Condensed Financial Statements as of September 30, 2010

Table of Contents

Condensed Board of Directors' Report
For Financial Statements as of September 30, 2010

At the meeting of the Board of Directors of Mizrahi Tefahot Bank held on November 22, 2010, 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 September 30, 2010.

The financial statements were prepared in accordance with the directives and guidelines issued by the Supervisor of Banks.

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

Developments in Israel's economy in the first nine months of 2010

Real Developments

In the first nine months of 2010, expansion in economic activity continued, although growth in the third quarter was more moderate.

By estimates of the Central Bureau of Statistics, GDP grew in the third quarter at an annualized rate of 3.8%, following growth at a pace of 4.5% in the second quarter. Per capita GDP grew by 1.9%, following growth at 2.7% in the second quarter. Imports of goods and services declined by 4.6%, following 5.9% growth in the second quarter.

Exports of goods and services declined by 9.6%, following 13.9% growth in the second quarter. Private consumption grew by 1.3%, following 6.7% growth in the second quarter. Investment in fixed assets rose by 9.7%, following 16.2% growth in the second quarter, with 13.2% growth recorded in investment in residential construction. Public consumption expenditure rose by 10.2%, following 1.1% growth in the second quarter.

The downward trend in unemployment, which started in May 2009, continued in the first half of 2010 - but came to a halt in the third quarter of this year. In August this year, the unemployment rate was 6.3%, compared to 7.9% in May 2009 and to 5.9% in July 2008.

Inflation and exchange rates

In the first nine months of 2010, the Consumer Price Index rose by 1.9%, compared to a 3.5% rise in the corresponding period last year. The CPI was primarily impacted by higher prices for housing and for fruits and vegetables - which accounted for 90% of the increase in the CPI. In the third quarter, the CPI rose by 1.2%, compared to a 1.3% rise in the corresponding period last year.

In the first nine months of 2010, the NIS was revalued by 2.9% vs. the USD and by 8.4% vs. the Euro. The NIS/USD exchange rate on September 30, 2010 was NIS 3.665 per USD 1, compared with NIS 3.775 per USD 1 on December 31, 2009. The NIS/EUR exchange rate on September 30, 2010 was NIS 4.987 per EUR 1, compared with NIS 5.442 per EUR 1 on December 31,2009. In the third quarter of 2010, the NIS / USD exchange rate was revalued by 5.4%, with the NIS being devalued by 4.8% vs. the Euro.

In support of the exchange rate, the Bank of Israel bought, during the first nine months of 2010, foreign currency equivalent to USD 6.7 billion, subsequent to buying USD 20 billion in 2009.

Monetary and fiscal policy

In the first nine months of 2010, the Bank of Israel raised its interest rate three times, by 0.25 percentage point each time, to 1.75% at the end of the reviewed period. Note that during this period, the Bank of Israel stated on multiple occasions its intention to gradually return monetary interest rates to "normal levels". Real interest rates in the market, which reflect the Bank of Israel interest rate net of expected inflation, increased in this period by 0.5%, but remained negative at -1% at the end of the reviewed period. For October, the interest rate was raised once again to 2.00%, and remained unchanged for November.

In view of the continued rise in housing prices, the Bank of Israel adopted in late October a restrictive policy focused on the housing market. In guidance made public by the Bank of Israel, it directed banks to increase the capital allocation required for large housing loans with a loan-to-value ratio higher than 60% and with a significant component of adjustable interest. This directive follows other directives published in the second quarter of this year, whereby the Bank of Israel had directed banks to make a supplementary provision for doubtful debts at 0.75% for each housing loan with a loan-to-value ratio higher than 60%.

In the first nine months of 2010, the government budget recorded a NIS 14 billion deficit, compared to a NIS 23 billion deficit in the corresponding period last year, and compared to a planned deficit of NIS 43 billion for all of 2010. The deficit is tracking below expectation year to date, due to NIS 8 billion in excess tax collected over the budget, despite expenses also being higher than expected. The deficit in trailing 12 months terms, is trending lower year to date, and in September was at NIS 30 billion, compared to a NIS 39 billion deficit in 2009.

Residential construction and the mortgage market

According to data from the Central Bureau of Statistics, total demand for new apartments (apartments sold and apartments constructed other than for sale) increased in the first eight months of 2010 by 1% over the corresponding period last year. The total number of transactions (new and previously owned apartments) also remained stable in the current period compared to the corresponding period last year.

Annualized housing starts in the first seven months of 2010 were 36 thousand units - a 5.5% increase compared to 2009 housing starts. Estimates by the Central Bureau of Statistics indicate an 11% increase in investment in residential construction in 2010, following a 5% increase in 2009. These increases in housing starts and in investment in residential construction, have yet to be reflected by apartments offered for sale, which has trended downwards. New apartments for sale from private development was at 9,370 in August, a 7% decrease over the figure at the end of 2009. The inventory of apartments for sale is sufficient for 6.5 months, based on average sales in the six months ended in August - compared to 7.8 months' inventory at the end of 2009.

The upward trend in apartment prices continued in 2010. According to the housing price survey by the Central Bureau of Statistics, in the 12 months ended in August, housing prices increased by 19%. The higher prices led to an increase in mortgage origination, up by 40% in the first nine months of this year over the corresponding period last year.

Capital market

The TEL-AVIV 25 Index, which increased by 13.6% in the second quarter of this year, ended the third quarter up by 15.4%. Year to date, this index is up by 7.1%. The TEL-AVIV 100 Index, which decreased by 14.3% in the second quarter of this year, ended the third quarter up by 14.0%, or a 6% increase year to date. The Banking Index, which decreased by 17.9% in the second quarter, reversed the trend in the third quarter, rising by 18.7%, or a 3.5% decrease year to date. The TEL-TECH 15 Index, which declined by 19.9% in the second quarter, increased by 4.6% in the third quarter. In the first nine months of this year, this index rose by 0.1%. The Real Estate 15 Index, which decreased by 16.8% in the second quarter, reversed the trend and rose by 16.5% in the third quarter. Year to date, the Real Estate 15 Index is up by 2.4%.

The average daily trading volume in shares and convertible securities in the third quarter of this year was NIS 1,650 million - lower than the average for the second quarter, which was NIS 2,394 million. The average daily trading volume in the first nine months of 2010 amounted to NIS 2,032 million. New issues and public offerings decreased significantly in the third quarter of this year, amounting to NIS 1,339 million, compared to NIS 5,103 million in the second quarter. Year to date, total capital raised by stock issuance amounted to NIS 8,195 million.

Similarly to the stock market, prices of debentures continued to rise in the third quarter of this year. Thus, the General Government Debenture Index, which rose by 3.3% in the second quarter, continued rising by 1.2% in the third quarter. Year to date, the General Government Debenture Index rose by 6.3%. Non-linked, variable interest government debentures, which rose by 2.8% in the second quarter, continued rising by 0.9% in the third quarter. Year to date, the Non-Linked Government Debenture Index rose by 4.9%. CPI-linked government debentures, which rose by 4.3% in the second quarter, continued rising by 1.9% in the third quarter. Year to date, the CPI-Linked Government Debenture Index rose by 8.2%. Corporate debentures increased by 1.7% in the second quarter, rising by a further 3.7% in the third quarter. Year to date, corporate debentures are up 11.2%.

The business sector raised a total of NIS 13,493 billion in the third quarter of 2010 by issuing bonds to the public and to institutional investors, compared to NIS 10,297 billion in the previous quarter. Year to date in 2010, the business sector raised NIS 33,467 million.

Average daily trading volume in debentures was NIS 3,155 million in the third quarter, slightly below the NIS 3,195 million average in the second quarter. The average daily trading volume in debentures in the first nine months of 2010 amounted to NIS 3,172 million.

Global economy

GDP in the USA increased in the third quarter at an annualized 2.0%, following a 1.7% increase in the second quarter. Private consumption expanded by 2.6%, following a 2.2% increase in the previous quarter. Unemployment in the USA remained high, at 9.7% in September - similar to the level throughout 2010. In view of the moderate growth, high inflation and fear of deflation in the USA, the Federal Reserve maintained its interest rates essentially unchanged in the first nine months of 2010 at a range of 0%-0.25%. The Federal Reserve has also decided to expand fund injection into the economy, by means of an additional plan to buy government debentures valued at USD 600 billion.

The Euro zone grew rapidly in the second quarter of this year - at an annualized 4.0% rate. This rapid growth was achieved mainly due to Germany (which accounts for 30% of the Euro zone), whereas other countries in the Euro zone grew at a more moderate pace, and some - even at a negative rate. In the third quarter, the growth rate in the Euro zone was more moderate, at 1.6%.

The first half of 2010 saw concern about insolvency of several countries, due to high government debt. In view of these concerns, the EUR was devalued by 15% against the USD in the first half of 2010. In the third quarter, the USD weakened further against the EUR, which rose by 11%.

In view of concerns about deterioration in Japan's economy, the Central Bank of Japan decided to adopt an expansive policy (in addition to other steps taken before). These steps include: Reduction of monetary interest rates to a range of 0.0%-0.1%, compared to 0.1% previously; accelerated purchase of financial assets in order to lower long-term interest rates as well; and intervention in the foreign currency market, for the first time since 2004, in order to devalue the local currency.

In view of the USD weakness around the world, other countries have initiated steps designed to prevent strengthening of the local currencies, including intervention in foreign currency trading and higher capital gains tax rates for foreign investors. These countries include: Brazil, Thailand, South Korea and Switzerland.

China's economy grew by 9.6% in the third quarter, compared to 10.3% in the second quarter and to 11.9% in the first quarter. Despite the slower growth, policy makers in China, concerned about development of a housing bubble and about higher inflation, have initiated some restrictive policies during the year, including requiring higher capital adequacy ratios for banks and imposing restrictions on granting of housing credit. In October, the Central Bank raised its interest rate for the first time since 2007, to 5.56%.

Forward-looking information

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

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

Dividends

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

Payment date	Dividend per share (in Agorot)	Total dividends paid (NIS millions)
February 19, 2008	33.80	75
June 11, 2008	33.78	75
September 8, 2010[1]	89.59	200

(1) On August 16, 2010, the Bank Board of Directors decided to pay dividends amounting to NIS 200 million, or 895.9% of the issued capital, i.e. NIS 0.8959 per each share of NIS 0.1 par value. The ex-dividend date is August 27, 2010, and the dividends were paid on September 8, 2010.

Significant events in the Bank Group's business

Resolution by the Board of Directors with regard to setting target for capital adequacy ratio

Pursuant to directives of the Supervisor of Banks dated June 30, 2010, whereby the Bank should adopt a target core capital ratio as of December 31, 2010, in reference to core capital net of all deductions required under Tier I, pursuant to provisions of Proper Banking Conduct Regulation 202 ("Measurement and Capital Adequacy - Capital Components") (hereinafter - "core capital ratio"), the Bank's Board of Directors resolved on October 25, 2010 to determine that the target core capital ratio (original Tier I capital adequacy ratio) shall be no less than 7.5%. Further, the Board of Directors resolved to direct Bank management to act so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank's Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

Resolution by the Board of Directors with regard to updates to the Bank's Strategic Plan

The Bank's current strategic plan for 2008-2013, as approved by the Board of Directors, stipulated a target net margin from current operations return on average shareholders' equity at 18% in 2013, which the Bank was to have achieved by means of multiple growth engines, based on underlying assumptions and forecasts as set forth in the Board of Directors report dated December 31, 2009. The strategic plan was based, *inter alia*, on the principle that during the plan's duration, the Bank would maintain a capital adequacy ratio (excluding upper Tier II capital) of no less than 10% (which arithmetically leads to original Tier I capital ratio, excluding upper Tier II capital and excluding subordinated capital notes, of 6.67%). On June 29, 2009 the Bank Board of Directors resolved to instruct Bank management to act so as to have the original Tier I capital adequacy ratio for the Bank be no less than 6.7% by end of 2009. The resolution by the Board of Directors with regard to the capital adequacy ratio, as stated above, increases the average shareholders' equity basis used in Bank operations, and arithmetically results in a given profit yielding a lower return. The outcome of the foregoing is a lower rate of return on equity.

In view of the Board resolution with regard to the target core capital ratio, as mentioned above, the Bank's Board of Directors decided to update the Bank's strategic plan, so that the targeted net operating profit return on average equity for 2013 would be 15%.

Other than the change in targeted return on equity, as stated above, there will be no change to other components of the Bank's Strategic Plan

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Labor dispute at Mehish Computer Services Ltd.

On October 21, 2010, a labor dispute was announced between the MAOF Trade Union and Mehish Computer Services Ltd. ("Mehish"), the Bank's IT subsidiary. The main causes of this dispute are the demand by employees to sign wage agreements for 2005-2009, their demand to update the wage linkage mechanism, as well as restructuring by management which, the employees claim, infringes on their rights.

Based on guidance from the MAOF trade union, since no agreement has been signed by November 7, 2010, Mehish employees may go on strike effective immediately. As of the publication date of these financial statements, Mehish management and staff representatives continue to negotiate, but the parties have yet to reach an agreement.

Updates to Stock Option Plan for VPs

On March 29, 2009, the Bank's Board of Directors, after approval by the Bank's Audit Committee, resolved to approve a plan to allocate option warrants pursuant to a private offer, other than a material private offer ("the plan") to VPs who are members of Bank management. See Note 16.A.2 to the 2009 financial statements for details.

On March 21, 2010, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve allotment of a further 520,000 options, to a VP appointed on January 18, 2010.

On October 26, 2010, the Board of Directors decided, with approval of the Audit Committee, to update the eligibility rate for vesting in each of the stock option plans for VPs. Based on management estimate of the trend in annual rate of return, the aforementioned change in plan terms should not impact the Bank's financial statements.

For additional details, see Note 11.A. to the financial statements.

Updates to employee stock option plan

On May 19, 2008, after approval by the Bank's Audit Committee and Board of Directors, option warrants were allotted to Bank officers, branch, department and affiliate managers as well as to other employees of the Bank and its subsidiaries. See Note 16.A.3.b) to the 2009 financial statements for details.

On October 26, 2010, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 1,652,500 option warrants, under identical terms and conditions with the exception of the exercise price, to 41 employees, including one officer of the Bank. The theoretical benefit value of the option warrants in this allotment, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 11 million (NIS 13 million including Payroll Tax).

On October 26, 2010, the Bank's Board of Directors decided, with approval of the Audit Committee, to update the eligibility formula for vesting in each of the stock option plans.

For additional details, see Note 11.B. to the financial statements.

Update to the framework program for bonus payment

On May 19, 2008, the Board of Directors, after receiving approval of the Audit Committee, resolved to approve a bonus framework for Bank officers, other than Board members including the Chairman of the Board of Directors and other than the Bank President (hereinafter in this section "the officers") for each of the years 2008-2012 (inclusive), *inter alia* by way of creating a pool for bonus payments to officers. For details, see Note 16.N to the 2009 financial statements.

Further to the Board decision with regard to updating the strategic plan, aimed primarily at adjusting the framework plan for bonus payment, the Board of Directors decided, on October 26, 2010, to update the annual rate of return set as a minimum threshold for transferring salaries to create a bonus payment pool. See Note 11.C to the financial statements for details.

Profit and Profitability

Net profit for the Group in the third quarter of 2010 amounted to NIS 209 million, compared to NIS 156 million in the corresponding period last year – an increase of 34.0%. This profit reflects an annualized 12.7% return on equity, compared to 10.2% in the corresponding period last year.

Net profit for the Group in the first nine months of 2010 amounted to NIS 582 million, compared to NIS 416 million in the corresponding period last year - a 39.9% increase. This profit reflects an annualized 11.6% return on equity, compared to 9.1% in the corresponding period last year and to 8.5% in all of 2009.

The following major factors impacted Group profit in the first nine months of 2010 over the corresponding period last year:

- Profit from financing operations before provision for doubtful debts increased in the first nine months of 2010 by NIS 349 million - or 20.2% - over the corresponding period last year.
- Revenues from operating commissions increased in the first nine months of 2010 by NIS 26 million, or 2.7%, over the corresponding period last year.
- The provision for doubtful debts increased in the first nine months of 2010 by NIS 13 million - or 4.9% - compared to the corresponding period last year.
- Operating and other expenses increased by NIS 20 million, or 1.1%, over the corresponding period last year.
- Net gain from investment in shares amounted to NIS 59 million in the corresponding period last year, and no such gain was recorded in the first nine months of 2010.

Development of revenues and expenses

Group profit from financing operations before provision for doubtful debts in the third quarter of 2010 amounted to NIS 735 million, compared with NIS 582 million in the corresponding period last year - an increase of 26.3%.

Group profit from financing operations before provision for doubtful debts in the first nine months of 2010 amounted to NIS 2,079 million, compared with NIS 1,730 million in the corresponding period last year – a 20.2% increase.

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

	First nine months		
	2010	2009	Rate of change
Current operations	**1,937**	**1,660**	**16.7%**
Revenues from interest on problem loans	94	102	
Gain from realized debentures available for sale and debentures held for trade, net	38	22	
Effect of accounting treatment of derivatives at fair value and others [1]	10	(54)	
Total	**2,079**	**1,730**	**20.2%**

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

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

	First nine months		
Operating segment	2010	2009	Rate of change
Retail banking:			
Mortgages	371	322	15.2%
Household	633	513	23.4%
Small business	266	221	20.4%
Total	1,270	1,056	20.3%
Private banking	40	33	21.2%
Commercial banking	120	105	14.3%
Business banking	471	440	7.0%
Financial management	178	96	85.4%
Total	2,079	1,730	20.2%

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

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

	First nine months		
Linkage segments	2010	2009	Rate of change
Israeli currency - non-linked [1]	113,140	[3] 98,035	15.4%
Israeli currency - linked to the CPI	41,169	40,806	0.9%
Foreign currency (including Israeli currency linked to foreign currency) [1][2]	64,528	67,662	(4.6%)
Total	218,837	[3] 206,503	6.0%

(1) The increase in average balance of financial assets in the non-linked segment is primarily due to an increase in non-linked credit and to increase in derivative transactions.

(2) Local operations and overseas affiliates.

(3) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

Interest differentials in the various linkage segments (in %, based on average balances) (including impact of derivatives) are as follows:

	First nine months	
Linkage segments	2010	2009
Israeli currency - non-linked	1.41%	1.06%
Israeli currency - linked to the CPI	0.63%	0.36%
Foreign currency (including Israeli currency linked to foreign currency) (1)	0.60%	1.03%
Total including impact of derivatives	1.13%	0.89%

(1) Local operations and overseas affiliates.

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

Provision for doubtful debts for the Group amounted to NIS 281 million in the first nine months of 2010, or 0.36% of total loans to the public, compared with NIS 268 million, or 0.38% of total loans to the public in the corresponding period last year - an increase of 4.9%. The increase is due to an increase in the specific provision for doubtful debts, whereas the provision by extent of arrears and supplementary provision decreased over the corresponding period last year.

Provision for doubtful debts amounted to NIS 102 million in the third quarter of 2010, or 0.39% of total loans to the public, compared with NIS 82 million, or 0.35% of total loans to the public in the corresponding period last year - an increase of 24.4%.

The increase in provision for doubtful debts is due, *inter alia*, to a supplementary provision for doubtful debts of NIS 11 million made, in accordance with directives of the Supervisor of Banks, with respect to housing loans granted starting in the third quarter of 2010, with a loan-to-value ratio higher than 60%. For details, see Note 1.E. to the financial statements.

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

	First nine months		Third Quarter	
	2010	2009	2010	2009
Specific provision:				
By extent of arrears	9	29	9	11
Other	270	212	84	73
Total specific provision	279	241	93	84
General and additional provision	(1) 2	27	(1) 9	(2)
Total	281	268	102	82
Annualized rate of provision for doubtful debts to total credit to the public	0.36%	0.38%	0.39%	0.35%

(1) Includes NIS 11 million with respect to housing loans granted with a loan-to-value ratio higher than 60% starting on July 1, 2010; for details see Note 1.E. to the financial statements.

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

	First nine months		
Operating segment	2010	2009	Rate of change
Retail banking:			
Mortgages	(1) 18	32	(43.8%)
Household	43	49	(12.2%)
Small business	31	53	(41.5%)
Total	92	134	**(31.3%)**
Private banking	-	1	-
Commercial banking	2	11	-
Business banking	187	122	53.3%
Total	281	268	**4.9%**

(1) Includes NIS 11 million with respect to housing loans granted with a loan-to-value ratio higher than 60% starting on July 1, 2010; for details see Note 1.E. to the financial statements.

The balance of the general and supplementary provision for doubtful debts on the Group's balance sheet amounted to NIS 215 million as of September 30, 2010, compared with NIS 213 million as of December 31, 2009.

Profit from financing operations after provision for doubtful debts in the first nine months of 2010 amounted to NIS 1,798 million, compared with NIS 1,462 million in the corresponding period last year - a 23.0% increase.
In the third quarter, profit from financing operations after provision for doubtful debts amounted to NIS 633 million, compared with NIS 500 million in the corresponding period last year, a 26.6% increase.

Operating and other revenues for the Group (excluding gain from investment in shares) amounted to NIS 1,017 million in the first nine months of 2010, compared with NIS 988 million in the corresponding period last year - a 2.9% increase. After the effect of gain from investment in shares, operating and other revenues decreased by 2.9%.
Operating and other revenues for the Group (excluding gain from investment in shares) amounted to NIS 335 million in the third quarter of 2010, compared with NIS 344 million in the corresponding period last year - a 2.6% decrease, primarily due to a decrease in revenues from capital market and foreign currency transactions. After the effect of gain from investment in shares, operating and other revenues decreased by 15.4%.

Revenues from operating commissions for the Group amounted to NIS 980 million in the first nine months of 2010, compared with NIS 954 million in the corresponding period last year - a 2.7% increase.
In the third quarter, revenues from operating commissions amounted to NIS 322 million, compared to NIS 332 million in the corresponding period last year - a 3.0% decrease - primarily due to a decrease in revenues from capital market and foreign currency transactions, as stated above.

The Group had no **net gain from investment in shares** in the first nine months of 2010, compared to gain of NIS 59 million in the corresponding period last year.
In the third quarter of 2010 there was no net gain from investment in shares, compared to gain of NIS 52 million in the corresponding period last year.

Other revenues for the Group amounted to NIS 37 million in the first nine months of 2010, compared with NIS 34 million in the corresponding period last year.
In the third quarter of 2010, other revenues amounted to NIS 13 million, compared with NIS 12 million in the corresponding period last year.

Operating and other expenses for the Group amounted to NIS 1,875 million in the first nine months of 2010, compared with NIS 1,855 million in the corresponding period last year - an increase of 1.1%.
Operating and other expenses amounted to NIS 627 million in the third quarter of 2010, compared with NIS 654 million in the corresponding period last year - a 4.1% decrease.

Payroll and associated expenses for the Group amounted to NIS 1,122 million in the first nine months of 2010, compared with NIS 1,126 million in the corresponding period last year - a decrease of 0.4%.

Payroll and associated expenses for the Group amounted to NIS 381 million in the third quarter of 2010, compared with NIS 404 million in the corresponding period last year - a 5.7% decrease.

The decrease is primarily due to a NIS 70 million provision for voluntary retirement in the third quarter of 2009. On the other hand, payroll expenses increased primarily due to components which automatically increase under the collective bargaining agreement, as well as due to the effect of the accounting treatment of employee stock options and adjustment of provisions with respect to variable annual components.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 436 million in the first nine months of 2010, compared with NIS 416 million in the corresponding period last year – an increase of 4.8%.

Maintenance and depreciation expenses for buildings and equipment for the Group amounted to NIS 146 million in the third quarter of 2010, compared with NIS 139 million in the corresponding period last year – a 5.0% increase.

Other expenses for the Group amounted to NIS 317 million in the first nine months of 2010, compared with NIS 313 million in the corresponding period last year - a 1.3% increase.

Other expenses for the Group amounted to NIS 100 million in the third quarter of 2010, compared with NIS 111 million in the corresponding period last year - a decrease of 9.9%.

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

	First nine months		All of
	2010	2009	2009
Operational Coverage Ratio (1)	54.2	56.4	55.5
Cost-Income Ratio(2)	60.6	66.8	68.6
Cost-Income Ratio, excluding Bank Yahav	56.9	62.1	66.7

(1) Total operating and other revenues to total operating and other expenses.

(2) Total operating and other expenses to total operating and financing revenues before provision for doubtful debts.

Pre-tax operating profit for the Group amounted to NIS 940 million in the first nine months of 2010, compared with NIS 654 million in the corresponding period last year - a 43.7% increase.

In the third quarter of 2010, pre-tax operating profit amounted to NIS 341 million, compared to NIS 242 million in the corresponding period last year, a 40.9% increase.

Provision for taxes on operating profit amounted to NIS 345 million in the first nine months of 2010, compared with NIS 225 million in the corresponding period last year, a 53.3% increase.

In the third quarter of 2010, provision for taxes on operating profit amounted to NIS 127 million, compared to NIS 81 million in the corresponding period last year, an increase of 56.8%.

Operating net profit in the first nine months of 2010 amounted to NIS 580 million, compared to NIS 416 million in the same period last year – an increase of 39.4%. Excluding the effect of provision for voluntary retirement in the third quarter of 2009, operating net profit in the first nine months of 2010 increased by 25.5% over the corresponding period last year.

Operating net profit in the third quarter of 2010 amounted to NIS 207 million, compared to NIS 156 million in the corresponding period last year – an increase of 32.7%. Excluding effect of the provision for voluntary retirement in the third quarter of 2009, operating net profit in the third quarter of 2010 increased by 2.3% over the corresponding period last year.

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

	Third Quarter		First nine months		All of
	2010	2009	2010	2009	2009
Net operating profit	12.5	10.2	11.6	9.1	(3) 8.5
Net profit	12.7	10.2	11.6	9.1	8.5

(1) Annualized return.

(2) Return on average shareholders' equity, including "total capital resources", as presented in the report of revenue and expense rates, less the average balance of minority 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.

(3) Operating net profit excluding voluntary retirement program - 10.4%.

Earnings per share

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

	Third Quarter		First nine months		All of
	2010	2009	2010	2009	2009
Basic earnings per share:					
From current operations	0.93	0.70	2.60	1.87	2.39
From net profit	0.94	0.70	2.61	1.87	2.38
Diluted earnings per share:					
From current operations	0.92	0.69	2.57	1.86	2.38
From net profit	0.93	0.69	2.58	1.86	2.37

Development of balance sheet items

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

				Change compared to	
	September 30		December 31	September 30	December 31
	2010	2009	2009	2009	2009
Balance sheet total	126,371	(1) 116,523	118,439	8.5%	6.7%
Credit to the public	103,493	(1) 93,972	95,249	10.1%	8.7%
Deposits from the public	101,204	93,405	95,021	8.3%	6.5%
Securities	8,273	7,878	7,643	5.0%	8.2%
Shareholders' equity	6,965	6,438	6,532	8.2%	6.6%

(1) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

Loans to the public - loans to the public in the consolidated balance sheet as of September 30, 2010 accounted for 82% of total assets, compared with 80% at the end of 2009. Loans to the public at the Group increased in the first nine months of 2010 by NIS 8.2 billion, or an increase of 8.7%. Excluding the effect of change in NIS exchange rates, credit volume increased by 9.2% in the first nine months of 2010.

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

				Change over:	
	September 30		December 31	September 30	December 31 [1]
	2010	2009	2009	2009	2009
Israeli currency					
Non-linked	52,881	[2] 46,999	47,841	12.5%	10.5%
CPI- linked	37,931	34,032	34,678	11.5%	9.4%
Foreign currency and foreign currency linked	12,681	12,941	12,730	(2.0%)	(0.4%)
Total	103,493	93,972	95,249	10.1%	8.7%

(1) Excluding the impact of change in NIS exchange rate, a 3.7% increase in the foreign currency segment and a 9.2% increase in total loan volume, compared to December 31, 2009.

(2) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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

				Change over:	
	September 30		December 31	September 30	December 31
Operating segment	2010	2009	2009	2009	2009
Retail banking:					
Mortgages	55,859	[1] 47,669	[1] 49,413	17.2%	13.0%
Household	15,355	[2] [1] 14,330	[1] 14,681	7.2%	4.6%
Small business	5,363	4,960	4,928	8.1%	8.8%
Total	76,577	66,959	69,022	14.4%	10.9%
Private banking	1,356	1,378	1,368	(1.6%)	(0.9%)
Commercial banking	4,643	4,151	4,198	11.9%	10.6%
Business banking	20,917	21,484	20,661	(2.6%)	1.2%
Total – business and others	26,916	27,013	26,227	(0.4%)	2.6%
Total	103,493	93,972	95,249	10.1%	8.7%

(1) Reclassified.

