Condensed Financial Statements as of June 30, 2011

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This translation of the financial statement 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 June 30, 2011

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

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on August 30, 2011, it was resolved to approve and publish the Board of Directors' consolidated report and the financial statements of Mizrahi Tefahot Bank Ltd. and its investees as of June 30, 2011.

The financial statements are compiled in accordance with generally accepted accounting policies in Israel for interim financial reporting, and in accordance with the directives and guidelines issued by the Supervisor of Banks.

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

Developments in Israel's economy in the first half of 2011

Real Developments

In the first half of 2011, Israel's economy continued to grow, although in more moderate growth rate in the second quarter. Based on estimates of the Central Bureau of Statistics, GDP grew in the second quarter of 2011 at an annualized rate of 3.3%, following growth at a pace of 4.7% in the first quarter. Per capita GDP grew by 1.6%, following growth at 2.9% in the previous quarter. Imports of goods and services increased in this quarter by 13.6%, compared to 27.1% growth in the previous quarter.

Growth was listed in all usage components with the exception of public consumption, albeit to a more moderate degree than in the previous quarter. Private consumption expenses increase by 2.2% in the second quarter, after a 7.8% increase in the previous quarter. This slowdown occurred in light of a decrease in the consumption of sustainable products. Exports of goods and services increased 3.4% in this quarter, after a 9.8% increase in the previous quarter. Investment in fixed assets increased by 8.8% in this quarter, after a 19.4% increase in the previous quarter. The rate by which investment in various industries increased dropped significantly, while investment in residential construction continued to increase rapidly. Public consumption expenses dropped 4.4% in this quarter, compared to a 1.7% increase in the previous quarter.

The trend of dropping unemployment rates continued in the first half of 2011. In May the national unemployment rate was 5.7%, compared to 6.5% in May 2010, and 6.3% in December 2010.

The improving labor market was also reflected in an 8.0% increase in the number of available jobs in the second quarter, compared to the first quarter of 2011. The number of available jobs was 66.1 thousand on average.

In recent months, social unrest is increasing due to higher prices of housing, food and gas.

Consequently, the Prime Minister has appointed a commission headed by Economics Professor Manuel Trachtenberg to recommend steps to ease the economic burden on Israeli citizens. The commission, based on its mandate, should provide recommendations on the following:

- Change in priorities aimed at easing the economic burden on Israeli citizens.
- Change in taxation mix.
- Extending accessibility of social services.
- Increasing competition and efficiency in markets for goods and services, designed to lower prices.
- Setting implementation steps for the housing plan launched by the Government in July 2011.

The appointment mandate further specified that the commission's recommendations should reflect the need for maintaining fiscal responsibility in the national budget.

Currently it is too soon to assess the impact of this commission's recommendations on the Government's economic policy and on macro-economic developments in Israel's economy.

Inflation and exchange rates

In the first half of 2011, the Consumer Price Index rose by 2.2%, compared to a 0.7% rise in the corresponding period last year. The index was mostly affected by the rising cost of housing, food and gas. In the second quarter of 2011, the Consumer Price Index rose by 1.5%, similar to the corresponding period last year.

The USD was devalued by 3.8% against the NIS in the first half of 2011, reaching NIS 3.415 per 1 USD at the end of June, compared to NIS 3.549 at the end of 2010. The Euro was revalued against the NIS in this period by 4.4%, reaching NIS 4.944 per Euro at the end of June, compared to NIS 4.738 per Euro at the end of 2010.

In the second quarter of 2011, the NIS/USD exchange rate was revalued by 1.9%, with the NIS being revalued by 0.1% vs. the Euro. On August 17, 2011, the NIS/USD exchange rate was at 3.519.

Monetary and fiscal policy

The Bank of Israel monetary policy in the first half of 2011 saw more rapid raising of interest rates than last year, designed to address expectations beyond the target range for inflation (which was 1%-3%). For the first half of the year, the Bank of Israel interest rate rose by 1.25 percentage points, from 2.0% at the end of 2010 to 3.25% in June 2011. In July and August, the Bank of Israel interest rate was unchanged at 3.25%.

In the first half of 2011, the government budget recorded a NIS 4.3 billion deficit, compared to a NIS 10.3 billion deficit in the corresponding period last year. The budgeted deficit for 2011 is NIS 25.2 billion. In view of economic growth, tax revenues in the first half of 2011 increased by 7.4% on a real basis over the corresponding period last year, reflecting excess collection of NIS 0.3 billion over the planned budget. Government ministry expenditures increased by 5.5% for the period, lower than the budgeted 7.4%. While growth in non-defense ministries increased as budgeted, Ministry of Defense expenditures decreased by 2%.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, in the first half of 2011 demand for new apartments (apartments sold and apartments constructed not for sale) was 19,970 apartments, an increase of 3.5% over the corresponding period last year. However, starting in February, this figure started trending downwards at a monthly average rate of 1.4%.

Concurrently, the increase in housing starts continued, and in January-April 2011, construction started on 44,000 residential units (in annualized terms), compared to 39,700 residential units in 2010 and to 33,000 on an average 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 the first half of 11,930 compared to 11,000 at the end of 2010 - an increase of 8.5%. Based on the average pace of sales in the six months ended June 2011, this inventory would account for 8.4 months' sales - compared to 7.0 months at the end of 2010.

According to data from the Central Bureau of Statistics, in early 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 a nation-wide average basis, were 4% higher in April 2011 compared to the end of 2010, and 14% higher over the corresponding period last year.

Capital market

In the second quarter of 2011, the downward trend in equity markets, which started in the first quarter of the year, accelerated - while debenture markets trended upward.

Equity market - the major indexes, Tel Aviv 25 and Tel Aviv 100, declined in the second half of 2011 by 7.4% and 7.8%, respectively, and for the first half of the year declines were 7.7% and 9.0%, respectively. The Real Estate 15 index declined in the second quarter by 12.4% and by 9.5% year to date. The decline in small-cap equities was more pronounced, with the Yeter 50 index declining by 13.8% in the second quarter and by 18.7% year to date. Financials were also down: The Financial 15 index and Tel Aviv Banks index declined in the second quarter by 9.6% and 7.8%, respectively, and by 12.5% and 9.7%, respectively, for the year to date.

The average daily trading volume in shares and convertible securities in the first half of this year was NIS 1.9 billion - lower than the average for the first quarter, which was NIS 2.2 billion. Share issuance (excluding shares issued overseas) increased, amounting to NIS 2.3 billion, compared to NIS 1.2 billion in the first quarter of 2010.

From the end of this quarter through August 17, equity benchmarks declined sharply, driven by the announcement by rating agency S&P, that it was lowering the credit rating of the USA to AA+, for the first time ever. The Tel Aviv 25 and Tel Aviv 100 benchmarks declined by 9.54% and 10.53%, respectively, in the period following the balance sheet date.

The declines were led by insurance and financial stocks. The Finance 15 and Bank indices declined by 17.2% and 15.6%, respectively.

Debenture market - the debenture market was positive. The General Debenture index rose by 0.6% in the second quarter, after being unchanged in the first quarter of 2011. The CPI-linked Debenture index rose by 0.3% after a 0.4% rise in the first quarter. The Non-linked Debenture index reversed direction, rising by 1.4% in the second quarter on more moderate inflationary expectations towards the end of the quarter, after a 1.0% decline in the first quarter. The Tel Bond 20 index rose by 0.5%, following a similar rise in the first quarter. The Tel Bond 40 index, which contains real estate companies as well, declined by 0.3% following a 1.1% rise in the first quarter.

Yield spreads for corporate debentures over government debentures were slightly higher in the second quarter, due to concerns about solvency: Debentures rated AA traded at the end of the quarter at a 1.1 percentage point spread, compared to 0.8 percentage point at the end of the first quarter and 1.1 percentage points at the end of 2010. Debentures rated A traded at the end of the quarter at a 3.4 percentage point spread, compared to 1.8 percentage point at the end of the first quarter and 2.6 percentage points at the end of 2010.

In total, the business sector raised NIS 12.0 billion worth of debentures in the second quarter of 2011 from the public and from institutional investors, compared to NIS 11.8 billion raised in the corresponding period last year.
Average daily trading volume in debentures in the first half of the year amounted to NIS 3.6 billion, lower than the average volume in the first quarter - which was NIS 3.8 billion.
Concerns about repayment capacity for corporate debentures, as well as the lowered credit rating of the US government and lower inflationary expectations in Israel - all resulted in lower prices for CPI-linked debentures. After the balance sheet date, the Tel Bond 20 and Tel Bond 40 benchmarks declined by 0.87% and 2.12%, respectively. Conversely, government debenture benchmarks trended upwards: The CPI-linked Government Debenture index increased by 1.64%, and the Non-linked Government Debenture index increased by 2.37%.

Global economy

In the first half of 2011, the global economy was affected by several extraordinary events: Geopolitical uncertainty developed in several North African and Middle Eastern countries, and the tsunami disaster occurred in Japan. These events, and uncertainty about the economy due to high debt levels in developed nations, resulted in more moderate economic growth.

In the second quarter of 2011, the economic slow-down continued in the USA, with GDP increasing in this quarter by an annualized 1.3%; however, this was an improvement over first quarter growth - which was a mere 0.4%. Unemployment in the USA was higher: 9.2% at the end of June, compared to 8.8% in March. In August, S&P lowered the credit rating for the USA to AA+, after it has always been rated AAA despite the understanding reached by the administration and the congress about raising the debt limit.

The Euro zone economy continued to be over-shadowed by the debt crisis in several European countries. After Portugal joined other PIGS countries, Greece and Ireland, in receiving economic aid to avoid bankruptcy in early 2011, concern about disorders in larger economies, such as Spain and Italy, increased. Such concerns brought about a planned budget cut amounting to EUR 70 billion by the Italian government. In view of estimates that Greece would be unable to serve its debt despite the EUR 110 billion aid plan approved in 2010, a further EUR 160 billion aid plan for this country was formulated.

In view of inflationary pressures in the Euro Zone, interest rates were raised in the first half by 0.25 percentage point - for the first time since 2008. In July, interest rates were raised once again to 1.5%, compared to 1.0% at year start.

Furthermore, in order to alleviate concern about insolvency of Spain and Italy, the European Central Bank announced it would buy debentures of these countries in order to reduce their yields.

GDP in the Euro Zone increased in the second quarter of 2011 by an annualized 0.8%, compared to an increase of 3.6% in the first quarter. The growth engines of the previous quarter - Germany and France - slowed down significantly. The growth rate in Germany was at a mere 0.4%, and no growth was recorded in France. Of the European countries undergoing a debt crisis, Italy's economy grew by 1.2%, compared to 0.4% in the previous quarter. Spain recorded growth at 0.8% in this quarter, compared to 1.2% in the previous quarter. Portugal recorded no growth in the second quarter, after recording negative growth at 2.4% in each of the previous two quarters.

As noted above, one of the factors which resulted in slower global growth was the earthquake and tsunami disaster in Japan, late in the first quarter of 2011. This disaster culminated in a radioactive crisis which impacted economic activity in Japan due to reduction in production capacity and disruption to energy supply throughout the country and in particular at the epicenter of this disaster. In view of these events, Japan's GDP shrank by an annualized 1.3% in the second quarter of 2011, following a 3.7% decrease in the first quarter.

Leading benchmarks in overseas capital markets were impacted by higher corporate profits, which somewhat buoyed investor confidence, but doubts about repayment capacity in several European countries, which occasionally gave rise to concern about capital market robustness, geopolitical instability and the disaster in Japan had the opposite effect.

The Dow Jones index rose by 0.8% in the second quarter, and by 7.3% year to date. The NASDAQ 100 and S&P 500 benchmarks declined in the second quarter by 0.6% and 0.4%, respectively, and increased by 4.5% and 5.0%, respectively, year to date. The German DAX benchmark increased by 4.8% in the second quarter, for a total rise of 6.7% year to date. The FTSE100 and NIKKEI benchmarks rose by 0.3% and 0.9%, respectively, following declines in the first quarter of this year. For the first half of 2011, these benchmarks were lower by 0.4% and 5.3%, respectively.

The aforementioned lowered rating of the USA and increasing concern about capacity of Euro Zone members to confront the credit crisis expanding in the Euro Zone resulted in declines in equity benchmarks after the balance sheet date. The Dow Jones benchmark decreased by 8.1%, and the S&P 500 and NASDAQ 100 benchmarks declined by 9.7% and 5.6%, respectively. In Europe, leading indices were down sharply: The DAX and CAC were down by 18.7% and 18.9%, respectively. The Nikkei 225 index was down by 7.3%.

Key data for Bank group

Development of revenues and expenses

	For the three months ended				
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
	NIS in millions				
Profit and Profitability					
Profit from financing operations before expenses with respect to credit loss	795	752	880	735	714
Operating and other income	341	358	350	335	342
Total profit	1,136	1,110	1,230	1,070	1,056
Expenses with respect to credit loss	80	54	192	102	122
Operating and other expenses	655	(3)673	(3)687	(3)628	(3)619
Provision for taxes on operating profit	138	(3)137	(3)124	(3)127	(3)110
On operating profit(1)	253	(3)239	(3)222	(3)206	(3)201
After-tax profit from extraordinary items before attribution to non-controlling interest	(1)	(1)	-	2	(1)
Net profit(1)	**252**	(3)**238**	(3)**222**	(3)**208**	(3)**200**

	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
	NIS in millions				
Balance sheet - key items					
Balance sheet total	139,232	(3)136,185	(3)133,304	(3)126,408	(3)125,421
Loans to the public, net	112,391	109,391	107,040	103,493	101,007
Securities	5,431	5,726	7,449	8,273	7,411
Deposits from the public	111,496	109,029	105,991	101,204	101,629
Debentures and subordinated notes	11,301	10,284	9,813	9,116	7,978
Shareholders' equity (1)	7,139	(3)6,886	(3)7,130	(3)6,877	(3)6,814

	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Key financial ratios (in percent)					
Net operating profit return on equity (2)	15.2	14.6	13.3	12.6	12.5
Net profit return on equity (2)	15.2	14.5	13.3	12.8	12.4
Net loans to the public to deposits from the public	100.8	100.3	101.0	102.3	99.4
Capital to total assets	5.1	5.1	5.3	5.4	5.4
Ratio of Tier I capital to risk elements	7.71	(3)7.61	(3)7.91	(3)7.84	(3)7.70
Total ratio of capital to risk elements	13.61	(3)13.48	(3)13.96	(3)13.88	(3)13.69
Cost income ratio	57.7	60.6	55.9	58.7	58.6
Expenses with respect to credit loss for the period to net total loans to the public (2)	0.29	0.20	0.72	0.39	0.48
Provision for taxes to net profit	54.8	57.6	55.9	61.1	55.0
Profit from financing operations before expenses with respect to credit loss to total assets (2)	2.30	2.23	2.67	2.35	2.30
Basic net earnings per share	1.11	1.05	0.99	0.93	0.89
Diluted net earnings per share	1.09	1.03	0.97	0.92	0.88

(1) Anywhere in the Board of Directors' Report where "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. 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 Law, 1968 (“the Law”).

The actual results of the Bank could be significantly different from those included in the forward-looking information, or all that is implied there from. Prospective information is characterized by the use of certain words or phrases, such as: "we believe", "expected", "forecasted", "estimating", "intending", "planning", "readying", "could change" and similar expressions, in addition to nouns, such as: "plan", "goals", "desire", "need", "could", "will be". These forward-looking/prospective information and expressions involve risk and lack of certainty, because they are based on management's assessment of future events which includes, *inter alia*: forecasted 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, 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 Yehuda (Yuli) Ofer, 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 June 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 re-structured.

According to the Supervisor, if no steps have been taken to comply with the aforementioned equity requirements, then Messrs. Ofer are in aparent 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 re-structuring 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, who is also one of the Control Permit recipients.

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	Dividends per share (in Agorot)	Total dividends paid (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 second quarter of 2011 amounted to NIS 252 million, compared to NIS 200 million in the corresponding period last year – an increase of 26.0%. This reflects a 15.2% **annualized return on equity**, compared to 12.4% in the corresponding period last year.

Net profit for the Group in the first half of 2011 amounted to NIS 490 million, compared to NIS 371 million in the corresponding period last year – an increase of 32.1%. This profit reflects an annualized 14.6% return on equity, compared to 11.5% in the corresponding period last year and to 11.8% in all of 2010.

The following major factors affected Group operating income in the first half of 2011 over the corresponding period last year:

- Profit from financing operations before expenses with respect to credit loss in the first half of 2011 increased by NIS 203 million over the year-ago period, amounting to NIS 1,547 million compared to NIS 1,344 million in the corresponding period last year - an increase of 15.1%.
- Revenues from operating commissions increased in the first half of 2011 by NIS 23 million, or 3.5%, over the corresponding period last year.
- In the first half of 2011, other revenues amounted to NIS 9 million, compared with NIS 18 million in the corresponding period last year.

Total financing and operating income in the first half of 2011 increased by NIS 220 million, to NIS 2,246 million compared to NIS 2,026 million in the corresponding period last year, an increase of 10.9%.

- Expenses with respect to credit loss decreased in the first half of 2011 by NIS 45 million, or 25.1%, over the corresponding period last year.
- Operating and other expenses, net of the effect of the accounting treatment of employee stock options and adjustment of payroll provisions, increased by 4.2% in the first half of 2011 compared to the corresponding period last year. Operating and other expenses including this effect increased by 6.2%.

  Growth in business volume, expansion of direct service centers and launching of 17 new branches and points of sale in the last 12 months also affected payroll expenses in the first half of 2011. Excluding this effect, and excluding the effect of the accounting treatment, growth in operating and other expenses over the corresponding period last year was 3.4%.

Development of revenues and expenses

Profit from financing operations before expenses with respect to credit loss for the Group in the first half of 2011 amounted to NIS 1,547 million, compared to NIS 1,344 million in the corresponding period last year - an increase of 15.1%. Profit from financing operations before expenses with respect to credit loss for the Group in the second quarter of 2011 amounted to NIS 795 million, compared to NIS 714 million in the corresponding period last year - an increase of 11.3%.

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

	Second Quarter		Rate of	First half of		Rate of
	2011	2010	change	2011	2010	change
Current operations	**731**	**655**	**11.6%**	**1,445**	**1,244**	**16.2%**
Revenues from interest on problem loans	14	26		40	54	
Gain from realized debentures available for sale and debentures held for trade, net	3	30		4	35	
Effect of accounting treatment of derivatives at fair value and others (1)	47	3		58	11	
Total	**795**	**714**	**11.3%**	**1,547**	**1,344**	**15.1%**

(1) The effect of 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 half of		Change amount	Rate of change
Operating segment	2011	2010		
Retail banking:				
Mortgages	268	237	31	13.1%
Household	527	405	122	30.1%
Small business	217	172	45	26.2%
Total	**1,012**	**814**	**198**	**24.3%**
Private banking	49	23	26	113.0%
Commercial banking	88	78	10	12.8%
Business banking	291	(2) 300	(9)	(3.0%)
Financial management	107	(2) 129	(22)	(17.1%)
Total	**1,547**	**1,344**	**203**	**15.1%**

(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):

	Second Quarter			First half of		
Linkage segments	2011	2010	Rate of change	2011	2010	Rate of change
Israeli currency - non-linked	136,452	111,342	22.6%	139,370	108,939	27.9%
Israeli currency - linked to the CPI	48,909	40,148	21.8%	47,915	40,270	18.9%
Foreign currency (including Israeli currency linked to foreign currency) [1]	73,211	64,772	13.0%	74,447	62,396	19.3%
Total	**258,572**	**216,262**	**19.6%**	**261,732**	**211,605**	**23.7%**

(1) Local operations and overseas affiliates.

The increase in deposits with the Bank of Israel and derivatives operations contributed to the increase in 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 differentials in the various linkage segments (in %, based on average balances) [1] (including impact of derivatives) are as follows:

	First half of	
Linkage segments	2011	2010
Israeli currency - non-linked	1.57%	1.36%
Israeli currency - linked to the CPI	0.55%	0.66%
Foreign currency (including Israeli currency linked to foreign currency) [2]	0.57%	0.64%
Total including impact of derivatives	**1.12%**	**1.10%**

(1) In the first half 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 revenue and expense rates of group operations as well as the financial margin represented by the interest differentials are presented under Appendix A of the Management Discussion.

Expenses with respect to credit loss for the Group amounted to NIS 134 million in the first half of 2011, or 0.24% of total loans to the public, net, compared with NIS 179 million, or 0.35% of total loans to the public, net in the corresponding period last year - a decrease of 25.1%.

Expenses with respect to credit loss for the Group amounted to NIS 80 million in the second quarter of 2011, or 0.29% of total loans to the public, net, compared with NIS 122 million, or 0.48% of total loans to the public, net in the corresponding period last year - a decrease of 34.4%.

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:

	Second Quarter		First half of	
	2011	2010	2011	2010
Specific provision for credit loss (including accounting write-offs)	86	123	137	186
Group provision for credit loss:				
By extent of arrears	2	-	-	-
Other (for 2010 - general and supplementary provision for doubtful debts)	(8)	(1)	(3)	(7)
Total expenses with respect to credit loss	**80**	**122**	**134**	**179**
Expense with respect to credit loss as percentage of total loans to the public (annualized)	**0.29%**	**0.48%**	**0.24%**	**0.35%**

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

	First half of	
Operating segment	2011	2010
Retail banking:		
Household - mortgages	10	1
Household - other	26	33
Small business	37	17
Total	73	51
Private banking	(1)	-
Commercial banking	21	(1)
Business banking	34	129
Financial management	7	-
Total	134	179

Profit from financing operations after expenses with respect to credit loss in the first half of 2011 amounted to NIS 1,413 million, compared to NIS 1,165 million in the corresponding period last year - an increase of 21.3% .

In the second quarter, profit from financing operations after expenses with respect to credit loss amounted to NIS 715 million, compared with NIS 592 million in the corresponding period last year, an increase of 20.8%.

Operating and other revenues for the Group in the first half of 2011 amounted to NIS 699 million, compared with NIS 682 million in the corresponding period last year - an increase of 2.5%.

In the second quarter of 2011, operating and other revenues for the Group amounted to NIS 341 million, compared to NIS 342 million in the corresponding period last year, a decrease of 0.3%.

Revenues from operating commissions for the Group was NIS 687 million in the first half of 2011, compared with NIS 664 million in the same period last year - an increase of 3.5%.

In the second quarter, revenues from operating commission amounted to NIS 336 million, compared with NIS 332 million in the corresponding period last year - an increase of 1.2%.

Net gain from investments in shares for the Group in the first half of 2011 amounted to NIS 3 million, compared to no gain in the corresponding period last year.

In the second quarter of 2011, net gain from investments in shares amounted to NIS 3 million, compared with NIS 1 million in the corresponding period last year.

Other revenues for the Group in the first half of 2011 amounted to NIS 9 million, compared with NIS 18 million in the corresponding period last year.

In the second quarter of 2011, other revenues amounted to NIS 2 million, compared with NIS 9 million in the corresponding period last year.

Operating and other expenses, net of the effect of the accounting treatment of employee stock options and adjustment of payroll provisions, increased by 4.2% in the first half of 2011 compared to the corresponding period last year. These expenses including this effect increased by 6.2%, to NIS 1,328 million compared to NIS 1,250 million.
Growth in business volume, expansion of direct service centers and launching of 17 new branches and points of sale also affected payroll expenses. Excluding this effect, and excluding the effect of the accounting treatment, growth in operating and other expenses over the corresponding period last year was 3.4%.

Operating and other expenses amounted to NIS 655 million in the second quarter of 2011, compared with NIS 619 million in the corresponding period last year - an increase of 5.8%.

