served by the Business Banking Division, primarily by the Business sector, which operates via six business centers located throughout Israel. Business clients are assigned to the Business sector primarily using the following criteria: total indebtedness of NIS 6-25 million, sales of NIS 30-120 million or liquid assets of NIS 10-40 million.

Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

Business banking - the Major Corporations sector in the Business Division is responsible for the Business Banking segment, which is the focal point for handling the largest business clients. Criteria by which clients are assigned to the Corporate sector include: total indebtedness over NIS 25 million, sales over NIS 120 million or liquid assets over NIS 40 million. This segment provides a range of banking and financial services to the largest companies in the economy, in an array of industries, at relatively high levels of indebtedness. Segment clients operating in the real estate sector are served by the Construction and Real Estate sector of the Business Division, which specializes in provision of dedicated services to this sector.

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

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

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

In order to analyze results of Bank operations by relevant criteria, clients have been assigned to the organizational units in charge of servicing them. Information presented below by operating segment is based on the Bank's organizational structure on client assignment to various departments and then to operating segments, and on attribution of results and balances to clients and segments in the profitability measurement system.

For further details, *inter alia*, with regard to the division into operating segments and the principles used for attributing balances, income and expenses to customers in the system – see Note 31 to the financial statements as of December 31, 2010.

Note 11 to the financial statements includes a reporting of Bank Group business results by operating segment.

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

	Net profit in the first nine months		Share of total net profit (in percent) for the first nine months		Return on equity (in %), first nine months	
	2011	2010	2011	2010	2011	2010
Household :						
Mortgages	257	218	34	38	14.4	13.9
Other	135	68	18	12	21.1	10.6
Private banking	39	[1] 21	5	4	104.8	[1] 40.6
Small business	107	73	14	13	38.4	28.4
Commercial banking	43	35	6	6	14.5	12.1
Business banking	131	[1] 71	19	11	6.9	[1] 3.7
Financial management	33	[1] 93	4	16	13.5	[1] 30.9
Total	**745**	**579**	**100**	**100**	**14.3**	**11.6**

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the nine months ended September 30, 2011					For the nine months ended September 30, 2010				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
										NIS in millions
Profit from financing operations before expenses with respect to credit loss:										
From outside operating segments	112	19	9	2,841	2,981	200	16	8	1,780	2,004
Inter-segment	692	(14)	-	(2,426)	(1,748)	420	(11)	-	(1,409)	(1,000)
Total profit from financing operations before expenses with respect to credit loss	**804**	**5**	**9**	**415**	**1,233**	**620**	**5**	**8**	**371**	**1,004**
Operating and other income	163	101	161	182	607	161	87	168	188	604
Total profit	**967**	**106**	**170**	**597**	**1,840**	**781**	**92**	**176**	**559**	**1,608**
Expenses with respect to credit loss	51	-	-	14	65	43	-	-	18	61
Operating and other expenses										
From outside operating segments	959	21	48	183	1,211	903	21	45	197	1,166
Inter-segment	(88)	(3)	-	-	(91)	(91)	(3)	-	-	(94)
Total operating and other expenses	**871**	**18**	**48**	**183**	**1,120**	**812**	**18**	**45**	**197**	**1,072**
Operating profit (loss) before taxes	45	88	122	400	655	(74)	74	131	344	475
Provision for taxes on operating profit (loss)	16	32	43	143	234	(27)	28	48	126	175
After-tax operating profit (loss)	**29**	**56**	**79**	**257**	**421**	**(47)**	**46**	**83**	**218**	**300**
Net profit (loss):										
Before attribution to non-controlling interest	29	56	79	257	421	(47)	46	83	218	300
Attributable to non-controlling interest	(29)	-	-	-	(29)	(14)	-	-	-	(14)
Attributable to equity holders of the banking corporation	**-**	**56**	**79**	**257**	**392**	**(61)**	**46**	**83**	**218**	**286**
Return on capital (net profit as % of average capital)					**16.1%**					**13.0%**
Average balance of assets	13,865	2,412	-	59,863	76,140	13,547	2,473	-	51,396	67,416
Average balance of liabilities	47,844	2,412	-	252	50,508	44,948	2,473	-	77	47,498
Average balance of risk assets	13,955	-	-	31,529	45,484	13,539	-	-	26,685	40,224
Average balance of securities	-	-	27,431	-	27,431	-	-	26,475	-	26,475
Loans to the public, net (end balance)	13,737	2,556	-	66,037	82,330	(1) 13,134	2,708	-	55,819	71,661
Deposits from the public (end balance)	52,325	-	-	-	52,325	46,698	-	-	-	46,698
Average balance of other assets managed	8,350	-	-	13,057	21,407	7,982	-	-	14,525	22,507
Margin from credit granting operations	350	5	-	393	748	255	5	-	344	604
Margin from receiving deposits	412	-	-	-	412	297	-	-	-	297
Other	42	-	9	22	73	68	-	8	27	103
Total	**804**	**5**	**9**	**415**	**1,233**	**620**	**5**	**8**	**371**	**1,004**

(1) Reclassified.

The contribution of the household segment to Group profit in the first nine months of 2011 amounted to NIS 392 million, compared to NIS 286 million in the corresponding period last year - an increase of 37.1%.

The contribution of mortgages in the first nine months of 2011 amounted to NIS 257 million, compared to NIS 218 million in the corresponding period last year - an increase of 17.9%. The increase is primarily due to an 11.9% increase in profit from financing operations before expenses with respect to credit loss, which is due to expanded operations, reflected in a 16.5% increase in average assets. Conversely, the provision for credit loss with respect to these operations decreased by NIS 4 million: Total expenses with respect to credit loss attributed to mortgages in the first nine months of 2011 amounted to NIS 14 million, compared to NIS 18 million in the corresponding period last year - a decrease of 22.2%.

Th contribution of the household segment (except for mortgages) in the first nine months of 2011 amounted to NIS 135 million, compared to NIS 68 million in the corresponding period last year - an increase of NIS 67 million. The increase in the contribution of the household segment is primarily due to an increase of 29.2% in profit from financing operations before expenses with respect to credit loss, due to an increase in business volume and improved financial margin and to a decrease of 18.6% in expenses with respect to credit loss. The modest 2.2% increase in operating income is due to a decrease in income from commissions on securities. On the other hand, operating expenses grew by 7.1%.

Results of Household Segment

	For the three months ended September 30, 2011					For the three months ended September 30, 2010				
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Credit cards	Capital market	Mortgages	Total
										NIS in millions
Profit from financing operations before expenses with respect to credit loss:										
From outside operating segments	40	7	3	1,084	1,134	54	6	3	786	849
Inter-segment	246	(5)	-	(937)	(696)	169	(4)	-	(652)	(487)
Total profit from financing operations before expenses with respect to credit loss	**286**	**2**	**3**	**147**	**438**	**223**	**2**	**3**	**134**	**362**
Operating and other income	51	40	45	59	195	56	30	48	66	200
Total profit	**337**	**42**	**48**	**206**	**633**	**279**	**32**	**51**	**200**	**562**
Expenses with respect to credit loss	25	-	-	4	29	10	-	-	17	27
Operating and other expenses										
From outside operating segments	316	7	17	60	400	308	7	13	68	396
Inter-segment	(32)	(1)	-	-	(33)	(35)	(1)	-	-	(36)
Total operating and other expenses	**284**	**6**	**17**	**60**	**367**	**273**	**6**	**13**	**68**	**360**
Operating profit (loss) before taxes	28	36	31	142	237	(4)	26	38	115	175
Provision for taxes on operating profit (loss)	10	13	11	53	87	(2)	10	14	44	66
After-tax operating profit (loss)	**18**	**23**	**20**	**89**	**150**	**(2)**	**16**	**24**	**71**	**109**
Net profit (loss):										
Before attribution to non-controlling interest	18	23	20	89	150	(2)	16	24	71	109
Attributable to non-controlling interest	(11)	-	-	-	(11)	(6)	-	-	-	(6)
Attributable to equity holders of the banking corporation	**7**	**23**	**20**	**89**	**139**	**(8)**	**16**	**24**	**71**	**103**
Return on capital (net profit as % of average capital)					**16.0%**					**13.7%**
Components of profit from financing operations before expenses with respect to credit loss:										
Margin from credit granting operations	120	2	-	139	261	91	2	-	122	215
Margin from receiving deposits	148	-	-	-	148	110	-	-	-	110
Other	18	-	3	8	29	22	-	3	12	37
Total	**286**	**2**	**3**	**147**	**438**	**223**	**2**	**3**	**134**	**362**

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First nine months		
	2011	2010	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	13,175	12,019	9.6%
From the Treasury's funds			
Directed loans	61	139	(56.1%)
Standing loans and grants	59	149	(60.4%)
Total new loans	**13,295**	**12,307**	**8.0%**
Recycled loans	1,076	881	22.1%
Total loans issued	**14,371**	**13,188**	**8.9%**
Number of borrowers (includes recycled loans)	36,516	37,467	(2.5%)

Results of Private Banking Segment

	For the nine months ended September 30, 2011			For the nine months ended September 30, 2010		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before expenses with respect to credit loss:						
From outside operating segments	14	-	14	(2)	-	(2)
Inter-segment	59	-	59	42	-	42
Total profit from financing operations before expenses with respect to credit loss	**73**	**-**	**73**	**40**	**-**	**40**
Operating and other income	17	24	41	14	26	40
Total profit	**90**	**24**	**114**	**54**	**26**	**80**
Expenses with respect to credit loss	(6)	-	(6)	-	-	-
Operating and other expenses						
From outside operating segments	51	5	56	42	6	48
Inter-segment	8	(4)	4	-	-	-
Total operating and other expenses	**59**	**1**	**60**	**42**	**6**	**48**
Pre-tax operating profit	37	23	60	12	20	32
Provision for taxes on operating profit	13	8	21	4	7	11
Net profit attributable to equity holders of the banking corporation	**24**	**15**	**39**	**8**	**13**	**21**
Return on capital (net profit as % of average capital)			**104.8%**			**40.6%**
Average balance of assets	2,779	-	2,779	1,873	-	1,873
Average balance of liabilities	6,232	-	6,232	5,809	-	5,809
Average balance of risk assets	711	-	711	907	-	907
Average balance of securities	-	11,626	11,626	-	7,214	7,214
Loans to the public, net (end balance)	1,506	-	1,506	909	-	909
Deposits from the public (end balance)	6,307	-	6,307	4,746	-	4,746
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	37	-	37	11	-	11
Margin from receiving deposits	33	-	33	27	-	27
Other	3	-	3	2	-	2
Total	**73**	**-**	**73**	**40**	**-**	**40**

The contribution of the private banking segment to Group profit in the first nine months of 2011 amounted to NIS 39 million, compared to NIS 21 million in the corresponding period last year. The increase in segment contribution is due to a NIS 33 million increase in profit from financing operations due to increased financial spread, as well as due to the transfer of credit activity of segment clients, previously included under other segments, to the private banking segment as from 2011.

Income amounting to NIS 6 million due to decrease in expenses with respect to credit loss - also contributed to higher segment profit.

Operating and other income increased by NIS 1 million only, due to decline in capital market operations, while operating and other expenses increased by NIS 12 million.

Results of Private Banking Segment

	For the three months ended September 30, 2011			For the three months ended September 30, 2010		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before expenses with respect to credit loss:						
From outside operating segments	3	-	3	1	-	1
Inter-segment	21	-	21	16	-	16
Total profit from financing operations before expenses with respect to credit loss	**24**	**-**	**24**	**17**	**-**	**17**
Operating and other income	5	9	14	2	10	12
Total profit	**29**	**9**	**38**	**19**	**10**	**29**
Expenses with respect to credit loss	(5)	-	(5)	-	-	-
Operating and other expenses						
From outside operating segments	17	5	22	17	5	22
Inter-segment	9	(4)	5	(2)	(2)	(4)
Total operating and other expenses	**26**	**1**	**27**	**15**	**3**	**18**
Pre-tax operating profit	8	8	16	4	7	11
Provision for taxes on operating profit	3	3	6	1	2	3
Net profit attributable to equity holders of the banking corporation	**5**	**5**	**10**	**3**	**5**	**8**
Return on capital (net profit as % of average capital)			**91.0%**			**71.0%**
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	11	-	11	3	-	3
Margin from receiving deposits	11	-	11	13	-	13
Other	2	-	2	1	-	1
Total	**24**	**-**	**24**	**17**	**-**	**17**

Results of the Small Business Segment

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	335	4	2	341	268	-	3	271
Inter-segment	9	(3)	-	6	(5)	-	-	(5)
Total profit from financing operations before expenses with respect to credit loss	**344**	**1**	**2**	**347**	**263**	**-**	**3**	**266**
Operating and other income	137	10	17	164	125	9	17	151
Total profit	**481**	**11**	**19**	**511**	**388**	**9**	**20**	**417**
Expenses with respect to credit loss	58	-	-	58	31	-	-	31
Operating and other expenses								
From outside operating segments	320	2	3	325	305	2	2	309
Inter-segment	(38)	-	-	(38)	(40)	-	-	(40)
Total operating and other expenses	**282**	**2**	**3**	**287**	**265**	**2**	**2**	**269**
Pre-tax operating profit	141	9	16	166	92	7	18	117
Provision for taxes on operating profit	50	3	6	59	34	3	7	44
Net profit attributable to equity holders of the banking corporation	**91**	**6**	**10**	**107**	**58**	**4**	**11**	**73**
Return on capital (net profit as % of average capital)				**38.4%**				**28.4%**
Average balance of assets	5,968	218	-	6,186	5,158	41	-	5,199
Average balance of liabilities	6,896	-	-	6,896	6,314	-	-	6,314
Average balance of risk assets	5,030	-	-	5,030	4,457	-	-	4,457
Average balance of securities	-	-	8,361	8,361	-	-	7,558	7,558
Loans to the public, net (end balance)	5,905	280	-	6,185	5,319	44	-	5,363
Deposits from the public (end balance)	7,221	-	-	7,221	6,259	-	-	6,259
Average balance of other assets managed	251	-	-	251	344	-	-	344
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	248	-	-	248	192	-	-	192
Margin from receiving deposits	64	-	-	64	41	-	-	41
Other	32	1	2	35	30	-	3	33
Total	**344**	**1**	**2**	**347**	**263**	**-**	**3**	**266**

The contribution of the small business segment to Group profit in the first nine months of 2011 amounted to NIS 107 million, compared to NIS 73 million in the corresponding period last year - an increase of 46.6%. The increase in segment contribution is primarily due to a 30.5% increase in profit from financing operations before expenses with respect to credit loss, primarily due to higher volumes and improved financial spread. The increase in segment contribution was also impacted by an increase of 8.6% in operating and other income.

On the other hand, expenses with respect to credit loss increased by NIS 27 million. Operating and other expenses increased by NIS 18 million - an increase of 6.7%.

Results of the Small Business Segment

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before provision for doubtful debts								
From outside operating segments	120	4	1	125	87	-	1	88
Inter-segment	8	(3)	-	5	6	-	-	6
Profit from financing operations before provision for doubtful debts	**128**	**1**	**1**	**130**	**93**	**-**	**1**	**94**
Operating and other income	43	3	7	53	40	3	7	50
Total profit	**171**	**4**	**8**	**183**	**133**	**3**	**8**	**144**
Provision for doubtful debts	21	-	-	21	14	-	-	14
Operating and other expenses								
From outside operating segments	103	-	1	104	103	1	-	104
Inter-segment	(14)	-	-	(14)	(15)	-	-	(15)
Total operating and other expenses	**89**	**-**	**1**	**90**	**88**	**1**	**-**	**89**
Pre-tax operating profit	61	4	7	72	31	2	8	41
Provision for taxes on operating profit	22	1	3	26	11	1	3	15
Net profit	**39**	**3**	**4**	**46**	**20**	**1**	**5**	**26**
Return on equity				**54.9%**				**32.9%**
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	92	-	-	92	69	-	-	69
Margin from receiving deposits	23	-	-	23	15	-	-	15
Other	13	1	1	15	9	-	1	10
Total	**128**	**1**	**1**	**130**	**93**	**-**	**1**	**94**

Results of the Commercial Banking Segment

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
	NIS in millions							
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	194	-	2	196	150	-	1	151
Inter-segment	(56)	-	-	(56)	(31)	-	-	(31)
Total profit from financing operations before expenses with respect to credit loss	**138**	**-**	**2**	**140**	**119**	**-**	**1**	**120**
Operating and other income	30	2	10	42	29	2	10	41
Total profit	**168**	**2**	**12**	**182**	**148**	**2**	**11**	**161**
Expenses with respect to credit loss	11	-	-	11	2	-	-	2
Operating and other expenses								
From outside operating segments	52	-	-	52	44	-	-	44
Inter-segment	53	-	-	53	59	-	-	59
Total operating and other expenses	**105**	**-**	**-**	**105**	**103**	**-**	**-**	**103**
Pre-tax operating profit	52	2	12	66	43	2	11	56
Provision for taxes on operating profit	18	1	4	23	16	1	4	21
Net profit attributable to equity holders of the banking corporation	**34**	**1**	**8**	**43**	**27**	**1**	**7**	**35**
Return on capital (net profit as % of average capital)				**14.5%**				**12.1%**
Average balance of assets	4,811	41	-	4,852	4,545	2	-	4,547
Average balance of liabilities	3,123	-	-	3,123	3,010	-	-	3,010
Average balance of risk assets	5,219	-	-	5,219	4,918	-	-	4,918
Average balance of securities	-	-	3,894	3,894	-	-	4,140	4,140
Loans to the public, net (end balance)	4,782	49	-	4,831	4,641	2	-	4,643
Deposits from the public (end balance)	3,060	-	-	3,060	2,764	-	-	2,764
Average balance of other assets managed	164	-	-	164	40	-	-	40
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	107	-	-	107	93	-	-	93
Margin from receiving deposits	16	-	-	16	11	-	-	11
Other	15	-	2	17	15	-	1	16
Total	**138**	**-**	**2**	**140**	**119**	**-**	**1**	**120**

The contribution of the commercial banking segment to Group profit in the first nine months of 2011 amounted to NIS 43 million, compared to NIS 35 million in the corresponding period last year - an increase of 22.9%. The increase is due to an increase of 16.7% in profit from financing operations, which amounted to NIS 140 million, compared to NIS 120 million in the corresponding period last year, and to stability of operating and other expenses, which increased only by 1.9%. compared to the year-ago period. Expenses with respect to credit loss increased by NIS 9 million, while operating and other income increased by 2.4%.

Results of the Commercial Banking Segment

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	63	-	1	64	56	-	-	56
Inter-segment	(12)	-	-	(12)	(14)	-	-	(14)
Total profit from financing operations before expenses with respect to credit loss	**51**	**-**	**1**	**52**	**42**	**-**	**-**	**42**
Operating and other income	10	-	3	13	10	1	3	14
Total profit	**61**	**-**	**4**	**65**	**52**	**1**	**3**	**56**
Expenses with respect to credit loss	(10)	-	-	(10)	3	-	-	3
Operating and other expenses								
From outside operating segments	18	-	(3)	15	9	-	-	9
Inter-segment	18	-	-	18	25	-	-	25
Total operating and other expenses	**36**	**-**	**(3)**	**33**	**34**	**-**	**-**	**34**
Pre-tax operating profit	35	-	7	42	15	1	3	19
Provision for taxes on operating profit	12	-	2	14	6	1	1	8
Net profit attributable to equity holders of the banking corporation	**23**	**-**	**5**	**28**	**9**	**-**	**2**	**11**
Return on capital (net profit as % of average capital)				**30.2%**				**11.4%**
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	39	-	-	39	30	-	-	30
Margin from receiving deposits	5	-	-	5	4	-	-	4
Other	7	-	1	8	8	-	-	8
Total	**51**	**-**	**1**	**52**	**42**	**-**	**-**	**42**

Results of the Business Banking Segment

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
	Banking and finance [(1)]	Capital market	Construction and real estate	Total	Banking and finance [(1)]	Capital market	Construction and real estate	Total
								NIS in millions
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	(34)	8	299	273	204	8	200	412
Inter-segment	326	-	(114)	212	86	-	(60)	26
Total profit from financing operations before expenses with respect to credit loss	**292**	**8**	**185**	**485**	**290**	**8**	**140**	**438**
Operating and other income	46	21	7	74	42	18	6	66
Total profit	**338**	**29**	**192**	**559**	**332**	**26**	**146**	**504**
Expenses with respect to credit loss	114	-	16	130	171	-	16	187
Operating and other expenses								
From outside operating segments	135	1	28	164	114	1	25	140
Inter-segment	52	-	10	62	56	-	10	66
Total operating and other expenses	**187**	**1**	**38**	**226**	**170**	**1**	**35**	**206**
Pre-tax operating profit	37	28	138	203	(9)	25	95	111
Provision for taxes on operating profit	13	10	49	72	(4)	9	35	40
Net profit (loss) attributable to equity holders of the banking corporation	**24**	**18**	**89**	**131**	**(5)**	**16**	**60**	**71**
Return on capital (net profit as % of average capital)				**6.9%**				**3.7%**
Average balance of assets	18,820	-	5,927	24,747	18,549	-	6,018	24,567
Average balance of liabilities	27,140	-	2,279	29,419	17,952	-	2,090	20,042
Average balance of risk assets	19,537	-	13,755	33,292	20,075	-	12,188	32,263
Average balance of securities	-	72,550	-	72,550	-	64,242	-	64,242
Loans to the public, net (end balance)	16,810	-	5,958	22,768	14,992	-	5,925	20,917
Deposits from the public (end balance)	31,129	-	2,273	33,402	21,425	-	2,117	23,542
Average balance of other assets managed	18	-	69	87	24	-	92	116
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	203	-	89	292	220	-	91	311
Margin from receiving deposits	42	-	13	55	27	-	7	34
Other	47	8	83	138	43	8	42	93
Total	**292**	**8**	**185**	**485**	**290**	**8**	**140**	**438**

(1) Includes operating results with respect to credit cards, whose amount is not material.

(2) Reclassified.

Contribution of the business banking segment to Group profit in the first nine months of 2011 amounted to NIS 131 million, compared to NIS 71 million in the corresponding period last year, an increase of 84.5%.

Contribution of construction and real estate increased by NIS 29 million over the corresponding period last year, primarily due to a NIS 45 million increase in profit from financing operations before expenses with respect to credit loss, offset by stable expenses.

Contribution of the business banking segment, excluding construction and real estate, to Group profit in the first nine months of 2011 amounted to NIS 42 million, compared to NIS 11 million in the corresponding period last year. The increase was primarily due to a NIS 57 million decrease in expenses with respect to credit loss, and an 11.7% increase in operating and other income. Profit from financing operations increased by NIS 2 million, while operating and other expenses increased by NIS 17 million.

Results of the Business Banking Segment

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
	Banking and finance [1]	Capital market	Construction and real estate	Total	Banking and finance [1]	Capital market	Construction and real estate	Total
								NIS in millions
Profit from financing operations before expenses with respect to credit loss:								
From outside operating segments	14	3	115	132	43	3	73	119
Inter-segment	112	-	(38)	74	49	-	(25)	24
Total profit from financing operations before expenses with respect to credit loss	**126**	**3**	**77**	**206**	**92**	**3**	**48**	**143**
Operating and other income	13	9	2	24	11	7	2	20
Total profit	**139**	**12**	**79**	**230**	**103**	**10**	**50**	**163**
Expenses with respect to credit loss	95	-	1	96	55	-	3	58
Operating and other expenses								
From outside operating segments	44	-	9	53	30	-	8	38
Inter-segment	17	-	4	21	24	-	4	28
Total operating and other expenses	**61**	**-**	**13**	**74**	**54**	**-**	**12**	**66**
Operating profit (loss) before taxes	(17)	12	65	60	(6)	10	35	39
Provision for taxes on operating profit (loss)	(6)	4	23	21	(4)	4	14	14
Net profit (loss) attributable to equity holders of the banking corporation	**(11)**	**8**	**42**	**39**	**(2)**	**6**	**21**	**25**
Return on capital (net profit as % of average capital)				**6.1%**				**3.9%**
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	86	-	43	129	58	-	32	90
Margin from receiving deposits	16	-	5	21	9	-	2	11
Other	24	3	29	56	25	3	14	42
Total	**126**	**3**	**77**	**206**	**92**	**3**	**48**	**143**

(1) Includes operating results with respect to credit cards, whose amount is not material.
(2) Reclassified.

Financial Management Segment results

	For the nine months ended September 30, 2011			For the nine months ended September 30, 2010		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before expenses with respect to credit loss:						
From outside operating segments	(1,385)	4	(1,381)	(759)	2	(757)
Inter-segment	1,527	-	1,527	968	-	968
Total profit from financing operations before expenses with respect to credit loss	**142**	**4**	**146**	**209**	**2**	**211**
Operating and other income	70	36	106	75	40	115
Total profit	**212**	**40**	**252**	**284**	**42**	**326**
Expenses with respect to credit loss	18	-	18	-	-	-
Operating and other expenses						
From outside operating segments	162	8	170	165	6	171
Inter-segment	10	-	10	9	-	9
Total operating and other expenses	**172**	**8**	**180**	**174**	**6**	**180**
Operating profit (loss) before taxes	22	32	54	110	36	146
Provision for taxes on operating profit (loss)	8	12	20	41	13	54
After-tax operating profit (loss)	**14**	**20**	**34**	**69**	**23**	**92**
Share in net after-tax operating profit of affiliates	1	-	1	(1)	-	(1)
Net operating profit (loss):				-	-	-
Before attribution to non-controlling interest	15	20	35	68	23	91
Attributable to non-controlling interest	-	-	-	2	-	2
Attributable to equity holders of the banking corporation	**15**	**20**	**35**	**70**	**23**	**93**
After-tax operating profit (loss), before attribution to non-controlling interest	(2)	-	(2)	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	13	20	33	68	23	91
Attributable to non-controlling interest	-	-	-	2	-	2
Attributable to equity holders of the banking corporation	**13**	**20**	**33**	**70**	**23**	**93**
Return on capital (net profit as % of average capital)			**13.5%**			**(2) 30.9%**
Average balance of assets	25,282	-	25,282	17,768	-	17,768
Includes: Investments in affiliates	17	-	17	13	-	13
Average balance of liabilities	36,351	-	36,351	31,495	-	31,495
Average balance of risk assets	4,829	-	4,829	4,144	-	4,144
Average balance of provident and mutual fund assets	78,981	-	78,981	75,374	-	75,374
Average balance of securities	-	39,506	39,506	-	33,893	33,893
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	14,182	-	14,182	17,195	-	17,195
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	142	4	146	209	2	211
Total	**142**	**4**	**146**	**209**	**2**	**211**

(1) Reclassified.

(2) Retroactively adjusted for retroactive application of the Supervisor of Banks' directives with regard to employee rights. See Note 1E.4 to the financial statements for details.

Contribution of the financial management segment to Group profit in the first nine months of 2011 amounted to NIS 33 million, compared to NIS 93 million in the corresponding period last year - a decrease of 65.0%. The decrease is primarily due to a 30.8% decrease in profit from financing operations before expenses with respect to credit loss, mostly due to the effect of accounting treatment of derivatives measured at fair value and others, and to impairment of investments. The decrease in segment contribution was also impacted by a NIS 18 million increase in expense s with respect to credit loss, and by a 7.8% decrease in operating and other income. Operating and other expenses remained unchanged.

Financial Management Segment results

	For the three months ended September 30, 2011			For the three months ended September 30, 2010		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before expenses with respect to credit loss:						
From outside operating segments	(582)	1	(581)	(378)	-	(378)
Inter-segment	608	-	608	455	-	455
Total profit from financing operations before expenses with respect to credit loss	**26**	**1**	**27**	**77**	**-**	**77**
Operating and other income	25	11	36	24	15	39
Total profit	**51**	**12**	**63**	**101**	**15**	**116**
Expenses with respect to credit loss	11	-	11	-	-	-
Operating and other expenses						
From outside operating segments	53	3	56	(2) 57	2	59
Inter-segment	3	-	3	2	-	2
Total operating and other expenses	**56**	**3**	**59**	**59**	**2**	**61**
Operating profit (loss) before taxes	(16)	9	(7)	42	13	55
Provision for taxes on operating profit (loss)	(4)	4	-	17	4	21
After-tax operating profit (loss)	**(12)**	**5**	**(7)**	**25**	**9**	**34**
Share in net after-tax operating losses of affiliates	-	-	-	(1)	-	(1)
Net operating profit (loss):						
Before attribution to non-controlling interest	(12)	5	(7)	24	9	33
Attributable to non-controlling interest	-	-	-	2	-	2
Attributable to equity holders of the banking corporation	**(12)**	**5**	**(7)**	**26**	**9**	**35**
After-tax operating profit (loss), before attribution to non-controlling interest	-	-	-	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	(12)	5	(7)	24	9	33
Attributable to non-controlling interest	-	-	-	2	-	2
Attributable to equity holders of the banking corporation	**(12)**	**5**	**(7)**	**26**	**9**	**35**
Return on capital (net profit as % of average capital)			**-**			(2) **44.4%**
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	26	1	27	77	-	77
Total	**26**	**1**	**27**	**77**	**-**	**77**

(1) Reclassified.

(2) Retroactively adjusted for retroactive application of the Supervisor of Banks' directives with regard to employee rights. See Note 1E.4 to the financial statements for details.

Product operations

The following is composition of contribution of credit card operations by major operating segments in the Bank Group (NIS in millions):

	For the nine months ended September 30, 2011			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before expenses with respect to credit loss	5	1	-	6
Operating and other income	101	10	2	113
Total income	**106**	**11**	**2**	**119**
Operating and other expenses	18	2	-	20
Pre-tax operating profit	**88**	**9**	**2**	**99**
Provision for taxes on operating profit	32	3	1	36
Net profit	**56**	**6**	**1**	**63**

	For the nine months ended September 30, 2010			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before expenses with respect to credit loss	5	-	-	5
Operating and other income	87	9	2	98
Total income	**92**	**9**	**2**	**103**
Operating and other expenses	18	2	-	20
Pre-tax operating profit	**74**	**7**	**2**	**83**
Provision for taxes on operating profit	28	3	1	32
Net profit	**46**	**4**	**1**	**51**

The following is composition of contribution of capital market operations by major operating segments in the Bank Group (NIS in millions):

	For the nine months ended September 30, 2011						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolida-ted
Profit from financing operations before expenses with respect to credit loss	9	-	2	2	8	4	25
Operating and other income	161	24	17	10	21	36	269
Total income	**170**	**24**	**19**	**12**	**29**	**40**	**294**
Operating and other expenses	48	1	3	-	1	8	61
Pre-tax operating profit	**122**	**23**	**16**	**12**	**28**	**32**	**233**
Provision for taxes on operating profit	43	8	6	4	10	12	83
Net profit	**79**	**15**	**10**	**8**	**18**	**20**	**150**

	For the nine months ended September 30, 2010						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial manage-ment	Total consolida-ted
Profit from financing operations before expenses with respect to credit loss	8	-	3	1	8	2	22
Operating and other income	168	26	17	10	18	40	279
Total income	**176**	**26**	**20**	**11**	**26**	**42**	**301**
Operating and other expenses	45	6	2	-	1	6	60
Pre-tax operating profit	**131**	**20**	**18**	**11**	**25**	**36**	**241**
Provision for taxes on operating profit	48	7	7	4	9	13	88
Net profit	**83**	**13**	**11**	**7**	**16**	**23**	**153**

International operations

The international operations segment of the Bank Group includes business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking, providing financial services to Israeli clients who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as described below. All international operations, in Israel and overseas, report to the Private Banking and International Operations sector in the Bank's Financial Division. In addition, control of affiliate operations is conducted by the Risk Control Department in the Risk Control Division.
Details of the affiliates and their business are as follows:

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

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

- Los Angeles Branch: The branch is primarily engaged in commercial banking, syndicated loans and receiving deposits. Deposits with this branch are insured by the Federal Deposit Insurance Corporation(FDIC). The branch's clients are local, Israeli and international clients.

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

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

International private banking branches in Israel: The Bank operates three special branches, located in Jerusalem, Tel Aviv and Ashdod, serving foreign resident clients. These branches provide full banking services to their clients, primarily private banking. The branches are under Israeli supervision and report to the Private Banking and International Operations sector.

Mortgage center for foreign residents: The Bank operates a center in Jerusalem, specializing in marketing, approval and operation of foreign-currency mortgages for foreign residents.

Representative offices: The major activities of representative offices are marketing of Bank services and its representation overseas. The Bank operates representative offices in Mexico, Uruguay, Panama and Germany.

For details of local supervision of Bank affiliates overseas, see the chapter on the international operations segment in the Board of Directors' Report included with the financial statements as of December 31, 2010.

Below are details of the contribution of international operations to the various operating segments of the Bank Group (NIS in millions):

	For the nine months ended September 30, 2011				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before expenses with respect to credit loss	2	48	19	40	109
Operating and other income	-	31	4	2	37
Total income	**2**	**79**	**23**	**42**	**146**
Expenses with respect to credit loss	-	(7)	2	-	(5)
Operating and other expenses	2	43	31	4	80
Pre-tax operating profit	**-**	**43**	**(10)**	**38**	**71**
Provision for taxes on operating profit	-	15	(4)	14	25
Net profit	**-**	**28**	**(6)**	**24**	**46**

	For the nine months ended September 30, 2010				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before expenses with respect to credit loss	(1) 9	35	(1) 25	(1) 52	121
Operating and other income	1	31	4	7	43
Total income	**10**	**66**	**29**	**59**	**164**
Expenses with respect to credit loss	-	-	4	-	4
Operating and other expenses	7	41	30	5	83
Pre-tax operating profit	**3**	**25**	**(5)**	**54**	**77**
Provision for taxes on operating profit	1	9	(2)	20	28
Net profit	**2**	**16**	**(3)**	**34**	**49**

(1) Reclassified.

Off balance sheet activity

Provident funds – the Group provides operating services to provident funds. The value of assets in funds to which the Group provides operating services, amounted as of September 30, 2011 to NIS 57.3 billion, compared to NIS 59.9 billion as of December 31, 2010.

Client activity in securities – The value of the securities portfolios in the custody of the Bank, held by clients, reached NIS 151.5 billion as of September 30, 2011, compared with NIS 171.3 billion at the end of 2010(1). **Income from securities activity** for the Group amounted to NIS 197 million in the first nine months of 2011, compared with NIS 211 million in the corresponding period last year - a decrease of 6.6%.

Activity by extent of collection – the Group has credit and deposits from deposits whose repayment to the depositor is contingent on collection of credit (or deposits) for which the Bank receives margin- or collection-fee based revenue. The balance of credit from deposits based on extent of collection as of September 30, 2011 amounted to NIS 14.3 billion, compared to NIS 15.3 billion at end of 2010. These amounts exclude standing loans and government deposits extended for them.

Sources and financing

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

Total deposits from the public for the Group as of September 30, 2011 amounted to NIS 116.5 billion, compared to NIS 106.0 billion at the end of 2010. Deposits from the public in the CPI-linked segment increased in the first nine months of 2011 by 1.6%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 12.9%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 11.9%. For details, see the chapter on development of balance sheet items above.

(1) Data includes securities managed on behalf of mutual funds, which were not previously included in this item.

Obligatory notes

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

As of the balance sheet date, all obligatory notes (Series 25-34), including subordinated notes, issued to the public by Bank Mizrahi-Tefahot, amounted to NIS 6,980 million in total par value (as of December 31, 2010 - NIS 4,487 million), of which NIS 2,131 million in subordinated notes, similar to December 31, 2010

On February 15, 2011, Tefahot Issuance issued debentures (Series 29 and Series 32), with total par value of NIS 455 million, for consideration of NIS 505 million, pursuant to a shelf prospectus dated February 25, 2009.

On February 25, 2011, Tefahot Issuance issued a shelf prospectus for issuance of up to 10 series of subordinated notes, 10 series of debentures, extension of subordinate notes (Series 31), extension of debentures (Series 29 and Series 32) as well as issuance of two series of commercial paper.

On April 13, 2011, Tefahot Issuance issued NIS 903 million par value debentures (Series 33, CPI-linked and Series 34, NIS-denominated non-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 903 million.

On July 10, 2011, Tefahot Issuance issued NIS 1,135 million par value debentures (Series 33, CPI-linked and Series 34, non-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 1,155 million.

The proceeds from all of these issuances were deposited at the Bank under terms similar to those of issuances.

Complex capital instruments

All of the Bank's complex capital instruments (Series A) (considered upper Tier 2 capital for maintaining minimum capital ratio) as of September 30, 2011, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of September 30, 2011 was NIS 1.9 billion, compared to NIS 1.8 billion as of December 31, 2010.

Rating of Bank obligations

In accordance with a rating provided by Maalot Standard & Poor's (hereinafter: "Maalot"), the rating of Bank obligations, including deposits deposited with the Bank, is AA+, unchanged since the Bank was first rated in 2003.

The rating of subordinated notes issued by Tefahot Issuance is one rank below the issuer rating, i.e. rated AA.

The complex capital instruments, which constitute upper Tier II capital, are rated A+.

On November 15, 2010, Maalot confirmed the aforementioned rating of capital instruments issued by the Bank.

On April 18, 2011, Moody's rating agency announced it was lowering the rating of Bank deposits by one step, from A1 to A2, in conjunction with lowering ratings for the five major banks in Israel. Further, the rating outlook was updated to "On review for possible downgrade".

Risk Management

Basel II: Pillar 3 - Market Discipline

Below is qualitative information and quantitative data related to all risk factors to which the Bank is exposed, which are managed in line with the policy set by the Board of Directors. The information has been compiled in accordance with disclosure requirements of Basel II recommendations, Pillar 3, as applied to banks by Public Reporting Directives, and in accordance with the directive on qualitative reporting with regard to exposure to and management of market risk.
As of the balance sheet date, there were no material changes in risk management at the Group and in qualitative information, as included in the Board of Directors' report as of December 31, 2010, other than as described below.

Below are references to information required pursuant to reporting directives of the Bank of Israel, included below and elsewhere in these financial statements:

Subject	Disclosure	Chapter in Board of Directors' Report / Note to financial statements
Application scope	Group entities, consolidation basis, limits on supervisory capital	Risk Management chapter
Capital structure	Details of capital components	Note 4 – Capital Adequacy
Capital adequacy	Quantitative disclosure	Risk Management chapter
	Capital adequacy ratios for the Group	Note 4 – Capital Adequacy
Credit risk	Quantitative disclosure	Risk Management chapter
	Credit risk exposure by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit risk exposure by contractual term to maturity	Risk Management chapter
	Credit risk exposure by major geographic regions	Management Discussion, Addendum D - Exposure to Foreign Countries
	Information about troubled debt	Note 3 – Provision for doubtful debts
	Provision for credit loss by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
	Credit loss with respect to housing loans	Risk Management chapter
Credit risk mitigation	Quantitative disclosure	Risk Management chapter
Counter-party credit risk	Quantitative disclosure	Risk Management chapter
Securitization	Quantitative disclosure	Risk Management chapter
Market risk, liquidity risk, interest risk in Bank portfolio	Quantitative disclosure	Risk Management chapter
Operating risk	Qualitative disclosure	Risk Management chapter
Equity positions in Bank portfolio	Quantitative disclosure	Risk Management chapter
Legal risk	Qualitative disclosure	Risk Management chapter
Risk factors	Qualitative and quantitative disclosure	Risk Management chapter

Application scope

Provisions of Proper Conduct of Banking Business Regulations nos. 201-211 "Measurement and Capital Adequacy" apply to the Bank Group and in particular to the Bank - Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. For details of Bank Group companies to which these regulations apply, see Note 6 to the financial statements as of December 31, 2010. To the best knowledge of Bank management, and relying on legal counsel, there are no prohibitions or significant restrictions on transfer of funds or supervisory capital between Bank Group companies.