(2) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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

	September 30		December 31
	2010	2009	2009
Non-accrual debt	803	1,110	908
Rescheduled debt	997	855	1,079
Debt designated for rescheduling	6	296	126
Debt in temporary arrears	764	941	746
Includes: with respect to housing loans	427	490	461
Debt under special supervision	1,859	1,929	1,766
Includes: Debt for which a specific provision was made	39	95	50
Includes: Housing loans provided for by extent of arrears	510	566	539
Total balance sheet credit to problem borrowers	4,429	5,131	4,625
Off-balance sheet credit to problem borrowers	772	946	688
Debentures of financial institutions classified as problematic	15	33	30
Other problem loans of financial institutions	12	17	12
Total credit risk, including with respect to problem borrowers	5,228	6,127	5,355

Securities - the balance of the investment in securities decreased in the first nine months of 2010 by NIS 0.6 billion, and by NIS 0.4 billion compared to September 30, 2009. The change in total investment in securities is within asset and liability management.

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

				Change compared to	
	September 30		December 31	September 30	December 31
Operating segment	2010	2009	2009	2009	2009
Israeli currency					
Non-linked	3,762	2,098	2,650	79.3%	42.0%
CPI- linked	652	1,423	1,339	(54.2%)	(51.3%)
Foreign currency and foreign currency linked	3,772	4,040	3,568	(6.6%)	5.7%
Non-monetary items	87	317	86	(72.6%)	1.2%
Total	8,273	7,878	7,643	5.0%	8.2%

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

	As of September 30, 2010			
	Amortized cost	Unrealized gains	Unrealized loss	Fair value (book value)
Securities available for sale:				
Debentures of the Government of Israel	6,948	32	78	6,902
Foreign government debentures	176	-	-	176
Bank debentures	742	7	1	748
Corporate debentures	203	2	-	205
Asset-backed debentures	69	6	15	60
Shares of others	86	1	-	87
Total securities available for sale	8,224	48	94	8,178
Securities held for trading:				
Debentures of the Government of Israel	89	-	-	89
Of others	6	-	-	6
Total securities held for trading	95	-	-	95
Total securities	8,319	48	94	8,273

	As of December 31, 2009			
	Amortized cost	Unrealized gains	Unrealized loss	Fair value (Balance sheet amount)
Securities available for sale:				
Debentures of the Government of Israel	5,898	25	51	5,872
Foreign government debentures	121	-	-	121
Bank debentures	1,079	13	7	1,085
Corporate debentures	164	2	9	157
Asset-backed debentures	78	5	18	65
Shares of others	84	2	-	86
Total securities available for sale	7,424	47	85	7,386
Securities held for trading:				
Debentures of the Government of Israel	256	-	5	251
Of others	6	-	-	6
Total securities held for trading	262	-	5	257
Total securities	7,686	47	90	7,643

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

	As of September 30, 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					
Up to 20%	-	-	-	-	-
20%-40%	-	-	-	15	15
Over 40%	-	-	-	-	-
Total	-	-	-	15	15
Other debentures available for sale					
Up to 20%	14	14	23	25	76
20%-40%	-	2	1	-	3
Over 40%	-	-	-	-	-
Total	14	16	24	25	79

	As of December 31, 2009				
	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%	-	-	-	-	-
20%-40%	-	-	-	18	18
Over 40%	-	-	-	-	-
Total	-	-	-	18	18
Other debentures available for sale					
20%	23	2	-	32	57
20%-40%	2	-	-	8	10
Over 40%	-	-	-	-	-
Total	25	2	-	40	67

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 September 30, 2010, similar to their weight at the end of 2009. In the first nine months of 2010, deposits from the public with the Bank Group increased by NIS 6.2 billion – a 6.5% increase.

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

				Change compared to	
		September 30	December 31	September 30	December 31 (1)
	2010	2009	2009	2009	2009
Israeli currency					
Non-linked	58,598	51,566	51,851	13.6%	13.0%
CPI- linked	21,005	22,529	22,117	(6.8%)	(5.0%)
Foreign currency and foreign currency linked	21,601	19,310	21,053	11.9%	2.6%
Total	101,204	93,405	95,021	8.3%	6.5%

(1) Excluding the impact of change in NIS exchange rate, a 6.9% increase in the foreign currency segment and a 7.5% increase in total deposits, compared to December 31, 2009.

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

				Change compared to	
		September 30	December 31	September 30	December 31
	2010	2009	2009	2009	2009
Retail banking:					
Household	46,698	46,779	45,964	(0.2%)	1.6%
Small business	6,259	6,240	6,412	0.3%	(2.4%)
Total	52,957	53,019	52,376	(0.1%)	1.1%
Private banking	4,746	5,826	6,256	(18.5%)	(24.1%)
Commercial banking	2,764	2,302	3,355	20.1%	(17.6%)
Business banking	23,542	14,019	16,055	67.9%	46.6%
Financial management	17,195	18,239	16,979	(5.7%)	1.3%
Total	101,204	93,405	95,021	8.3%	6.5%

Shareholders' equity

According to the measurement principles prescribed by the Supervisor of Banks with respect to securities available for sale, the adjustment of these securities to their fair value is recorded directly to shareholders' equity. In the first nine months of 2010, a negative movement amounting to NIS 14 million, after related tax, was recorded in the capital reserve from presentation of available-for-sale securities at fair value. The negative capital reserve, after related tax, as included in shareholders' equity as of September 30, 2010, amounted to NIS 46 million.

The ratio of shareholders' equity to balance sheet total for the Group as of September 30, 2010 amounted to 5.51%, compared to 5.52% as of the end of 2009.

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 the weighted total of risk components of its balance sheet assets and off-balance-sheet items, and these instructions decribe 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 Basle II rules.

The following is the ratio of capital to risk elements for the Group:

	September 30, 2010(1)	December 31, 2009
Ratio of Tier I capital to risk elements	7.95%	8.01%
Ratio of total capital to risk elements	14.04%	14.25%
Minimum total capital ratio required by the directives of the Supervisor of Banks	9.00%	9.00%

(1) Excluding the effect of the change in risk assets with respect to buyer groups, pursuant to directives of the Supervisor of Banks, the Tier I capital ratio to risk elements would have been higher by 0.1%, and the overall capital ratio - by 0.17%.

For details of the Supervisor of Banks' letter concerning adoption of a target capital ratio for interim periods - see Note 4.B. to the financial statements.

For details of the resolution by the Bank Board of Directors with regard to capital adequacy targets, see Note 4.C. to the financial statements.

Major Investees

The contribution of investees to operating net profit (excluding amortization of goodwill) in the first nine months of 2010 amounted to NIS 75 million, compared with NIS 60 million in the corresponding period last year.

Bank Yahav for Government Employees Ltd. ("Bank Yahav")

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

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

Bank Yahav's contribution to Group net profit in the first nine months of 2010, excluding amortization of goodwill, amounted to NIS 14.5 million (NIS 7.7 million including amortization of goodwill,), compared to NIS 12.6 million in the corresponding period last year (NIS 5.8 million including amortization of goodwill,). Bank Yahav's net profit return on equity in the first nine months of 2010 was 5.5%, compared to 5.2% in the corresponding period last year. Bank Yahav's balance sheet total as of September 30, 2010 amounted to NIS 14,483 million, compared to NIS 14,155 million as of December 31, 2009. The balance of loans to the public as of September 30, 2010 amounted to NIS 5,345 million, compared to NIS 5,195 million at end of 2009. The balance of deposits from the public as of September 30, 2010 amounted to NIS 12,340 million, compared to NIS 12,020 million at end of 2009.

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

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

Tefahot Insurance's contribution to Group net profit in the first nine months of 2010 amounted to NIS 42 million, compared to NIS 30 million in the corresponding period last year.

Net profit return on equity in the first nine months of 2010 was 14.3%, compared to 12.0% in the corresponding period last year.

United Mizrahi Bank (Switzerland) Ltd.

United Mizrahi Bank (Switzerland) Ltd. "Mizrahi Bank Switzerland") is focused on international private banking services.

The Swiss bank is held by a wholly-owned Bank subsidiary, UMOHC B.V. incorporated in Holland.

Net profit of Mizrahi Bank Switzerland in the first nine months of 2010 amounted to CHF 1.9 million, compared to CHF 1.5 million in the same period last year.

Mizrahi Bank Switzerland's balance sheet total as of September 30, 2010 amounted to CHF 189 million, compared to CHF 220 million at the end of 2009.

Total loans to the public as of September 30, 2010 amounted to CHF 65 million, compared to CHF 77 million at end of 2009; total deposits at banks as of September 30, 2010 amounted to CHF 106 million, compared to CHF 128 million at end of 2009. Total deposits from the public as of September 30, 2010 amounted to CHF 118 million, compared to CHF 144 million at end of 2009; total deposits from banks as of September 30, 2010 amounted to CHF 17 million, compared to CHF 24 million at end of 2009.

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

The contribution of Mizrahi International Holdings Ltd. (B.V. Holland) to Group net profit in the first nine months of 2010, which includes the contribution of Mizrahi Bank Switzerland to net profit, amounted to a NIS 10.4 million profit, compared with a NIS 9.0 million profit in the corresponding period last year. These data include impact of changes in exchange rates on the investment balance, covered by the Bank's own sources. Therefore, the impact of exchange rates on the consolidated statement is not meaningful.

Excluding the impact of changes in exchange rates, the company's contribution to group net profit in the first nine months of the year amounted to a NIS 8.4 million profit, compared to a NIS 5.4 million profit in the corresponding period last year.

Investment in non-banking corporations

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

Bank investments in non-banking corporations as of September 30, 2010 amounted to NIS 64 million, compared to NIS 63 million at end of 2009. In the first nine months of 2010, the Bank had no net gain from dividends and capital gains from non-banking corporations, after provision for impairment - compared to gain of NIS 59 million 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 set forth below. The operations in the six operating segments include all areas of banking operations including classic banking activity (loans and deposits), securities activity for clients and activity in derivative instruments. Operations of the various segments are conducted via Bank branches, trading room, Business Centers, Bank HQ departments and subsidiaries in Israel and overseas.

The Bank's operating segments are:

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

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

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

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

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

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

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

- **Banking and finance –** an array of banking services offered to private and corporate clients, including management of checking account, provision of a current loan account, different kinds of credit and guarantees, receiving deposits, foreign trade activities (imports, exports, documentary credit, etc.), trading in derivative instruments, including trading in currencies and interest rates, etc.

- **Capital market** – security transactions for clients on stock exchanges in Israel and overseas, provident fund operating services and mutual fund distribution (management of provident funds and mutual funds until sold) which are among investment tracks available to Bank clients.

- **Credit cards –** A set of financial products and banking services given in conjunction with credit cards issued to Bank clients by credit card companies in Israel.

- **Mortgages –** Housing loans secured by charges on a residence, out of the Bank's funds and within the framework of government aid programs.

- **Construction and real estate** – banking operations vis-à-vis companies in the real estate sector, as well as unique banking services for the real estate sector, including the financing of real estate products by the closed financing method.

In order to analyze results of Bank operations by relevant criteria, clients have been assigned to the organizational units in charge of servicing them. Information presented below by operating segment is based on the Bank's organizational structure on client assignment to various departments and hence 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, 2009.

Note 10 to the financial statements includes 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):

Profitability

	Net profit (loss) in the first nine months		Return on equity in the first nine months	
	2010	2009	2010	2009
Household :				
Mortgages	218	193	13.9%	10.6%
Other	68	(7)	10.6%	(1.3%)
Private banking	21	22	40.6%	46.1%
Small business	73	36	28.4%	14.3%
Commercial banking	35	23	12.1%	11.6%
Business banking	92	150	4.8%	10.9%
Financial management	75	(1)	24.7%	(0.3%)
Total	**582**	**416**	**11.6%**	**9.1%**

Below are Bank Group operating results by operating segment

Results of Household Segment

	For the nine months ended September 30, 2010					For the nine months ended September 30, 2009				
	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 provision for doubtful debts:										
From outside operating segments	200	16	8	1,780	2,004	(12)	12	9	2,060	2,069
Inter-segment	420	(11)	-	(1,409)	(1,000)	513	(9)	-	(1,738)	(1,234)
Profit from financing operations before provision for doubtful debts	620	5	8	371	1,004	501	3	9	322	835
Operating and other revenues[2]	161	87	168	188	604	166	83	155	190	594
Total profit	781	92	176	559	1,608	667	86	164	512	1,429
Provision for doubtful debts	43	-	-	18	61	49	-	-	32	81
Operating and other expenses										
From outside operating segments	903	21	45	197	1,166	880	21	46	186	1,133
Inter-segment	(91)	(3)	-	-	(94)	(73)	(2)	-	-	(75)
Total operating and other expenses	812	18	45	197	1,072	807	19	46	186	1,058
Operating profit (loss) before taxes	(74)	74	131	344	475	(189)	67	118	294	290
Provision for taxes on operating profit (loss)	(27)	28	48	126	175	(65)	23	41	101	100
After-tax operating profit (loss)	(47)	46	83	218	300	(124)	44	77	193	190
Minority interest in net after-tax operating profit of subsidiaries	(14)	-	-	-	(14)	(4)	-	-	-	(4)
Net profit (loss)	**(61)**	**46**	**83**	**218**	**286**	**(128)**	**44**	**77**	**193**	**186**
Return on equity					**13.0%**					**[1] 7.9%**
Average balance of assets	13,547	2,473	-	51,396	67,416	12,430	[4] 2,307	-	44,178	58,915
Average balance of liabilities [2]	44,948	2,473	-	77	47,498	45,467	2,307	-	74	47,848
Average balance of risk assets - Basle II [2][3]	13,539	-	-	26,685	40,224	12,910	-	-	36,707	49,617
Average balance of securities	-	-	26,475	-	26,475	-	-	[1] 21,249	-	21,249
Credit to the public (end balance)	12,647	2,708	-	55,859	71,214	[1] 11,689	[4] 2,641	-	[1] 47,669	61,999
Deposits from the public (end balance)	46,698	-	-	-	46,698	46,779	-	-	-	46,779
Average balance of assets under management	7,982	-	-	14,525	22,507	6,887	-	-	15,810	22,697
Components of profit from financing operations before provision for doubtful debts:										
Margin from credit granting operations	255	5	-	344	604	210	3	-	298	511
Margin from receiving deposits	297	-	-	-	297	231	-	-	-	231
Other	68	-	8	27	103	60	-	9	24	93
Total	**620**	**5**	**8**	**371**	**1,004**	**501**	**3**	**9**	**322**	**835**

(1) Reclassified.
(2) Comparative figures for the nine months ended September 30, 2009 were reclassified.
(3) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.
(4) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

Contribution of the household segment to Group profit in the first nine months of 2010 amounted to NIS 286 million, compared to NIS 186 million in the corresponding period last year - an increase of 53.8%.

Contribution of mortgages in the first nine months of 2010 amounted to NIS 218 million, compared to NIS 193 million in the corresponding period last year - an increase of 13.0%. The increase is due to a 15.2% increase in profit from financing operations before provision for doubtful debts, primarily due to an increase in the volume of operations, as well as to a decrease in provision for doubtful debts (primarily - by extent of arrears), from NIS 32 million in the corresponding period last year, to NIS 18 million in the first nine months of 2010.

Contribution of households (excluding mortgages) in the first nine months of 2010 amounted to NIS 68 million, compared to a NIS 7 million loss in the corresponding period last year. The increase in contribution of households is primarily due to an 23.4% increase in profit from financing operations before provision for doubtful debts, due to an increase in volume of operations and improved financial spread, as well as due to the low prevailing interest in Israel's economy in 2009, which significantly eroded the spread on deposits in the corresponding period last year.

Results of Household Segment

	For the three months ended September 30, 2010					For the three months ended September 30, 2009				
	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 provision for doubtful debts:										
From outside operating segments	54	6	3	786	849	(5)	4	3	923	925
Inter-segment	169	(4)	-	(652)	(487)	172	(3)	-	(807)	(638)
Profit from financing operations before provision for doubtful debts	223	2	3	134	362	167	1	3	116	287
Operating and other revenues	56	30	48	66	200	62	28	54	64	208
Total profit	279	32	51	200	562	229	29	57	180	495
Provision for doubtful debts	10	-	-	17	27	15	-	-	10	25
Operating and other expenses										
From outside operating segments	308	7	13	68	396	305	7	16	68	396
Inter-segment	(35)	(1)	-	-	(36)	(26)	-	-	-	(26)
Total operating and other expenses (1)	273	6	13	68	360	279	7	16	68	370
Operating profit (loss) before taxes	(4)	26	38	115	175	(65)	22	41	102	100
Provision for taxes on operating profit (loss)	(2)	10	14	44	66	(22)	7	14	34	33
After-tax operating profit (loss)	(2)	16	24	71	109	(43)	15	27	68	67
Minority interest in net after-tax operating profit of subsidiaries	(6)	-	-	-	(6)	(4)	-	-	-	(4)
Net profit (loss)	**(8)**	**16**	**24**	**71**	**103**	**(47)**	**15**	**27**	**68**	**63**
Return on equity					**13.7%**					**7.8%**
Components of profit from financing operations before provision for doubtful debts:										
Margin from credit granting operations	91	2	-	122	215	61	1	-	108	170
Margin from receiving deposits	110	-	-	-	110	80	-	-	-	80
Other	22	-	3	12	37	26	-	3	8	37
Total	**223**	**2**	**3**	**134**	**362**	**167**	**1**	**3**	**116**	**287**

(1) Comparative figures for the three months ended September 30, 2009 were reclassified.

Volume of mortgages granted by the segment is as follows:

	Loans granted (NIS in millions)		
	First nine months		
	2010	2009	Rate of change
Mortgages issued (for housing and any purpose)			
From the Bank's funds	12,019	9,395	27.9%
From the Treasury's funds:			
Directed loans	139	268	(48.1%)
Standing loans and grants	149	138	8.0%
Total new loans	12,307	9,801	25.6%
Recycled loans	881	1,287	(31.5%)
Total loans issued	13,188	11,088	18.9%
Number of borrowers (includes recycled loans)	37,467	37,215	0.7%

Results of Private Banking Segment

	For the nine months ended September 30, 2010			For the nine months ended September 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before provision for doubtful debts:						
From outside operating segments	(2)	-	(2)	(35)	1	(34)
Inter-segment	42	-	42	67	-	67
Profit from financing operations before provision for doubtful debts	40	-	40	32	1	33
Operating and other revenues	14	26	40	15	24	39
Total profit	54	26	80	47	25	72
Provision for doubtful debts	-	-	-	1	-	1
Operating and other expenses						
From outside operating segments	42	6	48	37	-	37
Inter-segment	-	-	-	1	-	1
Total operating and other expenses	42	6	48	38	-	38
Pre-tax operating profit	12	20	32	8	25	33
Provision for taxes on operating profit	4	7	11	3	8	11
Net profit	**8**	**13**	**21**	**5**	**17**	**22**
Return on equity			**40.6%**			**46.1%**
Average balance of assets	1,873	-	1,873	1,730	-	1,730
Average balance of liabilities	5,809	-	5,809	6,746	-	6,746
Average balance of risk assets - Basle II (2)	907	-	907	999	-	999
Average balance of securities	-	7,214	7,214	-	(1) 6,639	6,639
Credit to the public (end balance)	1,356	-	1,356	1,378	-	1,378
Deposits from the public (end balance)	4,746	-	4,746	5,826	-	5,826
Average balance of other assets managed	-	-	-	-	-	-
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	11	-	11	11	-	11
Margin from receiving deposits	27	-	27	19	-	19
Other	2	-	2	2	1	3
Total	**40**	**-**	**40**	**32**	**1**	**33**

(1) Reclassified.

(2) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the private banking segment to Group profit in the first nine months of 2010 amounted to NIS 21 million, compared to NIS 22 million in the corresponding period last year. Profit from financing operations before provision for doubtful debts increased by NIS 7 million, primarily due to improved financial profit over the corresponding period last year. Conversely, operating expenses attributed to this segment increased, *inter alia*, due to expansion of segment operating infrastructure. Operating revenues increased by NIS 1 million, and the provision for doubtful debts decreased by a similar amount.

Results of Private Banking Segment

	For the three months ended September 30, 2010			For the three months ended September 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before provision for doubtful debts:						
From outside operating segments	1	-	1	(9)	1	(8)
Inter-segment	16	-	16	17	-	17
Profit from financing operations before provision for doubtful debts	17	-	17	8	1	9
Operating and other revenues[(1)]	2	10	12	6	7	13
Total profit	19	10	29	14	8	22
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	17	5	22	13	-	13
Inter-segment	(2)	(2)	(4)	1	-	1
Total operating and other expenses	15	3	18	14	-	14
Pre-tax operating profit	4	7	11	-	8	8
Provision for taxes on operating profit	1	2	3	-	2	2
Net profit	**3**	**5**	**8**	**-**	**6**	**6**
Return on equity			**71.0%**			**41.4%**
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	3	-	3	2	-	2
Margin from receiving deposits	13	-	13	5	-	5
Other	1	-	1	1	1	2
Total	**17**	**-**	**17**	**8**	**1**	**9**

(1) Comparative figures for the three months ended September 30, 2009 were reclassified.

Results of the Small Business Segment

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	268	-	3	271	226	2	2	230
Inter-segment	(5)	-	-	(5)	(8)	(1)	-	(9)
Profit from financing operations before provision for doubtful debts	263	-	3	266	218	1	2	221
Operating and other revenues	125	9	17	151	123	9	17	149
Total profit	388	9	20	417	341	10	19	370
Provision for doubtful debts	31	-	-	31	53	-	-	53
Operating and other expenses								
From outside operating segments	305	2	2	309	290	2	2	294
Inter-segment	(40)	-	-	(40)	(31)	-	-	(31)
Total operating and other expenses	265	2	2	269	259	2	2	263
Pre-tax operating profit	92	7	18	117	29	8	17	54
Provision for taxes on operating profit	34	3	7	44	10	3	5	18
Net profit	**58**	**4**	**11**	**73**	**19**	**5**	**12**	**36**
Return on equity				**28.4%**				**14.3%**
Average balance of assets	5,158	41	-	5,199	4,890	36	-	4,926
Average balance of liabilities	6,314	-	-	6,314	6,439	-	-	6,439
Average balance of risk assets - Basle II (2)	4,457	-	-	4,457	5,090	-	-	5,090
Average balance of securities	-	-	7,558	7,558	-	-	(1) 7,200	7,200
Credit to the public (end balance)	5,319	44	-	5,363	4,920	40	-	4,960
Deposits from the public (end balance)	6,259	-	-	6,259	6,240	-	-	6,240
Average balance of other assets managed	344	-	-	344	323	-	-	323
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	192	-	-	192	165	1	-	166
Margin from receiving deposits	41	-	-	41	26	-	-	26
Other	30	-	3	33	27	-	2	29
Total	**263**	**-**	**3**	**266**	**218**	**1**	**2**	**221**

(1) Reclassified.
(2) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the small business segment to Group profit in the first nine months of 2010 amounted to NIS 73 million, compared to NIS 36 million in the corresponding period last year - an increase of 103.0%. The increase in segment contribution is primarily due to a NIS 45 million increase in profit from financing operations before provision for doubtful debts, 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 due to a decrease in provision for doubtful debts, from NIS 53 million in the first nine months of 2009, to NIS 31 million in the first nine months of 2010. Operating and other revenues increased by 1.3%, and operating expenses attributed to the segment increased by 2.3% over the corresponding period last year.

Results of the Small Business Segment

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	87	-	1	88	83	-	1	84
Inter-segment	6	-	-	6	(15)	-	-	(15)
Profit from financing operations before provision for doubtful debts	93	-	1	94	68	-	1	69
Operating and other revenues	40	3	7	50	43	3	6	52
Total profit	133	3	8	144	111	3	7	121
Provision for doubtful debts	14	-	-	14	17	-	-	17
Operating and other expenses								
From outside operating segments	103	1	-	104	100	1	-	101
Inter-segment	(15)	-	-	(15)	(11)	-	-	(11)
Total operating and other expenses	88	1	-	89	89	1	-	90
Pre-tax operating profit	31	2	8	41	5	2	7	14
Provision for taxes on operating profit	11	1	3	15	-	1	2	3
Net profit	**20**	**1**	**5**	**26**	**5**	**1**	**5**	**11**
Return on equity				**32.9%**				**12.6%**
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	69	-	-	69	49	-	-	50
Margin from receiving deposits	15	-	-	15	9	1	-	-
Other	9	-	1	10	10	(1)	1	10
Total	**93**	**-**	**1**	**94**	**68**	**-**	**1**	**69**

Results of the Commercial Banking Segment

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	150	-	1	151	167	-	1	168
Inter-segment	(31)	-	-	(31)	(63)	-	-	(63)
Profit from financing operations before provision for doubtful debts	119	-	1	120	104	-	1	105
Operating and other revenues	29	2	10	41	27	2	6	35
Total profit	148	2	11	161	131	2	7	140
Provision for doubtful debts	2	-	-	2	11	-	-	11
Operating and other expenses								
From outside operating segments	44	-	-	44	48	-	-	48
Inter-segment	59	-	-	59	46	-	-	46
Total operating and other expenses	103	-	-	103	94	-	-	94
Pre-tax operating profit	43	2	11	56	26	2	7	35
Provision for taxes on From current operations	16	1	4	21	9	1	2	12
Net profit	**27**	**1**	**7**	**35**	**17**	**1**	**5**	**23**
Return on equity				**12.1%**				**11.6%**
Average balance of assets	4,545	2	-	4,547	4,106	3	-	4,109
Average balance of liabilities	3,010	-	-	3,010	2,180	-	-	2,180
Average balance of risk assets – Basle II (2)	4,918	-	-	4,918	3,987	-	-	3,987
Average balance of securities	-	-	4,140	4,140	-	-	(1) 1,737	1,737
Credit to the public (end balance)	4,641	2	-	4,643	4,148	3	-	4,151
Deposits from the public (end balance)	2,764	-	-	2,764	2,302	-	-	2,302
Average balance of other assets managed	40	-	-	40	42	-	-	42
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	93	-	-	93	67	-	-	67
Margin from receiving deposits	11	-	-	11	6	-	-	6
Other	15	-	1	16	31	-	1	32
Total	**119**	**-**	**1**	**120**	**104**	**-**	**1**	**105**

(1) Reclassified.
(2) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the commercial banking segment to Group profit in the first nine months of 2010 amounted to NIS 35 million, a NIS 23 million increase compared to NIS 23 million in the corresponding period last year - an increase of 52.2%. The increase in segment contribution is primarily due to a 14.3% increase in profit from financing operations before provision for doubtful debts, primarily due to higher volumes and margins. Operating revenues increased by 17.1%, provision for doubtful debts decreased by NIS 9 million, while operating and other expenses increased by NIS 9 million over the corresponding period last year.

Results of the Commercial Banking Segment

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
	Banking and finance	Credit cards	Capital market	Total	Banking and finance	Credit cards	Capital market	Total
								NIS in millions
Profit from financing operations before provision for doubtful debts:								
From outside operating segments	56	-	-	56	66	-	1	67
Inter-segment	(14)	-	-	(14)	(35)	-	-	(35)
Profit from financing operations before provision for doubtful debts	42	-	-	42	31	-	1	32
Operating and other revenues	10	1	3	14	11	1	2	14
Total profit	52	1	3	56	42	1	3	46
Provision for doubtful debts	3	-	-	3	5	-	-	5
Operating and other expenses								
From outside operating segments	9	-	-	9	18	-	-	18
Inter-segment	25	-	-	25	16	-	-	16
Total operating and other expenses	34	-	-	34	34	-	-	34
Pre-tax operating profit	15	1	3	19	3	1	3	7
Provision for taxes on								
From current operations	6	1	1	8	1	1	1	3
Net profit	**9**	**-**	**2**	**11**	**2**	**-**	**2**	**4**
Return on equity				**11.4%**				**6.5%**
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	30	-	-	30	16	-	-	16
Margin from receiving deposits	4	-	-	4	2	-	-	2
Other	8	-	-	8	13	-	1	14
Total	**42**	**-**	**-**	**42**	**31**	**-**	**1**	**32**

Results of the Business Banking Segment

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
	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 provision for doubtful debts:								
From outside operating segments	237	8	200	445	295	8	168	471
Inter-segment	86	-	(60)	26	10	-	(41)	(31)
Profit from financing operations before provision for doubtful debts	323	8	140	471	305	8	127	440
Operating and other revenues	42	18	6	66	102	21	6	129
Total profit	365	26	146	537	407	29	133	569
Provision for doubtful debts	171	-	16	187	120	-	2	122
Operating and other expenses								
From outside operating segments	114	1	25	140	137	1	27	165
Inter-segment	56	-	10	66	46	-	8	54
Total operating and other expenses	170	1	35	206	183	1	35	219
Pre-tax operating profit	24	25	95	144	104	28	96	228
Provision for taxes on operating profit	8	9	35	52	35	10	33	78
Net profit	**16**	**16**	**60**	**92**	**69**	**18**	**63**	**150**
Return on equity				**4.8%**				**10.9%**
Average balance of assets	18,549	-	6,018	24,567	20,891	-	6,357	27,248
Average balance of liabilities	17,952	-	2,090	20,042	13,638	-	1,213	14,851
Average balance of risk assets - Basle II (2)	20,075	-	12,188	32,263	18,698	-	9,177	27,875
Average balance of securities	-	64,242	-	64,242	-	(2) 44,880	-	44,880
Credit to the public (end balance)	14,992	-	5,925	20,917	15,436	-	6,048	21,484
Deposits from the public (end balance)	21,425	-	2,117	23,542	12,619	-	1,400	14,019
Average balance of other assets managed	24	-	92	116	13	-	115	128
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	165	-	115	280	183	-	111	294
Margin from receiving deposits	66	-	25	91	41	-	16	57
Other	92	8	-	100	81	8	-	89
Total	**323**	**8**	**140**	**471**	**305**	**8**	**127**	**440**

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

(2) Reclassified.