Payroll and associated expenses, net of the effect of the accounting treatment of employee stock options and adjustment of payroll provisions, increased by 6.9% in the first half of 2011 compared to the corresponding period last year. Payroll and associated expenses, including this effect, amounted to NIS 815 million, compared to NIS 743 million.

The aforementioned expanded operations also affected payroll expenses. Excluding this effect, and excluding the effect of the accounting treatment, the growth in payroll expenses over the corresponding period last year was 5.4%.

The Bank initially applied the Supervisor of Banks' directives concerning strengthening of internal control over financial reporting of employee rights with respect to financial statements as of June 30, 2011; for further information see Note 1.E.4. to the financial statements.

Payroll and associated expenses for the Bank in the second quarter of 2011, excluding the effect of the accounting treatment and expanded operations, increased by 6.5%. Including these effects, payroll and associated expenses in the second quarter of 2011 amounted to NIS 394 million, compared to NIS 362 million in the corresponding period last year.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 300 million in the first half of 2011, compared with NIS 290 million in the corresponding period last year – an increase of 3.4%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 152 million in the second quarter of 2011, compared with NIS 147 million in the corresponding period last year – an increase of 3.4% .

Other expenses for the Group, excluding goodwill amortization, amounted to NIS 213 million in the first half of 2011, compared with NIS 210 million in the corresponding period last year - an increase of 1.4%.

Other expenses for the Group amounted to NIS 109 million in the second quarter of 2011, compared with NIS 107 million in the corresponding period last year - an increase of 1.9%.

As a result of developments in revenues and expenses, changes to financial ratios were as follows (in %):

	First half of		All of
	2011	2010	2010
Cost-Income Ratio(1)	59.1	61.7	59.3
Cost-Income Ratio, excluding Bank Yahav	55.2	59.0	55.4

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

Pre-tax operating profit for the Group amounted to NIS 784 million in the first half of 2011, compared with NIS 597 million in the corresponding period last year - an increase of 31.3%.

In the second quarter of 2011, pre-tax operating profit amounted to NIS 401 million, compared to NIS 315 million in the corresponding period last year, an increase of 27.3%.

Provision for taxes on operating profit amounted to NIS 275 million in the first half of 2011, compared with NIS 218 million in the corresponding period last year, an increase of 26.1%

In the second quarter of 2011, the provision for taxes on operating profit amounted to NIS 138 million, compared to NIS 110 million in the corresponding period last year, an increase of 25.5%.

Operating net profit in the first half of 2011 amounted to NIS 492 million, compared to NIS 371 million in the same period last year – an increase of 32.6%.

Operating net profit in the second quarter of 2011 amounted to NIS 253 million, compared to NIS 201 million in the corresponding period last year – an increase of 25.9%.

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

	First half of		All of
	2011	2010	2010
Net operating profit	14.6	11.5	11.8
Net profit	14.6	11.5	11.8

	2011		2010			
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net operating profit	15.2	14.6	13.3	12.6	12.5	10.8
Net profit	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 reporting of revenue and expense rates, less 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):

	Second Quarter		First half 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	0.89	2.17	1.66	3.58
Net profit attributable to equity holders of the banking corporation	1.11	0.89	2.16	1.66	3.59
Diluted earnings per share:					
Net operating profit attributable to equity holders of the banking corporation	1.09	0.88	2.12	1.64	3.53
Net profit attributable to equity holders of the banking corporation	1.09	0.88	2.11	1.64	3.54

Development of balance sheet items

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

				Change compared t	
		June 30,	December 31	June 30,	December 31
	2011	2010	2010	2010	2010
Balance sheet total	139,232	(1) 125,421	(1) 133,304	11.0%	4.4%
Loans to the public, net	112,391	101,007	107,040	11.3%	5.0%
Deposits from the public	111,496	101,629	105,991	9.7%	5.2%
Securities	5,431	7,411	7,449	(26.7%)	(27.1%)
Shareholders' equity	7,139	(1) 6,814	(1) 7,130	4.8%	0.1%

(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 June 30, 2011 accounted for 81% of total assets, compared to 80% at the end of 2010. Loans to the public, net for the Group in the first half of 2011 increased by NIS 5.4 billion, or 5.0%.

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

				Change over:	
		June 30,	December 31	June 30,	December 31 (1)
	2011	2010	2010	2010	2010
Israeli currency					
Non-linked	57,900	51,053	54,680	13.4%	5.9%
CPI- linked	42,179	36,294	39,865	16.2%	5.8%
Foreign currency and foreign currency linked	12,312	13,660	12,495	(9.9%)	(1.5%)
Total	**112,391**	**101,007**	**107,040**	**11.3%**	**5.0%**

(1) Excluding the impact of change in NIS exchange rate, a 0.6% increase in the foreign currency segment and a 5.2% 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:	
		June 30,	December 31	June 30,	December 31
Operating segment	2011	2010	2010	2010	2010
Retail banking:					
Mortgages	63,507	(1) 53,231	(1) 58,303	19.3%	8.9%
Household	16,096	(1) 15,808	(1) 15,566	1.8%	3.4%
Small business	6,029	5,184	5,771	16.3%	4.5%
Total	85,632	74,223	79,640	15.4%	7.5%
Private banking (2)	1,797	(1) 913	(1) 962	96.8%	86.8%
Commercial banking	4,941	4,641	4,717	6.5%	4.7%
Business banking	20,021	21,230	21,721	(5.7%)	(7.8%)
Total – business and others	26,759	26,784	27,400	(0.1%)	(2.3%)
Total	**112,391**	**101,007**	**107,040**	**11.3%**	**5.0%**

(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 problem 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 June 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	2,636	954	1,682	3,883	1,022	2,861
Troubled credit risk with respect to individuals	2,145	884	1,261	2,130	891	1,239
Total troubled credit risk	**4,781**	**1,838**	**2,943**	**6,013**	**1,913**	**4,100**
B. Composition of troubled indebtedness						
Impaired credit risk	2,254	929	1,325	2,602	984	1,618
Inferior credit risk	122	14	108	119	12	107
Credit risk under special supervision	631	55	576	1,577	81	1,496
Credit risk for housing loans in arrears over 90 days	1,774	840	934	1,715	836	879
Total troubled credit risk	**4,781**	**1,838**	**2,943**	**6,013**	**1,913**	**4,100**
C. Total Non-performing assets:						
Reviewed on individual basis	1,644	810	834	2,220	1,021	1,199
Non accroal imported debentures	14	-	14	14	-	14
Other Non-accrual impaired debt	28	17	11	25	12	13
Total non-performing assets	**1,686**	**827**	**859**	**2,259**	**1,033**	**1,226**
D. Impaired debt in restructuring of accrual problem debt[4] :	217	103	114	140	21	119
E. Problem commercial credit risk:[1]						
On-balance sheet credit risk with respect to the public	2,122	938	1,184	3,003	1,000	2,003
Off-balance sheet credit risk with respect to the public[2]	500	16	484	866	22	844
Total commercial problem credit risk with respect to the public	**2,622**	**954**	**1,668**	**3,869**	**1,022**	**2,847**
On-balance sheet credit risk with respect to others	14	-	14	14	-	14
Total commercial problem credit risk	**2,636**	**954**	**1,682**	**3,883**	**1,022**	**2,861**
F. Non-impaired debt in arrears 90 days or longer	1,879	854	1,025	1,840	861	979
Includes: Housing loans provided for by extent of arrears	1,375	826	549	1,311	835	476
Housing loans not provided for by extent of arrears[3]	399	14	385	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 debt accruing interest revenues which was re-structured in previous years.

Below is the sector composition of the top 6 borrowers for the group as of June 30, 2011:

Borrower no.	Sector	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
1	Construction and real estate	441	819	1,260
2	Industry	99	1,129	1,228
3	Electricity and Water	266	834	1,100
4	Construction and real estate	166	589	755
5	Trade	309	263	572
6	Construction and real estate	36	521	557

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.

Securities - the balance of the investment in securities decreased in the first half of 2011 by NIS 2 billion, and by the same amount compared to June 30, 2010. The change in the 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	
		June 30,	December 31	June 30,	December 31
Operating segment	2011	2010	2010	2010	2010
Israeli currency					
CPI- linked	416	761	413	(45.3%)	0.7%
Non-linked	2,417	2,934	3,760	(17.6%)	(35.7%)
Foreign currency and foreign currency linked	2,516	3,630	3,195	(30.7%)	(21.3%)
Non-monetary items	82	86	81	(4.7%)	1.2%
Total	5,431	7,411	7,449	(26.7%)	(27.1%)

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

	As of June 30, 2011			
		Cumulative other comprehensive income		
	Amortized cost (for shares - cost)	Gains	Losses	Fair value (carrying amount)
Securities available for sale:				
Debentures of the Government of Israel	4,151	10	(56)	4,105
Foreign government debentures	82	-	-	82
Debentures of banks and financial institutions	688	7	(3)	692
Corporate debentures	137	-	-	137
Asset-backed debentures	68	7	(10)	65
Shares of others	82	-	-	82
Total securities available for sale	5,208	24	(69)	5,163

	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (carrying amount)
Securities held for trading:				
Debentures of the Government of Israel	263	-	-	263
Of others	5	-	-	5
Total securities held for trading	268	-	-	268
Total securities	5,476	24	(69)	5,431

Distribution of balance of Group investments in securities by issuer type (NIS in millions) is as follows (Continued):

	As of December 31, 2010			
	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value (carrying amount)
		Gains	Losses	
Securities available for sale:				
Debentures of the Government of Israel	6,040	31	(48)	6,023
Foreign government debentures	103	-	-	103
Bank debentures	735	7	(3)	739
Corporate debentures	151	3	-	154
Asset-backed debentures	66	5	(11)	60
Shares of others	81	-	-	81
Total securities available for sale	**7,176**	**46**	**(62)**	**7,160**

	Amortized cost (for shares - cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (carrying amount)
Securities held for trading:				
Debentures of the Government of Israel	286	1	(2)	285
Of others	4	-	-	4
Total securities held for trading	**290**	**1**	**(2)**	**289**
Total securities	**7,466**	**47**	**(64)**	**7,449**

Investments in debentures in the available-for-sale portfolio and in the held-for-trade portfolio

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

	Carrying amount as of	
	June 30, 2011	December 31, 2010
Government debentures:		
Government of Israel	4,368	6,308
Government of USA	82	103
Total government debentures	4,450	6,411
Debentures of banks in developed nations:		
UK	197	191
Israel	127	127
Germany	96	99
South Korea	25	25
Canada	-	35
Australia	-	18
Other(1)	19	18
	464	513
Debentures of financial institutions (other than banks) in developed nations(2):		
USA	186	184
UK	37	36
Luxembourg	9	10
Other	1	-
	233	230
Total debentures of banks and financial institutions:	697	743
Corporate debentures (composition by sector):		
Industry	55	17
Construction	43	45
Electricity and water	4	24
Hotel and food services	1	1
Communications and computer services	13	23
Financial services	21	44
Total corporate debentures	137	154
Asset-backed debentures (CLO)	65	60
Shares of others	82	81
Total securities	**5,431**	**7,449**

(1) Includes 2 countries with a high balance of NIS 15 million as of June 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 June 30, 2011				
	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					
Up to 20%	-	-	-	6	6
20%-40%	-	-	-	4	4
Over 40%		-	-	-	-
Total		-	-	10	10
Other debentures available for sale					
Up to 20%	8	1	4	44	57
20%-40%	-	-	-	2	2
Over 40%	-	-	-	-	-
Total	8	1	4	46	59

	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**

See Note 2 to the financial statements for additional information.

Deposits from the public - these account for 80% of the total consolidated balance sheet as of June 30, 2011, similar to their weight at the end of 2010. In the first half of 2011, deposits from the public with the Bank Group increased by NIS 5.5 billion, or 5.2%.

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

				Change compared to	
		June 30,	December 31	June 30,	December 31 [1]
	2011	2010	2010	2010	2010
Israeli currency					
Non-linked	66,506	56,936	62,754	16.8%	6.0%
CPI- linked	22,588	21,276	22,342	6.2%	1.1%
Foreign currency and foreign currency linked	22,402	23,417	20,895	(4.3%)	7.2%
Total	**111,496**	**101,629**	**105,991**	**9.7%**	**5.2%**

(1) Excluding the impact of the change in the NIS exchange rate, a 9.2% increase in the foreign currency segment and a 5.6% 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	
		June 30,	December 31	June 30,	December 31
	2011	2010	2010	2010	2010
Retail banking:					
Household	49,736	47,015	46,864	5.8%	6.1%
Small business	6,845	6,284	6,413	8.9%	6.7%
Total	**56,581**	**53,299**	**53,277**	**6.2%**	**6.2%**
Private banking	6,115	5,810	4,946	5.2%	23.6%
Commercial banking	2,994	2,966	3,631	0.9%	(17.5%)
Business banking	28,920	21,091	24,072	37.1%	20.1%
Financial management	16,886	18,463	20,065	(8.5%)	(15.8%)
Total	**111,496**	**101,629**	**105,991**	**9.7%**	**5.2%**

The ratio of shareholders' equity to balance sheet total for the Group as of June 30, 2011 amounted to 5.13%, 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 prescribe 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 I rules.

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

	June 30, 2011	December 31, 2010
Ratio of Tier I capital to risk elements	7.71	[1] 7.91
Ratio of total capital to risk elements	13.61	[1] 13.96
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00	9.00

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

The decrease in ratio of capital to risk elements is primarily due to the impact of initial application of directives on measurement of impaired debt and 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 half of 2011 amounted to NIS 75.9 million, compared with NIS 44.4 million in the corresponding period last year.

Excluding the effect of interest rate differentials, the contribution of investees amounted to NIS 62.9 million, compared to NIS 45.6 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 the policy of the Bank's Board of Directors on this matter.

Bank Yahav's contribution to Group net income in the first half of 2011, excluding goodwill amortization, amounted to NIS 18.2 million, compared to NIS 8.3 million in the same period last year (NIS 3.7 million after goodwill amortization). Bank Yahav's net profit return on equity in the first half of 2011 was 10.3% on an annualized basis, compared to 5.1% in the corresponding period last year. Bank Yahav's balance sheet total as of June 30, 2011 amounted to NIS 15,582 million, compared to NIS 14,795 million as of December 31, 2010. The balance of loans to the public, net as of June 30, 2011 amounted to NIS 5,555 million, compared to NIS 5,432 million at the end of 2010. The balance of deposits from the public as of June 30, 2011 amounted to NIS 13,293 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 half of 2011 amounted to NIS 33.5 million, compared to NIS 26.8 million in the corresponding period last year.

Net profit return on equity in the first half of 2011 was 15.2% on an annualized basis, compared to 13.7% 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 half of 2011 amounted to CHF 0.7 million, compared to CHF 1.2 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of June 30, 2011 amounted to CHF 160 million, compared to CHF 195 million at the end of 2010.

Loans to the public as of June 30, 2011 amounted to CHF 53 million, compared to CHF 59 million at the end of 2010. The deposits with banks as of June 30, 2011 amounted to CHF 92 million, compared to CHF 118 million at the end of 2010. Deposits from the public as of June 30, 2011 amounted to CHF 84 million, compared to CHF 122 million at the end of 2010. Deposits from banks as of June 30, 2011 amounted to CHF 21 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 half of 2011, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to NIS 17.8 million, compared with NIS 3.7 million in the same period last year. These data include the 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 half of the year amounted to a NIS 4.8 million profit, similar to the year-ago period.

Investment in non-banking corporations

The Bank manages nostro investments in non-banking corporations. About 6% 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 the impairment of a non-temporary nature, a provision for impairment is made by the Bank.

Bank investments in non-banking corporations as of June 30, 2011 amounted to NIS 62 million, compared to NIS 59 million at the end of 2010. In the first half of 2011, the Bank had net gains from dividends and capital gains from non-banking corporations amounting to NIS 3 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 stated 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 a 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 625 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 the 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 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 half		Share of total net profit (in percent) for the first six months		Return on equity (in %) in the first half	
	2011	2010	2011	2010	2011	2010
Household						
Mortgages	168	147	34	40	14.6	14.6
Other	85	36	17	10	20.5	8.4
Private banking	29	13	6	4	89.6	(1) 44.5
Small business	61	47	12	13	34.3	27.9
Commercial banking	15	24	3	6	7.7	12.6
Business banking	100	(1) 50	21	12	8.0	(1) 3.9
Financial management	32	(1) 54	7	15	19.4	(1) 40.5
Total	**490**	**371**	**100**	**100**	**14.6**	**11.5**

(1) Reclassified.

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the six months ended June 30, 2011					For the six months ended June 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	72	12	6	1,757	1,847	146	10	5	994	1,155
Inter-segment	446	(9)	-	(1,489)	(1,052)	251	(7)	-	(757)	(513)
Total profit from financing operations before expenses with respect to credit loss	**518**	**3**	**6**	**268**	**795**	**397**	**3**	**5**	**237**	**642**
Operating and other income	112	61	116	123	412	105	57	120	122	404
Total profit	**630**	**64**	**122**	**391**	**1,207**	**502**	**60**	**125**	**359**	**1,046**
Expenses with respect to credit loss	26	-	-	10	36	33	-	-	1	34
Operating and other expenses										
From outside operating segments	643	14	31	123	811	595	14	32	129	770
Inter-segment	(56)	(2)	-	-	(58)	(56)	(2)	-	-	(58)
Total operating and other expenses	**587**	**12**	**31**	**123**	**753**	**539**	**12**	**32**	**129**	**712**
Operating profit (loss) before taxes	17	52	91	258	418	(70)	48	93	229	300
Provision for taxes on operating profit (loss)	6	19	32	90	147	(25)	18	34	82	109
After-tax operating profit (loss)	**11**	**33**	**59**	**168**	**271**	**(45)**	**30**	**59**	**147**	**191**
Net profit (loss):										
Before attribution to non-controlling interest	11	33	59	168	271	(45)	30	59	147	191
Attributable to non-controlling interest	(18)	-	-	-	(18)	(8)	-	-	-	(8)
Attributable to equity holders of the banking corporation	**(7)**	**33**	**59**	**168**	**253**	**(53)**	**30**	**59**	**147**	**183**
Return on capital (net profit as % of average capital)					**16.2%**					**12.7%**
Average balance of assets	13,765	2,388	-	57,856	74,009	13,476	2,434	-	50,242	66,152
Average balance of liabilities	46,752	2,388	-	247	49,387	44,657	2,434	-	75	47,166
Average balance of risk assets - Basel I	13,853	-	-	30,830	44,683	13,540	-	-	25,970	39,510
Average balance of securities	-	-	28,130	-	28,130	-	-	26,063	-	26,063
Loans to the public, net (end balance)	13,550	2,546	-	63,507	79,603	(1) 13,183	2,625	-	(1) 53,231	69,039
Deposits from the public (end balance)	49,736	-	-	-	49,736	47,015	-	-	-	47,015
Average balance of other assets managed	8,709	-	-	13,213	21,922	7,977	-	-	14,691	22,668
Components of profit from financing operations before expenses with respect to credit loss:										
Margin from credit granting operations	230	3	-	254	487	164	3	-	222	389
Margin from receiving deposits	264	-	-	-	264	187	-	-	-	187
Other	24	-	6	14	44	46	-	5	15	66
Total	**518**	**3**	**6**	**268**	**795**	**397**	**3**	**5**	**237**	**642**

(1) Reclassified.

Contribution of the household segment to Group profit in the first half of 2011 amounted to NIS 253 million, compared to NIS 183 million in the corresponding period last year - an increase of 38.3%.

Contribution of mortgages in the first half of 2011 amounted to NIS 168 million, compared to NIS 147 million in the corresponding period last year - an increase of 14.3%. The increase is due to an 13.1% increase in profit from financing operations before expenses with respect to credit loss, which is due to expanded operations, reflected in a 15.2% increase in average assets.

Conversely, expenses with respect to credit loss by extent of arrears attributed to these operations increased. Total expenses with respect to credit loss attributed to mortgages in the first half of 2011 amounted to NIS 10 million, compared to NIS 1 million in the corresponding period last year.

Contribution of the household segment (except for mortgages) in the first half of 2011 amounted to NIS 85 million, compared to NIS 36 million in the corresponding period last year - an increase of NIS 49 million. The increase in the contribution of the household segment is primarily due to an increase of 30.1% in profit from financing operations before expenses with respect to credit loss, due to an increase in business volume and improved financial margin, to an increase of 2.5% in operating and other income, and to a decrease of 21.2% in expenses with respect to credit loss. On the other hand, operating expenses grew by 8.1%.

Results of Household Segment

	For the three months ended June 30, 2011					For the three months ended June 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	21	6	3	975	1,005	28	5	3	839	875
Inter-segment	253	(5)	-	(836)	(588)	177	(4)	-	(713)	(540)
Total profit from financing operations before expenses with respect to credit loss	**274**	**1**	**3**	**139**	**417**	**205**	**1**	**3**	**126**	**335**
Operating and other income	54	30	52	58	194	51	29	60	62	202
Total profit	**328**	**31**	**55**	**197**	**611**	**256**	**30**	**63**	**188**	**537**
Expenses with respect to credit loss	17	-	-	-	17	16	-	-	14	30
Operating and other expenses										
From outside operating segments	316	7	17	63	403	292	7	17	65	381
Inter-segment	(28)	(1)	-	-	(29)	(28)	(1)	-	-	(29)
Total operating and other expenses	**288**	**6**	**17**	**63**	**374**	**264**	**6**	**17**	**65**	**352**
Operating profit (loss) before taxes	23	25	38	134	220	(24)	24	46	109	155
Provision for taxes on operating profit (loss)	8	8	13	47	76	(7)	8	16	36	53
After-tax operating profit (loss)	**15**	**17**	**25**	**87**	**144**	**(17)**	**16**	**30**	**73**	**102**
Net profit (loss):										
Before attribution to non-controlling interest	15	17	25	87	144	(17)	16	30	73	102
Attributable to non-controlling interest	(10)	-	-	-	(10)	(4)	-	-	-	(4)
Attributable to equity holders of the banking corporation	**5**	**17**	**25**	**87**	**134**	**(21)**	**16**	**30**	**73**	**98**
Return on capital (net profit as % of average capital)					**16.8%**					**13.4%**
Components of profit from financing operations before expenses with respect to credit loss:										
Margin from credit granting operations	121	1	-	131	253	85	1	-	118	204
Margin from receiving deposits	141	-	-	-	141	99	-	-	-	99
Other	12	-	3	8	23	21	-	3	8	32
Total	**274**	**1**	**3**	**139**	**417**	**205**	**1**	**3**	**126**	**335**

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First half of		
	2011	2010	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	9,068	7,685	18.0%
From the Treasury's funds			
Directed loans	38	102	(62.7)%
Standing loans and grants	43	109	(60.6)%
Total new loans	**9,149**	**7,896**	**15.9%**
Recycled loans	710	542	31.0%
Total loans issued	**9,859**	**8,438**	**16.8%**
Number of borrowers (includes recycled loans)	25,287	24,843	1.8%

Results of Private Banking Segment

	For the six months ended June 30, 2011			For the six months ended June 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	11	-	11	(3)	-	(3)
Inter-segment	38	-	38	26	-	26
Total profit from financing operations before expenses with respect to credit loss	49	-	49	**23**	**-**	**23**
Operating and other income	12	15	27	12	16	28
Total profit	**61**	**15**	**76**	**35**	**16**	**51**
Expenses with respect to credit loss	(1)	-	(1)	-	-	-
Operating and other expenses						
From outside operating segments	34	-	34	25	1	26
Inter-segment	(1)	-	(1)	2	2	4
Total operating and other expenses	**33**	**-**	**33**	**27**	**3**	**30**
Pre-tax operating profit	29	15	44	8	13	21
Provision for taxes on operating profit	10	5	15	3	5	8
Net profit attributable to equity holders of the banking corporation	**19**	**10**	**29**	**5**	**8**	**13**
Return on capital (net profit as % of average capital)			**89.6%**			(1) **44.5%**
Average balance of assets	2,799	-	2,799	1,831	-	1,831
Average balance of liabilities	6,059	-	6,059	5,940	-	5,940
Average balance of risk assets	997	-	997	(1) 801	-	801
Average balance of securities	-	7,293	7,293	-	7,073	7,073
Loans to the public, net (end balance)	1,797	-	1,797	(1) 913	-	913
Deposits from the public (end balance)	6,115	-	6,115	5,810	-	5,810
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	26	-	26	8	-	8
Margin from receiving deposits	22	-	22	14	-	14
Other	1	-	1	1	-	1
Total	**49**	**-**	**49**	**23**	**-**	**23**

(1) Reclassified.