Capital adequacy

The Bank assesses its capital adequacy in accordance with Basel II rules, as stipulated by Proper Conduct of Banking Business Directive Nos. 201-211. Key rules and approaches applied by the Bank are described below, under Description of Basle II Guidelines in the chapter on Legislation and Supervision of Bank Group Operations. The Bank applies the standard approach to assess exposure to credit risk, the basic indicator approach to assess exposure to operating risk, and the standard approach to assess exposure to market risk. The Supervisor of Banks has stipulated that within 3 years from the start date of applying the basic indicator approach to assessment of exposure to operating risk, banks must transition to using the standard approach. The Bank regularly monitors its capital adequacy ratio, in order to ensure compliance with requirements of the Supervisor of Banks and with limitations set by the Board of Directors, as well as to prepare in advance to respond to evolution of risk assets and capital requirements at the Bank. For this purpose, the Board of Directors has created an internal procedure which specifies the measurement frequency of capital adequacy, the required reporting and actions to be taken if the capital ratio drops below the minimum levels specified; a capital monitoring forum has been created, attended by the Manager, Finance Division - CFO (chair), Manager, Risk Control Division - CRO, Manager, Planning, Operations and Control Division and the Manager, Accounting and Financial Reporting Division - the Chief Accountant.

On February 14, 2011, the Supervisor of Banks issued a circular, whereby the requirements sprcified in Proper Conduct of Banking Business Directive No. 311 (Basel II) are discontinued as from January 1, 2011.

On October 25, 2010, the Bank's Board of Directors resolved to set the target for core capital ratio (i.e. original Tier I capital adequacy ratio) at no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

Composition of risk assets and capital requirements with respect to credit risk by exposure group are as follows:

Exposure group	As of September 30, 2011 Weighted risk asset balances	As of September 30, 2011 Capital requirement (1)	As of September 30, 2010 Weighted risk asset balances	As of September 30, 2010 Capital requirement (1)	As of December 31, 2010 Weighted risk asset balances	As of December 31, 2010 Capital requirement (1)
Sovereign debt	544	49	624	56	539	49
Public sector entity debt	390	35	399	36	444	40
Banking corporation debt	1,689	152	1,713	154	1,479	133
Corporate debt	38,023	3,422	35,039	3,154	35,832	3,225
Debt secured by commercial real estate	1,640	147	2,083	188	1,920	173
Retail exposure to individuals	10,850	976	10,723	965	10,884	980
Loans to small businesses	2,150	194	1,920	173	2,097	189
Residential mortgages	31,742	2,857	26,794	2,411	27,813	2,503
Securitization	85	8	10	1	27	2
Other assets	2,632	237	(2) 2,261	203	(2) 2,271	204
Total	**89,745**	**8,077**	**81,566**	**7,341**	**83,306**	**7,498**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel II, Pillar 3.
(2) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Risk assets and capital requirements with respect to market risk and operating risk are as follows:

Exposure group	As of September 30, 2011 Weighted risk asset balances	As of September 30, 2011 Capital requirement (1)	As of September 30, 2010 Weighted risk asset balances	As of September 30, 2010 Capital requirement (1)	As of December 31, 2010 Weighted risk asset balances	As of December 31, 2010 Capital requirement (1)
Market risk	813	73	971	87	579	52
Operating Risk (2)	7,775	700	7,268	654	7,407	667
Total	**8,588**	**773**	**8,239**	**741**	**7,986**	**719**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel II, Pillar 3.
(2) Calculated based on the basic indicator approach.

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

	Ratio of capital to risk elements		
	As of September 30, 2011	As of September 30, 2010	As of December 31, 2010
Ratio of Tier I capital to risk elements	7.70%	(1) 7.84%	(1) 7.91%
Ratio of total capital to risk elements	13.55%	(1) 13.88%	(1) 13.96%
Total minimum capital ratio required by the Supervisor of Banks	9.00%	9.00%	9.00%

(1) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Risk exposure and assessment

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

Risk management at the Group is conducted regularly in accordance with Proper Conduct of Banking Business Regulation Nos. 339 and 342 of the Bank of Israel, and in accordance with the framework specified in Basel II, Pillar 2. To this end, the Group appointed Risk Managers and a CRO, who is included with executive management, responsible for operations of the Risk Control Division. Bank management regards the Bank's risk control and management system as one of its core competencies, so that it is Bank policy to constantly strive to improve the risk control and management system,

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

As part of this approach, the Bank manages risk using a system that enables management and control under a single platform of the market risk and interest risk of the Bank, and in the future, also the various credit risk components, including implementation of Basel II regulations for calculating regulatory capital.

Credit risk

Credit risk is the risk of the Bank incurring a loss due to the counter party to a transaction potentially failing to meet its commitments. This risk may arise from multiple factors which may impact the entire loan portfolio, a specific sector or an individual client. These risk factors include, inter alia, macro-economic changes, business risk arising from client operations, credit concentration risk etc.

Below is composition of credit exposure by exposure group and balance sheet items [(1)]:

											As of September 30, 2011
	Sovereign debt	Public sector entity debt	Banking corporation debt	Corporate debt	Debt secured by commercial real estate	Retail exposure to individuals	Loans to small busi-nesses	Residential mortgages	Securi-tization	Other assets	Sovereign debt
Loans [(2)]	13,688	300	2,658	28,877	1,739	13,691	3,478	69,012	-	-	133,444
Securities [(3)]	4,321	4	586	388	-	-	-	-	24	-	5,323
Derivatives [(4)]	-	275	2,144	2,092	-	36	7	-	-	-	4,554
Other off-balance-sheet exposures	11	841	165	33,203	279	10,069	1,458	3,439	-	-	49,464
Other assets [(5)]	-	-	-	-	-	-	-	-	-	3,549	3,549
Total	**18,020**	**1,421**	**5,555**	**64,559**	**2,018**	**23,795**	**4,943**	**72,451**	**24**	**3,549**	**196,334**

											As of September 30, 2010
	Sovereign debt	Public sector entity debt	Banking corporation debt	Corporate debt	Debt secured by commercial real estate	Retail exposure to individuals	Loans to small busi-nesses	Residential mortgages	Securi-tization	Other assets	Sovereign debt
Loans [(2)]	7,129	315	1,880	26,344	2,105	13,148	3,224	58,466	-	-	112,611
Securities [(3)]	7,119	23	466	421	-	-	-	-	3	-	8,031
Derivatives [(4)]	2	303	2,740	1,427	-	55	7	-	-	-	4,535
Other off-balance-sheet exposures	46	683	112	31,024	265	9,334	1,317	4,251	-	-	47,033
Other assets [(5)]	-	-	-	-	-	-	-	-	-	3,314	3,314
Total	**14,296**	**1,324**	**5,197**	**59,216**	**2,370**	**22,537**	**4,549**	**62,718**	**3**	**3,314**	**175,525**

											As of December 31, 2010
	Sovereign debt	Public sector entity debt	Banking corporation debt	Corporate debt	Debt secured by commercial real estate	Retail exposure to individuals	Loans to small busi-nesses	Residential mortgages	Securi-tization	Other assets	Sovereign debt
Loans [(2)]	10,639	362	1,516	27,112	1,919	13,474	3,330	60,957	-	-	119,309
Securities [(3)]	6,154	24	492	348	-	-	-	-	8	-	7,026
Derivatives [(4)]	3	347	2,206	1,377	-	39	6	-	-	-	3,978
Other off-balance-sheet exposures	16	653	159	32,823	219	9,469	1,404	4,686	-	-	49,429
Other assets [(5)]	-	-	-	-	-	-	-	-	-	3,163	3,163
Total	**16,812**	**1,386**	**4,373**	**61,661**	**2,138**	**22,982**	**4,740**	**65,643**	**8**	**3,163**	**182,905**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.
(2) Includes credit to the public, credit to the Government, deposits with banks and borrowed securities, and excluding general provision for doubtful debts, which is part of the equity base.
(3) Excludes balances deducted from the equity base and investment in securities in the negotiable portfolio.
(4) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(5) Excludes derivatives and balances deducted from the equity base, including cash, investment in shares, fixed assets and investment in investees.

Composition of credit exposure by contractual term to maturity by major gross credit exposure type [1], is as follows:

					As of September 30, 2011
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [2]	42,577	21,575	69,211	81	133,444
Securities [3]	1,162	3,435	726	-	5,323
Derivatives [4]	2,176	985	1,393	-	4,554
Other off-balance-sheet exposures	38,490	9,954	1,020	-	49,464
Other assets [5]	1,259	639	46	1,605	3,549
Total	**85,664**	**36,588**	**72,396**	**1,686**	**196,334**

					As of September 30, 2010
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [2]	32,488	19,548	60,511	64	112,611
Securities [3]	3,225	3,820	986	-	8,031
Derivatives [4]	2,257	790	1,488	-	4,535
Other off-balance-sheet exposures	38,743	8,097	194	-	47,034
Other assets [5]	1,377	[6] 382	51	1,504	3,314
Total	**78,090**	**32,637**	**63,230**	**1,568**	**175,525**

					As of December 31, 2010
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [2]	35,915	21,197	62,131	66	119,309
Securities [3]	2,412	3,869	745	-	7,026
Derivatives [4]	2,448	826	704	-	3,978
Other off-balance-sheet exposures	38,939	9,785	705	-	49,429
Other assets [5]	1,175	[6] 383	44	1,561	3,163
Total	**80,889**	**36,060**	**64,329**	**1,627**	**182,905**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.
(2) Includes credit to the public, credit to the Government, deposits with banks and borrowed securities, and excluding general provision for doubtful debts, which is part of the equity base.
(3) Excludes balances deducted from the equity base and investment in securities in the negotiable portfolio.
(4) Includes face value of derivatives (including credit derivatives), after effect of add-on factors and positive fair value of derivatives.
(5) Excludes derivatives and balances deducted from the equity base, including cash, investment in shares, fixed assets and investment in investees.
(6) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Credit risk - standard approach

Below is composition of credit exposure amounts [(1)] by exposure group and weighting, before and after credit risk mitigation[(2)]:

Before credit risk mitigation

											As of September 30, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,327	2,682	-	-	-	11	-	-	18,020	-	18,020
Public sector entity debt	-	-	-	1,417	-	-	-	-	1,417	-	1,417
Banking corporation debt	-	3,914	-	1,167	-	81	-	-	5,162	1	5,163
Corporate debt	-	92	-	284	-	266	-	-	642	-	642
Securitization	-	-	-	-	-	-	-	24	24	39	63
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,327**	**6,688**	**-**	**2,868**	**-**	**358**	**-**	**24**	**25,265**	**77**	**25,342**
Non-rated exposures:											
Public sector entity debt	-	-	-	4	-	-	-	-	4	-	4
Banking corporation debt	-	6	-	386	-	-	-	-	392	-	392
Corporate debt	-	-	-	-	-	63,583	314	-	63,897	-	63,897
Debt secured by commercial real estate	-	-	-	-	-	2,018	-	-	2,018	-	2,018
Retail exposure to individuals	-	-	-	-	23,605	41	149	-	23,795	-	23,795
Loans to small businesses	-	-	-	-	4,906	12	25	-	4,943	-	4,943
Residential mortgages	-	-	56,241	-	12,237	3,794	179	-	72,451	-	72,451
Other assets	949	-	-	-	-	2,568	52	-	3,569	87	3,656
Total	**949**	**6**	**56,241**	**390**	**40,748**	**72,016**	**719**	**-**	**171,069**	**87**	**171,156**
Total	**16,276**	**6,694**	**56,241**	**3,258**	**40,748**	**72,374**	**719**	**24**	**196,334**	**164**	**196,498**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit conversion factors and risk weighting factors, as defined under Basel II rules.
(2) Mitigation using guarantees, credit derivatives and other qualified collateral.

After credit risk mitigation

	As of September 30, 2011										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,340	2,693	-	-	-	11	-	-	18,044	-	18,044
Public sector entity debt	17	-	-	1,412	-	-	-	-	1,429	-	1,429
Banking corporation debt	-	3,935	-	1,333	-	81	-	-	5,349	1	5,350
Corporate debt	-	92	-	284	-	62	-	-	438	-	438
Securitization	-	-	-	-	-	-	-	24	24	39	63
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,357**	**6,720**	**-**	**3,029**	**-**	**154**	**-**	**24**	**25,284**	**77**	**25,361**
Non-rated exposures:											
Public sector entity debt	-	-	-	5	-	-	-	-	5	-	5
Banking corporation debt	-	6	-	394	-	-	-	-	400	-	400
Corporate debt	-	-	-	-	-	54,343	308	-	54,651	-	54,651
Debt secured by commercial real estate	-	-	-	-	-	1,727	-	-	1,727	-	1,727
Retail exposure to individuals	-	-	-	-	22,007	12	146	-	22,165	-	22,165
Loans to small businesses	-	-	-	-	3,627	8	22	-	3,657	-	3,657
Residential mortgages	-	-	56,240	-	12,194	3,793	179	-	72,406	-	72,406
Other assets	949	-	-	-	-	2,568	52	-	3,569	87	3,656
Total	**949**	**6**	**56,240**	**399**	**37,828**	**62,451**	**707**	**-**	**158,580**	**87**	**158,667**
Total exposure	**16,306**	**6,726**	**56,240**	**3,428**	**37,828**	**62,605**	**707**	**24**	**183,864**	**164**	**184,028**

Before credit risk mitigation

	As of September 30, 2010										
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	11,262	2,990	-	-	-	44	-	-	14,296	-	14,296
Banking corporation debt	-	3,416	-	161	-	145	-	-	3,722	1	3,723
Corporate debt	-	90	-	154	-	1	[1] -	-	245	-	245
Securitization	-	-	-	-	-	-	-	3	3	57	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**11,262**	**6,496**	**-**	**315**	**-**	**190**	**-**	**3**	**18,266**	**95**	**18,361**
Non-rated exposures:											
Public sector entity debt	-	-	-	1,321	-	3	-	-	1,324	-	1,324
Banking corporation debt	-	64	-	1,410	-	-	-	-	1,474	-	1,474
Corporate debt	-	-	-	-	-	58,779	[1]173	-	58,952	-	58,952
Debt secured by commercial real estate	-	-	-	-	-	2,370	-	-	2,370	-	2,370
Retail exposure to individuals	-	-	-	-	21,972	159	406	-	22,537	-	22,537
Loans to small businesses	-	-	-	-	4,437	19	93	-	4,549	-	4,549
Residential mortgages	-	-	47,999	-	13,547	970	202	-	62,718	-	62,718
Other assets	1,088	-	-	-	-	[2]2,189	58	-	3,335	91	3,426
Total	**1,088**	**64**	**47,999**	**2,731**	**39,956**	**64,489**	**932**	**-**	**157,259**	**91**	**157,350**
Total	**12,350**	**6,560**	**47,999**	**3,046**	**39,956**	**64,679**	**932**	**3**	**175,525**	**186**	**175,711**

(1) Reclassified.

(2) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

After credit risk mitigation

	As of September 30, 2010										
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	11,262	3,011	-	-	-	44	-	-	14,317	-	14,317
Public sector entity debt	63	-	-	-	-	-	-	-	63	-	63
Banking corporation debt	-	3,415	-	161	-	141	-	-	3,717	1	3,718
Corporate debt	-	90	-	155	-	1	(1)-	-	246	-	246
Securitization	-	-	-	-	-	-	-	3	3	57	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**11,325**	**6,516**	**-**	**316**	**-**	**186**	**-**	**3**	**18,346**	**95**	**18,441**
Non-rated exposures:											
Public sector entity debt	-	-	-	1,317	-	3	-	-	1,320	-	1,320
Banking corporation debt	-	64	-	1,644	-	-	-	-	1,708	-	1,708
Corporate debt	-	-	-	-	-	50,777	(1)156	-	50,933	-	50,933
Debt secured by commercial real estate	-	-	-	-	-	2,172	-	-	2,172	-	2,172
Retail exposure to individuals	-	-	-	-	20,534	120	389	-	21,043	-	21,043
Loans to small businesses	-	-	-	-	3,160	13	68	-	3,241	-	3,241
Residential mortgages	-	-	47,993	-	13,508	967	201	-	62,669	-	62,669
Other assets	1,088	-	-	-	-	(2) 2,189	58	-	3,335	91	3,426
Total	**1,088**	**64**	**47,993**	**2,961**	**37,202**	**56,241**	**872**	**-**	**146,421**	**91**	**146,512**
Total exposure	**12,413**	**6,580**	**47,993**	**3,277**	**37,202**	**56,427**	**872**	**3**	**164,767**	**186**	**164,953**

(1) Reclassified.

(2) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Before credit risk mitigation

									As of December 31, 2010		
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	14,158	2,640	-	-	-	14	-	-	16,812	-	16,812
Public sector entity debt	-	-	-	1,362	-	-	-	-	1,362	-	1,362
Banking corporation debt	23	2,601	-	383	-	149	-	-	3,156	1	3,157
Corporate debt	-	68	-	165	-	533	(1) -	-	766	-	766
Securitization	-	-	-	-	-	-	-	8	8	52	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**14,181**	**5,309**	**-**	**1,910**	**-**	**696**	**-**	**8**	**22,104**	**90**	**22,194**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	176	-	1,041	-	-	-	-	1,217	-	1,217
Corporate debt	-	-	-	-	-	60,624	(1) 249	-	60,873	-	60,873
Debt secured by commercial real estate	-	-	-	-	-	2,138	-	-	2,138	-	2,138
Retail exposure to individuals	-	-	-	-	22,458	138	386	-	22,982	-	22,982
Loans to small businesses	-	-	-	-	4,644	20	76	-	4,740	-	4,740
Residential mortgages	-	-	50,832	-	13,288	1,348	175	-	65,643	-	65,643
Other assets	923	-	-	-	-	(2)2,210	51	-	3,184	87	3,271
Total	**923**	**176**	**50,832**	**1,065**	**40,390**	**66,478**	**937**	**-**	**160,801**	**87**	**160,888**
Total	**15,104**	**5,485**	**50,832**	**2,975**	**40,390**	**67,174**	**937**	**8**	**182,905**	**177**	**183,082**

(1) Reclassified.

(2) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

After credit risk mitigation

											As of December 31, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	14,158	2,660	-	-	-	14	-	-	16,832	-	16,832
Public sector entity debt	87	-	-	1,355	-	-	-	-	1,442	-	1,442
Banking corporation debt	23	2,600	-	660	-	143	-	-	3,426	1	3,427
Corporate debt	-	68	-	165	-	1	(1) -	-	234	-	234
Securitization	-	-	-	-	-	-	-	8	8	52	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**14,268**	**5,328**	**-**	**2,180**	**-**	**158**	**-**	**8**	**21,942**	**90**	**22,032**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	177	-	1,048	-	-	-	-	1,225	-	1,225
Corporate debt	-	-	-	-	-	51,598	(1) 212	-	51,810	-	51,810
Debt secured by commercial real estate	-	-	-	-	-	1,962	-	-	1,962	-	1,962
Retail exposure to individuals	-	-	-	-	20,977	110	375	-	21,462	-	21,462
Loans to small businesses	-	-	-	-	3,451	16	62	-	3,529	-	3,529
Residential mortgages	-	-	50,828	-	13,249	1,344	174	-	65,595	-	65,595
Other assets	923	-	-	-	-	(2) 2,210	51	-	3,184	87	3,271
Total	**923**	**177**	**50,828**	**1,072**	**37,677**	**57,240**	**874**	**-**	**148,791**	**87**	**148,878**
Total exposure	**15,191**	**5,505**	**50,828**	**3,252**	**37,677**	**57,398**	**874**	**8**	**170,733**	**177**	**170,910**

(1) Reclassified.

(2) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Significant exposure to groups of borrowers

The following is a summary of Bank credit as of September 30, 2011 with respect to significant[1] exposure to groups of borrowers (NIS in millions):

		Off-balance sheet credit risk				
	Net on balance sheet credit risk	With respect to derivatives	Other	Deductions	Total credit risk	Capital allocation
Group 1	1,873	693	1,329	123	3,772	204
Group 2	2,319	392	1,049	1,584	2,176	135
Total	4,192	1,085	2,378	1,707	5,948	339

(1) Total credit risk in excess of 15% of the supervisory capital balance.

Bank business with major borrower groups is conducted subject to several guidelines designed to mitigate risk associated with such business:

- Business with borrower groups is primarily done with established, leading public companies.
- Credit is mostly provided for the short- and medium term, to be used in current operations of these companies.
- Credit is diversified among Group companies operating in different segments and economic sectors.
- Credit is provided, to the extent possible, to companies which are not mutually dependent or which are subject to mutual covenants or guarantees.

The Bank takes the following steps in order to manage exposure to groups of borrowers:

- Sets financial covenants as needed.
- Provides credit against collateral, to the extent possible, and closely monitor exposure not secured by collateral.
- Closely monitors company operations and financial results.
- Closely monitors compliance of borrower group companies with financial covenants, if and when specified.

Leveraged financing

The Bank conducts, in some cases, leveraged financing transactions, in which a client is extended credit for purchasing a controlling stake, characterized by a high LTV ratio compared to the value of shares, and relying exclusively on the shares being acquired as the source for credit repayment. The Bank reviews these transactions with due diligence, based *inter alia* on internal valuations as well as on external valuators. Terms and conditions specified for the transaction include sensitivity tests and financial covenants, which if met, require the borrower to provide additional collateral.

Details of Bank exposure to credit constituting leveraged financing are as follows:

Economic sector of acquired company			Credit risk
	As of September 30,		As of December 31,
	2011	2010	2010
Commerce	144	-	150
Communications and computer services	308	361	338
Construction and real estate	49	-	-
Total	**501**	**361**	**488**

Below is information on the Bank's exposure to foreign financial institutions [1][2] (NIS in millions):

			As of September 30, 2011
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	2,490	155	2,645
A+ to A-	797	94	891
BBB– to BBB+	3	-	3
BB+ to B-	2	6	8
Lower than B-	16	-	16
Unrated	23	-	23
Total credit exposure to foreign financial institutions	**3,331**	**255**	**3,586**
Includes: Troubled commercial credit risk [6]	-	-	-
Balance of individual provision for credit loss	-	-	-
Troubled commercial credit risk after provision for credit loss	-	-	-

			As of September 30, 2010
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	2,050	350	2,400
A+ to A-	780	238	1,018
BBB– to BBB+	3	-	3
BB+ to B-	4	5	9
Lower than B-	-	-	-
Unrated	30	-	30
Total credit exposure to foreign financial institutions	**2,867**	**593**	**3,460**
Includes: Balance of troubled debt before provision for doubtful debts [5]	38	-	38
Provision for doubtful debts	(12)	-	(12)
Balance of troubled debt	26	-	26

			As of December 31, 2010
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,832	339	2,171
A+ to A-	645	53	698
BBB– עד BBB+	3	-	3
BB+ to B-	4	5	9
Lower than B-	-	-	-
Unrated	56	-	56
Total credit exposure to foreign financial institutions	**2,540**	**397**	**2,937**
Includes: Balance of troubled debt before provision for doubtful debts [5]	38	-	38
Provision for doubtful debts	(12)	-	(12)
Balance of troubled debt	26	-	26

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the former. Bank exposure is almost entirely to banks and investment banks primarily incorporated in the UK, USA, Germany, Spain and Canada. Exposure is primarily with respect to institutions incorporated in OECD countries.
(2) Net of deduction of specific provisions for doubtful debts.
(3) Bank deposits, credit to the public, investment in debentures, securities borrowed or acquired in conjunction with resale agreements and other assets with respect to derivative instruments.
(4) Primarily guarantees and commitments to grant credit, including guarantees to secure liabilities of third parties, which have been weighted at 50% of their amount – in accordance with Proper Conduct of Banking Business Directive no. 313.
(5) Balance of troubled loans excluding loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including the off-balance sheet component.
(6) Credit risk for impaired, inferior credit or credit under special supervision, excluding credit risk with respect to individuals.

The aforementioned credit exposure excludes exposure to financial institutions for which complete, explicit government guarantees are in place, and exclude investments in asset-backed securities. For details of investments in asset-backed securities, see Note 2 to the financial statements. For further information with regard to credit exposure composition with respect to derivative instruments vis-à-vis banks and dealers/brokers (domestic and foreign), see Note 7 to the financial statements. Some of the exposures listed in the above table are included under Management Review - Addendum C - Credit Risk by Economic Sector, enclosed with these financial statements under the Financial Services sector. This Management Review also includes deposits with banks, credit to the public, public investment in debentures and other assets with respect to public derivative instruments. Future transactions, weighted at 10% of their balance, are included under Management Review as part of off-balance sheet credit risk, and are excluded from the above table.

In conjunction with its policy regarding management of exposure to foreign financial institutions, the Bank Board of Directors sets, inter alia, the maximum exposure limit for states and foreign financial institutions, while adjusting the exposure limit to the risk assessment for each state and financial institution. Exposure limits are set based, inter alia, on rating of the various states and financial institutions and on Bank assessment of the risk level in a manner which diversifies exposure. The Bank determines the exposure limit to each financial institution based on the most recent rating available for that institution, provided by one of the leading international rating agencies– based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with the financial institution is also taken into consideration. The policy also states a hierarchy of authority for approval of specific transactions within the exposure limits.

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

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

Ratings - Bank activity with overseas entities generates exposure to sovereigns and to financial institutions. The Bank has set a policy with regard to review and routing of risk arising from this exposure. For credit risk exposure management, as mentioned above, the Bank uses ratings by independent rating agencies, primarily: Fitch, Standard & Poor's, and Moody's .These ratings are accounted for as part of the considerations in setting limits on Bank exposure to sovereigns and banks, intended primarily for derivatives operations, financing and guarantees for foreign trade and investments in the nostro portfolio.

The Bank acquires the ratings, and analysis underlying such ratings, from Fitch and Standard and Poor's. The main rating used by the Bank for independent analysis is the rating provided by Fitch.

Environmental risk - environmental risk to the Bank is the risk of loss which may be incurred due to the Bank being directly liable for an environmental hazard caused by a project financed by the Bank, to impairment of collateral exposed to environmental risk or to deterioration in the financial standing of a borrower due to high expenses arising from environmental protection regulation. Environmental risk also includes other risk factors derived from this risk (goodwill, third party liability etc.) Therefore, it is of prime importance that the Bank set its policy for management of environmental risk, including the capacity to identify, assess and monitor the risk over time.

On June 11, 2009, the Bank received a letter from the Supervisor of Banks, demanding that banks act to incorporate management of exposure to environmental risk within all risk factors at the Bank, including specification of procedures for identification of significant risk when granting credit and inclusion of risk assessment within periodic assessment of quality of credit extended. On April 15, 2010, the Bank Board of Directors approved a policy on environmental risk management. The Bank is preparing to implement the policy and to include it in procedures and work processes, based on the agreed schedule.

Credit loss with respect to housing loans

In conjunction with credit risk management, the Bank takes various actions to mitigate risk associated with provision of housing loans. The Bank estimates the risk associated with provision of housing loans as low, relative to the inherent risk in the Bank's overall loan portfolio, due to the high level of client diversification, geographic diversification of borrowers, relatively low leverage, intensive review procedures of borrower quality and their repayment capacity, and securing credit with property as collateral, and occasionally with credit insurance as well.

The Bank act regularly to control and manage the risk associated with housing loans, for which the Retail Division and other Bank entities are responsible.

Risk appetite in mortgage segment

As part of its credit policy and its credit risk policy, the Bank has set various restrictions on housing loan operations, to account for major risk factors.

The key parameters used for specifying risk appetite in the mortgage segment are: results of the differential risk premium model, LTV ratio of the loan, property location (geographical risk) and credit quality benchmark (see below under Credit Control).

Means for risk management in housing loans

Criteria for loan approval

The Bank has specified uniform, quantitative criteria for review and approval of housing loan applications. Along with the uniform criteria, decision makers at the Bank exercise their judgment. The guiding criteria for granting housing loans have been determined, *inter alia*, based on the following:

A. Accumulated experience at the Bank with regard to housing loans, including lessons learned over time with regard to parameters which determine borrower quality and quality of loan collateral.

B. Results of current credit reviews which include, *inter alia*, review of changes to credit quality in certain sectors.

C. Assessment of credit risk arising from variable macro-economic market conditions.

D. Assessment of credit risk in different areas of the country, due to security-related and other events.

These criteria are regularly updated in line with market developments. Thus, for example, in 2009 the Bank decided, due to the low prime lending rate, to instruct bankers and loan approvers to review borrower repayment capacity, accounting for potential increase in monthly repayment due to the prime-linked component for scenarios including a 2 percentage point increase in the prime lending rate over its current rate upon loan approval.

Credit authority

The Bank has created a ranking of authority for approval of housing loans (at branch, region and headquarters level). The authorized entity to approve the loan is determined based on data in the loan application and on its inherent risk (data about borrowers, LTV ratio, risk premium and nature of the transaction). To enhance control over approval of complex, high-risk loans and loans to specific populations (such as: new immigrants, transactions between family members and individual borrowers), and to make use of specialization in such loans, such applications are sent for approval by the Underwriting and Control Department operating at the mortgage headquarters, staffed by a professional team supervised by the Deputy Manager, Mortgages at the Retail Division.

Model for determination of differential risk premium

The Bank has developed a model for calculation of differential risk premium, based on past empirical data, for rating transaction risk at the loan application stage. For each application, an individual risk premium is calculated based on all risk factors identifiable in client information and attributes of the desired transaction.

This premium reflects an estimate of overall transaction risk, allowing for assessment of client odds of being in arrears on the loan or becoming insolvent - at the outset of the application stage. This premium is used for both credit decision making and for pricing of client interest rate.

Built-in controls in loan origination system

The Bank manages its mortgage operations using a dedicated computer system developed for this purpose, which includes the following built-in controls:

- Ensure information completeness required for loan and activities required in preparation of the material, review and approval of the loan.
- Rigid, real-time control over transactions by authorization. Use of this preventive control methodology significantly reduces the need for discovery controls after loan origination.
- Workflow process with real-time control over execution of all required tasks at each stage of the loan origination process, sending the application to the authorized entity for performing the required actions at each stage of the loan approval process.

Use of this system has resulted in improved control in different stages of the loan origination process, while achieving uniformity among different Bank branches.

Mortgage-related training

The Bank Training Center delivers courses for training, development and improvement of all those involved in provision of housing loans. Training content is determined in cooperation with the Mortgage Headquarters, and staff at headquarters participates in training delivery to bankers. In 2011, in addition to the basic course, an advanced mortgage banking course was delivered, including special emphasis on risk management.

Training of staff and management has significant impact on their professional level when granting credit and making credit-related decisions, as well as during ongoing management of client credit.

In 2011, a mortgage course was developed and delivered, designed for commercial branch managers. The course objective is to expand knowledge of these managers about mortgages, with emphasis on the underwriting and risk management process.

Professional conferences

The Retail Division regularly holds professional conferences for managers and bankers. In these conferences, extensive reviews of developments in the mortgage market are presented, along with steps to be taken to handle the risk associated with such developments. Over the past year, special emphasis was placed at conferences on Bank of Israel directives issued in 2010 and 2011, and their impact on providing housing loans (including capital allocation, restrictions on originating adjustable interest rate loans etc.)

Credit control

Credit control is a key factor in maintaining quality of credit provided by the Bank to its clients. Control over housing loans is exercised at the individual loan level as well as for the entire mortgage portfolio.

At the individual loan level, the Bank acts to identify as early as possible any symptoms indicating a decline in borrower repayment capacity, in order to identify as soon as possible any credit failure situation. The Bank operates various controls, including regular internal controls at branches, regions and headquarters, as well as additional controls by entities external to the process and to the credit units - the Risk Control Division and Internal Audit.

The Bank maintains control over quality of new credit provided by branches, by means of a monthly Credit Quality report, which includes all loans originated by the Bank between 6-18 months prior to the reported date which are over 3 months in arrears. This report is designed to assist branches in reducing the extent of arrears, and to increase awareness of troubled loans by those originating and approving loans in order to learn lessons for future credit approval.

Along with the individual report, listing loans, details of arrears etc., a statistical report is also produced, showing the extent of arrears at each branch, compared to the region and to the Bank as a whole, and compared to previous months. Management of the Retail Division regularly monitors handling of debt in arrears, using this report.

For the entire mortgage portfolio, control is maintained of restrictions imposed by the Bank's risk appetite, both at the Retail Division and at the Risk Control Department of the Risk Control Division. A credit control report is produced semi-annually, with extensive review of the risk profile of the housing loan portfolio, with regard to the following:

- Risk appetite
- Analysis of major risk attributes
- Review of state of arrears and credit quality
- Client debt collection
- Housing loan portfolio for special populations
- Stress testing
- Purchase groups.

Tools for risk mitigation in housing loans

Collateral

In accordance with Bank procedures for mortgages, loans are only provided if secured by property collateral. In some cases, the Bank demands guarantors for the debt, in addition to property collateral.

For verification of information about the property offered to the Bank as collateral and to determine its value, an assessor visit to the property is normally required, providing a report which describes the property, its location, physical condition and market value. Assessors are party to an agreement with the Bank and act in accordance with Bank guidance, including a structured procedure for conducting assessments, identifying exceptions etc.

The common practice for assessment in the mortgage sector is to use an abbreviated assessment. However, since 2006, the Bank has required assessors to conduct extended assessment for some of the loans for purchase of existing apartments, self-construction or general-purpose loans with high-risk property types, which includes additional tests subject to criteria set for this matter.

Insurance

According to Bank procedures, all properties serving as collateral must be insured under property insurance. In addition, the borrowers are insured by life insurance assigned to the Bank in case of death prior to complete repayment of the loan.
For some loans (usually loans with LTV ratio higher than 75%), the Bank contracts with EMI Corp., which provides credit insurance in case the proceeds from realization of the property collateral for the loan should fail to cover the outstanding loan amount. This credit insurance process is a key risk mitigator.

LTV ratio

The maximum LTV ratio approved by the Bank is determined by the credit policy and is periodically reviewed. The Bank requires borrowers to contribute part of the financing for the acquisition. This equity payment forms a safety cushion in case the property is realized during a downturn in the real estate market. Furthermore, borrower equity is a further indication of the borrower's financial robustness.

Entities participating in risk management for housing loans

Mortgage Management Department of the Retail Division

This department handles different events which occur during the loan term, whether initiated by the Bank or by the borrower. One of the key tasks is monitoring of collateral provided. During loan origination, the Bank usually received interim collateral, and the final collateral is expected to be received during the loan term. The department also monitors receipt of life and property insurance policies during the loan term.

Risk Control Division

The Risk Control Division reviews the quality of the Bank's loan portfolio and the risk profile of the Bank portfolio. As for mortgages, the portfolio is analyzed semi-annually, including analysis of developments in housing loan grants and our market share, as well as credit composition by various criteria. As from this year, this analysis is performed semi-annually. This report is discussed by the Supreme Credit Committee and is presented to the Bank's Board of Directors.

Credit risk and credit concentration monitoring forum

The Bank operates a forum for monitoring credit risk, headed by the Manager, Risk Control Division, which promotes issues such as: analysis of credit portfolio risk level, application of advanced modeling approaches, specification of triggers for activating stress testing; supervision of design and application process of stress testing, and monitoring of the risk profile of the Bank's loan portfolio. This forum operates another entity, composed of professionals in the business domain, control and economists who review the credit portfolio (and in particular the mortgage portfolio), *inter alia*, in view of the risk appetite restrictions specified.

Legal Division

As part of the underwriting process, collateral for non-standard loans (loans to individuals, transactions involving family members) and high-value loans are reviewed by the Mortgage Advisory Department, a specialized entity in the Legal Division. This test complements the loan approval and review conducted at the branch and the regional underwriting department.

Collection Department

The Bank operates a dedicated Collection Department, which handles debt collection from borrowers in arrears and realization of properties. Processing is automatically launched once the client fails to make a mortgage payment for the first time. If this failure is not resolved, processing continues by the Telephone Collection Center (prior to filing a law suit), designed to reach payment arrangements with clients. If such an arrangement with borrowers cannot be reached, the debt is processed by the Bank's Collection Department, which includes a dedicated department for mortgage debtors, and legal proceedings are initiated vs. the debtors.

Arrears Forum

The Arrears Forum of Bank management convenes monthly, headed by the Manager, Business Division, and reviews the current state of affairs with regard to collection in the previous month, implications on the financial statements and on the provision for doubtful debts. The Forum specifies targets for debt processing and for reducing arrears.

Internal Audit

The work plan for Internal Audit with regard to loans includes, *inter alia*, reference to review of entities involved in loan approval, origination, administration and control.

Attributes of the Bank's housing loan portfolio

The Bank's policy with regard to mortgages is based on a conservative approach, limiting specific risk for each loan by reviewing various attributes. These attributes include: LTV ratio, ratio of repayment to regular income of the borrower, and borrower capacity to make current repayments even under scenarios involving a change in interest rates. Whenever loans are granted with attributes which do not meet one or more of the standards set by the Bank for these attributes, the Bank requires additional bolstering for the loan, such as credit insurance, additional guarantors for the loan, proven repayment capacity not based on regular income of the borrower etc. In recent years, due to expansion of the housing market and relatively low interest environment, the Bank has enhanced measures taken to mitigate risk, as reflected by a significant decrease in loan risk factors, as detailed below (all data below as of September 30, 2011).

LTV ratio

One of the key parameters used by the Bank in minimizing risk in its housing loan portfolio is the LTV ratio (ratio of loan amount to value of the property pledged as collateral). The average loan-to-value ratio for the Bank's mortgage portfolio as of September 30, 2011 was 59.0%, compared to 60.1% on December 31, 2010 and to 60.2% on December 31, 2009. Out of the total loan portfolio of the Bank, amounting to NIS 70.1 million, some 81% were granted with an original LTV ratio under 75%, which secures the loan even in case of an extreme 25% decrease in value of the property pledged as collateral.

The LTV ratio in this report is the historical LTV ratio calculated upon loan approval, and does not account for any current repayments which reduce the loan balance nor any changes in value of properties pledged as collateral. The significant increase in housing prices since late 2008, along with reduced loan balances with respect to current repayment, result in a lower current LTV ratio for loans granted through 2008, so that most all of the loans currently have LTV ratios under 75%.
Total loans granted at LTV ratios over 75% in the past two years amounted to NIS 4 billion, or only 5.7% of the total housing loan portfolio.

Loans granted with a high LTV ratio are usually secured by credit insurance, which significantly reduced risk for the Bank, although it does not affect the LTV or repayment percentage calculation. Out of the balance of loans granted with an original LTV ratio higher than 75%, a total of NIS 4.8 billion is insured by credit insurance - 36.6%.
Over the past two years, due to measures taken by the Bank to reduce risk in the mortgage portfolio, the percentage of loans granted with a high LTV ratio out of total housing loan portfolio of the Bank decreased to 14.1% for loans granted 1-2 years ago, 11.3% for loans granted 3-12 months ago and 9.7% for loans granted in the third quarter of 2011.

Repayment as percentage of regular income

The LTV ratio of a housing loan is a benchmark of loan security, regardless of borrower attributes. When a mortgage is approved, the Bank requires borrowers to show their capacity to make current loan repayments on schedule, primarily by calculating the ratio of monthly repayment to regular income of the borrower.

The average repayment ratio for the Bank's housing loan portfolio is 30.4%. 70% of the Bank's mortgage portfolio were granted to borrowers with a repayment ratio under 35% (the average repayment ratio for these borrowers is 23.2%).
21% of the mortgage portfolio were granted to borrowers with a repayment ratio of 35% to 50% (the average repayment ratio for these borrowers is 40.6%), and only 9% were granted to borrowers with a repayment ratio over 50% (the average repayment ratio for these borrowers is 62.6%).

The loans with a high repayment ratio are loans granted to borrowers with significant other assets, whose repayment capacity is not necessarily based on current income, to borrowers with very high income where the repayment ratio is less significant, or where additional bolstering of the loan is in place, in addition to the pledged property and repayment capacity of the borrower, such as financially robust guarantors.
Even loans granted with a repayment ratio higher than 50% maintain the average LTV ratio, and some 84% of these are granted with a LTV ratio under 75%.

Loans bearing variable interest

The Bank allows its clients to obtain housing loans which include a portion bearing NIS-denominated interest linked to the prime lending rate.

Over the past decade, the prime lending rate decreased from 10% in 2002-2003, through 5%-6% in 2004-2008 to 2%-3% in 2009-2010. Hence, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted since 2009, assuming that the prime lending rate is expected to rise, reflecting a positive real interest in the economy.