(3) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the business banking segment to Group profit in the first nine months of 2010 amounted to NIS 92 million, compared to NIS 150 million in the corresponding period last year, a decrease of 38.7%. The decrease is primarily due to a NIS 65 million increase in provision for doubtful debts, and to net gain from investment in shares of NIS 59 million in the corresponding period last year, compared to the reported period where no such gain was recorded.

Contribution of construction and real estate decreased by NIS 3 million over the corresponding period last year, primarily due to a NIS 14 million increase in the provision for doubtful debts. A NIS 2 million expense in the first nine months of 2009 due to debt collection, compared to a NIS 16 million expense in the first nine months of 2010.

Contribution of banking and finance decreased by NIS 53 million, primarily due to a NIS 51 million increase in the provision for doubtful debts, and to net revenues from investment in shares in the corresponding period last year alone, as described above. Conversely, profit from financing operations increased by 5.9%, and operating expenses decreased by 7.1%.

Results of the Business Banking Segment

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
	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 provision for doubtful debts:								
From outside operating segments	61	3	73	137	90	3	37	130
Inter-segment	49	-	(25)	24	1	-	5	6
Profit from financing operations before provision for doubtful debts	110	3	48	161	91	3	42	136
Operating and other revenues	11	7	2	20	[(2)] 68	[(2)] 6	2	76
Total profit	121	10	50	181	159	9	44	212
Provision for doubtful debts	55	-	3	58	30	-	5	35
Operating and other expenses								
From outside operating segments	30	-	8	38	51	-	10	61
Inter-segment	24	-	4	28	16	-	3	19
Total operating and other expenses	54	-	12	66	67	-	13	80
Pre-tax operating profit	12	10	35	57	62	9	26	97
Provision for taxes on operating profit	4	4	13	21	20	3	9	32
Net profit	**8**	**6**	**22**	**36**	**42**	**6**	**17**	**65**
Return on equity				**5.7%**				**16.6%**
Components of profit from financing operations before provision for doubtful debts:								
Margin from credit granting operations	45	-	39	84	53	-	41	94
Margin from receiving deposits	24	-	9	33	13	-	1	14
Other	41	3	-	44	25	3	-	28
Total	**110**	**3**	**48**	**161**	**91**	**3**	**42**	**136**

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

Financial Management Segment results

	For the nine months ended September 30, 2010			For the nine months ended September 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
	NIS in millions					
Profit from financing operations before provision for doubtful debts:						
From outside operating segments	(792)	2	(790)	(1,178)	4	(1,174)
Inter-segment	968	-	968	1,271	(1)	1,270
Profit from financing operations before provision for doubtful debts	176	2	178	93	3	96
Operating and other revenues	75	40	115	74	27	101
Total profit	251	42	293	167	30	197
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	162	6	168	172	6	178
Inter-segment	9	-	9	5	-	5
Total operating and other expenses	171	6	177	177	6	183
Operating profit (loss) before taxes	80	36	116	(10)	24	14
Provision for taxes on operating profit (loss)	29	13	42	(3)	9	6
After-tax operating profit (loss)	51	23	74	(7)	15	8
Share in net, after-tax operating loss of investees	(1)	-	(1)	-	-	-
Minority interest in net after-tax operating profit of subsidiaries	-	-	-	(9)	-	(9)
Net operating profit (loss)	50	23	73	(16)	15	(1)
After-tax profit (loss) from extraordinary items	2	-	2	-	-	-
Net profit (loss)	**52**	**23**	**75**	**(16)**	**15**	**(1)**
Return on equity			**24.7%**			**(0.3%)**
Average balance of assets	17,768	-	17,768	21,027	-	21,027
Average balance of liabilities	31,495	-	31,495	33,202	-	33,202
Average balance of risk assets – Basle II (2)	4,144	-	4,144	(1) 8,466	-	8,466
Average balance of provident and mutual fund assets	75,374	-	75,374	60,849	-	60,849
Average balance of securities	-	33,893	33,893	-	(1) 22,557	22,557
Credit to the public (end balance)	-	-	-	-	-	-
Deposits from the public (end balance)	17,195	-	17,195	18,239	-	18,239
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	176	2	178	93	3	96
Total	**176**	**2**	**178**	**93**	**3**	**96**

(1) Reclassified.

(2) Risk assets for the corresponding period of 2009 were calculated in Basle I terms.

Contribution of the financial management segment to Group profit in the first nine months of 2010 amounted to NIS 75 million compared to a NIS 1 million loss in the corresponding period last year. Profit from financing operations before provision for doubtful debts increased by NIS 82 million over the corresponding period last year, primarily due to profit from current operations of asset and liability management, and gain recognized from realized investment in securities in the first nine months of 2010, compared to provision for impairment in the corresponding period last year and effect of accounting treatment of derivatives stated at fair value. Operating revenues increased by NIS 14 million - or 13.9% - while operating and other expenses decreased by NIS 6 million - or 3.3%. The first nine months of 2009 include gain from realized debentures by a subsidiary, included under profit from financing operations. The share of external shareholders out of this gain amounted to NIS 9 million.

Financial Management Segment results

	For the three months ended September 30, 2010			For the three months ended September 30, 2009		
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total
						NIS in millions
Profit from financing operations before provision for doubtful debts:						
From outside operating segments	(396)	-	(396)	(619)	3	(616)
Inter-segment	455	-	455	665	-	665
Profit from financing operations before provision for doubtful debts	59	-	59	46	3	49
Operating and other revenues	24	15	39	18	15	33
Total profit	83	15	98	64	18	82
Provision for doubtful debts	-	-	-	-	-	-
Operating and other expenses						
From outside operating segments	56	2	58	63	2	65
Inter-segment	2	-	2	1	-	1
Total operating and other expenses	58	2	60	64	2	66
Pre-tax operating profit	25	13	38	-	16	16
Provision for taxes on operating profit	10	4	14	1	7	8
After-tax operating profit (loss)	15	9	24	(1)	9	8
Share in net, after-tax operating loss of investees	(1)	-	(1)	-	-	-
Minority interest in net after-tax operating profit of subsidiaries	-	-	-	(1)	-	(1)
Net operating profit (loss)	14	9	23	(2)	9	7
Net after-tax profit from extraordinary items	2	-	2	-	-	-
Net profit (loss)	**16**	**9**	**25**	**(2)**	**9**	**7**
Return on equity			**30.4%**			**4.2%**
Components of profit from financing operations before provision for doubtful debts:						
Margin from credit granting operations	-	-	-	-	-	-
Margin from receiving deposits	-	-	-	-	-	-
Other	59	-	59	46	3	49
Total	**59**	**-**	**59**	**46**	**3**	**49**

Product operations

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

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

	For the nine months ended September 30, 2009			
	Household	Small business	Commercial banking	Total consolidated
Profit from financing operations before provision for doubtful debts	3	1	-	4
Operating and other revenues	83	9	2	94
Total revenues	86	10	2	98
Operating and other expenses	19	2	-	21
Pre-tax operating profit	67	8	2	77
Provision for taxes on operating profit	23	3	1	27
Net profit	44	5	1	50

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

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

	For the nine months ended September 30, 2009						
	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total Consolidated
Profit from financing operations before provision for doubtful debts	9	1	2	1	8	3	24
Operating and other revenues	155	24	17	6	21	27	250
Total revenues	164	25	19	7	29	30	274
Operating and other expenses	46	-	2	-	1	6	55
Pre-tax operating profit	118	25	17	7	28	24	219
Provision for taxes on operating profit	41	8	5	2	10	9	75
Net profit	77	17	12	5	18	15	144

International operations

The international operations segment of the Bank Group include business operations and private banking services via subsidiaries and branches in Israel and overseas. Bank Group international operations are primarily focused on private banking, providing financial services to Israeli clients who have activities outside of Israel, foreign trade finance, local credit and participation in syndicated loans. The Bank has affiliates in several countries, as stated 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 Division in the Comptrollership, Planning & Operations 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.

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

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 engaged mainly in commercial banking, private banking and foreign trade. 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.

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 chapter on international operations segment in the Board of Directors' Report included with the financial statements as of December 31, 2009.

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

	For the nine months ended September 30, 2010				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	9	35	58	19	121
Operating and other revenues	1	31	4	7	43
Total revenues	10	66	62	26	164
Provision for doubtful debts	-	-	4	-	4
Operating and other expenses	7	41	30	5	83
Pre-tax operating profit	3	25	28	21	77
Provision for taxes on operating profit	1	9	10	8	28
Net profit	**2**	**16**	**18**	**13**	**49**

	For the nine months ended September 30, 2009				
	Household	Private banking	Business banking	Financial management	Total
Profit from financing operations before provision for doubtful debts	11	29	55	10	105
Operating and other revenues	1	30	5	9	45
Total revenues	12	59	60	19	150
Provision for doubtful debts	1	1	1	-	3
Operating and other expenses	8	37	35	6	86
Pre-tax operating profit	3	21	24	13	61
Provision for taxes on operating profit	1	8	9	5	23
Net profit	**2**	**13**	**15**	**8**	**38**

Off balance sheet activity

Provident funds – the Group provides operating services to provident funds. The value of assets in funds to which the Group provides operating services, amounted as of September 30, 2010 to NIS 57.7 billion, compared to NIS 53.7 billion as of December 31, 2009.

Client activity in securities – The value of the securities portfolios in the custody of the Bank, held by clients, reached NIS 145.8 billion as of September 30, 2010, compared with NIS 118.8 billion at the end of 2009. Revenues from securities transactions for the Group amounted to NIS 211 million in the first nine months of 2010, compared with NIS 195 million in the corresponding period last year - a 7.7% increase.

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 September 30, 2010 amounted to NIS 14.7 billion, compared to NIS 16.1 billion at end of 2009. These amounts exclude standing loans and government deposits extended for them.

Sources and financing

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

Total deposits from the public for the Group as of September 30, 2010 amounted to NIS 101.2 billion, compared to NIS 95.0 billion at end of 2009. Deposits from the public in the CPI-linked segment decreased in the first nine months of 2010 by 5.0%; deposits from the public in the foreign currency and foreign-currency-linked segment increased by 2.6%; and deposits from the public in the NIS-denominated, non-CPI-linked segment increased by 13.0%. 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 25-32), including subordinated notes, issued to the public by Bank Mizrahi-Tefahot, amounted to NIS 3,786 million in total par value (as of December 31, 2009 - NIS 2,901 million), of which NIS 1,951 million in subordinated notes (as of December 31, 2009 - NIS 1,651 million).

On February 25, 2009, Tefahot Issuance published a shelf prospectus for issuance of up to 12 series of obligatory notes, and up to 3 series of subordinated capital notes. All proceeds from this issuance would be deposited by Tefahot Issuance at Bank Mizrahi-Tefahot Ltd. The prospectus also allows for expansion of the debenture series and of the subordinated obligatory note series.

In the first nine months of 2010, Tefahot Issuance made one issuance. On September 19, 2010, Tefahot Issuance issued, pursuant to these prospectuses, non-linked NIS-denominated debentures (Series 32) amounting to NIS 397 million par value maturing in 2014; debentures (Series 29) in conjunction with expansion of an existing series, with principal and interest linked to the CPI, amounting to NIS 188 million par value maturing in 2015, and subordinated notes (Series 31), with principal and interest linked to the CPI, amounting to NIS 300 million par value maturing in 2019.

The revalued balance of obligatory notes as of September 30, 2010 amounted to NIS 4.3 billion, of which NIS 2.2 billion in subordinated obligatory notes.

On October 18, 2010, subsequent to the balance sheet date, Tefahot Issuance issued NIS 60 million par value debentures (Series 32), NIS-denominated and non-linked, in conjunction with expansion of an existing series. The proceeds from this issuance by Tefahot Issuance amounted to NIS 60 million.

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), that will be deemed 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 September 30, 2010, issued and listed for trading amounted to NIS 1,702 million par value, issued for consideration amounting to NIS 1,644 million.

The revalued balance of the complex capital instruments as of September 30, 2010 was NIS 1.8 billion, similar to the end of 2009. See Note 4 to the financial statements for details.

Rating of Bank obligations

In accordance with 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. On September 14, 2009 Maalot determined the rating outlook as Negative. On November 15, 2010, Maalot confirmed the Bank's issuer rating and changed the rating outlook from Negative to Stable. The stable outlook reflects Maalot's opinion that the Bank's credit quality would remain good in the next year, based on Israel's economy being stable.

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 February 4, 2010, Maalot confirmed the aforementioned rating of capital instruments issued by the Bank.

Risk Management

Basle 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 ahs been compiled in accordance with disclosure requirements of Basle 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, 2009, 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 doubtful debts by economic sector	Management Discussion, Addendum C - Credit Risk by Economic Sector
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

The work framework for measurement and capital adequacy, as adopted by the Supervisor of Banks, applies to the Bank Group, and in particular to Bank Mizrahi-Tefahot Ltd. - the parent company of the Group. Group companies to which the framework applies, in accordance with the supervisory consolidation basis, are the companies consolidated with the Bank's consolidated financial statements. For details of Bank Group companies, see Note 6 to the financial statements as of December 31, 2009. 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 Basle II rules, as determined in directives of the Supervisor of Banks. Key rules and approaches applied by the Bank are described below, under Description of Basle 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 for applying the basic indicator approach to assessment of exposure to operating risk, banks must transition to using the standard approach, and the Bank has started to take action to implement this requirement. 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, Planning, Operations and control Division - CRO, and the Manager, Accounting and Financial Reporting Division - the Chief Accountant.

In accordance with the Supervisor of Banks' letter dated August 20, 2009, the Bank continues to comply with capital adequacy objectives as defined by the Bank in Basle I terms (Proper Conduct of Banking Business Regulation No. 311), pending completion of the supervisory review process by the Bank of Israel.

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 Basle Committee.

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%.

The Bank's Tier I capital ratio as of September 30, 2010 was 7.95%.

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

	As of September 30, 2010		As of December 31, 2009	
Exposure group	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Sovereign debt	624	56	765	69
Public sector entity debt	399	36	419	38
Banking corporation debt	1,713	154	1,985	179
Corporate debt	(2) 35,039	3,154	32,847	2,956
Debt secured by commercial real estate	2,083	187	1,601	144
Retail exposure to individuals	10,723	965	10,762	969
Loans to small businesses	1,920	173	1,896	171
Residential mortgages	26,794	2,411	23,602	2,124
Securitization	10	1	25	2
Other assets	2,224	200	2,080	187
Total	81,529	7,337	75,982	6,839

(1) Capital requirement calculated at 9% of risk asset balance, in accordance with interim directive on application of Basle II, Pillar 3.
(2) Includes risk assets with respect to credit extended to purchase groups, amounting to NIS 1,781 million, which in accordance with directives of the Supervisor of Banks are deemed to be exposure to corporations, with a risk weighting of 100% (unrated). Had these exposures been risk-weighted as residential mortgages, the risk asset balance would have decreased by NIS 1,086 million.

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

	As of September 30, 2010		As of December 31, 2009	
	Weighted risk asset balances	Capital requirement (1)	Weighted risk asset balances	Capital requirement (1)
Market risk	971	87	624	56
Operating Risk (2)	7,268	654	7,038	634
Total	8,239	741	7,662	690

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

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

	Ratio of capital to risk elements	
	As of September 30, 2010	As of December 31, 2009
Ratio of Tier I capital to risk elements	(1) 7.95%	8.01%
Ratio of total capital to risk elements	(1) 14.04%	14.25%
Total minimum capital ratio required by the Supervisor of Banks	9.00%	9.00%

(1) Excluding the effect of change in risk assets with respect to buyer groups, pursuant to directives of the Supervisor of Banks, the Tier I capital ratio to risk elements would have been higher by 0.1%, and the overall capital ratio - by 0.17%.

Risk exposure and assessment thereof

Day-to-day activities in a variety of balance sheet and off-balance-sheet financial instruments expose the Group to risk, mainly – market, interest 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 set forth in Basle II, Pillar 2. To this end, the Group appointed Risk Managers and a CRO, who is in 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, hence 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 purchased a risk management system (the Algorithmics system) that enables management and control under a single platform of the market risk and liquidity risk of the Bank, and in the future, also the various credit risk components, including implementation of Basle II regulations for calculating regulatory capital.

In the third quarter of 2010, the Bank concluded action to regulate activities of the CRO. Further, the Bank created an internal control forum, designed to coordinate the different Bank entities involved with internal control issues.

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 their 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 September 30, 2010
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [2]	32,488	19,548	60,511	64	112,611
Securities [3]	3,225	3,820	986	-	8,031
Derivatives [4]	2,257	790	1,488	-	4,535
Other off-balance-sheet exposures	38,743	8,097	194	-	47,034
Other assets [5]	1,377	345	51	1,504	3,277
Total	78,090	32,600	63,230	1,568	175,488

					As of December 31, 2009
	Up to 1 year	1-5 years	Over 5 years	Without maturity	Total
Loans [2]	35,621	18,198	52,380	58	106,257
Securities [3]	2,094	4,260	897	-	7,251
Derivatives [4]	1,788	739	939	-	3,466
Other off-balance-sheet exposures	36,479	6,111	431	-	43,021
Other assets [5]	1,133	391	50	1,542	3,116
Total	77,115	29,699	54,697	1,600	163,111

(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 Basle 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.

Credit risk - standard approach

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

Before credit risk mitigation

											As of September 30, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	11,262	2,990	-	-	-	44	-	-	14,296	-	14,296
Public sector entity debt	-	-	-	-	-	-	-	-	-	-	-
Banking corporation debt	-	3,416	-	161	-	145	-	-	3,722	1	3,723
Corporate debt	-	90	-	154	-	1	173	-	418	-	418
Securitization	-	-	-	-	-	-	-	3	3	57	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	11,262	6,496	-	315	-	190	173	3	18,439	95	18,534
Non-rated exposures:											
Public sector entity debt	-	-	-	1,321	-	3	-	-	1,324	-	1,324
Banking corporation debt	-	64	-	1,410	-	-	-	-	1,474	-	1,474
Corporate debt	-	-	-	-	-	58,779	-	-	58,779	-	58,779
Debt secured by commercial real estate	-	-	-	-	-	2,370	-	-	2,370	-	2,370
Retail exposure to individuals	-	-	-	-	21,972	159	406	-	22,537	-	22,537
Loans to small businesses	-	-	-	-	4,437	19	93	-	4,549	-	4,549
Residential mortgages	-	-	47,999	-	13,547	970	202	-	62,718	-	62,718
Other assets	1,088	-	-	-	-	2,152	58	-	3,298	91	3,389
Total	1,088	64	47,999	2,731	39,956	64,452	759	-	157,049	91	157,140
Total	12,350	6,560	47,999	3,046	39,956	64,642	932	3	175,488	186	175,674

(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 Basle II rules.

(2) Mitigation using guarantees, credit derivatives and other qualified collateral.

After credit risk mitigation

											As of September 30, 2010
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	11,262	3,011	-	-	-	44	-	-	14,317	-	14,317
Public sector entity debt	63	-	-	-	-	-	-	-	63	-	63
Banking corporation debt	-	3,415	-	161	-	141	-	-	3,717	1	3,718
Corporate debt	-	90	-	155	-	1	156	-	402	-	402
Securitization	-	-	-	-	-	-	-	3	3	57	60
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	11,325	6,516	-	316	-	186	156	3	18,502	95	18,597
Non-rated exposures:											
Public sector entity debt	-	-	-	1,317	-	3	-	-	1,320	-	1,320
Banking corporation debt	-	64	-	1,644	-	-	-	-	1,708	-	1,708
Corporate debt	-	-	-	-	-	50,777	-	-	50,777	-	50,777
Debt secured by commercial real estate	-	-	-	-	-	2,172	-	-	2,172	-	2,172
Retail exposure to individuals	-	-	-	-	20,534	120	389	-	21,043	-	21,043
Loans to small businesses	-	-	-	-	3,160	13	68	-	3,241	-	3,241
Residential mortgages	-	-	47,993	-	13,508	967	201	-	62,669	-	62,669
Other assets	1,088	-	-	-	-	2,152	58	-	3,298	91	3,389
Total	1,088	64	47,993	2,961	37,202	56,204	716	-	146,228	91	146,319
Total exposure	12,413	6,580	47,993	3,277	37,202	56,390	872	3	164,730	186	164,916

Before credit risk mitigation

											As of December 31, 2009
	0%	20%	35%	50%	75%	100%	150%	350%	Gross credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	13,481	421	-	1,358	-	-	-	-	15,260	-	15,260
Banking corporation debt	-	1,232	-	1,308	-	45	43	-	2,628	2	2,630
Corporate debt	-	98	-	158	-	84	447	-	787	-	787
Securitization	-	-	-	-	-	17	-	2	19	46	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	13,481	1,751	-	2,824	-	146	490	2	18,694	85	18,779
Non-rated exposures:											
Public sector entity debt	-	-	-	1,608	-	-	-	-	1,608	-	1,608
Banking corporation debt	-	489	-	1,777	-	-	-	-	2,266	-	2,266
Corporate debt	-	-	-	-	-	54,828	-	-	54,828	-	54,828
Debt secured by commercial real estate	-	-	-	-	-	1,771	-	-	1,771	-	1,771
Retail exposure to individuals	-	-	-	-	22,235	173	493	-	22,901	-	22,901
Loans to small businesses	-	-	-	-	4,256	23	84	-	4,363	-	4,363
Residential mortgages	-	-	41,263	-	11,162	1,088	58	-	53,571	-	53,571
Other assets	939	-	-	-	-	2,120	50	-	3,109	101	3,210
Total	939	489	41,263	3,385	37,653	60,003	685	-	144,417	101	144,518
Total exposure	14,420	2,240	41,263	6,209	37,653	60,149	1,175	2	163,111	186	163,297

After credit risk mitigation

	As of December 31, 2009										
	0%	20%	35%	50%	75%	100%	150%	350%	Net credit exposure	Deducted from equity	Total
Rated exposures:											
Sovereign debt	13,481	430	-	1,357	-	-	-	-	15,268	-	15,268
Public sector entity debt	-	16	-	-	-	-	-	-	16	-	16
Banking corporation debt	-	1,239	-	1,313	-	48	43	-	2,643	2	2,645
Corporate debt	-	102	-	171	-	85	397	-	755	-	755
Securitization	-	-	-	-	-	17	-	2	19	46	65
Other assets	-	-	-	-	-	-	-	-	-	37	37
Total	13,481	1,787	-	2,841	-	150	440	2	18,701	85	18,786
Non-rated exposures:											
Public sector entity debt	-	-	-	1,603	-	-	-	-	1,603	-	1,603
Banking corporation debt	-	489	-	2,019	-	-	-	-	2,508	-	2,508
Corporate debt	-	-	-	-	-	48,191	-	-	48,191	-	48,191
Debt secured by commercial real estate	-	-	-	-	-	1,601	-	-	1,601	-	1,601
Retail exposure to individuals	-	-	-	-	20,970	143	475	-	21,588	-	21,588
Loans to small businesses	-	-	-	-	3,025	14	59	-	3,098	-	3,098
Residential mortgages	-	-	41,256	-	11,148	1,088	58	-	53,550	-	53,550
Other assets	939	-	-	-	-	2,120	50	-	3,109	101	3,210
Total	939	489	41,256	3,622	35,143	53,157	642	-	135,248	101	135,349
Total exposure	14,420	2,276	41,256	6,463	35,143	53,307	1,082	2	153,949	186	154,135

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	Total balance sheet credit		
		As of September 30,	As of December 31,
	2010	2009	2009
Communications and computer services	361	-	287
Financial services	-	114	238
Total	361	114	525

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

External credit rating	Balance sheet credit risk [(3)]	Off-balance sheet credit risk [(4)]	Current credit exposure
			As of September 30, 2010
AAA to AA-	2,050	350	2,400
A+ to A-	780	238	1,018
BBB+ to BBB-	3	-	3
BB+ to B-	4	5	9
Lower than B-	-	-	-
Unrated	30	-	30
Total credit exposure to foreign financial institutions	2,867	593	3,460
Balance of problem loans [(5)]	27	-	27

External credit rating	Balance sheet credit risk [(3)]	Off-balance sheet credit risk [(4)]	Current credit exposure
			As of September 30, 2009
AAA to AA-	2,217	396	2,613
A+ to A-	1,008	19	1,027
BBB+ to BBB-	111	-	111
BB+ to B-	14	2	16
Lower than B-	68	-	68
Unrated	24	-	24
Total credit exposure to foreign financial institutions	3,442	417	3,859
Balance of problem loans [(5)]	50	-	50

External credit rating	Balance sheet credit risk [(3)]	Off-balance sheet credit risk [(4)]	Current credit exposure
			As of December 31, 2009
AAA to AA-	1,344	396	1,740
A+ to A-	719	19	738
BBB+ to BBB-	57	-	57
BB+ to B-	17	3	20
Lower than B-	48	-	48
Unrated	78	-	78
Total credit exposure to foreign financial institutions	2,263	418	2,681
Balance of problem loans [(5)]	42	-	42

(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.

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 E - 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 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 said institution, and only ratings provided by one of the leading international rating agencies are used – based on financial information for the institution under review. Exposure limits per institution include maximum exposure amount and maximum time to maturity for different types of activities and transactions. To this end, the existence (or absence) of an offset agreement for derivative operations with said financial institution is also 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 said institutions in order to monitor exposure even where the credit rating may not reflect the complete picture.

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

Exposure to countries - several European countries (Spain, Portugal, Greece, Ireland) are experiencing an economic crisis which increases the risk associated with exposure to these countries. As of the balance sheet date, the Bank has certain exposure to these countries, some - direct exposure by investment in these countries (including by means of credit derivatives), and some - indirect exposure for which the collateral (including guarantees received from third parties) originates from these countries. For details of exposures as of the balance sheet date and as of the reporting date, see Management Discussion - Addendum D "Exposure to Foreign Countries - Consolidated".

The Bank regularly monitors exposure to countries, and in particular to the aforementioned countries - and even more so in the current period. The economic position of a country, including liquidity issues and changes in credit rating, are a key factor when reviewing current exposure to the country and to entities located there, including when creating new exposure. In conjunction with the foregoing, exposure to these countries was reduced.
As of the balance sheet date, all exposures to the aforementioned countries are of high investment grade.

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 risk mitigation

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

					As of September 30, 2010
	Gross credit exposure [1]	Exposure covered by guarantees - amounts deducted [2]	Amounts added [2]	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	14,296	-	21	-	14,317
Public sector entity debt	1,324	-	63	(4)	1,383
Banking corporation debt	5,196	-	233	(4)	5,425
Corporate debt	59,197	(293)	-	(7,725)	51,179
Debt secured by commercial real estate	2,370	(1)	-	(197)	2,172
Retail exposure to individuals	22,537	(3)	-	(1,491)	21,043
Loans to small businesses	4,549	(20)	-	(1,288)	3,241
Residential mortgages	62,718	-	-	(49)	62,669
Securitization	3	-	-	-	3
Other assets	3,298	-	-	-	3,298
Total	175,488	(317)	317	(10,758)	164,730

					As of December 31, 2009
	Gross credit exposure [1]	Exposure covered by guarantees - amounts deducted [2]	Amounts added [2]	Exposure covered by qualified financial collateral	Net credit exposure
Sovereign debt	15,260	-	8	-	15,268
Public sector entity debt	1,608	-	16	(5)	1,619
Banking corporation debt	4,894	(60)	311	6	5,151
Corporate debt	55,615	(250)	-	(6,419)	48,946
Debt secured by commercial real estate	1,771	(6)	-	(164)	1,601
Retail exposure to individuals	22,901	(2)	-	(1,311)	21,588
Loans to small businesses	4,363	(15)	-	(1,250)	3,098
Residential mortgages	53,571	(2)	-	(19)	53,550
Securitization	19	-	-	-	19
Other assets	3,109	-	-	-	3,109
Total	163,111	(335)	335	(9,162)	153,949

(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 Basle 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.