Contribution of the private banking segment to Group profit in the first half of 2011 amounted to NIS 29 million, compared to NIS 13 million in the corresponding period last year. Most of the increase in segment contribution is due to a NIS 26 million increase in profit from financing operations before expenses with respect to credit loss attributed to this segment, as well as due to the transfer of credit activity of sector customers, which had been included in other sectors in the past, to the private banking sector starting in 2011.

Expenses with respect to credit loss decreased by NIS 1 million, operating and other revenues decreased by NIS 1 million and operating and other expenses increased by NIS 3 million.

Results of Private Banking Segment

	For the three months ended June 30, 2011			For the three months ended June 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	4	-	4	(11)	-	(11)
Inter-segment	23	-	23	18	-	18
Total profit from financing operations before expenses with respect to credit loss	27	-	27	**7**	**-**	**7**
Operating and other income	6	7	13	6	7	13
Total profit	**33**	**7**	**40**	**13**	**7**	**20**
Expenses with respect to credit loss	2	-	2	-	-	-
Operating and other expenses						
From outside operating segments	16	-	16	11	1	12
Inter-segment	(1)	-	(1)	2	1	3
Total operating and other expenses	**15**	**-**	**15**	**13**	**2**	**15**
Pre-tax operating profit	16	7	23	-	5	5
Provision for taxes on operating profit	6	2	8	-	2	2
Net profit attributable to equity holders of the banking corporation	**10**	**5**	**15**	**-**	**3**	**3**
Return on capital (net profit as % of average capital)			**60.3%**			(1) **21.3%**
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	14	-	14	2	-	2
Margin from receiving deposits	12	-	12	5	-	5
Other	1	-	1	-	-	-
Total	**27**	**-**	**27**	**7**	**-**	**7**

(1) Reclassified.

Results of the Small Business Segment

	For the six months ended June 30, 2011				For the six months ended June 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	215	-	1	216	181	-	2	183
Inter-segment	1	-	-	1	(11)	-	-	(11)
Total profit from financing operations before expenses with respect to credit loss	**216**	**-**	**1**	**217**	**170**	**-**	**2**	**172**
Operating and other income	94	7	10	111	85	6	10	101
Total profit	**310**	**7**	**11**	**328**	**255**	**6**	**12**	**273**
Expenses with respect to credit loss	37	-	-	37	17	-	-	17
Operating and other expenses								
From outside operating segments	217	2	2	221	202	1	2	205
Inter-segment	(24)	-	-	(24)	(25)	-	-	(25)
Total operating and other expenses	**193**	**2**	**2**	**197**	**177**	**1**	**2**	**180**
Pre-tax operating profit	80	5	9	94	61	5	10	76
Provision for taxes on operating profit	28	2	3	33	23	2	4	29
Net profit attributable to equity holders of the banking corporation	**52**	**3**	**6**	**61**	**38**	**3**	**6**	**47**
Return on capital (net profit as % of average capital)				**34.3%**				**27.9%**
Average balance of assets	5,716	192	-	5,908	5,135	41	-	5,176
Average balance of liabilities	6,689	-	-	6,689	6,189	-	-	6,189
Average balance of risk assets pursuant to Basel I	4,984	-	-	4,984	4,463	-	-	4,463
Average balance of securities	-	-	8,515	8,515	-	-	7,498	7,498
Loans to the public, net (end balance)	5,762	267	-	6,029	5,141	43	-	5,184
Deposits from the public (end balance)	6,845	-	-	6,845	6,284	-	-	6,284
Average balance of other assets managed	135	-	-	135	344	-	-	344
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	156	-	-	156	123	-	-	123
Margin from receiving deposits	41	-	-	41	26	-	-	26
Other	19	-	1	20	21	-	2	23
Total	**216**	**-**	**1**	**217**	**170**	**-**	**2**	**172**

Contribution of the small business segment to Group profit in the first half of 2011 amounted to NIS 61 million, compared to NIS 47 million in the corresponding period last year - an increase of 29.8%. The increase in segment contribution is primarily due to a NIS 45 million increase in profit from financing operations before expenses with respect to credit loss, primarily due to an increase in volume of operations, improved financial spread and increase in collection of interest previously provided for doubtful debts. The increase in segment contribution was also affected by a NIS 10 million increase in operating and other revenues.

Conversely, expenses with respect to credit loss increased by NIS 20 million, while operating and other expenses increased by NIS 17 million - an increase of 9.4%.

Results of the Small Business Segment

	For the three months ended June 30, 2011				For the three months ended June 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	118	-	-	118	88	-	1	89
Inter-segment	1	-	-	1	1	-	-	1
Total profit from financing operations before expenses with respect to credit loss	**119**	**-**	**-**	**119**	**89**	**-**	**1**	**90**
Operating and other income	47	4	4	55	42	3	4	49
Total profit	**166**	**4**	**4**	**174**	**131**	**3**	**5**	**139**
Expenses with respect to credit loss	11	-	-	11	11	-	-	11
Operating and other expenses								
From outside operating segments	107	1	1	109	100	-	1	101
Inter-segment	(11)	-	-	(11)	(13)	-	-	(13)
Total operating and other expenses	**96**	**1**	**1**	**98**	**87**	**-**	**1**	**88**
Pre-tax operating profit	59	3	3	65	33	3	4	40
Provision for taxes on operating profit	20	1	1	22	13	1	2	16
Net profit attributable to equity holders of the banking corporation	**39**	**2**	**2**	**43**	**20**	**2**	**2**	**24**
Return on capital (net profit as % of average capital)				**50.3%**				**29.6%**
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	82	-	-	82	66	-	-	66
Margin from receiving deposits	22	-	-	22	14	-	-	14
Other	15	-	-	15	9	-	1	10
Total	**119**	**-**	**-**	**119**	**89**	**-**	**1**	**90**

Results of the Commercial Banking Segment

	For the six months ended June 30, 2011				For the six months ended June 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	131	-	1	132	94	-	1	95
Inter-segment	(44)	-	-	(44)	(17)	-	-	(17)
Total profit from financing operations before expenses with respect to credit loss	**87**	**-**	**1**	**88**	**77**	**-**	**1**	**78**
Operating and other income	20	2	7	29	19	1	7	27
Total profit	**107**	**2**	**8**	**117**	**96**	**1**	**8**	**105**
Expenses with respect to credit loss	21	-	-	21	(1)	-	-	(1)
Operating and other expenses								
From outside operating segments	34	-	3	37	35	-	-	35
Inter-segment	35	-	-	35	34	-	-	34
Total operating and other expenses	**69**	**-**	**3**	**72**	**69**	**-**	**-**	**69**
Pre-tax operating profit	17	2	5	24	28	1	8	37
Provision for taxes on operating profit	6	1	2	9	10	-	3	13
Net profit attributable to equity holders of the banking corporation	**11**	**1**	**3**	**15**	**18**	**1**	**5**	**24**
Return on capital (net profit as % of average capital)				**7.7%**				**12.6%**
Average balance of assets	4,658	36	-	4,694	4,503	2	-	4,505
Average balance of liabilities	3,076	-	-	3,076	3,049	-	-	3,049
Average balance of risk assets	5,166	-	-	5,166	4,873	-	-	4,873
Average balance of securities	-	-	3,920	3,920	-	-	4,445	4,445
Loans to the public, net (end balance)	4,888	53	-	4,941	4,639	2	-	4,641
Deposits from the public (end balance)	2,994	-	-	2,994	2,966	-	-	2,966
Average balance of other assets managed	39	-	-	39	16	-	-	16
Margin from credit granting operations	68	-	-	68	63	-	-	63
Margin from receiving deposits	11	-	-	11	7	-	-	7
Other	8	-	1	9	7	-	1	8
Total	**87**	**-**	**1**	**88**	**77**	**-**	**1**	**78**

Contribution of the commercial banking segment to Group profit in the first half of 2011 amounted to NIS 15 million, compared to NIS 24 million in the corresponding period last year, a decrease of 37.5%. The decrease in segment contribution is primarily due to an increase of NIS 22 million in expenses with respect to credit loss, while operating and other expenses increased by NIS 3 million - an increase of 4.3%.

Conversely, profit from financing operations before expenses with respect to credit loss increased by NIS 10 million, or 12.8%, while operating and other revenues increased by NIS 2 million, or 7.4%.

Results of the Commercial Banking Segment

	For the three months ended June 30, 2011				For the three months ended June 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	59	-	1	60	56	-	1	57
Inter-segment	(18)	-	-	(18)	(15)	-	-	(15)
Total profit from financing operations before expenses with respect to credit loss	**41**	**-**	**1**	**42**	**41**	**-**	**1**	**42**
Operating and other income	9	1	4	14	9	-	4	13
Total profit	**50**	**1**	**5**	**56**	**50**	**-**	**5**	**55**
Expenses with respect to credit loss	20	-	-	20	-	-	-	-
Operating and other expenses								
From outside operating segments	17	-	3	20	18	-	-	18
Inter-segment	17	-	-	17	16	-	-	16
Total operating and other expenses	**34**	**-**	**3**	**37**	**34**	**-**	**-**	**34**
Pre-tax operating profit	(4)	1	2	(1)	16	-	5	21
Provision for taxes on operating profit	(1)	1	1	1	5	-	2	7
Net profit attributable to equity holders of the banking corporation	**(3)**	**-**	**1**	**(2)**	**11**	**-**	**3**	**14**
Return on capital (net profit as % of average capital)				**(2.0%)**				**14.6%**
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	34	-	-	34	35	-	-	35
Margin from receiving deposits	7	-	-	7	3	-	-	3
Other	-	-	1	1	3	-	1	4
Total	**41**	**-**	**1**	**42**	**41**	**-**	**1**	**42**

Results of the Business Banking Segment

	For the six months ended June 30, 2011				For the six months ended June 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	(36)	5	184	153	[(2)] 166	5	127	298
Inter-segment	214	-	(76)	138	37	-	(35)	2
Total profit from financing operations before expenses with respect to credit loss	**178**	**5**	**108**	**291**	**203**	**5**	**92**	**300**
Operating and other income	33	12	5	50	31	11	4	46
Total profit	**211**	**17**	**113**	**341**	**234**	**16**	**96**	**346**
Expenses with respect to credit loss	19	-	15	34	116	-	13	129
Operating and other expenses								
From outside operating segments	91	1	19	111	84	1	17	102
Inter-segment	35	-	6	41	32	-	6	38
Total operating and other expenses	**126**	**1**	**25**	**152**	**116**	**1**	**23**	**140**
Pre-tax operating profit	66	16	73	155	2	15	60	77
Provision for taxes on operating profit	23	6	26	55	-	5	22	27
Net profit (loss) attributable to equity holders of the banking corporation	**43**	**10**	**47**	**100**	**2**	**10**	**38**	**50**
Return on capital (net profit as % of average capital)				**8.0%**				[(2)] **3.9%**
Average balance of assets	19,017	-	5,831	24,848	19,724	-	6,025	25,749
Average balance of liabilities	26,157	-	2,259	28,416	16,639	-	2,062	18,701
Average balance of risk assets	19,184	-	13,684	32,868	20,232	-	11,983	32,215
Average balance of securities	-	72,245	-	72,245	-	63,307	-	63,307
Loans to the public, net (end balance)	14,345	-	5,676	20,021	15,289	-	5,941	21,230
Deposits from the public (end balance)	26,859	-	2,061	28,920	19,051	-	2,040	21,091
Average balance of other assets managed	21	-	103	124	27	-	97	124
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	123	-	46	169	[(2)] 156	-	[(2)] 59	215
Margin from receiving deposits	32	-	8	40	[(2)] 29	-	[(2)] 5	34
Other	23	5	54	82	[(2)] 18	5	[(2)] 28	51
Total	**178**	**5**	**108**	**291**	**203**	**5**	**92**	**300**

(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 half of 2011 amounted to NIS 100 million, compared to NIS 50 million in the corresponding period last year, an increase of NIS 50 million. The increase is primarily due to a NIS 95 million decrease in expenses with respect to credit loss: Expenses of NIS 129 million in the first half of 2010, compared to expenses of NIS 34 million in the first half of 2011.

The contribution of construction and real estate increased by NIS 9 million compared to the corresponding period last year. This was primarily due to a NIS 16 million increase in profit from financing operations before expenses with respect to credit loss.

The contribution of banking and financing increased by NIS 41 million, primarily due to a decrease of NIS 97 million in expenses with respect to credit loss.The decrease in proing from financing operations includs among other the effect of credit operations of certain private banking clients which were previously includded under other segments.

Operating and other expenses increased by NIS 2 million. Profit from financing operations before expenses with respect to credit loss decreased by NIS 25 million, while operating and other expenses increased by NIS 10 million.

Results of the Business Banking Segment

	For the three months ended June 30, 2011				For the three months ended June 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	(43)	2	112	71	[2] 75	3	73	151
Inter-segment	133	-	(59)	74	39	-	(23)	16
Total profit from financing operations before expenses with respect to credit loss	**90**	**2**	**53**	**145**	**114**	**3**	**50**	**167**
Operating and other income	17	5	2	24	18	5	2	25
Total profit	**107**	**7**	**55**	**169**	**132**	**8**	**52**	**192**
Expenses with respect to credit loss	16	-	19	35	78	-	3	81
Operating and other expenses								
From outside operating segments	44	1	10	55	43	1	8	52
Inter-segment	18	-	3	21	16	-	3	19
Total operating and other expenses	**62**	**1**	**13**	**76**	**59**	**1**	**11**	**71**
Operating profit (loss) before taxes	29	6	23	58	(5)	7	38	40
Provision for taxes on operating profit (loss)	10	2	8	20	(3)	2	14	13
Net profit (loss) attributable to equity holders of the banking corporation	**19**	**4**	**15**	**38**	**(2)**	**5**	**24**	**27**
Return on capital (net profit as % of average capital)				**6.3%**				[2] **4.1%**
Components of profit from financing operations before expenses with respect to credit loss:								
Margin from credit granting operations	66	-	13	79	[2] 91	-	[2] 31	122
Margin from receiving deposits	18	-	4	22	[2] 16	-	[2] 3	19
Other	6	2	36	44	[2] 7	3	[2] 16	26
Total	**90**	**2**	**53**	**145**	**114**	**3**	**50**	**167**

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

(2) Reclassified.

Financial Management Segment results

	For the six months ended June 30, 2011			For the six months ended June 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	(815)	3	(812)	[1] (386)	2	(384)
Inter-segment	919	-	919	513	-	513
Total profit from financing operations before expenses with respect to credit loss	**104**	**3**	**107**	**127**	**2**	**129**
Operating and other income	45	25	70	51	25	76
Total profit	**149**	**28**	**177**	**178**	**27**	**205**
Expenses with respect to credit loss	7	-	7	-	-	-
Operating and other expenses						
From outside operating segments	109	5	114	[2] 108	4	112
Inter-segment	7	-	7	7	-	7
Total operating and other expenses	**116**	**5**	**121**	**115**	**4**	**119**
Operating profit (loss) before taxes	26	23	49	63	23	86
Provision for taxes on operating profit (loss)	8	8	16	23	9	32
After-tax operating profit (loss)	**18**	**15**	**33**	**40**	**14**	**54**
Share in net after-tax operating profit of affiliates	1	-	1	-	-	-
Net operating profit (loss):						
Before attribution to non-controlling interest	19	15	34	40	14	54
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**19**	**15**	**34**	**40**	**14**	**54**
After-tax operating profit (loss), before attribution to non-controlling interest	(2)	-	(2)	-	-	-
Net profit (loss):						
Before attribution to non-controlling interest	17	15	32	40	14	54
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**17**	**15**	**32**	**40**	**14**	**54**
Return on capital (net profit as % of average capital)			**19.4%**			[2][1] **40.5%**
Average balance of assets	24,767	-	24,767	[2] 16,286	-	16,286
Includes: Investments in affiliates	17	-	17	13	-	13
Average balance of liabilities	36,042	-	36,042	[2] 31,618	-	31,618
Average balance of risk assets pursuant to Basel I	4,608	-	4,608	[2] [1] 4,130	-	4,130
Average balance of provident and mutual fund assets	81,014	-	81,014	74,164	-	74,164
Average balance of securities	-	39,813	39,813	-	32,296	32,296
Loans to the public, net (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	16,886	-	16,886	18,463	-	18,463
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	104	3	107	[1] 127	2	129
Total	**104**	**3**	**107**	**127**	**2**	**129**

(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 half of 2011 amounted to NIS 32 million, compared to NIS 54 million in the corresponding period last year - a decrease of 40.7%. The decrease is primarily due to a NIS 22 million decrease in profit from financing operations before expenses with respect to credit loss, a NIS 6 million decrease in profit from financing operations before expenses with respect to credit loss, a NIS 6 million decrease in operating and other revenues, to an increase of NIS 7 million in expenses with respect to credit loss and to an increase of NIS 2 million in operating expenses.

Financial Management Segment results

	For the three months ended June 30, 2011			For the three months ended June 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	(465)	2	(463)	(1) (448)	1	(447)
Inter-segment	508	-	508	521	(1)	520
Total profit from financing operations before expenses with respect to credit loss	**43**	**2**	**45**	**73**	**-**	**73**
Operating and other income	28	13	41	28	12	40
Total profit	**71**	**15**	**86**	**101**	**12**	**113**
Expenses with respect to credit loss	(5)	-	(5)	-	-	-
Operating and other expenses						
From outside operating segments	49	3	52	(2) 53	2	55
Inter-segment	3	-	3	4	-	4
Total operating and other expenses	**52**	**3**	**55**	**57**	**2**	**59**
Operating profit (loss) before taxes	24	12	36	44	10	54
Provision for taxes on operating profit (loss)	7	4	11	15	4	19
After-tax operating profit (loss)	**17**	**8**	**25**	**29**	**6**	**35**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-
Net operating profit (loss):						
Before attribution to non-controlling interest	17	8	25	29	6	35
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**17**	**8**	**25**	**29**	**6**	**35**
After-tax operating profit (loss), before attribution to non-controlling interest	(1)	-	(1)	(1)	-	(1)
Net profit (loss):						
Before attribution to non-controlling interest	16	8	24	28	6	34
Attributable to non-controlling interest	-	-	-	-	-	-
Attributable to equity holders of the banking corporation	**16**	**8**	**24**	**28**	**6**	**34**
Return on capital (net profit as % of average capital)			**40.4%**			(2) (1) **77.4%**
Components of profit from financing operations before expenses with respect to credit loss:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	43	2	45	(1) 73	-	73
Total	**43**	**2**	**45**	**73**	**-**	**73**

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

	For the six months ended June 30, 2011			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before expenses with respect to credit loss	3	-	-	3
Operating and other income	61	7	2	70
Total revenues	**64**	**7**	**2**	**73**
Operating and other expenses	12	2	-	14
Pre-tax operating profit	**52**	**5**	**2**	**59**
Provision for taxes on operating profit	19	2	1	22
Net profit	**33**	**3**	**1**	**37**

	For the six months ended June 30, 2010			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before expenses with respect to credit loss	3	-	-	3
Operating and other income	57	6	1	64
Total revenues	**60**	**6**	**1**	**67**
Operating and other expenses	12	1	-	13
Pre-tax operating profit	**48**	**5**	**1**	**54**
Provision for taxes on operating profit	18	2	-	20
Net profit	**30**	**3**	**1**	**34**

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

For the six months ended June 30, 2011							
	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consoli-dated
Profit from financing operations before expenses with respect to credit loss	6	-	1	1	5	3	16
Operating and other income	116	15	10	7	12	25	185
Total revenues	**122**	**15**	**11**	**8**	**17**	**28**	**201**
Operating and other expenses	31	-	2	3	1	5	42
Pre-tax operating profit	**91**	**15**	**9**	**5**	**16**	**23**	**159**
Provision for taxes on operating profit	32	5	3	2	6	8	56
Net profit	**59**	**10**	**6**	**3**	**10**	**15**	**103**

For the six months ended June 30, 2010							
	Household	Private banking	Small business	Commer-cial banking	Business banking	Financial manage-ment	Total consoli-dated
Profit from financing operations before expenses with respect to credit loss	5	-	2	1	5	2	15
Operating and other income	120	16	10	7	11	25	189
Total revenues	**125**	**16**	**12**	**8**	**16**	**27**	**204**
Operating and other expenses	32	3	2	-	1	4	42
Pre-tax operating profit	**93**	**13**	**10**	**8**	**15**	**23**	**162**
Provision for taxes on operating profit	34	5	4	3	5	9	60
Net profit	**59**	**8**	**6**	**5**	**10**	**14**	**102**

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

International 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 six months ended June 30, 2011				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before expenses with respect to credit loss	1	33	24	20	78
Operating and other income	-	20	2	2	24
Total revenues	**1**	**53**	**26**	**22**	**102**
Expenses with respect to credit loss	-	(1)	-	-	(1)
Operating and other expenses	1	29	20	3	53
Pre-tax operating profit	**-**	**25**	**6**	**19**	**50**
Provision for taxes on operating profit	-	9	2	7	18
Net profit	**-**	**16**	**4**	**12**	**32**

	For the six months ended June 30, 2010				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before expenses with respect to credit loss	6	20	(1) 29	(1) 25	80
Operating and other income	1	21	3	5	30
Total revenues	**7**	**41**	**32**	**30**	**110**
Expenses with respect to credit loss	1	-	2	-	3
Operating and other expenses	5	27	20	3	55
Pre-tax operating profit	**1**	**14**	**10**	**27**	**52**
Provision for taxes on operating profit	1	5	3	10	19
Net profit	**-**	**9**	**7**	**17**	**33**

(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 June 30, 2011 to NIS 59.0 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 142.7 billion as of June 30, 2011, compared with NIS 152.3 billion at the end of 2010. Revenues from securities transactions for the Group amounted to NIS 138 million in the first half of 2011, compared with NIS 145 million in the corresponding period last year - a decrease of 4.8%.

Operations based on 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 June 30, 2011 amounted to NIS 14.7 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 developments.

Total deposits from the public for the Group as of June 30, 2011 amounted to NIS 111.5 billion, compared to NIS 106.0 billion at end of 2010. Deposits from the public in the CPI-linked segment increased in the first half of 2011 by 1.1%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 7.2%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 6.0%. For details, see the chapter on development of balance sheet items above.

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 Company 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 5,845 million in total par value (as of December 31, 2010 - NIS 4,487 million), of which NIS 2,131 million is in subordinated notes, similar to the end of 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 similar terms.

Complex capital instruments

In November 2006, the Bank raised, in a private placement to institutional investors, the sum of NIS 451 million (NIS 460 million par value) via issuance of subordinated notes (Series A), deemed to be Upper Tier II capital for maintaining a minimum capital ratio. On May 21, 2007 the Bank published a prospectus under which the complex capital instruments were listed for trading in early June 2007. Starting in June 2007 and through publication of these financial statements, the Bank issued and listed for trading additional complex capital instruments amounting to NIS 1,242 million par value in exchange for NIS 1,193 million in proceeds.