The Bank provides clients with the knowledge and expertise of its staff in order for clients to understand the risk involved with a loan bearing interest linked to the prime lending rate and how this risk may be mitigated or avoided. The Bank advises clients to attribute appropriate weighting to this risk, and to be cautious when deciding upon the loan composition. The Bank also recommends to borrowers paying interest linked to the prime lending rate to consider transition to a fixed interest option, or one where interest is adjusted at longer intervals.

The repayment capacity of clients who obtained loans in the period when the prime lending rate was high is reviewed using the high interest rate. Over the past two years, when interest rates were low, these clients benefited significantly from lower loan costs. In this low interest environment, the Bank nevertheless took measures to reduce loans provided bearing interest linked to the prime lending rate: From 40.2% of loans granted 1-2 years ago, the Bank reduced the percentage of loans linked to the prime lending rate to 33% for loans granted 3-12 months ago and down to 19.4% for loans granted in the third quarter of 2011.

Total loans linked to the prime lending rate granted over the past two years, which constitute the major portion of risk associated with such mortgages, is NIS 11.1 billion, or only 15.9% of the housing loan portfolio. Note however that before approving a loan linked to the prime lending rate, the Bank reviews the repayment capacity of the borrower under scenarios where the prime lending rate would increase by 2 percentage points.

Loan amount

Loans granted by the Bank with an original amount over NIS 2 million amounted in total to NIS 2.8 billion, or only 4% of the Bank's housing loan portfolio.

Below are details of various risk attributes of the housing loan portfolio (NIS in millions):

LTV ratio	Repayment as percentage of regular income	Loan age (1) (time elapsed since loan grant)						
		Up to 3 months	3-12 months	1-2 years	2-5 years	5-10 years	Over 10 years	Total
Up to 60%	Up to 35%	1,137	4,471	4,812	7,501	3,277	2,431	23,629
	35%-50%	492	1,590	1,341	1,806	771	370	6,370
	Over 50%	250	670	677	882	367	221	3,067
60%-75%	Up to 35%	803	3,390	4,284	5,967	1,366	854	16,664
	35%-50%	357	1,303	1,241	1,513	457	206	5,077
	Over 50%	156	481	515	712	197	115	2,176
Over 75%	Up to 35%	247	1,090	1,609	2,705	1,523	2,111	9,285
	35%-50%	82	338	375	734	539	675	2,743
	Over 50%	16	96	121	294	269	290	1,086
Total		**3,540**	**13,429**	**14,975**	**22,114**	**8,766**	**7,273**	**70,097**
Includes:								
Loans granted with original amount over NIS 2 million		154	604	750	1,033	193	48	2,782
Percentage of total housing loans		4.4%	4.5%	5.0%	4.7%	2.2%	0.7%	4.0%
Loans bearing variable interest:								
Non-linked, at prime lending rate		688	4,430	6,017	11,633	1,838	182	24,788
CPI-linked (2)		149	2,557	3,551	4,145	1,416	1,781	13,599
Foreign currency (2)		216	868	1,180	1,300	722	44	4,330
Total		**1,053**	**7,855**	**10,748**	**17,078**	**3,976**	**2,007**	**42,717**
Non-linked loans at prime lending rate, as percentage of total housing loans		19.4%	33.0%	40.2%	52.6%	21.0%	2.5%	35.4%
CPI-linked loans bearing variable interest as percentage of total housing loans		4.2%	19.0%	23.7%	18.7%	16.2%	24.5%	19.4%
Loans with LTV over 75% as percentage of total housing loans		9.7%	11.3%	14.1%	16.9%	26.6%	42.3%	18.7%

(1) The loan balances presented above are aged based on the date of loan origination, and include under the same age group any loan balances actually provided at a later date.

(2) Pursuant to directives by the Supervisor of Banks, these include loans for which the interest rate is adjusted up to once every 5 years.

Credit risk mitigation

Below is the composition of net credit exposure by risk mitigation type:

					As of September 30, 2011
		Exposure covered by guarantees (2)		Exposure covered by	
	Gross credit exposure (1)	Amounts de-recognized	Amounts added	qualified financial collateral	Net credit exposure
Sovereign debt	18,020	-	24	-	18,044
Public sector entity debt	1,421	-	17	(4)	1,434
Banking corporation debt	5,554	(13)	210	(2)	5,749
Corporate debt	64,539	(217)	-	(9,233)	55,089
Debt secured by commercial real estate	2,018	(1)	-	(290)	1,727
Retail exposure to individuals	23,795	(2)	-	(1,628)	22,165
Loans to small businesses	4,943	(18)	-	(1,268)	3,657
Residential mortgages	72,451	-	-	(45)	72,406
Securitization	24	-	-	-	24
Other assets	3,569	-	-	-	3,569
Total	**196,334**	**(251)**	**251**	**(12,470)**	**183,864**

					As of September 30, 2010
		Exposure covered by guarantees (2)		Exposure covered by	
	Gross credit exposure (1)	Amounts de-recognized	Amounts added	qualified financial collateral	Net credit exposure
Sovereign debt	14,296	-	21	-	14,317
Public sector entity debt	1,324	-	63	(4)	1,383
Banking corporation debt	5,196	-	233	(4)	5,425
Corporate debt	59,197	(293)	-	(7,725)	51,179
Debt secured by commercial real estate	2,370	(1)	-	(197)	2,172
Retail exposure to individuals	22,537	(3)	-	(1,491)	21,043
Loans to small businesses	4,549	(20)	-	(1,288)	3,241
Residential mortgages	62,718	-	-	(49)	62,669
Securitization	3	-	-	-	3
Other assets	(3)3,335	-	-	-	3,335
Total	**175,525**	**(317)**	**317**	**(10,758)**	**164,767**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.

(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

(3) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Below is the composition of net credit exposure by risk mitigation type - continued:

	As of December 31, 2010				
		Exposure covered by guarantees [2]		Exposure covered by	
	Gross credit exposure [1]	Amounts de-recognized	Amounts added	qualified financial collateral	Net credit exposure
Sovereign debt	16,812	-	20	-	16,832
Public sector entity debt	1,386	-	87	(7)	1,466
Banking corporation debt	4,373	-	284	(6)	4,651
Corporate debt	61,639	(367)	-	(9,228)	52,044
Debt secured by commercial real estate	2,138	(2)	-	(174)	1,962
Retail exposure to individuals	22,982	(4)	-	(1,516)	21,462
Loans to small businesses	4,740	(18)	-	(1,193)	3,529
Residential mortgages	65,643	-	-	(48)	65,595
Securitization	8	-	-	-	8
Other assets	[3]3,184	-	-	-	3,184
Total	**182,905**	**(391)**	**391**	**(12,172)**	**170,733**

(1) Balance of on- and off-balance sheet balances, after on- and off-balance-sheet offsets, after provision for doubtful debts, excluding impact of credit risk mitigation, credit conversion factors and risk weighting factors, as defined under Basel II rules.

(2) Mitigating credit risk by using guarantees results in exposures moving from their original exposure group to exposure groups with a lower risk weighting factor. Consequently, sometimes the extent of exposure in a given exposure group, after credit risk mitigation, is higher than the extent of exposure in this group before risk mitigation.

(3) Retroactively adjusted for application of the Supervisor of Banks' directives with regard to employee rights. For details, see Note 1.E.4. to the financial statements.

Counter-party credit risk

Counter-party credit risk (CCR) is the risk that the counter-party to a transaction will be in default before final clearance of the transaction cash flows. Economic loss would be incurred only when the transaction with the counter-party would have a positive economic value upon such default. The market value of the transaction, which may be positive or negative for either party, actually depends on volatility of market factors. Should the counter-party be in default, and the transaction have a positive fair value, this may cause the Bank to incur a loss, liquidity issues and difficulties in carrying out further transactions. Risk factors which impact counter-party credit risk are: Credit risk, market risk and liquidity risk.

The trading in financial derivatives is part of the Bank's management of assets and liabilities, and is subject to limitations prescribed by the Board of Directors. The Bank trades in these financial derivatives, both for its clients and for its own account, as part of the management of basis and interest exposure in the various linkage segments. The Bank operates in credit derivatives in its nostro portfolio. These investments are individually reviewed by the Risk Management Committee, and are submitted for approval by the Asset and Liability Management Committee headed by the President.

Below is the current credit exposure with respect to derivatives:

						As of September 30, 2011
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
Face value of derivatives after impact of add-on factor	296	1,403	70	1	53	1,823
Positive fair value, gross, of derivatives (1)	738	1,156	835	1	1	2,731
Total exposure with respect to derivatives	**1,034**	**2,559**	**905**	**2**	**54**	**4,554**
Collateral with respect to derivatives (before safety factors)	(33)	(527)	(1,209)	(2)	-	(1,771)
Impact of safety factors on collateral	14	223	547	1	-	785
Total current credit exposure after credit risk mitigation	**1,015**	**2,255**	**243**	**1**	**54**	**3,568**

						As of September 30, 2010
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
Face value of derivatives after impact of add-on factor	218	1,526	22	-	62	1,828
Positive fair value, gross, of derivatives (1)	589	1,519	599	-	-	2,707
Total exposure with respect to derivatives	**807**	**3,045**	**621**	**-**	**62**	**4,535**
Collateral with respect to derivatives (before safety factors)	-	(336)	(1,068)	-	-	(1,404)
Impact of safety factors on collateral	-	169	602	-	-	771
Total current credit exposure after credit risk mitigation	**807**	**2,878**	**155**	**-**	**62**	**3,902**

						As of December 31, 2010
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
Face value of derivatives after impact of add-on factor	219	1,244	-	-	67	1,530
Positive fair value, gross, of derivatives (1)	472	1,237	738	1	-	2,448
Total exposure with respect to derivatives	**691**	**2,481**	**738**	**1**	**67**	**3,978**
Collateral with respect to derivatives (before safety factors)	-	(254)	(1,094)	(1)	-	(1,349)
Impact of safety factors on collateral	-	141	531	-	-	672
Total current credit exposure after credit risk mitigation	**691**	**2,368**	**175**	**-**	**67**	**3,301**

(1) Includes exposure arising from counter-party credit risk with respect to client activity on the stock exchange, calculated based on stock exchange rules.

(2) The Bank's credit derivatives operations are not classified as brokerage operations. For information about transactions to buy and sell credit protection, see Note 7A to the financial statements.

Securitization

The Bank does not operate in the field of asset securitization. It is Bank policy to avoid, in principle, investment in complex securitization instruments. The Bank has invested in the past in a limited number of complex securitization instruments, such as CDO and CLO, and these comprise the current portfolio.

Below are details of investments in collateralization exposures and capital requirements with respect there to:

			As of September 30, 2011
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	24	8
B+ or lower	Deducted from equity	39	39
Total		**63**	**47**

			As of September 30, 2010
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	3	1
B+ or lower	Deducted from equity	57	57
Total		**60**	**58**

			As of December 31, 2010
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	8	3
B+ or lower	Deducted from equity	52	52
Total		**60**	**55**

(1) Capital requirement (except with respect to exposures deducted from capital) calculated at 9% of risk asset balance, in accordance with interim directive on application of Basel II, Pillar 3.

For further details of exposure to asset-backed securities, see Note 2 to the financial statements.

Market risk

Market risk to which the Bank is exposed in different financial instruments arises from their susceptibility to unexpected changes in interest rates, inflation rates and exchange rates, such that changes in market conditions may lead to changes in the fair value of the different financial instruments. Market risk management is intended to maximize Bank profit at the prescribed risk level. Exposure to market risk is managed in accordance with the limitations prescribed by the Board of Directors, within the frameworks of and subject to which, the Bank's Executive Management acts, according to the market conditions at any given time.

The Bank focuses on two major market risk factors:

– **Interest risk** - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results, *inter alia*, from a lack of correlation between the period to maturity of the Bank's assets and liabilities.

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

Interest risk in Bank portfolio

Interest risk in the Bank portfolio is the risk of erosion of the Bank portfolio (including, as specified above, all transactions not included in the negotiable portfolio, including financial derivatives used for hedging the Bank portfolio) as a result of future changes in interest rates. The exposure to interest risk results from a lack of correlation between the period to maturity of the Bank's assets and liabilities.

Interest risk in the Bank portfolio is monitored on a regular basis, both in managing interest risk for the overall portfolio in VaR terms, and in EVE (Economic Value of Equity) terms - a model which reviews changes in the economic value of the portfolio under different assumptions regarding changes to the interest rate curve, including corresponding 2% shifts upwards/downwards of the interest rate curve.

Below is the impact of a parallel shift of the curve by 2% on the economic value of the Bank's portfolio in EVE terms (NIS in millions):

						September 30, 2011
						Change in fair value
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	350	62	79	(8)	3	486
2% decrease	(393)	(200)	(15)	6	(2)	(604)

						September 30, 2010
						Change in fair value
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	179	340	80	(12)	(3)	584
2% decrease	(205)	(530)	(16)	12	4	(735)

						December 31, 2010
						Change in fair value
	Israeli currency		Foreign currency			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	179	217	(11)	(7)	(1)	377
2% decrease	(201)	(389)	25	6	1	(558)

In preparing the mortgage repayment forecast for the Bank, assumptions with regard to pre-payment are taken into account.

Market risk in the Bank's negotiable portfolio, primarily composed of portfolios managed in the trading room, is managed by means of quantitative limitations specified for each portfolio based on its activity.

The VaR model (Value At Risk)

As required according to the directives of the Bank of Israel, the Bank calculates the VaR values and the stress-test values on a monthly basis. The VaR is calculated by calculation methods commonly used around the world, including: the Monte Carlo simulation method and the historical simulation method. Furthermore, in order to improve the responsiveness of the VaR to the degree of volatility in financial markets, the Bank has developed a new VaR calculation method which implements a combination of multiple, generally accepted calculation methods. This method allows the Bank to handle situations where market volatility increases.

The internal estimate of VaR of the Bank Group presents the risk of a loss during a month, with the probability of it occurrence not exceeding 1%. Below is the maximum VaR for the Bank Group (NIS in millions):

	First nine months of 2011	First nine months of 2010	All of 2010
At end of period	265	342	219
Maximum value during period	286 (Aug)	342 (Sep)	364 (Sep)
Minimum value during period	212 (March)	274 (March)	219 (Dec)

Basis risk

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

Below is an analysis of the sensitivity of the Group's (pre-tax) profit to changes in the main exchange rates and in the CPI as of September 30, 2011:

Capital increase (erosion), NIS in millions

	Scenarios				Extreme historical scenario (1)	
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	453.2	226.6	(226.6)	(453.2)	69.8	(39.0)
Dollar	180.3	89.2	(90.7)	(180.2)	58.6	(50.0)
Pound Sterling	(1.5)	(0.7)	0.9	2.3	(0.5)	0.6
Yen	-	-	(0.2)	(0.7)	-	(0.1)
Euro	12.4	7.9	(6.5)	(10.0)	6.5	(4.8)
Swiss Franc	14.9	7.4	(7.5)	(14.2)	5.9	(9.4)

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

Interest risk

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

Impact of hypothetical changes in interest rates on fair value of financial instruments of the Bank and its subsidiaries (NIS in millions) is as follows:

Fair value of financial instruments before impact of hypothetical changes in interest rates:

	Israeli currency		Foreign currency [(2)]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
September 30, 2011						
Financial assets [(1)]	77,369	45,246	14,485	3,502	2,237	142,839
Amounts receivable with respect to financial derivatives [(3)]	74,471	4,864	50,736	8,835	5,887	144,793
Financial liabilities [(1)]	(76,454)	(35,908)	(17,281)	(4,377)	(2,421)	(136,441)
Amounts payable with respect to financial derivatives [(3)]	(72,939)	(10,302)	(47,973)	(7,996)	(5,722)	(144,932)
Total	**2,447**	**3,900**	**(33)**	**(36)**	**(19)**	**6,259**
December 31, 2010						
Financial assets [(1)]	67,941	42,760	12,944	4,146	2,503	130,294
Amounts receivable with respect to financial derivatives [(3)]	72,253	3,894	53,430	5,442	4,527	139,546
Financial liabilities [(1)]	(67,310)	(34,820)	(15,230)	(4,476)	(2,280)	(124,116)
Amounts payable with respect to financial derivatives [(3)]	(69,419)	(8,701)	(50,957)	(5,123)	(4,811)	(139,011)
Total	**3,465**	**3,133**	**187**	**(11)**	**(61)**	**6,713**

Net fair value of financial instruments, after impact of changes in interest rates [(4)]:

	Israeli currency		Foreign currency [(2)]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
September 30, 2011								
Change in interest rates:								
Concurrent immediate increase of 1%	2,683	3,843	(82)	(41)	(28)	6,375	116	1.9%
Concurrent immediate increase of 0.1%	2,473	3,895	(40)	(37)	(20)	6,271	12	0.2%
Concurrent immediate decrease of 1%	2,179	3,998	4	(29)	(10)	6,142	(117)	(1.9%)
December 31, 2010								
Change in interest rates:								
Concurrent immediate increase of 1%	3,345	3,238	136	(11)	(71)	6,637	(76)	(1.1%)
Concurrent immediate increase of 0.1%	3,453	3,151	182	(11)	(62)	6,713	-	-
Concurrent immediate decrease of 1%	3,570	3,094	232	(6)	(51)	6,839	126	1.9%

(1) Includes complex financial instruments. Excludes balance sheet balances of derivatives and fair value of off-balance sheet financial instruments.
(2) Including Israeli currency linked to foreign currency.
(3) Amounts receivable (and payable) with respect to financial derivatives, discounted using interest rates used for calculation of the fair value.
(4) Net fair value of financial instruments presented in each linkage segment is the net fair value for this segment, assuming the indicated change in all interest rates in the linkage segment. Total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming the indicated change in all interest rates in all linkage segments.

The Bank is required to allocate capital with respect to interest risk in the negotiable portfolio, for exchange rate risk for all banking activities and for option risk. The Bank uses the effective term to maturity method in measuring interest risk, and the Delta Plus method in measuring option risk. This method quantifies the risk associated with operations of the option portfolio based on the "Greek letter" values. These reflect the sensitivity of the option portfolio to moves in the underlying asset and in standard deviation.

In accordance with Basel II rules, the Bank is also required to calculate specific risk in the negotiable portfolio. Capital requirements with respect to specific risk are intended to provide protection against negative change in the price of a single security due to factors related to the individual issuer. The capital requirement with respect to specific risk relates to instruments in the negotiable portfolio, and replaces the capital requirement with respect to credit risk associated with these instruments, had they been held in the Bank's portfolio.

Capital allocation for basis risk is at 8% of the net open position in each currency.

Below is the capital requirement due to market risk by risk component (NIS in millions):

	As of September 30, 2011			As of December 31, 2010		
	Capital requirement			Capital requirement		
Risk component (1)	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk (2)	3	40	43	6	31	37
Equity risk	-	-	-	-	1	1
Foreign currency exchange rate risk	-	29	29	-	15	15
Total market risk	**3**	**69**	**72**	**6**	**47**	**53**

(1) Risk associated with options activity is included under the different components, and was calculated using the Delta Plus approach, as defined in the Supervisor of Banks' directive.

(2) Calculated using the Effective Duration approach, as defined in the Supervisor of Banks' directive.

Liquidity risk

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

The Bank has developed an internal model to estimate the liquidity needs and liquid resources, as required by Proper Conduct of Bank Businesses Regulation No. 342 “Management of Liquidity Risk" and in accordance with Basel provisions. The Bank’s internal model is based on statistical findings on the public’s behavior. An information system was built for daily measurement, control and reporting of the liquidity status. The Bank has a Liquidity Forum, which convenes daily, under the responsibility of the Finance Division, which meets monthly to discuss the liquidity situation and to align the liquidity needs of different Bank units with the liquidity "providers" and liquidity managers. In addition, the Risk Control Division performs back testing of model adequacy, as required by Bank of Israel directives.

Operating risk

Basel II provisions referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basel II provisions explicitly defined operating risk as the risk of loss due to failure or inappropriateness of internal procedures, people, systems or external events. Furthermore, the Basel II first layer includes capital requirements for operating risk. For details of the Basle II guidelines, see the chapter on Legislation and Supervision of Bank Group Operations.

Equity positions in Bank portfolio

For details of equity investments in the Bank's portfolio, see Note 2 to the financial statements. The investment balance includes investments in negotiable and public shares amounting to NIS 6 million, and investment in non-public shares amounting to NIS 94 million.

	As of September 30, 2011	
	Fair value	Capital requirement (1)
Shares	67	6
Venture capital / private equity funds	33	3
Total equity investment in Bank portfolio	**100**	**9**

	As of December 31, 2010	
	Fair value	Capital requirement (1)
Shares	63	6
Venture capital / private equity funds	34	3
Total equity investment in Bank portfolio	**97**	**9**

(1) Capital requirement calculated at 9%, in accordance with interim directive on application of Basel II, Pillar 3.

Legal risk

Proper Conduct of Banking Business Regulation 339 (Risk Management) prescribes, *inter alia*, that banking corporations must take action to reduce the legal risk resulting from their various operations. Legal risk is defined in this regulation as "the risk of a loss resulting from not having the possibility of legally enforcing an agreement". Proper Conduct of Banking Business Regulation 206 (Measurement and Capital Adequacy - Operating Risk) defines legal risk in conjunction with operating risk to include, *inter alia*, exposure to fines or penalties arising from supervisory action, as well as from individual arrangements.

The Bank regards legal risk in its wider definition, with regard to Bank conduct in its relationships with various stake holders (clients, suppliers, other third parties etc.) The Chief Legal Counsel has been appointed Manager of Legal Risk. The Bank constantly strives to minimize as much as possible the legal risk associated with its current operations, and acts to disseminate a practical culture leading to mitigation of legal risk in all its different aspects.

The Bank regularly analyzes the legal risk component of its activities, the risk boundaries (arising, for example, from the counter-party identity, from creation of collateral etc.) as well as specific risk attributes of different lines of business, while reviewing risk level and exposure. Further, the Bank has created procedures to assist in mitigating legal risk, as reflected in activities of the different Bank units.

The Bank's Legal Division regularly monitors developments in legislation, rulings and other regulatory provisions which could have implications for the day-to-day activities of the Bank's units. As needed, the Bank amends the different contracts used and ensures availability of legal opinions which serve as basis for Bank contracting. The Legal Division is also involved with training courses at branches, at the Bank's Training Center and in authoring professional e-learning kits.

Similar reference is made for Bank branches and affiliates overseas, with assistance from local external attorneys approved by the Bank's Legal Division.

Compliance

The complexity and development of banking activity requires the Bank to adhere strictly to fulfilling the range of obligations imposed on it in its business ties with its customers, by virtue of statutory provisions applicable to a banking corporation. As stipulated by Proper Conduct of Banking Business Regulation 308 with regard to a Compliance Officer, the Bank has appointed a Compliance Officer who heads the Compliance Department, reporting to the Chief Legal Counsel; the Board of Directors has put in place a Compliance Plan. The Compliance Department strives to implement consumer provisions applicable to Bank relationships with its clients, so as to minimize the likelihood of any breach of laws and regulations, and so as to discover, as early as possible, any such breach - thereby minimizing Bank exposure to claims and other damage which may ensue.

The Compliance Department conducts compliance surveys on various topics, delivers training at the Bank and the Compliance Officer is a member of different Bank forums in order to ensure a broad, system-wide view of various compliance aspects.

Prohibition of money laundering

The Compliance Officer is also responsible for application of the Prohibition of Money Laundering Act, and of the Prohibition of Financing Terrorism Act. The Compliance and Prevention of Money Laundering Department implements statutory requirements on this issue. The Department handles subjective reports of unusual activity, which are submitted to the Authority for Prohibition of Money Laundering, as well as implementation of various controls over activity in different accounts, based on their risk profile.

The Bank also emphasized training in this field to different sectors of Bank employees.

The Bank operates different computer systems for identifying unusual activity and for monitoring the handling of subjective reports.

The Bank applies its policy on this matter, as approved by the Bank Board of Directors in May 2010, and statutory provisions on a Group basis, with mandated changes, at its subsidiaries and affiliates in Israel and overseas.

Risk factors

For a discussion of the risk factors that impact the Bank and its activities, see the discussion in the chapter on risk management above. A mapping of the risk factors and their impact on the Bank Group are presented below:

Risk factor	Risk factor impact
Overall effect of credit risk	Intermediate
Risk from quality of borrowers and collateral	Intermediate
Risk from industry concentration	Intermediate
Risk from concentration of borrowers/ borrower groups	Intermediate
Overall effect of market risk	Intermediate
Interest risk	Intermediate
Inflation risk	Intermediate
Exchange rate risk	Low
Share price risk	Low
Liquidity risk	Low
Operating risk	Low
Legal risk	Low
Reputation Risk (1)	Low

(1) The risk of impairment of the Bank's results due to negative reports about the Bank.

Description of methodology used by the Bank to estimate impact of different risk:

Market risk

The effect of the risk was measured using VaR values for each risk, with respect to the VaR value limit determined by the Board of Directors.

The Bank's Board of Directors prescribed the VaR limit in order to prevent the creation of high market risk. Therefore, it was prescribed that risk with VaR value equal to or higher than the Board of Directors' limitation has strong effect. Risk with VaR value equal to or higher than 70% of the Board of Directors' limitation has intermediate effect and the risk with VaR value below this is considered having a low effect.

Other risk

The degree of influence of credit risk, liquidity risk, operational risk, legal risk and goodwill risk – were determined based on management's assessments, as performed from time to time, and in coordination with the ICAAP process conducted by the Bank, and its outcome, under leadership of the Bank's risk managers, and took into account both qualitative and quantitative aspects, including the Bank's risk profile, outcome of various scenarios at the Bank and the capital planning process.

Significant events in the Bank Group's business

Employee stock option plan

On May 19, 2008, after approval by the Bank's Audit Committee and Board of Directors, option warrants were allotted to Bank officers, branch, department and affiliate managers as well as to other employees of the Bank and its subsidiaries. For further details, see Note 16.A.3.b to Financial Statements as of December 31, 2009

On October 03, 2011, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve a plan for allotment of a further 701,300 options, under identical terms and conditions with the exception of the exercise price, to 31 employees, including one officer of the Bank.

The theoretical benefit value of the option warrants in this allotment, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 4.4 million (NIS 5 million including Payroll Tax).
The option warrants were allotted to employees on November 17, 2011.
See Note 12.2 to the financial statements for additional information.

Legislation and Regulation of Bank Group Operations

ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011

This act, enacted on January 11, 2011 and effective as from January 27, 2011, allows the ISA to use a new administrative enforcement track for corporations or individuals who break the law. The proposed track shall only apply to a negligent breach of the law. For serious offenses the ISA would continue to prosecute criminal indictments.
The act stipulates that the breaching party may appear before an enforcement committee, which may impose both monetary sanctions and disqualification from the profession. The ISA may impost administrative fines on individuals and corporations in breach of securities legislation, and even remove them from their position and ban them from the capital market.
The act provides for administrative enforcement for misconduct by professionals under short, quick proceedings, compared to the current state of affairs, which required criminal proceedings which take years. This primarily involves felonies such as stock price rigging and use of inside information in small amounts, or in cases where there is not sufficient

evidence for a criminal indictment. The act extends the sentence for use of inside information from one year to two years.

The Act provides for administrative proceedings to be launched even against defendants already under criminal proceedings for the same felonies, based on justified reasoning by the Chairman of the ISA, and subject to approval by the State Prosecution and a committee headed by ISA senior legal staff whose members are appointed by the Minister of Justice.

The ISA is authorized to impose fines ranging between NIS 25 thousand and NIS 5 million. Convicted individuals, whether self-employed or salaried employees, face fines of between NIS 25 thousand and NIS 50 thousand. Board members and senior officers of companies, which bear personal responsibility, face fines of between NIS 400 thousand and NIS 1 million. Fines imposed on companies may reach NIS 5 million. The act prohibits entities dealing in securities to obtain insurance coverage against administrative fines imposed pursuant to the act, nor to indemnify their employees against fines imposed on the latter as individuals.

The ISA has been authorized to remove from position and ban from the capital market and convicted felons who are Board members and senior officers, such as the CEO or CFO, in addition to imposing the heavy administrative fine on them. This ban is effective for up to one year.

The Act would become effective 30 days after being published, except for certain sections which would apply as from the date on which the Act is published. Certain sections which make reference to regulations enacted or to be enacted pursuant to other laws, shall apply as from the effective date of these referenced regulations.

The Bank is acting to put in place an enforcement program for the Group.

Corporate Act (Amendment no. 16), 2011

On March 15, 2011, the Corporate Act (Amendment no. 16), 2011 was made public. Its highlights are as follows:

- A majority of Audit Committee members of a public company would be independent Board members, as defined in the Act, and the Chairman of the Audit Committee would be an external Board member;
- The Audit Committee is authorized, *inter alia*, to decide, with regard to a transaction with an officer and to a transaction with a controlling shareholder, if these are ordinary or extraordinary transactions for approval there of by law, and the Audit Committee is entitled to thus decide based on criteria to be set annually in advance;
- The Audit Committee is authorized to review the Internal Auditor's work plan prior to its submission for approval by the Board of Directors and may propose changes to the plan;
- The Audit Committee is authorized to review the Independent Auditor's scope of work and fees, and make its recommendations to the Board of Directors;
- The external Board members shall be appointed by the General Meeting by a majority of votes of shareholders who are not controlling shareholders of the company, or any of their proxies taking part in the vote;
-

The term in office of an external Board member is three years, and they may be appointed for two additional terms of three years each, for a total of nine years (just like for an independent Board member, as defined in the Act);

- An external Board member shall be appointed for an additional term if nominated by the Board of Directors for an additional term and this appointment is lawfully confirmed, or if nominated by a shareholder holding at least one percent of voting rights in the company and this appointment is lawfully approved by a majority of votes at the General Meeting;
- An extraordinary transaction between a public company and its controlling shareholder requires approval by the Audit Committee, the Board of Directors and the General Meeting by a majority of votes of shareholders participating in the vote who have no personal interest in approval of the transaction;
- An extraordinary transaction between a public company and its controlling shareholder for a term longer than three years, requires lawful approval once every three years - unless the Audit Committee has approved that contracting for a longer term is reasonable under the circumstances;
- The ISA is authorized to impose a monetary sanction due to breach of certain provisions of the Corporate Act, under conditions specified in the Act;
- The addendum to the Act specifies recommended corporate governance provisions which the company may adopt in its Bylaws, or may disclose their non-adoption.

The effective start date of most sections of the Act is 60 days after its publication, and some (primarily concerning the Audit Committee) - six months after publication, others - upon the effective start date of the ISA Enforcement Proceeding Streamlining Act (Legislative Amendments), 2011 and others yet - subject to appropriate transition provisions.

The Bank has applied and continues to apply the corporate governance principles reflected by the aforementioned amendments.

Banking Act (Customer Service) (Amendment 15), 2011

This amendment, passed on July 25, 2011, reverses the current default value used when printing checks for individual clients. The amendment stipulates that checkbooks printed by a banking corporation for an individual client would have the checks crossed and printed with text prohibiting their assignment - unless the client asked for checkbooks to be printed without such crossing and text.

The amendment to the Act became effective on October 1, 2011.

The Bank applies the provisions of the amendment to the Act.

Anti-Trust Act (Amendment 12), 2011

The amendment to the Act, passed by the Knesset on July 18, 2011, stipulates that the Anti-Trust Supervisor (hereinafter: "the Supervisor") may determine that a small group of individuals doing business and holding a concentration of more than 50% of total supply of assets or total provision of services, or its acquisition, constitutes a concentration group with regard to the amendment to the Act, and each of these persons constitutes a member of a concentration group, should the Supervisor consider that certain conditions prescribed by the amendment to the Act have been fulfilled.

The amendment to the Act stipulates special provisions with regard to concentration groups in the banking sector and in the insurance sector, whereby the Supervisor shall consult with the Governor of the Bank of Israel and with the Supervisor of Banks with regard to the Supervisor's intention to determine that a small group of individuals constitutes a concentration group, and the Supervisor shall inform the latter of the Supervisor's intention to issue a directive pursuant to section 31c(a) intended to prevent actual or foreseen significant impact to the public or to business competition among group members or in their sector, if such determination or directive concerns any person acting in a sector which falls under the responsibility of the Bank of Israel pursuant to provisions of the Bank of Israel Act; should the Governor of the Bank of Israel of the Supervisor of Banks, after receiving notice pursuant to this section, consider that issuing such a directive would jeopardize the stability of any banking corporation of the stability of the banking system, they shall inform the Supervisor, who shall avoid issuing such a directive.

Provisions of section 31d of the body of the Act, with regard to the Supervisor avoiding issuing a directive due to notice from the Governor of the Bank of Israel, the Supervisor of Banks or the Supervisor of the Capital Market, as the case may be, because issuing such directive may impact the stability of entities or systems specified in sub-sections (a) or (b) of said section, shall apply through January 1, 2014; the Minister of Finance, with approval of the Knesset Economics Committee, may extend the aforementioned period for additional two-year terms.
In the estimation of the Bank's management, it is not possible at this stage to estimate the effect of the implementation of the law on the operating results of the Bank.

Measurement and disclosure of impaired debt, credit risk and provision for credit loss
On December 31, 2007, the Supervisor of Banks published his circular regarding “Measuring and Disclosure of Impaired Debt, Credit Risk and Provision for Credit Loss” (hereinafter: “the regulation”). On February 21, 2010, the Supervisor of Banks issued a letter in which it delayed implementation of this directive in financial statements of banking corporations, from January 1, 2010 to January 1, 2011 - without retrospective implementation in financial statements for prior periods. For details of the directive and its initial application as from January 1, 2011, see Note 1.E.1. to the financial statements.

Proper Conduct of Banking Business Regulation No. 301 concerning "Board of Directors"
On December 29, 2010, the Supervisor of Banks issued an amendment to Regulation No. 301 concerning the Board of Directors, in conjunction with updating of Proper Conduct of Banking Business Regulations and adaptation there of to the Basel II framework. The regulation specified rules for Board operation, roles and authority, structure and composition, including its committees, processes for confirmation of Board member qualifications for their position etc. - all this in addition to provisions of the Corporate Act, 1999.
The Regulation emphasizes the Board's place and role in proper corporate governance of a banking corporation,

specified the Board's responsibility for business and financial robustness of the banking corporation and specifies the Board's roles in exercising this responsibility. Thus, for example, the Board must set corporate strategy and approve corporate policies, supervise management activities and their compliance with Board policy, ensure existence of clear responsibilities and reporting channels within the banking corporation, specify the organizational culture with regard to professional conduct and integrity etc.

The regulation further stipulates that the Board must discuss and set overall strategy objectives for the banking corporation group, and that the Board of a controlled entity must take into consideration the overall strategy objectives of the Group, in as much as they are in line with the best interest of the controlled entity.

As for credit, the Board is expected to focus on creating appropriate control and supervision structures over management activity, and to limit its involvement in credit approval.

On November 6 ,2011 ,the Supervisor of Banks issued an additional update to Regulation 301 ,stipulating that a banking corporation which is a private company may have a Board member, employed by another banking corporation which controls the aforementioned banking corporation, serving on the Audiot Committee.

Most of these amendments to the regulation shall become effective by January 1, 2012.

The Bank is preparing to implement the regulation.

Amendment of Proper Conduct of Banking Business Regulation 313 "Restrictions on indebtedness of borrowers and groups of borrowers"

On May 8, 2011, the Supervisor of Banks issued a circular amending Regulation 313 with regard to restrictions on indebtedness of borrowers and groups of borrowers, in conjunction with action to reduce concentration risk in the banking system. Below are highlights of the amended regulations:

- Imposition of stricter restrictions on the credit portfolio to borrowers and groups of borrowers, *inter alia* by applying an indebtedness limit on exposure to banks as well, amending the restriction on indebtedness of groups of borrowers from 30% to 25% of equity of the banking corporation, and setting a limit of 120% of equity of the banking corporation for total net indebtedness of borrowers, groups of borrowers and banking groups of borrowers whose net indebtedness to the banking corporation exceeds 10% of equity of the banking corporation.
- Updated definitions of indebtedness and deductions from indebtedness, in accordance with Basel II rules, except for derivative transactions to which a stricter rule is applied, in anticipation of expected changes due to new directives of the Basel Committee.
- Elimination of special processing of the Bank's commitment to clients, which was contingent on the Bank's compliance with restrictions pursuant to the aforementioned regulation.
- Updated definition of capital, in accordance with change in definitions based on Basel II rules.
- Transition provisions are in place to handle exceptions created by initial application of provisions in this circular.

The effective start date of the amended directive is December 31, 2011, except for the amended definition of "equity", which is effective immediately. The Bank is preparing to comply with the directive and is reviewing the implications of its application.

Restriction on grant of housing loans bearing variable interest

On May 3, 2011, the Supervisor of Banks issued a letter, directing banking corporations to restrict the ratio of variable interest in housing loans to 33.3% of the total loan for loans approved in principle or refinanced as from May 5, 2011. This restriction does not apply to any refinancing in which the variable interest component of the loan is reduced. Further, a banking corporation may choose not to apply the restriction to loans denominated in foreign currency granted to foreign residents, nor to balloon loans whose original maturity is up to three years. This is contingent on the ratio of total housing loans bearing variable interest to total housing loans approved in principle as from May 5, 2011, provided in each quarter, shall not exceed 33.3%.

Further, the Supervisor of Banks instructed banking corporations to inform their clients of the implications of potential increase in interest rates on their loans.

FATCA (Foreign Account Tax Compliance Act)

In accordance with the Act, which became effective in the USA in March 2011, foreign financial institutions, including banks around the world, are required to provide to the IRS (US Tax Authority) information about US taxpayers.

According to the Act, foreign financial institutions are required to identify all accounts of individual and entities directly or indirectly owned by Americans, and to report some of them (based on criteria specified in the Act) to the IRS.

Any foreign financial institution which would not sign an agreement with the IRS, shall be required to withhold tax at 30% on relevant payments from a US source. The withholding shall apply to financial assets of the foreign financial institution as well as to assets of its clients.

The Act is designed to:

- Reduce tax avoidance by US persons using accounts outside the USA.
- Increase tax revenues paid by US persons to the USA, and increase transparency and reporting of assets and balances of clients identified as American to the IRS.

Further instructions pursuant to the Act have yet to be finalized and published by the IRS. Provisions of the Act shall be applied as from January 2013.

The Bank avoids providing consulting or any assistance with regard to how accounts are to be identified as American or with respect to US taxation, including any advice with regard to FATCA, and is preparing to apply this legislation.

New directives for money markets

At the end of January 2011, the Bank of Israel issued new money market directives, whereby it required reporting of transactions in foreign currency derivatives in excess of USD 10 million as well as reporting of transactions in Government of Israel debentures (up to one year) and short-term Government loans by foreign residents and financial brokers in excess of NIS 10 million. The Bank of Israel also imposed a 10% liquidity requirement for swap transactions and future NIS / foreign currency conversion transactions by foreign residents.

In early May 2011, the Ministry of Finance announced termination of the tax exemption for foreign residents for investment in short-term Government loans and Government debentures for a term of one year or shorter (this termination became effective on July 7, 2011).

Report on corporate accountability

On October 3, 2011, the Supervisor of Banks issued a circular regarding the Report on Corporate Accountability. According to this circular, banking corporations should make public a report for a period of up to two years about their corporate accountability, as stated in the directive. The report would be published for the period starting on or after January 1, 2012.

The Bank is preparing to implement the regulation.

Proper Conduct of Banking Business Directive no. 357 - Information Technology Management

On January 30, 2011, the Supervisor of Banks issued a circular with an update to Proper Conduct of Banking Business Directive no. 357 - Information Technology Management. The directive was amended due to technology changes which have implications on risk management within information technology systems, which have occurred since the most recent update to the directive (in 2003).

The amendments to the directive mostly consist of emphasis on the fact that online banking also includes email, and therefore also required encryption; requirement to protect all websites of the banking corporation, including the marketing website, by means of minimum defense mechanisms set forth in the directive; various easements, such as: allowing an option to update personal information via online banking used to provide information to clients, and conditions which would allow for amendment of personal information; option to execute an online agreement by telephone as well, subject to fulfillment of conditions prescribed by the directive, to facilitate execution of online agreements; permission to grant permissions for various online banking channels, which differ from permissions agreed to on the client account, in case of corporations; any notification which is subject to confidentiality may be sent by the banking corporation via email or via the corporation's website, subject to conditions described in the directive. For sending notifications via the banking corporation's website, the requirement for using computer tools to definitely determine whether the client has received or opened the mail message, or has downloaded the mail message to his computer or has printed it; the directive refers to Proper Conduct of Banking Directive no. 420, which specifies the message types which may be sent via email or via the banking corporation's website, for which the banking corporation would be exempt from sending the messages by post as well.