Counter-party credit risk

Counter-party credit risk (CCR) is the risk that the counter-party to a transaction will be in default before final clearance of the transaction cash flows. Economic loss would be incurred only when the transaction with the counter-party would have a positive economic value upon such default. The market value of the transaction, which may be positive or negative for either party, actually depends on volatility of market factors. Should the counter-party be in default, and the transaction has 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:

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

						As of December 31, 2009
Details	Interest contracts	Foreign currency contracts	Contracts for shares	Commodity contracts	Credit derivatives (2)	Total
Face value of derivatives after impact of add-on factor	159	1,065	11	7	124	1,366
Positive fair value, gross, of derivatives (1)	505	830	753	12	-	2,100
Total exposure with respect to derivatives	664	1,895	764	19	124	3,466
Collateral with respect to derivatives (before safety factors)	(17)	(141)	(319)	(13)	-	(490)
Impact of safety factors on collateral	4	28	44	6	-	82
Total current credit exposure after credit risk mitigation	651	1,782	489	12	124	3,058

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

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

Securitization

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

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

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

			As of December 31, 2009
	Risk weighting	Exposure amount	Capital requirements (1)
BBB+ to BBB-	100%	17	2
BB+ to BB-	350%	2	1
B+ or lower	Deducted from equity	46	46
Total		65	49

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

(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 Basle II, Pillar 3.

Market risk

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

The Bank focuses on two major market risk factors:

- **Interest** risk - the risk of erosion of capital as a result of future interest rate changes. The exposure to interest risk results, *inter alia*, from a lack of correlation between the period to maturity of the Bank's assets and liabilities.
- **Linkage-basis risk** - the risk of erosion in capital due to changes in the value of the linkage basis – changes in prices, exchange rates and inflation rates. The exposure to basis risk exists when the Bank's assets and liabilities are denominated in different currency or linkage segments.

Interest risk in Bank portfolio

Interest risk in the bank portfolio is the risk of erosion of the bank portfolio (including, as 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):

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

						December 31, 2009
						Change in fair value
		Israeli currency				Foreign currency
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
2% increase	72	407	7	2	(7)	481
2% decrease	(103)	(602)	7	-	8	(690)

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 activity there in.

Basis risk

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

Below is an analysis of the sensitivity of the Group's (pre-tax) profit to changes in the main exchange rates and in the CPI as of September 30, 2010:

Profit (loss), NIS in millions

				Scenarios		Extreme historical scenario [1]
	10% increase	5% increase	5% decrease	10% decrease	Maximum increase	Maximum decrease
CPI	358.4	179.2	(179.2)	(358.4)	107.5	(32.3)
Dollar	21.8	7.5	(2.9)	(1.4)	8.1	(2.4)
Pound Sterling	5.3	1.0	0.1	(0.6)	3.1	0.1
Yen	0.2	(0.2)	0.4	2.9	0.6	0.6
Euro	(0.7)	0.4	(0.9)	(2.6)	0.2	(1.1)
Swiss Franc	2.2	0.6	(0.7)	(1.8)	1.9	(0.9)

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

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. The VaR is calculated by each of the three calculation methods commonly used: the analytic method (parameters), 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.

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

	First nine months of 2010	All of 2009
At end of period	342	291
Maximum value during period	342 (Sep.)	291 (Dec.)
Minimum value during period	274 (Mar.)	164 (Jan.)

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, *inter alia*, from a lack of correlation between the period to maturity of the Bank's assets and liabilities.

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

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

	Israeli currency		Foreign currency [2]			
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total
September 30, 2010						
Financial assets [1]	63,318	41,258	13,285	4,529	2,522	124,912
Amounts receivable with respect to financial derivatives [3]	62,062	3,981	41,922	5,149	4,901	118,015
Financial liabilities [1]	(62,297)	(33,618)	(15,422)	(4,684)	(2,271)	(118,292)
Amounts payable with respect to financial derivatives [3]	(60,306)	(8,418)	(39,477)	(5,016)	(5,186)	(118,403)
Total	2,777	3,203	308	(22)	(34)	6,232
December 31, 2009						
Financial assets [1]	59,959	38,085	11,847	3,747	2,755	116,393
Amounts receivable with respect to financial derivatives [3]	44,982	3,070	34,903	4,682	5,236	92,873
Financial liabilities [1]	(55,353)	(33,958)	(13,760)	(5,022)	(3,014)	(111,107)
Amounts payable with respect to financial derivatives [3]	(46,055)	(6,068)	(32,810)	(3,453)	(4,978)	(93,364)
Total	3,533	1,129	180	(46)	(1)	4,795

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

	Israeli currency		Foreign currency [2]				Change in fair value	
	Non-linked	Linked to CPI	Dollar	Euro	Other	Total	NIS in millions	In %
September 30, 2010								
Change in interest rates:								
Concurrent immediate increase of 1%	2,633	3,391	279	(22)	(44)	6,237	5	0.1%
Concurrent immediate increase of .1%	2,763	3,223	304	(24)	(35)	6,231	(1)	-
Concurrent immediate decrease of 1%	2,904	3,126	347	(22)	(24)	6,331	99	1.6%
December 31, 2009								
Change in interest rates:								
Concurrent immediate increase of 1%	3,351	1,406	133	(72)	(9)	4,809	14	0.3%
Concurrent immediate increase of .1%	3,513	1,156	176	(49)	(2)	4,794	(1)	-
Concurrent immediate decrease of 1%	3,706	942	243	(13)	8	4,886	91	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 Basle II rules, the Bank is also required to calculate specific risk in the negotiable portfolio. Capital requirements with respect to specific risk is intended to provide protection against negative change in the price of a single security due to factors related to the individual issuer. The capital requirement with respect to specific risk relates to instruments in the negotiable portfolio, and replaces the capital requirement with respect to credit risk associated with these instruments, had they been held in the Bank's portfolio.

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

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

	As of September 30, 2010			As of December 31, 2009		
	Capital requirement			Capital requirement		
Risk component [(1)]	Specific risk	General risk	Total	Specific risk	General risk	Total
Interest risk [(2)]	6	35	41	5	18	23
Equity risk	-	-	-	-	1	1
Foreign currency exchange rate risk		46	46	-	32	32
Total market risk	6	81	87	5	51	56

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

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 Basle 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

Basle I provisions referred to operating risk as residual risk, and in fact defined it as risk which is not market risk nor credit risk. Basle 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 Basle II first layer includes capital requirements for operating risk. For details of the Basle 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. The investment balance includes investments in negotiable and public shares amounting to NIS 6 million, and investment in non-public shares amounting to NIS 95 million.

Total investments in shares for which a quoted price exists which materially differs from the fair value is NIS 4 million. The quoted price for these shares is NIS 1 million.

	As of September 30, 2010	
	Fair value	Capital requirement [1]
Shares	64	6
Venture capital / private equity funds	37	3
Total equity investment in bank portfolio	101	9

	As of December 31, 2009	
	Fair value	Capital requirement [1]
Shares	63	6
Venture capital / private equity funds	35	3
Total equity investment in bank portfolio	98	9

(1) Capital requirement calculated at 9%, in accordance with interim directive on application of Basle 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 has analyzed 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 Department 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 the basis for Bank commitments..

The Legal Department 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 Department.

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 No. 308 with regard to Compliance Officer, the Bank has appointed a Compliance Officer to head its Compliance Department. The Compliance Department strives to implement consumer provisions applicable to Bank relationships with its clients, so as to minimize the likelihood of any breach of laws and regulations, and so as to discover, as early as possible, any such breach - thereby minimizing Bank exposure to claims and other damage which may ensue.

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

Prohibition of money laundering

The Compliance Officer is also responsible for application of the Prohibition of Money Laundering Act, and of the Prohibition on Financing Terrorism Act. The Department of Prohibition on Money Laundering acts to implement 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 operates different computer systems for identifying unusual activity and for monitoring the handling of subjective reports.

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

On July 1, 2010, changes and updates to Proper Conduct of Banking Business Regulation No. 411, on prohibition of money laundering, became effective. The Bank has taken comprehensive steps to implement these updates, by updating procedures and operational aspects. Furthermore, the Bank Board of Directors approved in May 2010 an updated policy on prohibition of money laundering and financing terrorism.

The Bank applies on a Group basis, with required changes, its policy in this area as well as statutory provisions, at its subsidiaries and branches 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.

In the first nine months of 2010, the VaR value reached NIS 342 million. Consequently, the impact of interest risk, inflation risk and the overall impact of market risk increased from "Low" to "Medium".

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.

Restrictions on and Regulation of Bank Group Operations

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 regulation and the Bank's preparations for its implementation, see Note 1.B to the financial statements.

Bank of Israel Act, 2010

On March 16, 2010, the Knesset enacted an act which defines the Bank of Israel's objectives, independence and decision making process, as well as establishes a monetary committee, which would set policy for the Bank of Israel, establishes an administrative council to supervise internal management at the bank, and creates an external system to supervise salaries at the Bank of Israel. The Bank of Israel shall be responsible for supporting the financial stability of the economy.

The bank's independence is defined in the Act with regard to use of interest tools, issuance of short-term securities, activity in capital markets, management of foreign currency reserves and gathering of information in financial markets.

The independent operations of the Bank of Israel would be conducted within a Monetary Committee and an Administrative Council, in transparent manner with accountability to the Knesset, the Government and the Public, so as to allow for public control of bank operations.

The Act defines an external supervisory system over salaries at the bank. The Administrative Council would approve the bank's payroll policy, and the bank is required to report to the Finance Minister any wage agreement or change there in, in the same format reported to the Supervisor of Wages. The final decision is to be made by the Prime Minister. The bank is required by statute to report to the Knesset, the Government and the Public its decisions concerning monetary policy and management of the bank, via the Monetary Committee and the Administrative Council, respectively.

Classification of credit to buyer groups

On March 25, 2010, the Supervisor of Bank sent a letter to banking corporations, stipulating directives with regard to classification of credit granted to buyer groups. According to this letter, credit provided to buyer groups intended to construct 10 or more apartments, would be classified during construction and through its completion as indebtedness of a corporation in the real estate sector, as described above, this credit will be weighted at 100% for capital adequacy calculation. After completion of construction and delivery of units to buyers, in the absence of any unusual circumstances, the credit to group members would be classified as housing credit, and would be treated as such in accordance with the different provisions.

The new directives have been applied starting with financial statements as of March 31, 2010. The effect of this change, as of September 30, 2010, amounted to a NIS 1,086 million increase in risk assets, or 0.17% in capital to risk elements ratio.

Capital adequacy

On June 20, 2010, the Supervisor of Banks issued a circular, stipulating new Proper Conduct of Banking Business Regulations with regard to measurement and capital adequacy. These regulations integrate provisions of the temporary directive on "Framework for Measurement and Capital Adequacy" (Basle II directives), initially applied on December 31, 2009. The framework consists of the following new Proper Conduct of Banking Business Regulations:

Proper Conduct of Banking Business Regulation no. 201 - Introduction, scope and requirement calculation;

Proper Conduct of Banking Business Regulation no. 202 - Capital elements;

Proper Conduct of Banking Business Regulation no. 203 - Calculation of capital required with respect to credit risk using the standard approach;

Proper Conduct of Banking Business Regulation no. 204 - Calculation of capital required with respect to credit risk using the internal rating approach;

Proper Conduct of Banking Business Regulation no. 205 - Handling of securitization transactions;

Proper Conduct of Banking Business Regulation no. 206 - Calculation of capital required with respect to operating risk;

Proper Conduct of Banking Business Regulation no. 208 - Calculation of capital required with respect to market risk;

Proper Conduct of Banking Business Regulation no. 211 - Directives for assessment process of appropriateness of capital adequacy at banking corporations (Pillar 2);

Another part, Pillar 3, which stipulates directives and expectations with regard to market discipline (disclosure requirements), was incorporated into the collection of public reporting directives.

The circular also stipulated that currently, pending further instructions by the Supervisor, banking corporations shall continue to calculate, report and comply with minimum capital ratio requirements in accordance with Proper Conduct of Banking Business Regulation no. 311 ("Basle I") as well.

The disclosure stipulated by the Supervisor of Banks, in accordance with Pillar 3 requirements, are included below. The Bank's capital adequacy as of the report date, in the disclosure format set by the Supervisor of Banks, is presented in Note 4 to the financial statements.

Supplementary provision with respect to housing loans

On July 11, 2010, the Supervisor of Banks sent a letter to banking corporations, including directives for review and specification of processes with regard to credit risk with respect to housing loans, due to evolving risk associated with such loans, as well as a requirement for supplementary provision with respect to certain housing loans. For details of this supplementary provision, see Note 1.E. to the financial statements.

Weighting of adjustable interest housing loans for capital adequacy ratio

On October 28, 2010, the Supervisor of Banks issued a letter, directing banks to assign a 100% risk weighting for capital adequacy ratio purposes, to any adjustable interest component of housing loans approved starting on October 26, 2010 which fulfill these conditions:

- Loan to value ratio of the loan is higher than 60%.
- The adjustable rate component is at least 25% of the loan balance on the grant date.
- The total amount approved for the buyer is NIS 800 thousand or higher.

Bank management is preparing to implement this directive.

Recommendations of Basle Committee on Banking Supervision ("Basle II")

The Basle Committee is an international body established in 1974 by the central banks of different countries. The Committee's decisions and recommendations, although they have no binding legal validity, prescribe the supervisory regulations acceptable to the supervisory bodies of the banking systems in a majority of countries throughout the world.

In June 2006, the Basle Committee published the final Basle II recommendations intended to assure proper regulation for arranging the rules of capital adequacy of banks in different countries (hereinafter: ("Basle II"). Basle II recommendations supersede the previous regulation dated 1988, known as Basle I, which included capital requirements due to credit risk, and was expanded in 1996 to include capital requirements for market risk as well.

Application of Basle II directives is intended to improve measuring and management of different risk factors facing the financial institution, and to ensure better alignment of capital requirements to the risk level to which the financial institution is exposed.

Key recommendations of the Basle Committee

Whereas the Basle I regulations were mainly aimed at capital allocation for credit risk and market risk to which the financial institution is involved, Basle II expanded these regulations to afford better stability to financial institutions, by also implementing a culture concerning risk management and control. Therefore, Basle II regulations include, in addition to a material change in how capital is calculated (the first layer of the regulations), also two other layers, as set forth below.

The first layer of Basle II includes minimum capital allocation due to market risk and credit risk, as well as due to operating risk (capital allocation not required by Basle I). The new guidelines improve capital allocation for credit risk by enabling calculation of the minimum capital using a standard model, essentially similar to that of Basle I, but relying on external debts rating by rating agencies recognized by the regulatory authority (in Israel: the Supervisor of Banks) , uses a larger number of exposure groups while adapting risk coefficients to the various groups, and recognizes other financial collateral which may be offset against the exposure.

The regulations also allow banks to calculate the minimum capital requirement using internal models. These models are based on the bank's assessment of its borrowers' quality, the probability of borrowers entering a state of credit default, and the expected loss to the bank in case of credit default. Use of internal models requires approval by the regulatory authority, which may only be granted after extensive validation of the model.

In the area of operational risk, the guidelines propose three alternative approaches for calculating the required capital: The basic indicator approach, according to which the bank will allocate capital for operational risk as a fixed percentage of the average annual gross revenue; the standard approach, in which the capital requirements are calculated by multiplying gross revenues from each line of business by a specific coefficient specific to that line of business; the advanced measurement approach, whereby the bank will allocate capital based on an internal model to be developed within the organization.

Basle II recommendations specify multiple principles for operating risk management, relating to aspects such as: degree of supervision by bank management and Board of Directors, existence of suitable organizational structure and culture, including a system of internal reporting and an efficient and effective flow of information, and the existence of appropriate support systems. The department charged with handling operating risk is required to act in order to map and identify operating risk, collect actual failure data and take action to reduce potential damage arising from an operating failure at the bank. Basle II principles further stipulate the responsibility of the Internal Auditor as an additional layer in handling operating risk.

The second layer of Basle II involves the Supervisory Review Process (SREP) and the Internal Capital Adequacy Assessment Process (ICAAP) aimed at ensuring that bank capital is in line with its risk profile. This is over and above the minimum capital the bank is required to maintain pursuant to the first layer. This includes, inter alia, a review of the required capital due to other risk not included in the minimum capital requirement of the first layer, such as: Interest risk in the bank portfolio, concentration risk, liquidity risk, reputation risk etc. Furthermore, the directives for this layer review the bank’s risk management processes, risk control processes, level of the bank’s corporate governance, existence of supporting procedures, reporting and process management closely linked to risk management and the corporation’s profit, such as credit pricing processes, rating processes, specification of authority etc.

In addition, Layer 2 mandates checking if the bank has enough capital to meet its strategic plan, and if it has enough capital to protect against down-turns and economic crises which may occur and which may impact the bank. Therefore, stress tests are an important tool in estimating the capital required of banks, and these feature prominently in the Layer 2 of the directive.

Layer 3 of the Basle II directive involves reporting and disclosure to the regulating authority and to the public. This requires the Bank to disclose its risk level and its risk management processes. This requires more extensive, detailed and intensive disclosure, compared to previous directives. In October 2009, the Bank received detailed directives concerning implementation of disclosure requirements for implementation of Pillar 3 of Basle II, and the Bank applies these requirements in these financial statements.

In December 2009, following the economic crisis, the Basle Committee published two new consultative documents. One document concerns reinforcement of the banking system, and the other - liquidity risk. The Bank has completed studying these documents.

Implementation of the Basle Committee recommendations

In December 2008, the Supervisor of Banks issued the Framework for Measurement and Capital Adequacy (Interim Directive) as well as his directives for quarterly reporting with regard to capital adequacy (COREP). Pursuant to these directives, banking corporations in Israel were required to also report the capital ratio in accordance with Basle II guidelines to the Supervisor of Banks starting in March 2009 (for financial statements as of December 31, 2008).

Furthermore, in December 2008 a proposed template was published for reporting of the Internal Capital Adequacy Assessment Process (ICAAP), which guided banking corporations on submission of the Bank's ICAAP document by September 30, 2009.

In accordance with Bank of Israel directives dated August 2009, capital targets would be set for banking corporations in Basle II terms, after conclusion of the Supervisory Review Process (SREP). Hence, until such date, the Bank would be required to comply with capital targets it has set for itself in Basle I terms.

By December 31, 2009, the Bank Group had completed implementation of Pillar 1 and Pillar 3 of the directive. Results of Pillar 1 and disclosure in accordance with Pillar 3 are presented in Note 4 to the financial statements, as well as in the above chapter on Risk Management.

The Bank has completed the ICAAP process (in conjunction with Pillar 2 of the Basle II directive). As part of this process, all material risk factors to Bank operations have been mapped, and in early 2010, Bank executives were appointed as Risk Owners for each risk factor. The Bank has also completed the upgrade to its risk management and capital management policy, in accordance with Pillar 2 provisions. This includes a definition of the Bank's risk appetite, for all risk factors material to its operations.

In June 2010, the Bank filed with the Bank of Israel its ICAAP document as of December 31, 2009, which reflects the former's assessment of the capital required by the Bank to cover all risk exposures arising from its business operations.

Results of the capital assessments conducted within this draft, indicate that the Bank has sufficient capital to cover all risk factors to which it is exposed, both under normal and stress conditions. This document also included the results of the independent review of the ICAAP process.

For details of the Supervisor of Banks' letter concerning adoption of target capital ratio for interim periods - see Note 4 to the financial statements.

Legal Proceedings

See Notes 6.2) and 6.3) to the financial statements for material changes in legal proceedings to which the Bank is party.

Update to Compliance Program at Los Angeles branch

On November 19, 2007, the FDIC conducted an audit at the Los Angeles branch concerned, *inter alia*, with implementation of the compliance program with banking confidentiality laws and prohibition of money laundering. On August 28, 2008, a cease and desist order, signed by the branch and by US regulators subsequent to the audit findings, became effective.

The order includes the following basic requirements:

- The branch shall rectify as required (as detailed below) without admission or denial of any breach of any applicable laws or regulations.
- The order applies to new "back-to-back" transactions or to renewal of such transactions in Los Angeles, and allows these to be put in place subject to full disclosure of information with regard to collateral in Israel, for the duration of the order. Note that the order does not affect the status of transactions valid and effective upon issuance of the order.
- The branch shall review its written program with regard to prohibition of money laundering, so as to include the recommendations included in the report;
- The branch shall review once more the plans and procedures for due diligence with regard to its clients, so as to include therein the recommendations included in the report;
- The branch shall develop an additional program to review accounts of foreign residents.
- The branch shall review once more its procedures with regard to clients who are non-banking financial institutions, including currency service providers.

Other than the foregoing, no sanctions were imposed on the Los Angeles branch.

Implementation of the cease and desist order does not involve a material expenditure.

An institution subject to a cease and desist order is usually reviewed by regulators during at least two cycles (assuming compliance) before such order is lifted. On January 11, 2010, the Federal Deposit Insurance Corporation ("FDIC") along with the Department of Financial Institutions ("DFI") conducted an additional comprehensive audit at the Los Angeles branch. On April 11, 2010, the audit report received confirmed that the branch had successfully passed the audit, and no breach of regulatory directives was found. However, the branch was requested to make certain corrections to procedures related to the compliance program. The branch is acting to complete the required changes in 2010. Another audit is expected during this year.

On August 10, 2010, the Los Angeles branch received a letter from the FDIC, with regard to Proposed Civil Money Penalty, whereby the Bank is given the option to pay a civil money penalty of USD 350 thousand, or to conduct a hearing with an Administrative Law Judge, who would review the facts and legal conclusions with regard to imposing of the civil money penalty in conjunction with the claims presented by the FDIC and the Bank.

After consulting with legal counsel and further discussions with the FDIC and DFI, the Bank has decided to sign a letter of agreements with the FDIC and DFI, with regard to payment of civil monetary penalty (hereinafter - "letter of agreements").

The letter of agreements is intended to settle claims made by the FDIC and DFI, whereby the branch had no appropriate program for monitoring, analysis and reporting of suspect activity related to prohibition of money laundering, at least between 2007-2009, and whereby the branch did not comply with the cease and desist order dated August 28, 2008 with regard to compliance with banking confidentiality statutes. The Bank has consented to pay the civil monetary penalty merely in order to settle the claims, without admitting or denying any of the claims made by the FDIC and DFI. In conjunction with the letter of agreements, the Bank has consented to pay a civil monetary penalty amounting to USD 350 thousand - one half payable to the US Treasury Department and one half - to DFI.

The branch has been informed that it is materially in compliance with provisions of the cease and desist order dated August 2008, which would therefore be terminated.

Letter from the Restrictive Trade Practices Authority

On April 26, 2009, the Bank received a determination by the Anti-Trust Supervisor pursuant to Section 43(a)(1) of the Restrictive Trade Practices Act, 1988, whereby restrictive trade practices existed between the Bank and Bank HA-POALIM 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, on November 2004. On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court.

Currently, the date for filing the response by the Anti-Trust Supervisor to the appeal has been set to November 25, 2010. The Court has yet to schedule a hearing of the appeal.

Other Matters

The independent auditor has drawn, in their review, attention to Note 6.C.3-4 to the financial statements with regard to claims filed against the Bank, including claims accompanied by applications for class action status.

Internal Auditor

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 2009 financial statements. No material changes occurred in these details during the reported period.

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 set forth in the Board of Directors' report as of December 31, 2009.
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 a listing of Bank management, with names and positions, see the Board of Directors' Report as of December 31, 2009.
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 and the Chief Legal Counsel. In conjunction with preparation of the financial statements, the committee reviews the state of problem loans of the Bank, their classification and provisions required there for. In addition, the Chief Legal Counsel and the Chief Accountant review the provisions required with respect to claims filed against the bank.
Matters of principal with regard to disclosure in the financial statements are discussed by the Financial Statements Disclosure Committee ("the Disclosure Committee") headed by the President and including the Chief Accountant, Chief Legal Counsel and other members of the Executive Management. These discussions include issues with material impact on the financial statements, issues of interest to the public, developments requiring disclosure to the public, material changes to application of accounting policies, requests or demands by regulatory authorities and issues on which Bank management and the independent auditor differ. As part of presentation of these issues to the Disclosure Committee, the independent auditor's 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. Meetings of the Balance Sheet Committee are attended by the President, the Manager, Accounting and Financial Reporting Division - the Chief Accountant, the Manager, Planning, Operations and Control Division - CRO, and the independent CPA.

The Balance Sheet Committee reviews recommendations of the Disclosure Committee with regard to application of the disclosure policy, determines the required disclosure in public reports, and discusses recommendations of the Doubtful Debts Committee with regard to classification of problem loans, relevant provisions and recommended provisions for claims. The Balance Sheet Committee also focuses on any material issue and any disclosure in the financial statements whose presentation allows for exercise of judgment, estimates or assessments.

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

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

Board of Directors

During the third quarter of 2010, the Bank's Board of Directors held 4 plenary meetings and 18 Board committee meetings. In this period, no changes were made to the Bank's Articles of Incorporation nor to its Bylaws.

On April 26, 2010, Mr. YOSEF SHACHAK, CPA was appointed member of the Bank Board of Directors.

On August 2, 2010. Mr. MOSHE VIDMAN was appointed member of the Bank Board of Directors.

Mr. SHACHAK, CPA and Mr. VIDMAN are among the Board members with accounting and financial skills at the Bank.

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, 2009.

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

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

During the quarter ended September 30, 2010, 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, November 22, 2010

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Israeli currency - non-linked								
Assets [3]	61,380	565	3.73		[8] 56,010	340	2.45	
Effect of embedded and ALM derivatives [4]	60,162	368			43,009	148		
Total assets	121,542	933		3.10	99,019	488		1.99
Liabilities [3]	59,554	(141)	(0.95)		[8] 52,644	(65)	(0.49)	
Effect of embedded and ALM derivatives [4]	57,700	(326)			37,884	(99)		
Total liabilities	117,254	(467)		(1.60)	90,528	(164)		(0.73)
Interest margin			2.78	1.50			1.96	1.26
Israeli currency - linked to the CPI								
Assets [3]	38,767	824	8.78		[8] 35,330	1,308	15.65	
Effect of embedded and ALM derivatives [4]	4,200	2			3,592	91		
Total assets	42,967	826		7.92	38,922	1,399		15.17
Liabilities [3]	31,389	(635)	(8.34)		[8] 30,778	(1,105)	(15.15)	
Effect of embedded and ALM derivatives [4]	9,361	(89)			8,442	(273)		
Total liabilities	40,750	(724)		(7.30)	39,220	(1,378)		(14.81)
Interest margin			0.44	0.62			0.50	0.36

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1] - Continued

Reported amounts (NIS in millions)

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [5]								
Assets [3]	20,100	(472)	(9.07)		25,066	(685)	(10.49)	
Effect of derivatives [4]								
Hedging derivatives	1,314	(20)			1,151	135		
Embedded and ALM derivatives	47,378	(2,047)			35,721	(1,082)		
Total assets	68,792	(2,539)		(13.97)	61,938	(1,632)		(10.13)
Liabilities [3]	22,364	616	10.57		26,393	951	13.65	
Effect of derivatives [4]								
Hedging derivatives	1,449	24			1,246	(196)		
Embedded and ALM derivatives	44,399	1,974			36,515	1,095		
Total liabilities	68,212	2,614		14.47	64,154	1,850		11.05
Interest margin			1.50	0.50			3.16	0.92

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenues [3]	120,247	917	3.09		116,406 [8]	963	3.35	
Effect of derivatives [4]								
Hedging derivatives	1,314	(20)			1,151	135		
Embedded and ALM derivatives	111,740	(1,677)			82,322	(843)		
Total assets	233,301	(780)		(1.33)	199,879	255		0.52
Monetary liabilities generating financing expenses [3]	113,307	(160)	(0.57)		109,815 [8]	(219)	(0.80)	
Effect of derivatives [4]								
Hedging derivatives	1,449	24			1,246	(196)		
Embedded and ALM derivatives	111,460	1,559			82,841	723		
Total liabilities	226,216	1,423		2.49	193,902	308		0.63
Interest margin			2.52	1.16			2.55	1.15
On options		(5)				(48)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [4]		7				(41)		
Commissions from financing transactions and other financing revenues [6]		98				112		
Other financing expenses		(8)				(4)		
Profit from financing operations before provision for doubtful debts		735				582		
Provision for doubtful debts (includes general and supplementary provision)		(102)				(82)		
Profit from financing operations after provision for doubtful debts		633				500		

See remarks below.