All of the Bank's complex capital instruments (Series A) as of June 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 June 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 the 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 is "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 in Proper Conduct of Banking Business Directive Nos. 201-211. Key rules and approaches applied by the Bank are described below, under Description of Basel II Guidelines in the chapter on Restrictions 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 starting 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 contained in Proper Conduct of Banking Business Directive No. 311 (Basel I) 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:

	As of June 30, 2011		As of June 30, 2010		As of December 31, 2010	
Exposure group	Weighted risk asset balances	Capital requirement [1]	Weighted risk asset balances	Capital requirement [1]	Weighted risk asset balances	Capital requirement [1]
Sovereign debt	413	37	627	56	539	49
Public sector entity debt	472	42	428	39	444	40
Banking corporation debt	1,595	144	1,658	149	1,479	133
Corporate debt	36,480	3,283	34,315	3,088	35,832	3,225
Debt secured by commercial real estate	1,499	135	2,041	184	1,920	173
Retail exposure to individuals	10,793	971	10,905	981	10,884	980
Loans to small businesses	2,150	194	2,036	183	2,097	189
Residential mortgages	30,471	2,742	25,710	2,314	27,813	2,503
Securitization	26	2	10	1	27	2
Other assets	2,644	238	[2]2,214	200	[2]2,271	204
Total	**86,543**	**7,788**	**79,944**	**7,195**	**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 as per directives of the Supervisor of Banks with regard to employee rights. For further 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:

	As of June 30, 2011		As of June 30, 2010		As of December 31, 2010	
Exposure group	Weighted risk asset balances	Capital requirement [1]	Weighted risk asset balances	Capital requirement [1]	Weighted risk asset balances	Capital requirement [1]
Market risk	1,030	93	934	84	579	52
Operating Risk [2]	7,645	688	7,173	646	7,407	667
Total	**8,675**	**781**	**8,107**	**730**	**7,986**	**719**

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with the 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 June 30, 2011	As of June 30, 2010	As of December 31, 2010
Ratio of Tier I capital to risk elements	7.71%	[1]7.70%	[1]7.91%
Ratio of total capital to risk elements	13.61%	[1]13.69%	[1]13.96%
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 further details, See Note 1.E.4. to the financial statements.

Risk exposure and assessment there of

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 stipulated by Basel II, Pillar 2. To this end, the Group appointed Risk Managers and a CRO, who is part of 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.

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

As of June 30, 2011	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [(2)]	41,147	20,606	65,416	81	127,250
Securities [(3)]	1,319	3,275	430	-	5,024
Derivatives [(4)]	2,747	857	1,057	-	4,661
Other off-balance-sheet exposures	38,560	10,001	1,083	-	49,644
Other assets [(5)]	1,275	646	45	1,567	3,533
Total	**85,048**	**35,385**	**68,031**	**1,648**	**190,112**

As of June 30, 2010	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [(2)]	35,603	19,012	57,686	65	112,366
Securities [(3)]	2,517	3,377	1,243	-	7,137
Derivatives [(4)]	2,416	830	1,341	-	4,587
Other off-balance-sheet exposures	36,832	6,462	698	-	43,992
Other assets [(5)]	1,168	[(6)]371	49	1,505	3,093
Total	**78,536**	**30,052**	**61,017**	**1,570**	**171,175**

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 basis.
(3) Excludes balances deducted from the equity basis 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 basis, including cash, investment in shares, fixed assets and investment in investees.
(6) Retroactively adjusted as per directives of the Supervisor of Banks with regard to employee rights. For further 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 June 30, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,469	2,033	-	-	-	5	-	-	17,507	-	17,507
Public sector entity debt	-	-	-	1,494	-	-	-	-	1,494	-	1,494
Banking corporation debt	-	2,907	-	1,112	-	101	-	-	4,120	1	4,121
Corporate debt	-	108	-	299	-	443	-	-	850	-	850
Securitization	-	-	-	-	-	-	-	8	8	57	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,469**	**5,048**	**-**	**2,905**	**-**	**549**	**-**	**8**	**23,979**	**95**	**24,074**
Non-rated exposures:											
Public sector entity debt	-	-	-	24	-	-	-	-	24	-	24
Banking corporation debt	-	98	-	495	-	-	-	-	593	-	593
Corporate debt	-	-	-	-	-	60,469	541	-	61,010	-	61,010
Debt secured by commercial real estate	-	-	-	-	-	1,845	-	-	1,845	-	1,845
Retail exposure to individuals	-	-	-	-	23,156	58	170	-	23,384	-	23,384
Loans to small businesses	-	-	-	-	4,907	12	26	-	4,945	-	4,945
Residential mortgages	-	-	55,456	-	12,062	3,091	171	-	70,780	-	70,780
Other assets	920	-	-	-	-	2,580	52	-	3,552	87	3,639
Total	**920**	**98**	**55,456**	**519**	**40,125**	**68,055**	**960**	**-**	**166,133**	**87**	**166,220**
Total	**16,389**	**5,146**	**55,456**	**3,424**	**40,125**	**68,604**	**960**	**8**	**190,112**	**182**	**190,294**

(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 June 30, 2011
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	15,486	2,053	-	-	-	5	-	-	17,544	-	17,544
Public sector entity debt	48	-	-	1,507	-	-	-	-	1,555	-	1,555
Banking corporation debt	-	2,892	-	1,351	-	100	-	-	4,343	1	4,344
Corporate debt	-	108	-	299	-	45	-	-	452	-	452
Securitization	-	-	-	-	-	-	-	8	8	57	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**15,534**	**5,053**	**-**	**3,157**	**-**	**150**	**-**	**8**	**23,902**	**95**	**23,997**
Non-rated exposures:											
Public sector entity debt	-	-	-	4	-	-	-	-	4	-	4
Banking corporation debt	-	97	-	504	-	-	-	-	601	-	601
Corporate debt	-	-	-	-	-	52,575	527	-	53,102	-	53,102
Debt secured by commercial real estate	-	-	-	-	-	1,553	-	-	1,553	-	1,553
Retail exposure to individuals	-	-	-	-	21,600	26	166	-	21,792	-	21,792
Loans to small businesses	-	-	-	-	3,637	8	22	-	3,667	-	3,667
Residential mortgages	-	-	55,451	-	12,025	3,090	171	-	70,737	-	70,737
Other assets	920	-	-	-	-	2,580	52	-	3,552	87	3,639
Total	**920**	**97**	**55,451**	**508**	**37,262**	**59,832**	**938**	**-**	**155,008**	**87**	**155,095**
Total exposure	**16,454**	**5,150**	**55,451**	**3,665**	**37,262**	**59,982**	**938**	**8**	**178,910**	**182**	**179,092**

Before credit risk mitigation

											As of June 30, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	12,601	2,854	-	-	-	105	-	-	15,560	-	15,560
Banking corporation debt	-	2,266	-	1,162	-	36	-	-	3,464	1	3,465
Corporate debt	-	73	-	158	-	46	(1) -	-	277	-	277
Securitization	-	-	-	-	-	-	-	3	3	54	57
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**12,601**	**5,193**	**-**	**1,320**	**-**	**187**	**-**	**3**	**19,304**	**92**	**19,396**
Non-rated exposures:											
Public sector entity debt	-	-	-	1,623	-	-	-	-	1,623	-	1,623
Banking corporation debt	-	966	-	873	-	-	-	-	1,839	-	1,839
Corporate debt	-	-	-	-	-	54,804	(1)47	-	54,851	-	54,851
Debt secured by commercial real estate	-	-	-	-	-	2,274	-	-	2,274	-	2,274
Retail exposure to individuals	-	-	-	-	22,549	151	413	-	23,113	-	23,113
Loans to small businesses	-	-	-	-	4,494	21	82	-	4,597	-	4,597
Residential mortgages	-	-	46,259	-	12,966	1,049	182	-	60,456	-	60,456
Other assets	916	-	-	-	-	(2)2,143	59	-	3,118	94	3,212
Total	**916**	**966**	**46,259**	**2,496**	**40,009**	**60,442**	**783**	**-**	**151,871**	**94**	**151,965**
Total	**13,517**	**6,159**	**46,259**	**3,816**	**40,009**	**60,629**	**783**	**3**	**171,175**	**186**	**171,361**

(1) Reclassified

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

After credit risk mitigation

	As of June 30, 2010										
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	12,601	2,874	-	-	-	105	-	-	15,580	-	15,580
Banking corporation debt	-	2,266	-	1,162	-	36	-	-	3,464	1	3,465
Corporate debt	-	73	-	158	-	46	(1) -	-	277	-	277
Securitization	-	-	-	-	-	-	-	3	3	54	57
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	**12,601**	**5,213**	**-**	**1,320**	**-**	**187**	**-**	**3**	**19,324**	**92**	**19,416**
Non-rated exposures:											
Public sector entity debt	-	-	-	1,623	-	-	-	-	1,623	-	1,623
Banking corporation debt	-	1,325	-	691	-	-	-	-	2,016	-	2,016
Corporate debt	-	-	-	-	-	47,140	(1) 32	-	47,172	-	47,172
Debt secured by commercial real estate	-	-	-	-	-	2,112	-	-	2,112	-	2,112
Retail exposure to individuals	-	-	-	-	21,288	121	397	-	21,806	-	21,806
Loans to small businesses	-	-	-	-	3,217	13	55	-	3,285	-	3,285
Residential mortgages	-	-	46,251	-	12,931	1,049	180	-	60,411	-	60,411
Other assets	916	-	-	-	-	(2) 2,143	59	-	3,118	94	3,212
Total	**916**	**1,325**	**46,251**	**2,314**	**37,436**	**52,578**	**723**	**-**	**141,543**	**94**	**141,637**
Total exposure	**13,517**	**6,538**	**46,251**	**3,634**	**37,436**	**52,765**	**723**	**3**	**160,867**	**186**	**161,053**

(1) Reclassified

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

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 [1]
	As of June 30,		As of December 31,
	2011	2010	2010
Commerce	142	-	150
Communications and computer services	302	355	338
Financial services	95	-	-
Total	**539**	**355**	**488**

(1) Credit risk is presented before the effect of provision for credit loss.

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

			As of June 30, 2011
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,830	189	2,019
A+ to A-	544	51	595
BBB+ to BBB-	3	-	3
BB+ to B-	-	-	-
Lower than B-	2	6	8
Unrated	39	-	39
Total credit exposure to foreign financial institutions	**2,418**	**246**	**2,664**
Includes: Problem commercial credit risk [6]	43	-	43
Balance of individual provision for credit loss	(17)	-	(17)
Troubled commercial credit risk after provision for credit loss	26	-	26

			As of June 30, 2010
External credit rating	Balance sheet credit risk [3]	Off-balance sheet credit risk [4]	Current credit exposure
AAA to AA-	1,778	329	2,107
A+ to A-	629	252	881
BBB+ to BBB-	4	-	4
BB+ to B-	3	5	8
Lower than B-	12	-	12
Unrated	37	-	37
Total credit exposure to foreign financial institutions	**2,463**	**586**	**3,049**
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+ to 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 problem 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's 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 the rating of the various states and financial institutions and on the Bank's 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, and only ratings provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with the financial institution is also taken into consideration. The policy also determines 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, while 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 described 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 the provision of housing loans. The Bank estimates the risk associated with the 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 acts 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 nation-wide underwriting center 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 at 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 co-operation with the Mortgage Headquarters, and staff at headquarters participates in training delivery to bankers. In 2010, in addition to the basic course, an advanced mortgage banking course was developed, 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 on-going management of client credit.

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, conferences placed a special emphasis on risk associated with provision of loans linked to the prime lending rate and having high LTV ratios.

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 down-turn 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 Administration Department

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's 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 Board of Directors.

Credit risk and credit concentration monitoring forum

The Bank operates a forum for monitoring credit risk, 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, 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 June 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 June 30, 2011 was 59.3%, 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 67.5 million, some 80% 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 over two years ago, 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 4.2 billion, or only 6.2% 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 - 36.3%.

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 15.2% for loans granted 1-2 years ago, 11.8% for loans granted 3-12 months ago and 11.4% for loans granted in the second 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 30.2%. 71% 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 62.8%).

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 82% 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. Therefore, the risk associated with loans bearing interest linked to the prime lending rate is primarily due to loans granted from the year 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 42.8% of loans granted 1-2 years ago, the Bank reduced the percentage of loans linked to the prime lending rate to 35.5% for loans granted 3-12 months ago and down to 29.5% for loans granted in the second 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 11.9 billion, or only 17.6% 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 2.5 billion, or only 3.8% 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%	1,421	4,390	4,515	6,832	3,204	2,406	22,768
	35%-50%	529	1,488	1,156	1,665	752	367	5,957
	Over 50%	224	680	526	832	359	218	2,839
60%-75%	Up to 35%	1,063	3,280	4,090	5,298	1,321	850	15,902
	35%-50%	428	1,182	1,146	1,349	438	204	4,747
	Over 50%	196	453	444	660	187	109	2,049
Over 75%	Up to 35%	366	1,098	1,632	2,547	1,592	2,120	9,355
	35%-50%	110	309	381	728	564	665	2,757
	Over 50%	21	123	112	302	270	287	1,115
Total		**4,358**	**13,003**	**14,002**	**20,213**	**8,687**	**7,226**	**67,489**
Includes:								
Loans granted with original amount over NIS 2 million		159	561	664	911	194	42	2,531
Percentage of total housing loans		3.6%	4.3%	4.7%	4.5%	2.2%	0.6%	3.8%
Loans bearing variable interest:								
Non-linked, at prime lending rate		1,287	4,622	5,996	10,793	1,669	152	24,519
CPI-linked [2]		706	2,862	3,264	3,758	1,390	1,807	13,787
Foreign currency [2]		312	689	1,073	1,054	685	32	3,845
Total		**2,305**	**8,173**	**10,333**	**15,605**	**3,744**	**1,991**	**42,151**
Non-linked loans at prime lending rate, as percentage of total housing loans		29.5%	35.5%	42.8%	53.4%	19.2%	2.1%	36.3%
CPI-linked loans bearing variable interest as percentage of total housing loans		16.2%	22.0%	23.3%	18.6%	16.0%	25.0%	20.4%
Loans with LTV over 75% as percentage of total housing loans		11.4%	11.8%	15.2%	17.7%	27.9%	42.5%	19.6%

(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 of 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 June 30, 2011
		Exposure covered by guarantees (2)			
	Gross credit exposure (1)	Amounts de-recognized	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	17,507	-	37	-	17,544
Public sector entity debt	1,518	-	48	(7)	1,559
Banking corporation debt	4,713	(16)	283	(36)	4,944
Corporate debt	61,860	(328)	-	(7,978)	53,554
Debt secured by commercial real estate	1,845	(1)	-	(291)	1,553
Retail exposure to individuals	23,384	(3)	-	(1,589)	21,792
Loans to small businesses	4,945	(20)	-	(1,258)	3,667
Residential mortgages	70,780	-	-	(43)	70,737
Securitization	8	-	-	-	8
Other assets	3,552	-	-	-	3,552
Total	**190,112**	**(368)**	**368**	**(11,202)**	**178,910**

					As of June 30, 2010
		Exposure covered by guarantees (2)			
	Gross credit exposure (1)	Amounts de-recognized	Amounts added	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	15,560	-	20	-	15,580
Public sector entity debt	1,623	-	2	(2)	1,623
Banking corporation debt	5,303	-	181	(4)	5,480
Corporate debt	55,128	(185)	-	(7,494)	47,449
Debt secured by commercial real estate	2,274	(1)	-	(161)	2,112
Retail exposure to individuals	23,113	(2)	-	(1,305)	21,806
Loans to small businesses	4,597	(15)	-	(1,297)	3,285
Residential mortgages	60,456	-	-	(45)	60,411
Securitization	3	-	-	-	3
Other assets	(3) 3,118	-	-	-	3,118
Total	**171,175**	**(203)**	**203**	**(10,308)**	**160,867**

(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 as per directives of the Supervisor of Banks with regard to employee rights. For further 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]			
	Gross credit exposure [1]	Amounts de-recognized	Amounts added	Exposure covered by 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 as per directives of the Supervisor of Banks with regard to employee rights. For further 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's 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 problems 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:

Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
						As of June 30, 2011
Face value of derivatives after impact of add-on factor	288	1,470	56	1	40	1,855
Positive fair value, gross, of derivatives (1)	478	1,449	878	-	-	2,806
Total exposure with respect to derivatives	**766**	**2,919**	**934**	**1**	**40**	**4,660**
Collateral with respect to derivatives (before safety factors)	(13)	(297)	(940)	-	-	(1,250)
Impact of safety factors on collateral	7	131	416	-	-	554
Total current credit exposure after credit risk mitigation	**760**	**2,753**	**410**	**1**	**40**	**3,964**

Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
						As of June 30, 2010
Face value of derivatives after impact of add-on factor	205	1,471	18	1	68	1,763
Positive fair value, gross, of derivatives (1)	734	1,502	586	2	-	2,824
Total exposure with respect to derivatives	**939**	**2,973**	**604**	**3**	**68**	**4,587**
Collateral with respect to derivatives (before safety factors)	(6)	(263)	(590)	(2)	-	(861)
Impact of safety factors on collateral	-	42	283	-	-	325
Total current credit exposure after credit risk mitigation	**881**	**2,738**	**297**	**1**	**68**	**3,985**

Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives(2)	Total
						As of December 31, 2010
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 to them:

			As of June 30, 2011
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	8	3
B+ or lower	Deducted from equity	57	57
Total		**65**	**60**

			As of June 30, 2010
	Risk weighting	Exposure amount	Capital requirements (1)
BB+ to BB-	350%	3	1
B+ or lower	Deducted from equity	54	54
Total		**57**	**55**

			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, so 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 described 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's 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):

						June 30, 2011
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	293	171	33	(6)	(8)	483
2% decrease	(332)	(316)	(1)	5	5	(639)

						June 30, 2010
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	151	323	55	(2)	(6)	521
2% decrease	(185)	(511)	(27)	1	5	(717)

						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 prepayment 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 its occurrence not exceeding 1%. Below is the maximum VAR for the Bank Group (NIS in millions):

	First half of 2011	First half of 2010	All of 2010
At end of period	234	331	219
Maximum value during period	257 (May)	331(June)	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 June 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	347.1	173.5	(173.5)	(347.1)	104.1	(31.2)
Dollar	156.0	76.1	(72.6)	(136.1)	79.2	(49.4)
Pound Sterling	1.3	0.4	(0.4)	(0.1)	0.8	(0.4)
Yen	7.9	3.5	(1.8)	(2.3)	11.5	(2.0)
Euro	70.2	34.0	(31.0)	(62.7)	47.7	(34.7)
Swiss Franc	43.1	21.4	(21.3)	(42.0)	39.2	(26.8)

(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
June 30, 2011						
Financial assets [1]	74,287	44,290	11,888	3,316	2,046	135,827
Amounts receivable with respect to financial derivatives [3]	68,631	4,535	45,968	8,950	5,171	133,255
Financial liabilities [1]	(71,688)	(35,186)	(16,288)	(4,543)	(2,375)	(130,080)
Amounts payable with respect to financial derivatives [3]	(68,616)	(9,808)	(41,392)	(7,816)	(4,963)	(132,595)
Total	**2,614**	**3,831**	**176**	**(93)**	**(121)**	**6,407**
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 %
June 30, 2011								
Change in interest rates:								
Concurrent immediate increase of 1%	2,730	3,807	134	(101)	(129)	6,441	34	0.5%
Concurrent immediate increase of 0.1%	2,626	3,828	174	(94)	(122)	6,412	5	0.1%
Concurrent immediate decrease of 1%	2,466	3,914	207	(83)	(114)	6,390	(17)	(0.3%)
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 June 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	57	60	6	31	37
Equity risk	-	-	-	-	1	1
Foreign currency exchange rate risk	-	32	32	-	15	15
Total market risk	**3**	**89**	**92**	**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 I 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 Basel II guidelines, see the chapter on Restrictions 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 4 million, and investment in non-public shares amounting to NIS 95 million.

	As of June 30, 2011	
	Fair value	Capital requirement (1)
Shares	65	6
Venture capital / private equity funds	34	3
Total equity investment in bank portfolio	**99**	**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 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 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 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 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.

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 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 their 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.

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 their adaptation 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 Companies Law, 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.
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 Bank commitment to clients, which was contingent on Bank 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.

Foreign Account Tax Compliance Act (FATCA)

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 tax payers.

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.

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

The amendment to the Act, passed by the Knesset on July 25, 2011, stipulates that checks issued by a banking corporation to clients shall be crossed and printed with text prohibiting their endorsement, unless the client asks for checks to be issued without such marking.
The Act shall become effective on October 1, 2011.
The Bank is preparing for implementation of provisions of the law.

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 their 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 stipulated in 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 set forth 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.

New directives for money markets

At the end of January 2011, the Bank of Israel issued new money market directives, which 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).

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 their materiality are submitted for approval by the Board of Directors' Risk Management Committee and the Board of Directors plenum, on an 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.

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, that restrictive trade practices existed between the Bank and Bank Hapoalim Ltd., Bank Leumi Le-Israel Ltd., Bank Discount Le-Israel Ltd. and First International Bank of Israel Ltd., with regard to commission-related information sharing, 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 the content there of 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 interim financial statements.

Other Matters

The independent auditors have, in their review, drawn attention 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 and to note1.E.4 to the financial statement with regards to retroactively adjustment as per directives of the Supervisor of Bank's with regards to employee rights.

Executive Management

On June 2, 2011, Mr. Uziel Danino announced his retirement, and on July 14, 2011 he retired from his position as Manager, Client Assets and Advisory Division.
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 a member of Bank management, Deputy President and CRO, replacing Mr. Moshe Larry. Upon that date, Ms. Galit Weiser was appointed Chief Internal Auditor of the Bank, as specified below in the chapter titled "Internal Auditor".
On July 14, 2011, Mr. Moshe Larry, Deputy President of the Bank and Manager, Planning and Operations Division was appointed, in addition to his other roles at the Bank, to be Manager, Client Assets and Advisory Division.
By decision of the Bank's 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.

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.

Upon 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, subsequent to the balance sheet date, 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	Undergraduate degree in Accounting and Economics (Hebrew University); graduate degree in Business Administration (Hebrew University)
Experience	Deputy Chief Internal Auditor at the Bank, and before Chief Internal Auditor of Tefahot Bank

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 consolidated financial statements of the Group are prepared in conformity with generally accepted accounting principles in Israel (Israeli GAAP) 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 described 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 specified in the Board of Directors' report on 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 stated 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 (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 problem loans of the Bank, their classification and the required provisions. 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 auditors 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 specified in the regulations concerning financial statements approval process, where 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 Companies Law (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 auditors 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 the discussion of them by the Board of Directors. In conjunction with discussion by the Board of Directors, the Chief Accountant presents the financial results and an analysis of them. The Chairman of the Financial Statements Review Committee brings the Financial Statements Review Committee's recommendations on matters discussed 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 half of 2011, the Bank Board of Directors held 10 plenary meetings and 44 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, from the date of that 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 term in office as members of the Risk Management Committee.

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

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 June 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 control over financial reporting.