Client investments in financial assets through portfolio managers

On September 20, 2011, the Supervisor of Banks issued a circular on client investments in financial assets through portfolio managers. The circular was issued in view of the Investment Advisory / Marketing / Management Act, and amends Proper Conduct of Banking Business no. 462 on this matter.

The amendment primarily consists of adding the definition of "qualified client", which includes, *inter alia*, institutional clients as well as individual clients with knowledge of and familiarity with the capital market, as well as a significant investment portfolio. Under the Advisory Act, providers of investment advisory or portfolio management services to a "qualified client" need not be licensed. The amendment exempts the banking corporation from the need to provide explanation by an authorized clerk of the banking corporation, provided that the "qualified client" has waived in writing the receipt of such explanation.

Recommendations of Basel Committee on Banking Supervision ("Basel Committee")

For details of highlights of recommendations of the Basel Committee and their application to banks in Israel and their implementation by the Bank, see the Board of Directors' Report as of December 31, 2010.

In conjunction with application of Basel II, Pillar 2 (Proper Conduct of Banking Business Regulation 211 - ICAAP Process), all risk types material to Bank operations have been mapped. ICAAP is a comprehensive process in which senior Bank executives are involved. The Bank has specified its risk appetite for all material risk types to its operations, authored policy documents for new risk types and extended existing policy documents, in conjunction with the ICAAP process. The risk appetite, risk mapping and determination of the materiality there of are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on annual basis.

In May 2011, the Bank submitted to the Bank of Israel its ICAAP document (as of December 31, 2010), which reflects the Bank's assessment of the capital required to cover all risk to which the Bank is exposed in conjunction with its business operations, as per guidance from the Bank of Israel, and in coordination with Bank of Israel comments on the SREP process conducted at the Bank.

Results of the capital assessments conducted within this document, indicate that the Bank has sufficient capital to cover all risk factors to which it is exposed, both under normal and stress conditions.

In conjunction with application of Pillar 2, the Bank continues in accordance with the work plan to regularly eliminate gaps identified vis-à-vis requirements of the Basel Committee in various risk areas, to deliver appropriate training to senior staff at the Bank and to improve its risk management and capital management policy documents in line with Pillar 2 directives.

On September 27 ,2011 ,the Bank received the Supervisor of Banks' comments on the Bank's ICAPP document, as well as comments in conjunction with the supervisory review process. The Bank is reviewing the comments made by the Supervisor and is preparing to implement the directives.

Legal Proceedings

For material changes in legal proceedings to which the Bank is party, see Notes 6.D. 2) and 3) to the financial statements.

Determination by the Restrictive Trade Practices Authority

On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor's inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of its content in any legal proceeding.

For more details, including consent of the parties to refer this case to arbitration, see Note 6.D.4) to the financial statements.

Other Matters

The independent auditors have, in their review, drawnattention to Note 6.D.3-4 to the financial statements with regard to claims filed against the Bank, including claims accompanied by applications for class action status.

Executive Management

On June 2, 2011, Mr. Uziel Danino announced his retirement from the position of Manager, Client Assets and Advisory Division, which became effective on July 14, 2011.

On July 7, 2011, Mr. Haim Git retired from his position as the Chief Internal Auditor of the Bank Group, and upon that date he was appointed as a member of Bank management, Deputy President and CRO, replacing Mr. Moshe Larry. On that date, Ms. Galit Weiser was appointed Chief Internal Auditor of the Bank, as stated below in the chapter titled "Internal Auditor".

On July 14, 2011, Mr. Moshe Larry, Manager of Planning, Operations and Control Division, was also appointed Manager, Client Assets and Advisory Division.

By decision of the Bank Board of Directors dated July 25, 2011, a new division was created at the Bank: The Risk Control Division, headed by Mr. Haim Git. Upon creation of the Risk Control Division, the Planning, Operations and Control Division was renamed the Planning and Operations Division.

On October 25, 2011, Ms. Na'ama Gat announced her intention to retire from her position as Manager, Marketing, Advertising and Business Development Division. Ms. Gat would remain in office until a suitable candidate is located and her position is transitioned.

Internal Auditor

On June 23, 2011, the Chief Internal Auditor of the Bank Group, Mr. Haim Git, announced his retirement from this position, after being nominated to be a member of Bank management, Deputy President and CRO.

On that date, the Bank's Board of Directors approved the appointment of Ms. Galit Weiser, the Deputy Internal Auditor, to be the Chief Internal Auditor of the Bank Group, as nominated by the Audit Committee and subject to approval by the Supervisor of Banks.

On July 7, 2011, the Supervisor of Banks' approval was received and the appointment became effective.

The following is information about the Chief Internal Auditor of the Bank Group, who started in office on July 7, 2011:

Name	Galit Weiser
Start of term in office	July 2011
Education	CPA; undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University).
Experience	Deputy Chief Internal Auditor at the Bank; previously, Chief Internal Auditor of Bank Tefahot.

On November 17, 2011, 97,600 Bank stock options were allotted to the Internal Auditor. For further details, see Note 12.2) to the financial statements.

The Board of Directors believes that the extent of Bank securities owned by the Internal Auditor does not impact the quality of her work.

Appointment

In June 2011, appointment of the Internal Auditor was confirmed by the Audit Committee and the Board of Directors, based on the Auditor's experience and educational qualifications.

Details of internal audit within the Group, including the professional standards applied by internal audit, the annual and multi-annual work plan and considerations in its determination, extent of employment of the Internal Auditor and his team and the manner in which reports are submitted with regard to findings of the Internal Auditor have been included in the Board of Directors' Report attached to the 2010 financial statements. No material changes occurred in these details during the reported period.

Accounting Policy on Critical Matters

The Group's consolidated financial statements are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) for interim periods, and in accordance with the directives and guidelines of the Supervisor of Banks on the preparation of the financial statements of a banking entity. Highlights of accounting policies are specified in Note 1 to these condensed financial statements and in Note 1 to the financial statements as of December 31, 2010.

The application of generally accepted accounting principles by management at the time that the financial statements are prepared occasionally involves various assumptions, assessments and estimates that affect the amounts and business results reported in the financial statements. Some of the assumptions, assessments and estimates are critical to the financial position or the results of operations reflected in the Group's financial statements, because of the materiality of the matter, complexity of calculations or the extent of the probability that matters shrouded in uncertainty will be realized.

The financial statements for 2010 include details of accounting policies on critical issues for accounting treatment of the following: Specific provision for doubtful debts, derivative instruments, securities, liabilities with respect to employee rights, provisions for legal claims, provision for impairment of non-financial assets and deferred taxes.

In the reported period there were no changes to Bank accounting policies on critical issues as stated in the Board of Directors' report for the financial statements as of December 31, 2010, other than with regard to the provision for credit loss, fair value measurement and employee rights - pursuant to adoption of new accounting rules in the reported period, as described in section 1.E. to the financial statements.

Provision for expected payments to retirees in excess of contractual terms and conditions

In the second quarter of 2011, the Bank implemented, by way of retroactive adjustment, the Supervisor of Banks' directive concerning assessment of liability with respect to employee rights. For details, see Note 1.E.4. to the financial statements. In conjunction with implementation of this directive, a provision was made for expected payments to retirees in excess of contractual terms and conditions, based on an actuarial estimate. The actuarial estimate is based on several key assumptions, including with regard to the discount rate, the annual increase rate of payroll at the Bank, the departure rate prior to retirement age and the average benefit rate per retiree receiving benefits.

The following is a sensitivity analysis of total provision for employee rights to changes in key assumptions used as basis for the actuarial estimate, as of the transition date (NIS in millions):

	A 0.25% increase in discount rate	A 1% change in annual payroll increase		A 5% change in departure rate before retirement age		A 10% change in average benefit per retiree receiving benefits	
		Increase	Decrease	Increase	Decrease	Increase	Decrease
Severance pay provision	(5)	23	(20)	10	(10)	3	(3)
Budgetary pension	(3)	-	-	-	-	-	-
Bonuses	(2)	-	-	-	-	-	-

Certification process of the financial statements

The organ in charge of audit supervision at the Bank is its Board of Directors. Board members' names, accounting and financial skills and professional qualifications are specified in the Board of Directors' report as of December 31, 2010.
The processes of preparing, auditing and approving the financial statements involve additional organs and officers as described below.
Bank financial statements are prepared by a professional department, headed by the Chief Accountant, pursuant to directives and guidance from the Supervisor of Banks and in accordance with the disclosure policy set by the Bank's Board of Directors.

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

For details of names and positions of Bank executives, see the chapter on Bank management in the Board of Directors' report as of December 31, 2010.
The Bank operates a Doubtful Debts Committee, headed by the manager of the Business Division, and attended by professional credit officers, as well as a doubtful debts committee headed by the President and attended by the manager of the Business Division, manager of the Retail Division, manager of the Financial Division, the Chief Accountant, the Chief

Legal Counsel and credit professionals. In conjunction with preparation of the financial statements, the committee reviews the state of troubled loans of the Bank, their classification and provisions required there for. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required with respect to claims filed against the bank.

Matters of principle with regard to disclosure in the financial statements are discussed by the Financial Statements Disclosure Committee (“the Disclosure Committee”) headed by the President and including the Chief Accountant, Chief Legal Counsel and other members of the Executive Management. These discussions include issues with material impact on the financial statements, issues of interest to the public, developments requiring disclosure to the public, material changes to application of accounting policies, requests or demands by regulatory authorities and issues on which Bank management and the independent auditor differ. As part of presentation of these issues to the Disclosure Committee, the independent auditors' professional comments are also presented.

In order to improve efficiency of supervision and control of disclosure in financial statements, the Bank's Board of Directors has established the Board Balance Sheet Committee, a restricted committee with 5 Board members, which is tasked with discussion and deliberation of proper disclosure in financial statements and with review of the financial statements in their entirety before they are submitted for discussion and approval by the Board of Directors plenum. The Board of Directors at its meeting on January 24, 2011, resolved to approve for the Balance Sheet Committee to serve as a Financial Statement Review Committee, pursuant to Corporate Regulations (Provisions and Conditions Concerning Approval Process of Financial Statements), 2010 (hereinafter: "regulations concerning financial statements approval process") and to be renamed "the Financial Statement Review Committee".

For this matter, note that in order to meet the condition stipulated in the regulations concerning the financial statements approval process, whereby a majority of Committee members shall be independent Board members, the Board of Directors' Audit Committee confirmed on January 10, 2011, that qualifications for appointment of an external Board member are met for Board members: Dov Mishor, Gideon Sitterman, Avi Ziegelman and Yossi Shachak, and therefore the Audit Committee classified all of these Board members as independent Board members, as this term is defined in the Act. The Board of Directors further assessed on January 24, 2011, for good measure, in relying on statements by the Board members, that each of Board members: Dov Mishor, Gideon Sitterman, Avi Ziegelman, Yossi Shachak and Avraham Shochat have accounting and financial expertise. The Board of Directors at that meeting further resolved to reappoint Board members: Dov Mishor, Gideon Sitterman, Avi Ziegelman, Yossi Shachak and Avraham Shochat as members of the Financial Statements Review Committee, as from the date of that resolution, and to appoint Mr. Avi Ziegelman Chairman of the Financial Statements Review Committee, as from the date of that resolution, replacing Mr. Avraham Shochat who concluded his term in office as Committee Chairman upon that date.

Further to the Audit Committee's resolution dated January 10, 2011 with regard to classification of independent Board members, the Audit Committee resolved, on May 11, 2011, to reclassify each of the following Board members: Messrs. Dov Mishor and Yossi Shachak as "independent Board members", as defined in Section 1 of the Corporate Act, -1999, as amended by the Corporate Act (Amendment 16), 2011. This is based on statements by the aforementioned Board members and in view of additional conditions required for classification of Board members as independent.

The Financial Statements Review Committee reviews the assessments and estimates made in conjunction with the financial statements, internal controls associated with financial reporting, completeness and appropriateness of disclosure on financial statements; accounting policies adopted and accounting treatment applied to material issues of the corporation; valuations, including underlying assumptions and estimates, on which data on the financial statements relies.

Meetings of the Financial Statements Review Committee are also attended by the Chief Accountant, the Chief Legal Counsel and the independent auditors. The Chief Internal Auditor is invited to attend Committee meetings.

Pursuant to directives of the Supervisor of Banks on implementation of provisions of Sections 302 and 404 of the US Sarbanes-Oxley Act, the Financial Statements Review Committee receives a report on any significant fault discovered in the disclosure processes or in internal controls over financial statements. Any such faults as well as any findings by the independent auditor are also presented to the Board Audit Committee. These discussions are also attended by the Internal Auditor and the independent auditors. Any report of significant faults is also presented to the Board of Directors.

The Financial Statements Review Committee convenes twice to discuss the quarterly financial statements and three times to discuss the annual financial statements, with the final meeting held at least one week prior to the Board of Directors plenary meeting to approve the financial statements.

After discussions are concluded by the Board Financial Statements Review Committee, its recommendations along with the draft financial statements are submitted to the Board of Directors, so that Board members receive the documents at least three days prior to their discussion of by the Board of Directors. In conjunction with the discussion by the Board of Directors, the Chief Accountant presents the financial results and an analysis. The Chairman of the Financial Statements Review Committee brings the Financial Statements Review Committee's recommendations on matters discussed there by to the Board of Directors for approval of the financial statements. The Board of Directors' meeting to discuss approval of the financial statements is attended, other than by members of the Board, by the President, Chief Accountant, Chief Legal Counsel, Chief Internal Auditor and independent auditors, as well as other participants invited to attend on per-case basis. The independent auditors present their comments.
At the end of this discussion, a resolution is passed to approve the Bank's financial statements and to authorize the Chairman of the Board of Directors, the President and the Chief Accountant to sign the financial statements.

Board of Directors

During the first nine months of 2011, the Bank Board of Directors held 15 plenary meetings and 61 Board committee meetings.

The Board of Directors at its meeting on January 24, 2011, resolved to approve for the Balance Sheet Committee to serve as a Financial Statement Review Committee, pursuant to Corporate Regulations (Provisions and Conditions Concerning Approval Process of Financial Statements), 2010 and to be renamed "the Financial Statement Review Committee". It was further resolved to appoint Mr. Avi Ziegelman Chairman of the Financial Statements Review Committee, as from the date of said resolution, replacing Mr. Avraham Shochat who concluded his term in office as Committee Chairman upon that date.

On February 28, 2011, Mr. Avi Ziegelman, Mr. Moshe Wertheim and Mr. Avraham (Baiga) Shochat concluded their terms in office as members of the Risk Management Committee.

On May 12, 2011. Mr. Jonathan Kaplan was appointed as a member of the Bank's Board of Directors.

On August 30, 2011, Mr. Avi Ziegelman was appointed Chairman of the Audit Committee, replacing Mr. Dov Mishor - who continues to serve as a member of this Committee.

The Remuneration Committee was renamed the Payroll and Remuneration Committee, and Mr. Gideon Sitterman was appointed Committee Chairman, replacing Mr. Jacob Perry - who continues to serve as a member of this Committee. Further, Messrs. Moshe Wertheim, Avi Ziegelman and Moshe Weidman concluded their office on the Payroll and Remuneration Committee, and Mr. Jonathan Kaplan was appointed member of this Committee. On the same date, Mr. Moti Meir was appointed Member of the Financial Statement Review Committee.

On September 21, 2011, Messrs. Dov Mishor, Avraham (Baiga) Shochat and Yossi Shachak concluded their office as members of the Board Credit Committee.

On September 25, 2011, Mr. Avi Ziegelman was appointed Member of the Board Credit Committee.

Controls and Procedures

In accordance with the public reporting directives of the Supervisor of Banks, based on Section 302 of the American Sarbanes Oxley Act, the President and the Chief Accountant of the Bank have each separately signed a Certification attached to the financial statements on "Disclosure Controls and Procedures ("Disclosure Certification"). This directive of the Supervisor of Banks is part of an overall policy regarding the adoption of the provisions of Section 404 of the Sarbanes Oxley Act, which includes, *inter alia*, certification by the President and Chief Accountant on "the effectiveness of internal controls over the financial reporting", which was attached to the financial statements as of December 31, 2010.

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

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

During the quarter ended September 30, 2011, no change occurred in the Bank's internal controls over financial reporting that had a material effect, or can reasonably be expected to have a material effect on the Bank's internal controls over financial reporting.

Jacob Perry
Chairman of the Board of Directors

Eliezer Yones
President

Ramat Gan, November 28, 2011

Summary Management Review - Addendum A
Revenue and Expense Rates – Consolidated [1]

Reported amounts (NIS in millions)

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets [3]	75,707	906	4.87		61,380	565	3.73	
Effect of embedded and ALM derivatives [4]	56,318	277			60,162	368		
Total assets	**132,025**	**1,183**		**3.63**	**121,542**	**933**		**3.10**
Liabilities [3]	72,921	(452)	(2.50)		59,554	(141)	(0.95)	
Effect of embedded and ALM derivatives [4]	57,567	(278)			57,700	(326)		
Total liabilities	**130,488**	**(730)**		**(2.26)**	**117,254**	**(467)**		**(1.60)**
Interest margin			**2.37**	**1.37**			**2.78**	**1.50**
Israeli currency - linked to the CPI								
Assets [3]	47,796	680	5.81		38,767	824	8.78	
Effect of embedded and ALM derivatives [4]	4,328	35			4,200	2		
Total assets	**52,124**	**715**		**5.60**	**42,967**	**826**		**7.92**
Liabilities [3]	36,475	(486)	(5.44)		31,389	(635)	(8.34)	
Effect of embedded and ALM derivatives [4]	6,373	(56)			9,361	(89)		
Total liabilities	**42,848**	**(542)**		**(5.16)**	**40,750**	**(724)**		**(7.30)**
Interest margin			**0.38**	**0.44**			**0.44**	**0.62**

See remarks below.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated [(1)] - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Assets [(3)]	19,162	1,484	34.77		20,100	(472)	(9.07)	
Effect of derivatives [(4)]								
Hedging derivatives	2,634	253			1,314	(20)		
Embedded and ALM derivatives	61,220	2,089			47,378	(2,047)		
Total assets	**83,016**	**3,826**		**19.75**	**68,792**	**(2,539)**		**(13.97)**
Liabilities [(3)]	24,078	(1,700)	(31.38)		22,364	616	10.57	
Effect of derivatives [(4)]								
Hedging derivatives	2,634	(295)			1,449	24		
Embedded and ALM derivatives	56,471	(1,748)			44,399	1,974		
Total liabilities	**83,183**	**(3,743)**		**(19.25)**	**68,212**	**2,614**		**14.47**
Interest margin			**3.39**	**0.50**			**1.50**	**0.50**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1] - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenues [3]	142,665	3,070	8.89		120,247	917	3.09	
Effect of derivatives [4]								
Hedging derivatives	2,634	253			1,314	(20)		
Embedded and ALM derivatives	121,866	2,401			111,740	(1,677)		
Total assets	**267,165**	**5,724**		**8.85**	**233,301**	**(780)**		**(1.33)**
Monetary liabilities generating financing expenses [3]	133,474	(2,638)	(8.14)		113,307	(160)	(0.57)	
Effect of derivatives [4]								
Hedging derivatives	2,634	(295)			1,449	24		
Embedded and ALM derivatives	120,411	(2,082)			111,460	1,559		
Total liabilities	**256,519**	**(5,015)**		**(8.05)**	**226,216**	**1,423**		**2.49**
Interest margin			**0.75**	**0.80**			**2.52**	**1.16**
On options		74				(5)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [4])		(2)				7		
Commissions from financing transactions and other financing revenues [6]		101				98		
Other financing expenses		(5)				(8)		
Profit from financing operations before expenses with respect to credit loss		877				735		
Expenses with respect to credit loss		(142)				(102)		
Profit from financing operations after expenses with respect to credit loss		735				633		

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1] - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2011	For the three months ended September 30, 2010
	Average balance [2]	**Average balance [2]**
Total		
Monetary assets generating financing revenues [3]	142,665	120,247
Assets derived from derivative instruments [7]	3,126	2,716
Other monetary assets [3]	1,061	759
Provision for credit loss [8]	(2,250)	(211)
Total monetary assets	**144,602**	**123,511**
Total		
Monetary liabilities generating financing expenses [3]	133,474	113,307
Liabilities deriving from derivatives [7]	2,795	2,154
Other monetary liabilities [3]	1,664	1,723
Total monetary liabilities	**137,933**	**117,184**
Total excess monetary assets over monetary liabilities	6,669	6,327
Non-monetary assets	1,269	1,275
Non-monetary liabilities	269	256
Total capital resources	**7,669**	**7,346**

(1) The data in this table is provided before and after the effect of derivatives (including off-balance sheet effects of financial derivatives).

(2) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data, before deduction of average balance sheet balance of provisions for credit loss. In 2010, net of the average balance sheet balance of specific provisions for doubtful debts.

(3) Excludes financial derivatives.

(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.

(5) Including Israeli currency linked to foreign currency.

(6) Includes gain from sale of investments in debentures and from the adjustment to fair value of debentures held for trading.

(7) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

(8) In 2010, general and supplementary provision for doubtful debts.

(9) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. See Note 1.E.4 to the financial statements.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated [(1)] - Continued

Nominal – in USD (USD in millions)

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Monetary assets in foreign currency generating financing revenues [(3)]	4,994	39	3.16		5,086	34	2.70	
Effect of derivatives [(4)]								
Hedging derivatives	743	5			346	(5)		
Embedded and ALM derivatives	16,132	63			12,340	47		
Total assets	**21,869**	**107**		**1.97**	**17,772**	**76**		**1.72**
Monetary liabilities in foreign currency generating financing expenses [(3)]	6,759	(16)	(0.95)		5,855	(4)	(0.27)	
Effect of derivatives [(4)]								
Hedging derivatives	743	(17)			384	6		
Embedded and ALM derivatives	15,929	(72)			10,908	(51)		
Total liabilities	**23,431**	**(105)**		**(1.80)**	**17,147**	**(49)**		**(1.15)**
Interest margin			**2.21**	**0.17**			**2.43**	**0.57**

(1) The data in this table is provided before and after the effect of derivatives (including off-balance sheet effects of financial derivatives).

(2) Based on monthly opening balances, before deduction of average balance sheet balance of provision for credit loss. In 2010, net of the average balance sheet balance of specific provisions for doubtful debts.

(3) Excludes financial derivatives.

(4) Hedging financial derivatives (excluding options), embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.

(5) Including Israeli currency linked to foreign currency.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated [(1)]

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Israeli currency - non-linked								
Assets [(3)]	72,931	2,483	4.57		60,428	1,579	3.50	
Effect of embedded and ALM derivatives [(4)]	63,990	1,177			52,712	990		
Total assets	**136,921**	**3,660**		**3.58**	**113,140**	**2,569**		**3.04**
Liabilities [(3)]	69,399	(1,121)	(2.16)		57,292	(423)	(0.99)	
Effect of embedded and ALM derivatives [(4)]	63,847	(959)			50,884	(904)		
Total liabilities	**133,246**	**(2,080)**		**(2.09)**	**108,176**	**(1,327)**		**(1.63)**
Interest margin			**2.41**	**1.49**			**2.51**	**1.41**
Israeli currency - linked to the CPI								
Assets [(3)]	45,002	2,327	6.95		37,425	1,735	6.23	
Effect of embedded and ALM derivatives [(4)]	4,316	167			3,744	166		
Total assets	**49,318**	**2,494**		**6.80**	**41,169**	**1,901**		**6.20**
Liabilities [(3)]	35,097	(1,734)	(6.64)		30,981	(1,352)	(5.86)	
Effect of embedded and ALM derivatives [(4)]	9,537	(378)			8,237	(275)		
Total liabilities	**44,634**	**(2,112)**		**(6.36)**	**39,218**	**(1,627)**		**(5.57)**
Interest margin			**0.31**	**0.44**			**0.37**	**0.63**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1) - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency (5)								
Assets (3)	18,904	1,470	10.50		19,258	(315)	(2.17)	
Effect of derivatives (4)								
Hedging derivatives	2,476	258			1,268	15		
Embedded and ALM derivatives	55,923	2,064			44,002	(4,007)		
Total assets	**77,303**	**3,792**		**6.59**	**64,528**	**(4,307)**		**(8.80)**
Liabilities (3)	23,422	(1,499)	(8.62)		21,698	838	5.11	
Effect of derivatives (4)								
Hedging derivatives	2,476	(309)			1,387	(28)		
Embedded and ALM derivatives	50,504	(1,695)			41,189	3,778		
Total liabilities	**76,402**	**(3,503)**		**(6.16)**	**64,274**	**4,588**		**9.40**
Interest margin			**1.88**	**0.43**			**2.94**	**0.60**

See remarks below.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1) - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenues (3)	136,837	6,280	6.17		117,111	2,999	3.43	
Effect of derivatives (4)								
Hedging derivatives	2,476	258			1,268	15		
Embedded and ALM derivatives	124,229	3,408			100,458	(2,851)		
Total assets	**263,542**	**9,946**		**5.06**	**218,837**	**163**		**0.10**
Monetary liabilities generating financing expenses (3)	127,918	(4,354)	(4.56)		109,971	(937)	(1.14)	
Effect of derivatives (4)								
Hedging derivatives	2,476	(309)			1,387	(28)		
Embedded and ALM derivatives	123,888	(3,032)			100,310	2,599		
Total liabilities	**254,282**	**(7,695)**		**(4.06)**	**211,668**	**1,634**		**1.03**
Interest margin			**1.60**	**1.01**			**2.29**	**1.13**
On options		(120)				(40)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		23				29		
Commissions from financing transactions and other financing revenues (6)		293				318		
Other financing expenses		(23)				(25)		
Profit from financing operations before expenses with respect to credit loss		2,424				2,079		
Expenses with respect to credit loss		(276)				(281)		
Profit from financing operations after expenses with respect to credit loss		2,148				1,798		

See remarks below.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated (1) - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2011	For the nine months ended September 30, 2010
	Average balance (2)	**Average balance (2)**
Total		
Monetary assets generating financing revenues (3)	136,837	117,111
Assets derived from derivative instruments (7)	3,112	2,276
Other monetary assets (3)	988	897
Provision for credit loss (8)	(2,314)	(209)
Total monetary assets	**138,623**	**120,075**
Total		
Monetary liabilities generating financing expenses (3)	127,918	109,971
Liabilities deriving from derivatives (7)	2,548	2,216
Other monetary liabilities (3)	1,788	1,729
Total monetary liabilities	**132,254**	**113,916**
Total excess monetary assets over monetary liabilities	6,369	6,159
Non-monetary assets	1,363	1,295
Non-monetary liabilities	275	252
Total capital resources	**7,457**	**7,202**

(1) The data in this table is provided before and after the effect of derivatives (including off-balance sheet effects of financial derivatives).

(2) Based on monthly opening balances, except for non-linked Israeli currency, where average balance is calculated based on daily data, before deduction of average balance sheet balance of provisions for credit loss. In 2010, after deduction of average balance sheet balance.

(3) Excludes financial derivatives.

(4) Hedging financial derivatives, embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.

(5) Including Israeli currency linked to foreign currency.

(6) Includes gain from sale of investments in debentures and from the adjustment to fair value of debentures held for trading.

(7) Average balance sheet balances of financial derivatives (excludes average off-balance sheet balances of financial derivatives).

(8) In 2010, general and supplementary provision for doubtful debts.

(9) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. See Note 1.E.4 to the financial statements.

Management Review - Addendum A
Revenue and Expense Rates – Consolidated [(1)] - Continued

Nominal – in USD (USD in millions)

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Monetary assets in foreign currency generating financing revenues [(3)]	5,090	102	2.68		4,940	87	2.36	
Effect of derivatives [(4)]								
Hedging derivatives	701	14			336	6		
Embedded and ALM derivatives	15,462	130			11,660	140		
Total assets	**21,253**	**246**		**1.55**	**16,936**	**233**		**1.84**
Monetary liabilities in foreign currency generating financing expenses [(3)]	6,615	(39)	(0.79)		5,721	(15)	(0.35)	
Effect of derivatives [(4)]								
Hedging derivatives	701	(28)			368	(10)		
Embedded and ALM derivatives	14,305	(125)			10,628	(131)		
Total liabilities	**21,621**	**(192)**		**(1.19)**	**16,717**	**(156)**		**(1.25)**
Interest margin			**1.89**	**0.36**			**2.01**	**0.59**

(1) The data in this table is provided before and after the effect of derivatives (including off-balance sheet effects of financial derivatives).

(2) Based on monthly opening balances, before deduction of average balance sheet balance of provision for credit loss. In 2010, net of the average balance sheet balance of specific provisions for doubtful debts.

(3) Excludes financial derivatives.

(4) Hedging financial derivatives (excluding options), embedded derivatives that were detached and derivatives (ALM) which comprise part of the Bank's asset and liability management system.

(5) Including Israeli currency linked to foreign currency.

Management Discussion - Addendum B
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	September 30, 2011					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - non-linked						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)	69,421	1,919	1,816	1,648	1,096	652
Financial derivatives (except for options)	19,758	22,741	18,731	5,528	1,896	4,686
Options (in terms of underlying asset)	707	283	129	12	-	-
Total fair value	**89,886**	**24,943**	**20,676**	**7,188**	**2,992**	**5,338**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	59,221	4,386	5,266	4,720	2,435	351
Financial derivatives (except for options)	19,515	19,231	17,442	6,208	2,399	5,378
Options (in terms of underlying asset)	1,180	760	862	(36)	-	-
Total fair value	**79,916**	**24,377**	**23,570**	**10,892**	**4,834**	**5,729**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	9,970	566	(2,894)	(3,704)	(1,842)	(391)
Cumulative exposure in sector	9,970	10,536	7,642	3,938	2,096	1,705

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	As of September 30, 2010 Total fair value	Internal rate of return	Average effective term to maturity	As of December 31, 2010 Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
180	-	637	77,369	4.76	0.34	63,318	3.87	0.36	67,941	4.14	0.40
-	-	-	73,340		1.07	62,902		1.01	70,088		1.01
-	-	-	1,131		0.83	(840)		0.35	2,165		0.09
180	**-**	**637**	**151,840**		**0.70**	**125,830**		**0.69**	**140,194**		**0.70**
131	(56)	-	76,454	3.10	0.45	62,297	2.67	0.31	67,310	3.26	0.30
-	-	-	70,173		1.43	60,095		1.24	66,520		1.13
-	-	-	2,766		0.80	211		0.33	2,899		0.14
131	**(56)**	**-**	**149,393**		**0.92**	**122,603**		**0.77**	**136,729**		**0.70**
49	56	637	2,447			3,227			3,465		
1,754	1,810	2,447	2,447								

Management Discussion - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	As of September 30, 2011					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Israeli currency - linked to the CPI						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [(1)]	173	2,323	11,078	14,550	9,775	5,743
Financial derivatives (except for options)	5	12	716	1,453	859	1,819
Total fair value	**178**	**2,335**	**11,794**	**16,003**	**10,634**	**7,562**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	718	1,755	6,777	7,845	8,734	6,701
Financial derivatives (except for options)	681	246	5,064	2,460	646	1,205
Total fair value	**1,399**	**2,001**	**11,841**	**10,305**	**9,380**	**7,906**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(1,221)	334	(47)	5,698	1,254	(344)
Cumulative exposure in sector	(1,221)	(886)	(934)	4,764	6,018	5,674

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Weighted average by fair value of average effective duration.

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of September 30, 2010			As of December 31, 2010		
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
1,517	6	81	45,246	3.16	3.23	41,258	2.69	3.35	42,760	2.48	3.28
-	-	-	4,864		4.34	3,981		3.15	3,894		3.06
1,517	**6**	**81**	**50,110**		**3.34**	**45,239**		**3.33**	**46,654**		**3.26**
3,022	354	2	35,908	2.72	4.14	33,618	2.43	4.80	34,820	2.64	4.74
-	-	-	10,302		1.61	8,418		1.53	8,701		1.44
3,022	**354**	**2**	**46,210**		**3.58**	**42,036**		**4.15**	**43,521**		**4.08**
(1,505)	(348)	79	3,900			3,203			3,133		
4,169	3,821	3,900	3,900								

Management Discussion - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	As of September 30, 2011					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Foreign currency [1]						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [2]	10,674	5,078	2,329	397	1,084	486
Financial derivatives (except for options)	28,403	18,145	9,048	2,052	874	4,209
Options (in terms of underlying asset)	1,031	653	1,083	(40)	-	-
Total fair value	**40,108**	**23,876**	**12,460**	**2,409**	**1,958**	**4,695**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [2]	14,214	6,825	3,264	(188)	(67)	15
Financial derivatives (except for options)	23,215	13,679	15,119	2,425	1,523	4,713
Options (in terms of underlying asset)	602	142	272	1	-	-
Total fair value	**38,031**	**20,646**	**18,655**	**2,238**	**1,456**	**4,728**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	2,077	3,230	(6,195)	171	502	(33)
Cumulative exposure in sector	2,077	5,307	(888)	(717)	(215)	(248)

Specific remarks:
(1) Including Israeli currency linked to foreign currency.
(2) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(3) Weighted average by fair value of average effective duration.

General note:
- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of September 30, 2010			As of December 31, 2010		
10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
46	17	113	20,224	2.05	0.50	20,336	3.04	0.91	19,593	2.72	0.67
-	-	-	62,731		1.37	51,584		1.15	59,622		1.09
-	-	-	2,727		0.72	388		0.26	3,777		0.37
46	**17**	**113**	**85,682**		**1.14**	**72,308**		**1.08**	**82,992**		**0.96**
16	-	-	24,079	1.53	0.18	22,377	1.10	0.42	21,986	1.16	0.35
-	-	-	60,674		1.45	50,385		1.24	58,497		1.13
-	-	-	1,017		0.25	(706)		0.23	2,394		0.32
16	**-**	**-**	**85,770**		**1.08**	**72,056**		**1.00**	**82,877**		**0.90**
30	17	113	(88)			252			115		
(218)	(201)	(88)	(88)								

Management Discussion - Addendum B (continued)
Exposure of the Bank and its Subsidiaries
To changes in interest rates

Reported amounts (NIS in millions)

	As of September 30, 2011					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Non monetary segment						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Options (in terms of underlying asset)	53	-	(68)	(6)	-	-
Total fair value	**53**	**-**	**(68)**	**(6)**	**-**	**-**
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	80,268	9,320	15,223	16,595	11,955	6,881
Financial derivatives (except for options)	48,166	40,898	28,495	9,033	3,629	10,714
Options (in terms of underlying asset)	1,791	936	1,144	(34)	-	-
Total fair value	**130,225**	**51,154**	**44,862**	**25,594**	**15,584**	**17,595**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	74,153	12,966	15,307	12,377	11,102	7,067
Financial derivatives (except for options)	43,411	33,156	37,625	11,093	4,568	11,296
Options (in terms of underlying asset)	1,782	902	1,134	(35)	-	-
Total fair value	**119,346**	**47,024**	**54,066**	**23,435**	**15,670**	**18,363**
Financial instruments, net						
Total exposure to interest rate fluctuations	10,879	4,130	(9,204)	2,159	(86)	(768)
Total cumulative exposure	10,879	15,010	5,805	7,964	7,878	7,110

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.

(2) Includes shares presented in the column "without maturity".

(3) Weighted average by fair value of average effective duration.

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments in Note 8a to the financial statements.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value recognized under Note 8a to the financial statements.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

							As of September 30, 2010			As of December 31, 2010		
	10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity	Total fair value	Internal rate of return	Average effective term to maturity
					In %	in years		In %	in years		In %	in years
-	-	-	-	(21)			-			11		
-	**-**	**-**	**-**	**(21)**			**-**			**11**		
	1,743	23	831	142,839	3.87	1.28	124,912	3.35	1.44	130,294	3.50	1.38
	-	-	-	140,935		1.32	118,467		1.14	133,604		1.11
	-	-	-	3,837		0.75	(452)		0.43	5,953		0.27
	1,743	**23**	**831**	**287,611**		**1.29**	**242,927**		**1.30**	**269,851**		**1.22**
	3,169	298	2	136,441	2.72	1.37	118,292	2.30	1.61	124,116	2.71	1.56
	-	-	-	141,149		1.45	118,898		1.26	133,718		1.15
	-	-	-	3,783		0.65	(495)		0.19	5,293		0.22
	3,169	**298**	**2**	**281,373**		**1.40**	**236,695**		**1.44**	**263,127**		**1.32**
	(1,426)	(275)	829	6,238			6,232			6,724		
	5,684	5,409	6,238	6,238								

Management Review - Addendum C
Credit Risk by Economic Sector - Consolidated
As of September 30, 2011

Reported amounts (NIS in millions)

	Credit risk to the public						
	Balance sheet credit risk				Off-balance sheet credit risk [1]		
	Credit	Debentures [6]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total
Agriculture	604	-	1	605	201	4	205
Industry	6,858	75	125	7,058	3,379	362	3,741
Construction and real estate [7]	7,835	38	5	7,878	13,612	15	13,627
Electricity and water	346	4	87	437	1,108	288	1,396
Commerce	5,883	-	37	5,920	2,233	346	2,579
Hotel and food services	254	-	30	284	108	24	132
Transport and storage	887	-	4	891	491	34	525
Communications and computer services	1,554	17	9	1,580	875	107	982
Financial services	6,353	22	1,137	7,512	8,492	2,815	11,307
Other business services	3,364	-	8	3,372	627	59	686
Public and community services	836	-	2	838	145	164	309
Private individuals - housing loans	69,512	-	-	69,512	3,410	-	3,410
Private individuals - other	12,060	-	17	12,077	9,284	14	9,298
Total	**116,346**	**156**	**1,462**	**117,964**	**43,965**	**4,232**	**48,197**
For borrowers' activities overseas	2,982	14	12	3,008	334	86	420
Total credit risk to public	**119,328**	**170**	**1,474**	**120,972**	**44,299**	**4,318**	**48,617**
Credit risk exposures other than with respect to the public							
Banking Corporations	2,024	570	1,952	4,546	291	10,729	11,020
Government	13,621	4,993	-	18,614	188	-	188
Total credit risk	**134,973**	**5,733**	**3,426**	**144,132**	**44,778**	**15,047**	**59,825**
Credit risk to public included under various economic sectors:							
Settlement movements [4]	1,163	-	10	1,173	433	25	458
Local authorities [5]	173	-	-	173	25	-	25

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) On- and off-balance sheet credit risk with respect to the public which is impaired, inferior or under special supervision, including with respect to housing loans for which a provision was made by extent of arrears, and housing loans for which no provision was made by extent of arrears and which are in arrears of 90 days or longer.
(3) Includes with respect to off-balance sheet credit instruments (included on balance sheet under Other Liabilities).
(4) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(5) Includes entities under their control.
(6) Includes borrowed securities amounting to NIS 34 million.
(7) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,876 million. (1,238 - on-balance sheet credit risk and 1,638 - off-balance sheet credit risk)

Total credit risk of the public	Troubled credit risk [(2)]	Impaired loans to the public	Expenses with respect to credit loss in first nine months of 2011	Net accounting write-off	Balance of provision for credit loss
	Credit risk to the public		Credit loss [(3)]		
	Credit risk to the public includes:				
810	8	6	2	12	4
10,799	230	173	2	69	101
21,505	1,020	514	28	39	145
1,833	2	-	-	-	-
8,499	182	108	31	51	79
416	14	6	2	4	3
1,416	11	6	(2)	3	6
2,562	20	17	-	4	23
18,819	401	326	66	92	325
4,058	98	75	55	22	58
1,147	69	23	(4)	20	7
72,922	1,719	-	24	9	922
21,375	232	49	66	39	168
166,161	**4,006**	**1,303**	**270**	**364**	**1,841**
3,428	42	39	2	-	24
169,589	**4,048**	**1,342**	**272**	**364**	**1,865**
15,566	16	16	4	-	12
18,802	-	-		-	-
203,957	**4,064**	**1,358**	**276**	**364**	**1,877**
1,631	44	23	(2)	156	10
198	16	-	-	-	-

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of September 30, 2010

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk (1)					
	Credit	Debentures (5)	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public	Expense for the first nine months of 2010 with respect to specific provision for doubtful debts	Balance of troubled debt(2)
Agriculture	575	-	-	575	218	1	219	794	(1)	21
Industry	5,451	20	154	5,625	4,245	427	4,672	10,297	7	228
Construction and real estate (6)	7,370	44	2	7,416	11,273	71	11,344	18,760	10	1,270
Electricity and water	222	67	129	418	968	256	1,224	1,642	-	-
Commerce	5,349	-	23	5,372	1,891	184	2,075	7,447	13	176
Hotel and food services	222	1	1	224	81	7	88	312	1	37
Transport and storage	796	-	40	836	337	155	492	1,328	1	35
Communications and computer services	1,598	22	20	1,640	350	78	428	2,068	3	44
Financial services	6,118	51	264	6,433	8,003	1,796	9,799	16,232	155	1,046
Other business services	3,067	-	5	3,072	719	64	783	3,855	3	660
Public and community services	865	-	-	865	328	7	335	1,200	-	118
Private individuals - housing loans	58,271	-	-	58,271	4,251	-	4,251	62,522	4	970
Private individuals - other	11,135	-	16	11,151	8,578	40	8,618	19,769	79	511
Total	**101,039**	**205**	**654**	**101,898**	**41,242**	**3,086**	**44,328**	**146,226**	**275**	**5,116**
For borrowers' activities overseas	2,669	-	129	2,798	328	114	442	3,240	4	85
Total credit risk to public	**103,708**	**205**	**783**	**104,696**	**41,570**	**3,200**	**44,770**	**149,466**	**279**	**5,201**
Credit risk exposure other than to the public:										
Banking Corporations	1,871	754	1,424	4,049	408	10,188	10,596	14,645	-	27
Government	7,022	7,274	-	14,296	329	-	329	14,625	-	-
Total credit risk	**112,601**	**8,233**	**2,207**	**123,041**	**42,307**	**13,388**	**55,695**	**178,736**	**279**	**5,228**
Credit risk to public included under various economic sectors:										
Settlement movements (3)	1,223	-	1	1,224	599	32	631	1,855	(6)	97
Local authorities (4)	171	-	-	171	26	-	26	197	-	48

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.