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

Reported amounts (NIS in millions)

	For the three months ended September 30, 2010	For the three months ended September 30, 2009
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	120,247	[8] 116,406
Assets deriving from derivatives [7]	2,716	2,268
Other monetary assets [3]	759	1,001
General and supplementary provision for doubtful debts	(211)	(222)
Total monetary assets	123,511	119,453
Total		
Monetary liabilities generating financing expenses [3]	113,307	[8] 109,815
Liabilities deriving from derivatives [7]	2,154	1,949
Other monetary liabilities [3]	1,723	2,248
Total monetary liabilities	117,184	114,012
Total excess monetary assets over monetary liabilities	6,327	5,441
Non-monetary assets	1,275	1,564
Non-monetary liabilities	256	207
Total capital resources	7,346	6,798

(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 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) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated (1) - Continued

Nominal – in USD (USD in millions)

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency (5)								
Monetary assets in foreign currency generating financing revenues (3)	5,086	34	2.70		5,380	21	1.57	
Effect of derivatives (4)								
Hedging derivatives	346	(5)			294	37		
Embedded and ALM derivatives	12,340	47			10,141	87		
Total assets	17,772	76		1.72	15,815	145		3.72
Monetary liabilities in foreign currency	5,855	(4)	(0.27)		5,543	2	0.14	
Effect of derivatives (4)								
Hedging derivatives	384	6			322	(52)		
Embedded and ALM derivatives	10,908	(51)			10,363	(68)		
Total liabilities	17,147	(49)		(1.15)	16,228	(118)		(2.94)
Interest margin			2.43	0.57			1.71	0.78

(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 excluding the average balance sheet balance of specific provision 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) - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Israeli currency - non-linked								
Assets (3)	60,428	1,579	3.50		(8) 52,876	1,097	2.78	
Effect of embedded and ALM derivatives (4)	52,712	990			45,159	371		
Total assets	113,140	2,569		3.04	98,035	1,468		2.00
Liabilities (3)	57,292	(423)	(0.99)		(8) 52,474	(274)	(0.70)	
Effect of embedded and ALM derivatives (4)	50,884	(904)			39,846	(385)		
Total liabilities	108,176	(1,327)		(1.63)	92,320	(659)		(0.95)
Interest margin			2.51	1.41			2.08	1.05
Israeli currency - linked to the CPI								
Assets (3)	37,425	1,735	6.23		(8) 36,638	2,543	9.36	
Effect of embedded and ALM derivatives (4)	3,744	166			4,168	188		
Total assets	41,169	1,901		6.20	40,806	2,731		9.03
Liabilities (3)	30,981	(1,352)	(5.86)		(8) 31,420	(2,108)	(9.04)	
Effect of embedded and ALM derivatives (4)	8,237	(275)			8,832	(478)		
Total liabilities	39,218	(1,627)		(5.57)	40,252	(2,586)		(8.66)
Interest margin			0.37	0.63			0.32	0.37

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1] - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Foreign currency [5]								
Assets [3]	19,258	(315)	(2.17)		23,374	(63)	(0.36)	
Effect of derivatives [4]								
Hedging derivatives	1,268	15			1,153	102		
Embedded and ALM derivatives	44,002	(4,007)			43,135	1,209		
Total assets	64,528	(4,307)		(8.80)	67,662	1,248		2.47
Liabilities [3]	21,698	838	5.11		22,551	356	2.10	
Effect of derivatives [4]								
Hedging derivatives	1,387	(28)			1,272	(162)		
Embedded and ALM derivatives	41,189	3,778			44,071	(925)		
Total liabilities	64,274	4,588		9.40	67,894	(731)		(1.44)
Interest margin			2.94	0.60			1.74	1.03

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1] - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance [2]	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
			in %				in %	
Total								
Monetary assets generating financing revenues [3]	117,111	2,999	33.4		[8] 112,888	3,577	4.25	
Effect of derivatives [4]								
Hedging derivatives	1,268	15			1,153	102		
Embedded and ALM derivatives	100,458	(2,851)			92,462	1,768		
Total assets	218,837	163		0.10	206,503	5,447		3.53
Monetary liabilities generating financing expenses [3]	109,971	(937)	(1.14)		[8] 106,445	(2,026)	(2.55)	
Effect of derivatives [4]								
Hedging derivatives	1,387	(28)			1,272	(162)		
Embedded and ALM derivatives	100,310	2,599			92,749	(1,788)		
Total liabilities	211,668	1,634		1.03	200,466	(3,976)		(2.65)
Interest margin			2.29	1.13			1.70	0.88
On options		(40)				(15)		
On other derivative instruments (excludes options, hedging and ALM derivatives and embedded derivatives that were detached [4]		29				28		
Commissions from financing transactions and other financing revenues [6]		318				269		
Other financing expenses		(25)				(23)		
Profit from financing operations before provision for doubtful debts		2,079				1,730		
Provision for doubtful debts (includes general and supplementary provision)		(281)				(268)		
Profit from financing operations after provision for doubtful debts		1,798				1,462		

See remarks below.

Management Review - Addendum A

Revenue and Expense Rates – Consolidated [1] - Continued

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
	Average balance [2]	Average balance [2]
Total		
Monetary assets generating financing revenues [3]	117,111	[8] 112,888
Assets deriving from derivatives [7]	2,276	2,614
Other monetary assets [3]	897	1,110
General and supplementary provision for doubtful debts	(209)	(220)
Total monetary assets	120,075	116,392
Total		
Monetary liabilities generating financing expenses [3]	109,971	[8] 106,445
Liabilities deriving from derivatives [7]	2,216	2,384
Other monetary liabilities [3]	1,729	2,237
Total monetary liabilities	113,916	111,066
Total excess monetary assets over monetary liabilities	6,159	5,326
Non-monetary assets	1,295	1,563
Non-monetary liabilities	252	200
Total capital resources	7,202	6,689

(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 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) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

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

Nominal – in USD (USD in millions)

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
			Revenue (expense) rate				Revenue (expense) rate	
	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives	Average balance (2)	Financing revenues (expenses)	Excluding effect of derivatives	Including effect of derivatives
				in %				in %
Foreign currency (5)								
Monetary assets in foreign currency generating financing revenues (3)	4,940	87	2.36		5,380	107	2.66	
Effect of derivatives (4)								
Hedging derivatives	336	6			289	26		
Embedded and ALM derivatives	11,660	140			10,825	219		
Total assets	16,936	233		1.84	16,494	352		2.86
Monetary liabilities in foreign currency	5,721	(15)	(0.35)		5,376	(27)	(0.67)	
Effect of derivatives (4)								
Hedging derivatives	368	(10)			319	(41)		
Embedded and ALM derivatives	10,628	(131)			11,060	(208)		
Total liabilities	16,717	(156)		(1.25)	16,755	(276)		(2.20)
Interest margin			2.01	0.59			1.99	0.66

(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 excluding the average balance sheet balance of specific provision 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 September 30, 2010					
	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)]	55,017	1,208	3,572	1,701	692	505
Financial derivatives (except for options)	11,508	19,873	21,882	4,461	1,667	3,511
Options (in terms of underlying asset)	(380)	(219)	(281)	40	-	-
Total fair value	66,145	20,862	25,173	6,202	2,359	4,016
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	50,199	2,832	3,413	3,396	1,815	526
Financial derivatives (except for options)	14,634	15,412	19,990	4,215	2,163	3,681
Options (in terms of underlying asset)	(123)	213	118	3	-	-
Total fair value	64,710	18,457	23,521	7,614	3,978	4,207
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	1,435	2,405	1,652	(1,412)	(1,619)	(191)
Cumulative exposure in sector	1,435	3,840	5,492	4,080	2,461	2,270

Specific remarks:

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

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

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of September 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of September 30, 2009		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	Internal rate of return	Average term to maturity	Internal rate of return	Average effective term to maturity
				In %	in years	In %	in years	In %	in years
80	-	543	63,318	3.87%	0.36	4.32%	0.15	3.37%	0.25
-	-	-	62,902		1.01				0.99
-	-	-	(840)		0.35				0.35
80	-	543	125,380		0.69				(2) 0.58
117	(1)	-	62,297	2.67%	0.31	2.70%	0.30	2.09%	0.31
-	-	-	60,095		1.24				1.01
-	-	-	211		0.33				0.16
117	(1)	-	122,603		0.77				(2) 0.63
(37)	1	543	2,777						
2,233	2,234	2,777	2,777						

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

Reported amounts (NIS in millions)

	As of September 30, 2010					
	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)	517	2,225	9,080	13,983	7,573	6,142
Financial derivatives (except for options)	59	130	997	1,167	723	905
Total fair value	576	2,355	10,077	15,150	8,296	7,047
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities (1)	1,282	1,726	4,863	7,950	7,744	6,403
Financial derivatives (except for options)	135	616	3,962	2,329	493	883
Total fair value	1,417	2,342	8,825	10,279	8,237	7,286
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	(841)	13	1,252	4,871	59	(239)
Cumulative exposure in sector	(841)	(828)	424	5,295	5,354	5,115

Specific remarks:

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

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

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of September 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of September 30, 2009		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	Internal rate of return	Average term to maturity	Internal rate of return	Average effective term to maturity
				In %	in years	In %	in years	In %	in years
1,656	7	75	41,258	2.69%	3.35	4.83%	3.09	3.67%	3.37
-	-	-	3,981		3.15				2.05
1,656	7	75	45,239		3.33				(2) 3.27
3,293	355	2	33,618	2.43%	4.80	4.56%	4.25	2.91%	4.48
-	-	-	8,418		1.53				1.41
3,293	355	2	42,036		4.15				(2) 4.01
(1,637)	(348)	73	3,203						
3,478	3,130	3,203	3,203						

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

Reported amounts (NIS in millions)

	As of September 30, 2010					
	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)]	9,918	6,067	1,751	738	456	1,273
Financial derivatives (except for options)	18,729	14,968	15,060	781	926	1,120
Options (in terms of underlying asset)	(244)	340	290	2	-	-
Total fair value	28,403	21,375	17,101	1,521	1,382	2,393
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(2)]	12,496	6,556	2,629	116	543	16
Financial derivatives (except for options)	14,032	13,525	18,420	1,203	559	2,646
Options (in terms of underlying asset)	(506)	(83)	(118)	1	-	-
Total fair value	26,022	19,998	20,931	1,320	1,102	2,662
Financial instruments, net						
Exposure to interest rate fluctuations in the sector	2,381	1,377	(3,830)	201	280	(269)
Cumulative exposure in sector	2,381	3,758	(72)	129	409	140

Specific remarks:

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

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of September 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

						As of September 30, 2009		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	Internal rate of return	Average term to maturity	Internal rate of return	Average effective term to maturity
				In %	in years	In %	in years	In %	in years
59	-	74	20,336	3.04%	0.91	5.33%	0.89	2.78%	1.03
-	-	-	51,584		1.15				0.89
-	-	-	388		0.26				0.50
59	-	74	72,308		1.08				[3] 0.93
18	-	3	22,377	1.10%	0.42	1.97%	0.58	1.54%	0.88
-	-	-	50,385		1.24				1.05
-	-	-	(706)		0.23				0.31
18	-	3	72,056		1.00				[3] 1.01
41	-	71	252						
181	181	252	252						

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

Reported amounts (NIS in millions)

	As of September 30, 2010					
	On Call to 1 month	1-3 months	3 months to 1 year	1-3 years	3-5 years	5-10 years
Total exposure to interest rate fluctuations						
Financial assets, amounts receivable with respect to derivatives and to complex financial assets						
Financial assets [(1)(2)]	65,452	9,500	14,403	16,422	8,721	7,920
Financial derivatives (except for options)	30,296	34,971	37,939	6,409	3,316	5,536
Options (in terms of underlying asset)	(624)	121	9	42	-	-
Total fair value	95,124	44,592	52,351	22,873	12,037	13,456
Financial liabilities, amounts payable with respect to derivatives and to complex financial liabilities						
Financial liabilities [(1)]	63,977	11,114	10,905	11,462	10,102	6,945
Financial derivatives (except for options)	28,801	29,553	42,372	7,747	3,215	7,210
Options (in terms of underlying asset)	(629)	130	-	4	-	-
Total fair value	92,149	40,797	53,277	19,213	13,317	14,155
Financial instruments, net						
Total exposure to interest rate fluctuations	2,975	3,795	(926)	3,660	(1,280)	(699)
Total cumulative exposure	2,975	6,770	5,844	9,504	8,224	7,525

Specific remarks:

(1) Excludes balance sheet balances of financial derivatives, fair value of off-balance sheet financial instruments and fair value of complex financial instruments.
(2) Includes shares presented in the column "without maturity".
(3) Weighted average by fair value of average effective duration.

General note:

- In this table, data by term represents the present value of future cash flows from each financial instrument, discounted using the interest rate which discounts them to the fair value recognized for the financial instruments.
- Internal rate of return is the interest rate which discounts the expected cash flows from a financial instrument to its fair value.
- Internal rate of return and average duration as of September 30, 2009 were calculated based on discounting future cash flows expected for the balance sheet balance. The discounted cash flows as above include accrued interest until maturity date, or the date of change in interest rate, whichever is earlier.
- Average effective duration of a group of financial instruments is an approximation of the change, in percent, in fair value of the group of financial instruments which would be caused by a minor change (0.1% increase) in the internal rate of return of each of the financial instruments.
- Certain transactions conducted by the Bank constitute complex financial instruments, which include embedded derivatives not detached, in accordance with public reporting directives. These transactions include, *inter alia*, loans with exit points, deposits bearing gradual interest rates with withdrawal dates, credit and deposits with guaranteed minimum and deposits with optional linkage. The Bank reflects the interest rate risk with respect to these instruments in a reasonable manner, by spreading maturities of the cash flows in accordance with contract dates, and with various assumptions based on past experience. The instruments for which exposure to interest rate risk may not be reasonably reflected by spreading it over the appropriate contractual dates, are non-material in amount.

10-20 years	Over 20 years	Without maturity	Total fair value	Internal rate of return	Average effective term to maturity	As of September 30, 2009 Internal rate of return	As of September 30, 2009 Average term to maturity	As of December 31, 2009 Internal rate of return	As of December 31, 2009 Average effective term to maturity
				In %	in years	In %	in years	In %	in years
1,795	7	692	124,912	3.35%	1.44	4.66%	1.24	3.37%	1.40
-	-	-	118,467		1.14				0.98
-	-	-	(452)		0.43				0.35
1,795	7	692	242,927		1.30				(3) 1.22
3,428	354	5	118,292	2.30%	1.61	3.38%	1.52	2.23%	1.70
-	-	-	118,898		1.26				1.05
-	-	-	(495)		0.19				0.30
3,428	354	5	236,695		1.44				(3) 1.41
(1,633)	(347)	687	6,232						
5,892	5,545	6,232	6,232						

Management Review - Addendum C

Credit Risk by Economic Sector - Consolidated

As of September 30, 2010

Reported amounts (NIS in millions)

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

(1) Credit risk for off-balance sheet financial instruments, as calculated for the purpose of per-borrower credit limitations.
(2) Balance of 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 107 million.
(6) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,610 million.
Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Discussion - Addendum C (continued)
Credit Risk by Economic Sector - Consolidated

As of September 30, 2009

Reported amounts (NIS in millions)

	Balance sheet risk				Off balance sheet risk (1)					
	Credit	Debentu-res	Fair value of derivati-ves	Total	Guarantees and other commitments on account of clients	Future transac-tions	Total	Total credit risk of the public	Expense for the first nine months of 2009 in respect of specific provision for doubtful debt	Balance of problem loans (2)
Agriculture	659	-	-	659	221	2	223	882	1	42
Industry	5,529	12	59	5,600	5,451	444	5,895	11,495	33	430
Construction and real estate	6,168	42	3	6,213	6,516	21	6,537	12,750	12	1,722
Electricity and water	229	26	166	421	868	239	1,107	1,528	-	1
Commerce	5,135	-	31	5,166	2,741	196	2,937	8,103	22	215
Hotel and food services	222	-	4	226	65	16	81	307	2	28
Transport and storage	675	3	46	724	357	106	463	1,187	-	62
Communications and computer services	636	11	19	666	538	193	731	1,397	7	63
Financial services (6)	7,059	46	111	7,216	6,262	1,070	7,332	14,548	64	1,130
Other business services (6)	2,831	-	3	2,834	1,213	87	1,300	4,134	6	511
Public and community services	846	-	4	850	306	3	309	1,159	9	99
Private individuals - housing loans (7)	50,339	-	-	50,339	2,556	-	2,556	52,895	34	1,104
Private individuals - other (5)	10,407	-	34	10,441	10,976	95	11,071	21,512	51	582
Total	90,735	140	480	91,355	38,070	2,472	40,542	131,897	241	5,989
For borrowers' activities overseas	3,458	-	2	3,460	612	125	737	4,197	-	88
Total	94,193	140	482	94,815	38,682	2,597	41,279	136,094	241	6,077
Credit risk included in the various economic sectors:										
Settlement movements (3)	1,314	-	1	1,315	786	13	799	2,114	8	173
Local authorities (4)	180	-	-	180	16	-	16	196	-	32

(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) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.
(6) Reclassified.
(7) Restated.

Note: Credit risk and problem 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, 2009

Reported amounts (NIS in millions)

	Balance sheet credit risk				Off-balance sheet credit risk (1)					
	Credit	Debentu-res (5)	Fair value of derivati-ves	Total	Guarantees and other commit-ments on account of clients	Future transa ctions	Total	Total credit risk of the public	Annual expense with respect to specific provision for doubtful debts	Balance of problem loans (2)
Agriculture	682	-	-	682	196	4	200	882	2	35
Industry	5,609	13	33	5,655	4,038	462	4,500	10,155	41	301
Construction and real estate (6)(7)	6,317	41	11	6,369	9,108	157	9,265	15,634	18	1,277
Electricity and water	276	64	149	489	728	162	890	1,379	-	-
Commerce	4,680	-	21	4,701	3,086	196	3,282	7,983	30	201
Hotel and food services	231	-	1	232	64	2	66	298	2	45
Transport and storage	699	1	2	702	506	111	617	1,319	3	62
Communications and computer services	647	11	17	675	494	95	589	1,264	8	60
Financial services (6)	6,495	29	175	6,699	6,580	965	7,545	14,244	132	1,537
Other business services (6)	2,486	-	4	2,490	1,108	52	1,160	3,650	8	84
Public and community services	764	-	-	764	367	5	372	1,136	8	100
Private individuals - housing loans (6)(8)	52,336	-	-	52,336	1,585	-	1,585	53,921	25	1,021
Private individuals - other	10,760	-	45	10,805	9,149	102	9,251	20,056	72	542
Total	91,982	159	458	92,599	37,009	2,313	39,322	131,921	349	5,265
For borrowers' activities overseas	3,480	5	38	3,523	485	152	637	4,160	7	48
Total credit risk to public	95,462	164	496	96,122	37,494	2,465	39,959	136,081	356	5,313
Credit risk exposure other than to the public:										
Banking Corporations	1,712	1,084	930	3,726	415	8,363	8,778	12,504	-	42
Government	8,809	6,550	-	15,359	312	-	312	15,671	-	-
Total credit risk	105,983	7,798	1,426	115,207	38,221	10,828	49,049	164,256	356	5,355
Credit risk to public included under various economic sectors:										
Settlement movements (3)	1,288	-	4	1,292	801	38	839	2,131	10	70
Local authorities (4)	152	-	-	152	35	-	35	187	-	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 307 million.
(6) Reclassified.
(7) Including housing loans extended to certain purchase groups which are in the process of construction, amounting to NIS 2,381 million.
(8) Restated.

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

Management Discussion - Addendum C (continued)

Credit Risk by Economic Sector - Average balances - Consolidated

For the nine months ended September 30, 2010

Reported amounts (NIS in millions)

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

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

Note: Credit risk and problem 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, 2009

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	692	-	1	693	210	3	213	906
Industry	6,288	12	60	6,360	5,385	419	5,804	12,164
Construction and real estate	6,680	42	10	6,732	7,406	86	7,492	14,224
Electricity and water	292	29	104	425	622	212	834	1,259
Commerce	4,919	-	53	4,972	2,956	296	3,252	8,224
Hotel and food services	232	-	3	235	112	15	127	362
Transport and storage	711	3	24	738	418	116	534	1,272
Communications and computer services	654	7	19	680	678	168	846	1,526
Financial services [5]	6,925	30	247	7,202	6,107	1,166	7,273	14,475
Other business services [5]	2,894	-	26	2,920	1,044	173	1,217	4,137
Public and community services	774	-	3	777	374	8	382	1,159
Private individuals - housing loans [6]	48,304	-	-	48,304	2,074	-	2,074	50,378
Private individuals - other	9,623	-	56	9,679	9,451	151	9,602	19,281
Total	88,988	123	606	89,717	36,837	2,813	39,650	129,367
For borrowers' activities overseas	3,451	30	8	3,489	513	171	684	4,173
Total credit risk to public	92,439	153	614	93,206	37,350	2,984	40,334	133,540
Credit risk exposure other than to the public:								
Banking Corporations	3,376	1,226	1,686	6,288	208	8,916	9,124	15,412
Government	7,143	6,845	-	13,988	161	-	161	14,149
Total credit risk	102,958	8,224	2,300	113,482	37,719	11,900	49,619	163,101
Credit risk to public included under various economic sectors:								
Settlement movements [2]	1,367	-	3	1,370	810	19	829	2,199
Local authorities [3]	174	-	-	174	25	-	25	199

(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 601 million.
(5) Reclassified.
(6) Restated.
Note: Credit risk and problem debt are stated net of the specific provisions for doubtful debts.

Management Discussion - 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								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 govern-ments [(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 in over 1 year
As of September 30, 2010												
USA	-	885	941	2,974	2,268	706	2,532	36	1,814	-	1,166	660
UK	-	290	117	584	285	299	706	3	1,968	-	259	148
Germany	-	568	12	-	-	-	580	1	2,383	-	546	34
Other	1	1,053	1,836	-	-	-	2,890	76	1,964	6	2,256	634
Total exposure to foreign countries	1	2,796	2,906	3,558	2,553	1,005	6,708	116	8,129	6	4,227	1,476
Includes: Total exposure to LDC countries	-	84	281	-	-	-	365	9	303	4	247	118
Includes: Total exposure to Greece, Portugal, Spain and Ireland	-	126	15	-	-	-	141	16	76	-	141	-

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) 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 problem 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 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:

Country	Balance sheet exposure: Cross-border balance sheet exposure: To govern-ments [3]	Cross-border balance sheet exposure: To banks	Cross-border balance sheet exposure: To others	Balance sheet exposure of affiliates of the banking corporation in foreign country to local residents: Balance sheet exposure before deduction of local liabilities	Deduction with respect to local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance of problem loans [4]	Off-balance sheet exposure [2]: Total off-balance sheet exposure	Includes: Off-balance sheet troubled credit risk	Cross-border balance sheet exposure: Matu-ring in under 1 year	Matu-ring in over 1 year
As of September 30, 2009												
USA	-	1,068	819	1,594	1,170	424	2,311	25	1,600	-	1,171	716
UK	-	364	134	680	350	330	828	29	1,706	-	349	149
Other	1	1,924	2,198	-	-	-	4,123	92	2,699	3	2,996	1,127
Total exposure to foreign countries	1	3,356	3,151	2,274	1,520	754	7,262	146	6,005	3	4,516	1,992
Includes: Total exposure to LDC countries	-	70	220	-	-	-	290	21	179	1	210	80
As of December 31, 2009												
USA	-	774	898	1,379	1,231	148	1,820	29	1,766	-	1,019	653
UK	-	438	123	644	308	336	897	36	1,694	2	349	212
Germany	-	361	32	-	-	-	393	13	1,321	-	216	177
Other	1	1,237	2,042	-	-	-	3,280	74	1,747	5	2,080	1,200
Total exposure to foreign countries	1	2,810	3,095	2,023	1,539	484	6,390	152	6,528	7	3,664	2,242
Includes: Total exposure to LDC countries	1	66	272	-	-	-	339	17	152	-	202	137

(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 problem debt after deduction of debt covered by collateral deductible for per-borrower and borrower group lending limits. Excludes off-balance sheet risk elements.

Management Discussion - Addendum D (continued)

Exposure to Foreign Countries - Consolidated [(1)]

Reported amounts (NIS in millions)

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

As of September 30, 2010 and as of December 31, 2009, there is no exposure requiring disclosure in accordance with the public reporting directives of the Supervisor of Banks.

As of September 30, 2009

	Balance sheet exposure	Off-balance sheet exposure
Germany	245	752
Holland	738	189
Switzerland	389	503
Total	1,372	1,444

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, declare that:

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended September 30, 2010 ("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 controls over 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 them 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 control over financial reporting.

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

November 22, 2010

E. YONES
President

Certification

I, MENAHEM AVIV, declare that

1. I have reviewed the quarterly report of Mizrahi Tefahot Bank Ltd. ("the Bank") for the quarter ended September 30, 2010 (“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 controls over 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 them 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 control 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 control over financial reporting which are reasonably likely to impair the Bank’s ability to record, process, summarize and report financial information; and
   - B. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank’s internal control over financial reporting.

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

November 22, 2010

M. AVIV
Vice-president, Chief Accountant

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

Introduction

We have reviewed the enclosed financial information of Bank Mizrahi Tefahot Ltd. ("the Bank"), consisting of the condensed consolidated balance sheet as of September 30, 2010, the condensed consolidated statements of profit and loss, statements of changes in shareholders' equity and cash flow statements for the nine - and three - month periods then ended. The Board of Directors and management are responsible for preparation and presentation of financial information for these interim periods, in accordance with Accounting Standard no. 14 of the Israeli Accounting Standards Board "Financial Reporting for Interim Periods", and in accordance with directives and guidance of the Supervisor of Banks. We are responsible for expressing our conclusion as to the financial information for this interim period based on our review.

We did not review the condensed interim financial information of certain consolidated subsidiaries, whose assets included in consolidation constitute 7.89% of total consolidated assets as of September 30, 2010, and whose profit from financing operations before provision for doubtful debts included in the consolidated statements of profit and loss constitute 9.05% and 8.92% of total profit from financing operations before provision for doubtful debts for the nine - and three - month periods then ended. Furthermore, we did not review the condensed financial information for the interim period of an affiliate, the investment in which amounted to NIS 13 million as of September 30, 2010. The condensed financial information for the interim periods of the aforementioned companies was reviewed by other independent auditors, we have been provided with their review reports and our conclusions, in as much as it relates to the financial information with respect to those companies, is based on the review reports by those other independent auditors.

Review scope

We have conducted our review in accordance with Review Standard no. 1 of the Institute of Certified Public Accountants in Israel "Review of Financial Information for Interim Periods Conducted by the Entity's Independent Auditor" and with the review standard whose application to 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 Accounting Standard no. 14 of the Israeli Accounting Standards Board and in accordance with directives and guidance of the Supervisor of Banks.

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

Brightman Almagor Zohar & Co.

Certified Public Accountants

November 22, 2010

Condensed consolidated balance sheet as of September 30, 2010

Reported amounts (NIS in millions)

	As of September 30,		As of December 31,
	2010	2009	2009
	(unaudited)	(unaudited)	(audited)
Assets			
Cash and deposits with banks	9,801	9,833	11,011
Securities	8,273	7,878	7,643
Securities loaned or sold in repurchase agreements	107	486	307
Credit to the public	103,493	(1) 93,972	95,249
Loans to the Government	67	297	301
Investments in affiliates	13	12	12
Buildings and equipment	1,491	1,458	1,522
Other assets	3,126	2,587	2,394
Total assets	126,371	116,523	118,439
Liabilities and Shareholders' Equity			
Deposits from the public	101,204	93,405	95,021
Deposits from banks	1,712	2,122	1,899
Deposits from the Government	191	220	209
Debentures and subordinated notes	9,116	7,888	8,166
Other liabilities	6,814	(1) 6,092	6,259
Total liabilities	119,037	109,727	111,554
Minority interest	369	358	353
Shareholders' equity	6,965	6,438	6,532
Total liabilities and shareholders' equity	126,371	116,523	118,439

(1) Reclassified. For more information, see Note 4A. 4) to the financial statements as of December 31, 2009.

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

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

Approval date:
Ramat Gan, November 22, 2010

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	(unaudited)		(unaudited)		(audited)
Profit from financing operations before provision for doubtful debts	735	582	2,079	1,730	2,385
Provision for doubtful debts	102	82	281	268	375
Profit from financing operations after provision for doubtful debts	633	500	1,798	1,462	2,010
Operating and other revenues					
Operating commissions	322	332	980	954	1,307
Gains from investments in shares, net	-	52	-	59	114
Other revenues	13	12	37	34	43
Total operating and other revenues	335	396	1,017	1,047	1,464
Operating and other expenses					
Payroll and associated expenses	381	404	1,122	1,126	1,630
Maintenance and depreciation of buildings and equipment	146	139	436	416	557
Other expenses	100	111	317	313	453
Total operating and other expenses	627	654	1,875	1,855	2,640
Pre-tax operating profit	341	242	940	654	834
Provision for taxes on operating profit	127	81	345	225	286
After-tax operating profit	214	161	595	429	548
Share in net after-tax operating losses of affiliates	(1)	-	(1)	-	(1)
Minority interest in net after-tax operating profit of subsidiaries	(6)	(5)	(14)	(13)	(15)
Net operating profit	207	156	580	416	532
After-tax profit (loss) from extraordinary items	2	-	2	-	(2)
Net profit	209	156	582	416	530

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

Condensed consolidated statement of profit and loss

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	(unaudited)		(unaudited)		(audited)
Earnings per share [1]					
Basic earnings per share (in NIS)					
Profit from ordinary operations	0.93	0.70	2.60	1.87	2.39
Profit (loss) from extraordinary items	0.01	-	0.01	-	(0.01)
Total	0.94	0.70	2.61	1.87	2.38
Diluted earnings per share (in NIS)					
Profit from ordinary operations	0.92	0.69	2.57	1.86	2.38
Profit (loss) from extraordinary items	0.01	-	0.01	-	(0.01)
Total	0.93	0.69	2.58	1.86	2.37

(1) Share of NIS 0.1 par value each.