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

Ramat Gan, August 30, 2011

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2011				For the three months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Israeli currency - non-linked								
Assets [(3)]	74,108	882	4.85		60,137	538	3.63	
Effect of embedded and ALM derivatives [(4)]	62,344	485			51,205	273		
Total assets	**136,452**	**1,367**		**4.07**	**111,342**	**811**		**2.95**
Liabilities [(3)]	68,544	(392)	(2.31)		56,815	(164)	(1.16)	
Effect of embedded and ALM derivatives [(4)]	62,855	(409)			50,565	(260)		
Total liabilities	**131,399**	**(801)**		**(2.46)**	**107,380**	**(424)**		**(1.59)**
Interest margin			**2.54**	**1.61**			**2.47**	**1.36**
Israeli currency - linked to the CPI								
Assets [(3)]	43,755	904	8.52		36,399	871	9.92	
Effect of embedded and ALM derivatives [(4)]	5,154	95			3,749	179		
Total assets	**48,909**	**999**		**8.42**	**40,148**	**1,050**		**10.87**
Liabilities [(3)]	35,080	(695)	(8.16)		30,391	(719)	(9.80)	
Effect of embedded and ALM derivatives [(4)]	12,722	(211)			7,580	(227)		
Total liabilities	**47,802**	**(906)**		**(7.80)**	**37,971**	**(946)**		**(10.34)**
Interest margin			**0.36**	**0.62**			**0.12**	**0.53**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1) - Continued

Reported amounts (NIS in millions)

	For the three months ended June 30, 2011				For the three months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency (5)								
Assets (3)	17,946	(70)	(1.55)		19,224	697	15.31	
Effect of derivatives (4)								
Hedging derivatives	2,356	(22)			1,313	18		
Embedded and ALM derivatives	52,909	(150)			44,235	(1,006)		
Total assets	**73,211**	**(242)**		**(1.32)**	**64,772**	**(291)**		**(1.78)**
Liabilities (3)	23,324	200	3.39		21,637	(570)	(10.96)	
Effect of derivatives (4)								
Hedging derivatives	2,356	17			1,440	(36)		
Embedded and ALM derivatives	45,262	120			40,953	997		
Total liabilities	**70,942**	**337**		**1.89**	**64,030**	**391**		**2.42**
Interest margin			**1.84**	**0.57**			**4.35**	**0.64**

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2011				For the three months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenues (3)	135,809	1,716	5.15		115,760	2,106	7.48	
Effect of derivatives (4)								
Hedging derivatives	2,356	(22)			1,313	18		
Embedded and ALM derivatives	120,407	430			99,189	(554)		
Total assets	**258,572**	**2,124**		**3.33**	**216,262**	**1,570**		**2.93**
Monetary liabilities generating financing expenses (3)	126,948	(887)	(2.82)		108,843	(1,453)	(5.45)	
Effect of derivatives (4)								
Hedging derivatives	2,356	17			1,440	(36)		
Embedded and ALM derivatives	120,839	(500)			99,098	510		
Total liabilities	**250,143**	**(1,370)**		**(2.21)**	**209,381**	**(979)**		**(1.88)**
Interest margin			**2.33**	**1.12**			**2.03**	**1.05**
On options		(45)				(17)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached (4))		(4)				11		
Commissions from financing transactions and other financing revenues (6)		100				133		
Other financing expenses		(10)				(4)		
Profit from financing operations before expenses with respect to credit loss		795				714		
Expenses with respect to credit loss		(80)				(122)		
Profit from financing operations after expenses with respect to credit loss		715				592		

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended June 30, 2011	For the three months ended June 30, 2010
	Average balance [(2)]	Average balance [(2)]
Total		
Monetary assets generating financing revenues [(3)]	135,809	115,760
Assets deriving from derivatives [(7)]	3,190	2,175
Other monetary assets [(3)]	980	[(9)] 1,245
Provision for credit loss [(8)]	(2,394)	(206)
Total monetary assets	**137,585**	[(9)] **118,974**
Total		
Monetary liabilities generating financing expenses [(3)]	126,948	108,843
Liabilities deriving from derivatives [(7)]	2,429	2,374
Other monetary liabilities [(3)]	2,027	[(9)] 1,654
Total monetary liabilities	**131,404**	[(9)] **112,871**
Total excess monetary assets over monetary liabilities	6,181	6,103
Non-monetary assets	1,488	1,298
Non-monetary liabilities	313	287
Total capital resources	**7,356**	[(9)] **7,114**

(1) The data in this table is provided before and after 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 and before deduction of the average carrying amount of provsion for credit loss. In 2010 net of 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.

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Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1) - Continued

Nominal – in USD (USD in millions)

	For the three months ended June 30, 2011				For the three months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency (5)								
Monetary assets in foreign currency generating financing revenues (3)	5,088	32	2.57		4,882	26	2.15	
Effect of derivatives (4)								
Hedging derivatives	683	4			347	3		
Embedded and ALM derivatives	15,368	40			11,844	48		
Total assets	**21,139**	**76**		**1.45**	**17,073**	**77**		**1.82**
Monetary liabilities in foreign currency generating financing expenses (3)	6,818	(13)	(0.76)		5,696	(5)	(0.35)	
Effect of derivatives (4)								
Hedging derivatives	683	(6)			380	(9)		
Embedded and ALM derivatives	13,172	(34)			10,762	(40)		
Total liabilities	**20,673**	**(53)**		**(1.03)**	**16,838**	**(54)**		**(1.29)**
Interest margin			**1.81**	**0.42**			**1.80**	**0.53**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances, and before deduction of the average carrying amount of provisions for credit loss. In 2010 excluding the average balance sheet balance of specific provison 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 six months ended June 30, 2011				For the six months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Israeli currency - non-linked								
Assets [3]	71,543	1,577	4.46		59,952	1,015	3.42	
Effect of embedded and ALM derivatives [4]	67,827	900			48,987	622		
Total assets	**139,370**	**2,477**		**3.59**	**108,939**	**1,637**		**3.03**
Liabilities [3]	67,638	(669)	(1.99)		56,161	(282)	(1.01)	
Effect of embedded and ALM derivatives [4]	66,987	(681)			47,476	(578)		
Total liabilities	**134,625**	**(1,350)**		**(2.02)**	**103,637**	**(860)**		**(1.67)**
Interest margin			**2.47**	**1.57**			**2.41**	**1.36**
Israeli currency - linked to the CPI								
Assets [3]	43,605	1,647	7.70		36,754	911	5.02	
Effect of embedded and ALM derivatives [4]	4,310	132			3,516	164		
Total assets	**47,915**	**1,779**		**7.57**	**40,270**	**1,075**		**5.41**
Liabilities [3]	34,408	(1,248)	(7.39)		30,777	(717)	(4.71)	
Effect of embedded and ALM derivatives [4]	11,119	(322)			7,675	(186)		
Total liabilities	**45,527**	**(1,570)**		**(7.02)**	**38,452**	**(903)**		**(4.75)**
Interest margin			**0.31**	**0.55**			**0.31**	**0.66**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [(1)] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2011				For the six months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [(5)]								
Assets [(3)]	18,775	(14)	(0.15)		18,837	156	1.66	
Effect of derivatives [(4)]								
Hedging derivatives	2,397	5			1,245	35		
Embedded and ALM derivatives	53,275	(25)			42,314	(1,961)		
Total assets	**74,447**	**(34)**		**(0.09)**	**62,396**	**(1,770)**		**(5.60)**
Liabilities [(3)]	23,094	201	1.73		21,365	222	2.07	
Effect of derivatives [(4)]								
Hedging derivatives	2,397	(14)			1,356	(52)		
Embedded and ALM derivatives	47,520	53			39,584	1,804		
Total liabilities	**73,011**	**240**		**0.66**	**62,305**	**1,974**		**6.24**
Interest margin			**1.58**	**0.57**			**3.73**	**0.64**

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [(1)] - Continued

Reported amounts (NIS in millions)

	For the six months ended June 30, 2011				For the six months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [(2)]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Total								
Monetary assets generating financing revenues [(3)]	133,923	3,210	4.85		115,543	2,082	3.64	
Effect of derivatives [(4)]								
Hedging derivatives	2,397	5			1,245	35		
Embedded and ALM derivatives	125,412	1,007			94,817	(1,175)		
Total assets	**261,732**	**4,222**		**3.25**	**211,605**	**942**		**0.89**
Monetary liabilities generating financing expenses [(3)]	125,140	(1,716)	(2.76)		108,303	(777)	(1.44)	
Effect of derivatives [(4)]								
Hedging derivatives	2,397	(14)			1,356	(52)		
Embedded and ALM derivatives	125,626	(950)			94,735	1,040		
Total liabilities	**253,163**	**(2,680)**		**(2.13)**	**204,394**	**211**		**0.21**
Interest margin			**2.09**	**1.12**			**2.20**	**1.10**
On options		(194)				(35)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [(4)])		25				22		
Commissions from financing transactions and other financing revenues [(6)]		192				221		
Other financing expenses		(18)				(17)		
Profit from financing operations before expenses with respect to credit loss		1,547				1,344		
Expenses with respect to credit loss		(134)				(179)		
Profit from financing operations after expenses with respect to credit loss		1,413				1,165		

See remarks below.

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

Reported amounts (NIS in millions)

	For the six months ended June 30, 2011	For the six months ended June 30, 2010
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	133,923	115,543
Assets deriving from derivatives [7]	3,098	2,056
Other monetary assets [3]	915	[9] 993
Provision for credit loss on Group basis [8]	(2,378)	(208)
Total monetary assets	**135,558**	[9] **118,384**
Total		
Monetary liabilities generating financing expenses [3]	125,140	108,303
Liabilities deriving from derivatives [7]	2,301	2,247
Other monetary liabilities [3]	1,912	[9] 1,828
Total monetary liabilities	**129,353**	[9] **112,378**
Total excess monetary assets over monetary liabilities	6,205	[9] 6,006
Non-monetary assets	1,467	1,315
Non-monetary liabilities	316	285
Total capital resources	**7,356**	[9] **7,036**

(1) The data in this table is provided before and after 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 doubtful debts and in 2010 net of average balance sheet.

(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 six months ended June 30, 2011				For the six months ended June 30, 2010			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing income (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency [5]								
Monetary assets in foreign currency generating financing revenues [3]	5,138	64	2.51		4,867	53	2.19	
Effect of derivatives [4]								
Hedging derivatives	680	9			331	11		
Embedded and ALM derivatives	15,127	65			11,320	101		
Total assets	20,945	138		1.33	**16,518**	**165**		**2.01**
Monetary liabilities in foreign currency generating financing expenses [3]	6,543	(23)	(0.70)		5,654	(11)	(0.39)	
Effect of derivatives [4]								
Hedging derivatives	680	(11)			360	(16)		
Embedded and ALM derivatives	13,493	(53)			10,488	(87)		
Total liabilities	**20,716**	**(87)**		**(0.84)**	**16,502**	**(114)**		**(1.39)**
Interest margin			**1.81**	**0.48**			**1.80**	**0.62**

(1) The data in this table is provided before and after effect of derivatives (including off-balance sheet effects of financial derivatives).
(2) Based on monthly opening balances, and before deduction of the average carrying amount of provisions for credit loss. In 2010 excluding the average balance sheet balance of specific provison 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)

	As of June 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)]	66,995	1,456	2,103	1,592	923	573
Financial derivatives (except for options)	31,446	6,967	18,106	6,631	1,900	4,309
Options (in terms of underlying asset)	(161)	(158)	(424)	15	-	-
Total fair value	**98,280**	**8,265**	**19,785**	**8,238**	**2,823**	**4,882**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	56,956	3,234	4,743	3,423	1,758	1,474
Financial derivatives (except for options)	25,353	16,414	13,553	5,371	1,947	4,760
Options (in terms of underlying asset)	209	122	886	1	-	-
Total fair value	**82,518**	**19,770**	**19,182**	**8,795**	**3,705**	**6,234**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	15,762	(11,505)	603	(557)	(882)	(1,352)
Cumulative exposure in sector	15,762	4,257	4,860	4,303	3,421	2,069

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 notes:

- 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 of 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 included in Note 8A. of 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 June 30, 2010			As of December 31, 2009		
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
94	-	551	74,287	4.65	0.37	63,506	3.37	0.39	67,941	4.14	0.40
-	-	-	69,359		1.08	56,431		1.01	70,088		1.01
-	-	-	(728)		0.18	868		0.35	2,165		0.09
94	**-**	**551**	**142,918**		**0.72**	**120,805**		**0.68**	**140,194**		**0.70**
153	(53)	-	71,688	3.80	0.36	60,576	2.36	0.30	67,310	3.26	0.30
-	-	-	67,398		1.37	54,857		1.23	66,520		1.13
-	-	-	1,218		0.49	2,338		0.33	2,899		0.14
153	**(53)**	**-**	**140,304**		**0.85**	**117,771**		**0.73**	**136,729**		**0.70**
(59)	53	551	2,614			3,034			3,465		
2,010	2,063	2,614	2,614								

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

Reported amounts (NIS in millions)

	As of June 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)	580	2,151	10,609	14,904	8,842	5,626
Financial derivatives (except for options)	14	12	332	1,692	787	1,698
Total fair value	**594**	**2,163**	**10,941**	**16,596**	**9,629**	**7,324**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	814	1,423	6,137	8,545	8,196	6,818
Financial derivatives (except for options)	541	343	4,425	2,919	445	1,135
Total fair value	**1,355**	**1,766**	**10,562**	**11,464**	**8,641**	**7,953**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(761)	397	379	5,132	988	(629)
Cumulative exposure in sector	(761)	(363)	15	5,147	6,135	5,506

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 notes:

- 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 of 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 included in Note 8A. of 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 June 30, 2010 Total fair value	Internal rate of return	Average effective term to maturity	As of December 31, 2009 Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
1,487	5	86	44,290	3.23	3.14	39,849	2.72	3.39	42,760	2.84	3.28
-	-	-	4,535		4.54	3,869		3.33	3,894		3.06
1,487	**5**	**86**	**48,825**		**3.27**	**43,718**		**3.38**	**46,654**		**3.26**
2,921	330	2	35,186	2.84	4.34	33,311	2.39	4.80	34,820	2.64	4.74
-	-	-	9,808		1.58	8,081		1.55	8,701		1.44
2,921	**330**	**2**	**44,993**		**3.74**	**41,392**		**4.17**	**43,521**		**4.08**
(1,434)	(325)	84	3,831			2,326			3,133		
4,072	3,747	3,831	3,831								

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

Reported amounts (NIS in millions)

	As of June 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)]	7,359	5,681	1,628	729	1,276	432
Financial derivatives (except for options)	27,377	15,487	9,796	1,756	637	3,676
Options (in terms of underlying asset)	224	182	955	(1)	-	-
Total fair value	**34,960**	**21,350**	**12,379**	**2,484**	**1,913**	**4,108**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(2)]	13,573	7,137	2,809	(159)	(187)	14
Financial derivatives (except for options)	26,711	6,971	13,364	2,349	1,218	4,195
Options (in terms of underlying asset)	(156)	(110)	(371)	-	-	-
Total fair value	**40,128**	**13,998**	**15,802**	**2,190**	**1,031**	**4,209**
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(5,168)	7,352	(3,423)	294	882	(101)
Cumulative exposure in sector	(5,168)	2,184	(1,239)	(945)	(63)	(164)

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 notes:

- 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 of 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 included in Note 8A. of 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 June 30, 2010 Total fair value	Internal rate of return	Average effective term to maturity	As of December 31, 2009 Total fair value	Internal rate of return	Average effective term to maturity
				In %	in years		In %	in years		In %	in years
60	31	54	17,250	2.69	1.19	20,129	2.95	0.97	19,593	2.72	0.67
-	-	-	58,729		1.35	47,928		1.19	59,622		1.09
-	-	-	1,360		0.24	1,835		0.37	3,777		0.37
60	**31**	**54**	**77,339**		**1.29**	**69,892**		**1.11**	**82,992**		**0.96**
16	-	3	23,206	1.69	0.29	23,896	1.76	0.82	21,986	1.16	0.35
-	-	-	54,808		1.45	45,502		1.29	58,497		1.13
-	-	-	(637)		0.32	193		0.32	2,394		0.32
16	**-**	**3**	**77,377**		**1.11**	**69,591**		**1.13**	**82,877**		**0.90**
44	31	51	(38)			301			115		
(120)	(89)	(38)	(38)								

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

Reported amounts (NIS in millions)

	As of June 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)	3	(14)	10	(9)	-	-
Total fair Value	3	(14)	10	(9)	-	-
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets (1)(2)	74,934	9,288	14,340	17,225	11,041	6,631
Financial derivatives (except for options)	58,837	22,466	28,234	10,079	3,324	9,683
Options (in terms of underlying asset)	66	10	541	5	-	-
Total fair value	**133,837**	**31,764**	**43,115**	**27,309**	**14,365**	**16,314**
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	71,343	11,794	13,689	11,810	9,767	8,306
Financial derivatives (except for options)	52,605	23,728	31,342	10,639	3,610	10,090
Options (in terms of underlying asset)	53	12	515	1	-	-
Total fair value	**124,001**	**35,534**	**45,546**	**22,450**	**13,377**	**18,396**
Financial instruments, net						
Total exposure to interest rate fluctuations	9,836	(3,770)	(2,431)	4,859	988	(2,082)
Total cumulative exposure	9,836	6,067	3,635	8,495	9,483	7,401

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 notes:

- 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 of 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 included in Note 8A. of 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 June 30, 2010			As of December 31, 2009		
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
-	-	-	(10)			-			11		
-	-	-	(10)			-			11		
1,641	36	691	135,827	3.94	1.38	123,484	3.09	1.45	130,294	3.50	1.38
-	-	-	132,623		1.32	108,228		1.17	133,604		1.11
-	-	-	622		0.30	2,703		0.36	5,953		0.27
1,641	**36**	**691**	**269,072**		**1.35**	**234,415**		**1.31**	**269,851**		**1.22**
3,090	277	5	130,080	3.16	1.42	117,783	2.25	1.68	124,116	2.71	1.56
-	-	-	132,014		1.42	108,440		1.28	133,718		1.15
-	-	-	581		0.68	2,531		0.33	5,293		0.22
3,090	**277**	**5**	**262,675**		**1.42**	**228,754**		**1.47**	**263,127**		**1.32**
(1,449)	(241)	686	6,397			5,661			6,724		
5,952	5,711	6,397	6,397								

Management Review - Addendum C

Credit Risk by Economic Sector - Consolidated

As of June 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	Total credit risk of the public
Agriculture	612	-	-	612	202	4	206	818
Industry	5,820	55	40	5,915	4,390	440	4,830	10,745
Construction and real estate [(7)]	7,473	43	2	7,518	13,279	18	13,297	20,815
Electricity and water	308	4	167	479	1,021	262	1,283	1,762
Commerce	5,685	-	20	5,705	2,507	172	2,679	8,384
Hotel and food services	259	1	-	260	100	-	100	360
Transport and storage	886	-	17	903	509	101	610	1,513
Communications and computer services	1,453	13	18	1,484	301	80	381	1,865
Financial services	6,466	21	697	7,184	7,678	2,580	10,258	17,442
Other business services	3,238	-	2	3,240	769	83	852	4,092
Public and community services	885	-	27	912	261	112	373	1,285
Private individuals - housing loans	67,155	-	-	67,155	4,203	-	4,203	71,358
Private individuals - other	11,976	-	16	11,992	8,997	37	9,034	21,026
Total	112,216	137	1,006	113,359	44,217	3,889	48,106	161,465
For borrowers' activities overseas	2,484	-	6	2,490	301	51	352	2,842
Total credit risk to public	114,700	137	1,012	115,849	44,518	3,940	48,458	164,307
Credit risk exposures other than with respect to the public								
Banking corporations	2,087	698	1,806	4,591	183	10,966	11,149	15,740
Government	13,187	4,548	-	17,735	169	-	169	17,904
Total credit risk	129,974	5,383	2,818	138,175	44,870	14,906	59,776	197,951
Credit risk to public included under various economic sectors:								
Settlement movements [(4)]	1,164	-	1	1,165	481	16	497	1,662
Local authorities [(5)]	182	-	-	182	47	-	47	229

(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 99 million.

(7) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,416 million (1,013 balance credit risk and 1,403 off balance credit risk).

	Credit risk to the public				Credit loss [3]
	Credit risk to the public includes:				
	Problem commercial credit risk [2]	Impaired loans to the public in the	Expenses with respect to credit loss in the first six months of 2011	Net accounting write-off	Balance of provision for credit loss
	6	5	2	64	4
	240	183	(9)	413	111
	974	423	19	990	136
	2	-	-	12	-
	165	99	17	234	80
	16	8	1	26	4
	22	8	(2)	21	9
	20	17	-	12	20
	1,035	880	33	186	912
	132	98	18	74	57
	74	26	(3)	111	8
	1,767	-	17	-	932
	265	68	39	375	161
	4,718	1,815	132	2,518	2,434
	48	46	-	-	23
	4,766	1,861	132	2,518	2,457
	15	15	2	-	10
	-	-	-	-	-
	4,781	1,876	134	2,518	2,467
	44	23	(4)	156	10
	21	-	-	-	-

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated
As of June 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 six months of 2010 with respect to specific provision for doubtful debts	Balance of problem loans [2]
Agriculture	593	-	-	593	241	-	241	834	-	30
Industry	5,446	12	69	5,527	3,438	408	3,846	9,373	9	299
Construction and real estate [6]	6,928	45	62	7,035	10,384	82	10,466	17,501	5	1,307
Electricity and water	264	67	152	483	647	252	899	1,382	-	1
Commerce	5,179	-	16	5,195	1,680	251	1,931	7,126	7	196
Hotel and food services	227	1	1	229	74	9	83	312	2	39
Transport and storage	740	-	84	824	307	176	483	1,307	1	35
Communications and computer services	1,405	14	27	1,446	500	112	612	2,058	2	49
Financial services	6,699	51	578	7,328	7,461	1,433	8,894	16,222	93	1,044
Other business services	2,976	-	9	2,985	727	55	782	3,767	2	576
Public and community services	787	-	1	788	410	10	420	1,208	(1)	117
Private individuals - housing loans	55,738	-	-	55,738	6,340	-	6,340	62,078	(2)	991
Private individuals - other	10,912	-	87	10,999	8,429	67	8,496	19,495	65	540
Total	**97,894**	**190**	**1,086**	**99,170**	**40,638**	**2,855**	**43,493**	**142,663**	**183**	**5,224**
For borrowers' activities overseas	3,319	-	102	3,421	482	96	578	3,999	3	171
Total credit risk to public	**101,213**	**190**	**1,188**	**102,591**	**41,120**	**2,951**	**44,071**	**146,662**	**186**	**5,395**
Credit risk exposure other than to the public:										
Banking Corporations	2,991	804	1,410	5,205	430	9,087	9,517	14,722	-	26
Government	10,250	6,308	-	16,558	301	-	301	16,859	-	-
Total credit risk	**114,454**	**7,302**	**2,598**	**124,354**	**41,851**	**12,038**	**53,889**	**178,243**	**186**	**5,421**
Credit risk to public included under various economic sectors:										
Settlement movements [3]	1,264	-	6	1,270	585	27	612	1,882	(2)	46
Local authorities [4]	154	-	-	154	27	-	27	181	-	46

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

(2) Balance of problem loans 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 34 million.

(6) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 1,852 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 problem loans [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 problem loans 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) Reclassified

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 six months ended June 30, 2011

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
Agriculture	621	-	-	621	205	4	209	830
Industry	5,680	30	37	5,747	4,446	425	4,871	10,618
Construction and real estate	7,301	43	3	7,347	12,730	28	12,758	20,105
Electricity and water	262	17	200	479	1,070	255	1,325	1,804
Commerce	5,756	-	19	5,775	2,307	162	2,469	8,244
Hotel and food services	262	-	-	262	93	-	93	355
Transport and storage	836	-	24	860	518	97	615	1,475
Communications and computer services	1,511	20	17	1,548	302	81	383	1,931
Financial services	6,585	30	937	7,552	7,789	2,332	10,121	17,673
Other business services	3,150	-	3	3,153	832	71	903	4,056
Public and community services	883	-	12	895	286	75	361	1,256
Private individuals - housing loans	64,358	-	-	64,358	4,005	-	4,005	68,363
Private individuals - other	11,672	-	21	11,693	9,119	50	9,169	20,862
Total	108,877	140	1,273	110,290	43,702	3,580	47,282	157,572
For borrowers' activities overseas	2,899	-	8	2,907	431	67	498	3,405
Total credit risk to public	111,776	140	1,281	113,197	44,133	3,647	47,780	160,977
Credit risk exposures other than								-
with respect to the public								-
Banking Corporations	2,066	743	1,858	4,667	323	10,824	11,147	15,814
Government	11,710	5,601	-	17,311	242	-	242	17,553
Total credit risk	125,552	6,484	3,139	135,175	44,698	14,471	59,169	194,344
Credit risk to the public included								-
under various economic sectors:								
Settlement movements (3)	1,148	-	1	1,149	491	13	504	1,653
Local authorities (4)	173	-	-	173	33	-	33	206

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) Balance of problem loans 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 173 million.