(2) Balance of troubled debt net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.

(3) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.

(4) Includes entities under their control.

(5) Includes borrowed securities amounting to NIS 107 million.

(6) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,610 million.

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

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of December 31, 2010

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk (1)					
	Credit	Debentures (5)	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public	Annual expense with respect to specific provision for doubtful debts	Balance of troubled debt(2)
Agriculture	606	-	-	606	206	2	208	814	-	13
Industry	5,272	18	32	5,322	4,489	357	4,846	10,168	11	229
Construction and real estate (6)	7,151	45	4	7,200	12,454	22	12,476	19,676	1	1,233
Electricity and water	320	24	244	588	955	261	1,216	1,804	2	1
Commerce	5,630	-	16	5,646	2,152	162	2,314	7,960	21	173
Hotel and food services	240	-	-	240	79	-	79	319	2	37
Transport and storage	822	-	29	851	518	82	600	1,451	1	35
Communications and computer services	1,553	24	16	1,593	310	88	398	1,991	3	20
Financial services (7)	6,188	44	1,153	7,385	7,509	2,107	9,616	17,001	357	650
Other business services	3,102	-	4	3,106	963	50	1,013	4,119	4	224
Public and community services	882	-	-	882	352	3	355	1,237	1	94
Private individuals - housing loans	60,840	-	-	60,840	4,686	-	4,686	65,526	(3)	877
Private individuals - other (7)	11,402	-	28	11,430	8,699	67	8,766	20,196	64	504
Total	**104,008**	**155**	**1,526**	**105,689**	**43,372**	**3,201**	**46,573**	**152,262**	**464**	**4,090**
For borrowers' activities overseas	3,247	-	10	3,257	431	70	501	3,758	7	96
Total credit risk to public	**107,255**	**155**	**1,536**	**108,946**	**43,803**	**3,271**	**47,074**	**156,020**	**471**	**4,186**
Credit risk exposures other than with respect to the public										
Banking Corporations	1,514	743	1,842	4,099	396	11,268	11,664	15,763	-	26
Government	10,390	6,658	-	17,048	280	-	280	17,328	-	-
Total credit risk	**119,159**	**7,556**	**3,378**	**130,093**	**44,479**	**14,539**	**59,018**	**189,111**	**471**	**4,212**
Credit risk to public included under various economic sectors:										
Settlement movements (3)	1,213	-	-	1,213	548	10	558	1,771	(6)	79
Local authorities (4)	167	-	-	167	25	-	25	192	-	37

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) Balance of troubled debt net of loans covered by collateral that may be deducted for the purpose of calculating the per-borrower credit limits of an individual borrower and a group of borrowers, including elements of off-balance sheet risk.
(3) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(4) Includes entities under their control.
(5) Includes borrowed securities amounting to NIS 247 million.
(6) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,394 million.
(7) Restated.

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

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated
For the nine months ended September 30, 2011
Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentu-res [4]	Fair value of derivatives	Total	Guarantees and other commit-ments on account of clients	Future transac-tions	Total	Total credit risk of the public
Agriculture	616	-	-	616	204	4	208	824
Industry	5,974	41	59	6,074	4,180	409	4,589	10,663
Construction and real estate	7,434	42	3	7,479	12,950	25	12,975	20,454
Electricity and water	283	14	171	468	1,080	263	1,343	1,811
Commerce	5,788	-	24	5,812	2,289	208	2,497	8,309
Hotel and food services	260	-	8	268	97	8	105	373
Transport and storage	848	-	19	867	511	81	592	1,459
Communications and computer services	1,522	19	15	1,556	445	87	532	2,088
Financial services	6,527	28	987	7,542	7,965	2,453	10,418	17,960
Other business services	3,204	-	5	3,209	781	68	849	4,058
Public and community services	871	-	10	881	251	98	349	1,230
Private individuals - housing loans	65,646	-	-	65,646	3,856	-	3,856	69,502
Private individuals - other	11,769	-	20	11,789	9,161	41	9,202	20,991
Total	**110,742**	**144**	**1,321**	**112,207**	**43,770**	**3,745**	**47,515**	**159,722**
For borrowers' activities overseas	2,920	4	9	2,933	407	72	479	3,412
Total credit risk to public	**113,662**	**148**	**1,330**	**115,140**	**44,177**	**3,817**	**47,994**	**163,134**
Credit risk exposures other than								-
with respect to the public								-
Banking Corporations	2,056	700	1,882	4,637	315	10,800	11,115	15,752
Government	12,188	5,449	-	17,637	228	-	228	17,865
Total credit risk	**127,906**	**6,297**	**3,212**	**137,414**	**44,720**	**14,617**	**59,337**	**196,751**
Credit risk to the public included under various economic sectors:								-
Settlement movements [2]	1,152	-	3	1,155	476	16	492	1,647
Local authorities [3]	173	-	-	173	31	-	31	204

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.

(2) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.

(3) Includes entities under their control.

(4) Includes borrowed securities amounting to NIS 173 million.

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated
For the nine months ended September 30, 2010
Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentures [4]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	Total	Total credit risk of the public
Agriculture	623	-	-	623	220	2	222	845
Industry	5,511	15	72	5,598	3,903	431	4,334	9,932
Construction and real estate	7,035	43	32	7,110	10,171	104	10,275	17,385
Electricity and water	312	65	158	535	715	203	918	1,453
Commerce	5,105	-	23	5,128	2,353	219	2,572	7,700
Hotel and food services	230	1	1	232	72	7	79	311
Transport and storage	774	-	47	821	411	149	560	1,381
Communications and computer services	1,056	17	23	1,096	438	97	535	1,631
Financial services	6,446	45	318	6,809	6,995	1,391	8,386	15,195
Other business services	2,955	-	7	2,962	890	57	947	3,909
Public and community services	794	-	-	794	363	6	369	1,163
Private individuals - housing loans	54,791	-	-	54,791	3,535	-	3,535	58,326
Private individuals - other	10,899	-	41	10,940	8,825	70	8,895	19,835
Total	**96,531**	**186**	**722**	**97,439**	**38,891**	**2,736**	**41,627**	**139,066**
For borrowers' activities overseas	3,192	1	92	3,285	431	115	546	3,831
Total credit risk to public	**99,723**	**187**	**814**	**100,724**	**39,322**	**2,851**	**42,173**	**142,897**
Credit risk exposure other than to the public:								
Banking Corporations	1,910	901	1,203	4,014	415	9,122	9,537	13,551
Government	7,802	7,169	-	14,971	308	-	308	15,279
Total credit risk	**109,435**	**8,257**	**2,017**	**119,709**	**40,045**	**11,973**	**52,018**	**171,727**
Credit risk to public included under various economic sectors:								
Settlement movements [2]	1,272	-	4	1,276	642	30	672	1,948
Local authorities [3]	154	-	-	154	31	-	31	185

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(3) Includes entities under their control.
(4) Includes borrowed securities amounting to NIS 176 million.

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

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated
For the year ended December 31, 2010
Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk [1]			
	Credit	Debentu-res [4]	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transac-tions	Total	Total credit risk of the public
Agriculture	620	-	-	620	217	2	219	839
Industry	5,463	15	64	5,542	4,020	416	4,436	9,978
Construction and real estate	7,058	43	26	7,127	10,628	88	10,716	17,843
Electricity and water	314	57	175	546	763	215	978	1,524
Commerce	5,211	-	22	5,233	2,313	208	2,521	7,754
Hotel and food services	232	-	1	233	73	5	78	311
Transport and storage	783	-	43	826	432	136	568	1,394
Communications and computer services	1,156	19	21	1,196	412	95	507	1,703
Financial services [6]	6,394	45	485	6,924	7,098	1,534	8,632	15,556
Other business services	2,984	-	6	2,990	905	55	960	3,950
Public and community services	811	-	-	811	361	6	367	1,178
Private individuals - housing loans	56,001	-	-	56,001	3,765	-	3,765	59,766
Private individuals - other [5]	11,000	-	38	11,038	8,856	76	8,932	19,970
Total	**98,027**	**179**	**881**	**99,087**	**39,843**	**2,836**	**42,679**	**141,766**
For borrowers' activities overseas	3,203	1	76	3,280	431	106	537	3,817
Total credit risk to public	**101,230**	**180**	**957**	**102,367**	**40,274**	**2,942**	**43,216**	**145,583**
Credit risk exposures other than with respect to the public								
Banking Corporations	1,831	869	1,331	4,031	412	9,551	9,963	13,994
Government	8,320	7,067	-	15,387	302	-	302	15,689
Total credit risk	**111,381**	**8,116**	**2,288**	**121,785**	**40,988**	**12,493**	**53,481**	**175,266**
Credit risk to the public included under various economic sectors:								
Settlement movements [2]	1,260	-	3	1,263	623	26	649	1,912
Local authorities [3]	157	-	-	157	30	-	30	187

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) KIBBUTZIM and MOSHAVIM, regional and national organizations, and corporations controlled by the settlement movements.
(3) Includes entities under their control.
(4) Includes borrowed securities amounting to NIS 190 million.
(5) Reclassified.
Note: Credit risk and troubled debt are stated net of the specific provisions for doubtful debts.

Management Review - Addendum D

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

Part A - Information regarding total exposure to foreign countries and exposure to countries for which total exposure to each country exceeds 1% of total consolidated assets or 20% of capital, whichever is lower:

Balance sheet exposure [(2)]										Off-balance sheet exposure [(2)(3)]			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents								Cross-border balance sheet exposure	
	To governments [(4)]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet troubled commercial credit risk [(4)]	Impaired debt [(5)]	Total off-balance sheet exposure	Includes: Off-balance sheet troubled commercial credit risk	Maturing in under 1 year	Maturing in over 1 year
As of September 30, 2011													
USA	-	1,187	1,020	781	781	-	2,207	87	87	2,636	-	1,588	619
UK	-	688	908	577	316	261	1,857	-	35	1,640	1	428	1,168
Germany	-	668	17	-	-	-	685	-	1	895	-	358	327
Other	1	724	2,011	-	-	-	2,736	5	13	2,086	5	1,933	803
Total exposure to foreign countries	**1**	**3,267**	**3,956**	**1,358**	**1,097**	**261**	**7,485**	**92**	**136**	**7,257**	**6**	**4,307**	**2,917**
Includes: Total exposure to LDC countries	-	58	256	-	-	-	314	1	8	218	3	219	95
Includes: Total exposure to Greece, Portugal, Spain, Italy and Ireland	-	2	3	-	-	-	5	-	-	112	2	3	2
Total exposure to Greece, Portugal, Spain, Italy and Ireland as of the publication date of the financial statements	-	2	3	-	-	-	5	-	-	75	2	3	2

The exposure presented above represents, in accordance with directives of the Supervisor of Banks, exposure based on final risk. The party bearing the final risk is an individual, business, institution or instrument which provides "credit reinforcement" to the bank, such as guarantees, collateral, insurance contracts or credit derivatives. When no "credit reinforcement" exists, the party bearing the final risk is the debtor.

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) On- and off-balance sheet credit risk, troubled commercial credit risk and impaired debt are stated before impact of provision for credit loss, and before impact of deductible collateral with respect to indebtedness of borrower and of borrower group.
(3) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(4) Governments, official institutions and central banks.
(5) The Bank started retrospectively implementing the Public Reporting Regulation on measurement and disclosure of impaired debt, credit risk and provision for credit loss as from January 1, 2011, and therefore data for previous periods are not comparable to those for the current period. For details, see Note 1.E.1 and Note 3 to the financial statements

Management Discussion - Addendum D (continued)

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

Country	Balance sheet exposure: Cross-border balance sheet exposure: To governments [(3)]	To banks	To others	Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents: Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance of troubled debt[(4)]	Off-balance sheet exposure [(2)]: Total off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Cross-border balance sheet exposure: Maturing in under 1 year	Maturing in over 1 year
As of September 30, 2010												
USA	-	885	941	2,974	2,268	706	2,532	36	1,814	-	1,166	660
UK	-	290	117	584	285	299	706	3	1,968	-	259	148
Germany	-	568	12	-	-	-	580	1	2,383	-	546	34
Other	1	1,053	1,836	-	-	-	2,890	76	1,964	6	2,256	634
Total exposure to foreign countries	**1**	**2,796**	**2,906**	**3,558**	**2,553**	**1,005**	**6,708**	**116**	**8,129**	**6**	**4,227**	**1,476**
Total exposure to LDC countries	-	84	281	-	-	-	365	9	303	4	247	118
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	126	15	-	-	-	141	16	76	-	141	-
As of December 31, 2010												
USA	-	800	977	3,389	2,373	1,016	2,793	42	2,664	-	1,167	610
UK	-	281	497	538	249	289	1,067	7	1,860	1	283	495
Germany	-	636	10	-	-	-	646	1	1,645	-	612	34
Other	-	806	1,886	-	-	-	2,692	58	2,415	7	1,748	944
Total exposure to foreign countries	**-**	**2,523**	**3,370**	**3,927**	**2,622**	**1,305**	**7,198**	**108**	**8,584**	**8**	**3,810**	**2,083**
Total exposure to LDC countries	-	55	269	-	-	-	324	10	224	4	198	126
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	78	12	-	-	-	90	10	73	2	90	-

(1) Based on final risk, after effect of guarantees, liquid collateral and credit derivatives.
(2) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(3) Governments, official institutions and central banks.
(4) Balance of troubled debt after deduction of debt covered by collateral deductible for per-borrower and borrower group lending limits. Excludes off-balance sheet risk elements.

Management Discussion - Addendum D (continued)

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

Part B - Information regarding countries for which total exposure to each country is between 0.75%-1% of total consolidated assets or between 15%-20% of capital, whichever is lower:

As of September 30, 2011

	Balance sheet exposure	Off-balance sheet exposure
Switzerland	382	781

As of September 30, 2010, there is no exposure requiring disclosure in accordance with the public reporting directives of the Supervisor of Banks.

As of December 31, 2010

Switzerland	291	998

Part C - Information regarding balance sheet exposure to foreign countries facing liquidity issues

A. Movement in balance sheet exposure to foreign countries facing liquidity issues:

	For the three months ended September 30, 2011				For the three months ended September 30, 2010			
	Greece	Ireland	Portugal	Total	Greece	Ireland	Portugal	Total
Exposure at start of reported period	2	10	22	34	-	19	57	76
Net change in short-term exposure	(2)	(10)	(22)	(34)	-	(1)	6	5
Exposure at end of reported period	**-**	**-**	**-**	**-**	**-**	**18**	**63**	**81**

	For the nine months ended September 30, 2011				For the nine months ended September 30, 2010			
	Greece	Ireland	Portugal	Total	Greece	Ireland	Portugal	Total
Exposure at start of reported period	-	18	60	78	34	72	61	167
Net change in short-term exposure	-	(18)	(60)	(78)	(34)	(54)	2	(86)
Exposure at end of reported period	**-**	**-**	**-**	**-**	**-**	**18**	**63**	**81**

B. There is no material exposure to any foreign countries facing liquidity issues which have been restructured.

Certification

I, ELIEZER YONES, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended September 30, 2011 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods included in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:
   - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   - B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

Ramat Gan, November 28, 2011

E. Yones
President

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended September 30, 2011 ("the Report").
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary so that the statements included therein, in light of the circumstances under which such statements were made, will not be misleading with respect to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the Report fairly present, in all material respects, the financial condition, results of operations, and changes in shareholders' equity and cash flows of the Bank as of and for the periods included in this Report.
4. I and others at the Bank who provide this certification, are responsible for determining and maintaining controls and procedures with regard to disclosure and to the Bank's internal control of financial reporting. Furthermore:
   - A. We have determined such controls and procedures, or caused these controls and procedures to be determined under our supervision, for the purpose of ensuring that material information relating to the Bank, including its subsidiaries, is made known to us by others in the Bank and in those entities, particularly during the period in which the Report is being prepared;
   - B. We have set such internal controls over financial reporting, or had it set under our supervision, intended to provide a reasonable degree of certainty with regard to the reliability of financial reporting and to the fact that the financial statements for external use are prepared in accordance with generally accepted accounting principles and with directives and guidelines of the Supervisor of Banks;
   - C. We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented our conclusions about the effectiveness of the disclosure controls and procedures in this Report, as of the end of the period covered by this Report based on our evaluation; and
   - D. We have disclosed in this Report any change in the Bank's internal controls over financial reporting that occurred during this quarter, that has materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting; and
5. I and others in the Bank who are declaring this certification, have disclosed, based on our most recent evaluation of the internal controls over financial reporting, to the Bank's independent auditors, the Board of Directors and the Audit and Balance Sheet Committees of the Board of Directors of the Bank:
   - A. All significant deficiencies and material weaknesses in the determination or operation of internal controls over financial reporting which are reasonably likely to impair the Bank's ability to record, process, summarize and report financial information; and
   - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

Ramat Gan, November 28, 2011

M. Aviv

Vice-president, Chief Accountant

Independent Auditors' Review Report to Shareholders of Bank Mizrahi-Tefahot Ltd.

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of September 30, 2011, the condensed consolidated statement of profit and loss, statements of change in shareholders' equity and cash flow statements for the nine- and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.89% of total consolidated assets as of September 30, 2011, and whose profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 10.64% and 10.33% of total profit from financing operations before provision for doubtful debts for the nine- and three-month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of affiliates, the investment in which amounted to NIS 15 million as of September 30, 2011. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to the review of banking corporations is stipulated in accordance with directives and guidance of the Supervisor of Banks. A review of financial information for interim periods consists of discussions, mostly with persons responsible for financial and accounting issues, and of application of analytical and other review procedures. A review is significantly limited in scope as compared to an audit conducted in accordance with generally accepted audit standards in Israel, and therefore it does not enable us to achieve assurance that we have knowledge of all material matters which might have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, and on the review reports of other auditors, nothing has come to our attention that would cause us to believe that the aforementioned financial data has not been prepared, in all material aspects, in accordance with Israeli GAAP for interim financial reporting and in accordance with directives and guidance of the Supervisor of Banks.

Without qualifying our conclusion, we draw your attention to Note 6.D.3-4 with regard to lawsuits filed against the Bank and motions for class action status.

Brightman Almagor Zohar & Co.

Certified Public Accountants

November 28, 2011

Condensed consolidated balance sheet as of September 30, 2011

Reported amounts (NIS in millions)

		As of September 30,		As of December 31,
		2011	2010	2010
	Note	(unaudited)	(unaudited)	(audited)
Assets				
Cash and deposits with banks		16,987	9,801	12,614
Securities	2	5,879	8,273	7,449
Securities loaned or sold in repurchase agreements		34	107	247
Loans to the public (1)(2)	3	119,328	106,858	110,511
Provision for credit loss (1)(2)	3	(1,708)	(3,365)	(3,471)
Loans to the public, net (1)		117,620	103,493	107,040
Loans to the Government		146	67	92
Investments in affiliates		17	13	15
Buildings and equipment		1,588	1,491	1,546
Intangible assets and goodwill (2)		87	90	87
Assets with respect to derivatives (2)	7	3,426	2,278	3,449
Other assets (2)		1,093	(4)795	(4)765
Total assets		**146,877**	**126,408**	**133,304**
Liabilities and Shareholders' Equity				
Deposits from the public		116,497	101,204	105,991
Deposits from banks		1,874	1,712	2,432
Deposits from the Government		162	191	172
Debentures and subordinated notes		12,501	9,116	9,813
Liabilities with respect to derivatives (2)	7	3,586	2,680	2,892
Other liabilities (2)(3)		4,521	(4)4,266	(4)4,508
Total liabilities		**139,141**	**119,169**	**125,808**
Equity attributable to equity holders of the banking corporation		7,359	(4)6,877	(4)7,130
Non-controlling interest		377	(4)362	(4)366
Total shareholders' equity		**7,736**	**7,239**	**7,496**
Total liabilities and shareholders' equity		**146,877**	**126,408**	**133,304**

(1) On January 1, 2011, the Bank initially adopted the Supervisor of Banks' directive concerning measurement and disclosure of impaired debt, credit risk and provision for credit loss. Comparative figures for previous periods were not restated, so that data as of September 30, 2011 may not be compared to data from previous periods.

(2) Comparative figures were reclassified to adapt them to the presentation method in the current period, see Note 1.D. to the financial statements.

(3) Includes: Provision for credit loss with respect to off balance sheet credit instruments amounting to NIS 157 million (on September 30, 2010 - NIS 139 million, on December 31, 2010 - NIS 172 million).

(4) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. See Note 1.E.4. below.

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

Jacob Perry	**Eliezer Yones**	**Menahem Aviv**
Chairman of the Board of Directors	President	Vice-president, Chief Accountant

Approval date:

November 28, 2011

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(audited)
Profit from financing operations before expenses with respect to credit loss	877	735	2,424	2,079	2,959
Expenses with respect to credit loss	142	102	276	281	473
Profit from financing operations after expenses with respect to credit loss	**735**	**633**	**2,148**	**1,798**	**2,486**
Operating and other income					
Operating commissions	331	(3)325	1,018	(3)990	(3)1,337
Gain (loss) from investment in shares, net	1	-	4	-	(1)
Other revenues	3	(3)10	12	(3)27	(3)31
Total operating and other revenues	**335**	**335**	**1,034**	**1,017**	**1,367**
Operating and other expenses					
Payroll and associated expenses	389	(2)382	1,204	(2)1,125	(2)1,529
Maintenance and depreciation of buildings and equipment	155	146	455	436	585
Amortization and impairment of intangible assets and goodwill (1)	-	4	-	11	14
Other expenses (1)	106	96	319	306	438
Total operating and other expenses	**650**	**628**	**1,978**	**1,878**	**2,566**
Pre-tax operating profit	420	340	1,204	937	1,287
Provision for taxes on operating profit	154	127	429	345	(2)469
After-tax operating profit	266	213	775	592	818
Share in net after-tax operating profit of affiliates	-	(1)	1	(1)	-
Net operating profit:					
Before attribution to non-controlling interest (1)	266	212	776	591	818
Attributable to non-controlling interest (1)	(11)	(6)	(29)	(14)	(19)
Attributable to equity holders of the banking corporation	**255**	**206**	**747**	**577**	**799**
After-tax operating profit (loss), before attribution to non-controlling interest	-	2	(2)	2	2
Net profit:					
Before attribution to non-controlling interest (1)	266	214	774	593	820
Attributable to non-controlling interest (1)	(11)	(6)	(29)	(14)	(19)
Attributable to equity holders of the banking corporation	**255**	**208**	**745**	**579**	**801**

(1) Comparative figures were reclassified to adapt them to the presentation method in the current period, see Note 1.D. to the financial statements.

(2) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. See Note 1.E.4. below.

(3) Reclassified.

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(audited)
Earnings per share [1]					
Basic earnings per share (in NIS)					
Net operating profit attributable to equity holders of the banking corporation	1.12	[2] 0.92	3.30	[2] 2.59	[2] 3.58
Profit from extraordinary operations attributable to equity holders of the banking corporation	-	0.01	(0.01)	0.01	0.01
Total	**1.12**	**[2] 0.93**	**3.29**	**[2] 2.60**	**[2] 3.59**
Diluted earnings per share (in NIS)					
Net operating profit attributable to equity holders of the banking corporation	1.11	[2] 0.91	3.23	[2] 2.55	[2] 3.53
Profit from extraordinary operations attributable to equity holders of the banking corporation	-	0.01	(0.01)	0.01	0.01
Total	**1.11**	**[2] 0.92**	**3.22**	**[2] 2.56**	**[2] 3.54**

(1) Share of NIS 0.1 par value each.
(2) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. See Note 1.E.4. below.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended September 30, 2011 (unaudited)			
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of June 30, 2011	**1,998**	**155**	**(76)**	**2,077**
Net profit for the year	-	-	-	-
Benefit from share-based payment transactions	-	8	-	8
Related tax effect	-	(16)	-	(16)
Realized share-based payment transactions (3)	4	(4)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Net gain from cash flow hedges reclassified to the statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of September 30, 2011	**2,002**	**143**	**(76)**	**2,069**

(1) Share premium generated prior to March 31, 1986.

(2) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2010.

(3) In the third quarter of 2011, 265,109 ordinary shares, NIS 0.1 par value each have been issued against options exercised in conjunction with the employee stock option plan.

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

Cumulative other comprehensive income (loss): Adjustments for presentation of securities available for sale at fair value	Net gain from cash flow hedges	Retained earnings (2)	Total	Non-controlling interest	Total shareholders' equity
(26)	**28**	**5,060**	**7,139**	**365**	**7,504**
-	-	255	255	11	266
-	-	-	8	-	8
-	-	-	(16)	-	(16)
-	-	-	-	-	-
(59)	-	-	(59)	1	(58)
7	-	-	7	-	7
18	-	-	18	-	18
-	11	-	11	-	11
-	-	-	-	-	-
-	(4)	-	(4)	-	(4)
(60)	**35**	**5,315**	**7,359**	**377**	**7,736**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the three months ended September 30, 2010 (unaudited)			
	Share capital and premium [1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of June 30, 2010	**1,973**	**104**	**(76)**	**2,001**
Net profit for the period	-	-	-	-
Dividends declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	11	-	11
Related tax effect	-	15	-	15
Realized share-based payment transactions [5]	7	(7)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of September 30, 2010	**1,980**	**123**	**(76)**	**2,027**

(1) Share premium generated prior to March 31, 1986.

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

(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2009.

(4) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights; for details see Note 1.E.4. below.

(5) In the third quarter of 2010, 53,539 ordinary shares, NIS 0.1 par value each have been issued against options exercised in conjunction with the employee stock option plan.

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

	Cumulative other comprehensive income (loss)							
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments [2]	Net gain from cash flow hedges	Retained earnings [3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
	(56)	**(51)**	**50**	[4] **4,670**	**200**	**6,814**	**358**	**7,172**
	-	-	-	208	-	208	6	214
	-	-	-	-	(200)	(200)	-	(200)
	-	-	-	-	-	11	-	11
	-	-	-	-	-	15	-	15
	-	-	-	-	-	-	-	-
	14	-	-	-	-	14	(4)	10
	-	-	-	-	-	-	-	-
	7	-	-	-	-	7	2	9
	-	-	13	-	-	13	-	13
	-	-	(5)	-	-	(5)	-	(5)
	(35)	**(51)**	**58**	**4,878**	**-**	**6,877**	**362**	**7,239**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2011 (unaudited)			
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2011	**1,986**	**156**	**(76)**	**2,066**
Cumulative effect, net of tax, of initial application on January 1, 2011 of the directive concerning measurement of impaired debt and provision for credit loss (5)	-	-	-	-
Cumulative effect, net of tax, of initial application on January 1, 2011 of certain IFRS standards	-	-	-	-
Balance as of January 1, 2011, after reconciliation from application of new standards and directives	**1,986**	**156**	**(76)**	**2,066**
Net profit for the year	-	-	-	-
Dividends paid	-	-	-	-
Benefit from share-based payment transactions	-	28	-	28
Related tax effect	-	(25)	-	(25)
Realized share-based payment transactions (6)	16	(16)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of September 30, 2011	**2,002**	**143**	**(76)**	**2,069**

(1) Share premium generated prior to March 31, 1986.

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

(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2010.

(4) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights; for details see Note 1.E.4. below.

(5) See Note 1.E.1. below.

(6) In the first nine months of 2011, 540,348 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 513,627 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)							
Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net gain from cash flow hedges	Retained earnings (3)	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(11)	**(51)**	**26**	**4,980**	**120**	**7,130**	**366**	**7,496**
-	-	-	(359)	-	(359)	(16)	(375)
-	51	-	69	(120)	-	-	-
(11)	**-**	**26**	**4,690**	**-**	**6,771**	**350**	**7,121**
-	-	-	745	-	745	29	774
-	-	-	(120)	-	(120)	-	(120)
-	-	-	-	-	28	-	28
-	-	-	-	-	(25)	-	(25)
-	-	-	-	-	-	-	-
(80)	-	-	-	-	(80)	(4)	(84)
7	-	-	-	-	7	-	7
24	-	-	-	-	24	2	26
-	-	14	-	-	14	-	14
-	-	(5)	-	-	(5)	-	(5)
(60)	**-**	**35**	**5,315**	**-**	**7,359**	**377**	**7,736**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2010 (unaudited)			
	Share capital and premium [1]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2010	**1,963**	**105**	**(76)**	**1,992**
Net profit for the period	-	-	-	-
Dividends declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	32	-	32
Related tax effect	-	3	-	3
Realized share-based payment transactions [5]	17	(17)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Related tax effect	-	-	-	-
Balance as of September 30, 2010	**1,980**	**123**	**(76)**	**2,027**

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2010.
(4) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights; for details see Note 1.E.4. below.
(5) In the first nine months of 2010, 195.980 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 445,048 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)								
Adjustments for presentation of securities available for sale at fair value	Translation adjustments [2]	Net gain from cash flow hedges	Retained earnings [3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity	
(32)	**(51)**	**39**	**[4] 4,499**	**-**	**6,447**	**346**	**6,793**	
-	-	-	579	-	579	14	593	
-	-	-	(200)	-	(200)	-	(200)	
-	-	-	-	-	32	-	32	
-	-	-	-	-	3	-	3	
-	-	-	-	-	-	-	-	
(15)	-	-	-	-	(15)	2	(13)	
4	-	-	-	-	4	-	4	
8	-	-	-	-	8	-	8	
-	-	29	-	-	29	-	29	
-	-	(10)	-	-	(10)	-	(10)	
(35)	**(51)**	**58**	**4,878**	**-**	**6,877**	**362**	**7,239**	

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the year ended December 31, 2010 (audited)			
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves
Balance as of January 1, 2010	**1,963**	**105**	**(76)**	**1,992**
Net profit for the year	-	-	-	-
Dividends paid	-		-	-
Dividends declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	44	-	44
Related tax effect	-	30	-	30
Realized share-based payment transactions (5)	23	(23)	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Net gain from cash flow hedges	-	-	-	-
Net gain from cash flow hedges reclassified to the statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of December 31, 2010	**1,986**	**156**	**(76)**	**2,066**

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2010.
(4) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights; for details see Note 1.E.4. below.
(5) In 2010, 564,642 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 445,048 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Cumulative other comprehensive income (loss)							
Adjustments for presentation of securities available for sale at fair value	Translation adjustments [2]	Net gain from cash flow hedges	Retained earnings [3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Total shareholders' equity
(32)	**(51)**	**39**	**[4]4,499**	**-**	**6,447**	**346**	**6,793**
-	-	-	801	-	801	19	820
-	-	-	(200)	-	(200)	-	(200)
-	-	-	(120)	120	-	-	-
-	-	-	-	-	44	-	44
-	-	-	-	-	30	-	30
-	-	-	-	-	-	-	-
16	-	-	-	-	16	2	18
7	-	-	-	-	7	-	7
(2)	-	-	-	-	(2)	(1)	(3)
-	-	32	-	-	32	-	32
-							
	-	(53)	-	-	(53)	-	(53)
-	-	8	-	-	8	-	8
(11)	**(51)**	**26**	**4,980**	**120**	**7,130**	**366**	**7,496**

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(audited)
Cash flows provided by current operations					
Net profit for the period	255	(1)208	745	(1)579	(1) 801
Adjustments to reconcile net profit to net cash generated by operating activities:					
Minority interest in net after-tax operating profit of subsidiaries	11	6	29	14	19
Depreciation of buildings and equipment and amortization	55	52	167	162	221
Expenses with respect to credit loss	142	102	276	281	473
Net gain on sale of available-for-sale securities	(2)	(2)2	(1)	(2) (29)	(2) (35)
Provision for impairment of available-for-sale securities	7	-	7	4	7
Realized and unrealized gain from adjustment to fair value of securities held for trading	(7)	(5)	(12)	(13)	(9)
Net loss from sale of buildings and equipment	-	-	1	-	2
Deferred taxes, net	22	(62)	(50)	48	61
Severance pay - decrease (increase) in excess of amount funded over liability	34	(8)	105	(21)	(34)
Reconciliation differences included under investment and financing operations	54	(2)128	166	(2)61	(2)104
Benefit from share-based payment transactions	8	11	28	32	44
Bank's share in net profit from extraordinary items of subsidiaries	-	1	(1)	1	-
Deferred income, net	39	8	21	24	44
Net cash provided by current operations	**605**	**443**	**1,481**	**1,143**	**1,698**

(1) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights; for details see Note 1.E.4. below.

(2) Reclalssified.

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(audited)
Cash flows provided by activities in assets					
Acquisition of debentures held to maturity	(447)	-	(447)	-	-
Acquisition of securities available for sale	(923)	(1,688)	(2,879)	(5,986)	(6,759)
Proceeds on sale and redemption of securities available for sale	1,041	813	4,998	5,259	7,095
Deposits with banks, net	(1,365)	(1,911)	(2,035)	(1,046)	(1,174)
Securities held for trading, net	(158)	42	(132)	175	(23)
Securities loaned or sold in repurchase agreements, net	65	(73)	213	200	60
Loans to the public, net	(5,379)	(2,588)	(11,482)	(8,525)	(12,264)
Loans to the Governments, net	(40)	(66)	(54)	234	209
Acquisition of shares in investees, including owners' loans and capital notes	(1)	-	(1)	(1)	(3)
Acquisition of buildings and equipment	(65)	(48)	(195)	(129)	(263)
Proceeds from sale of buildings and equipment	-	(3)	2	-	16
Assets with respect to derivatives, net	(504)	344	37	(1,129)	(1,979)
Other assets, net	58	129	(2)	386	46
Net cash provided by activities in assets	**(7,718)**	**(5,049)**	**(11,977)**	**(10,562)**	**(15,039)**

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(audited)
Cash flows provided by activities in liabilities and shareholders' equity					
Deposits from the public, net	5,001	(425)	10,506	6,183	10,970
Deposits from banks, net	(29)	214	(558)	(187)	533
Deposits from the Government, net	5	(4)	(10)	(18)	(37)
Issuance of debentures and subordinated notes	1,156	1,003	2,620	1,028	1,786
Redemption of debentures and subordinated notes	(27)	(18)	(151)	(190)	(301)
Liabilities with respect to derivatives, net	1,325	4	694	661	911
Other liabilities, net	(194)	(7)	(267)	(114)	108
Dividends paid to shareholders	-	(200)	-	(200)	(200)
Net cash provided by (used for) activities in liabilities and shareholders' equity	**7,237**	**567**	**12,834**	**7,163**	**13,770**
Increase in cash	137	(4,039)	2,338	(2,256)	429
Cash balance at beginning of period	12,036	11,189	9,835	9,406	9,406
Cash balance at end of period	**12,173**	**7,150**	**12,173**	**7,150**	**9,835**

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(audited)
Appendix A - Non-cash Transactions					
1) Acquisition of buildings and equipment	15	-	17	8	2

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

Note 1 - Reporting Principles and Accounting Policies

A. General

The financial statements as of September 30, 2011 are prepared in accordance with directives of the Supervisor of Banks with regard to preparation of quarterly financial statements of banking corporations, and do not include all of the information required in annual financial statements. These financial statements should be used in conjunction with the audited financial statements as of December 31, 2010.

The Group accounting policy in these condensed consolidated quarterly financial statements is consistent with the policy applied to the annual financial statements, except as noted below in section E.

In accordance with directives of the Supervisor of Banks, the financial statements are only issued on a consolidated basis.

B. Principles of financial reporting

These condensed financial statements have been prepared as follows:

1. As for core banking business issues - the accounting treatment is in accordance with directives of the Supervisor of Banks and in accordance with generally accepted accounting principles for US banks, as adopted in the Supervisor of Banks' Public Reporting Regulations.

2. As for non core banking business issues - the accounting treatment is in accordance with Israeli GAAP and in accordance with the following International Financial Reporting Standards (IFRS) and the IFRIC interpretations pertaining there to:

   IAS 8 "Accounting policies, changes in accounting estimates and errors"
   IAS 21 "The effects of changes in foreign exchange rates"
   IAS 33 "Earnings per share"
   IFRS 2 "Share-based payment"
   IAS 29 "Financial reporting of branches or affiliates in hyper-inflationary economies"
   IAS 34 "Interim financial reporting"
   IFRS 3 (2008) "Business combinations"
   IAS 27 (2008) "Consolidated and separate financial statements"
   IAS 28 "Investments in associates"
   IAS 36 "Impairment of assets"
   IAS 17 "Leases"
   IAS 16 "Fixed assets"
   IAS 40 "Investment property"
   IFRS 5 "Non-current assets held for sale and discontinued operations"
   IAS 10 "Events after the reporting period"
   IAS 20 "Government grants and disclosure of government assistance"
   IAS 31 "Interests in joint ventures"
   IAS 38 "Intangible assets"

Note 1 - Reporting Principles and Accounting Policies (continued)

International standards are applied in accordance with the following guidelines:

- In cases where a material issue arises, which is not addressed by the international standards or by application directives issued by the Supervisor of Banks, the Bank shall handle the issue in accordance with generally accepted accounting principles at US banks which specifically apply to these issues.
- In cases where no specific reference is made in the standards or interpretations of material issues, or where there are multiple alternatives for handling a material issue, the Group shall act in accordance with specific application directives issued by the Supervisor of Banks.
- In cases where the adopted international standard makes reference to another international standard adopted under the public reporting directives, the Group shall act in accordance with provisions of the international standard.
- In cases where the adopted international standard makes reference to an international standard not adopted under the public reporting directives, the Group shall act in accordance with reporting directives and in accordance with generally accepted accounting principles in Israel.
- In cases where the adopted international standard makes reference to definition of a term also defined in the public reporting directives, the reference to the definition in the directives shall replace the original reference.

The issues where adoption of international standards has affected the accounting policy used to prepare these financial statements are listed under section E.2. below.

C. Use of estimates

In preparing the condensed consolidated quarterly financial statements in accordance with directives and guidelines of the Supervisor of Banks, Bank management is required to use judgment, assessments, estimates and assumptions which impact policy implementation and amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Except as stated in section E.4. below, management judgment when applying Group accounting policy and the major assumptions used in assessments involving uncertainty are consistent with those applied in preparing the annual financial statements.