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

Condensed Statement of Changes in Shareholders' Equity

Reported amounts (NIS in millions)

	For the three months ended September 30, 2010 (unaudited)									
					Cumulative other comprehensive income (loss)					
	Share capital and premium [(1)]	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	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 shareholders' equity
Balance as of June 30, 2010	1,973	104	(76)	2,001	(56)	(51)	50	4,757	200	6,901
Net profit for the period	-	-	-	-	-	-	-	209	-	209
Dividends paid	-	-	-	-	-	-	-	-	(200)	(200)
Benefit from share-based payment transactions	-	11	-	11	-	-	-	-	-	11
Related tax effect	-	15	-	15	-	-	-	-	-	15
Realized share-based payment transactions [(4)]	7	(7)	-	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	14	-	-	-	-	14
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	-	-	-	-	-	-
Related tax effect	-	-	-	-	7	-	-	-	-	7
Net gain from cash flow hedges	-	-	-	-	-	-	13	-	-	13
Related tax effect	-	-	-	-	-	-	(5)	-	-	(5)
Balance as of September 30, 2010	1,980	123	(76)	2,027	(35)	(51)	58	4,966	-	6,965

(1) Share premium generated prior to June 30, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2009.
(4) In the third quarter of 2010, 53,539 ordinary shares, NIS 0.1 par value each have been issued against options exercised in conjunction with the employee stock option plan.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the three months ended September 30, 2009 (unaudited)								
					Cumulative other comprehensive income				
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net gain from cash flow hedges	Retained earnings (3)	Total shareholders' equity
Balance as of June 30, 2009	1,925	101	-	2,026	-	(51)	36	4,314	6,325
Net profit for the period	-	-	-	-	-	-	-	156	156
Purchase of treasury shares (5)	-	-	(76)	(76)	-	-	-	-	(76)
Benefit from share-based payment transactions	-	12	-	12	-	-	-	-	12
Related tax effect	-	12	-	12	-	-	-	-	12
Realized share-based payment transactions (4)	33	(33)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	7	-	-	-	7
Related tax effect	-	-	-	-	2	-	-	-	2
Balance as of September 30, 2009	1,958	92	(76)	1,974	9	(51)	36	4,470	6,438

(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 Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the third quarter of 2009, 1,254,370 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 635,936 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.
(5) For details, see Note 13.D. to the 2009 financial statements.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2010 (unaudited									
					Cumulative other comprehensive income (loss)					
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	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 share-holders' equity
Balance as of January 1, 2010	1,963	105	(76)	1,992	(32)	(51)	39	4,584	-	6,532
Net profit for the period	-	-	-	-	-	-	-	582	-	582
Dividends paid	-	-	-	-	-	-	-	(200)	-	(200)
Benefit from share-based payment transactions	-	32	-	32	-	-	-	-	-	32
Related tax effect	-	3	-	3	-	-	-	-	-	3
Realized share-based payment transactions (4)	17	(17)	-	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	(15)	-	-	-	-	(15)
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	4	-	-	-	-	4
Related tax effect	-	-	-	-	8	-	-	-	-	8
Net gain from cash flow hedges	-	-	-	-	-	-	29	-	-	29
Related tax effect	-	-	-	-	-	-	(10)	-	-	(10)
Balance as of September 30, 2010	1,980	123	(76)	2,027	(35)	(51)	58	4,966	-	6,965

(1) Share premium generated prior to March 31, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2009.
(4) In the first nine months of 2010, 195,980 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 445,048 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the nine months ended September 30, 2009 (unaudited)								
					Cumulative other comprehensive income				
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net gain from cash flow hedges	Retained earnings (3)	Total shareholders' equity
Balance as of January 1, 2009	1,920	71	-	1,991	(92)	(51)	50	4,054	5,952
Net profit for the period	-	-	-	-	-	-	-	416	416
Purchase of treasury shares (5)	-	-	(76)	(76)	-	-	-	-	(76)
Benefit from share-based payment transactions	-	48	-	48	-	-	-	-	48
Related tax effect	-	11	-	11	-	-	-	-	11
Realized share-based payment transactions (4)	38	(38)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	104	-	-	-	104
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	45	-	-	-	45
Related tax effect	-	-	-	-	(48)	-	-	-	(48)
Net gain from cash flow hedges	-	-	-	-	-	-	(22)	-	(22)
Related tax effect	-	-	-	-	-	-	8	-	8
Balance as of September 30, 2009	1,958	92	(76)	1,974	9	(51)	36	4,470	6,438

(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 Notes 13 and 14 to the financial statements for the year ended December 31, 2008.
(4) In the first nine months of 2009, 1,371,266 ordinary NIS 0.1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 635,936 ordinary NIS 0.1 par value shares were issued to the President for exercise of options.
(5) For details, see Note 13.D. to the 2009 financial statements.

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

Statement of Changes in Shareholders' Equity (continued)

Reported amounts (NIS in millions)

	For the year ended December 31, 2009 (audited)								
					Cumulative other comprehensive income (loss)				
	Share capital and premium (1)	Capital reserve from benefit from share-based payment transactions	Treasury shares	Total paid-up share capital and capital reserves	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (2)	Net gain from cash flow hedges	Retained earnings (3)	Total shareholders' equity
Balance as of January 1, 2009	1,920	71	-	1,991	(92)	(51)	50	4,054	5,952
Net profit for the year	-	-	-	-	-	-	-	530	530
Purchase of treasury shares (4)	-	-	(76)	(76)	-	-	-	-	(76)
Benefit from share-based payment transactions	-	60	-	60	-	-	-	-	60
Related tax effect	-	17	-	17	-	-	-	-	17
Realized share-based payment transactions (5)	43	(43)	-	-	-	-	-	-	-
Adjustments for presentation of securities available for sale at fair value	-	-	-	-	35	-	-	-	35
Adjustments for presentation of securities available for sale reclassified to statement of profit and loss	-	-	-	-	60	-	-	-	60
Related tax effect	-	-	-	-	(35)	-	-	-	(35)
Net gain from cash flow hedges	-	-	-	-	-	-	(18)	-	(18)
Related tax effect	-	-	-	-	-	-	7	-	7
Balance as of December 31, 2009	1,963	105	(76)	1,992	(32)	(51)	39	4,584	6,532

(1) Share premium generated prior to June 30, 1986.
(2) Foreign currency translation adjustment of autonomous overseas units.
(3) For details on various limitations on dividend distributions, see Note 13 to the financial statements for the year ended December 31, 2009.
(4) For details, see Note 13D to the financial statements for the year ended December 31, 2009.
(5) In 2009, 1,634,184 ordinary NIS .1 par value shares were issued for exercise of options in conjunction with the Employee Stock Option Plan, and 635,936 ordinary NIS .1 par value shares were issued to the President for exercise of options.

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

Statement of cash flows

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
	(unaudited)		(unaudited)		(audited)
Cash flows provided by current operations					
Net profit for the period	209	156	582	416	530
Adjustments to reconcile net profit to net cash generated by operating activities:					
Share in undistributed losses of investees, net	1	-	1	-	1
Minority interest in net after-tax operating profit of subsidiaries	6	5	14	13	15
Depreciation of buildings and equipment and amortization	52	53	162	161	213
Provision for doubtful debts	102	82	281	268	375
Net gain on sale of available-for-sale securities	(23)	(49)	(80)	(93)	(164)
Provision for impairment of available-for-sale securities	-	-	4	45	60
Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading	(5)	(2)	(13)	6	(7)
Reduction of cost of buildings designated for sale and of unused leased properties	-	-	-	-	2
Deferred taxes, net	(62)	(3)	48	(10)	(125)
Severance pay - decrease (increase) in excess of amount funded over liability	(8)	86	(21)	55	142
Revaluation of debentures and subordinated notes	153	(1) 180	112	(1) 298	(1) 267
Benefit from share-based payment transactions	11	12	32	48	60
Deferred income, net	8	(15)	24	40	50
Net cash provided by current operations	444	505	1,146	1,247	1,419

(1) Reclassified.

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

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
		(unaudited)		(unaudited)	(audited)
Cash flows provided by activities in assets					
Acquisition of securities available for sale	(1,688)	(1,404)	(5,986)	(3,954)	(5,354)
Proceeds on sale and redemption of securities available for sale	813	1,191	5,259	5,237	6,956
Deposits with banks, net	(1,911)	(1,573)	(1,046)	3,197	4,988
Securities held for trading, net	42	565	175	275	190
Securities loaned or sold in repurchase agreements, net	(73)	342	200	(474)	(295)
Loans to the public, net	(2,588)	(1,375)	(8,525)	(5,277)	(6,701)
Loans to the Government, net	(66)	13	234	(295)	(299)
Acquisition of shares in investees, including owners' loans and capital notes	-	-	(1)	-	(2)
Acquisition of buildings and equipment	(48)	(49)	(129)	(145)	(257)
Proceeds from sale of buildings and equipment	(3)	3	-	3	5
Other assets, net	475	471	(743)	1,543	1,882
Net cash provided by activities in assets	(5,047)	(1,816)	(10,562)	110	1,113

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

Statement of cash flows (continued)

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
		(unaudited)		(unaudited)	(audited)
Cash flows provided by activities in liabilities and shareholders' equity					
Deposits from the public, net	(425)	(339)	6,183	1,626	3,242
Deposits from banks, net	214	86	(187)	255	32
Deposits from the Government, net	(4)	(9)	(18)	(22)	(33)
Issuance of debentures and subordinated notes	1,003	(1) 40	1,028	(1) 888	(1) 1,379
Redemption of debentures and subordinated notes	(18)	(29)	(190)	(135)	(317)
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	(972)	(972)
Other liabilities, net	(6)	70	544	(929)	(826)
Share buy-back	-	(76)	-	(76)	(76)
Dividends paid to shareholders	(200)	-	(200)	-	-
Net cash provided by (used for) activities in liabilities and shareholders' equity	564	(257)	7,160	635	2,429
Increase (decrease) in cash	(4,039)	(1,568)	(2,256)	1,992	4,961
Cash balance at beginning of period	11,189	8,068	9,406	4,508	4,445
Cash balance at end of period	7,150	6,500	7,150	6,500	9,406

	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2010	2009	2010	2009	2009
		(unaudited)		(unaudited)	(audited)
Appendix A - Non-cash Transactions					
Acquisition of buildings and equipment	-	1	8	1	9
Proceeds from sale of buildings and equipment	-	3	6	3	-

(1) Reclassified.

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

Note 1 - Reporting Principles and Accounting Policies

A. The financial statements as of September 30, 2010 have been prepared in accordance with guidelines and directives of the Supervisor of Banks, and in accordance with accounting principles for preparation of interim financial statements, as set forth in Standard No. 14 of the Israeli Accounting Standards Board. The statements have been prepared in accordance with the same accounting principles used in preparing the audited financial statements as of December 31, 2009.

These financial statements should be perused in conjunction with the Group's annual financial statements as of December 31, 2009 and the Notes thereto.

B. 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 circular" or "the directive"). This circular is based, *inter alia*, on USA Accounting Standards 5, 114 and 118 as well as on regulatory directives by banking supervision bodies and by the USA Securities and Exchange Commission.

The guiding principles on which the directive is based introduce a material change over current directives on classification of problem debts, accounting write-offs and measuring of provisions for credit losses in conjunction with such debts.

According to the circular, the banking corporation is required to maintain an adequate provision for credit losses to cover expected credit losses from its credit portfolio. Furthermore, according to the circular, the bank is required to maintain an adequate provision to cover expected credit losses associated with off-balance sheet credit instruments, such as contracts for provision of credit and guarantees. The required provision to cover expected credit losses from the credit portfolio would be made under one of the following tracks: "individual provision" or "group provision".

"An individual provision for credit loss" would be 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 1 million or higher, or a lower threshold a determined by the bank (the Bank has set a threshold of NIS 700 thousand).

For other debts, the banking corporation may decide whether to make an individual assessment. The individual provision for credit loss shall be estimated based on expected future cash flows, discounted using the effective interest rate of the original debt. Where the debt 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.

Note 1 - Reporting Principles and Accounting Policies

"A provision for credit loss using group estimate" would be applied for large, homogeneous groups of small debts (whose balance is below NIS 1 million, or below a lower threshold 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, shall be calculated based on rules stipulated in USA Accounting Standard FAS 5: "Accounting for Contingencies" ("FAS 5"), using statistical models which take into consideration the extent of past losses for each homogeneous group of debts having similar risk attributes. The required provision with regard to off-balance sheet credit instruments would be assessed as per rules stipulated in the USA Accounting Standard FAS 5.

Changes to the provision for credit losses would be recorded under "Expenses with respect to credit loss" in the statement of profit and loss. Furthermore, the directive specifies various definitions and classifications of on- and off-balance sheet credit risk, rules for recognizing interest income from impaired debts as well as rules for accounting write-off of problem debts. The directive stipulates, inter alia, that accounting write-off is mandated for debts estimated on the group basis and classified as impaired based on their extent of arrears, taking into consideration the banking corporation's ability to assess that collection is probable, and considering the fact that they are secured by a residence.

On February 18, 2010, the Supervisor of Banks issued a circular, which stipulates that this directive shall be applied to financial statements of banking corporations starting on January 1, 2011, with no retrospective application to financial statements for prior periods. According to transitional directives, the impact of changes due to the new directives shall be charged directly to retained earnings under shareholders' equity upon initial application.

In the circular, and in another concurrently issued circular, the following amendments were made, *inter alia*:

- Elimination of Section 5 of Proper Conduct of Banking Business Regulation No. 325 on "Management of Credit Facilities", concerning accounting aspects of classification of certain accounts as troubled accounts, and recognition of interest revenues. These issues shall be addressed in conjunction with the general directive on measuring provisions for credit loss and disclosure of troubled debt.
- Application of a simple model for calculation of the provision for credit loss on a group basis by economic sector, designed to simplify the rules for measurement of a specific provision for credit loss using group estimate, which requires use of complex statistical models, and historic data with regard to accounting write-offs, to be in place only after the directive is applied. The models included on the interim directive are to be applied between 2011-2012 (hereinafter - "the transition period"). It was stipulated that the Group (net, after-tax) provision in the transition period shall be no less than the balance of the supplementary general provision with respect to problem debt which would have been required had the Proper Conduct of Banking Business Regulation No. 315 remained in effect.

Note 1 - Reporting Principles and Accounting Policies

- Alignment of definitions and terminology included in Proper Conduct of Bank Businesses Regulation No. 315 on "Supplementary Provision for Doubtful Debts" with terminology included in the new draft directives. Starting on January 1, 2011, the term "troubled debt" shall be renamed "credit risk with negative classification and credit risk under special supervision", and would include three types of debt: "impaired debt", "inferior debt" and "debt under special supervision".

  The supplementary provision rate applicable to the various types of troubled debt shall be as follows:
  – Credit risk "under special supervision" - 1%
  – "Inferior" credit risk - 2%
  – "Impaired" credit risk - 4%
- A pro-forma note to be included in the financial statements as of December 31, 2010 is to detail the expected impact of application of the directive on key balance sheet items, had the directive been applied upon said date, and requirements for supplementary disclosure on the Board of Directors' report.

The Bank has put in place a computer system for implementation of this directive, and has formulated an updated policy in view of the newly effective directives with regard to both management of credit, classifications and provisions for credit loss, and to disclosures on the financial statements.

In accordance with the Supervisor of Banks' circular, the Bank reported to the Supervisor quarterly in 2010 the credit balances, classifications, accounting write-offs and provisions for credit loss, in accordance with provisions of the new directives. In accordance with these initial reports, shareholders' equity for the Bank as of December 31, 2009, March 31, 2010 and June 30, 2010 would have been smaller by a non-negligible amount had the new directives been applied as of said dates.

C. In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 – "Adoption of International Financial Reporting Standards (IFRS)" ("the Standard"). The Standard prescribes that companies subject to the Securities Law, 1968, and required to report in accordance with the regulations of this Law, will prepare their financial statements in conformity with the IFRS , as from the reporting period commencing January 1, 2008. This does not yet apply to banking corporations whose financial statements are prepared in accordance with guidance and directives of the Supervisor of Banks.

In June 2009, the Supervisor of Banks issued a letter concerning "IFRS-based reporting by banking corporations and credit card companies in Israel", which specified the expected manner of adoption of IFRS standards by banking corporations and credit card companies.

Note 1 - Reporting Principles and Accounting Policies

According to this circular, the target date for IFRS-based reporting by banking corporations and credit card companies is:

- For issues outside the core banking business - starting on January 1, 2011. From this date onwards, banking corporations would be required to update their accounting treatment of these issues on a regular basis, in accordance with transition provisions in new international standards published on these issues, and in accordance with clarifications to be provided by the Supervisor of Banks.
- For issues within the core banking business - starting on January 1, 2013. The Supervisor of Banks intends to make a final decision on this issue in 2011. The final decision shall be take into account the schedule of and progress made in the USA on the convergence process between international and US standards organizations.

The circular explained that after completion of the process of adaptation of the directives to international standards, the Supervisor of Banks would retain the authority to publish binding clarifications with regard to the manner of implementation of requirements specified in international standards, as well as to issue additional directives in cases where this is required in view of requirements by regulatory bodies in developed nations around the world, or on issues not referred to by the international standards. Furthermore, the Supervisor of Banks would retain its authority to stipulate disclosure and reporting requirements.

Therefore, until the target dates for adoption of IFRS, as described above, a banking corporation or credit company would continue to prepare its financial statements in accordance with directives and guidance issued by the Supervisor of Banks.

On December 31 and on July 26, 2010, the Supervisor of Banks issued circulars in which it adopted, as from January 1, 2011, certain international financial reporting standards, involving issues outside the core banking business:

IAS 8 on accounting policies, changes to accounting estimates and errors.

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

IAS 33 on earnings per share.

IFRS 2 on share-based payment.

IAS 29 on financial statements of branches or affiliates in hyper-inflationary economies.

IAS 34 on financial reporting for interim periods.

IFRS 3 (2008) on business combinations.

IAS 27 (2008) on consolidated and separate financial statements.

IAS 28 on investments in affiliates.

IAS 36 on asset impairment.

IAS 17 on leases.

Note 1 - Reporting Principles and Accounting Policies

IAS 16 on fixed assets.

IAS 40 on 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"

The aforementioned international financial reporting standards and related interpretations by the International Financial Reporting Interpretation Committee (IFRIC will be adopted in accordance with the following principles:

- 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 Bank shall act in accordance with specific application directives issued by the Supervisor of Banks.
- In cases where a material issue arises, which is not addressed by the international standards or by application directives issued by the Supervisor of Banks, the Bank shall handle the issue in accordance with generally accepted accounting principles at US banks which specifically apply to these issues.
- In cases where the international standard makes reference to another international standard adopted under the public reporting directives, the Bank shall act in accordance with provisions of the international standard.
- In cases where the international standard makes reference to an international standard not adopted under the public reporting directives, the Bank shall act in accordance with reporting directives and in accordance with generally accepted accounting principles in Israel.
- In cases where the international standard makes reference to definition of a term also defined in the public reporting directives, the reference to the definition in the directives shall replace the original reference.
- Where the international standard does not materially differ from previous accounting principles, careful consideration should be given to whether a decision is justifiable to change the accounting treatment merely due to application of the international standard.

The Bank shall apply the aforementioned international financial standards and related IFRIC interpretations applying to said standards, starting on January 1, 2011. Initial application of international financial reporting standards adopted in this circular shall be made in accordance with transition provisions specified in the international financial reporting standards, including retrospective amendment of comparative figures as required.

Starting on January 1, 2011, the Bank shall regularly update the accounting treatment of issues covered in the circular, in accordance with the effective start date and transition provisions to be detailed in new international financial reporting standards published on these issues, and in accordance with adoption principles and clarifications issued by the Supervisor of Banks.

The Bank is reviewing implications of adoption of international financial reporting standards on the Bank's financial statements, and is currently unable to assess the expected impact of their initial application..

Note 1 - Reporting Principles and Accounting Policies

D. On December 31, 2009, the Supervisor of Banks issued a circular which applies to the banking system US standards, FAS 157 on "Fair Value Measurements" and FAS 159 on "The Fair Value Option for Financial Assets and Financial Liabilities" starting on January 1, 2011.

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 date, either direct or indirect, which are not quoted prices as described under Level 1. Level 2 data include quoted market data on active markets, or on non active markets, if they exist, or data derived from or based upon such observed market data.

Level 3 - fair value measured by using non-observed data.

FAS 157 expands the disclosure requirements for fair value measurements. Application of the standard would allow recognition of "first day" gains, and would eliminate the obligation to determine the fair value of derivative instruments not traded on an active market based on the transaction price. The standard also requires the banking corporation to reflect the risk of non-performance when measuring fair value of debt (including derivatives) measured at fair value. Non-performance risk shall include the banking corporation's credit risk, but shall not be limited to this risk alone.

FAS 157 shall apply starting on January 1, 2011, and shall be 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 new disclosure requirements, including disclosure required exclusively on annual reports, shall be applied in the first quarter of 2011, without requiring application to financial statements for periods prior to initial application of the standard.

Upon initial application, the difference between the balances of these financial instruments on the balance sheet and their fair value shall be recognized as cumulative effect on the opening balance of retained earnings as of January 1, 2011, which would be separately presented.

Note 1 - Reporting Principles and Accounting Policies

In order to determine the adjustment amount to be charged as cumulative effect on the opening balance of retained earnings as of January 1, 2011, and in order to adapt the banking corporation's valuation methods to the exit price principle and to provisions stipulated in the standard, the bank shall be required to review the valuation methods applied there by 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.

In January 2010, the accounting standard update ASU 2010-06 on "Improvement of disclosure with regard to fair value measurement" was published in conjunction with application of Standard 157. In accordance with the update, disclosure and explanation are required if significant amounts measured at fair value are transferred from Level 1 to Level 2 or vice versa. Furthermore, disclosure is required of gross changes in amounts measured at fair value at level 3, due to acquisition, sale, issuance and redemption.

Bank management is reviewing the impacts of adoption of the standard and additional disclosure requirements as stipulated above on the financial statements. At this stage, the impact of initial application of FAS 157 may not be assessed.

The objective of FAS 159 is to allow for reduction in volatility of reported earnings, arising from measurement of hedged assets or liabilities and of hedging derivative instruments, using different measurement bases. The standard would allow the banking corporation to elect, upon specified election dates, to measure at fair value financial instruments whish, 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, shall be recognized in 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 is to be elected, shall be recognized in the statement of profit and loss as they are incurred, and shall not be deferred.

Election of the fair value option, as specified above, shall be made for each instrument individually, and may not be cancelled. The standard further 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 has 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 fair value of the item with a high degree of reliability.

Therefore, a banking corporation may not elect the fair value option for any asset or liability which may be classified under Level 2 or Level 3 of the fair value ranking, without prior consent of the Supervisor of Banks.

The standard shall apply starting on January 1, 2011. Retrospective or early adoption are not allowed.

Note 1 - Reporting Principles and Accounting Policies

A banking corporation may elect the fair value option for qualifying items which exist upon the effective start date. In such cases, the balances for said qualifying items on the balance sheet shall be adjusted to fair value, and the impact of initial re-measurement at fair value shall be charged as an adjustment for cumulative effect on the opening balance of retained earnings, and extensive disclosure shall be made in the first interim financial statements of 2011, as required by the circular.

Available-for-sale securities and held-to-maturity securities owned upon the effective start date, qualify for the fair value option on that date. If the fair value option is elected for any such security upon the effective start date, any accrued unrealized gain or loss upon said date shall be charged as an adjustment for cumulative effect, and that security shall be reported, from such reporting date forward, as a security held for trading. Furthermore, separate disclosure shall be made of amounts of unrealized gain or loss reclassified from cumulative other comprehensive income, and of amounts of previously unrecognized unrealized gain or loss. Election, upon initial adoption, of the fair value option for an existing security held to maturity, shall not create doubt as to the intent of the banking corporation to hold other bonds to maturity in the future.

Bank management is reviewing the impacts of adoption of the standard on the financial statements. At this stage, the impact of initial application of FAS 159 may not be assessed.

E. On July 11, 2010, the Supervisor of Banks sent a letter to banking corporations, including directives for review and specification of processes with regard to credit risk with respect to housing loans, due to evolving risk associated with such loans.

The letter stipulates, inter alia, that due to the increase in risk arising from recent developments in the residential market in Israel, banking corporations are required to carefully review the need to increase their provision for doubtful debts with respect to housing loans. In any case, a banking corporation shall maintain a supplementary provision of at least 0.75% with respect to the balance of housing loans granted starting on July 1, 2010, for which the ratio of debt (based on the banking corporation's share of the pledge) and the value of the pledged asset upon granting of the loan, is higher than 60%. For this matter, a housing loan is as defined in Proper Conduct of Banking Business Regulation No. 451 "Procedures for granting of housing loans".

If a supplementary provision is required as of the report date with respect to such loan, due to another risk parameter - the provision amount to be maintained is the higher of the two.

These directives have been implemented starting with these financial statements. The supplementary provision for doubtful debts with respect to housing loans with a loan to value ration higher than 60% amounted, in the third quarter of 2010, to NIS 11 million.

Note 2 - Securities

As of September 30, 2010 (unaudited)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost (for shares - cost)	Cumulative other comprehensive income - Gains	Cumulative other comprehensive income - Losses	Fair value (1)
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	6,902	6,948	32	78	6,902
Of foreign governments (2)	176	176	-	-	176
Of others	1,013	1,014	15	16	1,013
Total debentures available for sale	8,091	8,138	47	94	8,091
Shares of others (3)	87	86	1	-	87
Total securities available for sale	8,178	8,224	(4) 48	(4) 94	8,178

	Balance sheet balance	Amortized cost	Unrealized gain from adjustments to fair value (5)	Unrealized loss from adjustments to fair value (5)	Fair value (1)
2) Securities held for trading					
Debentures -					
of Government of Israel	89	89	-	-	89
Of others	6	6	-	-	6
Total securities held for trading	95	95	-	-	95
Total securities	8,273	8,319	48	94	8,273

(1) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price to be obtained on the sale of a large volume of securities.
(2) See Note 15.A-D to the 2009 financial statements for information on liens on securities held by the Bank.
(3) Includes shares which have no fair value available, amounting to NIS 82 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 September 30, 2009 (unaudited) (continued)

Reported amounts (NIS in millions)

	Balance sheet balance	Amortized cost	Cumulative other comprehensive income		Fair value (1)
			Gains	Losses	
1) Securities available for sale					
Debentures and bonds					
Of the Government of Israel (2)	5,677	5,697	69	89	5,677
Of foreign governments (2)	120	120	-	-	120
Of others	1,604	1,621	20	37	1,604
Total debentures available for sale	7,401	7,438	89	126	7,401
Shares of others (3)	318	252	67	1	318
Total securities available for sale	7,719	7,690	(4) 156	(4) 127	7,719

	Balance sheet balance	Amortized cost	Unrealized gain from adjustments to fair value (5)	Unrealized loss from adjustments to fair value (5)	Fair value (1)
2) Securities held for trading					
Debentures of the Government of Israel	154	154	-	-	154
Of foreign governments					
Of others	5	5	-	-	5
Total securities held for trading	159	159	(5) -	(5) -	159
Total securities	7,878	7,849	156	127	7,878

(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-E to the financial statements as of December 31, 2009 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 86 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.