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Average balances - Consolidated
For the six months ended June 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	639	-	-	639	221	2	223	862
Industry	5,504	13	44	5,561	3,789	432	4,221	9,782
Construction and real estate	6,888	42	41	6,971	9,803	116	9,919	16,890
Electricity and water	269	65	167	501	630	186	816	1,317
Commerce	5,019	-	24	5,043	2,508	231	2,739	7,782
Hotel and food services	231	-	1	232	69	7	76	308
Transport and storage	738	-	49	787	436	147	583	1,370
Communications and computer services	862	16	23	901	467	103	570	1,471
Financial services	6,345	43	336	6,724	6,659	1,256	7,915	14,639
Other business services	2,914	-	7	2,921	947	54	1,001	3,922
Public and community services	769	-	-	769	375	6	381	1,150
Individuals: Housing loans	53,631	-	-	53,631	5,085	-	5,085	58,716
Other	10,792	-	49	10,841	8,908	80	8,988	19,829
Total	**94,601**	**179**	**741**	**95,521**	**39,897**	**2,620**	**42,517**	**138,038**
For borrowers' activities overseas	3,367	2	80	3,449	336	115	451	3,900
Total credit risk to public	**97,968**	**181**	**821**	**98,970**	**40,233**	**2,735**	**42,968**	**141,938**
Credit risk exposure other than to the public:								
Banking Corporations	2,218	950	1,129	4,297	418	8,766	9,184	13,481
Government	8,446	7,134	-	15,580	300	-	300	15,880
Total credit risk	**108,632**	**8,265**	**1,950**	**118,847**	**40,951**	**11,501**	**52,452**	**171,299**
Credit risk to public included under various economic sectors:								
Settlement movements [2]	1,288	-	5	1,293	656	29	685	1,978
Local authorities [3]	148	-	-	148	33	-	33	181

(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 199 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	Debentures (5)	Fair value of derivatives	Total	Guarantees and other commitments on account of clients	Future transactions	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 (6)	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 (3)	1,260	-	3	1,263	623	26	649	1,912
Local authorities (4)	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) Balance of problem loans 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 190 million.
(6) 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 govern-ments [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 of problem loans [4]	Impaired loans [5]	Total off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Maturing in under 1 year	Maturing in over 1 year
As of June 30, 2011													
USA	-	768	955	1,326	936	390	2,113	89	89	2,459	-	1,081	642
UK	-	551	860	537	308	229	1,640	2	24	1,512	1	368	1,043
Germany	-	717	13	-	-	-	730	-	1	1,175	-	631	99
Other	3	819	1,833	-	-	-	2,655	5	16	2,028	5	1,830	825
Total exposure to foreign countries	**3**	**2,855**	**3,661**	**1,863**	**1,244**	**619**	**7,138**	**96**	**130**	**7,174**	**6**	**3,910**	**2,609**
Includes: Total exposure to LDC countries	3	54	171	-	-	-	228	1	7	269	3	121	107
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	35	5	-	-	-	40	-	-	77	2	37	3

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)

	Balance sheet exposure								Off-balance sheet exposure (2)			
Country	Cross-border balance sheet exposure			Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents			Total balance sheet exposure	Balance of problem loans (4)			Cross-border balance sheet exposure	
	To governments (3)	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 off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Maturing in under 1 year	Maturing over 1 year
As of June 30, 2010												
USA	-	856	882	2,362	2,052	310	2,048	13	1,706	-	1,056	682
UK	-	528	120	570	284	286	934	13	1,723	2	415	233
Germany	-	551	28	-	-	-	579	17	2,004	-	401	178
Other	-	1,006	1,888	-	-	-	2,894	90	1,556	3	2,225	669
Total exposure to foreign countries	**-**	**2,941**	**2,918**	**2,932**	**2,336**	**596**	**6,455**	**133**	**6,989**	**5**	**4,097**	**1,762**
Total exposure to LDC countries	-	59	257	-	-	-	316	13	230	3	191	125
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	122	10	-	-	-	132	-	40	-	132	-
As of December 31, 2010												
USA	-	800	977	3,389	2,373	1016	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 June 30, 2010, there is no exposure requiring disclosure in accordance with the public reporting directives of the Supervisor of Banks.

As of June 30, 2011

	Balance sheet exposure	Off-balance sheet exposure
Switzerland	410	769
France	636	421
As of December 31, 2010		
Switzerland	291	998

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

There is no material exposure to any foreign countries facing liquidity issues.

Certification

I, ELIEZER YONES, certify that:

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

August 30, 2011

A. Yones
President

Certification

I, MENAHEM AVIV, certify that

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

August 30, 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 June 30, 2011, the condensed consolidated statements of profit and loss, statements of change in shareholders' equity and cash flow statements for the six- and three-month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for this interim period, in accordance with generally accepted accounting policies 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 7.55% of total consolidated assets as of June 30, 2011, and whose profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 10.81% and 11.36% of total profit from financing operations before provision for doubtful debts for the six- 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 16 million as of June 30, 2011. The condensed financial information for the interim period 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 said companies, is based on the review reports by said 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 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 generally accepted accounting policies in Israel (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. And to Note 1.E.4 with regard to restatement of comparison figures following a change in the accounting treatment of employee rights.

Brightman Almagor Zohar & Co.
Certified Public Accountants

August 30, 2011

Condensed consolidated balance sheet as of June 30, 2011

Reported amounts (NIS in millions)

	Note	As of June 30, 2011 (unaudited)	As of June 30, 2010 (unaudited)	As of December 31, 2010 (audited)
Assets				
Cash and deposits with banks		15,477	11,929	12,614
Securities	2	5,431	7,411	7,449
Securities loaned or sold in repurchase agreements		99	34	247
Loans to the public [(1)(2)]	3	114,700	104,319	110,511
Provision for credit loss [(1)(2)]	3	(2,309)	(3,312)	(3,471)
Loans to the public, net [(1)]		112,391	101,007	107,040
Loans to the Government		106	1	92
Investments in affiliates		16	13	15
Buildings and equipment		1,551	1,492	1,546
Intangible assets and goodwill [(2)]		87	93	87
Assets with respect to derivatives [(2)]	7	2,911	2,621	3,449
Other assets [(2)]		1,163	[(4)]820	[(4)]765
Total assets		**139,232**	**125,421**	**133,304**
Liabilities and Shareholders' Equity				
Deposits from the public		111,496	101,629	105,991
Deposits from banks		1,903	1,498	2,432
Deposits from the Government		157	195	172
Debentures and subordinated notes		11,301	7,978	9,813
Liabilities with respect to derivatives [(2)]	7	2,261	2,659	2,892
Other liabilities [(2)(3)]		4,610	[(4)]4,290	[(4)]4,508
Total liabilities		**131,728**	**118,249**	**125,808**
Equity attributable to equity holders of the banking corporation		7,139	[(4)]6,814	[(4)]7,130
Non-controlling interest		365	[(4)]358	[(4)]366
Total shareholders' equity		**7,504**	**7,172**	**7,496**
Total liabilities and shareholders' equity		**139,232**	**125,421**	**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 June 30, 2011 may not be comparable with 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 148 million (June 30, 2010 – NIS 136 million and December 31,2010 – NIS 171 million).

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

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:
August 30, 2011

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 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	795	714	1,547	1,344	2,959
Expenses with respect to credit loss	80	122	134	179	473
Profit from financing operations after expenses with respect to credit loss	715	592	1,413	1,165	2,486
Operating and other income					
Operating commissions	336	(3)332	687	(3)664	(3)1,337
Gain (loss) from investment in shares, net	3	1	3	-	(1)
Other revenues	2	(3)9	9	(3)18	(3)31
Total operating and other revenues	**341**	**342**	**699**	**682**	**1,367**
Operating and other expenses					
Payroll and associated expenses	394	(2)362	815	(2)743	(2)1,529
Maintenance and depreciation of buildings and equipment	152	147	300	290	585
Amortization and impairment of intangible assets and goodwill (1)	-	3	-	7	14
Other expenses (1)	109	107	213	210	438
Total operating and other expenses	**655**	**619**	**1,328**	**1,250**	**2,566**
Pre-tax operating profit	401	315	784	597	1,287
Provision for taxes on operating profit	138	(2)110	275	(2)218	(2)469
After-tax operating profit	263	205	509	379	818
Share in net after-tax operating profit of affiliates	-	-	1	-	-
Net operating profit:					
Before attribution to non-controlling interest (1)	263	205	510	379	818
Attributable to non-controlling interest (1)	(10)	(4)	(18)	(8)	(19)
Attributable to equity holders of the banking corporation	**253**	**201**	**492**	**371**	**799**
After-tax operating profit (loss), before attribution to non-controlling interest	(1)	(1)	(2)	-	2
Net profit:					
Before attribution to non-controlling interest (1)	262	204	508	379	820
Attributable to non-controlling interest (1)	(10)	(4)	(18)	(8)	(19)
Attributable to equity holders of the banking corporation	**252**	**200**	**490**	**371**	**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. to the financial statements.
(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 June 30		For the six months ended June 30		For the Year Ended December 31
	2011	2010	2011	2011	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] 0.89	2.17	[2] 1.66	[2] 3.58
Profit from extraordinary operations attributable to equity holders of the banking corporation	(0.01)	-	(0.01)	-	0.01
Total	**1.11**	**0.89**	**2.16**	**1.66**	**3.59**
Diluted earnings per share (in NIS)					
Net operating profit attributable to equity holders of the banking corporation	1.09	[2] 0.88	2.12	[2] 1.64	[2] 3.53
Profit from extraordinary operations attributable to equity holders of the banking corporation	-	-	(0.01)	-	0.01
Total	**1.09**	**0.88**	**2.11**	**1.64**	**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. For further details, See Note 1.E.4. to the financial statements.

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 June 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 March 31, 2011	**1,986**	**172**	**(76)**	**2,082**
Net profit for the year	-	-	-	-
Benefit from share-based payment transactions	-	10	-	10
Related tax effect	-	(15)	-	(15)
Realized share-based payment transactions [(4)]	12	(12)	-	-
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 June 30, 2011	**1,998**	**155**	**(76)**	**2,077**

(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) 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.

(4) In the second quarter of 2011, 248,118 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	Net gain from cash flow hedges	Retained earnings [2]	Total	Non-controlling interest	Total shareholders' equity
	(26)	**22**	[3] **4,808**	**6,886**	**356**	**7,242**
	-	-	252	252	10	262
	-	-	-	10	-	10
	-	-	-	(15)	-	(15)
	-	-	-	-	-	-
	1	-	-	1	(1)	-
	-	-	-	-	-	-
	(1)	-	-	(1)	-	(1)
	-	11	-	11	-	11
	-	(5)	-	(5)	-	(5)
	(26)	**28**	**5,060**	**7,139**	**365**	**7,504**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the three months ended June 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 March 31, 2010	**1,964**	**116**	**(76)**	**2,004**
Net profit for the period	-	-	-	-
Dividendts declared after balance sheet date	-	-	-	-
Benefit from share-based payment transactions	-	12	-	12
Related tax effect	-	(15)	-	(15)
Realized share-based payment transactions [5]	9	(9)	-	-
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 June 30, 2010	**1,973**	**104**	**(76)**	**2,001**

(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) Restated with respect to prospective application of guidance by the Supervisor of Banks with regard to reinforcing internal controls over financial reporting of employee rights at Bank Yahav. For details, see Note 1.E.4 to the financial statements.

(5) In the second quarter of 2010, 79,455 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
(24)	**(51)**	**43**	[4] **4,670**	**-**	**6,642**	**352**	**6,994**
-	-	-	200	-	200	4	204
-	-	-	(200)	200	-	-	-
-	-	-	-	-	12	-	12
-	-	-	-	-	(15)	-	(15)
-	-	-	-	-	-	-	-
(38)	-	-	-	-	(38)	3	(35)
6	-	-	-	-	6	-	6
-	-	-	-	-	-	(1)	(1)
-	-	10	-	-	10	-	10
-	-	(3)	-	-	(3)	-	(3)
(56)	**(51)**	**50**	**4,670**	**200**	**6,814**	**358**	**7,172**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the six months ended June 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 01, 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	-	20	-	20
Related tax effect	-	(9)	-	(9)
Realized share-based payment transactions (6)	12	(12)	-	-
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 reclassified to the statement of profit and loss	-	-	-	-
Related tax effect	-	-	-	-
Balance as of June 30, 2011	**1,998**	**155**	**(76)**	**2,077**

(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. to the financial statements.

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

(6) In the first half of 2011, 275,239 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 adjust-ments [2]	Net gain from cash flow hedges	Retained earnings [3]	Dividends declared after balance sheet date	Total	Non-controlling interest	Adjustments for presentation of securities available for sale at fair value
(11)	**(51)**	**26**	[4] **4,980**	**120**	**7,130**	**366**	**7,496**
-	-	-	(359)	-	(359)	(16)	(375)
-	51	-	(51)	-	-		-
(11)	-	26	**4,570**	**120**	**6,771**	**350**	**7,121**
-	-	-	490	-	490	18	508
-	-	-	-	(120)	(120)	-	(120)
-	-	-	-	-	20	-	20
-	-	-	-	-	(9)	-	(9)
-	-	-	-	-	-	-	-
(21)	-	-	-	-	(21)	(5)	(26)
-	-	-	-	-	-	-	-
6	-	-	-	-	6	2	8
-	-	3	-	-	3		3
-	-	(1)	-	-	(1)	-	(1)
(26)	**-**	**28**	**5,060**	**-**	**7,139**	**365**	**7,504**

Condensed Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the six months ended June 30, 2010 (unaudited)			
	Share capital and premium [1]	Capital reserve from benefit from share-based payment transaction	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	-	21	-	21
Related tax effect	-	(12)	-	(12)
Realized share-based payment transactions [5]	10	(10)	-	-
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 June 30, 2010	**1,973**	**104**	**(76)**	**2,001**

(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. to the financial statements.
(5) In the first half of 2010, 142,441 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	Adjustments for presentation of securities available for sale at fair value	Translation adjustments [2]
(32)	**(51)**	**39**	[4] **4,499**	**-**	**6,447**	**346**	**6,793**
-	-	-	371	-	371	8	379
			(200)	200	-	-	-
-	-	-	-	-	21	-	21
-	-	-	-	-	(12)	-	(12)
-	-	-	-	-	-	-	-
(29)	-	-	-	-	(29)	6	(23)
4	-	-	-	-	4	-	4
1	-	-	-	-	1	(2)	(1)
-	-	16	-	-	16	-	16
-	-	(5)	-	-	(5)	-	(5)
(56)	**(51)**	**50**	**4,670**	**200**	**6,814**	**358**	**7,172**

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. to the financial statements.

(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	(1)	6
(2)	-	-	-	-	(2)	-	(2)
-	-	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 June 30		For the six months ended June 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	252	(1) 200	490	(1) 371	(1) 801
Adjustments to reconcile net profit to net cash generated by operating activities:					
Minority interest in net after-tax operating profit of subsidiaries	10	4	18	8	19
Depreciation of buildings and equipment and amortization	55	57	112	110	221
Expenses with respect to credit loss	80	122	134	179	473
Net gain on sale of available-for-sale securities	(17)	(40)	(35)	(57)	(93)
Provision for impairment of available-for-sale securities	-	-	-	4	7
Realized and unrealized gain from adjustment to fair value of securities held for trading	(3)	(4)	(5)	(8)	(9)
Net loss from sale of buildings and equipment	-	-	1	-	2
Deferred taxes, net	(4)	108	(72)	110	61
Severance pay - decrease (increase) in excess of amount funded over liability	72	(18)	71	(13)	(34)
Reconciliation differences included under investment and financing operations	112	80	148	(41)	162
Benefit from share-based payment transactions	10	12	20	21	44
Bank's share in net profit from extraordinary items of subsidiaries	-	-	(1)	-	-
Deferred income, net	(19)	11	(18)	16	44
Net cash provided by current operations	**548**	**532**	**863**	**700**	**1,698**

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

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(audited)
Cash flows provided by activities in assets					
Acquisition of securities available for sale	(1,231)	(1,125)	(1,956)	(4,298)	(6,759)
Proceeds on sale and redemption of securities available for sale	1,503	3,280	3,957	4,446	7,095
Deposits with banks, net	(266)	59	(670)	865	(1,174)
Securities held for trading, net	40	40	26	133	(23)
Securities loaned or sold in repurchase agreements, net	74	223	148	273	60
Loans to the public, net	(3,072)	(4,100)	(6,103)	(5,937)	(12,264)
Loans to the Governments, net	(10)	236	(14)	300	209
Acquisition of shares in investees, including owners' loans and capital notes	-	-	-	(1)	(3)
Acquisition of buildings and equipment	(76)	(37)	(130)	(81)	(263)
Proceeds from sale of buildings and equipment	-	-	2	3	16
Assets with respect to derivatives, net	324	(758)	541	(1,130)	(1,979)
Other assets, net	96	(198)	(60)	(86)	46
Net cash provided by activities in assets	**(2,618)**	**(2,380)**	**(4,259)**	**(5,513)**	**(15,039)**

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended June 30		For the six months ended June 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	2,467	4,981	5,505	6,608	10,970
Deposits from banks, net	(403)	(324)	(529)	(401)	533
Deposits from the Government, net	(9)	(4)	(15)	(14)	(37)
Issuance of debentures and subordinated notes	944	25	1,464	25	1,786
Redemption of debentures and subordinated notes	(39)	(71)	(124)	(172)	(301)
Liabilities with respect to derivatives, net	(239)	581	(631)	678	911
Other liabilities, net	(101)	(130)	(73)	(128)	108
Dividends paid to shareholders	-	-	-	-	(200)
Net cash provided by (used for) activities in liabilities and shareholders' equity	**2,620**	**5,058**	**5,597**	**6,596**	**13,770**
Increase in cash	550	3,210	2,201	1,783	429
Cash balance at beginning of period	11,486	7,979	9,835	9,406	9,406
Cash balance at end of period	12,036	11,189	12,036	11,189	9,835

	For the three months ended June 30		For the six months ended June 30		For the Year Ended December 31
	2011	2010	2011	2011	2010
		(unaudited)		(unaudited)	(audited)
Appendix A - Non-cash Transactions					
1) Acquisition of buildings and equipment	-	5	2	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 June 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's accounting policies in these condensed consolidated quarterly financial statements is consistent with the policies 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 for 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 the 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 policies 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. Note that actual results could differ from these estimates.

Except as described below in section E.4., 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 stated 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 93 million and NIS 87 million, included as of June 30, 2010 and December 31, 2010, respectively, under Other Assets, is presented on the balance sheet as of June 30, 2011 as a separate item.
- Assets with respect to derivatives amounting to NIS 2,621 million and NIS 3,449 million, included as of June 30, 2010 and December 31, 2010, respectively, under Other Assets, is presented on the balance sheet as of June 30, 2011 as a separate item.
- Liabilities with respect to derivatives amounting to NIS 2,659 million and NIS 2,892 million, included as of June 30, 2010 and December 31, 2010, respectively, under Other Liabilities, is presented on the balance sheet as of June 30, 2011 as a separate item.
- Loans to the public, net as of June 30, 2010 and December 31, 2010 were reclassified for presentation at their 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 3 million and NIS 7 million for the three- and six-month periods ended June 30, 2010, respectively, were reclassified from Other Expenses and are presented as a separate item. Further, an amount of NIS 14 million was thus reclassified 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 " (hereafter: "FAS 157"), FAS 159 (ASC 825-10) "Fair-value option for financial assets and financial liabilities" (hereafter: "FAS 159") and accounting standard update ASU 2010-06 "Improvements to disclosures about fair value measurement".
4. Supervisor of Banks' directives with regard to strengthening internal controls over financial reporting of employee rights.

Note 1 - Reporting Principles and Accounting Policies (continued)

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.

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 the 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 specified in USA Accounting Standard FAS 5: "Accounting for Contingencies" (hereinafter "FAS 5"), based on a formula stated 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 prescribed in 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 specified 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 described in 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 rates of credit realization..

A minimum provision with respect to housing loans is calculated based on the formula stipulated by the Supervisor of Banks, by extent of arrears, so that the provision rate is higher the longer the arrears. Upon the starting 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)

This initial application resulted in a NIS 84 million increase in the provision (NIS 75 million in the group provision and NIS 9 million increase in the 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 problem 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 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 on 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 restructuring there is reasonable certainty that the debt would be repaid and would 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 the Bank profit is not biased upwards.
Commissions for delinquency on this type of 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). Restructured debt, including debt assessed on a group basis prior to restructuring, shall be classified as impaired debt and shall be individually assessed for purposes of 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

Accounting write-off

The Bank makes accounting write-offs of any debt, or part thereof, 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 in the Bank's 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 that 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 in 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 a net investment in foreign operations, or cash flow hedges which are recognized under Other Comprehensive Income.

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 Income 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 (hereafter: "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 non-controlling interest.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 the realization.

Upon a 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 Income 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 Income 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).

Note 1 - Reporting Principles and Accounting Policies (continued)

- 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 there to, 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.

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 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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, so that 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 instead, the need for making a provision for impairment of other-than-a-temporary nature shall be reviewed as specified in section 2.F. below.

For an acquisition made after January 1, 2011, the Bank would recognize goodwill as of the acquisition date at te 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 the 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.

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 an ownership interest at present and which confer on their 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 Income items among shareholders

Profit or loss and any Other Comprehensive Income item is attributed to the controlling shareholder of the entity and to the non-controlling interest. Total profit and Other Comprehensive Income 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

An 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 Income of investees accounted for using the equity method, after required adjustments to align the accounting policies with that of the Group 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 written off, 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.

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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 lost 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 fees, whichever is lower. Future payments for exercise of an option to extend the lease term with the ILA are not recognized as part of the relevant 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 policies applicable for such asset. Other leases are classified as operating leases, with leased assets not recognized on the Bank's balance sheet.

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 in the statement of profit and loss over the lease term. The lease term and amortization amounts consider 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 stipulated in 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.

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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 date 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.

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 specifies 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 stated 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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.

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 a 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 the group basis, using a credit quality benchmark based on groups of similar counter-parties, for example based on internal ratings.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 determined 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 from the first quarter of 2011, without requiring application to financial statements for periods prior to initial implementation 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 the 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.

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.)