D. Reclassification

Following initial application of certain accounting standards and directives by the Supervisor of Banks, as described below in section E., certain sections of the financial statements and comparative figures were reclassified to align them with section headings and with reporting requirements in the current period.

Note 1 - Reporting Principles and Accounting Policies (continued)

Items included on condensed consolidated balance sheet:

– Goodwill amounting to NIS 90 million and NIS 87 million, included as of September 30, 2010 and December 31, 2010, respectively, under Other Assets, is presented on the balance sheet as of September 30, 2011 as a separate item.

– Assets with respect to derivatives amounting to NIS 2,278 million and NIS 3,449 million, included as of September 30, 2010 and December 31, 2010, respectively, under Other Assets, is presented on the balance sheet as of September 30, 2011 as a separate item.

– Liabilities with respect to derivatives amounting to NIS 2,680 million and NIS 2,892 million, included as of September 30, 2010 and December 31, 2010, respectively, under Other Liabilities, is presented on the balance sheet as of September 30, 2011 as a separate item.

– Loans to the public, net as of September 30, 2010 and December 31, 2010 were reclassified for presentation at gross amount as from January 1, 2011.

– Non-controlling interest (minority interest) is included in total shareholders' equity.

Items included on condensed consolidated statement of profit and loss:

Expenses with respect to amortization and impairment of intangible assets and goodwill, amounting to NIS 4 million and NIS 11 million for the three- and nine-month periods ended September 30, 2010, respectively, were reclassified from Other Expenses and are presented as a separate item. Further, an amount of NIS 14 million was reclassified accordingly in the year ended December 31, 2010.

E. Initial adoption of accounting standards, accounting standard updates and directives of the Supervisor of Banks

As from periods starting on January 1, 2011, the Bank applies accounting standards and directives as follows:

1. Supervisor of Banks' directive concerning measurement and disclosure of impaired debt, credit risk and provision for credit loss, amended directive on treatment of troubled debt and specific directive on group provision for credit loss.

2. Certain International Financial Reporting Standards (IFRS) and IFRIC interpretations with regard to application of these standards.

3. US accounting standards FAS 157 / ASC 820-10 "Fair-value measurement " (hereinafter: "FAS 157"), FAS 159 (ASC 825-10) "Fair-value option for financial assets and financial liabilities" (hereinafter: "FAS 159") and accounting standard update ASU 2010-06 "Improvements to disclosures about fair value measurement".

Note 1 - Reporting Principles and Accounting Policies (continued)

4. Supervisor of Banks' directives with regard to strengthening internal controls over financial reporting of employee rights.

   In the second quarter of 2011, management commissioned an actuarial estimate of total increased severance pay to be paid to employees, as per directives of the Supervisor of Banks and based on management expectations. Accordingly, the balances of provision and reserves on the financial statements as of June 30, 2011 were revised for all reporting dates presented on these financial statements, and payroll expenses and net profit were revised for all reporting periods presented on these financial statements.
5. Update to accounting standards ASU 2011-02: A creditor's determination with regard to restructuring of troubled debt.

Below is a description of the nature of changes made to accounting policies in these condensed consolidated quarterly financial statements:

1. **Supervisor of Banks' directive concerning measurement and disclosure of impaired debt, credit risk and provision for credit loss, amended directive on treatment of troubled debt and specific directive on group provision for credit loss:**

   Pursuant to the Supervisor of Banks' new directive on measurement and disclosure of impaired debt, credit risk and provision for credit loss, the Bank applies as from January 1, 2011 the US accounting standards on this issue (ASC 310) and the opinion of the US banking supervision authorities and of the US SEC, as adopted in the Public Reporting Regulations.

   The directive is applied to all debt balances, including deposits with banks, debentures, securities borrowed or purchased in repurchase agreements, loans to the public, loans to the government etc. Loans to the public and other debt balances for which no specific rules on measurement of provision for credit loss were specified in the Public Reporting Regulations (such as: loans to the government and deposits with banks) are reported on the Bank's accounts at their recorded debt balance. The recorded debt balance is defined as the debt balance after accounting write-offs but before deduction of the provision for credit loss for that debt. The recorded debt balance does not include any accrued interest not recognized, or previously recognized and then reversed. Note that prior to January 1, 2011, the Bank applied different rules, whereby the debt balance on the Bank's books included interest accrued prior to classification as non-accruing troubled debt. Therefore, debt balances presented in periods preceding the initial implementation period are not comparable with debt balances reported after implementation. As for other debt balances for which specific rules on measurement and recognition of provision for credit loss exist (such as: debentures), the Bank continues to apply the same measurement rules.

Note 1 - Reporting Principles and Accounting Policies (continued)

Provision for credit loss

The Bank has put in place procedures for classification of credit and for measurement of provision for credit loss, in order to maintain an appropriate provision to cover expected credit loss with regard to the Bank's loan portfolio. Further, the Bank has put in place procedures required to maintain, as a separate liability account, an appropriate provision to cover expected credit loss with regard to off-balance sheet credit instruments (such as: commitments to provide credit, unutilized credit facilities and guarantees).

The required provision to cover expected credit losses from the credit portfolio is estimated under one of the following tracks: "individual provision" or "group provision". Further, the Bank reviews the overall appropriateness of the provision for credit loss.

"An individual provision for credit loss" is applied for any debts determined to be impaired, whose contractual balance (including accounting write-offs, unrecognized interest, provisions for credit losses and collateral) is NIS 700 thousand or higher. Debt is classified as impaired when, based on current information and events, it is expected that the Bank would be unable to collect all amounts due pursuant to contractual terms of the debt contract. In any case, debt is classified as impaired when its principal or interest is in arrears over 90 days, unless the debt is well secured and is in collection proceedings. Further, any debt whose terms and conditions have been changed in conjunction with restructuring of troubled debt would be classified as impaired debt, unless prior to and following such restructuring, a minimum provision for credit loss by extent of arrears was made with respect to that debt pursuant to the appendix to Proper Conduct of Banking Business Regulation 314 on troubled debt in housing loans at mortgage banks.

For other debt, the banking corporation may decide whether to make an individual assessment. The individual provision for credit loss is estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. Where debt collection is contingent upon collateral, or if the bank determines that an asset is expected to be seized, the initial provision for credit loss shall be estimated based on fair value of the collateral securing said credit.

"A provision for credit loss using group estimate" is applied for large, homogeneous groups of small debts (whose balance is below NIS 700 thousand, as determined by the Bank) (such as: credit card debts, housing loans and consumer debts repaid by installments) as well as for large, non-impaired debts. The provision for credit losses from debts based on group estimate, except for loans for which a specific minimum provision by extent of arrears has been calculated as per directives of the Supervisor of Banks, is calculated based on rules set forth in USA Accounting Standard FAS 5: "Accounting for Contingencies" (hereafter "FAS 5"), based on a formula specified in the interim directive issued by the Supervisor of Banks, in effect through December 31, 2012.

Note 1 - Reporting Principles and Accounting Policies (continued)

This formula is based on past loss rates by economic sector, as well as rates of on net accounting write-offs actually recognized as from January 1, 2011. In addition to calculating the range of historic loss rates for various economic sectors, as per the above, for determining the appropriate rate of provision, the Bank also accounts for other data, including trends in credit volume for each sector as well as sector condition, macro-economic data and general quality assessment of credit to each economic sector.

Pursuant to provisions stipulated by the interim directive, as from January 1, 2011 the Bank does not maintain general and supplementary provisions, but continued to calculate the supplementary provision and to verify that in any case, the amount of group provision at the end of each reporting period shall be no less than the sum of general and supplementary provisions which would have been calculated as of the same date, gross of tax.

The required provision with regard to off-balance sheet credit instruments is assessed as per rules stated in FAS 5. The provision estimated on group basis for off-balance sheet credit instruments is based on provision rates specified for on-balance sheet credit (as stated above), accounting for expected credit realization rate for the off-balance sheet credit risk. The credit realization rate is calculated by the Bank based on credit conversion factors, as prescribed by Proper Conduct of Banking Business Regulation 203 "Measurement and capital adequacy - Credit risk - Standard approach" with certain adjustments in cases where the Bank has past experience which indicates the credit realization rates.

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, such that the provision rate is higher the longer the arrears. Upon the start date of application of the new directive, the amendment to appendix to Proper Conduct of Banking Business Regulation 314 "Troubled debt in housing loans at mortgage banks" became effective, expanding the scope of calculation of provision by extent of arrears to all housing loans, other than loans not repaid by periodic installments and loans used to finance activity of a business nature. Further, the Supervisor of Banks instructed the banking corporations, in a letter dated May 1, 2011, to make a group provision for housing loans in addition to the provision by extent of arrears. The Bank has put in place a methodology for calculating the group provision with respect to housing loans, whereby the provision amount is derived from the increase in current credit grant volume compared to past periods. The amendment is applied prospectively starting with financial statements for periods starting on January 1, 2011.

Note 1 - Reporting Principles and Accounting Policies (continued)

Initial application of these changes to interest calculation on housing loans resulted in a NIS 84 million increase in provision (NIS 75 million in group provision and NIS 9 million increase in provision by extent of arrears) which was charged, net of tax, as a NIS 55 million adjustment (decrease) in retained earnings as of the initial application date.
The Bank classifies all troubled debt and troubled off-balance sheet credit items under: special supervision, inferior or impaired.

Income recognition

Upon classification of debt as impaired, the Bank classifies the debt as non-accruing debt and discontinues accrual of relevant interest income, except as stated below for certain restructured debt. Further, upon classification of debt as impaired, the Bank reverses all accrued and uncollected interest income recognized as income in profit and loss. The debt continues to be classified as non-accruing debt for as long as it is classified as impaired debt. Debt which has been formally restructured as troubled debt, and after this restructuring there is reasonable certainty that the debt will be repaid and will perform as per the new terms and conditions, shall be treated as accruing impaired debt. For debt reviewed and provided for on a group basis which is over 90 days in arrears, the Bank does not discontinue accrual of interest income. Such debt is subject to assessment of a group provision for credit loss, which ensures that Bank profit is not skewed upwards.
Commissions for delinquency of such debt is included as income when the Bank has the right to receive them from the client, provided that collection is reasonably secured.

Restructuring of troubled debt

Debt which has been formally restructured as troubled debt is defined as debt for which, for economic or legal reasons related to financial difficulties of the debtor, the Bank has made a concession by way of modification to terms and conditions of the debt, designed to make it easier for the debtor to make cash payments in the near term (reduction or postponement of cash payments due from the debtor), or by way of receiving other assets as debt repayment (in whole or in part). In order to determine whether debt restructuring by the Bank constitutes troubled debt restructuring, the Bank conducts a qualitative review of all restructuring terms and circumstances in order to determine whether the debtor is in financial duress and whether the Bank made a concession to the debtor in conjunction with the restructuring.
In order to determine whether the creditor is in financial duress, the Bank reviews for indications of the creditor being in financial duress at the time of restructuring, or for reasonable likelihood that the creditor would be in financial duress if not for the restructuring.

Note 1 - Reporting Principles and Accounting Policies (continued)

The Bank concludes that a concession was made to the creditor in conjunction with the restructuring - even if the contractual interest rate was increased in the restructuring - if as a result of the restructuring, the Bank is not expected to collect the full debt amount, or if the creditor is unable to raise financing at going market rates for debt with similar terms and conditions to those of the restructured debt. Restructured debt, including debt assessed on a group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for making a provision for credit loss or accounting write-off. Since the debt being restructured would not be repaid as per its original contractual terms, the debt continues to be classified as impaired debt even after the debtor resumes repayments pursuant to the new terms and conditions.

Accounting write-off

The Bank makes accounting write-offs of any debt, or part of it, individually assessed as not collectible and of low value, so that maintaining it as an asset is not justified, or any debt which is subject to long-term collection effort by the Bank. For debt assessed on a group basis, write-off rules have been put in place based on extent of arrears (mostly - over 150 consecutive days in arrears) and on other problem parameters. Note that accounting write-offs do not involve any legal concession, and merely reduce the debt balance reported for accounting purposes, while creating a new cost basis for the debt on Bank accounts.

Initial application

Below is the impact of new directives on major balance sheet items on the financial statements as of December 31, 2010, had they been applied on said date:

Summary of effect on retained earnings

	As of December 31, 2010
Retained earnings stated on financial statements	4,980
Cumulative effect, net of tax, of initial application of the new directives	(359)
Includes: Change in provision for credit loss	(691)
Includes: Related tax effect	316
Share of external shareholders in provision for credit loss	16
Retained earnings pursuant to the new directives	**4,621**

Effect on deferred taxes, net

	As of December 31, 2010
Balance of deferred taxes, net included on financial statements	338
Effect of initial application of the new directives	296
Balance of deferred taxes, net pursuant to new directives	634

For further details of the effect on financial statements, see Note 3 to the financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

2. Certain International Financial Reporting Standards (IFRS) on non-core banking business matters

A. IAS 21 on impact of changes in foreign currency exchange rates

Foreign currency transactions

Foreign currency transactions are translated into the relevant functional currencies of the Bank and its affiliates using the exchange rate as of the transaction date. Monetary assets and liabilities denominated in foreign currency as of the reporting date are translated into the functional currency at the exchange rate as of that date. Exchange rate differences with respect to monetary items are the differences between the amortized cost in the functional currency as of the start of the year, adjusted for the effective interest and installments during the year, and the amortized cost in foreign currency, translated at the exchange rate as of the end of the year.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value, are translated into the functional currency using the exchange rate as of the date on which the fair value is determined. Exchange rate differences arising from translation into the functional currency are recognized on the statement of profit and loss, other than differences arising from translation into the functional currency of non-monetary equity financial instruments classified as available-for-sale, financial liabilities used to hedge investments in foreign operations, loans to foreign operations which are part of net investment in foreign operations, or cash flow hedges which are recognized under Other Comprehensive Profit.

Non-monetary items denominated in foreign currency and measured at historical cost, are translated at the exchange rate as of the transaction date.

Foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments generated upon acquisition, were translated into NIS at exchange rates as of the reporting date. Income and expenses of foreign operations were translated into NIS at exchange rates as of the transaction date.

Translation differences from exchange rates are recognized under Other Comprehensive Profit as from January 1, 2011, the adoption date of IAS 21 "Changes in foreign exchange rates" and are presented in equity under Reserve from Translation of Foreign Operations (hereinafter: "translation adjustments").

If the foreign operation is a subsidiary not wholly-owned by the Group, the pro-rata share of exchange rate differences with respect to the foreign operation is attributed to the non-controlling interest.

Upon realization of foreign operations which results in loss of control, material influence or joint control, the amount accumulated under Reserve for Translation Adjustments from Foreign Operations is reclassified to profit and loss, as part of the gain or loss from said realization.

Note 1 - Reporting Principles and Accounting Policies (continued)

Upon change in the holding stake of the Group in a subsidiary which includes foreign operations, while maintaining control over the subsidiary, the pro-rata share of the accumulated exchange rate difference amount recognized under Other Comprehensive Profit is reattributed to the non-controlling interest.
When the Group realizes part of an investment which is an associate or jointly-controlled entity which includes foreign operations, while maintaining material influence or joint control, the pro-rata share of the accumulated exchange rate difference amount is reclassified to profit and loss.
When discharge of loans received from or granted to foreign operations is not planned and is not expected in the foreseeable future, any gain or loss from exchange rate differences arising from such monetary items is included under net investment in foreign operations, recognized under Other Comprehensive Profit and presented under equity as part of the Reserve for Translation Adjustments.

Overseas banking affiliates

According to directives by the Supervisor of Banks prior to adoption of IFRS, an overseas banking affiliate of a banking corporation was classified as a foreign operation whose functional currency is the same as that of the banking corporation.

In accordance with IFRS, in order to determine the functional currency, the banking corporation should consider, *inter alia*, the following:

- The currency which primarily affects the selling price of goods and services (usually this would be the currency in which selling prices of goods and services are denominated and settled), and the currency of the country whose competitive forces and regulation primarily determine the selling prices of goods and services.

- The currency which primarily affects labor costs, material and other costs for delivery of goods or services (usually, this would be the currency in which these costs are denominated and settled).

- Other factors which may serve as evidence of the entity's functional currency, such as: The currency in which monetary resources are generated by financing operations, and the currency in which receipts from current operations are usually kept.

- Relations of the affiliate with the banking corporation - is the foreign operation significantly independent, do transactions between the affiliate and the banking corporations constitute a large or small percentage of the foreign operation, do cash flows from the foreign operation directly affect the cash flows of the banking corporation and are readily available to be transferred to it, and are cash flows from the foreign operation sufficient to fund its current and anticipated liabilities in the normal course of business of the entity, without resources being provided by the banking corporation.

Note 1 - Reporting Principles and Accounting Policies (continued)

Upon initial application of IAS 21, the Bank reviewed its overseas affiliates in accordance with these criteria. In accordance with the Supervisor of Banks' directives, reclassification of a banking affiliate as foreign operations whose functional currency is other than NIS, requires that a pre-ruling be obtained from the Manager, Financial Reporting Department, Supervision of Banks. Therefore, pending receipt of such pre-ruling, the Bank continues to treat its overseas banking affiliates as foreign operations whose functional currency is identical to the Bank's functional currency.

A capital reserve from translation differences, with a debit balance of NIS 51 million, accumulated through 1994 with respect to overseas banking affiliates previously classified as autonomous units, was classified upon the transition date to retained earnings.

B. IFRS 3 (2008) "Business combinations", IAS 27 (2008) "Consolidated and separate financial statements", IAS 28 "Investments in associates" and IAS 31 "Interests in joint ventures'

Consolidation basis

Due to initial application of IFRS 3 (2008) and IAS 27 (2008), the Bank revised the accounting policy applied to business combinations and to transactions with a non-controlling interest.

Business combinations

The Bank applies the acquisition method to all business combinations.

The acquisition date is the date on which the acquiring entity achieves control over the acquired entity. Control is the power to determine financial and operational policy of an entity to achieve benefits from its operations. When testing for existence of control, immediately realizable potential voting rights are taken into account. The Bank exercises judgment in determining the acquisition date and whether or not control has been achieved.

In accordance with directives of the Supervisor of Banks, a banking corporation may apply the standard retrospectively or prospectively, starting with financial statements for periods starting on January 1, 2011. The Bank has elected to apply the standard prospectively, hence no reattribution of excess cost was made for acquisitions prior to application of the standard. Amortization of goodwill with respect to investments made prior to application of the standard, and in lieu, the need for making a provision for impairment of other-than-temporary nature shall be reviewed as stated in section 2.F. below.

For an acquisition made after January 1, 2011, the Bank would recognize goodwill as of the acquisition date at fair value of the consideration, including amounts with respect to any non-controlling interest in the acquired entity, and the fair value as of the acquisition date of equity interest in the acquired entity previously held by the Bank, less the net amount attributed upon acquisition to identifiable assets acquired and liabilities assumed.

Note 1 - Reporting Principles and Accounting Policies (continued)

Non-controlling interest

A non-controlling interest is any shareholders' equity in a subsidiary which is not attributable, directly or indirectly, to the parent company. A non-controlling interest, comprising instruments which confer ownership interest at present and which confer on its holder a share of net assets upon dissolution are measured at fair value upon the business combination date.

Attribution of Profit and of Other Comprehensive Profit items among shareholders

Profit or loss and any Other Comprehensive Profit item is attributed to the controlling shareholder of the entity and to the non-controlling interest. Total profit and Other Comprehensive Profit are attributed to the controlling shareholder of the entity and to the non-controlling interest, even if this results in a negative balance for the non-controlling interest.

Investment in associates and in entities

Associates are entities in which the Bank has material influence over financial and operational policy, but over which it has no control.

Investment in entities is accounted for using the equity method and is initially recognized at cost. The investment cost includes transaction costs. The consolidated financial statements include the Bank's share of income and expenses, profit or loss and Other Comprehensive Profit of investees accounted for using the equity method, after required adjustments to align the accounting policy with that of the Group as from the date on which material influence exists until such material influence ceases to exist.

The Bank does not make adjustments to accounting policies with regard to core banking business issues (issues where IFRS are yet to be adopted by the Public Reporting Regulations) applied by a non-banking associate.

When the Group's share of loss exceeds the value of the Group's interest in an entity accounted for using the equity method, the carrying amount of these rights (including any long-term investment) is fully amortized, and the Group recognizes no further loss, unless the Group is committed to support the investee, or if the Group has paid any amounts in consideration for it.

Based on international standards, when determining the existence of material influence, certain potential voting rights should be taken into account. The standard has been prospectively applied starting with financial statements for periods starting on January 1, 2011, and its initial application had no impact on the Bank's financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

C. IAS 36 "Impairment of assets" - investments in associates accounted for using the equity method

Investments in associates are reviewed for impairment when there is objective evidence indicating impairment, in accordance with IAS 36 "Impairment of assets" and in accordance with decision 1-4 by the Israeli Securities Authority "Guidelines for review of need to amortize permanent investments".

Goodwill which is part of the investment account in the associate is not recognized as a separate asset, and therefore is not separately reviewed for impairment. Impairment is reviewed for the investment as a whole. If there is objective evidence indicating potential impairment of the investment, the Bank estimates the recoverable amount of the investment, which is its value in use or its net selling price, whichever is higher.

In determining the value in use of investment in an associate, the Bank estimates its share of the present value of estimated future cash flows expected to be generated by the associate, including operating cash flows of the associate and consideration for final realization of the investment, or the present value of estimated future cash flows expected to be derived from dividends received and from final realization.

Impairment loss is recognized when the carrying amount of the investment, accounted for using the equity method, exceeds its recoverable amount. Impairment loss is not attributed to any specific asset, including goodwill which is part of the investment account in an associate or in a jointly-controlled entity. Impairment loss is only reversed if a change occurs to estimates used to determine the recoverable amount of the investment after the date on which impairment loss was most recently recognized.

The carrying amount of the investment, after reversal of impairment loss, shall not exceed the carrying amount of the investment which would have been determined using the equity method if no impairment loss had been recognized. Reversal of impairment loss shall be recognized under "Banking corporation's share of operating profit or loss of associates".

Initial application of the standard had no impact on the Bank's financial statements.

D. IAS 17 "Leases"

Leases, including land leases from the Israel Land Administration ("ILA") or from third parties, where the Bank essentially bears all risk and reward associated with the property, are classified as financing leases. Upon initial recognition, leased assets are measured at their fair value or the present value of minimum future leasing fee, whichever is lower. Future payments for exercise of an option to extend the lease term with ILA are not recognized as part of the referring asset and liability, since they constitute a contingent leasing fee, derived from the fair value of the land upon future renewal dates of the lease. Subsequent to initial recognition, the asset is treated as per the accounting policy applicable for such asset. Other leases are classified as operating leases, with leased assets not recognized on the Bank's balance sheet.

Note 1 - Reporting Principles and Accounting Policies (continued)

Prepaid leasing fee paid to the ILA with respect to land leases classified as operating leases are presented on the balance sheet as prepaid expenses, and are recognized on the statement of profit and loss over the lease term. The lease term and amortization amounts account for any option to extend the lease term, if upon contracting the lease it was reasonably certain that the option would be exercised.

Payments for an operating lease are charged to the statement of profit and loss using the straight line method over the lease term. Lease incentives received are recognized as an integral part of all lease expenses using the straight line method over the lease term.

Minimum leasing fees payable for a financing lease are divided into financing expenses and reduction of the liability balance. Financing expenses are allocated for all periods in the lease term, so as to obtain a fixed periodic interest rate for the outstanding liability balance. Minimum leasing fees with respect to contingent leasing fees are updated when the contingency is resolved.

At the outset or upon review of the agreement, the Bank determines whether it is a lease or whether it includes a lease. A specific property is subject to a lease if existence of the agreement is contingent on use of a specific asset(s). An agreement transfers the right to use the property if it transfers the right to control use of the property. Payments and other consideration required pursuant to the agreement are separated at the outset or upon review of the agreements, into payments with respect to the lease and into other components, based on their pro-rata fair value.

For a financing lease, if it is impracticable to reliably separate the payments, the Bank recognizes an asset and a liability whose amount is equal to the fair value of the underlying asset. In subsequent periods, the liability is amortized as payments are made, and an inherent financing expense is recognized with respect to the liability, using the incremental interest rate of the acquirer.

Initial application of the standard had no impact on the Bank's financial statements.

E. IFRS 5 "Non-current assets held for sale and discontinued operations"

In accordance with international standards, as adopted in the public reporting directives, assets which meet the criteria prescribed by the standard for classification as held for sale, except for "assets seized" in credit transactions, as defined in the public reporting directives, shall be measured at their carrying amount or at their fair value net of selling costs, whichever is lower. Furthermore, in accordance with IFRS, these assets shall not be amortized after the date of their classification as held for sale. The Bank prospectively applies the standard as from financial statements for periods starting on January 1, 2011; therefore initial application of the standard had no impact.

Note 1 - Reporting Principles and Accounting Policies (continued)

F. IAS 38 "Intangible assets"

Goodwill

For information on measurement of goodwill upon initial recognition, see section 2B above. In subsequent periods, goodwill is measured at cost net of accumulated impairment loss.

Software cost

Software acquired by the Bank is measured at cost net of accumulated depreciation and impairment loss.

Cost associated with software development or customization is capitalized if and only if: development cost may be reliably measured; the software is technically and commercially feasible; future economic benefits are expected; and the Bank has the intent and sufficient resources to complete development and put the software into use. Cost recognized as an intangible asset includes direct cost of goods and services and direct employee wages. Such cost is measured at cost net of accumulated depreciation and impairment loss. Overhead cost not directly attributable to software development and research expenses are recognized as expenses when incurred.

Amortization

Amortization is charged to the statement of profit and loss using the straight line method over the estimated useful life of intangible assets, including software assets, as from the date on which these assets are available for use.

Goodwill and intangible assets of unspecified useful life are not systematically amortized, but rather are reviewed for impairment at least once annually.

Intangible assets generated at the Bank (such as: software under development) are not systematically amortized while they are not available for use. Therefore, such intangible assets are reviewed for impairment at least once annually, until such data on which they become available for use.

Subsequent cost

Subsequent cost is recognized as an intangible asset only when it increases the future economic benefit inherent in the asset with respect to which it was incurred. Other cost, including cost associated with goodwill or self-developed brands, is charged to the statement of profit and loss when incurred.

Initial application of IAS 38 has no material impact on the Bank's financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

3. **FAS 157 "Fair-value measurement" (FAS 159 (ASC 820-10) "Fair-value option for financial assets and financial liabilities" and ASU 2010-06 (ASC 825-10) "Improvements to disclosure of fair value measurement"**

FAS 157 defines fair value, and sets fort a consistent work framework for fair value measurement, by defining valuation techniques and a fair value ranking. The ranking divides instruments measured at fair value into three levels:

Level 1 - fair value measured using prices quoted for identical instruments on an active market accessible by the bank upon the measurement date.

Level 2 - fair value measured using observed data, either direct or indirect, which are not quoted prices as determined under Level 1. Level 2 data include quoted market data on active markets, or on non active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 - fair value measured by using non-observed data.

FAS 157 expands the disclosure requirements for fair value measurements. Application of the standard allows recognition of "first day" gains, and eliminates the obligation to determine the fair value of derivative instruments not traded on an active market based on the transaction price.

FAS 157 applies starting on January 1, 2011, and is applied prospectively, except for financial instruments initially measured prior to initial application as follows:

1. Positions in financial instruments traded on an active market measured at fair value using the blockage factor.
2. Derivative instruments measured at fair value pursuant to Part Ia of Public Reporting Directives (FAS 133) using transaction price, since they are not traded on an active market.
3. Mixed financial instruments measured at fair value upon initial recognition, using the transaction price pursuant to Part Ia of Public Reporting Directives (FAS 133).

The standard stipulates that the banking corporation should reflect credit risk and non-performance risk in measuring the fair value of debt, including derivatives, issued and measured at fair value. Non-performance risk includes the banking corporation's credit risk, but is not limited to this risk alone.

Note 1 - Reporting Principles and Accounting Policies (continued)

The Bank assesses credit risk in derivatives as follows:

- When there is sufficient liquid collateral with respect to the exposure, which specifically secures the derivative, the Bank assumes that credit risk is zero, and does not adjust the fair value with respect to credit quality of the counter-party.
- When exposure with respect to the counter-party, on consolidated basis, is material (over 1% of the Bank's equity) - the Bank conducts a fair value assessment based on indications of the credit quality of the counter-party from transactions on an active market, in as much as such indications are available by reasonable effort. The Bank derives these indications, inter alia, from prices of debt instruments of the counter-party traded on an active market, and from prices of credit derivatives based on the credit quality of the counter-party. If no such indications are available, the Bank calculates the adjustments based on internal ratings (such as: Estimated expected failure ratio and credit loss rate upon failure).
- When exposure with respect to the counter-party, on a consolidated basis, is not material - the Bank calculates the aforementioned adjustment on a group basis, using a credit quality benchmark based on groups of similar counter-parties, for example based on internal ratings.

Further, the Bank conducts reasonability testing of results obtained from internal assessment with regard to changes in market spreads, and makes the required adjustments, if any.

In order to adapt the banking corporation's valuation methods to the exit price principle and to provisions specified in the standard, the banking corporation is required to review the valuation methods applied for measuring fair value, taking into consideration the relevant circumstances of the various transactions, including recent transaction prices on the market, indicative prices from valuation services and results of back testing of similar transaction types.

The new disclosure requirements, including disclosure required exclusively on annual reports, are applied as from the first quarter of 2011, without requiring application to financial statements for periods prior to initial application of the standard.

Upon initial application of the standard in the first quarter of 2011, profit from financing operations for the quarter increased by NIS 17 million (NIS 11 million after tax).

In January 2010, the accounting standard update ASU 2010-06 on "Improvement of disclosure with regard to fair value measurement" was published in conjunction with application of Standard 157. In accordance with the update, disclosure and explanation are required if significant amounts measured at fair value are transferred from Level 1 to Level 2 or vice versa. Furthermore, disclosure is required of gross changes in amounts measured at fair value at level 3, due to acquisition, sale, issuance and redemption.

Note 1 - Reporting Principles and Accounting Policies (continued)

Securities

The fair value of securities held for trade and securities available for sale is determined based on quoted market prices on a major market. When there are multiple markets on which the security is traded, the estimate is based on the quoted market price on the most effective market. In such cases, the fair value of the Bank's investment in securities is the product of the number of units and the aforementioned quoted market price. If a quoted market price is not available, the fair value estimate is based on the best available information, with maximum use of observed data and taking into account the risk inherent in the financial instrument (market risk, credit risk, non-negotiability etc.)

Financial derivatives

Financial derivatives with an active market are valued based on market value, determined on the primary market, or in the absence of a primary market - using a quoted market price on the most effective market. Non-negotiable financial derivatives are valued using models which take into account the risk inherent in the derivative instrument (market risk, credit risk etc.) For further details, see below the valuation methodology of credit risk and non-performance risk.

Financial instruments other than derivatives

Most of the financial instruments in this category (such as: loans to the public and loans to the Government, deposits from the public and deposits with banks, non-negotiable subordinated notes and bonds) no "market price" is quotable, since there is no active market on which they are traded. Therefore, the fair value is estimated using acceptable pricing models, such as present value of future cash flows, discounted at an interest rate that reflects the level of risk inherent in the instrument. To this end, the future cash flows for impaired and other debt have been calculated net of effects of accounting write-offs and provision for credit loss with respect of the debt. Also, in certain cases, for the purpose of fair value measurement of non-negotiable financial liabilities, the Bank applies directives stipulated in ASU 2009-05 "Measuring liabilities at fair value". In particular, the Bank values their fair value using quoted prices of the liabilities (or of similar liabilities) which are traded as assets.

Fair value alternative

FAS 159 (ASC 825-10) allows banking corporations to elect, upon specified election dates, to measure at fair value financial instruments and certain other items ("qualified items") which, according to public reporting directives, are not required to be measured at fair value. Unrealized gain and loss due to changes in fair value of items for which the fair value option has been selected, are recognized on the statement of profit and loss at each subsequent reporting date. Furthermore, prepaid costs and commissions related to items for which the fair value option has been elected, are recognized on the statement of profit and loss as they are incurred. Election of the fair value option, as mentioned above, is made for each instrument individually, and may not be cancelled.

Note 1 - Reporting Principles and Accounting Policies (continued)

Further, FAS 159 (ASC 825-10) stipulates presentation and disclosure requirements designed to assist in comparing banking corporations which elect different measurement bases for similar types of assets and liabilities.

Notwithstanding the foregoing, the Supervisor of Banks' directives with regard to application of the standard have clarified that a banking corporation may not elect the fair value option, unless the banking corporation had previously developed knowledge, systems, procedures and high-level controls which would allow it to measure the item with a high degree of reliability. Therefore, the Bank may not elect the fair value option for any asset which may be classified under Level 2 or Level 3 of the fair value ranking, nor for any liability, without prior consent of the Supervisor of Banks.

FAS 159 (ASC 825-10) applies as from January 1, 2011. The Bank does not apply the fair value alternative pursuant to FAS 159 to any assets or liabilities.

4. **Supervisor of Banks' directives with regard to strengthening internal controls over financial reporting of employee rights**

On March 27, 2011, the Supervisor of Banks published directives with regard to strengthening internal controls over financial reporting of employee rights. These directives provide several clarifications with regard to assessment of liabilities with respect to employee rights, as well as directives concerning internal controls over the financial reporting process for employee rights, including a requirement to include a qualified actuary, identify and classify liabilities with respect to employee rights, maintain internal controls for reliance on the actuarial assessment and its validation, as well as certain disclosure requirements. The severance pay liability for this group of employees shall be stated on the financial statements at the amount of liability calculated on an actuarial basis, accounting for the additional cost expected to be incurred by the banking corporation with respect to providing such benefits, or the liability amount calculated as the product of the employee's monthly salary and their number of years in service, as required by Accounting Opinion 20 of the Institute of Certified Public Accountants in Israel - whichever is higher.

The directives shall be retroactively applied starting with financial statements as of June 30, 2011. Due to application of these directives, shareholders' equity attributable to equity holders of the Bank as of June 30, 2011 decreased by NIS 93 million.

Note 1 - Reporting Principles and Accounting Policies (continued)

The following is the impact of retroactive application for each previous reporting period included on these financial statements:

	For the three month period ended September 30, 2010			For the nine month period ended September 30, 2010			For the year ended December 31, 2010		
	As previously reported	Impact of retroactive application	Reported on these financial statements	As previously reported	Impact of retroactive application	Reported on these financial statements	As previously reported	Impact of retroactive application	Reported on these financial statements
	NIS in millions								
Impact on profit and loss items									
Payroll and associated expenses	381	1	382	1,122	3	1,125	1,525	4	1,529
Pre-tax operating profit	341	(1)	340	940	(3)	937	1,291	(4)	1,287
Provision for taxes on operating profit	127	-	127	345	-	345	470	(1)	469
After-tax operating profit	214	(1)	213	595	(3)	592	821	(3)	818
Net profit(1)	209	(1)	208	582	(3)	579	804	(3)	801
Basic net earnings per share	0.94	(0.01)	0.93	2.61	(0.01)	2.60	3.60	(0.01)	3.59
Diluted net earnings per share	0.93	(0.01)	0.92	2.58	(0.02)	2.56	3.55	(0.01)	3.54
Impact on cash flow statement									
Cash flows provided by current operations	444	(1)	443	1,146	(3)	1,143	1,702	(4)	1,698

	As of September 30, 2010			As of December 31, 2010		
	As previously reported	Impact of retroactive application	Reported on these financial statements	As previously reported	Impact of retroactive application	Reported on these financial statements
	NIS in millions					
Impact on balance sheet items						
Other assets (2)	758	37	795	727	38	765
Other liabilities (2)	4,134	132	4,266	4,375	133	4,508
Non-controlling interest	369	(7)	362	373	(7)	366
Shareholders' equity (1)	6,965	(88)	6,877	7,218	(88)	7,130

(1) Attributable to equity holders of the banking corporation

(2) Reclassified to adapt to method of presentation in the current period, as explained in Note 1.D. above.

Note 1 - Reporting Principles and Accounting Policies (continued)

5. **A creditor's determination with regard to restructuring of troubled debt**

   In April 2011, the FASB issued an accounting standard update, ASU 2011-02, with regard to a creditor's determination of whether a restructuring is a troubled debt restructuring. In accordance with US standards on this matter (ASC 310), debt restructured as troubled debt is debt which has been formally restructured wherein - for economic or legal reasons related to financial duress of the debtor - the bank made a concession to the borrower.

   The update provides further directives which clarify when debt restructuring would be deemed to be restructuring of troubled debt wherein the creditor made a concession. In particular, clarifications are included with regard to application of the concession test for effective interest. Directives are also included for determination as to whether the concession was made in debt restructuring where the contractual interest under the new terms and conditions is higher than the original contractual interest, but still lower than market interest for loans with similar risk attributes and taking into account all of the terms and conditions specified in the restructuring. It was further clarified that in situations where the debtor is unable to raise debt with similar debt attributes under market conditions, the bank would be required to review all other terms and conditions of the restructuring in order to determine whether a concession has been made.

   In order to determine whether the borrower is under duress, the bank would be required, *inter alia*, to assess whether it is expected that the borrower would undergo a failure event in the foreseeable future. If the aforementioned event is probable, the bank is to deduce that the borrower is in financial duress.

   Further, in accordance with existing standards, an insignificant delay in payments does not constitute a concession. The ASU lists indicators which may indicate a non-material delay, such as: the amount of restructured payments is not material relative to the outstanding debt balance, or relative to the value of collateral, and the delay is not material relative to payment frequency (monthly, quarterly etc.), the original contractual maturity and original expected average duration of the debt. In accordance with the ASU, the creditor must take into account the cumulative effect of past debt restructuring when assessing whether or not the delay is material.

   The ASU further lists disclosure requirements with regard to restructuring of troubled debt.

   The Supervisor of Banks adopted rules determined by the ASU, which, as from July 1, 2011, became applicable for determination of whether a restructuring is a troubled debt restructuring - for any debt restructuring made on or after January 1, 2011.

   Changes to measurement of the provision for credit loss were applied prospectively.

   Initial application of the ASU had no material impact on the Bank's financial statements.

F. New accounting standards and new directives by the Supervisor of Banks prior to application there of

1. IFRS on the following issues, which are not in the core banking business, have yet to become effective and would be adopted in accordance with directives of the Supervisor of Banks, when issued, with regard to timing and manner of initial application there of:

   - IAS 7 "Cash flow statements"
   - IAS 12 "Income taxes"
   - IAS 19 "Employee benefits"
   - IAS 23 "Borrowing costs"
   - IAS 24 "Related party disclosures"

Note 1 - Reporting Principles and Accounting Policies (continued)

2. In April 2011, the FASB issued an accounting standard update, ASU 2011-03, on reconsideration of effective control for repurchase agreements, which is an update to rules determined by FAS 166 (ASC 860).
   According to this update, the manner of determination of existence of effective control by transferor in repurchase agreements is to be modified. Evaluation of existence of effective control shall be focused on contractual rights and contractual obligations of the transferor, and therefore would not take into consideration (1) the criterion requiring that the transferor would be capable of acquiring transferred securities even in case of failure of the transferee, and (2) directives with regard to required collateral with respect to this criterion.

   Other criteria for review of existence of effective control were not modified by the ASU. These criteria indicate that the transferor maintains effective control over transferred assets (and therefore the asset transfer shall be accounted for as secured debt) if all of the following conditions are fulfilled:

   - The assets repurchased or redeemed are identical or essentially identical to the transferred assets;
   - The agreement is to repurchase or redeem them prior to maturity, at a fixed or fixable price; and
   - The agreement is made simultaneously with the transfer.

   The update shall apply to periods starting after December 15, 2011 (i.e. as from January 1, 2012), and shall be applied prospectively for new transactions and existing transactions modified at the start of the first quarterly or annual period following its effective start date. Early adoption is not permitted.
   The updated standards are not expected to affect the Group's financial statements.