Note 2 - Securities

As of December 31, 2009 (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)	5,872	5,898	25	51	5,872
Of foreign governments (2)	121	121	-	-	121
Of others	1,307	1,321	20	34	1,307
Total debentures available for sale	7,300	7,340	45	85	7,300
Shares of others (3)	86	84	2	-	86
Total securities available for sale	7,386	7,424	(4) 47	(4) 85	7,386

	Balance sheet balance	Amortized cost	Unrealized gain from adjustments to fair value (5)	Unrealized loss from adjustments to fair value (5)	Fair value (1)
2) Securities held for trading					
Debentures-					
of Government of Israel	251	256	-	5	251
Of others	6	6	-	-	6
Total securities held for trading	257	262	-	5	257
Total securities	7,643	7,686	47	90	7,643

(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 financial statements as of December 31, 2009 for information on liens on securities held by the Bank.
(3) Includes shares for which a fair value is not available, amounting to NIS 80 million, that are stated at cost, net of 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

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

Reported amounts (NIS in millions)

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

				As of September 30, 2010
		Cumulative other comprehensive income		
	Amortized cost	Gains	Losses	Fair value (Balance sheet balance)
				(unaudited)
Asset-backed securities (ABS):				
CDO	-	-	-	-
CLO	69	6	15	60
Total asset-backed securities available for sale	69	6	15	60

				As of September 30, 2009
		Cumulative other comprehensive income		
	Amortized cost	Gains	Losses	Fair value (Balance sheet balance)
				(unaudited)
Asset-backed securities (ABS):				
CDO	11	-	-	11
CLO	77	4	16	65
Total asset-backed securities available for sale	88	4	16	76

				As of December 31, 2009
		Cumulative other comprehensive income		
	Amortized cost	Gains	Losses	Fair value (Balance sheet balance)
				(audited)
Asset-backed securities (ABS):				
CDO	2	-	-	2
CLO	76	5	18	63
Total asset-backed securities available for sale	78	5	18	65

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 September 30, 2010
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
				(unaudited)
Asset-backed securities (ABS):				
CLO	-	-	60	15
Total	-	-	60	15

				As of September 30, 2009
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
				(unaudited)
Asset-backed securities (ABS):				
CDO	11	-	-	-
CLO	-	-	40	16
Total	11	-	40	16

				As of December 31, 2009
	Less than 12 months		12 months or more	
	Fair value	Unrealized loss	Fair value	Unrealized loss
				(audited)
Asset-backed securities (ABS):				
CLO	-	-	37	18
Total	-	-	37	18

Note 2 - Securities

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

Reported amounts (NIS in millions)

Asset-backed securities (ABS)

In the first nine months of 2010, the Bank recorded expenses amounting to NIS 2 million with respect to provision for impairment of a non-temporary nature of investments in asset-backed securities (for CDO), compared to NIS 24 million and in the corresponding period last year (of which NIS 10 million with respect to CDO and NIS 14 million with respect to CLO). In all of 2009, the Bank recognized expenses amounting to NIS 32 million with respect to provisions for other-than-temporary impairment of investments in asset-backed securities (of which NIS 18 million for CDO and NIS 14 million for CLO).

The fair value of Bank investments in asset-backed securities as of September 30, 2010 amounts to NIS 60 million, compared to NIS 65 million as of December 31, 2009. For details of the calculation of fair value of investments in securities, see Note 1.H to the financial statements as of December 31, 2009. These investments include CDO and CLO securities, as set forth below.

A. CDO (Collateralized Debt Obligation) is a security backed by various types of debts instruments, which may include both direct debts and securitized debts. The CDO is set in layers by priority. Each layer is a separate debt, with specific rating, entitled to principal or interest payment before all debts ranked lower. Total value of debts subordinate to a given debts layer is defined to be the protective layer for said debts.

The fair value of Bank investment in said securities, as of September 30, 2010 was fully amortized, compared to NIS 2 million in fair value as of December 31, 2009.

Through September 30, 2010, the Bank recognized impairment with respect to these investments amounting to NIS 55 million as impairment of a non-temporary nature.

B. CLO (collateralized Loan Obligation) is a specific type of CDO. The debt instruments which back the CLO investment are senior and junior loan portfolios provided to commercial entities. The fair value of Bank investments in these securities as of September 30, 2010 amounted to NIS 60 million, compared to NIS 63 million as of December 31, 2009. The Bank's CLO portfolio has no exposure to mortgages, including sub prime mortgages, or to any leveraged products whose value has declined due to the financial crisis.

Through September 30, 2010, the Bank recognized impairment with respect to these investments amounting to NIS 17 million as impairment of a non-temporary nature.

The Bank's internal model, used to determine the fair value of these investments, indicates that remaining protective layers in these investments exceed the expected loss, based on the model, in loan portfolios which back these investments. Therefore, no impact is expected to the investments still held by the Bank and not yet amortized. Furthermore, the Bank has the intention and capacity to hold said securities to redemption or until their fair value reaches the investment cost. Hence, the impairment is classified as temporary.

Note 3 – Provision for doubtful debts (unaudited)

Reported amounts (NIS in millions)

Information with regard to provision for doubtful debts

	For the three months ended September 30, 2010				For the three months ended September 30, 2009			
	Specific provision [1]				Specific provision [1]			
	By extent of arrears	Other provision	Supple-mentary provision [2]	Total	By extent of arrears	Other provision	Supple-mentary provision [2]	Total
Balance of provision as of period start	829	2,413	206	3,448	844	2,213	223	3,280
Transfer	-	-	-	-	2	(2)	-	-
Provisions during reported period	52	122	[3] 9	183	59	79	-	138
Decrease in provisions	(43)	(38)	-	(81)	(48)	(5)	(2)	(55)
Recovery of debt written off in previous years	-	-	-	-	-	(1)	-	(1)
Amount charged to statement of profit and loss	9	84	9	102	11	73	(2)	82
Debt write-off, net [4]	(15)	(31)	-	(46)	(3)	(41)	-	(44)
Balance of provision as of period end	823	2,466	215	3,504	854	2,243	221	3,318
Includes - Balance of provision that was not deducted from loans to the public	-	139	-	139	-	128	-	128

	For the nine months ended September 30, 2010				For the nine months ended September 30, 2009			
	Specific provision [1]				Specific provision ([1]			
	By extent of arrears	Other provision	Supple-mentary provision [2]	Total	By extent of arrears	Other provision	Supple-mentary provision [2]	Total
Balance of provision as of period start	838	2,307	213	3,358	834	2,148	194	3,176
Transfer	-	-	-	-	2	(2)	-	-
Provisions during reported period	152	348	9	509	201	237	30	468
Decrease in provisions	(143)	(77)	(7)	(227)	(172)	(23)	(3)	(198)
Recovery of debt written off in previous years	-	(1)	-	(1)	-	(2)	-	(2)
Amount charged to statement of profit and loss	9	270	2	281	29	212	27	268
Debt write-off, net [4]	(24)	(111)	-	(135)	(11)	(115)	-	(126)
Balance of provision as of period end	823	2,466	215	3,504	854	2,243	221	3,318
Includes - Balance of provision that was not deducted from loans to the public	-	139	-	139	-	128	-	128

(1) Loans for which the provision was based on extent of arrears, do not include a provision for interest on debt in arrears. For other loans, does not include a provision for interest on doubtful debts, after the debt was determined as doubtful.
(2) Including general provision for doubtful debts amounting to NIS 110 million.
(3) Includes NIS 11 million in supplementary provision with respect to housing loans granted with a loan-to-value ratio higher than 60% starting on July 1, 2010; for details see Note 1.E.
(4) Excluding recovery of debt written off in previous years.

Note 3 – Provision for doubtful debts (continued)

Reported amounts (NIS in millions)

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

	For the period ended September 30, 2010					
				Specific provision		
	Balance sheet loan balance (2)	Debt balance (3)	Includes: Amount in arrears (4)	By extent of arrears	Other	Total
						(unaudited)
Housing loans for which provision by extent of arrears must be calculated	51,255	869	596	814	-	814
Large loans (5)	7,650	76	27	9	7	16
Other loans	504	25	23	-	21	21
Total	59,409	970	646	823	28	851
Includes: With respect to housing loans granted to certain buyer groups which are in the process of construction	951	5	-	-	-	-

	For the period ended September 30, 2009					
				Specific provision		
	Balance sheet loan balance (2)	Debt balance (3)	Includes: Amount in arrears (4)	By extent of arrears	Other	Total
						(unaudited)
Housing loans for which provision by extent of arrears must be calculated	44,668	954	560	846	-	846
Large loans (5)	5,362	121	26	8	12	20
Other loans	503	29	9	-	23	23
Total	50,533	1,104	595	854	35	889

(1) For details of calculation of provision for doubtful debts by extent of arrears, see Note 1.Q.23 to the annual financial statements as of December 31, 2009.
(2) The balance of housing loans, after deducting specific balance for doubtful debts and provision for delinquency interest.
(3) Balance of problem loans (in arrears by more than three months) and net of the balance of the provisions.
(4) Includes delinquency interest before deduction of the provisions balance.
(5) Housing loans, the balance of each of which exceeds NIS 887 thousand (on September 30, 2009 – NIS 871 thousand).

Note 4 – Capital adequacy pursuant to directives of the Supervisor of Banks

Reported amounts (NIS in millions)

A. Capital adequacy information

	September 30 2010	September 30 2009	December 31 2009
	Basle II	Basle I [1]	Basle II
1.Consolidated data			
a. Bank capital for purpose of calculating capital adequacy ratio			
Tier I capital, after deductions	7,138	6,680	6,702
Tier II capital, after deductions	5,466	5,229	5,220
Other deductions	-	(2)	-
Total capital	12,604	11,907	11,922
b. Weighted risk asset balances			
Credit risk	[2] 81,529	92,717	75,982
Market risk	971	2,671	624
Operating risk	7,268	-	7,038
Total weighted risk asset balances	89,768	95,388	83,644

	Basle II	Basle I [1]	Basle II
	In %		
c. Ratio of capital to risk elements			
Ratio of Tier I capital to risk elements	7.95	7.00	8.01
Ratio of total capital to risk elements	14.04	12.48	14.25
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00
2. Significant subsidiaries			
Bank Yahav for Government Employees Ltd. and subsidiaries there of			
Ratio of Tier I capital to risk elements	9.56	11.50	9.00
Total ratio of capital to risk elements	14.40	14.80	13.60
Total minimum capital ratio required by the Supervisor of Banks	9.00	9.00	9.00

(1) Calculated in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risk". Headings for certain terminology defined in these directives, and certain sub-totals presented in this Note in previously published reports, have been adjusted and reclassified in accordance with the disclosure framework for the current year.

(2) Includes risk assets with respect to credit extended to purchase groups, amounting to NIS 1,781 million, which in accordance with directives of the Supervisor of Banks are deemed to be exposure to corporations, with a risk weighting of 100% (unrated). Had these exposures been risk-weighted as residential mortgages, the risk asset balance would have decreased by NIS 1,086 million, and the ratio of capital to risk elements would have been higher by 0.17%.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

Reported amounts (NIS in millions)

	September 30 2010 Basle II	September 30 2009 Basle I [1]	December 31 2009 Basle II
3 .Capital components for calculation of capital ratio (on consolidated basis)			
a. Tier I capital			
Paid-up share capital and capital reserves	2,027	1,974	1,992
Cumulative other comprehensive income	[2] (86)	(6)	[2] (83)
Retained earnings	4,966	4,470	4,584
Minority interest of external shareholders in equity of consolidated subsidiaries	369	358	353
Less:			
Goodwill	(91)	(105)	(101)
Net gains with respect to fair value adjustments of available-for-sale securities [3]	-	(11)	-
Tier I capital after Tier I deductions alone	7,185	6,680	6,745
Less: Investments in supervisory capital components of banking corporations	(19)	-	(20)
Other deductions from Tier I capital	(28)	-	(23)
Total Tier I capital	7,138	6,680	6,702
b. Tier II capital			
1. **Upper Tier II capital**			
General provision for doubtful debts [4]	110	110	110
Complex capital instruments	1,811	1,779	1,780
2. **Lower Tier II capital**			
Subordinated notes	3,593	3,340	3,372
3. **Deductions from Tier II capital**			
Investments in supervisory capital components of banking corporations	(19)	-	(19)
Other deductions from Tier II capital	(29)	-	(23)
Total Tier II capital	5,466	5,229	5,220

(1) As applied in accordance with Directives No. 341 and 311 of the Supervisor of Banks regarding the "minimum capital ratio" and "issuance of capital for exposure to market risk". Headings for certain terminology defined in these directives, and certain sub-totals presented in this Note in previously published reports, have been adjusted and reclassified in accordance with the disclosure framework for the current year.
(2) Excludes net gain from cash flow hedges.
(3) Under Basle I: less adjustments for presentation of available-for-sale securities at fair value, and less unrealized losses from fair value adjustment of available-for-sale shares, less related tax impact.
(4) The general provision for doubtful debts constitutes part of upper Tier II capital, and is not deducted from credit to the public.

Note 4 – Capital adequacy in accordance with directives of the Supervisor of Banks (continued)

B. On June 30, 2010, the Supervisor of Banks issued a letter to banking corporations, on capital policy for interim periods, in which they are required to adopt a target for Tier I capital ratio by December 31, 2010, to be no less than 7.5%. Concurrently, the banks are required to submit to the Supervisor a work plan for achieving this target. The letter further stipulates that in absence of prior approval by the Supervisor of Banks, the bank shall not distribute dividends if the target has not been achieved, or if such dividend distribution would cause the bank not to achieve the target. This directive is intended to clarify the expectations of the Supervisor of Banks from banking corporations in the interim period, pending adaptation of the Supervisor's directives to emerging changes in recommendations of the Basle 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 so as to maintain appropriate safety margins, in order to ensure that the core capital ration shall be no less than the foregoing. The Bank Board of Directors further resolved that the overall capital adequacy ratio shall be no less than 12.5%.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of September 30, 2010 (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	5,698	477	2,932	281	413	-	9,801
Securities	3,762	652	1,874	1,802	96	87	8,273
Securities loaned or sold in conjunction with repurchase agreements	107	-	-	-	-	-	107
Loans to the public [3]	52,881	37,931	8,292	2,385	2,004	-	103,493
Loans to the Government	-	-	1	66	-	-	67
Investments in investees	29	-	-	-	-	(16)	13
Buildings and equipment	-	-	-	-	-	1,491	1,491
Other assets	2,172	367	258	77	141	111	3,126
Total assets	64,649	39,427	13,357	4,611	2,654	1,673	126,371
Liabilities							
Deposits from the public	58,598	21,005	14,839	4,511	2,251	-	101,204
Deposits from banks	230	830	448	151	53	-	1,712
Deposits from the Government	3	153	35	-	-	-	191
Debentures and subordinated notes	398	8,718	-	-	-	-	9,116
Other liabilities	4,927	866	483	183	96	259	6,814
Total liabilities	64,156	31,572	15,805	4,845	2,400	259	119,037
Difference	493	7,855	(2,448)	(234)	254	1,414	7,334
Impact of hedging derivatives:							
Derivatives (except for options)	1,610	(1,610)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	1,387	(2,848)	1,180	535	(254)	-	-
Net in-the-money options (in terms of underlying asset)	(619)	-	1,114	(357)	(98)	(40)	-
Net out-of-the-money options (in terms of underlying asset)	(490)	-	353	51	49	37	-
Total	2,381	3,397	199	(5)	(49)	1,411	7,334
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) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of September 30, 2009 (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	6,483	977	1,600	325	448	-	9,833
Securities	2,098	1,423	2,408	1,540	92	(4) 317	7,878
Securities loaned or sold in conjunction with repurchase agreements	486	-	-	-	-	-	486
Loans to the public (3)	(5) 46,999	34,032	7,802	2,367	2,772	-	93,972
Loans to the Government	-	1	296	-	-	-	297
Investments in investees	27	-	-	-	-	(15)	12
Buildings and equipment	-	-	-	-	-	1,458	1,458
Other assets	1,767	382	118	60	107	153	2,587
Total assets	57,860	36,815	12,224	4,292	3,419	1,913	116,523
Liabilities							
Deposits from the public	51,566	22,529	12,003	4,570	2,737	-	93,405
Deposits from banks	549	976	431	103	63	-	2,122
Deposits from the Government	3	180	37	-	-	-	220
Securities loaned or sold in conjunction with repurchase agreements							
Debentures and subordinated notes	-	7,888	-	-	-	-	7,888
Other liabilities	(5) 4,463	767	412	114	108	228	6,092
Total liabilities	56,581	32,340	12,883	4,787	2,908	228	109,727
Difference	1,279	4,475	(659)	(495)	511	1,685	6,796
Impact of hedging derivatives:							
Derivatives (except for options)	(6) 1,265	(6) 1,265	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	(6) 3,697	(6) (3,431)	380	9	(655)	-	-
Net in-the-money options (in terms of underlying asset)	(490)	-	263	113	134	(20)	-
Net out-of-the-money options (in terms of underlying asset)	(545)	-	29	355	141	20	-
Total	5,206	(221)	13	(18)	131	1,685	6,796
Net in-the-money options (capitalized par value)	(327)	-	(529)	225	82	549	-
Net out-of-the-money options (capitalized par value)	(1,706)	-	1,446	623	(359)	(4)	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.
(4) Includes NIS 214 million for shares received to secure credit. See also Note 2.
(5) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.
(6) Reclassified.

Note 5 – Consolidated statement of assets and liabilities by linkage basis

As of December 31, 2009 (audited) (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	8,617	734	1,225	187	248	-	11,011
Securities	2,650	1,339	2,216	1,268	84	86	7,643
Securities loaned or sold in conjunction with repurchase agreements	307	-	-	-	-	-	307
Loans to the public [3]	47,841	34,678	7,972	2,306	2,452	-	95,249
Loans to the Government	-	1	300	-	-	-	301
Investments in investees	28	-	-	-	-	(16)	12
Buildings and equipment	-	-	-	-	-	1,522	1,522
Other assets	1,484	430	279	19	48	134	2,394
Total assets	60,927	37,182	11,992	3,780	2,832	1,726	118,439
Liabilities							
Deposits from the public	51,851	22,117	13,194	4,919	2,940	-	95,021
Deposits from banks	151	1,040	548	92	68	-	1,899
Deposits from the Government	2	171	36	-	-	-	209
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-	-	-	-
Debentures and subordinated notes	-	8,166	-	-	-	-	8,166
Other liabilities	4,640	843	400	49	87	240	6,259
Total liabilities	56,644	32,337	14,178	5,060	3,095	240	111,554
Difference	4,283	4,845	(2,186)	(1,280)	(263)	1,486	6,885
Impact of hedging derivatives:							
Derivatives (except for options)	1,534	(1,534)	-	-	-	-	-
Non-hedging financial derivatives:							
Derivatives (except for options)	(879)	(1,444)	1,567	773	(17)	-	-
Net in-the-money options (in terms of underlying asset)	(982)	-	509	134	335	4	-
Net out-of-the-money options (in terms of underlying asset)	(522)	-	236	345	(56)	(3)	-
Total	3,434	1,867	126	(28)	(1)	1,487	6,885
Net in-the-money options (capitalized par value)	(575)	-	517	(59)	(466)	583	-
Net out-of-the-money options (capitalized par value)	(1,797)	-	1,190	697	(87)	(3)	-

(1) Includes amounts linked to foreign currency.
(2) Includes derivatives whose base relates to a non-monetary item.
(3) The general, special and supplementary provisions for doubtful debts were deducted ratably from the various linkage categories.

Note 6 - Contingent Liabilities and Special Commitments

Reported amounts (NIS in millions)

		As of September 30,	As of December 31,
	2010	2009	2009
		(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	381	469	447
- Loan guarantees	2,733	(1) 2,848	2,747
- Guarantees to purchasers of homes	5,650	5,431	5,274
- Other guarantees and liabilities (3)	1,713	(2) 1,483	(2) 1,580
- Unutilized revolving credit card facilities	6,020	9,117	6,379
- Unutilized debitory account and other credit facilities in accounts available on demand	17,212	(2) 17,151	(2) 17,394
- Irrevocable commitments for loans approved but not yet granted	9,286	4,848	5,650
- Commitments to issue guarantees	4,238	2,334	3,102

		As of September 30,	As of December 31,
	2010	2009	2009
		(unaudited)	(audited)
B. Special commitments			
Obligations with respect to:			
Long-term rental contracts	498	440	512
Computerization and software service contracts	65	32	53
Acquisition and renovation of buildings	91	17	59
Receipt of deposits on future dates (4)	405	5	105

(1) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.
(2) Restated.
(3) Includes the Bank's liabilities for its share in the risks fund of the MAOF Clearinghouse of NIS 136 million (as of September 30, 2009 and December 31, 2009 - NIS 101 million and NIS 103 million, respectively).
(4) 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)

C. 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, 2009. Below is a description of material changes relative to the description provided in the 2009 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 2009 financial statements.

   A. In March 1999, a claim was filed in Tel Aviv District Court against the Bank in the amount of NIS 20 million (for fee purposes), for damages of NIS 108 million that the plaintiffs (a company in liquidation and its former shareholders) alleged were caused as a result of the Bank's refusal to continue to approve an agreed upon credit facility for the plaintiff company to conduct its business activities, freezing the plaintiff company's account, and not honoring checks that had been deposited for collection. The plaintiffs allege that this led to the collapse of the plaintiff company. In July 1999, a defense motion was filed by the Bank, rejecting the plaintiff's claims of an alleged violation of the Bank's obligations as a bank corporation. The Bank claims that all its aforementioned actions were lawful.
   In April 2009, the District Court issued a verdict against the Bank, requiring the Bank to pay the plaintiff NIS 11.3 million plus linkage differences and interest from the date of filing the lawsuit through the actual payment date. The Bank was also required to pay the plaintiff half of its actual expenses, plus linkage differences and interest from the date of filing the lawsuit through the actual payment date, as well as attorney fees of NIS 150 thousand + VAT.
   In June 2009, the Bank appealed the verdict to the Supreme Court, and filed a motion to stay execution of the verdict pending a resolution by the Supreme Court on the appeal.
   In August 2009, the Supreme Court approved the motion by the Bank, and ordered a stay of execution of the verdict pending a resolution of the appeal.

Note 6 - Contingent Liabilities and Special Commitments (continued)

On May 12, 2010, a hearing took place on the appeal and the counter appeal at the Supreme Court, the parties stated their claims and the Supreme Court suggested that the parties reach agreement whereby the verdict of the District Court would be annulled, and the Bank would pay the plaintiff between NIS 3 million and NIS 10 million. The amount would be determined by the Supreme Court, at its discretion, by way of compromise, in accordance with section 79a of the Court Act (Integrated Version), 1984.
On May 17, 2010, a verdict was handed down by the Supreme Court, requiring the Bank to pay the plaintiff NIS 4.5 million.

B. In July 2006, an action and motion for recognition as a class action were lodged in Tel Aviv District Court against the Bank in an amount exceeding NIS 2.5 million, for management fees commissions on securities deposits charged to customers, as defined in the Bank's commissions price list, at amounts above those to which the Bank is entitled according to its own price list and allegedly in violation of the law.
In January 2007, the Bank filed its response to the motion for class action status. In its response the Bank claims that plaintiff's claims are not only in contradiction of the Bank price list, but also in contradiction of logic and common sense. The Bank further argues that the plaintiff has no cause and therefore no foundation for a personal claim against the Bank. The Bank also argues that, prima facie, the claim is not appropriate for class action status, and that the plaintiff has failed to meet even a single criterion required by the Class Action Act for his motion for class action status to be accepted.
The evidentiary and summary stages of this case have been completed, by the plaintiff as well as by the Bank.
On November 10, 2010, the Tel Aviv District Court granted class action status to this lawsuit, and determined that the class on behalf of which this class action suit would be heard includes all clients who had owned a securities deposit in the seven-year period preceding the filing of the motion (July 2006), and who were over-charged by the Bank with respect to minimum client commission. The remedy sought by the class in the class action suit is refund of the over-charged amounts. In accordance with the decision by the court, the cause for the class action suit is breach of contract, and the legal issue common to class members is the issue of interpretation of price list provisions with regard to charging of minimum quarterly commission. The Court has instructed the plaintiff to file a statutory notice with the Court, which is to be published, after being approved by the Court, in newspapers as determined by the Court.
Bank management estimates, based on the opinion of legal counsel, that the outcome of the aforementioned proceeding shall have no material impact on the Bank's financial statements.
Bank management is considering appealing to the Supreme Court, requesting permission to appeal the aforementioned decision.

Note 6 - Contingent Liabilities and Special Commitments (continued)

C. In November 2008, a claim was filed with the Tel Aviv District Court, including an application for class action status, amounting to an adjusted NIS 77 million, against the Bank and other banks, for alleged over collection of tax on interest and dividend revenues by way of tax withholding.

The plaintiffs claim that for purposes of payment of withholding tax, the defendant banks do not deduct the bank fee charged, known as "interest fee" from interest income on debentures. The plaintiffs claim that failure to deduct this fee from the income, for tax payment purposes, is unlawful. The plaintiffs further claims that banks do not deduct the dividend fee from dividend income for purpose of calculation of withholding tax - which is also unlawful.

Bank management believes, based on the opinion of legal counsel, that the defendant banks have valid defense claims. The Bank and the other banks have yet to file their response to the motion.

D. In January 2009, a claim was filed against the Bank with the Tel Aviv District Court, including an application for class action status, amounting to NIS 76 million for over charging of sales commission on MAOF options.

The Bank has filed a response to the motion, in which it claimed, inter alia, that the plaintiff has failed to disclose the existence of a special agreement between the plaintiff and the Bank, in which a uniform commission was set for options transactions. This rate, determined after negotiation between the Bank and the specific client, granted the plaintiff an extensive discount for most of the transactions. Once the plaintiff had elected to use the special track of a fixed price per option, regardless of the value there of, the Bank price list no longer applied to him.

In March 2010, the Court dismissed the motion, due to lack of cause against the Bank.

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 186 million.

3) Motions for recognition as class actions are pending against the Bank, where the amount claimed is material, as well as appeals to the High Court of Justice, as itemized below, which, in the opinion of the Bank's management, based on the opinion of the managements of its subsidiaries, and on the opinion of their legal counsel, the prospects for which cannot be estimated at this stage, hence no provision was made for these.

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.

Note 6 - Contingent Liabilities and Special Commitments (continued)

In the actions, it was principally argued that the banks unlawfully collected commissions on property insurance and life insurance of borrowers and engaged in insurance brokerage, that the mortgage banks over-charged for insurance premiums, and that the banks and insurers are parties to a cartel which results in borrowers having to pay higher insurance premiums than they would pay for similar policies on the free market.
The banks deny all plaintiffs' claims and reject them out of hand. The banks claim, *inter alia*, that their actions were lawful both in charging the commissions and in the rates of these commissions.
In the estimation of the Bank's management, based on the opinion of its legal counsel, it is not possible at this stage to assess whether the claims will be recognized as class actions and what the possible outcome will be.

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 HA-POALIM 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, on November 2004. This is a civil determination which constitutes prima-facie evidence in any legal proceeding. On March 24, 2010, the Bank appealed this ruling to the Anti-Trust Court. Currently, the date for filing the response by the Anti-Trust Supervisor to the appeal has been set to November 25, 2010. For details of a claim filed against the Bank based on the determination by the Anti-Trust Supervisor, see Note 19.D.11)s to the financial statements for the year ended December 31, 2009.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2010 (unaudited)					
	Interest contracts				Commo-dities and other	
	NIS - CPI	Other	Currency contracts	Contracts for shares	contracts	Total
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	1,610	-	-	-	-	1,610
Swaps	-	2,620	-	-	-	2,620
Total	1,610	2,620	-	-	-	4,230
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	2,620	-	-	-	2,620
B. ALM derivatives [(1) (2)]						
Forward contracts	6,181	6,397	68,545	164	10	81,297
Option contracts traded on stock exchange:						
Options written	-	-	1,434	-	-	1,434
Options purchased	-	-	1,317	-	-	1,317
Other option contracts:						
Options written	-	-	9,814	290	-	10,104
Options purchased	-	-	9,776	321	-	10,097
Swaps	24,276	7,172	6,572	-	-	38,020
Total	30,457	13,569	97,458	775	10	142,269
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	16,717	2,351	-	-	-	19,068
C. Other derivatives [(1)]						
Forward contracts	-	-	1,896	-		1,896
Option contracts traded on stock exchange:						
Options written	-	-	2,861	11,918	-	14,779
Options purchased	-	-	2,854	11,918	-	14,772
Other option contracts:						
Options written	-	37	155	212	-	404
Options purchased	-	37	170	143	-	350
Total	-	74	7,936	24,191	-	32,201

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2010 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commo-dities and other contracts	Total
D. Credit derivatives and foreign currency spot swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	861	861
Credit derivatives in which the Bank is beneficiary	-	-	-	-	27	27
Foreign currency spot swap contracts	-	-	2,100	-	-	2,100
Total	-	-	2,100	-	888	2,988
Total stated amounts of derivatives	32,067	16,263	107,494	24,966	898	181,688
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	13	-	-	-	-	13
Negative fair value, gross	62	351	-	-	-	413
B. ALM derivatives (1) (2)						
Positive fair value, gross	433	143	1,510	5	-	2,091
Negative fair value, gross	586	112	1,393	4	-	2,095
C. Other derivatives (1)						
Positive fair value, gross	-	-	54	121	-	175
Negative fair value, gross	-	-	48	125	-	173
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Positive fair value, gross	-	-	-	-	-	-
Negative fair value, gross	-	-	-	-	18	18
Total positive fair value, gross	446	143	1,564	126	-	2,279
Total negative fair value, gross	648	463	1,441	129	18	2,699

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

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2009 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commo-dities and other contracts	Total
1.Stated amounts of financial derivatives						
A. Hedging derivatives [1]						
Forward contracts	1,265	-	-	-	-	1,265
Swaps	-	1,615	-	-	-	1,615
Total	1,265	1,615	-	-	-	2,880
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,352	-	-	-	1,352
B. ALM derivatives [1] [2]						
Forward contracts	6,828	3,586	35,449	187	429	46,479
Option contracts traded on stock exchange:						
Options written	-	-	378	-	-	378
Options purchased	-	-	480	-	-	480
Other option contracts:						
Options written	-	-	12,246	104	-	12,350
Options purchased	-	-	13,410	162	-	13,572
Swaps	20,477	11,543	3,856	-	-	35,876
Total	27,305	15,129	65,819	453	429	109,135
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	8,943	8,366	-	-	-	17,309
C. Other derivatives [1]						
Forward contracts	-	-	1,959	-	-	1,959
Option contracts traded on stock exchange:						
Options written	-	-	2,142	9,042	1	11,185
Options purchased	-	-	2,119	9,042	1	11,162
Other option contracts:						
Options written	-	-	165	623	-	788
Options purchased	-	19	177	501	-	697
Total	-	19	6,562	19,208	2	25,791

(1) Except for credit derivatives and spot contracts for foreign currency swaps.
(2) Derivatives that constitute part of the Bank's asset and liability management system, which were not intended as hedges.