Note 1 - Reporting Principles and Accounting Policies (continued)

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 to that debt. Also, in certain cases, for the purpose of fair value measurement of non-negotiable financial liabilities, the Bank applies directives specified 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 published 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 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 Memorandum 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 June 30, 2010			For the six month period ended June 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	361	1	362	741	2	743	1,525	4	1,529
Pre-tax operating profit	316	(1)	315	599	(2)	597	1,291	(4)	1,287
Provision for taxes on operating profit	110	-	110	218	-	218	470	(1)	469
After-tax operating profit	206	(1)	205	381	(2)	379	821	(3)	818
Net profit[1]	201	(1)	200	373	(2)	371	804	(3)	801
			-			-			-
Basic net earnings per share	0.89	-	0.89	1.67	(0.01)	1.66	3.60	(0.01)	3.59
Diluted net earnings per share	0.88	-	0.88	1.65	(0.01)	1.64	3.55	(0.01)	3.54
			-			-			-
Impact on cash flow statement			-			-			-
Cash flows provided by current operations	533	(1)	532	702	(2)	700	1,702	(4)	1,698

	As of June 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]	783	37	820	727	38	765
Other liabilities [2]	4,159	131	4,290	4,375	133	4,508
Non-controlling interest	365	(7)	358	373	(7)	366
Shareholders' equity [1]	6,901	(87)	6,814	7,218	(88)	7,130

(1)Attributable to equity holders of the banking corporation.

(2)Reclassified to adapt to method of statement in the current period, as explained in Note 1.D. above.

Note 1 - Reporting Principles and Accounting Policies (continued)

F. New accounting standards and new directives by the Supervisor of Banks prior to their application

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 their initial application:
   - IAS 7 "Cash flow statements"
   - IAS 12 "Income taxes"
   - IAS 19 "Employee benefits"
   - IAS 23 "Borrowing costs"
   - IAS 24 "Related party disclosures"

2. In April 2011, 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 where - 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 where 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 stipulated 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

The ASU further lists disclosure requirements with regard to restructuring of troubled debt.

On August 11, 2011, the Supervisor of Banks sent a letter to banking corporations, stipulating that banking corporations shall apply the clarifications to the updated as from July 1, 2011 and shall also apply the clarifications retroactively as from January 1, 2011 for debt restructuring which took place after January 1, 2011.

The Bank is reviewing implications of initial application of this accounting standard update.

3. In April 2011, FASB issued an accounting standard update, ASU 2011-03, on reconsideration of effective controls for repurchase agreements, which is an update to rules specified in FAS 166 (ASC 860).

   According to this update, the manner of determination of the existence of effective controls by the transferor in repurchase agreements is to be modified. Evaluation of existence of effective controls shall be focused on contractual rights and contractual obligations of the transferor, and therefore would not take into consideration (1) the criterion requiring that 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 that criterion.

   Other criteria for review of existence of effective controls were not modified by the ASU. These criteria indicate that the transferor maintains effective controls 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 Bank is reviewing implications of initial application of this accounting standard update.

Note 1 - Reporting Principles and Accounting Policies (continued)

4. 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 starting 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.

   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, so that provisions of IAS 27 shall only continue to apply to separate financial statements.

      The standard proposes a new control model, for determination of 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 its involvement with the investee, and is capable of influencing these returns by means of its power in that 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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 provisions 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 indicate 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 in 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 risk associated with the entity's interests in other entities, and to understand the impact of those 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.

Note 1 - Reporting Principles and Accounting Policies (continued)

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.

5. 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 has yet to commence review of the implications of adoption of the standard on the financial statements.

Note 2 - Securities

As of June 30, 2011 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet balance	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]	4,105	4,151	10	(56)	4,105
Of foreign governments [2][6]	82	82	-	-	82
Of others	894	893	14	(13)	894
Total debentures available for sale	**5,081**	**5,126**	**24**	**(69)**	**5,081**
Shares of others [3]	82	82	-	-	82
Total securities available for sale	**5,163**	**5,208**	[4] **24**	[4] **(69)**	**5,163**

	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]
(2) Securities held for trading					
- Debentures					
of Government of Israel	263	263	-	-	263
Of others	5	5	-	-	5
Total securities held for trading	**268**	**268**	**-**	**-**	**268**
Total securities	**5,431**	**5,476**	[5] **24**	[5] **(69)**	**5,431**

(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

As of June 30, 2010 (unaudited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income		Fair value [1]
			Gains	Losses	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel [2]	6,005	6,048	25	(68)	6,005
Of foreign governments [2]	139	134	5	-	139
Of others	1,049	1,063	11	(25)	1,049
Total debentures available for sale	**7,193**	**7,245**	**41**	**(93)**	**7,193**
Shares of others [3]	86	86	-	-	86
Total securities available for sale	**7,279**	**7,331**	[4] **41**	[4] **(93)**	**7,279**

	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]
2) Securities held for trading					
- Debentures					
of Government of Israel	130	130	-	-	130
Of others	2	2	-	-	2
Total securities held for trading	**132**	**132**	[5] **-**	[5] **-**	**132**
Total securities	**7,411**	**7,463**	**41**	**(93)**	**7,411**

(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 which have no fair value available, amounting to NIS 80 million, that are stated at cost, net of a provision for other-than-temporary impairment.

(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.

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		Fair value [1]
			Gains	Losses	
(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 others	953	952	15	(14)	953
Total debentures available for sale	**7,079**	**7,095**	**46**	**(62)**	**7,079**
Shares of others [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 adjustments 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 June 30, 2011	As of June 30, 2010	As of December 31, 2010
Recorded debt balance of impaired debentures not accruing interest income	28	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

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

Reported amounts (NIS in millions)

(4) Further details on consolidated basis with regard to asset-backed securities available for sale:

				As of June 30, 2011
		Cumulative other comprehensive income (loss)		Fair value (Balance sheet balance)
	Amortized cost	Gains	Losses	
	(unaudited)			
Asset-backed securities (ABS):				
CLO	68	7	(10)	65
Total asset-backed securities available for sale	**68**	[(1)] **7**	[(1)] **(10)**	**65**

				As of June 30, 2010
		Cumulative other comprehensive income		Fair value (Balance sheet balance)
	Amortized cost	Gains	Losses	
	(unaudited)			
Asset-backed securities (ABS):				
CLO	67	5	(15)	57
Total asset-backed securities available for sale	**67**	[(1)] **5**	[(1)] **(15)**	**57**

				As of December 31, 2010
		Cumulative other comprehensive income (loss)		Fair value (Balance sheet balance)
	Amortized cost	Gains	Losses	
Asset-backed securities (ABS):				
CLO	66	5	(11)	60
Total asset-backed securities available for sale	**66**	[(1)] **5**	[(1)] **(11)**	**60**

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

Note 2 - Securities

Further details with regard to asset-backed securities 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 June 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	(10)
Total	**-**	**-**	**39**	**(10)**

				As of June 30, 2010
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
	unaudited			
Asset-backed securities (ABS):				
CLO	-	-	57	(15)
Total	**-**	**-**	**57**	**(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 - (un-audited)

Reported amounts (NIS in millions)

A. Loans to the public

	June 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)	30,768	1,243	29,525	31,049	1,402	29,647
Loans to the public reviewed on group basis (2)	83,932	1,066	82,866	77,783	1,053	76,730
Total loans to the public	**114,700**	**2,309**	**112,391**	**108,832**	**2,455**	**106,377**
Includes: Customers' liabilities for acceptances	216	-	216	191	-	191

B. Loans to the public reviewed individually

1. Loans to the public reviewed individually includes:

	June 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)	1,861	913	948	2,360	1,042	1,318
Non-impaired loans to the public, in arrears 90 days or more (4)	74	21	53	73	25	48
Non-impaired loans to the public, in arrears 30-89 days (4)	56	2	54	75	3	72
Other non-impaired loans to the public (4)	28,777	307	28,470	28,541	332	28,209
Total non-impaired loans to the public (4)	**28,907**	**330**	**28,577**	**28,689**	**360**	**28,329**
Total loans to the public reviewed individually	**30,768**	**1,243**	**29,525**	**31,049**	**1,402**	**29,647**

(1) Includes loans reviewed individually and found not to be impaired. The provision for credit loss with respect to these loans was calculated on 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 described 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 group basis.

Note 3 - Loans to the public and provision for credit loss - (un-audited) - continued

Reported amounts (NIS in millions)

B. Loans to the public reviewed individually (continued)

Supplementary information about loans to the public reviewed individually

	June 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	1,552	1,900
Impaired loans to the public for which no provision for credit loss was made individually	309	460
Total impaired loans to the public	**1,861**	**2,360**
3. Impaired loans to the public measured at present value of cash flows	1,539	2,107
Impaired loans to the public measured at collateral value	322	253
Total impaired loans to the public	**1,861**	**2,360**

4. Troubled debt in restructuring where changes were made to credit terms and conditions

	June 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	130	57	73	80	32	48
Accruing interest revenues, in arrears 90 days or more	-	-	-	2	-	2
Accruing interest revenues, in arrears 30-89 days	10	-	10	11	1	10
Accruing interest revenues	170	101	69	48	5	43
Total (included under impaired loans to the public)	**310**	**158**	**152**	**141**	**38**	**103**
Impaired debt accruing interest revenues which was re-structured in previous years.	37	2	35	79	15	64

5. Interest with respect to impaired loans to the public

	For the three months ended June 30, 2011	For the six months ended June 30, 2011
Average recorded debt balance of impaired loans to the public during reported period	2,080	2,154
Total interest income recognized in the reported period with respect to such loans in the period when it was classified as impaired (1)	14	36
Total interest income which would have been recognized in the reported period had this credit accrued interest at its original terms	**25**	**54**
(1) Includes: Interest income recognized in accordance with accounting policies on cash basis	11	31

Note 3 - Loans to the public and provision for credit loss - (un-audited) - 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
								June 30, 2011
Amount in arrears	10	10	26	36	463	535	87	632
Includes: Balance of provision for interest [1]	-	-	1	5	176	182	4	186
Recorded debt balance	426	361	310	144	594	1,409	327	2,162
Balance of provision for credit loss [2]	-	-	67	81	520	668	158	826
Debt balance, net	**426**	**361**	**243**	**63**	**74**	**741**	**169**	**1,336**
								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]	-	-	37	59	578	674	161	835
Debt balance, net	**709**	**374**	**210**	**59**	**50**	**693**	**157**	**1,559**

2. Other loans not reviewed on individual basis, for which the provision for credit loss was calculated on group basis:

	June 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	69	8	61	71	8	63
Non-impaired loans to the public, in arrears 30-89 days	102	4	98	145	3	142
Other non-impaired loans to the public	15,468	136	15,332	14,764	132	14,632
Total	**15,639**	**148**	**15,491**	**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.

Note 3 - Loans to the public and provision for credit loss - (un-audited) - 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	2,574	817	215	3,606
Six months ended June 30, 2011:				
Net accounting write-offs recognized as of January 1, 2011 [2]	(1,346)	-	(544)	(1,890)
Other changes to provision for credit loss as of January 1, 2011 (charged to shareholders' equity) [2]	(114)	18	1,015	919
Expenses with respect to credit loss	109	-	25	134
Accounting write-offs	(269)	(9)	(92)	(370)
Recovery of debt written off in previous years	5	-	63	68
Net accounting write-off	(264)	(9)	(29)	(302)
Balance of provision for credit loss as of June 30, 2011	**959**	**826**	**682**	**2,467**

	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 March 31, 2011	992	837	693	2,522
Three months ended June 30, 2011:				
Expenses with respect to credit loss	67	2	11	80
Accounting write-offs	(103)	(13)	(50)	(166)
Recovery of debt written off in previous years	3	-	28	31
Net accounting write-off	(100)	(13)	(22)	(135)
Balance of provision for credit loss as of June 30, 2011	**959**	**826**	**682**	**2,467**

	Provision for credit loss			
		On group basis [1]		
	On individual basis	By extent of arrears	Other	Total
Composition of provision balance as of June 30, 2011				
With respect to loans to the public	928	826	555	2,309
With respect to debt other than loans to the public	-	-	10	10
With respect to off-balance sheet credit instruments (included under Other Liabilities)	31	-	117	148
Total	**959**	**826**	**682**	**2,467**
Composition of provision balance as of December 31, 2010 (pro-forma)				
With respect to loans to the public	1,059	835	561	2,455
With respect to debt other than loans to the public	-	-	9	**9**
With respect to off-balance sheet credit instruments (included under Other Liabilities)	55	-	116	171
Total	**1,114**	**835**	**686**	**2,635**

(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

							June 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)	67,706	622	1,736	826	92	-	918
Other housing loans	623	6	38	-	-	14	14
Total	**68,329**	**628**	**1,774**	**826**	**92**	**14**	**932**
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	1,013	7	-	-	-	-	-

(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 3,971 million.
(3) Includes delinquency interest.
(4) Includes: Housing loans bearing variable interest, amounting to NIS 45,669 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	62,298	620	1,685	835	75	-	910
Other housing loans	520	7	30	-	-	18	18
Total	**62,818**	**627**	**1,715**	**835**	**75**	**18**	**928**
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.

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

	June 30, 2011	June 30, 2010	December 31, 2010
1. Consolidated data			
A. Capital for purpose of calculating minimum capital ratio			
Tier I capital, after deductions	7,342	(1) 6,783	(1) 7,218
Tier II capital, after deductions	5,617	(1) 5,267	(1) 5,527
Total capital	**12,959**	**12,050**	**12,745**
B. Weighted risk asset balances			
Credit risk	86,543	(1) 79,944	(1) 83,306
Market risk	1,030	934	579
Operating risk	7,645	7,173	7,407
Total weighted risk asset balances	**95,218**	**88,051**	**91,292**

	June 30, 2011	June 30, 2010	December 31, 2010
	In %	In %	In %
C. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	7.71	(1) 7.70	(1) 7.91
Ratio of total capital to risk elements	13.61	(1) 13.69	(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	8.79	(1) 8.94	(1) 9.17
Total ratio of capital to risk elements	13.18	(1) 13.52	(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 further details, See Note 1.E.4. to the financial statements.

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)

	June 30, 2011	June 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	2,077	2,001	2,066
Total cumulative other loss [(1)]	(26)	(107)	(62)
Retained earnings	5,060	[(3)] 4,670	[(3)] 4,980
Minority interest of external shareholders in equity of consolidated subsidiaries	365	[(3)] 358	[(3)] 366
Less:			
Goodwill	(87)	(93)	(87)
Tier I capital after Tier I deductions alone	**7,389**	**6,829**	**7,263**
Less:			
Investments in supervisory capital components of banking corporations	(19)	(19)	(19)
Other deductions from Tier I capital	(28)	(27)	(26)
Total Tier I capital	**7,342**	**6,783**	**7,218**
B. Tier II capital			
1. **Upper Tier II capital**			
General provision for doubtful debts [(2)]	110	110	110
Complex capital instruments	1,860	1,789	1,831
2. **Lower Tier II capital**			
Subordinated notes	3,694	[(3)] 3,414	[(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	(28)	(27)	(26)
Total Tier II capital	**5,617**	**5,267**	**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 further details, See Note 1.E.4. to the financial statements.

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)

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 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 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 June 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	12,755	503	1,753	171	295	-	15,477
Securities	2,417	416	1,633	838	45	82	5,431
Securities loaned or sold in conjunction with repurchase agreements	90	9	-	-	-	-	99
Loans to the public, net	57,900	42,179	8,387	2,217	1,708	-	112,391
Loans to Governments	-	-	1	105	-	-	106
Investments in investees	30	-	-	-	-	(14)	16
Buildings and equipment	-	-	-	-	-	1,551	1,551
Intangible assets and goodwill	-	-	-	-	-	87	87
Assets with respect to derivatives	2,333	252	124	52	150	-	2,911
Other assets	945	71	85	1	7	54	1,163
Total assets	**76,470**	**43,430**	**11,983**	**3,384**	**2,205**	**1,760**	**139,232**
Liabilities							
Deposits from the public	66,506	22,588	15,621	4,358	2,423	-	111,496
Deposits from banks	400	740	582	178	3	-	1,903
Deposits from the Government	7	119	31	-	-	-	157
Debentures and subordinated notes	1,458	9,843	-	-	-	-	11,301
Liabilities with respect to derivatives	1,586	266	222	135	52	-	2,261
Other liabilities	3,610	677	38	3	10	272	4,610
Total liabilities	**73,567**	**34,233**	**16,494**	**4,674**	**2,488**	**272**	**131,728**
Difference	**2,903**	**9,197**	**(4,511)**	**(1,290)**	**(283)**	**1,488**	**7,504**
Impact of hedging derivatives:							
Derivatives (except for options)	1,020	(1,020)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	834	(4,239)	3,118	603	(316)	-	-
Net in-the-money options (in terms of underlying asset)	(2,134)	-	1,220	559	374	(19)	-
Net out-of-the-money options (in terms of underlying asset)	(452)	-	333	55	55	9	-
Total	**2,171**	**3,938**	**160**	**(73)**	**(170)**	**1,478**	**7,504**
Net in-the-money options (capitalized par value)	315	-	(406)	(261)	337	15	-
Net out-of-the-money options (capitalized par value)	(431)	-	1,079	(341)	(413)	106	-

(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 June 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	8,704	555	2,109	225	336	-	11,929
Securities	2,934	761	1,932	1,604	94	86	7,411
Securities loaned or sold in conjunction with repurchase agreements	34	-	-	-	-	-	34
Loans to the public	51,053	36,294	8,773	2,444	2,443	-	101,007
Loans to the Government	-	-	1	-	-	-	1
Investments in investees	29	-	-	-	-	(16)	13
Buildings and equipment	-	-	-	-	-	1,492	1,492
Intangible assets and goodwill (3)	-	-	-	-	-	93	93
Assets with respect to derivatives (3)	1,306	238	973	12	92	-	2,621
Other assets (3)	(4)507	152	105	-	15	41	820
Total assets	**64,567**	**38,000**	**13,893**	**4,285**	**2,980**	**1,696**	**125,421**
Liabilities							
Deposits from the public	56,936	21,276	15,657	5,024	2,736	-	101,629
Deposits from banks	333	856	167	110	32	-	1,498
Deposits from the Government	6	152	37	-	-	-	195
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	-	7,978	-	-	-	-	7,978
Liabilities with respect to derivatives (3)	1,222	218	1,068	77	74	-	2,659
Other liabilities (3)	(4) 3,194	(4) 685	66	14	79	252	4,290
Total liabilities	**61,691**	**31,165**	**16,995**	**5,225**	**2,921**	**252**	**118,249**
Difference	**2,876**	**6,835**	**(3,102)**	**(940)**	**59**	**1,444**	**7,172**
Impact of hedging derivatives:							
Derivatives (except for options)	1,705	(1,705)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	(107)	(2,528)	1,500	1,214	(79)	-	-
Net in-the-money options (in terms of underlying asset)	(923)	-	1,315	(234)	(180)	22	-
Net out-of-the-money options (in terms of underlying asset)	(656)	-	514	46	108	(12)	-
Total	**2,895**	**2,602**	**227**	**86**	**(92)**	**1,454**	**7,172**
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		Foreign currency [1]			Non-monetary items[2]	
	Non-linked	CPI- linked	US dollars	Euro	Other currencies		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 June 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	330	452	499
- Loan guarantees	2,676	2,721	3,066
- Guarantees to purchasers of homes	6,454	5,716	5,566
- Other guarantees and liabilities [(1)]	2,491	1,699	1,738
- Unutilized revolving credit card facilities	6,445	6,687	6,076
- Unutilized debitory account and other credit facilities in accounts available on demand	17,333	15,551	17,225
- Irrevocable commitments for loans approved but not yet granted	9,457	8,420	10,345
- Commitments to issue guarantees	5,107	3,395	5,077

Note 6 - Contingent Liabilities and Special Commitments (continued)

Reported amounts (NIS in millions)

		As of June 30	As of December 31
	2011	2010	2011
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term rental contracts	545	452	544
Computerization and software service contracts	54	58	62
Acquisition and renovation of buildings	25	74	50
Receipt of deposits on future dates [(2)]	400	405	405

		As of June 30	As of December 31
	2011	2010	2011
		(unaudited)	(audited)
C. Credit exposure arising from securitization structures by others			
Other credit risk with respect to securitization structures	65	57	60

(1) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 156 million (as of June 30, 2010 and December 31, 2010 - NIS 140 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 overcharged 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.

      On May 22, 2011, an arbitration agreement, signed by the plaintiffs' attorney and by the qualified organs at the banks and insurance companies, was filed with the Tel Aviv District Court. Subject to its approval by the Court, this reconciliation agreement would conclude the proceedings as to these two motions.

Note 6 - Contingent Liabilities and Special Commitments (continued)

The reconciliation agreement stipulates that the banks would make a charitable donation to public causes amounting to NIS 17 million. Furthermore, the parties would recommend that the petitioners in the two motions be compensated, including their attorneys' legal fees, amounting in total to NIS 3 million.

On July 12, 2011, following a reconciliation proceeding between the parties designed to settle the claims, a decision was handed down by the District Court, whereby the defendants would contribute NIS 17 million to various non-profit organizations of their choosing.

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.

Note 6 - Contingent Liabilities and Special Commitments (continued)

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.

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 based there upon, 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 there by. 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 grant of 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.

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 71 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 stageso that no provision was made for these.

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.

Note 6 - Contingent Liabilities and Special Commitments (continued)

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.

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.

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 there to.

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

Note 6 - Contingent Liabilities and Special Commitments (continued)

commencement of the Supervisor inquiry into this matter, in November 2004. This is a civil determination which constitutes a-priori evidence of the content there of 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 granted 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 mentioned 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 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 June 30, 2011 (unaudited)					
	Interest 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	1,020	-	-	-	-	1,020
Swaps	-	1,737	-	-	-	1,737
Total	**1,020**	**1,737**	**-**	**-**	**-**	**2,757**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,737	-	-	-	1,737
B. ALM derivatives [(1)] [(2)]						
Forward contracts	8,711	5,928	60,916	153	64	75,772
Option contracts traded on stock exchange:						
Options written	-	-	2,222	895	-	3,117
Options purchased	-	-	2,550	981	-	3,531
Other option contracts:						
Options written	-	-	9,923	481	-	10,404
Options purchased	-	-	9,817	603	-	10,420
Swaps	1,183	45,282	9,054	-	-	55,519
Total	**9,894**	**51,210**	**94,482**	**3,113**	**64**	**158,763**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	683	25,919	-	-	-	26,602
C. Other derivatives [(1)]						
Forward contracts	-	-	946	-	-	946
Option contracts traded on stock exchange:						
Options written	-	-	5,326	15,083	-	20,409
Options purchased	-	-	5,326	15,083	-	20,409
Other option contracts:						
Options written	-	722	221	173	1	1,117
Options purchased	-	725	245	121	1	1,092
Total	**-**	**1,447**	**12,064**	**30,460**	**2**	**43,973**

(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 June 30, 2011 (unaudited)					
	Interest contracts				Commodities	
			Currency	Contracts	and other	
	NIS - CPI	Other	contracts	for shares	contracts	Total
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	1,444	1,444
Credit derivatives in which the Bank is beneficiary	-	-	-	-	25	25
Foreign currency spot swap contracts	-	-	3,720	-	-	3,720
Total	**-**	**-**	**3,720**	**-**	**1,469**	**5,189**
Total stated amounts of derivatives	**10,914**	**54,394**	**110,266**	**33,573**	**1,535**	**210,682**
.2 Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	18	191	-	-	-	209
B. ALM derivatives (1) (2)						
Positive fair value, gross	93	449	2,142	18	-	2,702
Negative fair value, gross	154	470	1,205	20	-	1,849
C. Other derivatives (1)						
Positive fair value, gross	-	9	96	105	-	210
Negative fair value, gross	-	9	94	113	-	216
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	10	10
Total positive fair value, gross (3)	**93**	**458**	**2,238**	**123**	**-**	**2,912**
Total negative fair value, gross (3)	**172**	**670**	**1,299**	**133**	**10**	**2,284**

(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 23 million.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

						June 30, 2010
	Interest contracts				Commodities and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
.1 Stated amounts of financial derivatives						
A. Hedging derivatives [1]						
Forward contracts	1,705	-	-	-	-	1,705
Swaps	-	2,119	-	-	-	2,119
Total	**1,705**	**2,119**	**-**	**-**	**-**	**3,824**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,042	-	-	-	2,042
B. ALM derivatives [1] [2]						
Forward contracts	5,743	2,622	60,268	192	65	68,890
Option contracts traded on stock exchange:						
Options written	-	-	1,613	-	-	1,613
Options purchased	-	-	1,464	-	-	1,464
Other option contracts:						
Options written	-	-	10,644	141	-	10,785
Options purchased	-	-	11,277	207	-	11,484
Swaps	22,423	6,468	6,892	-	-	35,783
Total	**28,166**	**9,090**	**92,158**	**540**	**65**	**130,019**
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	13,863	3,178	-	-	-	17,041
C. Other derivatives [1]						
Forward contracts	-	-	1,560	-	-	1,560
Option contracts traded on stock exchange:						
Options written	-	-	3,332	12,125	-	15,457
Options purchased	-	-	3,335	12,125	-	15,460
Other option contracts:						
Options written	-	74	220	320	-	614
Options purchased	-	74	233	250	-	557
Total	**-**	**148**	**8,680**	**24,820**	**-**	**33,648**

(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

						June 30, 2010
	Interest contracts				Commodities and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
D. Credit derivatives and spot contracts for foreign currency swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	911	911
Credit derivatives in which the Bank is beneficiary	-	-	-	-	28	28
Foreign currency spot swap contracts	-	-	3,637	-	-	3,637
Total	**-**	**-**	**3,637**	**-**	**939**	**4,576**
Total stated amounts of derivatives	**29,871**	**11,357**	**104,475**	**25,360**	**1,004**	**172,067**
.2 Fair value, gross, of financial derivatives						
A. Hedging derivatives [1]						
Positive fair value, gross	15	1	-	-	-	16
Negative fair value, gross	56	207	-	-	-	263
B. ALM derivatives [1] [2]						
Positive fair value, gross	551	115	1,477	8	3	2,154
Negative fair value, gross	616	161	1,166	12	3	1,958
C. Other derivatives [1]						
Positive fair value, gross	-	1	333	118	-	452
Negative fair value, gross	-	1	298	117	-	416
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	36	36
Total positive fair value, gross	**566**	**117**	**1,810**	**126**	**3**	**2,622**
Total negative fair value, gross	**672**	**369**	**1,464**	**129**	**39**	**2,673**

(1) Except for credit derivatives.