3. In May 2011, the IASB published the new set of standards, which is part of the joint IASB-FASB consolidation project, and supersedes current standards with regard to consolidation of financial statements and joint ventures, and also includes several changes with regard to associates. In accordance with the Supervisor of Banks' directives, banking corporations should regularly update the accounting treatment of issues adopted by the Public Reporting Regulations. Such an update is required in line with the effective start date and as per transition provisions to be specified in new International Financial Reporting Standards to be published on these matters, and in accordance with adoption principles and clarifications of the Supervisor of Banks. Therefore, the general application of rules stipulated in the new set of standards with regard to consolidation of financial statements and related issues, shall be accomplished subject to provisions of the Public Reporting Regulations, *inter alia*, with regard to application of the standard to issues for which specific rules, different than those specified in the standard or related directives, were specified or adopted in the Public Reporting Regulations.

Note 1 - Reporting Principles and Accounting Policies (continued)

A. IFRS 10 "Consolidated financial statements"

This standard supersedes provisions of IAS 27 "Consolidated and separate financial statements" and provisions of SIC 12 "Consolidation - Special Purpose Entities" with regard to consolidation of financial statements, such that provisions of IAS 27 shall only continue to apply to separate financial statements.

The standard proposes a new control model, for determination whether an investor has control of the investee, and should therefore consolidate it. This model is to be applied to all investees, both those currently within the scope of IAS 27 and those currently within the scope of SIC 12. In accordance with this model, an investor has control of the investee when exposed to or eligible to receive variable returns arising from their involvement with the investee, and is capable of influencing these returns by means of their power in said investee.

De-facto circumstances would be accounted for in assessing control, so the standard effectively includes a model of effective control. This means that if effective control is achieved, the financial statements should be consolidated. Furthermore, when assessing the achievement of control, all significant potential voting rights would be accounted for, even if not immediately exercisable. With regard to potential voting rights, their structure, reason for being as well as terms and conditions of the rights should be reviewed.

The standard is to be prospectively applied for annual reporting periods starting on or after January 1, 2013. Early adoption is possible, subject to disclosure and subject to early adoption of two other standards published concurrently: IFRS 11 "Joint arrangements" and IFRS 12 "Disclosure of interests in other entities".

B. IFRS 11 "Joint arrangements"

This standard supersedes provisions of IAS 31 "Interests in joint ventures" and amends some supervisions of IAS 28 "Investments in associates".

The standard defines joint arrangements as arrangements subject to joint control, and classifies such arrangements into two categories: (1) Joint operations, and (2) joint ventures.

Joint control is an agreed, contractual sharing of control (as defined in IFRS 10) over an arrangement, and only exists when unanimous agreement is required of the parties sharing control in order to make decisions with regard to relevant operations of the arrangement.

1) Joint operations - the parties sharing joint control have interests in assets related to the arrangement, as well as a commitment to fulfill obligations related to the agreement. Joint operations shall be treated similarly to the accounting treatment of jointly-controlled assets and of jointly-controlled ventures pursuant to IAS 31, i.e. shall be recognized as assets and liabilities and shall be treated in accordance with the applicable standards. Joint operations include joint agreements not incorporated as a separate vehicle (similar to jointly-controlled assets and jointly-controlled ventures, as defined in IAS 31), and also include joint agreements incorporated as a separate entity where the legal or contractual form or other indications signify that the parties sharing joint control have interests in assets related to the agreement and a commitment to fulfill obligations related to the agreement.

Note 1 - Reporting Principles and Accounting Policies (continued)

2) Joint ventures - the parties sharing control have interests in net assets of the joint agreement. Joint ventures shall only be accounted for using the equity method. Joint ventures are all joint agreements incorporated as a separate entity which do not constitute "joint operations". This means that joint ventures are joint agreements incorporated as a separate entity where the legal or contractual form or other indications indicate that the parties sharing joint control have no interests to assets related to the agreement and have no commitment to fulfill obligations related to the agreement.
Furthermore, the standard modifies accounting treatment of loss of joint control where after loss of joint control material influence still remains. In particular, the standard rescinds the current directive to revalue at fair value the remaining investment in the associate upon loss of joint control.

The standard is to be prospectively applied for annual reporting periods starting on or after January 1, 2013. Nevertheless, specific provisions are in place with regard to prospective application in certain cases. Early adoption is possible, subject to disclosure and subject to early adoption of two other standards published concurrently: IFRS 10 "Consolidated financial statements" and IFRS 12 "Disclosure of interests in other entities".

C. IFRS 12 "Disclosure of interests in other entities"
The standard contains extensive disclosure requirements with regard to interests in subsidiaries, joint agreements, associates and structured entities.

"Structured entities" are entities incorporated so that voting rights, and similar rights, are not the dominant factor in determining control. The definition of interests in the standard is extensive, including contractual and/or non-contractual involvement which exposes the entity to change in returns due to performance of the investee.

The objective of these new disclosure requirements is to allow users of the financial statements to understand the nature of and risk associated with the entity's interests in other entities, and to understand the impact of these interests on the entity's financial standing, operating results and cash flows. This is reflected in comprehensive, extensive disclosure requirements, including: judgment and significant assumptions reflected in determining the nature of rights in entities and agreements, interests in subsidiaries, interests in joint agreements and in associates and interests in structured entities.
The standard is to be applied for annual reporting periods starting on or after January 1, 2013. Early adoption is permitted, subject to early adoption of two other standards published concurrently - IFRS 11 "Joint agreements" and IFRS 10 "Consolidated financial statements". However, the additional disclosure requirements pursuant to IFRS 12 may be adopted early without early adoption of the other standards.
The Bank has yet to commence review of the implications of adoption of these standards on the financial statements.

Note 1 - Reporting Principles and Accounting Policies (continued)

4. In May 2011, the FASB issued accounting standard update ASU 2011-04 on fair-value measurement.

   This accounting standard update is an update to guidelines with regard to fair-value measurement stipulated in US accounting standard FAS 157 (ASU 820-10). The updates included in this ASU include clarifications by the FASB with regard to intentions concerning application of fair-value measurement rules and with regard to current disclosure requirements, as well as updates which stipulate principles or specific requirements with regard to fair-value measurement and with regard to disclosure requirements concerning fair-value measurement.

   Inter alia, these updates include further clarifications and specific guidelines concerning fair-value measurement of financial instruments managed in an investment portfolio, stipulate rules for fair-value measurement of instruments classified as equity by the reporting entity, as well as clarifications with regard to application of premium or discount in calculating the fair value of an accounting unit of an asset or liability.

   The standard further stipulates additional disclosure requirements as follows:

   1) For fair-value measurement classified under level 3 of the fair value hierarchy:
      - Valuation process applied by the reporting entity;
      - Sensitivity analysis of fair-value measurement to changes in unobserved data and mutual interrelations between such unobserved data, if any.
   2) Use of non-financial asset other than by the highest and best use, where the asset is measured at fair value on the balance sheet, or when its fair value is included in disclosures under the highest and best use assumption.
   3) Classification by level on the fair value hierarchy of items not measured at fair value on the balance sheet, but which require disclosure of their fair value.

   On August 11, 2011, the Supervisor of Banks sent a letter to banking corporations, whereby the standard would be applied for annual reporting periods starting on or after January 1, 2012 and that early adoption is not permitted. The updates included in the ASU are to be applied prospectively.

   The Bank is preparing to review the implications of adoption of the standard on the financial statements.

Note 2 - Securities

As of September 30, 2011 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(1) Debentures held to maturity					
of Government of Israel	447	447	-	(5)	442
Total debentures held to maturity	**447**	**447**	**-**	**(5)**	**442**

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (1) (Balance sheet balance)
			Gains	Losses	
(2) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	4,052	4,134	18	(100)	4,052
Of foreign governments (2)(6)	65	65	-	-	65
Of banks and financial institutions in Israel	121	127	-	(6)	121
Of banks and financial institutions overseas	445	445	2	(2)	445
Asset-backed (ABS)	63	69	5	(11)	63
Of others overseas	170	171	1	(2)	170
Total debentures available for sale	**4,916**	**5,011**	**26**	**(121)**	**4,916**
Shares(3)	83	82	1	-	83
Total securities available for sale	**4,999**	**5,093**	(4) **27**	(4) **(121)**	**4,999**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (1) (Balance sheet balance)
(3) Securities held for trading					
- Debentures					
of Government of Israel	429	428	1	-	429
Of banks and financial institutions overseas	4	4	-	-	4
Total securities held for trading	**433**	**432**	(5) **1**	(5) **-**	**433**
Total securities	**5,879**	**5,972**	**28**	**(126)**	**5,874**

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

(2) See Note 15.A-D to the 2010 financial statements for information on liens on securities held by the Bank.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 78 million.

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

(5) Charged to statement of profit and loss but not yet realized.

(6) US government debentures.

Note 2 - Securities

As of September 30, 2010 (unaudited) (continued)

Reported amounts (NIS in millions)

	Value On balance sheet	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gains	Losses	Fair Value[1]
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel [2]	6,902	6,948	32	(78)	6,902
Of foreign governments [2][6]	176	176	-	-	176
Of banks and financial institutions overseas	748	742	7	(1)	748
Asset-backed (ABS)	60	69	6	(15)	60
Of others overseas	205	203	2	-	205
Total debentures available for sale	**8,091**	**8,138**	**47**	**(94)**	**8,091**
Shares[3]	87	86	1	-	87
Total securities available for sale	**8,178**	**8,224**	[4] **48**	[4] **(94)**	**8,178**

	Unrealized, on balance sheet	Amortized cost	Unrealized gain from adjustments to fair value [5]	Unrealized loss from adjustments to fair value [5]	Fair value [1]
2) Securities held for trading					
- Debentures					
of Government of Israel	89	89	-	-	89
Of banks and financial institutions overseas	6	6	-	-	6
Total securities held for trading	**95**	**95**	**-**	**-**	**95**
Total securities	**8,273**	**8,319**	**48**	**(94)**	**8,273**

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

(2) See Note 15.A-D to the 2009 financial statements for information on liens on securities held by the Bank.

(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 82 million.

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

(5) Charged to statement of profit and loss but not yet realized.

(6) US government debentures.

Note 2 - Securities

As of December 31, 2010 (audited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income Gains	Cumulative other comprehensive income Losses	Fair value (1)
(1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	6,023	6,040	31	(48)	6,023
Of foreign governments (2)(6)	103	103	-	-	103
Of banks and financial institutions in Israel	127	129	-	(2)	127
Of banks and financial institutions overseas	612	606	7	(1)	612
Asset-backed (ABS)	60	66	5	(11)	60
Of others overseas	154	151	3	-	154
Total debentures available for sale	**7,079**	**7,095**	**46**	**(62)**	**7,079**
Shares(3)	81	81	-	-	81
Total securities available for sale	**7,160**	**7,176**	**(4) 46**	**(4) (62)**	**7,160**

	Balance sheet balance	Amortized cost (for shares - cost)	Unrealized gains From reconciliation to fair value	Unrealized losses from adjustments to fair value	Fair value (1)
(2) Securities held for trading					
- Debentures					
of Government of Israel	285	286	1	(2)	285
Of others	4	4	-	-	4
Total securities held for trading	289	290	(5) 1	(5) (2)	289
Total securities	7,449	7,466	47	(64)	7,449

(3) **Information about impaired debentures**

	As of September 30, 2011	As of September 30, 2010	As of December 31, 2010
Recorded debt balance of impaired debentures not accruing interest income	-	29	29

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-D to the 2010 financial statements for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, that are stated at cost, net of a provision for decline in value that is not temporary, amounting to NIS 79 million.
(4) Included in shareholders' equity in "adjustments on presentation of securities available for sale at fair value".
(5) Charged to statement of profit and loss but not yet realized.
(6) US government debentures.

Note 2 - Securities – Continued

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

Reported amounts (NIS in millions)

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

				As of September 30, 2011
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	unaudited			
Asset-backed securities (ABS):				
CLO	-	-	39	(11)
Total	**-**	**-**	**39**	**(11)**

				As of September 30, 2010
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	unaudited			
Asset-backed securities (ABS):				
CLO	-	-	60	(15)
Total	**-**	**-**	**60**	**(15)**

				As of December 31, 2010
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Asset-backed securities (ABS):				
CLO	-	-	36	(11)
Total	**-**	**-**	**36**	**(11)**

Note 3 - Loans to the public and provision for credit loss - (unaudited)

Reported amounts (NIS in millions)

A. Loans to the public

	September 30, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Loans to the public reviewed individually [(1)(5)]	32,349	615	31,734	30,379	738	29,641
Loans to the public reviewed on group basis [(2)(5)]	86,979	1,093	85,886	77,783	1,047	76,736
Total loans to the public	**119,328**	**1,708**	**117,620**	**108,162**	**1,785**	**106,377**
Includes: Customers' liabilities for acceptances	278	-	278	191	-	191

B. Loans to the public reviewed individually

1. Loans to the public reviewed individually includes:

	September 30, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Impaired loans to the public [(3)]	1,342	283	1,059	1,690	372	1,318
Non-impaired loans to the public, in arrears 90 days or more [(4)]	72	15	57	73	25	48
Non-impaired loans to the public, in arrears 30-89 days [(4)]	83	4	79	75	3	72
Other non-impaired loans to the public [(4)(5)]	30,852	313	30,539	28,541	338	28,203
Total non-impaired loans to the public [(4)]	**31,007**	**332**	**30,675**	**28,689**	**366**	**28,323**
Total loans to the public reviewed individually	**32,349**	**615**	**31,734**	**30,379**	**738**	**29,641**

(1) Includes loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on a group basis. For further details of loans reviewed individually, see below section B.

(2) Loans for which a provision for credit loss is assessed on group basis by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation No. 314, and other loans not reviewed individually for which the provision for credit loss is calculated on group basis. For further details see section C.

(3) Non-accruing impaired loans, except for certain loans under restructuring, as itemized in sub-section 4 below.

(4) Loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on a group basis.

(5) Reclassified.

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

B. Loans to the public reviewed individually (continued)

Supplementary information about loans to the public reviewed individually

	September 30, 2011	December 31, 2010 (pro-forma)
	Recorded debt balance	
2. Impaired loans to the public for which a provision for credit loss was made individually	1,139	1,230
Impaired loans to the public for which no provision for credit loss was made individually	203	460
Total impaired loans to the public	**1,342**	**1,690**
3. Impaired loans to the public measured at present value of cash flows	1,123	1,437
Impaired loans to the public measured at collateral value	219	253
Total impaired loans to the public	**1,342**	**1,690**

4. Troubled debt in restructuring where changes were made to credit terms and conditions

	September 30, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Not accruing interest revenues	98	8	90	80	32	48
Accruing interest revenues, in arrears 90 days or more	-	-	-	2	-	2
Accruing interest revenues, in arrears 30-89 days	9	1	8	11	1	10
Accruing interest revenues	70	6	64	48	5	43
Total (included under impaired loans to the public)	**177**	**15**	**162**	**141**	**38**	**103**
Impaired debt accruing interest revenues which was restructured in previous years.	54	10	44	79	15	64

5. Interest with respect to impaired loans to the public

	For the three months ended September 30, 2011	For the nine months ended September 30, 2011
Average recorded debt balance of impaired loans to the public during the reported period	1,508	1,734
Total interest income recognized in the reported period with respect to such loans in the period when it was classified as impaired (1)	19	54
Total interest income which would have been recognized in the reported period had this credit accrued interest at its original terms	19	65
(1) Includes: Interest income recognized in accordance with accounting policy on cash basis	15	47

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

C. Loans to the public reviewed on group basis

1. Housing loans for which a minimum provision for credit loss was made by extent of arrears, in accordance with appendix to Proper Conduct of Banking Business Regulation No. 314:

								Extent of arrears
	In arrears 30-90 days	In arrears over 90 days					Balance with respect to refinanced loans in arrears [3]	
	2-3 months	3-6 months	6-15 months	15-33 months	Over 33 months	Total over 3 months		Total
								September 30, 2011
Amount in arrears	10	14	23	35	470	542	90	642
Includes: Balance of provision for interest [1]	-	-	1	5	180	186	6	192
Recorded debt balance	768	367	280	131	576	1,354	335	2,457
Balance of provision for credit loss [2]	-	-	59	76	525	660	149	809
Debt balance, net	**768**	**367**	**221**	**55**	**51**	**694**	**186**	**1,648**
								December 31, 2010 (pro-forma)
Amount in arrears	10	15	22	27	470	534	86	630
Includes: Balance of provision for interest [1]	-	-	1	-	168	169	8	177
Recorded debt balance	709	374	247	118	628	1,367	318	2,394
Balance of provision for credit loss [2][4]	-	-	37	59	572	668	161	829
Debt balance, net	**709**	**374**	**210**	**59**	**56**	**699**	**157**	**1,565**

2. Other loans not reviewed on individual basis, for which the provision for credit loss was calculated on group basis:

	September 30, 2011			December 31, 2010 (pro-forma)		
	Recorded debt balance	Provision for credit loss	Debt balance, net	Recorded debt balance	Provision for credit loss	Debt balance, net
Non-impaired loans to the public, in arrears 90 days or more	51	5	46	71	8	63
Non-impaired loans to the public, in arrears 30-89 days	132	4	128	145	3	142
Other non-impaired loans to the public	15,914	176	15,738	14,764	132	14,632
Total	**16,097**	**185**	**15,912**	**14,980**	**143**	**14,837**

(1) With respect to interest on amounts in arrears.

(2) Excludes balance of provision for interest.

(3) Loans for which an agreement was signed for repayment of arrears by borrower, where a change was made in the repayment schedule for the loan balance not yet due.

(4) Reclassified.

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

D. Provision for credit loss with respect to debts and to off-balance sheet credit instruments

	Provision for credit loss			
		On group basis [1]		
	On individual basis	By extent of arrears	Other	Total
Balance of provision for credit loss as of December 31, 2010	**2,580**	**811**	**215**	**3,606**
Nine months ended September 30, 2011:				
Net accounting write-offs recognized as of January 1, 2011 [2]	(2,016)	-	(544)	(2,560)
Other changes to provision for credit loss as of January 1, 2011 (charged to shareholders' equity) [2]	(127)	18	1,028	919
Expenses with respect to credit loss	177	(11)	110	276
Accounting write-offs	(304)	(9)	(148)	(461)
Recovery of debt written off in previous years	9	-	88	97
Net accounting write-off	(295)	(9)	(60)	(364)
Balance of provision for credit loss as of September 30, 2011	**319**	**809**	**749**	**1,877**

	Provision for credit loss			
		On group basis [1]		
	On individual basis	By extent of arrears	Other	Total
Balance of provision for credit loss as of June 30, 2011 [3]	**407**	**820**	**690**	**1,917**
Three months ended September 30, 2011:	-	-	-	-
Expenses with respect to credit loss	66	(9)	85	142
Accounting write-offs	(158)	(2)	(50)	(210)
Recovery of debt written off in previous years	4	-	24	28
Net accounting write-off	(154)	(2)	(26)	(182)
Balance of provision for credit loss as of September 30, 2011	**319**	**809**	**749**	**1,877**

	Provision for credit loss			
		On group basis [1]		
	On individual basis	By extent of arrears	Other	Total
Composition of provision balance as of September 30, 2011				
With respect to loans to the public	303	809	596	1,708
With respect to debt other than loans to the public	-	-	12	12
With respect to off-balance sheet credit instruments (included under Other Liabilities)	16	-	141	157
Total	**319**	**809**	**749**	**1,877**
Composition of provision balance as of December 31, 2010				
With respect to loans to the public [3]	395	829	561	1,785
With respect to debt other than loans to the public	-	-	9	9
With respect to off-balance sheet credit instruments (included under Other Liabilities)	42	-	129	171
Total	**437**	**829**	**699**	**1,965**

(1) Includes provision on group basis with respect to debt reviewed individually and found not to be impaired.

(2) Due to initial application of new directives with regard to measurement of impaired debt and provision for credit loss, as from January 1, 2011 banking corporations are not required to maintain general, supplementary and special provisions for doubtful debts.

(3) Reclassified.

Note 3 - Loans to the public and provision for credit loss - (unaudited) - continued

Reported amounts (NIS in millions)

E. Additional information on housing loans and calculation of provision for credit loss

							September 30, 2011
	Housing loans		Housing loans - impaired or in arrears over 90 days [1]		Balance of provision for credit loss		
						Other	
	Recorded debt balance	Amount in arrears (3)	Recorded debt balance	By extent of arrears	On group basis	On individual basis	Total
Housing loans for which provision for credit loss by extent of arrears must be calculated [2]	70,212	632	1,689	809	99	-	908
Other housing loans	708	6	36	-	-	14	14
Total	**70,920**	**638**	**1,725**	**809**	**99**	**14**	**922**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,238	-	6	-	-	-	-

(1) Impaired housing loans and housing loans in arrears over 3 months.
(2) Includes: General-purpose loans secured by lien on residential apartment, amounting to NIS 4,173 million.
(3) Includes delinquency interest.
(4) Includes: Housing loans bearing variable interest, amounting to NIS 47,786 million.

							December 31, 2010 (pro-forma)
	Housing loans		Housing loans - impaired or in arrears over 90 days [1]		Balance of provision for credit loss		
						Other	
	Recorded debt balance	Amount in arrears [3]	Recorded debt balance	By extent of arrears	On group basis	On individual basis	Total
Housing loans for which provision for credit loss by extent of arrears must be calculated [3]	62,298	620	1,685	829	75	-	904
Other housing loans	520	7	30	-	-	18	18
Total	**62,818**	**627**	**1,715**	**829**	**75**	**18**	**922**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	969	-	6	-	-	-	-

(1) Impaired housing loans and housing loans in arrears over 3 months.
(2) Includes delinquency interest.
(3) Reclassified.

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

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

A. Capital adequacy information

	September 30, 2011	September 30, 2010	December 31, 2010
1. **Consolidated data**			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital, after deductions	7,575	(1) 7,043	(1) 7,218
Tier II capital, after deductions	5,749	(1) 5,419	(1) 5,527
Total capital	**13,324**	**12,462**	**12,745**
B. Weighted risk asset balances			
Credit risk	89,745	(1) 81,566	(1) 83,306
Market risk	813	971	579
Operating risk	7,775	7,268	7,407
Total weighted risk asset balances	**98,333**	**89,805**	**91,292**

	Base II	Base II	December 31, 2010
			In %
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	7.70%	(1) 7.84%	(1) 7.91
Ratio of total capital to risk elements	13.55%	(1) 13.88%	(1) 13.96
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00
2. **Significant subsidiaries**			
Bank Yahav for Government Employees Ltd. and subsidiaries there of			
Ratio of Tier I capital to risk elements	9.21	(1) 9.21	(1) 9.17
Total ratio of capital to risk elements	13.82	(1) 13.88	(1) 13.81
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. For details, see Note 1.E.4.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

Calculated in accordance with Proper Conduct of Banking Business Regulation No. 201-211 "Measurement and Capital Adequacy"

Reported amounts (NIS in millions)

	September 30, 2011	September 30, 2010	December 31, 2010
3. Capital components for calculation of capital ratio (on consolidated basis)			
A. Tier I capital			
Paid-up share capital and capital reserves	2,069	2,027	2,066
Total cumulative other loss (1)	(60)	(86)	(62)
Retained earnings	5,315	(3)4,878	(3) 4,980
Minority interest of external shareholders in equity of consolidated subsidiaries	377	(3)362	(3) 366
Less:			
Goodwill	(87)	(91)	(87)
Tier I capital after Tier I deductions alone	**7,614**	**7,090**	**7,263**
Less:			
Investments in supervisory capital components of banking corporations	(19)	(19)	(19)
Other deductions from Tier I capital	(20)	(28)	(26)
Total Tier I capital	**7,575**	**7,043**	**7,218**
B. Tier II capital			
1. Upper Tier II capital			
General provision for doubtful debts (2)	110	110	110
Complex capital instruments	1,871	1,811	1,831
2. Lower Tier II capital			
Subordinated notes	3,807	(3)3,546	(3) 3,631
3. Deductions from Tier II capital			
Investments in supervisory capital components of banking corporations	(19)	(19)	(19)
Other deductions from Tier II capital	(20)	(29)	(26)
Total Tier II capital	**5,749**	**5,419**	**5,527**

(1) Excludes net gain from cash flow hedges.

(2) The amount defined, through December 31, 2010, as general provision for doubtful debts, is part of upper Tier II capital and is not deducted from loans to the public.

(3) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. For details, see Note 1.E.4.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

B. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policy for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basel Committee.

C. On October 25, 2010, the Bank's Board of Directors decided that the target core capital ratio would be no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of September 30, 2011 (unaudited)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency [1]				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	13,614	491	2,336	269	277	-	16,987
Securities	2,920	262	1,729	843	42	83	5,879
Securities loaned or sold in conjunction with repurchase agreements	34	-	-	-	-	-	34
Loans to the public, net	59,916	43,272	10,256	2,262	1,914	-	117,620
Loans to Governments	-	-	1	145	-	-	146
Investments in investees	31	-	-	-	-	(14)	17
Buildings and equipment	-	-	-	-	-	1,588	1,588
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	1,728	181	1,161	90	266	-	3,426
Other assets	790	174	91	1	5	32	1,093
Total assets	**79,033**	**44,380**	**15,574**	**3,610**	**2,504**	**1,776**	**146,877**
Liabilities							
Deposits from the public	70,214	22,691	17,019	4,166	2,407	-	116,497
Deposits from banks	726	709	218	208	13	-	1,874
Deposits from the Government	10	118	34	-	-	-	162
Debentures and subordinated notes	2,136	10,365	-	-	-	-	12,501
Liabilities with respect to derivatives	1,579	202	1,464	202	139	-	3,586
Other liabilities	3,511	700	48	1	3	258	4,521
Total liabilities	**78,176**	**34,785**	**18,783**	**4,577**	**2,562**	**258**	**139,141**
Difference	857	9,595	(3,209)	(967)	(58)	1,518	7,736
Impact of hedging derivatives:							
Derivatives (except for options)	945	(945)					-
Non-hedging financial derivatives:							
Derivatives (except for options)	2,428	(4,472)	1,412	749	(117)	-	-
Net in-the-money options (in terms of underlying asset)	(1,964)	-	1,350	513	122	(21)	-
Net out-of-the-money options (in terms of underlying asset)	(25)	-	306	(315)	34	-	-
Total	**2,241**	**4,178**	**(141)**	**(20)**	**(19)**	**1,497**	**7,736**
Net in-the-money options (capitalized par value)	(618)	-	290	122	132	74	-
Net out-of-the-money options (capitalized par value)	295	-	140	(454)	60	(41)	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of September 30, 2010 (unaudited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		Foreign currency (1)				
	Non-linked	CPI-linked	US dollars	Euro	Other currencies	Non-monetary items[2]	Total
Assets							
Cash and deposits with banks	5,698	477	2,932	281	413	-	9,801
Securities	3,762	652	1,874	1,802	96	87	8,273
Securities loaned or sold in conjunction with repurchase agreements	107	-	-	-	-	-	107
Loans to the public	52,881	37,931	8,292	2,385	2,004		103,493
Loans to the Government	-	-	1	66	-	-	67
Investments in investees	29	-	-	-	-	(16)	13
Buildings and equipment	-	-	-	-	-	1,491	1,491
Intangible assets and goodwill [3]	-	-	-	-	-	90	90
Assets with respect to derivatives [3]	1,646	274	148	75	135	-	2,278
Other assets [3]	526	130	110	2	6	21	795
Total assets	**64,649**	**39,464**	**13,357**	**4,611**	**2,654**	**1,673**	**126,408**
Liabilities							
Deposits from the public	58,598	21,005	14,839	4,511	2,251	-	101,204
Deposits from banks	230	830	448	151	53	-	1,712
Deposits from the Government	3	153	35	-	-	-	191
Debentures and subordinated notes	398	8,718	-	-	-	-	9,116
Liabilities with respect to derivatives [3]	1,778	253	350	171	128	-	2,680
Other liabilities [3]	3,149	745	133	12	(32)	259	4,266
Total liabilities	**64,156**	**31,704**	**15,805**	**4,845**	**2,400**	**259**	**119,169**
Difference	**493**	**7,760**	**(2,448)**	**(234)**	**254**	**1,414**	**7,239**
Impact of hedging derivatives:							
Derivatives (except for options)	1,610	(1,610)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	1,387	(2,848)	1,180	535	(254)	-	-
Net in-the-money options (in terms of underlying asset)	(619)	-	1,114	(357)	(98)	(40)	-
Net out-of-the-money options (in terms of underlying asset)	(490)	-	353	51	49	37	-
Total	**2,381**	**3,302**	**199**	**(5)**	**(49)**	**1,411**	**7,239**
Net in-the-money options (capitalized par value)	(1,244)	-	1,079	140	114	(89)	-
Net out-of-the-money options (capitalized par value)	234	-	(511)	(49)	164	162	-

(1) Includes amounts linked to foreign currency.

(2) Includes derivatives whose base relates to a non-monetary item.

(3) Data was reclassified to match section headings and presentation method in the current period.

(4) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. See Note 1E.4 to the financial statements for details.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of December 31, 2010 (audited) (continued)

Reported amounts (NIS in millions)

	Israeli currency		Forei`gn currency [1]			Non-	
					Other	monetary	
	Non-linked	CPI- linked	US dollars	Euro	currencies	items[2]	Total
Assets							
Cash and deposits with banks	8,495	434	3,127	150	408	-	12,614
Securities	3,760	413	1,641	1,511	43	81	7,449
Securities loaned or sold in conjunction with repurchase agreements	88	159	-	-	-	-	247
Loans to the public, net	54,680	39,865	8,032	2,403	2,060	-	107,040
Loans to Governments	-	-	1	91	-	-	92
Investments in investees	29	-	-	-	-	(14)	15
Buildings and equipment	-	-	-	-	-	1,546	1,546
Intangible assets and goodwill [3]	-	-	-	-	-	87	87
Assets with respect to derivatives [3]	2,967	295	75	21	91	-	3,449
Other assets [3]	[4] 555	105	85	1	1	18	765
Total assets	**70,574**	**41,271**	**12,961**	**4,177**	**2,603**	**1,718**	**133,304**
Liabilities							
Deposits from the public	62,754	22,342	14,505	4,281	2,109	-	105,991
Deposits from banks	587	839	801	76	129	-	2,432
Deposits from the Government	3	136	33	-	-	-	172
Debentures and subordinated notes	752	9,061	-	-	-	-	9,813
Liabilities with respect to derivatives [3]	2,253	227	167	186	59	-	2,892
Other liabilities [3]	[4] 3,485	[4] 672	-	42	39	270	4,508
Total liabilities	**69,834**	**33,277**	**15,506**	**4,585**	**2,336**	**270**	**125,808**
Difference	**740**	**7,994**	**(2,545)**	**(408)**	**267**	**1,448**	**7,496**
Impact of hedging derivatives:							
Derivatives (except for options)	1,375	(1,375)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	2,157	(3,496)	1,406	450	(517)	-	-
Net in-the-money options (in terms of underlying asset)	(1,062)	-	994	(134)	193	9	-
Net out-of-the-money options (in terms of underlying asset)	(329)	-	238	93	(4)	2	-
Total	**2,881**	**3,123**	**93**	**1**	**(61)**	**1,459**	**7,496**
Net in-the-money options (capitalized par value)	321	-	(310)	(75)	83	(19)	-
Net out-of-the-money options (capitalized par value)	(997)	-	843	147	(16)	23	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) Data was reclassified to match section headings and presentation method in the current period.
(4) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. See Note 1E.4 to the financial statements for details.

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

	As of September 30,		As of December 31,
	2011	2010	2010
		(unaudited)	(audited)
A. Off-balance sheet financial instruments			
Contractual balances or their denominated amounts at the end of the year			
Transactions in which the balance represents a credit risk:			
- Documentary credit	481	381	499
- Loan guarantees	3,024	2,733	3,066
- Guarantees to purchasers of homes	6,598	5,650	5,566
- Other guarantees and liabilities (1)	2,928	1,713	1,738
- Unutilized revolving credit card facilities	6,565	6,020	6,076
- Unutilized debitory account and other credit facilities in accounts available on demand	16,558	17,212	17,225
- Irrevocable commitments for loans approved but not yet granted	8,916	9,286	10,345
- Commitments to issue guarantees	5,344	4,238	5,077

	As of September 30,		As of December 31,
	2011	2010	2010
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term rental contracts	542	498	544
Computerization and software service contracts	68	65	62
Acquisition and renovation of buildings	10	91	50
Receipt of deposits on future dates (2)	405	405	405

	As of September 30,		As of December 31,
	2011	2010	2010
	(unaudited)		(audited)
C. Credit exposure arising from securitization structures by others			
Other credit risk with respect to securitization structures	63	60	60

(1) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 168 million (as of September 30, 2010 and December 31, 2010 - NIS 136 million and NIS 138 million, respectively).

(2) Transactions with institutional depositors to receive deposits at future dates at fixed interest rates set in advance on the contract date.

Note 6 - Contingent Liabilities and Special Commitments (continued)

D. Contingent liabilities and other special commitments

1) For details of other contingent liabilities and special commitments by the Bank group, see Note 19 to the financial statements for the year ended December 31, 2010. Below is a description of material changes relative to the description provided in the 2010 annual report.

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

   Below are details of material claims, where the claim amount (excluding interest and expenses) exceeds 1% of the Bank's shareholder equity, in which developments and changes have occurred compared to the description included in the 2010 financial statements.

   A. Two motions are pending and open in District Court and the Supreme Court to recognize as class actions two legal actions against the Bank and other mortgage banks totaling more than one and one-half billion NIS. The specific amount demanded from each bank was not stated.
   In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks over-charged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.
   The banks deny all plaintiffs' claims and reject them out of hand. The banks claimed, *inter alia*, that their actions were lawful both in charging the commissions and in the rates of these commissions.
   The parties to the first motion to grant class action status submitted to a reconciliation proceeding heard by the Deputy Chief Justice, Justice Theodore Or (Retired). As the reconciliation process progressed, the parties to the additional motion for class action status filed on the same matter against two insurance companies were added to the process, in view of the parties' desire to reach a comprehensive agreement to conclude all proceedings on this issue.

Note 6 - Contingent Liabilities and Special Commitments (continued)

In May 2011, a reconciliation agreement reached by the parties was filed with the Tel Aviv District Court, with a motion to grant this agreement settlement status, which would terminate proceedings on the two motions. The reconciliation agreement stipulates that the banks would make a charitable donation to public causes amounting to NIS 17 million.

Decisions given by the District Court on July 12 and August 7, 2012 ratified the reconciliation agreement as a settlement, and accepted the parties' recommendation for payment of fees to plaintiffs in the two motions, as well as legal fees to their attorneys, amounting in total to NIS 4 million.

According to the reconciliation agreement, the Bank's share of these payments would amount to NIS 8 million.

B. In April 2003, a claim was filed against the Bank in Tel Aviv District Court, for NIS 12 thousand, as well as a motion for recognition as class action for the total payment of approximately NIS 300. The plaintiffs allege that the Bank must refund to them, personally and to the entire group, charges that were recorded in the seven years preceding the filing date of the claim, in accounts classified by the Bank as “legal customers”, for “treasury” and “journal”, which the Bank is not permitted to collect because of the Bank’s improper disclosure of the substance of the charges. The plaintiffs are requesting for themselves, in addition to the claim amount, fees for their filing of the claim and legal costs.

In view of the District Court’s opinion in a verdict dated April 2005, that the remedy it would have approved had the claim been accepted as a class action suit, would be to instruct the Bank to correct its accounts such that charges not in line with the verdict are cancelled, and to instruct the Bank to provide information to customers in legal proceedings of their accounts with the Bank - Bank exposure is to costs associated with compliance with Court instructions, and not to any monetary remedy over and above payment of fees for the plaintiff and his attorneys, as described above. The Bank complies with provisions of the verdict dated April 2005 from the date it received the verdict and thereafter.

In July 2011, the Supreme Court handed down its verdict dismissing the plaintiffs' appeal.

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

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

Note 6 - Contingent Liabilities and Special Commitments (continued)

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

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

In May 2008, the Bank filed its response to the motion, in which it rejected the claims made by the customer, and stated that the claim whereby the Bank had to modify interest rates on fixed-rate deposits exclusively in accordance with Bank of Israel interest rates was fallacious, counter to agreements between the customer and the Bank and contrary to reason. The Bank further claimed that the plaintiff's claim with regard to expectations was also unfounded, since interest on deposits was based on a range of economic and macro-economic considerations, commercial considerations by the Bank and considerations with regard to actual customers. Evidence in this case was heard in 2010.

In May 2011, the parties filed a motion with the Court, seeking approval of a settlement whereby the fixed interest deposit form would be amended to include clarification of the circumstances of change in interest rate for renewed deposits as stated above. The Court has yet to decide on this motion.

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

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

Note 6 - Contingent Liabilities and Special Commitments (continued)

The Bank has filed its response to the motion claiming, *inter alia*, that this claim is fallacious and distorts the statute. The asset sold is the provident fund management business, which was owned by the Bank. The sale was made in accordance with the BACHAR reform and legislation enacted on its basis, which required the banks to sell their provident fund management business, which was owned by the Bank and not by the members, therefore the Bank alone is entitled to the proceeds from sale of the asset owned. The entire sale was known to national authorities, first and foremost to the Supervisor of Insurance, which reviewed and approved the agreements, including the obvious fact that proceeds from the sale are due to the seller of the asset, namely: the Bank. A pre-trial hearing in this case was heard, the banks filed an expert opinion and evidence was heard in September 2010.

On March 27, 2011 the Court dismissed the plaintiff's motion for granting class action status. On May 19, 2011, the plaintiff appealed to the Supreme Court the verdict rejecting their motion for approval of class action status.

E. In July 2011, a claim was filed with the Central District Court in the amount of NIS 81.8 million for alleged forward transactions made by the Bank in the plaintiffs' account, allegedly unlawfully, which allegedly caused the plaintiffs to incur a loss.

The Bank is reviewing the claim and is preparing its response there to.

For all claims against the Bank Group in individual amounts over NIS 2 million, excluding class action lawsuits whose outcome may not be assessed at this time, there is additional, non-remote exposure for which no provision was made, amounting to NIS 273 million.

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

A. In May 2011, the Bank received a claim and motion for approval of class action status. The claim concerns late reporting to the Court Order Execution Service of payments made to reduce debt which is subject to proceedings at the Court Order Execution Service.

The plaintiff claims he is unable to estimate the damage incurred by the entire class of plaintiffs, but believes (on a basis which is not clear to the Bank) that it amounts to hundreds of millions of NIS.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The claim alleges that the Bank is late in reporting to the Court Order Execution Service of payments made to reduce debt, and misleads clients. It is further claimed that clients are not credited with interest in accordance with their date of payment. The claim further stipulates that the Enforcement and Collection Authority and the Court Order Execution Service admit the shortfall in credits made in case of late reporting.

The Bank is reviewing the claim and is preparing its response there to.

B. In May 2011, the Bank received a claim and motion for approval of class action in the adjusted amount of NIS 181 million. The claim involves alleged unlawful charging of early repayment commission for additional housing loans. The plaintiff claims that the Bank allegedly unlawfully charges an early repayment commission for additional loans, without the reduction required by law.

The Bank is reviewing the claim and is preparing its response.

C. In August 2011, a claim and motion for class action status was filed with the Central District Court amounting to hundreds of millions of NIS (as per the claim statement); no specific amount was claimed.

The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

The Bank is reviewing the claim and is preparing its response.

D. In August 2011, a claim and motion for class action status was filed with the Tel Aviv District Court amounting to hundreds of millions of NIS (as per the claim statement); no specific amount was claimed.

The plaintiff seeks a verdict, pursuant to the Class Action Lawsuit Act, whereby the claim would be made on behalf of all Bank clients whose account was charged legal fees not approved by any legal jurisdiction, or whose account was charged unlawful interest with respect to approved legal fees.

The Bank is reviewing the claim and is preparing its response.

E. In September 2011, a claim and motion for class action status was filed with the Central District Court amounting to NIS 927 million on an adjusted basis, for alleged unlawful charging of compounded interest, in contravention of statutes and agreements, on housing loans - including targeted loans, eligibility loans and additional loans, excluding standing loans.

The motion was also filed against Bank Leumi Mortgage Bank and Bank HaPoalim.

The Bank is reviewing the claim and is preparing its response..