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

Reported amounts (NIS in millions)

A. Activity on consolidated basis

	As of September 30, 2009 (unaudited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commo-dities and other contracts	Total
D. Credit derivatives and foreign currency spot swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	376	376
Credit derivatives in which the Bank is beneficiary	-	-	-	-	595	595
Foreign currency spot swap contracts	-	-	2,756	-	-	2,756
Total	-	-	2,756	-	971	3,727
Total stated amounts of derivatives	28,570	16,763	75,137	19,661	1,402	141,533
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	7	3	-	-	-	10
Negative fair value, gross	58	187	-	-	-	245
B. ALM derivatives (1) (2)						
Positive fair value, gross	438	64	1,142	9	3	1,656
Negative fair value, gross	675	135	1,050	6	4	1,870
C. Other derivatives (1)						
Positive fair value, gross	-	-	39	115	-	154
Negative fair value, gross	-	-	38	112	-	150
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Negative fair value, gross	-	-	-	-	63	63
Total positive fair value, gross	445	67	1,181	124	3	1,820
Total negative fair value, gross	733	322	1,088	118	67	2,328

(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, 2009 (audited)					
	Interest contracts				Commo-dities and other contracts	Total
	NIS - CPI	Other	Currency contracts	Contracts for shares		
1. Stated amounts of financial derivatives						
A. Hedging derivatives [(1)]						
Forward contracts	1,330	-	-	-	-	1,330
Swaps	-	1,926	-	-	-	1,926
Total	1,330	1,926	-	-	-	3,256
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	-	1,926	-	-	-	1,926
B. ALM derivatives [(1)] [(2)]						
Forward contracts	4,407	2,567	46,174	188	763	54,099
Option contracts traded on stock exchange:						
Options written	-	-	1,176	-	-	1,176
Options purchased	-	-	1,024	-	-	1,024
Other option contracts:						
Options written	-	-	12,778	105	-	12,883
Options purchased	-	-	14,050	103	-	14,153
Swaps	20,432	10,938	3,672	-	-	35,042
Total	24,839	13,505	78,874	396	763	118,377
Includes interest rate swaps on which the Bank agreed to pay a fixed interest rate	8,598	7,775	-	-	-	16,373
C. Other derivatives [(1)]						
Forward contracts	-	-	1,875	-	-	1,875
Option contracts traded on stock exchange:						
Options written	-	-	2,304	11,841	-	14,145
Options purchased	-	-	2,332	11,841	-	14,173
Other option contracts:						
Options written	-	29	166	473	-	668
Options purchased	-	-	175	372	-	547
Total	-	29	6,852	24,527	-	31,408

(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, 2009 (audited)					
	Interest contracts					
	NIS - CPI	Other	Currency contracts	Contracts for shares	Commodities and other contracts	Total
D. Credit derivatives and foreign currency spot swaps						
Credit derivatives in which the Bank is guarantor	-	-	-	-	906	906
Credit derivatives in which the Bank is beneficiary	-	-	-	-	28	28
Foreign currency spot swap contracts	-	-	3,159	-	-	3,159
Total	-	-	3,159	-	934	4,093
Total stated amounts of derivatives	26,169	15,460	88,885	24,923	1,697	157,134
2. Fair value, gross, of financial derivatives						
A. Hedging derivatives (1)						
Positive fair value, gross	9	16	-	-	-	25
Negative fair value, gross	60	133	-	-	-	193
B. ALM derivatives (1) (2)						
Positive fair value, gross	417	63	770	11	12	1,273
Negative fair value, gross	515	118	911	11	19	1,574
C. Other derivatives (1)						
Positive fair value, gross	-	-	60	134	-	194
Negative fair value, gross	-	1	28	144	-	173
D. Credit derivatives						
Credit derivatives in which the Bank is guarantor						
Negative fair value, gross	-	-	-	-	58	58
Total positive fair value, gross	426	79	830	145	12	1,492
Total negative fair value, gross	575	252	939	155	77	1,998

(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)

b) Credit risk on financial derivatives according to counter-party to the contract - Consolidated

	As of September 30, 2010 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive fair value, gross, of financial derivatives [(1)]	188	1,467	11	-	613	2,279
Less offset agreements	-	43	-	-	29	72
Balance sheet balances of derivative instruments	188	1,424	11	-	584	2,207
Off-balance sheet credit risk on financial derivatives [(2)]	292	10,188	11	-	2,897	13,388
Total credit risk on financial derivatives	480	11,612	22	-	3,481	15,595

	As of September 30, 2009 (unaudited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive fair value, gross, of financial derivatives [(1)]	131	1,291	23	-	375	1,820
Less offset agreements	-	29	-	-	45	74
Balance sheet balances of derivative instruments	131	1,262	23	-	330	1,746
Off-balance sheet credit risk on financial derivatives [(2)]	55	7,524	153	-	2,389	10,121
Total credit risk on financial derivatives	186	8,786	176	-	2,719	11,867

	As of December 31, 2009 (audited)					
	Stock exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
Positive fair value, gross, of financial derivatives [(1)]	163	953	16	-	360	1,492
Less offset agreements	-	23	-	-	42	65
Balance sheet balances of derivative instruments	163	930	16	-	318	1,427
Off-balance sheet credit risk on financial derivatives [(2)]	113	8,363	204	-	2,148	10,828
Total credit risk on financial derivatives	276	9,293	220	-	2,466	12,255

(1) Of which positive gross fair value of embedded derivatives amounting to NIS 1 million (as of December 31, 2009 – NIS 1 million; as of September 30, 2009 - NIS 2 million) and a balance-sheet balance of stand-alone derivatives amounting to NIS 2,278 million, included under "other assets" (as of December 31, 2009 - NIS 1,491 million; as of September 30, 2009 - NIS 1,818 million).

(2) Off-balance sheet credit risk for financial derivatives (including those with negative fair value) as calculated for the purposes of the per-borrower limitation.

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

Reported amounts (NIS in millions)

C. Maturity dates – stated amounts: balances at end of period - Consolidated

	As of September 30, 2010 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	1,928	12,460	10,983	6,696	32,067
Other	1,388	9,274	1,635	3,966	16,263
Currency contracts	39,023	63,197	2,079	3,195	107,494
Contracts for shares	23,819	985	162	-	24,966
Commodities and other contracts	10	166	557	165	898
Total as of September 30, 2010	66,168	86,082	15,416	14,022	181,688

	As of September 30, 2009 (unaudited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	4,510	10,009	9,866	4,185	28,570
Other	3,366	7,949	2,615	2,833	16,763
Currency contracts	45,454	26,755	2,192	736	75,137
Contracts for shares	18,048	1,301	312	-	19,661
Commodities and other contracts	194	237	775	196	1,402
Total as of September 30, 2009	71,572	46,251	15,760	7,950	141,533

	As of December 31, 2009 (audited)				
	Up to three months	3 months to 1 year	1-5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	4,154	7,761	9,639	4,615	26,169
Other	2,595	7,286	2,423	3,156	15,460
Currency contracts	56,878	29,307	1,941	759	88,885
Contracts for shares	24,408	280	235	-	24,923
Commodities and other contracts	739	25	763	170	1,697
Total as of December 31, 2009	88,774	44,659	15,001	8,700	157,134

Note 8 - Profit from Financing Operations before Provision for Doubtful debts

Reported amounts (NIS in millions)

	For the three months ended September 30		For the nine months ended September 30	
	2010	2009	2010	2009
		(unaudited)		(unaudited)
A. with respect to assets (1)				
From loans to the public	1,089	1,141	3,012	3,644
From loans to the Government	3	(8)	9	(8)
From deposits with the Bank of Israel and from cash	(53)	(45)	(9)	(106)
From deposits with banks	(143)	(95)	(49)	(88)
From securities loaned or sold in repurchase agreements	1	1	3	2
From debentures	24	(92)	20	73
	921	902	2,986	3,517
B. with respect to liabilities (1)				
On deposits from the public	28	(140)	(432)	(1,859)
On deposits from the government	(2)	(5)	(8)	(12)
On deposits from the Bank of Israel and from cash	-	-	-	-
On deposits from banks	9	222	(89)	435
Securities loaned or sold in conjunction with repurchase agreements	-	-	-	-
On debentures and subordinated notes	(195)	(296)	(408)	(590)
	(160)	(219)	(937)	(2,026)
C. with respect to financial derivatives and hedging activities				
Expenses, net, with respect to ALM derivatives (2)	(118)	(120)	(252)	(20)
Net income (expenses) with respect to other derivatives	2	(89)	(11)	13
	(116)	(209)	(263)	(7)
D. Other				
Commissions from financing transactions	25	20	71	68
Financing revenues from collection of interest on arrears from individual borrowers	14	7	28	24
Interest income on problem loans	27	35	66	78
Gain from sale of debentures, net (3)	3	19	38	22
Other financing revenues	29	31	115	77
Other financing expenses	(8)	(4)	(25)	(23)
	90	108	293	246
Total profit from financing operations before provision for doubtful debts	735	582	2,079	1,730
Includes: exchange rate differences, net	(7)	(3)	(1)	22
Details of net effect of hedging financial derivatives on profit from financing operations				
Financing revenues (expenses) from assets (section A)	4	(61)	(13)	(60)

(1) Includes the effective element in the hedging ratios.
(2) Financial derivatives constitute part of the Bank's asset and liability management which were not intended for hedging.
(3) Includes provision for impairment of debentures available for sale, amounting to NIS 2 million in the nine months ended September 30, 2010 (in the first nine months of 2009 - NIS 38 million).

Note 9 - Gains from Investments in Shares, net

Reported amounts (NIS in millions)

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
	(unaudited)		(unaudited)	
Gain from sale of shares available for sale, net	-	39	1	39
Provision for impairment of available-for-sale shares	-	-	(2)	(7)
Dividends from available-for-sale shares	-	13	1	27
Total gains from investments in shares, net	-	52	-	59

Note 10 – Operating Segments

For the nine months ended September 30, 2010 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts							
From outside operating segments	2,004	(2)	271	151	445	(790)	2,079
Inter-segment	(1,000)	42	(5)	(31)	26	968	-
Profit from financing operations before provision for doubtful debts	1,004	40	266	120	471	178	2,079
Operating and other revenues	604	40	151	41	66	115	1,017
Total revenues	1,608	80	417	161	537	293	3,096
Provision for doubtful debts	61	-	31	2	187	-	281
Operating and other expenses							
From outside operating segments	1,166	48	309	44	140	168	1,875
Inter-segment	(94)	-	(40)	59	66	9	-
Other operating expenses - total	1,072	48	269	103	206	177	1,875
Pre-tax operating profit	475	32	117	56	144	116	940
Provision for taxes on operating profit	175	11	44	21	52	42	345
After-tax operating profit	300	21	73	35	92	74	595
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profit of subsidiaries	(14)	-	-	-	-	-	(14)
Net operating profit	286	21	73	35	92	73	580
Net after-tax profit from extraordinary items	-	-	-	-	-	2	2
Net profit	286	21	73	35	92	75	582
Return on equity	13.0%	40.6%	28.4%	12.1%	4.8%	24.7%	11.6%
Average balance of assets	67,416	1,873	5,199	4,547	24,567	17,768	121,370
Average balance of liabilities	47,498	5,809	6,314	3,010	20,042	31,495	114,168
Average balance of risk assets (Basle II) (1)	40,224	907	4,457	4,918	32,263	4,144	86,913
Average balance of provident and mutual fund assets	-	-	-	-	-	75,374	75,374
Average balance of securities	26,475	7,214	7,558	4,140	64,242	33,893	143,522
Credit to the public (end balance)	71,214	1,356	5,363	4,643	20,917	-	103,493
Deposits from the public (end balance)	46,698	4,746	6,259	2,764	23,542	17,195	101,204
Average balance of other assets managed	22,507	-	344	40	116	-	23,007

B. Information regarding profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	604	11	192	93	280	-	1,180
Margin from receiving deposits	297	27	41	11	91	-	467
Other	103	2	33	16	100	178	432
Total	1,004	40	266	120	471	178	2,079

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

Note 10 – Operating Segments (continued)

For the nine months ended September 30, 2009 (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 provision for doubtful debts							
From outside operating segments	2,069	(34)	230	168	471	(1,174)	1,730
Inter-segment	(1,234)	67	(9)	(63)	(31)	1,270	-
Profit from financing operations before provision for doubtful debts	835	33	221	105	440	96	1,730
Operating and other revenues	594	39	149	35	129	101	1,047
Total revenues	1,429	72	370	140	569	197	2,777
Provision for doubtful debts	81	1	53	11	122	-	268
Operating and other expenses							
From outside operating segments	1,133	37	294	48	165	178	1,855
Inter-segment	(75)	1	(31)	46	54	5	-
Other operating expenses - total	1,058	38	263	94	219	183	1,855
Pre-tax operating profit	290	33	54	35	228	14	654
Provision for taxes on operating profit	100	11	18	12	78	6	225
After-tax operating profit	190	22	36	23	150	8	429
Minority interest in net after-tax operating profit of subsidiaries	(4)	-	-	-	-	(9)	(13)
Net profit (loss)	186	22	36	23	150	(1)	416
Return on equity	(1) 7.9%	46.1%	14.3%	11.6%	10.9%	(0.3%)	9.1%
Average balance of assets	(3) 58,915	1,730	4,926	4,109	27,248	21,027	117,955
Average balance of liabilities	(3) 47,848	6,746	6,439	2,180	14,851	33,202	111,266
Average balance of risk assets (Basle I) (2)	(1) 49,617	999	5,090	3,987	27,875	(1) 8,466	96,034
Average balance of provident and mutual fund assets	-	-	-	-	-	60,849	60,849
Average balance of securities (1)	21,249	6,639	7,200	1,737	44,880	22,557	104,262
Credit to the public (end balance)	(3) 61,999	1,378	4,960	4,151	21,484	-	93,972
Deposits from the public (end balance)	46,779	5,826	6,240	2,302	14,019	18,239	93,405
Average balance of other assets managed	22,697	-	323	42	128	-	23,190

B. Information regarding profit from financing operations before provision for doubtful debts

	Household (1)	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	511	11	166	67	294	-	1,049
Margin from receiving deposits	231	19	26	6	57	-	339
Other	93	3	29	32	89	96	342
Total	835	33	221	105	440	96	1,730

(1) Reclassified.
(2) Includes off-balance-sheet balances, as calculated for capital adequacy.
(3) Reclassified. For more information, see Note 4.A.4) to the financial statements as of December 31, 2009.

Note 10 – Operating Segments (continued)

For the three months ended September 30, 2010 (unaudited)

Reported amounts (NIS in millions)

A. Information on operating segments

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Profit from financing operations before provision for doubtful debts							
From outside operating segments	849	1	88	56	137	(396)	735
Inter-segment	(487)	16	6	(14)	24	455	-
Profit from financing operations before provision for doubtful debts	362	17	94	42	161	59	735
Operating and other revenues	200	12	50	14	20	39	335
Total revenues	562	29	144	56	181	98	1,070
Provision for doubtful debts	27	-	14	3	58	-	102
Operating and other expenses							
From outside operating segments	396	22	104	9	38	58	627
Inter-segment	(36)	(4)	(15)	25	28	2	-
Other operating expenses - total	360	18	89	34	66	60	627
Pre-tax operating profit	175	11	41	19	57	38	341
Provision for taxes on operating profit	66	3	15	8	21	14	127
After-tax operating profit	109	8	26	11	36	24	214
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profit of subsidiaries	(6)	-	-	-	-	-	(6)
Net operating profit	103	8	26	11	36	23	207
Net after-tax profit from extraordinary items	-	-	-	-	-	2	2
Net profit	103	8	26	11	36	25	209
Return on equity	13.7%	71.0%	32.9%	11.4%	5.7%	30.4%	12.7%

B. Information regarding profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	215	3	69	30	84	-	401
Margin from receiving deposits	110	13	15	4	33	-	175
Other	37	1	10	8	44	59	159
Total	362	17	94	42	161	59	735

Note 10 – Operating Segments (continued)

For the three months ended September 30, 2009 (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 provision for doubtful debts							
From outside operating segments	925	(8)	84	67	130	(616)	582
Inter-segment	(638)	17	(15)	(35)	6	665	-
Profit from financing operations before provision for doubtful debts	287	9	69	32	136	49	582
Operating and other revenues	208	13	52	14	76	33	396
Total revenues	495	22	121	46	212	82	978
Provision for doubtful debts	25	-	17	5	35	-	82
Operating and other expenses							
From outside operating segments	396	13	101	18	61	65	654
Inter-segment	(26)	1	(11)	16	19	1	-
Other operating expenses - total	370	14	90	34	80	66	654
Pre-tax operating profit	100	8	14	7	97	16	242
Provision for taxes on operating profit	33	2	3	3	32	8	81
After-tax operating profit	67	6	11	4	65	8	161
Minority interest in net after-tax operating profit of subsidiaries	(4)	-	-	-	-	(1)	(5)
Net profit	63	6	11	4	65	7	156
Return on equity	7.8%	41.4%	12.6%	6.5%	16.6%	4.2%	10.2%

B. Information regarding profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	170	2	50	16	94	-	332
Margin from receiving deposits	80	5	9	2	14	-	110
Other	37	2	10	14	28	49	140
Total	287	9	69	32	136	49	582

Note 10 – Operating Segments (continued)

For the year ended December 31, 2009 (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 provision for doubtful debts							
From outside operating segments	2,634	(37)	301	203	610	(1,326)	2,385
Inter-segment	(1,512)	79	(4)	(65)	(31)	1,533	-
Profit from financing operations before provision for doubtful debts	1,122	42	297	138	579	207	2,385
Operating and other revenues	803	55	199	48	215	144	1,464
Total revenues	1,925	97	496	186	794	351	3,849
Provision for doubtful debts	94	1	72	14	194	-	375
Operating and other expenses							
From outside operating segments	1,619	54	429	67	224	247	2,640
Inter-segment	(105)	1	(43)	65	75	7	-
Other operating expenses - total	1,514	55	386	132	299	254	2,640
Pre-tax operating profit	317	41	38	40	301	97	834
Provision for taxes on operating profit	109	14	14	13	103	33	286
After-tax operating profit	208	27	24	27	198	64	548
Share in net, after-tax operating loss of investees	-	-	-	-	-	(1)	(1)
Minority interest in net after-tax operating profit of subsidiaries	(3)	-	-	-	-	(12)	(15)
Net operating profit	205	27	24	27	198	51	532
Net after-tax loss from extraordinary items	-	-	-	-	-	(2)	(2)
Net profit	205	27	24	27	198	49	530
Return on equity	6.3%	40.8%	7.3%	10.1%	(2) 10.8%	(2) 9.4%	8.5%
Average balance of assets	59,946	1,762	4,930	4,099	26,617	20,249	117,603
Average balance of liabilities	47,661	6,596	6,136	2,259	15,258	32,952	110,862
Average balance of risk assets (Basle I) (1)(2)	50,719	989	4,892	3,976	27,450	8,092	96,118
Risk assets (Basle II) (end balance) (2)	38,022	848	4,504	4,710	31,609	3,951	83,644
Average balance of provident and mutual fund assets	-	-	-	-	-	64,143	64,143
Average balance of securities	22,132	6,584	7,185	1,897	48,933	23,744	110,475
Credit to the public (end balance)	64,094	1,368	4,928	4,198	20,661	-	95,249
Deposits from the public (end balance)	45,964	6,256	6,412	3,355	16,055	16,979	95,021
Average balance of other assets managed	22,781	-	334	42	124	-	23,281

B. Information regarding profit from financing operations before provision for doubtful debts

	Household	Private banking	Small business	Commercial banking	Business banking	Financial management	Total consolidated
Margin from credit granting operations	683	14	223	94	359	-	1,373
Margin from receiving deposits	314	24	35	9	78	-	460
Other	125	4	39	35	142	207	552
Total	1,122	42	297	138	579	207	2,385

(1) Includes off-balance-sheet balances, as calculated for capital adequacy.
(2) Reclassified.

Note 11 – Other matters

A. On March 29, 2009, the Bank Board of Directors, after approval by the Bank Audit Committee, resolved to approve a plan to allocate option warrants pursuant to a private offer, other than a material private offer ("the plan") to VPs who are members of Bank management ("the offerees"). See Note 16.A.2 to the 2009 financial statements for details.

On March 21, 2010, the Bank Board of Directors, after receiving approval of the Bank Audit Committee, resolved to approve allotment of a further 520,000 options, under identical terms and conditions with the exception of the exercise price, to a VP appointed on January 18, 2010. The exercise price for each option allotted to the additional offeree pursuant to the plan is NIS 35.35, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on March 21, 2010, the most recent trading day prior to the date of plan approval by the Board of Directors. The plan consists of 4 lots, vesting concurrently with lots 2-5 of the original plan for VPs. The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for the lot granted:

	Lot 1	Lot 2	Lot 3	Lot 4	Total
Allotment approved March 21, 2010					
Number of options (in thousands)	130	130	130	130	520
Annualized standard deviation	34.9%	33.9%	33.2%	32.6%	
Exercise price (in NIS)	35.35	35.35	35.35	35.35	
Risk-free interest rate	0.85%	1.10%	1.17%	1.38%	
Term to exercise (in years)	3.8	4.3	4.8	5.3	
Fair value per single option	9.77	10.28	10.72	11.24	
Total fair value per lot (NIS in thousands)	1,270	1,337	1,393	1,462	5,462

Pursuant to terms and conditions of the plan, an offeree's eligibility to exercise option warrants granted to them under terms of each of the stock option plans for VPs, would be determined upon each vesting date for the lot then vested, and an offeree may exercise the option warrants included in the lot vested upon each date only if the annual rate of return for the fiscal year preceding said vesting date would be 10% or higher ("the vesting eligibility rate"). On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility rate for each of the Stock Option plans for VPs for lots vesting in 2011, 2012, 2013 and 2014, where the vesting eligibility would be determined based on annual rate of return in reported fiscal 2010, 2011, 2012 and 2013, respectively.

Note 11 – Other matters - continued

Accordingly, it was resolved that the vesting eligibility rate for each of the Stock Option Plans for VPs would be reduced from 10% to 9%. Based on management estimate of the trend in annual rate of return, the aforementioned change in plan terms should not impact the Bank's financial statements.

B. On May 19, 2008, after approval by the Bank's Audit Committee and Board of Directors, option warrants were allotted to Bank officers, branch, department and affiliate managers as well as to other employees of the Bank and its subsidiaries. See Note 16.A.3.b) to the 2009 financial statements for details.

The number of option warrants which the offerees may actually exercise, pursuant to terms of the plan, for each lot specified in the plan, is based on the net operating profit return on the Bank's average shareholders' equity, up to an annual rate of return equal to 18%, based on the exercise eligibility formula, as specified in the option plan. On October 26, 2010, the Board of Directors resolved, after receiving approval of the Audit Committee, to update the vesting eligibility formula for each of the Stock Option plans for VPs for lots vesting in 2011, 2012 and 2013, where the vesting eligibility would be determined based on annual rate of return in reported fiscal 2010, 2011 and 2012, respectively. In accordance with the updated formula, the offerees would be eligible to exercise in full the options in each lot, provided that the average net profit rate of return on equity would be 15%, compared to 18% in the original formula, all as described in the update to the stock option plan. For recording the expense on the Bank's financial statements, Bank management has estimated the trend of annual rates of return (though not linear) for each of the years 2010, 2011 and 2012. Using this trend, the number of option warrants each offeree may exercise out of the total number of option warrants granted to them in accordance with the plan were re-estimated for lots vesting in 2011 through 2013. The update to the vesting eligibility formula, as well as management estimates with regard to the trend of annual rates of return, are arithmetical results of the Board of Directors' decision with regard to the capital adequacy target, as described in Note 4.C. above. Pursuant to this re-estimation, it is expected that the number of option warrants exercisable by each offeree, as stated above, would be similar to the number of option warrants exercisable by each offeree based on previous estimates by management, and that the change would not materially impact the Bank's financial statements.

On October 26, 2010, the Bank's Board of Directors, after receiving approval of the Bank's Audit Committee, resolved to approve a plan for allotment of a further 1,652,500 option warrants, under identical terms and conditions with the exception of the exercise price, to 41 employees, including one officer of the Bank. Option warrants would be allotted in 3 equal lots vesting on three dates ("vesting dates") starting on the first anniversary (lot 1), second anniversary (lot 2) and third anniversary (lot 3) of the allotment date, subject to net profit rate of return on average equity for each year preceding each vesting date, as stated above. The exercise price for each option allotted to the additional offerees pursuant to the plan is NIS 35.40, plus CPI linkage differentials, adjusted for any dividends or bonus shares to be distributed by the Bank. The exercise price was based on the closing price of Bank shares on the stock exchange on October 25, 2010, the most recent trading day prior to the date of plan approval by the Board of Directors.

Note 11 – Other matters - continued

The fair value (theoretical benefit value) of a single option in any lot of the additional options approved was calculated in accordance with Accounting Standard no. 24, using the Black & Scholes model. The theoretical benefit value of the option warrants in this allotment, calculated in accordance with accounting rules of Accounting Standard no. 24, amounts to NIS 11 million (NIS 13 million including Payroll Tax). Calculation of the total theoretical benefit value for the allotment is based on assumptions regarding the number of options that offerees would be eligible to exercise based on management estimate of the range of annual rates of return, as described above, as well as based on Bank management assessment with regard to the average churn rate of plan offerees, meaning that some of the option warrants to be granted would expire due to the offerees retirement.

The theoretical benefit value of each lot is recognized in the Bank's accounts over the vesting period.

Below are the assumptions used in calculating the fair value of a single option, as well as the resulting fair value per single option, for each of the lots granted:

	Lot 1	Lot 2	Lot 3	Total
Allotment approved October 26, 2010				
Number of options	550,833	550,833	550,834	1,652,500
Annualized standard deviation	36.73%	35.07%	33.88%	
Exercise price (in NIS)	35.40	35.40	35.40	
Risk-free interest rate	0.22%	0.38%	0.53%	
Term to exercise (in years)	3.2	3.7	4.2	
Fair value per single option	9.23	9.55	9.92	
Total fair value per lot (NIS in thousands)	5,084	5,260	5,464	15,808

C. On May 19, 2008, the Board of Directors, after receiving approval of the Audit Committee, resolved to approve a bonus framework for Bank officers, other than Board members including the Chairman of the Board of Directors and other than the Bank President (hereinafter in this section "the officers") for each of the years 2008-2012 (inclusive), inter alia by way of creating a pool for bonus payments to officers. For details, see Note 16.N to the 2009 financial statements.

Further to the Board of Directors' resolution with regard to update to the Strategic Plan, primarily aimed at adjusting the framework plan for bonus payments, the Board of Directors resolved on October 26, 2010, after approval by the Audit Committee, to reduce the annual rate of return - 12% - ser as the threshold under which no salaries would be transferred for creating a pool for bonus payment, as set forth above, and to set in its place, for each of the years 2010 through 2012 (i.e for bonuses paid to officers in 2011 through 2013), an updated threshold of 10.5%.

Note 11 – Other matters - continued

Accordingly, should the annual rate of return for any of the years 2010 through 2012 be between 10.5% and the maximum rate of return to be determined by the Board of Directors for that fiscal year, then the Board of Directors shall determine the number of salaries to be transferred to the pool designated for bonus payment to officers, as specified above, based on a rating determined for this purpose by the Board of Directors. However, should the annual rate of return for any of the years 2010 through 2012 be lower than 10.5% or higher than the maximum rate of return set by the Board of Directors for that fiscal year, then no salaries shall be transferred to the pool for bonus payments, and the Board of Directors shall discuss the recommendations made by the President with regard to the bonus amount to be paid to each officer with respect to said fiscal year, and shall decide on this matter, at the Board of Directors' discretion and subject to approval by the Audit Committee as required by statute.