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

Note 7 - Financial derivatives activity – volume, credit risk and maturity dates (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	Commodities and other contracts	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	Commodities 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 June 30, 2011 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive fair value, gross, of financial derivatives (1)	576	1,899	12	-	425	2,912
Less offset agreements	-	93	-	-	14	107
Balance sheet balances of derivative instruments	576	1,806	12	-	411	2,805
Off-balance sheet credit risk on financial derivatives (2)	632	10,966	9	-	3,299	14,906
Total credit risk on financial derivatives	**1,208**	**12,772**	**21**	**-**	**3,710**	**17,711**

In the six-month period ended June 30, 2011, the Bank recognized credit loss with respect to derivatives amounting to NIS 21 million.

	As of June 30, 2010 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive fair value, gross, of financial derivatives (1)	408	1,415	15	-	784	2,622
Less offset agreements	-	5	-	-	18	23
Balance sheet balances of derivative instruments	408	1,410	15	-	766	2,599
Off-balance sheet credit risk on financial derivatives (2)	78	9,087	21	-	2,852	12,038
Total credit risk on financial derivatives	**486**	**10,497**	**36**	**-**	**3,618**	**14,637**

	As of December 31, 2010 (audited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments 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 1 million (December 31, 2010 and June 30, 2010 – NIS 1 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 2,804 million, included under "other assets" (December 31, 2010 - NIS 3,378 million and June 30, 2010 - NIS 2,598 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 June 30, 2011 (unaudited)
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
As of June 30, 2011 (unaudited)					
3 months to 1 year	939	4,606	4,152	1,217	10,914
Other	9,169	18,829	11,967	14,429	54,394
Currency contracts	71,333	30,326	3,270	5,337	110,266
Contracts for shares	32,464	963	146	-	33,573
Commodities and other contracts	67	1,085	315	68	1,535
Total	**113,972**	**55,809**	**19,850**	**21,051**	**210,682**

					As of June 30, 2010 (unaudited)
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts:					
NIS-CPI	3,925	8,898	10,728	6,320	29,871
Other	610	5,093	1,763	3,891	11,357
Currency contracts	51,353	47,860	1,823	3,439	104,475
Contracts for shares	24,844	355	161	-	25,360
Commodities and other contracts	66	174	590	174	1,004
Total	**80,798**	**62,380**	**15,065**	**13,824**	**172,067**

					As of December 31, 2010 (audited)
	Up to three months	3 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

				June 30, 2011
			Book balance	
	(1)	(2)	Total	Fair value
Financial assets				
Cash and deposits with banks	11,765	3,712	15,477	15,491
Securities	5,129	220	5,349	5,350
Securities loaned or sold in repurchase agreements	99	-	99	99
Loans to the public, net	11,616	100,775	112,391	113,695
Loans to Governments	-	106	106	104
Investments in investees	30	-	30	30
Intangible assets and goodwill				
Assets with respect to derivatives	2,911	-	2,911	2,911
Other financial assets	1,058	-	1,058	1,058
Total financial assets	32,608	104,813	137,421	138,738
Financial liabilities				
Deposits from the public	20,306	91,190	111,496	112,595
Deposits from banks	516	1,387	1,903	1,951
Deposits from the Government	9	148	157	173
Securities loaned or sold in conjunction with repurchase agreements	-	11,301	11,301	11,882
Debentures and subordinated notes				
Liabilities with respect to derivatives	2,261	-	2,261	2,261
Other financial liabilities	3,478	1	3,479	3,479
Total financial liabilities	26,570	104,027	130,597	132,341

(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

	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	6,733	636	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)				
Assets with respect to derivatives (3)	3,449	-	3,449	3,449
Other financial assets (3)	621	-	621	621
Total financial assets	**32,283**	**99,178**	**131,461**	**133,653**
Financial liabilities	22,882	83,109	105,991	107,348
Deposits from the public	921	1,511	2,432	2,501
Deposits from banks	5	167	172	192
Deposits from the Government	-	9,813	9,813	10,677
Debentures and subordinated notes				
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 an 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

	June 30, 2011 (unaudited)			
	Fair value measurement using			
	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	2,312	1,793	-	4,105
Of foreign governments	82	-	-	82
Of others	182	515	197	894
Shares of others	3	-	-	3
Securities held for trading:				
of Government of Israel	263	-	-	263
Of others	5	-	-	5
Total Securities	2,847	2,308	197	5,352
Securities loaned or sold in repurchase agreements	99	-	-	99
Credit with respect to loans to clients	302	-	-	302
Assets with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	80	13	93
Other	-	449	9	458
Currency contracts	484	1,754	-	2,237
Contracts for shares	98	8	16	123
Commodities and other contracts	-	-	-	-
Total Assets with respect to derivatives	582	2,291	38	2,911
Total Assets	**3,830**	**4,599**	**235**	**8,664**
Liabilities				
Deposits with respect to borrowing from clients	302	-	-	302
Liabilities with respect to derivatives				
Interest contracts:				
Shekel/ CPI	-	102	70	172
Other	-	661	9	670
Currency contracts	126	1,173	-	1,299
Contracts for shares	98	11	2	111
Commodities and other contracts	-	10	-	10
Total Liabilities with respect to derivatives	224	1,957	81	2,262
Other	-	16	7	23
Total Liabilities	**526**	**1,973**	**88**	**2,587**

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 June 30, 2011 (unaudited)						
	Fair value as of March 31, 2011	Total realized and unrealized gain, net	Purchase, issuance and disposition, net	Transfer to level 3	Transfer from level 3	Fair value as of June 30, 2011	Net unrealized gain with respect to instruments held as of June 30, 2011
Assets							
Securities available for sale							
Debentures and bonds:							
Of others	198	(1)	-	-	-	197	(1)
Interest contracts:							
Shekel/ CPI	3	1	-	9	-	13	1
Other	7	(2)	4	-	-	9	(2)
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	21	(5)	-	-	-	16	(5)
Commodities and other contracts	-	-	-	-	-	-	-
Assets with respect to derivatives							
Total assets	**229**	**(7)**	**4**	**9**	**-**	**235**	**(7)**
Liabilities							
Liabilities with respect to derivatives							
Interest contracts:							
Shekel/ CPI	64	8	(4)	2	-	70	8
Other	7	(2)	4	-	-	9	(2)
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	5	(3)	-	-	-	2	(3)
Commodities and other contracts	-	-	-	-	-	-	-
Other	8	(1)	-	-	-	7	(1)
Total liabilities	**84**	**2**	**-**	**2**	**-**	**88**	**2**

(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 six months ended June 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 June 30, 2011	Net unrealized gain with respect to instruments held as of June 30, 2011
Assets							
Securities available for sale							
Debentures and bonds:							
Of others	193	4	-	-	-	197	4
Interest contracts:							
Shekel/ CPI	8	(3)	(3)	11	-	13	(3)
Other	4	(1)	6	-	-	9	(1)
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	17	(3)	2	-	-	16	(3)
Commodities and other contracts	-	-	-	-	-	-	-
Assets with respect to derivatives							
Total assets	**222**	**(3)**	**5**	**11**	**-**	**236**	**(3)**
Liabilities							
Liabilities with respect to derivatives							
Interest contracts:							
Shekel/ CPI	62	17	(54)	45	-	70	17
Other	4	(1)	6	-	-	9	(1)
Currency contracts	-	-	-	-	-	-	-
Contracts for shares	-	2	-	-	-	2	2
Commodities and other contracts	-	-	-	-	-	-	-
Other	3	2	2		-	7	2
Total liabilities	**69**	**20**	**(46)**	**45**	**-**	**88**	**20**

(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 the first half of 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

	For the three months ended June 30, 2011		For the six months ended June 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	(1)	(1)	2	2
Total securities available for sale				
Assets with respect to derivatives	(6)	(6)	(7)	(7)
Total assets	**(7)**	**(7)**	**(5)**	**(5)**
Liabilities				
Liabilities with respect to derivatives	3	3	18	18
Other	(1)	(1)	2	2
Total liabilities	**2**	**2**	**20**	**20**

F. As of June 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 June 30		For the six months ended June 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
		(unaudited)		(unaudited)	(unaudited)
A. From assets [(1)]					
From loans to the public	1,604	1,786	2,981	1,923	3,912
From loans to the Government	-	9	5	6	6
From deposits with the Bank of Israel and from cash	55	54	112	44	(75)
From deposits with banks	74	142	45	94	(91)
From securities loaned or sold in repurchase agreements	2	1	3	2	4
From debentures	(24)	84	55	(4)	(98)
	1,711	**2,076**	**3,201**	**2,065**	**3,658**
B. On liabilities [(1)]					
On deposits from the public	(613)	(1,117)	(1,216)	(460)	(265)
On deposits from the government	(3)	(6)	(5)	(6)	(9)
On deposits from the Bank of Israel and from cash	-	-	-	-	-
On deposits from banks	(29)	(139)	(66)	(98)	(97)
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-
On debentures and subordinated notes	(242)	(179)	(429)	(213)	(558)
	(887)	**(1,441)**	**(1,716)**	**(777)**	**(929)**
C. On financial derivatives and hedging activities					
Non-effective element of hedging ratios [(2)]	-	-	(1)	-	-
Expenses, net, with respect to ALM derivatives [(3)]	(70)	(44)	57	(135)	(287)
Net income (expenses) with respect to other derivatives	(49)	(6)	(168)	(13)	52
	(119)	**(50)**	**(112)**	**(148)**	**(235)**
D. Other					
Commissions from financing transactions	31	23	62	46	95
Financing revenues from collection of interest on arrears from individual borrowers	7	8	14	15	27
Interest income on problem loans	7	18	26	39	195
Gain (loss) from sale of debentures available for sale, net [(4)]	-	30	(1)	35	28
Realized and unrealized gain from adjustment to fair value of debentures held for trade, net	3	-	5	-	9
Other financing revenues	52	54	86	86	153
Other financing expenses	(10)	(4)	(18)	(17)	(42)
	90	**129**	174	**204**	**465**
Total profit from financing operations before expenses with respect to credit loss	**795**	**714**	**1,547**	**1,344**	**2,959**
Includes: exchange rate differences, net	21	9	20	6	(1)
E. Details of net effect of hedging financial derivatives on profit from financing operations					
Financing revenues (expenses) from assets (section A)	(5)	(18)	(9)	(17)	(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 June 30		For the six months ended June 30		For the Year Ended December 31
	2011	2010	2011	2010	2010
	(unaudited)		(unaudited)		(unaudited)
Gain from sale of shares available for sale, net	2	-	2	1	3
Provision for impairment of available-for-sale shares	-	-	-	(2)	(5)
Dividends from available-for-sale shares	1	1	1	1	1
Total loss from investments in shares, net	**3**	**1**	**3**	**-**	**(1)**

Note 11 – Operating Segments

For the six months ended June 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	1,847	11	216	132	153	(812)	1,547
Inter-segment	(1,052)	38	1	(44)	138	919	-
Profit from financing operations before expenses with respect to credit loss	**795**	**49**	**217**	**88**	**291**	**107**	**1,547**
Operating and other income	412	27	111	29	50	70	699
Total revenues	**1,207**	**76**	**328**	**117**	**341**	**177**	**2,246**
Expenses with respect to credit loss	36	(1)	37	21	34	7	134
Operating and other expenses							
From outside operating segments	811	34	221	37	111	114	1,328
Inter-segment	(58)	(1)	(24)	35	41	7	-
Other operating expenses - total	**753**	**33**	**197**	**72**	**152**	**121**	**1,328**
Pre-tax operating profit	418	44	94	24	155	49	784
Provision for taxes on operating profit	147	15	33	9	55	16	275
After-tax operating profit	**271**	**29**	**61**	**15**	**100**	**33**	**509**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	1	1
Net operating profit:							
Before attribution to non-controlling interest	271	29	61	15	100	34	510
Attributable to non-controlling interest	(18)	-	-	-	-	-	(18)
Attributable to equity holders of the banking corporation	**253**	**29**	**61**	**15**	**100**	**34**	**492**
After-tax loss from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	(2)	(2)
Net profit:							
Before attribution to non-controlling interest	271	29	61	15	100	32	508
Attributable to non-controlling interest	(18)	-	-	-	-	-	(18)
Attributable to equity holders of the banking corporation	**253**	**29**	**61**	**15**	**100**	**32**	**490**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**16.2%**	**89.6%**	**34.3%**	**7.7%**	**8.0%**	**19.4%**	**14.6%**
Average balance of assets	74,009	2,799	5,908	4,694	24,848	24,767	137,025
Includes: Investments in affiliates	-	-	-	-	-	17	17
Average balance of liabilities	49,387	6,059	6,689	3,076	28,416	36,042	129,669
Average balance of risk assets (1)	44,683	997	4,984	5,166	32,868	4,608	93,306
Average balance of provident and mutual fund assets	-	-	-	-	-	81,014	81,014
Average balance of securities	28,130	7,293	8,515	3,920	72,245	39,813	159,916
Loans to the public, net (end balance)	79,603	1,797	6,029	4,941	20,021	-	112,391
Deposits from the public (end balance)	49,736	6,115	6,845	2,994	28,920	16,886	111,496
Average balance of other assets managed	21,922	-	135	39	124	-	22,220

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	487	26	156	68	169	-	906
Margin from receiving deposits	264	22	41	11	40	-	378
Other	44	1	20	9	82	107	263
Total	**795**	**49**	**217**	**88**	**291**	**107**	**1,547**

(1) Risk weighted assets - as calculated for capital adequacy (Proper Conduct of Banking Business Regulation No. 201).

Note 11 – Operating Segments (continued)

For the six months ended June 30, 2010 (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	1,155	(3)	183	95	(2) 298	(2) (384)	1,344
Inter-segment	(513)	26	(11)	(17)	2	513	-
Profit from financing operations before expenses with respect to credit loss	**642**	**23**	**172**	**78**	**300**	**129**	**1,344**
Operating and other income	404	28	101	27	46	76	682
Total revenues	**1,046**	**51**	**273**	**105**	**346**	**205**	**2,026**
Expenses with respect to credit loss	34	-	17	(1)	129	-	179
Operating and other expenses							
From outside operating segments	770	26	205	35	102	112	1,250
Inter-segment	(58)	4	(25)	34	38	7	-
Other operating expenses - total	**712**	**30**	**180**	**69**	**140**	**119**	**1,250**
Pre-tax operating profit	300	21	76	37	77	86	597
Provision for taxes on operating profit	109	8	29	13	27	32	218
After-tax operating profit	**191**	**13**	**47**	**24**	**50**	**54**	**379**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	191	13	47	24	50	54	379
Attributable to non-controlling interest	(8)	-	-	-	-	-	(8)
Attributable to equity holders of the banking corporation	**183**	**13**	**47**	**24**	**50**	**54**	**371**
After-tax profit from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	-	-
Net profit:							
Before attribution to non-controlling interest	191	13	47	24	50	54	379
Attributable to non-controlling interest	(8)	-	-	-	-	-	(8)
Attributable to equity holders of the banking corporation	**183**	**13**	**47**	**24**	**50**	**54**	**371**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**12.7%**	(2) **44.5%**	**27.9%**	**12.6%**	(2) **3.9%**	(2) **40.5%**	**11.5%**
Average balance of assets	66,152	1,831	5,176	4,505	25,749	16,286	119,699
Includes: Investments in affiliates	-	-	-	-	-	13	13
Average balance of liabilities	47,166	5,940	6,189	3,049	18,701	31,618	112,663
Average balance of risk assets (1)	39,510	(2) 801	4,463	4,873	32,215	(2) 4,130	85,992
Average balance of provident and mutual fund assets	-	-	-	-	-	74,164	74,164
Average balance of securities	26,063	7,073	7,498	4,445	63,307	32,296	140,682
Loans to the public, net (end balance)	(2) 69,039	(2) 913	5,184	4,641	21,230	-	101,007
Deposits from the public (end balance)	47,015	5,810	6,284	2,966	21,091	18,463	101,629
Average balance of other assets managed	22,668	-	344	16	124	-	23,152

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	389	8	123	63	215	-	798
Margin from receiving deposits	187	14	26	7	34	-	268
Other	66	1	23	8	51	129	278
Total	**642**	**23**	**172**	**78**	**300**	**129**	**1,344**

(1) Risk weighted 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 June 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	1,005	4	118	60	71	(463)	795
Inter-segment	(588)	23	1	(18)	74	508	-
Profit from financing operations before expenses with respect to credit loss	**417**	**27**	**119**	**42**	**145**	**45**	**795**
Operating and other income	194	13	55	14	24	41	341
Total revenues	**611**	**40**	**174**	**56**	**169**	**86**	**1,136**
Expenses with respect to credit loss	17	2	11	20	35	(5)	80
Operating and other expenses							
From outside operating segments	403	16	109	20	55	52	655
Inter-segment	(29)	(1)	(11)	17	21	3	-
Other operating expenses - total	**374**	**15**	**98**	**37**	**76**	**55**	**655**
Pre-tax operating profit	220	23	65	(1)	58	36	401
Provision for taxes on operating profit	76	8	22	1	20	11	138
After-tax operating profit	**144**	**15**	**43**	**(2)**	**38**	**25**	**263**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	144	15	43	(2)	38	25	263
Attributable to non-controlling interest	(10)	-	-	-	-	-	(10)
Attributable to equity holders of the banking corporation	**134**	**15**	**43**	**(2)**	**38**	**25**	**253**
After-tax loss from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	(1)	(1)
Net profit:							
Before attribution to non-controlling interest	144	15	43	(2)	38	24	262
Attributable to non-controlling interest	(10)	-	-	-	-	-	(10)
Attributable to equity holders of the banking corporation	**134**	**15**	**43**	**(2)**	**38**	**24**	**252**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**16.8%**	**60.3%**	**50.3%**	**(2.0%)**	**6.3%**	**40.4%**	**15.2%**

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	253	14	82	34	79	-	862
Margin from receiving deposits	141	12	22	7	22	-	204
Other	23	1	15	1	44	45	129
Total	**417**	**27**	**119**	**42**	**145**	**45**	**795**

Note 11 – Operating Segments (continued)
For the three months ended June 30, 2010 (unaudited) - continued

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	875	(11)	89	57	[1] 151	[1] (447)	714
Inter-segment	(540)	18	1	(15)	16	520	-
Profit from financing operations before expenses with respect to credit loss	**335**	**7**	**90**	**42**	**167**	**73**	**714**
Operating and other income	202	13	49	13	25	40	342
Total revenues	537	20	139	55	192	113	1,056
Expenses with respect to credit loss	30	-	11	-	81	-	122
Operating and other expenses							
From outside operating segments	381	12	101	18	52	55	619
Inter-segment	(29)	3	(13)	16	19	4	-
Other operating expenses - total	**352**	**15**	**88**	**34**	**71**	**59**	**619**
Pre-tax operating profit	155	5	40	21	40	54	315
Provision for taxes on operating profit	53	2	16	7	13	19	110
After-tax operating profit	**102**	**3**	**24**	**14**	**27**	**35**	**205**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	102	3	24	14	27	35	205
Attributable to non-controlling interest	(4)	-	-	-	-	-	(4)
Attributable to equity holders of the banking corporation	**98**	**3**	**24**	**14**	**27**	**35**	**201**
After-tax profit from extraordinary items before attribution to non-controlling interest	-	-	-	-	-	(1)	(1)
Net profit:							
Before attribution to non-controlling interest	102	3	24	14	27	34	201
Attributable to non-controlling interest	(4)	-	-	-	-	-	(4)
Attributable to equity holders of the banking corporation	**98**	**3**	**24**	**14**	**27**	**34**	**200**
Return on equity (percentage of net profit attributed to equity holders of the banking corporation out of average equity)	**13.4%**	[1] **21.3%**	**29.6%**	**14.6%**	[1] **4.1%**	[1] **77.4%**	**12.4%**

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	204	2	66	35	122	-	429
Margin from receiving deposits	99	5	14	3	19	-	140
Other	32	-	10	4	26	73	145
Total	**335**	**7**	**90**	**42**	**167**	**73**	**714**

(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	Financial management	Total consolidated
Profit from financing operations before expenses with respect to credit loss							
From outside operating segments	2,777	(2)	377	232	(2) 623	(2) (1,048)	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**	**676**	**320**	**2,959**
Operating and other income	810	56	206	56	89	150	1,367
Total revenues	**2,186**	**112**	**568**	**225**	**765**	**470**	**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	133	222	1,287
Provision for taxes on operating profit	233	19	56	30	48	83	469
After-tax operating profit	**408**	**32**	**100**	**54**	**85**	**139**	**818**
Share in net after-tax operating profit of affiliates	-	-	-	-	-	-	-
Net operating profit:							
Before attribution to non-controlling interest	408	32	100	54	85	139	818
Attributable to non-controlling interest	(18)	-	-	-	-	(1)	(19)
Attributable to equity holders of the banking corporation	**390**	**32**	**100**	**54**	**85**	**138**	**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	85	141	820
Attributable to non-controlling interest	(18)	-	-	-	-	(1)	(19)
Attributable to equity holders of the banking corporation	**390**	**32**	**100**	**54**	**85**	**140**	**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) 3.3%**	**(2) 44.6%**	**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	406	-	1,653
Margin from receiving deposits	424	35	57	16	66	-	598
Other	116	2	47	19	204	320	708
Total	**1,376**	56	**362**	169	**676**	**320**	**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

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, non-linked), pursuant to the shelf prospecus dated February 25, 2011, for consideration of NIS 1,155 million.

The proceeds from all of Issuance were deposited at the Bank under similar terms.