F. On November 2011, a claim was filed with the Haifa District Court against Bank Yahav and Bank Benleumi. The claim alleges that the banks over-charged cash handling fees. The plaintiff also filed a motion for class action status, for a total amount of NIS 200 million. Bank Yahav is reviewing this claim. At this stage, its impact on the Bank Group may not be assessed.

Note 6 - Contingent Liabilities and Special Commitments (continued)

(4 On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, since the early 1990s through commencement of the Supervisor inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of its content in any legal proceeding. On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. The Restrictive Trade Practices Authority filed its response to the appeal on February 22, 2011. In accordance with the Court's proposal, all parties have consented to transfer discussion of the appeal to arbitration. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 19.D.10)P. to the financial statements as of December 31, 2010.

(5 Beginning July 1, 2004, a new two-year agreement went into effect between Bank Tefahot, at that time, and the Government, whereby the collection commission rate determined by the tender held by the Ministry of Finance, with the participation of the mortgage banks will apply to loans to eligible borrowers issued on or after July 1, 2004, which are significantly lower than the commission rate on loans issued until June 30, 2004. This agreement has been continuously extended each year, most recently through June 30, 2012.

In May 2008, a new agreement between the Ministry of Finance and the banks became effective (the agreement is expected to be renewed up to a maximum total term of 5 years), whereby loans to eligible borrowers with low point rating are provided out of bank funds and at bank risk. The interest on these loans is determined based on interest for special assistance loans out of Ministry of Finance funds.

Loan terms have been specified to be 25, 20, 15 or up to 10 years, at the customer's choice, but no longer than the term of assistance out of Ministry of Finance funds. The remainder of the conditions would be in line with generally acceptable conditions for assistance out of Ministry of Finance funds, including a waiver of early repayment commission.

For loans granted to certain eligible borrowers, the Ministry of Finance pays the banks which grant loans out of bank funds the difference between the actual interest rate charged and the average interest rate published by the Bank of Israel, plus spread. Concurrently with loan origination as described above, the banks may continue to grant loans out of Ministry of Finance funds to low-rated eligible borrowers, under terms of the previous agreement (dated 2004) and subject to total loans for the group of low-rated eligible borrowers not exceeding 8% of total bank loans to this group (out of bank funds and out of budgeted funds).

The foregoing does not apply to loans to eligible persons added to the October 2010 agreement, in which the loan-to-value ratio is above 75%. For such persons, the loan out of Ministry of Finance funds shall not exceed 70% of total loans granted by the bank to such persons (out of Bank funds and out of budgeted funds).

The agreement for provision of assistance to eligible borrowers out of bank funds, signed in 2008, has been extended through April 30, 2012.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2011 (unaudited)					
	Interest contracts				Commodities and other contracts	
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	945	-	-	-	-	945
Swaps	-	1,881	-	-	-	1,881
Total	**945**	**1,881**	**-**	**-**	**-**	**2,826**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,881	-	-	-	1,881
B. ALM derivatives [(1)] [(2)]						
Forward contracts	9,008	6,041	59,778	115	50	74,992
Option contracts traded on stock exchange:						
Options written	-	-	2,460	208	-	2,668
Options purchased	-	-	2,812	183	-	2,995
Other option contracts:						
Options written	-	-	10,470	663	-	11,133
Options purchased	-	-	10,654	697	-	11,351
Swaps	1,154	47,470	10,597	-	-	59,221
Total	**10,162**	**53,511**	**96,771**	**1,866**	**50**	**162,360**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	654	27,114	-	-	-	27,768
C. Other derivatives [(1)]						
Forward contracts	-	-	592	-	-	592
Option contracts traded on stock exchange:						
Options written	-	-	4,794	9,421	-	14,215
Options purchased	-	-	4,794	9,421	-	14,215
Other option contracts:						
Options written	-	895	115	307	12	1,329
Options purchased	-	845	129	254	14	1,242
Total	**-**	**1,740**	**10,424**	**19,403**	**26**	**31,593**

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2011 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	1,575	1,575
Credit derivatives in which the Bank is beneficiary	-	-	-	-	27	27
Foreign currency spot swap contracts	-	-	2,951	-	-	2,951
Total	**-**	**-**	**2,951**	**-**	**1,602**	**4,553**
Total stated amounts of derivatives	**11,107**	**57,132**	**110,146**	**21,269**	**1,678**	**201,332**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	1	-	-	-	-	1
Negative fair value, gross	5	293	-	-	-	298
B. ALM derivatives (1) (2)						
Positive fair value, gross	155	872	2,076	47	2	3,152
Negative fair value, gross	139	1,101	1,721	45	2	3,008
C. Other derivatives (1)						
Positive fair value, gross	-	5	112	152	-	269
Negative fair value, gross	-	7	112	158	-	277
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	20	20
Credit derivatives in which the Bank is beneficiary						
Positive fair value, gross	-	-	-	-	4	4
Negative fair value, gross	-	-	-	-	-	-
Total positive fair value, gross (3)	**156**	**877**	**2,188**	**199**	**6**	**3,426**
Total negative fair value, gross (3)	**144**	**1,401**	**1,833**	**203**	**22**	**3,603**

(1) Except for credit derivatives.

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

(3) Of which negative fair value, gross of embedded derivatives amounting to NIS 17 million.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2010 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commo-dities and other contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [1]						
Forward contracts	1,610	-	-	-	-	1,610
Swaps	-	2,620	-	-	-	2,620
Total	**1,610**	**2,620**	**-**	**-**	**-**	**4,230**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,620	-	-	-	2,620
B. ALM derivatives [1] [2]						
Forward contracts	6,181	6,397	68,545	164	10	81,297
Option contracts traded on stock exchange:						
Options written	-	-	1,434	-	-	1,434
Options purchased	-	-	1,317	-	-	1,317
Other option contracts:						
Options written	-	-	9,814	290	-	10,104
Options purchased	-	-	9,776	321	-	10,097
Swaps	24,276	7,172	6,572	-	-	38,020
Total	**30,457**	**13,569**	**97,458**	**775**	**10**	**142,269**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	**16,717**	**2,351**	**-**	**-**	**-**	**19,068**
C. Other derivatives [1]						
Forward contracts	-	-	1,896	-	-	1,896
Option contracts traded on stock exchange:						
Options written	-	-	2,861	11,918	-	14,779
Options purchased	-	-	2,854	11,918	-	14,772
Other option contracts:						
Options written	-	37	155	212	-	404
Options purchased	-	37	170	143	-	350
Total	**-**	**74**	**7,936**	**24,191**	**-**	**32,201**

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

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2010 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commo-dities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	861	861
Credit derivatives in which the Bank is beneficiary	-	-	-	-	27	27
Foreign currency spot swap contracts	-	-	2,100	-	-	2,100
Total	**-**	**-**	**2,100**	**-**	**888**	**2,988**
Total stated amounts of derivatives	**32,067**	**16,263**	**107,494**	**24,966**	**898**	**181,688**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	13	-	-	-	-	13
Negative fair value, gross	62	351	-	-	-	413
B. ALM derivatives (1) (2)						
Positive fair value, gross	433	143	1,510	5	-	2,091
Negative fair value, gross	586	112	1,393	4	-	2,095
C. Other derivatives (1)						
Positive fair value, gross	-	-	54	121	-	175
Negative fair value, gross	-	-	48	125	-	173
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	18	18
Total positive fair value, gross	**446**	**143**	**1,564**	**126**	**-**	**2,279**
Total negative fair value, gross	**648**	**463**	**1,441**	**129**	**18**	**2,699**

(1) Except for credit derivatives.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Of which positive fair value, gross of embedded derivatives amounting to NIS 1 million and negative fair value, gross of embedded derivatives amounting to NIS 19 million.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of December 31, 2010 (audited)					
	Interest contracts				Commo-dities and other contracts	
	NIS - CPI	Other	Currency contracts	Contracts for shares		Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	1,375	-	-	-	-	1,375
Swaps	-	2,432	-	-	-	2,432
Total	**1,375**	**2,432**	**-**	**-**	**-**	**3,807**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,432	-	-	-	2,432
B. ALM derivatives [(1) (2)]						
Forward contracts	6,677	5,357	72,239	159	37	84,469
Option contracts traded on stock exchange:						
Options written	-	-	2,314	-	-	2,314
Options purchased	-	-	2,838	-	-	2,838
Other option contracts:						
Options written	-	-	6,199	715	-	6,914
Options purchased	-	-	6,573	691	-	7,264
Swaps	1,533	36,898	6,813	-	-	45,244
Total	**8,210**	**42,255**	**96,976**	**1,565**	**37**	**149,043**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	1,033	20,031	-	-	-	21,064
C. Other derivatives [(1)]						
Forward contracts	-	-	929	-	-	929
Option contracts traded on stock exchange:						
Options written	-	-	3,744	15,038	-	18,782
Options purchased	-	-	3,744	15,038	-	18,782
Other option contracts:						
Options written	-	284	196	377	-	857
Options purchased	-	284	216	314	-	814
Total	**-**	**568**	**8,829**	**30,767**	**-**	**40,164**

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

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of December 31, 2010 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commo-dities and other contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	834	834
Credit derivatives in which the Bank is beneficiary	-	-	-	-	26	26
Foreign currency spot swap contracts	-	-	5,649	-	-	5,649
Total	**-**	**-**	**5,649**	**-**	**860**	**6,509**
Total stated amounts of derivatives	**9,585**	**45,255**	**111,454**	**32,332**	**897**	**199,523**
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	2	3	-	-	-	5
Negative fair value, gross	25	207	-	-	-	232
B. ALM derivatives (1) (2)						
Positive fair value, gross	90	488	2,580	64	1	3,223
Negative fair value, gross	156	591	1,688	11	1	2,447
C. Other derivatives (1)						
Positive fair value, gross	-	4	81	137	-	222
Negative fair value, gross	-	4	71	145	-	220
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	17	17
Total positive fair value, gross (3)	**92**	**495**	**2,661**	**201**	**1**	**3,450**
Total negative fair value, gross (3)	**181**	**802**	**1,759**	**156**	**18**	**2,916**

(1) Except for credit derivatives.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.
(3) Of which positive fair value, gross of embedded derivatives amounting to NIS 1 million and negative fair value, gross of embedded derivatives amounting to NIS 24 million.

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

Reported amounts (NIS in millions)

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated

As of September 30, 2011 (unaudited)						
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total
Positive fair value, gross, of financial derivatives (1)	619	1,952	13	-	842	3,426
Less offset agreements	-	68	-	-	66	134
Balance sheet balances of derivative instruments	619	1,884	13	-	776	3,292
Off-balance sheet credit risk on financial derivatives (2)	508	10,729	11	-	3,800	15,048
Total credit risk on financial derivatives	**1,127**	**12,613**	**24**	**-**	**4,576**	**18,340**

In the nine-month period ended September 30, 2011, the Bank recognized credit loss with respect to derivatives amounting to NIS 5 million.

As of September 30, 2010 (unaudited)						
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total
Positive fair value, gross, of financial derivatives (1)	188	1,467	11	-	613	2,279
Less offset agreements	-	43	-	-	29	72
Balance sheet balances of derivative instruments	188	1,424	11	-	584	2,207
Off-balance sheet credit risk on financial derivatives (2)	292	10,188	11	-	2,897	13,388
Total credit risk on financial derivatives	**480**	**11,612**	**22**	**-**	**3,481**	**15,595**

As of December 31, 2010 (audited)						
	Stock exchanges	Banks	Dealers/ Brokers	Govern-ments and central banks	Others	Total
Positive fair value, gross, of financial derivatives (1)	1,065	1,902	22	-	461	3,450
Less offset agreements	-	60	-	-	11	71
Balance sheet balances of derivative instruments	1,065	1,842	22	-	450	3,379
Off-balance sheet credit risk on financial derivatives (2)	537	11,268	28	-	2,706	14,539
Total credit risk on financial derivatives	**1,602**	**13,110**	**50**	**-**	**3,156**	**17,918**

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 0 million (December 31, 2010 and September 30, 2010 – NIS 1 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 3,297 million, included under "other assets" (December 31, 2010 - NIS 3,378 million and September 30, 2010 - NIS 2,206 million).

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

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

Reported amounts (NIS in millions)

C. Maturity dates – stated amounts: balances at end of period - Consolidated

	As of September 30, 2011 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	820	5,585	3,463	1,239	11,107
Other	13,056	16,859	12,225	14,992	57,132
Currency contracts	73,114	27,287	4,063	5,682	110,146
Contracts for shares	19,344	1,653	272	-	21,269
Commodities and other contracts	1,046	346	212	74	1,678
Total	**107,380**	**51,730**	**20,235**	**21,987**	**201,332**

	As of September 30, 2010 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	1,928	12,460	10,983	6,696	32,067
Other	1,388	9,274	1,635	3,966	16,263
Currency contracts	39,023	63,197	2,079	3,195	107,494
Contracts for shares	23,819	985	162	-	24,966
Commodities and other contracts	10	166	557	165	898
Total	**66,168**	**86,082**	**15,416**	**14,022**	**181,688**

	As of December 31, 2010 (audited)				
	Up to three months	Over three months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	2,135	2,584	3,989	877	9,585
Other	2,939	22,889	9,824	9,603	45,255
Currency contracts	75,948	30,216	2,146	3,144	111,454
Contracts for shares	31,301	622	409	-	32,332
Commodities and other contracts	36	161	629	71	897
Total	**112,359**	**56,472**	**16,997**	**13,695**	**199,523**

Note 8 – Balances and Estimates of Fair Value of Financial Instruments

Reported amounts, in NIS millions

A. Fair value balances

	September 30, 2011			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	12,151	4,836	16,987	17,004
Securities	5,349	447	5,796	5,791
Securities loaned or sold in repurchase agreements	34	-	34	34
Loans to the public, net	12,957	104,663	117,620	118,834
Loans to Governments	-	146	146	145
Investments in investees	31	-	31	31
Assets with respect to derivatives	3,426	-	3,426	3,426
Other financial assets	1,000	-	1,000	1,000
Total financial assets	**34,948**	**110,092**	**145,040**	**146,265**
Financial liabilities				
Deposits from the public	19,649	96,848	116,497	117,987
Deposits from banks	905	970	1,875	1,916
Deposits from the Government	12	150	162	178
Debentures and subordinated notes	-	12,501	12,501	13,226
Liabilities with respect to derivatives	3,586	-	3,586	3,586
Other financial liabilities	3,134	1	3,135	3,134
Total financial liabilities	**27,286**	**110,470**	**137,756**	**140,027**

(1) Financial instruments where the carrying amount equals the fair value (instruments stated at fair value on the balance sheet), or closely approximates the fair value (instruments with original term of up to 3 months, for which the carrying amount is used as approximation of their fair value).

(2) Other financial instruments.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

A. Fair value balances - Continued

	December 31, 2010			
	Book balance			
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	9,872	2,742	12,614	12,634
Securities	7,369	-	7,369	7,369
Securities loaned or sold in repurchase agreements	247	-	247	247
Loans to the public, net	11,331	95,709	107,040	109,213
Loans to Governments	1	91	92	91
Investments in investees	29	-	29	29
Intangible assets and goodwill (3)	87	-	87	87
Assets with respect to derivatives (3)	3,449	-	3,449	3,449
Other financial assets (3)	621	-	621	621
Total financial assets	**32,370**	**99,178**	**131,548**	**133,740**
Financial liabilities				
Deposits from the public	22,882	83,109	105,991	107,348
Deposits from banks	921	1,511	2,432	2,501
Deposits from the Government	5	167	172	192
Debentures and subordinated notes	-	9,813	9,813	10,677
Liabilities with respect to derivatives (3)	2,892	-	2,892	2,892
Other financial liabilities (3)	3,405	1	3,406	3,406
Total financial liabilities	**30,105**	**94,601**	**124,706**	**127,016**

(1) Financial instruments where the carrying amount equals the fair value (instruments stated at fair value on the balance sheet), or closely approximates the fair value (instruments with original term of up to 3 months, for which the carrying amount is used as approximation of their fair value).

(2) Other financial instruments.

(3) Data was reclassified to match headings and presentation method in the current period.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

B. Items measured at fair value on recurrent basis

	For the nine months ended September 30, 2011 (unaudited)			
	Prices quoted on active market (level 1)	Other significant observed data (level 2)	Non-observed significant data (level 3)	Balance sheet balance
Assets				
Securities available for sale				
Debentures and bonds:				
of Government of Israel	2,038	1,644	-	3,682
Of foreign governments	65	-	-	65
Of others	197	791	181	1,169
Shares of others	5		-	5
Securities held for trading:				
of Government of Israel	429	-	-	429
Of others	4	-	-	4
Securities loaned or sold in repurchase agreements	34	-	-	34
Credit with respect to loans to clients	239	-	-	239
Assets with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	109	47	156
Other	-	872	5	877
Currency contracts	482	1,706	-	2,188
Contracts for shares	147	36	16	199
Commodities and other contracts	-	6	-	6
Total assets	**3,640**	**5,164**	**249**	**9,053**
Liabilities				
Deposits with respect to borrowing from clients	239	-	-	239
Liabilities with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	106	38	144
Other	-	1,394	7	1,401
Currency contracts	148	1,685	-	1,833
Contracts for shares	147	52	4	203
Commodities and other contracts	-	22	-	22
Other	-	13	4	17
Total liabilities	**534**	**3,272**	**53**	**3,859**

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

C. Change in items measured at fair value on recurrent basis, included in level 3

For the three months ended September 30, 2011 (unaudited)							
	Fair value as of June 30, 2011	Total realized and unrealized gain, net	Purchase, issuance and disposition, net	Transfer to level 3	Transfer from level 3	Fair value as of September 30, 2011	Net unrealized gain with respect to instruments held as of September 30, 2011
Assets							
Securities available for sale							
Debentures and bonds:							
Of others	197	(11)	(5)	-	-	181	(4)
Assets with respect to derivatives							
Interest contracts:							
Shekel/ CPI	13	2	11	21	-	47	2
Other	9	1	(5)	-	-	5	1
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	16	-	-	-	-	16	-
Commodities and other contracts	-	-	-	-	-	-	-
Total assets	**235**	**(8)**	**1**	**21**	**-**	**249**	**(1)**
Liabilities							
Liabilities with respect to derivatives							
Interest contracts:							
Shekel/ CPI	70	(32)	(2)	2	-	38	(32)
Other	9	(1)	(1)	-	-	7	(1)
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	2	2	-	-	-	4	2
Commodities and other contracts	-	-	-	-	-	-	-
Other	7	(3)	-	-	-	4	(3)
Total liabilities	**88**	**(34)**	**(3)**	**2**	**-**	**53**	**(34)**

(1) Realized gain (loss) included on statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss). Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Included on statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss).

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

C. Change in items measured at fair value on recurrent basis, included in level 3 (continued)

	For the nine months ended September 30, 2011 (unaudited)						
	Fair value as of December 31, 2010	Total realized and unrealized gain, net	Purchase, issuance and disposition, net	Transfer to level 3	Transfer from level 3	Fair value as of September 30, 2011	Net unrealized gain with respect to instruments held as of September 30, 2011
Assets							
Securities available for sale							
Debentures and bonds:							
Of others	193	(7)	(5)	-	-	181	-
Assets with respect to derivatives							
Interest contracts:							
Shekel/ CPI	8	(15)	8	46	-	47	(15)
Other	4	7	(6)	-	-	5	7
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	17	(3)	2	-	-	16	(3)
Commodities and other contracts	-	-	-	-	-	-	-
Total assets	**222**	**(18)**	**(1)**	**46**	**-**	**249**	**(11)**
Liabilities							
Liabilities with respect to derivatives							
Interest contracts:							
Shekel/ CPI	62	-	(56)	32	-	38	-
Other	4	5	(2)	-	-	7	5
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	-	4	-	-	-	4	4
Commodities and other contracts	-	-	-	-	-	-	-
Other	3	(1)	2	-	-	4	(1)
Total liabilities	**69**	**8**	**(56)**	**32**	**-**	**53**	**8**

(1) Realized gain (loss) included on statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss). Unrealized gain and loss included in equity under Adjustments for Presentation of Available-for-Sale Securities at Fair Value.

(2) Included on statement of profit and loss under Profit from Financing Operations (before expenses with respect to credit loss).

D. In January to September 2011, no items measured at fair value were transferred from level 2 to level 1 measurement.

Note 8 – Balances and Estimates of Fair Value of Financial Instruments (continued)

Reported amounts, in NIS millions

E. Total realized or unrealized net gain with respect to instruments measured at level 3 and included on statement of profit and loss

	For the three months ended September 30, 2011		For the nine months ended September 30, 2011	
	(unaudited)		(unaudited)	
	Operating profit (loss) before expenses with respect to credit loss	Total	Operating profit (loss) before expenses with respect to credit loss	Total
Assets				
Securities available for sale				
Debentures and bonds:				
Of others	(9)	(9)	-	-
Total securities available for sale				
Assets with respect to derivatives	3	3	(11)	(11)
Total assets	**(6)**	**(6)**	**(11)**	**(11)**
Liabilities				
Liabilities with respect to derivatives	(31)	(31)	9	9
Other	(3)	(3)	(1)	(1)
Total liabilities	**(34)**	**(34)**	**8**	**8**

F. As of September 30, 2011, the Bank balance sheet contains no items measured other than at fair value on recurrent basis.

Note 9 - Consolidated profit from financing operations before expenses with respect to credit loss

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(unaudited)
A. From assets (1)					
From loans to the public	2,533	1,089	5,514	3,012	3,912
From loans to the Government	5	3	10	9	6
From deposits with the Bank of Israel and from cash	155	(53)	267	(9)	(75)
From deposits with banks	131	(143)	176	(49)	(91)
From securities loaned or sold in repurchase agreements	1	1	4	3	4
From debentures	203	24	258	20	(98)
	3,028	**921**	**6,229**	**2,986**	**3,658**
B. On liabilities (1)					
On deposits from the public	(2,338)	28	(3,554)	(432)	(265)
On deposits from the government	(7)	(2)	(12)	(8)	(9)
On deposits from the Bank of Israel and from cash	-	-	-	-	-
On deposits from banks	(100)	9	(166)	(89)	(97)
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-
On debentures and subordinated notes	(193)	(195)	(622)	(408)	(558)
	(2,638)	**(160)**	**(4,354)**	**(937)**	**(929)**
C. On financial derivatives and hedging activities					
Non-effective element of hedging ratios (2)	-	-	(1)	-	-
Expenses, net, with respect to ALM derivatives (3)	319	(118)	376	(252)	(287)
Net income (expenses) with respect to other derivatives	72	2	(96)	(11)	52
	391	**(116)**	**279**	**(263)**	**(235)**
D. Other					
Commissions from financing transactions	35	25	97	71	95
Financing revenues from collection of interest on arrears from individual borrowers	9	14	23	28	27
Interest income on troubled debt	26	27	52	66	195
Gain (loss) from sale of debentures available for sale, net (4)	(5)	(2)	(6)	25	28
Realized and unrealized gain from adjustment to fair value of debentures held for trade, net	7	5	12	13	9
Other financing revenues	29	29	115	115	153
Other financing expenses	(5)	(8)	(23)	(25)	(42)
	96	**90**	**270**	**293**	**465**
Total profit from financing operations before expenses with respect to credit loss	**877**	**735**	**2,424**	**2,079**	**2,959**
Includes: exchange rate differences, net	-	(7)	-	(1)	(1)
E. Details of net effect of hedging financial derivatives on profit from financing operations					
Financing revenues (expenses) from assets (section A)	(42)	4	(51)	(13)	(36)

(1) Includes the effective element in the hedging ratios.
(2) Excludes the effective element in the hedging ratio.
(3) Financial derivatives constitute part of the Bank's asset and liability management which were not intended for hedging.
(4) Includes provision for other-than-temporary impairment.

Note 10 - Gains from Investments in Shares, net

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(unaudited)
Gain from sale of shares available for sale, net	1	-	3	1	3
Provision for impairment of available-for-sale shares	-	-	-	(2)	(5)
Dividends from available-for-sale shares	-	-	1	1	1
Total loss from investments in shares, net	**1**	**-**	**4**	**-**	**(1)**

Note 11 – Operating Segments

For the nine months ended September 30, 2011 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	2,981	14	341	196	273	(1,381)	2,424
Inter-segment	(1,748)	59	6	(56)	212	1,527	-
Profit from financing operations before expenses with respect to credit loss	**1,233**	**73**	**347**	**140**	**485**	**146**	**2,424**
Operating and other income	607	41	164	42	74	106	1,034
Total revenues	**1,840**	**114**	**511**	**182**	**559**	**252**	**3,458**
Expenses with respect to credit loss	65	(6)	58	11	130	18	276
Operating and other expenses							
From outside operating segments	1,211	56	325	52	164	170	1,978
Inter-segment	(91)	4	(38)	53	62	10	-
Other operating expenses - total	**1,120**	**60**	**287**	**105**	**226**	**180**	**1,978**
Pre-tax operating profit	655	60	166	66	203	54	1,204
Provision for taxes on operating profit	234	21	59	23	72	20	429
After-tax operating profit	421	39	107	43	131	34	775
Share in net after-tax operating profit of affiliates	-	-	-	-	-	1	1
Net operating profit:							
Before attribution to non-controlling interest	421	39	107	43	131	35	776
Attributable to non-controlling interest	(29)	-	-	-	-	-	(29)
Attributable to equity holders of the banking corporation	**392**	**39**	**107**	**43**	**131**	**35**	**747**
After-tax loss from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	(2)	(2)
Net profit:							
Before attribution to non-controlling interest	421	39	107	43	131	33	774
Attributable to non-controlling interest	(29)	-	-	-	-	-	(29)
Attributable to equity holders of the banking corporation	**392**	**39**	**107**	**43**	**131**	**33**	**745**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**16.1%**	**104.8%**	**38.4%**	**14.5%**	**6.9%**	**13.5%**	**14.3%**
Average balance of assets	76,140	2,779	6,186	4,852	24,747	25,282	139,986
Includes: Investments in affiliates	-	-	-	-	-	17	17
Average balance of liabilities	50,508	6,232	6,896	3,123	29,419	36,351	132,529
Average balance of risk assets[(1)]	45,484	711	5,030	5,219	33,292	4,829	94,565
Average balance of provident and mutual fund assets	-	-	-	-	-	78,981	78,981
Average balance of securities	27,431	11,626	8,361	3,894	72,550	39,506	163,368
Loans to the public, net (end balance)	82,330	1,506	6,185	4,831	22,768	-	117,620
Deposits from the public (end balance)	52,325	6,307	7,221	3,060	33,402	14,182	116,497
Average balance of other assets managed	21,407	-	251	164	87	-	21,909

B. Information on profit from financing operations before expenses with respect to credit loss

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	748	37	248	107	292	-	1,432
Margin from receiving deposits	412	33	64	16	55	-	580
Other	73	3	35	17	138	146	412
Total	**1,233**	**73**	**347**	**140**	**485**	**146**	**2,424**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

Note 11 – Operating Segments (continued)

For the nine months ended September 30, 2010 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking [2]	Financial management [2]	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	2,004	(2)	271	151	412	(757)	2,079
Inter-segment	(1,000)	42	(5)	(31)	26	968	-
Profit from financing operations before expenses with respect to credit loss	**1,004**	**40**	**266**	**120**	**438**	**211**	**2,079**
Operating and other income	604	40	151	41	66	115	1,017
Total revenues	**1,608**	**80**	**417**	**161**	**504**	**326**	**3,096**
Expenses with respect to credit loss	61	-	31	2	187	-	281
Operating and other expenses							
From outside operating segments	1,166	48	309	44	140	171	1,878
Inter-segment	(94)	-	(40)	59	66	9	-
Other operating expenses - total	**1,072**	**48**	**269**	**103**	**206**	**180**	**1,878**
Pre-tax operating profit	475	32	117	56	111	146	937
Provision for taxes on operating profit	175	11	44	21	40	54	345
After-tax operating profit	**300**	**21**	**73**	**35**	**71**	**92**	**592**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	(1)	(1)
Net operating profit:							
Before attribution to non-controlling interest	300	21	73	35	71	91	591
Attributable to non-controlling interest	(14)	-	-	-	-	-	(14)
Attributable to equity holders of the banking corporation	**286**	**21**	**73**	**35**	**71**	**91**	**577**
After-tax loss from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	2	2
Net profit:							
Before attribution to non-controlling interest	300	21	73	35	71	93	593
Attributable to non-controlling interest	(14)	-	-	-	-	-	(14)
Attributable to equity holders of the banking corporation	**286**	**21**	**73**	**35**	**71**	**93**	**579**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**13.0%**	**40.6%**	**28.4%**	**12.1%**	**3.7%**	**30.9%**	**11.6%**
Average balance of assets	67,416	1,873	5,199	4,547	24,567	17,768	121,370
Includes: Investments in affiliates	-	-	-	-	-	13	13
Average balance of liabilities	47,498	5,809	6,314	3,010	20,042	31,495	114,168
Average balance of risk assets (Basel II) [1]	40,224	907	4,457	4,918	32,263	4,144	86,913
Average balance of provident and mutual fund assets	-	-	-	-	-	75,374	75,374
Average balance of securities	26,475	7,214	7,558	4,140	64,242	33,893	143,522
Loans to the public, net (end balance)	71,661	909	5,363	4,643	20,917	-	103,493
Deposits from the public (end balance)	46,698	4,746	6,259	2,764	23,542	17,195	101,204
Average balance of other assets managed	22,507	-	344	40	116	-	23,007

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

	Household	Private banking	Small business	Commercial banking	Business banking [2]	Financial management [2]	Total consolidated
Margin from credit granting operations	604	11	192	93	311	-	1,211
Margin from receiving deposits	297	27	41	11	34	-	410
Other	103	2	33	16	93	211	458
Total	**1,004**	**40**	**266**	**120**	**438**	**211**	**2,079**

(1) Weighted risk assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

(2) Reclassified.

Note 11 – Operating Segments (continued)

For the three months ended September 30, 2011 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	1,134	3	125	64	132	(581)	877
Inter-segment	(696)	21	5	(12)	74	608	-
Profit from financing operations before expenses with respect to credit loss	**438**	**24**	**130**	**52**	**206**	**27**	**877**
Operating and other income	195	14	53	13	24	36	335
Total revenues	**633**	**38**	**183**	**65**	**230**	**63**	**1,212**
Expenses with respect to credit loss	29	(5)	21	(10)	96	11	142
Operating and other expenses							
From outside operating segments	400	22	104	15	53	56	650
Inter-segment	(33)	5	(14)	18	21	3	-
Other operating expenses - total	**367**	**27**	**90**	**33**	**74**	**59**	**650**
Pre-tax operating profit	237	16	72	42	60	(7)	420
Provision for taxes on operating profit	87	6	26	14	21	-	154
After-tax operating profit	**150**	**10**	**46**	**28**	**39**	**(7)**	**266**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	150	10	46	28	39	(7)	266
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
Attributable to equity holders of the banking corporation	**139**	**10**	**46**	**28**	**39**	**(7)**	**255**
After-tax loss from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	150	10	46	28	39	(7)	266
Attributable to non-controlling interest	(11)	-	-	-	-	-	(11)
Attributable to equity holders of the banking corporation	**139**	**10**	**46**	**28**	**39**	**(7)**	**255**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**16.0%**	**91.0%**	**54.9%**	**30.2%**	**6.1%**	**-**	**14.9%**

B. Information on profit from financing operations before expenses with respect to credit loss

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	261	11	92	39	129	-	532
Margin from receiving deposits	148	11	23	5	21	-	208
Other	29	2	15	8	56	27	137
Total	**438**	**24**	**130**	**52**	**206**	**27**	**877**

Note 11 – Operating Segments (continued)

For the three months ended September 30, 2010 (unaudited) - continued

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking [1]	Financial management [1]	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	849	1	88	56	119	(378)	735
Inter-segment	(487)	16	6	(14)	24	455	-
Profit from financing operations before expenses with respect to credit loss	**362**	**17**	**94**	**42**	**143**	**77**	**735**
Operating and other income	200	12	50	14	20	39	335
Total revenues	**562**	**29**	**144**	**56**	**163**	**116**	**1,070**
Expenses with respect to credit loss	27	-	14	3	58	-	102
Operating and other expenses							
From outside operating segments	396	22	104	9	38	61	630
Inter-segment	(36)	(4)	(15)	25	28	2	-
Other operating expenses - total	**360**	**18**	**89**	**34**	66	63	630
Pre-tax operating profit	175	11	41	19	39	53	338
Provision for taxes on operating profit	66	3	15	8	14	21	127
After-tax operating profit	**109**	**8**	**26**	**11**	**25**	**32**	**211**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	(1)	(1)
Net operating profit:							
Before attribution to non-controlling interest	109	8	26	11	25	31	210
Attributable to non-controlling interest	(6)	-	-	-	-	-	(6)
Attributable to equity holders of the banking corporation	**103**	**8**	**26**	**11**	**25**	**31**	**204**
After-tax loss from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	2	2
Net profit:							
Before attribution to non-controlling interest	109	8	26	11	25	33	212
Attributable to non-controlling interest	(6)	-	-	-	-	-	(6)
Attributable to equity holders of the banking corporation	**103**	**8**	**26**	**11**	**25**	**33**	**206**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**13.7%**	**71.0%**	**32.9%**	**11.4%**	**3.9%**	**44.4%**	**12.7%**

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

	Household	Private banking	Small business	Commercial banking	Business banking [1]	Financial management [1]	Total consolidated
Margin from credit granting operations	215	3	69	30	119	-	436
Margin from receiving deposits	110	13	15	4	(13)	-	129
Other	37	1	10	8	37	77	170
Total	**362**	**17**	**94**	**42**	**143**	**77**	**735**

(1) Reclassified.

Note 11 – Operating Segments (continued)
For the year ended December 31, 2010 (audited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking [2]	Financial management [2]	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	2,777	(2)	377	232	604	(1,029)	2,959
Inter-segment	(1,401)	58	(15)	(63)	53	1,368	-
Profit from financing operations before expenses with respect to credit loss	**1,376**	**56**	**362**	**169**	**657**	**339**	**2,959**
Operating and other income	810	56	206	56	89	150	1,367
Total revenues	**2,186**	**112**	**568**	**225**	**746**	**489**	**4,326**
Expenses with respect to credit loss	83	-	45	2	343	-	473
Operating and other expenses							
From outside operating segments	1,574	63	414	69	210	236	2,566
Inter-segment	(112)	(2)	(47)	70	79	12	-
Other operating expenses - total	**1,462**	**61**	**367**	**139**	**289**	**248**	**2,566**
Pre-tax operating profit	641	51	156	84	114	241	1,287
Provision for taxes on operating profit	233	19	56	30	41	90	469
After-tax operating profit	**408**	**32**	**100**	**54**	**73**	**151**	**818**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	408	32	100	54	73	151	818
Attributable to non-controlling interest	(18)	-	-	-	-	(1)	(19)
Attributable to equity holders of the banking corporation	**390**	**32**	**100**	**54**	**73**	**150**	**799**
After-tax profit from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	2	2
Net profit:							
Before attribution to non-controlling interest	408	32	100	54	73	153	820
Attributable to non-controlling interest	(18)	-	-	-	-	(1)	(19)
Attributable to equity holders of the banking corporation	**390**	**32**	**100**	**54**	**73**	**152**	**801**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**12.7%**	**52.2%**	**27.6%**	**13.6%**	**2.8%**	**52.7%**	**11.8%**
Average balance of assets	68,097	2,040	5,292	4,590	24,821	18,290	123,130
Includes: Investments in affiliates	-	-	-	-	-	14	14
Average balance of liabilities	[2] 45,392	5,724	6,383	2,970	21,098	[2] 34,362	115,929
Average balance of risk assets[1]	40,863	765	4,518	4,945	32,475	4,242	87,808
Average balance of provident and mutual fund assets	-	-	-	-	-	77,130	77,130
Average balance of securities	27,045	7,315	7,840	4,059	66,264	35,081	147,604
Loans to the public, net (end balance)	[2] 73,869	[2] 962	5,771	4,717	21,721	-	107,040
Deposits from the public (end balance)	46,864	4,946	6,413	3,631	24,072	20,065	105,991
Average balance of other assets managed	22,655	-	369	3	156	-	23,183

B. Information on profit from financing operations before expenses with respect to credit loss

	Household	Private banking	Small business	Commercial banking	Business banking [2]	Financial management [2]	Total consolidated
Margin from credit granting operations	836	19	258	134	405	-	1,652
Margin from receiving deposits	424	35	57	16	48	-	580
Other	116	2	47	19	204	339	727
Total	**1,376**	**56**	**362**	**169**	**657**	**339**	**2,959**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).
(2) Reclassified.

Note 12 – Other matters

1. On February 15, 2011, the Bank raised, via Tefahot Issuance, NIS 505 million in consideration for issuance of NIS 455 million par value debentures pursuant to a shelf prospectus dated February 25, 2009.

   On February 25, 2011, Tefahot Issuance issued a shelf prospectus for issuance of up to 10 series of subordinated notes, 10 series of debentures, extension of subordinate notes (Series 31), extension of debentures (Series 29 and Series 32) as well as issuance of two series of commercial paper.

   On April 13, 2011, Tefahot Issuance issued NIS 903 million par value debentures (Series 33, CPI-linked and Series 34, NIS-denominated non-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 903 million.

   On July 10, 2011, Tefahot Issuance issued NIS 1,135 million par value debentures (Series 33, CPI-linked and Series 34, NIS-denominated, non-linked), pursuant to the shelf prospectus dated February 25, 2011, for consideration of NIS 1,155 million.

   The proceeds from all of these issuances were deposited at the Bank under similar terms.

2. On May 19, 2008, after approval by the Bank's Audit Committee and Board of Directors, option warrants were allotted to Bank officers, branch, department and affiliate managers as well as to other employees of the Bank and its subsidiaries. For further details, see Note 16.A.3.b to Financial Statements as of December 31, 2009

   The number of option warrants which the offerees may actually exercise, pursuant to terms of the plan, for each lot itemized in the plan, is based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 18%, based on the exercise eligibility formula, as specified in the option plan.
   On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility formula for each of the Stock Option plans for VPs for lots vesting in 2011, 2012 and 2013, where the vesting eligibility would be determined based on annual rate of return in reported fiscal 2010, 2011 and 2012, respectively. In accordance with the updated formula, the offerees would be eligible to exercise in full the options in each lot, provided that the average net profit rate of return on equity would be 15%, compared to 18% in the original formula, all as stipulated in the update to the stock option plan. For recording the expense on the Bank's financial statements, Bank management has estimated the trend of annual rates of return (though not linear) for each of the years 2010, 2011 and 2012. Using this trend, the number of options each offeree may exercise out of the total number of options granted to them in accordance with the plan were reestimated for lots vesting in 2011 through 2013. The update to the vesting eligibility formula, as well as management estimates with regard to the trend of annual rates of return, are arithmetical results of the Board of Directors' decision with regard to the capital adequacy target, as stated in Note 4.C. above. Pursuant to this reestimation, it is expected that the number of options exercisable by each offeree, as stated above, would be similar to the number of options exercisable by each offeree based on previous estimates by management, and that the change would not materially impact the Bank's financial statements.

Note 12 – Other matters - continued

On October 3, 2011, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve a plan for allotment of a further 701,300 options, under identical terms and conditions with the exception of the exercise price, to 31 employees, including one officer of the Bank. Options would be allotted in 2 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1) and second anniversary (lot 2) of the allotment date, subject to net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 31.62, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on October 2, 2011, the most recent trading day prior to the date of plan approval by the Board of Directors. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with International Financial Reporting Standard (IFRS) 2 , using the Black & Scholes model. The theoretical benefit value of the option warrants in this allotment, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 4.4 million (NIS 5 million including Payroll Tax). Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as stated above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the option warrants to be granted would expire due to the offerees retirement. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted:

	Lot 1	Lot 2	Total
Allotment approved October 3, 2011			
Number of options	350,650	350,650	701,300
Annualized standard deviation	31.93%	36.90%	
Exercise price (in NIS)	31.62	31.62	
Risk-free interest rate	1.07%	1.13%	
Term to exercise (in years)	2.71	3.21	
Fair value per single option	6.93	8.63	
Total fair value per lot (NIS in thousands)	1,700	2,783	4,483

The option warrants were allotted to employees on November 17, 2011.